

PROVIDENT FINANCIAL HOLDINGS INC
Form 10-Q
May 19, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2008

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 000-28304

PROVIDENT FINANCIAL HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

33-0704889
(I.R.S. Employer
Identification No.)

3756 Central Avenue, Riverside, California 92506
(Address of principal executive offices and zip code)

(951) 686-6060
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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Large accelerated
filer []

Accelerated filer [X]

Non-accelerated filer []

Smaller reporting
company []

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes . No X .

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of class:	As of May 9, 2008
Common stock, \$ 0.01 par value, per share	6,207,719 shares*

* Includes 40,791 shares held by the Employee Stock Ownership Plan that have not been released, committed to be released, or allocated to participant accounts.

PROVIDENT FINANCIAL HOLDINGS, INC.

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PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Financial Condition
(Unaudited)
Dollars in Thousands

		March 31, 2008		June 30, 2007
Assets				
Cash and due from banks	\$	12,807	\$	11,024
Federal funds sold		4,625		1,800
Cash and cash equivalents		17,432		12,824
Investment securities – held to maturity (fair value \$ - and \$18,837, respectively)		-		19,001
Investment securities – available for sale, at fair value		168,588		131,842
Loans held for investment, net of allowance for loan losses of \$16,742 and \$14,845, respectively		1,406,785		1,350,696
Loans held for sale, at lower of cost or market		18,841		1,337
Receivable from sale of loans		-		60,513
Accrued interest receivable		7,336		7,235
Real estate owned, net		7,717		3,804
Federal Home Loan Bank (“FHLB”) – San Francisco stock		31,680		43,832
Premises and equipment, net		6,585		7,123
Prepaid expenses and other assets		9,335		10,716
Total assets	\$	1,674,299	\$	1,648,923
Liabilities and Stockholders’ Equity				
Liabilities:				
Non interest-bearing deposits	\$	46,884	\$	45,112
Interest-bearing deposits		985,283		956,285
Total deposits		1,032,167		1,001,397
Borrowings		499,744		502,774
Accounts payable, accrued interest and other liabilities		15,215		15,955
Total liabilities		1,547,126		1,520,126
Commitments and Contingencies				
Stockholders’ equity:				
Preferred stock, \$.01 par value (2,000,000 shares authorized; none issued and outstanding)		-		-
Common stock, \$.01 par value (15,000,000 shares authorized; 12,435,865 and 12,428,365 shares issued, respectively; 6,207,719 and 6,376,945 shares outstanding, respectively)		124		124
Additional paid-in capital		74,763		72,935
Retained earnings		145,427		146,194
Treasury stock at cost (6,228,146 and 6,051,420 shares, respectively)		(94,798)		(90,694)

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Unearned stock compensation	(181)	(455)
Accumulated other comprehensive income, net of tax	1,838	693
Total stockholders' equity	127,173	128,797
Total liabilities and stockholders' equity	\$ 1,674,299	\$ 1,648,923

The accompanying notes are an integral part of these condensed consolidated financial statements.

PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Operations
(Unaudited)

In Thousands, Except Per Share Information

	Quarter Ended March 31,		Nine Months Ended March 31,	
	2008	2007 (As Restated- See Note 1)	2008	2007 (As Restated- See Note 1)
Interest income:				
Loans receivable, net	\$ 21,645	\$ 23,725	\$ 64,859	\$ 68,684
Investment securities	1,959	1,828	5,605	5,381
FHLB – San Francisco stock	419	597	1,320	1,704
Interest-earning deposits	4	14	18	51
Total interest income	24,027	26,164	71,802	75,820
Interest expense:				
Checking and money market deposits	351	379	1,275	1,111
Savings deposits	725	724	2,316	2,039
Time deposits	7,393	6,963	23,339	19,227
Borrowings	4,839	7,441	15,212	21,562
Total interest expense	13,308	15,507	42,142	43,939
Net interest income, before provision for loan losses	10,719	10,657	29,660	31,881
Provision for loan losses	3,150	1,185	6,809	5,568
Net interest income, after provision for loan losses	7,569	9,472	22,851	26,313
Non-interest income:				
Loan servicing and other fees	350	462	1,354	1,426
Gain on sale of loans, net	306	2,306	1,362	8,717
Deposit account fees	768	525	2,211	1,557
Net (loss) gain on sale of real estate	(302)	18	(470)	2,358
Other	482	368	469	1,289
Total non-interest income	1,604	3,679	4,926	15,347
Non-interest expense:				
Salaries and employee benefits	4,816	5,820	14,462	17,087
Premises and occupancy	645	801	2,183	2,330
Equipment	379	444	1,170	1,221
Professional expenses	323	305	1,116	847

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Sales and marketing expenses	112	247	415	724
Other	1,024	1,144	3,041	3,484
Total non-interest expense	7,299	8,761	22,387	25,693
Income before income taxes	1,874	4,390	5,390	15,967
Provision for income taxes	917	2,031	2,777	7,347
Net income	\$ 957	\$ 2,359	\$ 2,613	\$ 8,620
Basic earnings per share	\$ 0.16	\$ 0.36	\$ 0.42	\$ 1.30
Diluted earnings per share	\$ 0.15	\$ 0.36	\$ 0.42	\$ 1.28
Cash dividends per share	\$ 0.18	\$ 0.18	\$ 0.54	\$ 0.51

The accompanying notes are an integral part of these condensed consolidated financial statements.

PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)

Dollars in Thousands
For the Quarters Ended March 31, 2008 and 2007

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned Stock Compensation	Accumulated Other Compre- hensive Income	Total	
	Shares	Amount	Amount	Amount	Amount	Amount	Amount	
Balance at January 1, 2008	6,196,434	\$ 124	\$ 74,180	\$ 145,587	\$ (94,797)	\$ (261)	\$ 1,290	\$ 126,123
Comprehensive income:								
Net income			957					957
Unrealized holding gain on securities available for sale, net of tax expense of \$397						548		548
Total comprehensive income								1,505
Purchase of treasury stock (1)	(65)				(1)			(1)
Distribution of restricted stock	11,350							
Amortization of restricted stock			81					81
Stock options expense			293					293
Allocations of contribution to ESOP (2)			209			80		289
Cash dividends				(1,117)				(1,117)
Balance at March 31, 2008	6,207,719	\$ 124	\$ 74,763	\$ 145,427	\$ (94,798)	\$ (181)	\$ 1,838	\$ 127,173

(1) Includes the repurchase of 65 shares of distributed restricted stock.

(2) Employee Stock Ownership Plan ("ESOP").

Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned Stock Compensation	Accumulated Other Compre-
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	Shares	Amount	Capital	Earnings	Stock Compensation	Comprehensive Income	Total
Balance at January 1, 2007, as previously reported	6,697,023	\$124	\$67,988	\$147,353	\$(81,677)	\$ (403) \$ 473	\$ 133,858
Adjustments to opening stockholder's equity	-	-	3,140	(2,986)	-	(243)	(89)
Balance at January 1, 2007, as restated	6,697,023	\$ 124	\$ 71,128	\$ 144,367	\$(81,677)	\$ (646) \$ 473	\$ 133,769
Comprehensive income:							
Net income (1)				2,359			2,359
Unrealized holding gain on securities available for sale, net of tax expense of \$181						250	250
Total comprehensive income (1)							2,609
Purchase of treasury stock	(194,580)				(5,373)		(5,373)
Exercise of stock options	41,550	-	802				802
Amortization of restricted stock			56				56
Awards for restricted stock			(543)		543		-
Stock options expense			134				134
Tax benefit from non-qualified equity compensation			49				49
Allocations of contribution to ESOP (1)			540			96	636
Cash dividends				(1,203)			(1,203)
Balance at March 31, 2007	6,543,993	\$ 124	\$ 72,166	\$ 145,523	\$(86,507)	\$ (550) \$ 723	\$ 131,479

(1) As restated, see Note 1.

The accompanying notes are an integral part of these condensed consolidated financial statements.

PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)
Dollars in Thousands
For the Nine Months Ended March 31, 2008 and 2007

	Common		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated		Total
	Shares	Amount				Unearned Stock Compensation	Other Comprehensive Income	
Balance at July 1, 2007	6,376,945	\$ 124	\$ 72,935	\$ 146,194	(\$) (90,694)	(\$) (455)	\$ 693	\$ 128,797
Comprehensive income:								
Net income				2,613				2,613
Unrealized holding gain on securities available for sale, net of tax expense of \$829							1,145	1,145
Total comprehensive income								3,758
Purchase of treasury stock (1)	(188,076)				(4,097)			(4,097)
Exercise of stock options	7,500	-	69					69
Distribution of restricted stock	11,350							
Amortization of restricted stock			212					212
Awards of restricted stock			(45)		45			-
Forfeiture of restricted stock			52		(52)			-
Stock options expense			569					569
Tax benefit from non-qualified equity compensation			6					6
Allocations of contribution to ESOP			965			274		1,239
Cash dividends				(3,380)				(3,380)
	6,207,719	\$ 124) \$ (181)	\$ 1,838	

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Balance at March 31, 2008	\$ 74,763	\$ 145,427	\$ (94,798)	\$ 127,173
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(1) Includes the repurchase of 995 shares of distributed restricted stock.

	Common Stock Shares	Additional Paid-In Capital Amount	Retained Earnings Capital	Treasury Stock Compensation	Accumulated Other Compre- hensive Unearned Stock (Loss) Income	Total
Balance at July 1, 2006	6,991,842	\$ 124	\$ 69,440	\$ (72,524)	\$ (854) \$ (411)	\$ 136,148
Comprehensive income:						
Net income (1)			8,620			8,620
Unrealized holding gain on securities available for sale, net of tax expense of \$821					1,134	1,134
Total comprehensive income (1)						9,754
Purchase of treasury stock (2)	(497,799)			(14,526)		(14,526)
Exercise of stock options	49,950	-	1,003			1,003
Amortization of restricted stock			88			88
Awards for restricted stock			(543)	543		-
Stock options expense			272			272
Tax benefit from non-qualified equity compensation			81			81
Allocations of contribution to ESOP (1)			1,825		304	2,129
Cash dividends			(3,470)			(3,470)
Balance at March 31, 2007	6,543,993	\$ 124	\$ 72,166	\$ (86,507)	\$ () \$ 723 \$ 550	\$ 131,479

(1) As restated, see Note 1.

(2) Includes the repurchase of 1,696 shares of distributed restricted stock.

The accompanying notes are an integral part of these condensed consolidated financial statements.

PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited - In Thousands)

	Nine Months Ended March 31,	
	2008	2007 (As Restated- See Note 1)
Cash flows from operating activities:		
Net income	\$ 2,613	\$ 8,620
Adjustments to reconcile net income to net cash provided by (used for)		
Operating activities:		
Depreciation and amortization	1,707	1,523
Provision for loan losses	6,809	5,568
Provision for losses on real estate	435	-
Gain on sale of loans	(1,362)	(8,717)
Net loss (gain) on sale of real estate	470	(2,358)
Stock compensation	1,934	2,268
FHLB – San Francisco stock dividend	(1,447)	(1,635)
Tax benefit from non-qualified equity compensation	(6)	(81)
Decrease in accounts payable and other liabilities	(2,700)	(5,289)
Decrease (increase) in prepaid expense and other assets	722	(923)
Loans originated for sale	(284,772)	(938,123)
Proceeds from sale of loans and net change in receivable from sale of loans	328,127	920,070
Net cash provided by (used for) operating activities	52,530	(19,077)
Cash flows from investing activities:		
Net increase in loans held for investment	(74,240)	(131,211)
Maturity and call of investment securities held to maturity	19,000	23,000
Maturity and call of investment securities available for sale	5,979	7,201
Principal payments from mortgage-backed securities	35,131	29,188
Purchase of investment securities available for sale	(75,774)	(45,380)
Net proceeds from sale of real estate	8,211	4,145
Net redemption (purchase) of FHLB – San Francisco stock	13,599	(4,094)
Purchase of premises and equipment	(229)	(818)
Net cash used for investing activities	(68,323)	(117,969)
Cash flows from financing activities:		
Net increase in deposits	30,770	63,041
(Repayment of) proceeds from borrowings, net	(3,030)	90,722
ESOP loan payment	63	105
Exercise of stock options	69	1,003
Tax benefit from non-qualified equity compensation	6	81
Cash dividends	(3,380)	(3,470)
Treasury stock purchases	(4,097)	(14,526)
Net cash provided by financing activities	20,401	136,956

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Net increase (decrease) in cash and cash equivalents	4,608	(90)
Cash and cash equivalents at beginning of period	12,824	16,358
Cash and cash equivalents at end of period	\$ 17,432	\$ 16,268
Supplemental information:		
Cash paid for interest	\$ 42,381	\$ 43,467
Cash paid for income taxes	\$ 3,100	\$ 7,750
Transfer of loans held for sale to loans held for investment	\$ 9,605	\$ 9,529
Real estate acquired in the settlement of loans	\$ 17,762	\$ 2,142

The accompanying notes are an integral part of these condensed consolidated financial statements.

PROVIDENT FINANCIAL HOLDINGS, INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

Note 1: Restatement of Condensed Consolidated Financial Statements

In February 2008, the Corporation identified an error regarding the failure to release shares of common stock from its ESOP consistent with the repayment of the ESOP loan. The failure occurred as a result of the application of cash dividend payments received on unallocated ESOP shares to reduce the balance of the ESOP loan. Additional shares should have been released in the years ended December 31, 2002 through 2007. Releasing these additional shares results in additional compensation expense to the Corporation for those respective periods. As a result, the Audit Committee concluded, in accordance with SAB No. 108, that the amounts involved required the restatement of the accompanying condensed consolidated financial statements. The impact of the adjustments to the previously issued Condensed Consolidated Financial Statements for the quarters and nine months ended March 31, 2007 are summarized in the following tables.

	Quarter Ended March 31, 2007			Nine Months Ended March 31, 2007		
	As Previously Reported	Adjustment	Restated	As Previously Reported	Adjustment	Restated
(Dollars in thousands, except earnings per share)						
Condensed Consolidated Statements of Operations						
Salaries and employee benefits	\$ 5,641	\$ 179	\$5,820	\$ 16,416	\$ 671	\$ 17,087
Total non-interest expense	8,592	169 (1)	8,761	25,067	626 (1)	25,693
Income before income taxes	4,569	(179)	4,390	16,638	(671)	15,967
Net income	2,538	(179)	2,359	9,291	(671)	8,620
Basic earnings per share	0.40	(0.04)	0.36	1.42	(0.12)	1.30
Diluted earnings per share	0.39	(0.03)	0.36	1.40	(0.12)	1.28
Condensed Consolidated Statements of Stockholders' Equity						
Net income	2,538	(179)	2,359	9,291	(671)	8,620
Total comprehensive income	2,788	(179)	2,609	10,425	(671)	9,754

Allocation of contributions to ESOP	431	205	636	1,353	776	2,129
Prepayment of ESOP loan	46	(46)	-	152	(152)	-
Total stockholders' equity	131,588	(109)	131,479	131,588	(109)	131,479

(1) Includes the reclassification of interest expense on escrow balances of \$10 and \$45, respectively, discussed in Note 2.

Nine Months Ended March 31, 2007

As

(Dollars in thousands, except earnings per share)	Previously Reported	Adjustment		Restated
Condensed Consolidated Statements of Cash Flows				
Cash flows from operating activities				
	\$	\$		\$
Net income	9,291	(671)		8,620
Stock-based compensation	1,597	671		2,268
Decrease in accounts payable, accrued interest and other liabilities	(5,507)	218	(1)	(5,289)
Net cash used for operating activities	(19,295)	218	(1)	(19,077)
Cash flows from financing activities				
ESOP loan payment	-	105		105
Net cash provided by financing activities	138,785	(1,829)	(2)	136,956

(1) Includes the reclassification of custodial accounts of \$323 discussed in Note 2.

(2) Includes the reclassification of custodial accounts of \$323 and escrow balances of \$1.6 million discussed in Note 2.

Note 2: Basis of Presentation

The unaudited interim condensed consolidated financial statements included herein reflect all adjustments which are, in the opinion of management, necessary to present a fair statement of the results of operations for the interim periods presented. All such adjustments are of a normal, recurring nature. The condensed consolidated financial statements at June 30, 2007 are derived from the audited consolidated financial statements of Provident Financial Holdings, Inc. and its wholly owned subsidiary, Provident Savings Bank, F.S.B. (the "Bank") (collectively, the "Corporation"). Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") with respect to interim financial reporting. It is recommended that these unaudited interim condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation's Annual Report on Form 10-K for the year ended June 30, 2007, as amended.

Certain amounts in the prior periods' financial statements have been reclassified to conform to the current period's presentation. In the Condensed Consolidated Statement of Financial Condition at June 30, 2007, escrow balances of \$1.4 million, previously reported in loans held for investment, were reclassified to interest-bearing deposits; and custodial accounts of \$1.4 million, previously reported in accounts payable, accrued interest and other liabilities, were reclassified to non interest-bearing deposits. In the Condensed Consolidated Statements of Operations for the quarter and nine months ended March 31, 2007, interest expense on escrow balances of \$10,000 and \$45,000, respectively, previously reported in other non-interest expense, was reclassified to interest expense - checking and money market deposits. In the Condensed Consolidated Statements of Cash Flows for the nine months ended March 31, 2007, custodial accounts of \$323,000, previously reported in accounts payable, accrued interest and other liabilities, were reclassified to deposits; and escrow balances of \$1.6 million, previously reported in loans held for investment, were reclassified to deposits.

The results of operations for the quarter and nine months ended March 31, 2008 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2008.

Note 3: Recent Accounting Pronouncements

Statement of Financial Accounting Standards ("SFAS" or "Statement") No. 161:

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities." This Statement is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with

early application encouraged. The Corporation is currently evaluating the impact, if any, that this statement will have on its disclosures related to hedging activities.

SFAS No. 159:

In February 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115.” This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the FASB’s long-term measurement objectives for accounting for financial instruments. This Statement is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. Management has not determined the impact, if any, of this Statement on the Corporation’s financial condition, results of operations, or cash flows.

SFAS No. 157:

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” This Statement defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management has not determined the impact, if any, of this Statement on the Corporation’s financial condition, results of operations, or cash flows.

Note 4: Earnings Per Share and Stock-Based Compensation

Earnings Per Share:

Basic earnings per share (“EPS”) excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the earnings of the entity. Stock options outstanding as of March 31, 2008 and 2007 were 727,700 and 754,343, respectively. Of these options outstanding as of March 31, 2008 and 2007, 590,000 and 292,800, respectively, were excluded from the diluted EPS computation as their effect was anti-dilutive.

The following table provides the basic and diluted EPS computations for the quarters and nine months ended March 31, 2008 and 2007, respectively.

(In Thousands, Except Earnings Per Share)	For the Quarter Ended March 31,		For the Nine Months Ended March 31,	
	2008	2007	2008	2007
Numerator:				
Net income – numerator for basic earnings				
per share and diluted earnings	\$ 957	\$ 2,359	\$ 2,613	\$ 8,620
per share -				
income available to common stockholders				
Denominator:				
Denominator for basic earnings				
per share:	6,145	6,505	6,173	6,629
Weighted-average shares				
Effect of dilutive securities:				
Stock option dilution	55	110	57	122
Restricted stock dilution	-	6	-	4
Denominator for diluted earnings				
per share:				
Adjusted weighted-average				
shares	6,200	6,621	6,230	6,755
and assumed conversions				
Basic earnings per share	\$ 0.16	\$ 0.36	\$ 0.42	\$ 1.30
Diluted earnings per share	\$ 0.15	\$ 0.36	\$ 0.42	\$ 1.28

SFAS No. 123R, "Share-Based Payment," requires companies to recognize in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees and directors. Effective July 1, 2005, the Corporation adopted SFAS No. 123R using the modified prospective method under which the provisions of SFAS No. 123R are applied to new awards and to awards modified, repurchased or cancelled after June 30, 2005 and to awards outstanding on June 30, 2005 for which requisite service has not yet been rendered.

The adoption of SFAS No. 123R resulted in incremental stock-based compensation expense and is solely related to issued and unvested stock option grants. The incremental stock-based compensation expense for the quarters ended March 31, 2008 and 2007 was \$293,000 and \$134,000, respectively. For the nine months ended March 31, 2008 and 2007, the incremental stock-based compensation expense was \$569,000 and \$272,000, respectively. For the first nine months of fiscal 2008 and 2007, cash provided by operating activities decreased by \$6,000 and \$81,000, respectively, and cash provided by financing activities increased by an identical amount, respectively, related to excess tax benefits from stock-based payment arrangements. These amounts are reflective of the tax benefit for stock options exercised and restricted stock distributions during the respective periods.

Note 5: Operating Segment Reports

The Corporation operates in two business segments: community banking through the Bank and mortgage banking through Provident Bank Mortgage (“PBM”), a division of the Bank.

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The following tables set forth condensed statements of operations and total assets for the Corporation's operating segments for the quarters and nine months ended March 31, 2008 and 2007, respectively (in thousands).

	For the Quarter Ended March 31, 2008		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income (loss), after provision for loan losses	\$ 8,484	\$ (915)	\$ 7,569
Non-interest income:			
Loan servicing and other fees (1)	51	299	350
Gain on sale of loans, net	7	299	306
Deposit account fees	768	-	768
Net loss on sale of real estate	(131)	(171)	(302)
Other	816	(334)	482
Total non-interest income	1,511	93	1,604
Non-interest expense:			
Salaries and employee benefits	3,817	999	4,816
Premises and occupancy	514	131	645
Operating and administrative expenses	931	907	1,838
Total non-interest expense	5,262	2,037	7,299
Income (loss) before taxes	\$ 4,733	\$ (2,859)	\$ 1,874
Total assets, end of period	\$ 1,653,016	\$ 21,283	\$ 1,674,299

(1) Includes an inter-company charge of \$309 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

	For the Quarter Ended March 31, 2007		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income (loss), after provision for loan losses	\$ 9,624	\$ (152)	\$ 9,472
Non-interest income:			
Loan servicing and other fees (1)	(9)	471	462
Gain on sale of loans, net	42	2,264	2,306
Deposit account fees	525	-	525
Gain on sale of real estate, net	18	-	18
Other	364	4	368
Total non-interest income	940	2,739	3,679

Non-interest expense:

Salaries and employee benefits	3,646	2,174	5,820
Premises and occupancy	548	253	801
Operating and administrative expenses	1,109	1,031	2,140
Total non-interest expense	5,303	3,458	8,761
Income (loss) before taxes	\$ 5,261	\$ (871)	\$ 4,390
Total assets, end of period	\$ 1,639,521	\$ 130,884	\$ 1,770,405

- (1) Includes an inter-company charge of \$350 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

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For the Nine Months Ended March 31, 2008

	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income (loss), after provision for loan losses	\$ 25,818	\$ (2,967)	\$ 22,851
Non-interest income:			
Loan servicing and other fees (1)	50	1,304	1,354
Gain on sale of loans, net	40	1,322	1,362
Deposit account fees	2,211	-	2,211
Net loss on sale of real estate	(312)	(158)	(470)
Other	1,469	(1,000)	469
Total non-interest income	3,458	1,468	4,926
Non-interest expense:			
Salaries and employee benefits	10,618	3,844	14,462
Premises and occupancy	1,555	628	2,183
Operating and administrative expenses	2,846	2,896	5,742
Total non-interest expense	15,019	7,368	22,387
Income (loss) before taxes	\$ 14,257	\$ (8,867)	\$ 5,390
Total assets, end of period	\$ 1,653,016	\$ 21,283	\$ 1,674,299

(1) Includes an inter-company charge of \$1.0 million credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

For the Nine Months Ended March 31, 2007

	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income, after provision for loan losses	\$ 26,238	\$ 75	\$ 26,313
Non-interest income:			
Loan servicing and other fees (1)	(525)	1,951	1,426
Gain on sale of loans, net	169	8,548	8,717
Deposit account fees	1,557	-	1,557
Net gain on sale of real estate	2,358	-	2,358
Other	1,283	6	1,289
Total non-interest income	4,842	10,505	15,347
Non-interest expense:			
Salaries and employee benefits	10,436	6,651	17,087
Premises and occupancy	1,577	753	2,330
Operating and administrative expenses	3,023	3,253	6,276

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Total non-interest expense	15,036	10,657	25,693
Income (loss) before taxes	\$ 16,044	\$ (77)	\$ 15,967
Total assets, end of period	\$ 1,639,521	\$ 130,884	\$ 1,770,405

(1) Includes an inter-company charge of \$1.5 million credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

Note 6: Derivative and Other Financial Instruments with Off-Balance Sheet Risks

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of originating loans or providing funds under existing lines of credit, and forward

loan sale agreements to third parties. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the accompanying Condensed Consolidated Statements of Financial Condition. The Corporation's exposure to credit loss, in the event of non-performance by the counterparty to these financial instruments, is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in entering into financial instruments with off-balance sheet risk as it does for on-balance sheet instruments. As of March 31, 2008 and June 30, 2007, the Corporation had commitments to extend credit (on loans to be held for investment and loans to be held for sale) of \$54.4 million and \$44.5 million, respectively.

Commitments (In Thousands)	March 31, 2008	June 30, 2007
Undisbursed loan funds – Construction loans	\$ 16,566	\$ 25,484
Undisbursed lines of credit – Single-family loans	3,780	3,326
Undisbursed lines of credit – Commercial business loans	10,595	14,532
Undisbursed lines of credit – Consumer loans	1,685	1,637
Commitments to extend credit on loans to be held for investment	40,388	9,387
Total	\$ 73,014	\$ 54,366

In accordance with SFAS No. 133 and interpretations of the Derivatives Implementation Group of the FASB, the fair value of the commitments to extend credit on loans to be held for sale, forward loan sale agreements, forward commitments to purchase mortgage-backed securities ("MBS"), put option contracts and call option contracts are recorded at fair value on the balance sheet, and are included in other assets or other liabilities. The Corporation does not apply hedge accounting to its derivative financial instruments; therefore, all changes in fair value are recorded in earnings. The net impact of derivative financial instruments on the Condensed Consolidated Statements of Operations during the quarters ended March 31, 2008 and 2007 was a loss of \$70,000 and a gain of \$133,000, respectively. For the nine months ended March 31, 2008 and 2007, the net impact of derivative financial instruments on the Condensed Consolidated Statements of Operations was a loss of \$112,000 and a gain of \$302,000, respectively.

Derivative Financial Instruments (In Thousands)	March 31, 2008		June 30, 2007		March 31, 2007	
	Amount	Fair Value	Amount	Fair Value	Amount	Fair Value
Commitments to extend credit						
on loans to be held for sale	\$ 14,037	\$ (90)	\$ 35,130	\$ 24	\$ 52,274	\$ 86
(1)						
Forward loan sale agreements	(32,878)	-	(27,012)	(51)	(44,500)	55
Forward commitments to purchase						
MBS	-	-	6,500	23	-	-
Put option contracts	-	-	(11,500)	112	(13,500)	50
Call option contracts	-	-	1,000	4	-	-
Total	\$ (18,841)	\$ (90)	\$ 4,118	\$ 112	\$ (5,726)	\$ 191

(1)

Net of 63.0 percent at March 31, 2008, 34.7 percent at June 30, 2007 and 34.4 percent at March 31, 2007 of commitments, which may not fund.

Note 7: Income Taxes

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109". FIN 48 prescribes a more-likely-than-not threshold for the financial statement recognition of uncertain tax positions. In this regard, an uncertain tax position represents the Corporation's expected treatment of a tax position taken in a filed tax return, or planned to be taken in a future tax return, that has not been reflected in measuring income tax expense for financial reporting purposes. FIN 48 clarifies the accounting for income taxes by prescribing a minimum

recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 provides guidance on the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken in income tax returns. On July 1, 2007, the Corporation adopted the provisions of FIN 48 and had no cumulative effect or adjustment recognized upon adoption. In addition, as a result of adoption of FIN 48, the Corporation does not have any unrecognized tax benefits as a result of uncertainty in income taxes on its Condensed Consolidated Statements of Financial Condition as of July 1, 2007 and March 31, 2008. It is the Corporation's policy to record any penalties or interest arising from federal or state taxes as a component of other expense. There were no penalties or interest included in the Condensed Consolidated Statements of Operations for the quarter ended March 31, 2008. Also, the Corporation does not anticipate any changes in the amount of unrecognized tax benefits prior to fiscal year end on June 30, 2008. The Corporation files income tax returns with the United States federal and state of California jurisdictions. The Corporation is no longer subject to United States federal and state income tax examinations by tax authorities for years ended on or before June 30, 2003. Accordingly, the tax years ended June 30, 2004 through 2007 remain open to examination by the federal and state taxing authorities. The Corporation is currently undergoing a routine examination by the Internal Revenue Service for the 2006 tax return. The Corporation has not determined the impact of this examination, if any, to the financial statements.

Note 8: Subsequent Events

On April 24, 2008, the Corporation announced a cash dividend of \$0.10 per share on the Corporation's outstanding shares of common stock for shareholders of record as of the close of business on May 19, 2008, payable on June 13, 2008.

ITEM 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis gives effect to the restatement discussed in Note 1 to the accompanying condensed consolidated financial statements.

General

Provident Financial Holdings, Inc., a Delaware corporation, was organized in January 1996 for the purpose of becoming the holding company of Provident Savings Bank, F.S.B. upon the Bank's conversion from a federal mutual to a federal stock savings bank ("Conversion"). The Conversion was completed on June 27, 1996. At March 31, 2008, the Corporation had total assets of \$1.67 billion, total deposits of \$1.03 billion and total stockholders' equity of \$127.2 million. The Corporation has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this report, including financial statements and related data, relates primarily to the Bank and its subsidiaries.

The Bank, founded in 1956, is a federally chartered stock savings bank headquartered in Riverside, California. The Bank is regulated by the Office of Thrift Supervision ("OTS"), its primary federal regulator, and the Federal Deposit Insurance Corporation ("FDIC"), the insurer of its deposits. The Bank's deposits are federally insured up to applicable limits by the FDIC. The Bank has been a member of the Federal Home Loan Bank System since 1956.

The Bank's business consists of community banking activities and mortgage banking activities. Community banking activities primarily consist of accepting deposits from customers within the communities surrounding the Bank's full service offices and investing those funds in single-family loans, multi-family loans, commercial real estate loans, construction loans, commercial business loans, consumer loans and other real estate loans. The Bank also offers business checking accounts, other business banking services, and services loans for others. Mortgage banking activities consist of the origination and sale of mortgage and consumer loans secured primarily by single-family

residences. The Bank's revenues are

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derived principally from interest on its loans and investment securities and fees generated through its community banking and mortgage banking activities. There are various risks inherent in the Bank's business including, among others, the general business environment, interest rates, the California real estate market, the demand for loans, the prepayment of loans, the repurchase of loans previously sold to investors, competitive conditions between banks and non-bank financial services providers, regulatory changes, fraud and other risks.

The Corporation, from time to time, may repurchase its common stock. The Corporation evaluates the repurchase of its common stock when the market price of the stock is lower than its book value and/or the Corporation believes that the current market price is not commensurate with its current and future earnings potential. Consideration is also given to the Corporation's liquidity, regulatory capital requirements and future capital needs based on the Corporation's current business plan. The Corporation's Board of Directors authorizes each stock repurchase program, the duration of which is typically one year. Once the stock repurchase program is authorized, management may repurchase the Corporation's common stock from time to time in the open market or in privately negotiated transactions, depending upon market conditions and the factors described above. On June 25, 2007, the Corporation announced that its Board of Directors authorized the repurchase of up to five percent of its outstanding common stock, or approximately 318,847 shares, over a one-year period. For additional information regarding the Corporation's repurchases during the quarter ended March 31, 2008, see Part II, Item 2 – "Unregistered Sales of Equity Securities and Use of Proceeds" on page 43.

The Corporation began to distribute quarterly cash dividends in the quarter ended September 30, 2002. On January 31, 2008, the Corporation announced a quarterly cash dividend of \$0.18 per share for the Corporation's shareholders of record at the close of business on February 25, 2008, which was paid on March 21, 2008. Future declarations or payments of dividends will be subject to the consideration of the Corporation's Board of Directors, which will take into account the Corporation's financial condition, results of operations, tax considerations, capital requirements, industry standards, economic conditions and other factors, including the regulatory restrictions which affect the payment of dividends by the Bank to the Corporation. Under Delaware law, dividends may be paid either out of surplus or, if there is no surplus, out of net profits for the current fiscal year and/or the preceding fiscal year in which the dividend is declared.

Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to assist in understanding the financial condition and results of operations of the Corporation. The information contained in this section should be read in conjunction with the Unaudited Interim Condensed Consolidated Financial Statements and accompanying selected Notes to Unaudited Interim Condensed Consolidated Financial Statements.

Safe-Harbor Statement

Certain matters in this quarterly report on Form 10-Q for the quarter ended March 31, 2008 constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to, among others, expectations of the business environment in which the Corporation operates, projections of future performance, perceived opportunities in the market, potential future credit experience, and statements regarding the Corporation's mission and vision. These forward-looking statements are based upon management expectations, and may, therefore, involve risks and uncertainties. The Corporation's actual results, performance, or achievements may differ materially from those suggested, expressed, or implied by forward-looking statements as a result of a wide range of factors including, but not limited to the general business environment, the credit risks of lending activities, the quality or composition of the loans or investment portfolio, the ability to access cost-effective funding, interest rates, conditions in the residential and commercial real estate markets, the demand for loans, levels of non-performing assets, the repurchase of loans previously sold to investors, competitive conditions between banks and non-bank financial services providers, regulatory changes, fraud, and other risks disclosed herein or detailed in the Corporation's reports filed with the SEC, including the Annual Report on Form 10-K for the fiscal

year ended June 30, 2007, as amended. Forward-looking statements are effective only as of the date that they are made and the Corporation assumes no obligation to update forward-looking information.

Critical Accounting Policies

The discussion and analysis of the Corporation's financial condition and results of operations are based upon the Corporation's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Accounting for the allowance for loan losses involves significant judgment and assumptions by management, which have a material impact on the carrying value of net loans. Management considers this accounting policy to be a critical accounting policy. The allowance is based on two principles of accounting: (i) SFAS No. 5, "Accounting for Contingencies," which requires that losses be accrued when they are probable of occurring and can be estimated; and (ii) SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," and SFAS No. 118, "Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures," which require that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance. The allowance has two components: a formula allowance for groups of homogeneous loans and a specific valuation allowance for identified problem loans. Each of these components is based upon estimates that can change over time. The formula allowance is based primarily on historical experience and as a result can differ from actual losses incurred in the future. The history is reviewed at least quarterly and adjustments are made as needed. Various techniques are used to arrive at specific loss estimates, including historical loss information, discounted cash flows and the fair market value of collateral. The use of these techniques is inherently subjective and the actual losses could be greater or less than the estimates. For further details, see "Comparison of Operating Results for the Quarters and Nine Months Ended March 31, 2008 and 2007 - Provision for Loan Losses" on page 25 of this Form 10-Q.

Interest is generally not accrued on any loan when its contractual payments are 90 days or more delinquent or if the loan is deemed impaired. In addition, interest is not recognized on any loan where management has determined that collection is not reasonably assured. A non-accrual loan may be restored to accrual status when delinquent principal and interest payments are brought current and future monthly principal and interest payments are expected to be collected.

SFAS No. 133, "Accounting for Derivative Financial Instruments and Hedging Activities," requires that derivatives of the Corporation be recorded in the consolidated financial statements at fair value. Management considers this accounting policy to be a critical accounting policy. The Bank's derivatives are primarily the result of its mortgage banking activities in the form of commitments to extend credit, commitments to sell loans, commitments to purchase MBS and option contracts to mitigate the risk of the commitments. Estimates of the percentage of commitments to extend credit on loans to be held for sale that may not fund are based upon historical data and current market trends. The fair value adjustments of the derivatives are recorded in the consolidated statements of operations with offsets to other assets or other liabilities in the consolidated statements of financial condition.

Executive Summary and Operating Strategy

Provident Savings Bank, F.S.B. established in 1956 is a financial services company committed to serving consumers and small to mid-sized businesses in the Inland Empire region of Southern California. The Bank conducts its business operations as Provident Bank, Provident Bank Mortgage, a division of the Bank, and through its subsidiary, Provident Financial Corp. The business activities of the Corporation, primarily through the Bank and its subsidiary, consist of community banking, mortgage banking, and to a lesser degree, investment services and real estate operations.

Community banking operations primarily consist of accepting deposits from customers within the communities surrounding the Bank's full service offices and investing those funds in single-family, multi-family, commercial real estate, construction, commercial business, consumer and other loans. Additionally, certain fees are collected from depositors, such as non-sufficient fund fees, deposit account service charges, ATM fees, IRA/KEOGH fees, safe deposit box fees, travelers check fees, and wire transfer

fees, among others. The primary source of income in community banking is net interest income, which is the difference between the interest income earned on loans and investment securities, and the interest expense paid on interest-bearing deposits and borrowed funds. During the next three years the Corporation intends to restructure the balance sheet by decreasing the percentage of investment securities to total assets and increasing the percentage of loans held for investment to total assets; decreasing the concentration of single-family mortgage loans within loans held for investment; and increasing the concentration of higher yielding multi-family, commercial real estate, construction and commercial business loans (which are sometimes referred to in this report as “preferred loans”). It should be noted however, that currently, the Bank has deemphasized construction loan originations given the current real estate market. In addition, over time, the Corporation intends to decrease the percentage of time deposits in its deposit base and to increase the percentage of lower costing checking and savings accounts. This strategy is intended to improve core revenue through a higher net interest margin and ultimately, coupled with the growth of the Corporation, an increase in net interest income.

Mortgage banking operations primarily consist of the origination and sale of mortgage loans secured by single-family residences. The primary sources of income in mortgage banking are gain on sale of loans and certain fees collected from borrowers in connection with the loan origination process. During the first six months ended December 31, 2007, the Bank closed PBM loan production offices in Diamond Bar, La Quinta, San Diego, Temecula, Torrance and Vista, California. The closure of the PBM loan offices was due primarily to the decline in loan demand, resulting from, among others, the declining real estate market, stricter loan underwriting standards and the well documented deterioration of the mortgage banking environment. The charge of \$210,000 related to the action described above was recognized in the second quarter ended December 31, 2007. As of March 31, 2008, the Bank does not believe that additional charges will be incurred with respect to this action. The Corporation will continue to monitor and adjust its operations in response to the rapidly changing mortgage banking environment. Changes may include a different product mix, further tightening of underwriting standards, a further reduction in operating expenses or a combination of these and other changes.

Investment services operations primarily consist of selling alternative investment products such as annuities and mutual funds to our depositors and provided by strategic partners. Real estate operations primarily consist of the sale of real estate owned acquired through foreclosures. Each of these businesses generates a relatively small portion of the Corporation’s net income.

There are a number of risks associated with the business activities of the Corporation, many of which are beyond the Corporation’s control, including: changes in accounting principles and changes in regulation, among others. The Corporation attempts to mitigate many of these risks through prudent banking practices such as interest rate risk management, credit risk management, operational risk management, and liquidity management. The current economic environment presents heightened risk for the Corporation primarily with respect to falling real estate values. Declining real estate values in California may lead to higher loan losses since the majority of the Corporation’s loans are secured by real estate located within California. Significant declines in California real estate may inhibit the Corporation’s ability to recover on defaulted loans by selling the underlying real estate.

Off-Balance Sheet Financing Arrangements and Contractual Obligations

The following table summarizes the Corporation’s contractual obligations at March 31, 2008 and the effect these obligations are expected to have on the Corporation’s liquidity and cash flows in future periods (in thousands):

	Payments Due by Period			
1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Total

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Operating lease obligations	\$ 795	\$ 1,176	\$ 601	\$ 747	\$ 3,319
Time deposits	599,417	97,942	5,423	299	703,081
FHLB – San Francisco advances	207,261	224,994	103,795	2,627	538,677
FHLB – San Francisco letter of credit	2,000	-	-	-	2,000
Total	\$ 809,473	\$ 324,112	\$ 109,819	\$ 3,673	\$ 1,247,077

The expected obligation for time deposits and FHLB – San Francisco advances include anticipated interest accruals based on the respective contractual terms.

Comparison of Financial Condition at March 31, 2008 and June 30, 2007

Total assets increased \$25.4 million, or two percent, to \$1.67 billion at March 31, 2008 from \$1.65 billion at June 30, 2007. The increase was primarily attributable to increases in loans held for investment, loans held for sale and investment securities, partly offset by decreases in the receivable from sale of loans and FHLB – San Francisco stock.

Total investment securities increased \$17.8 million, or 12 percent, to \$168.6 million at March 31, 2008 from \$150.8 million at June 30, 2007. The increase was primarily the result of the purchase of \$75.8 million of investment securities in the first nine months of fiscal 2008, partly offset by \$25.0 million of investment securities which matured or were called by the issuer and \$35.1 million of scheduled and accelerated principal payments on mortgage-backed securities. The Bank evaluates individual investment securities quarterly for other-than-temporary declines in market value. The Bank does not believe that there are any other-than-temporary impairments at March 31, 2008; therefore, no impairment losses have been recorded as of March 31, 2008.

Loans held for investment increased \$56.1 million, or four percent, to \$1.41 billion at March 31, 2008 from \$1.35 billion at June 30, 2007. During the first nine months of fiscal 2008, the Bank originated \$253.2 million of loans held for investment, \$156.4 million, or 62 percent, were “preferred loans” (multi-family, commercial real estate, construction and commercial business loans), which includes the purchase of \$99.8 million of loans, substantially all of which were multi-family loans. The loans purchased in the first nine months of fiscal 2008 are secured by real estate located primarily in California (property inspections were performed on those loans above \$400,000) and all loans were re-underwritten prior to purchase using the same underwriting criteria utilized for direct loan originations. Total loan principal payments during the first nine months of fiscal 2008 were \$186.6 million, compared to \$275.8 million during the first nine months of fiscal 2007. The balance of preferred loans increased to \$593.2 million, or 42 percent of loans held for investment at March 31, 2008, as compared to \$522.9 million, or 39 percent of loans held for investment at June 30, 2007. Purchased loans serviced by others at March 31, 2008 were \$155.4 million, or 11 percent of loans held for investment, compared to \$159.8 million, or 12 percent of loans held for investment at June 30, 2007.

The table below describes the geographic dispersion of real estate secured loans held for investment at March 31, 2008, as a percentage of the total dollar amount outstanding:

Loan Category	Inland Empire	Southern California	Other California	Other States	Total
		(1)			
Single-family	30%	55%	13%	2%	100%
Multi-family	9%	70%	19%	2%	100%
Commercial real estate	45%	47%	7%	1%	100%
Construction	62%	38%	-	-	100%
Other	100%	-	-	-	100%
Total	27%	58%	14%	1%	100%

(1) Other than the Inland Empire.

There was no receivable from sale of loans at March 31, 2008 as compared to \$60.5 million at June 30, 2007. Prior to the quarter ended March 31, 2008, the Bank sold loans in packages since the execution was better, resulting in timing differences between the loan sale and settlement. It is currently in the best interest of the Corporation to sell loans as

they are funded on a best effort basis because of the recent uncertainty in the secondary market. As a result, the Bank no longer generates a receivable from sale of loans.

Total loans held for sale increased to \$18.8 million at March 31, 2008 from \$1.3 million at June 30, 2007. The increase was due primarily to the change described related to the receivable from sale of loans in the preceding paragraph.

Total deposits increased \$30.8 million, or three percent, to \$1.03 billion at March 31, 2008 from \$1.00 billion at June 30, 2007. This increase was primarily attributable to an increase of \$35.5 million in time deposits, partly offset by a decrease of \$4.7 million in transaction accounts. The decrease in transaction accounts and the increase in time deposits was primarily attributable to depositors switching to time deposits from transaction accounts, which pay higher interest rates.

Borrowings, consisting primarily of FHLB – San Francisco advances, decreased \$3.1 million, or one percent, to \$499.7 million at March 31, 2008 from \$502.8 million at June 30, 2007. The decrease in borrowings was primarily the result of the growth in deposits. The weighted-average maturity of the Bank's FHLB – San Francisco advances was approximately 22 months (18 months, if put options are exercised by the FHLB – San Francisco) at March 31, 2008 as compared to the weighted-average maturity of 23 months (18 months, if put options are exercised by the FHLB – San Francisco) at June 30, 2007.

Total stockholders' equity decreased \$1.6 million, or one percent, to \$127.2 million at March 31, 2008, from \$128.8 million at June 30, 2007, primarily as a result of common stock repurchases and the quarterly cash dividends paid during the first nine months of fiscal 2008, which was partly offset by net income and share based payment activity during the first nine months of fiscal 2008. During the first nine months of fiscal 2008, a total of 7,500 stock options with an average strike price of \$9.15 per share were exercised. Also, a total of 187,081 shares of common stock were repurchased during the first nine months of fiscal 2008 under the June 2007 stock repurchase program at an average price of \$21.78 per share. As of March 31, 2008, 59 percent of the authorized shares of the June 2007 stock repurchase program were purchased, leaving 131,766 shares available for future repurchase. During the first nine months of fiscal 2008, the Corporation repurchased 995 shares of restricted stock in lieu of distribution to employees (to satisfy the minimum income tax required to be withheld from employees) at an average price of \$22.21 per share. The total cash dividend paid to the Corporation's shareholders in the first nine months of fiscal 2008 was \$3.4 million. The additional paid in capital increased \$1.8 million, due primarily to the amortization of restricted stock, stock option expense and ESOP expense during the nine months ended March 30, 2008.

Comparison of Operating Results for the Quarters and Nine Months Ended March 31, 2008 and 2007

The Corporation's net income for the third quarter ended March 31, 2008 was \$957,000, a decrease of \$1.4 million, or 59 percent, from \$2.4 million during the same quarter of fiscal 2007. This decrease was primarily attributable to a decrease in non-interest income and an increase in the provision for loan losses, partly offset by a decrease in operating expenses. For the nine months ended March 31, 2008, the Corporation's net income was \$2.6 million, down \$6.0 million, from \$8.6 million during the same period of fiscal 2007. This decrease was primarily a result of the decreases in net interest income and non-interest income and the increase in the provision for loan losses, partly offset by the decrease in operating expenses.

The Corporation's net interest income (before the provision for loan losses) increased by \$62,000, or one percent, to \$10.7 million for the quarter ended March 31, 2008 as compared to the same period in fiscal 2007. This increase was the result of a higher net interest margin and lower average earning assets. The net interest margin increased to 2.69 percent in the third quarter of fiscal 2008, up 20 basis points from 2.49 percent for the same period of fiscal 2007. The increase in the net interest margin during the third quarter of fiscal 2008 was primarily attributable to a decrease in the average cost of funds which declined more than the average yield on earning assets. The average balance of earning assets decreased \$116.6 million, or seven percent, to \$1.59 billion in the third quarter of fiscal 2008 from \$1.71 billion in the comparable period of fiscal 2007. For the nine months ended March 31, 2008, net interest income (before the provision for loan losses) was \$29.7 million, down \$2.2 million or seven percent from \$31.9

million during the same period of fiscal 2007. This decrease was the result of a lower net interest margin and lower average earning assets. The net interest margin decreased to 2.50 percent in the first nine months of fiscal 2008, down five basis points from 2.55 percent during the same period of fiscal 2007. The decrease in the net interest margin during the first nine months of fiscal 2008 was primarily attributable to a slight increase in the average cost of funds which increased more than the average yield on earning assets, which remained

relatively stable. The average balance of earning assets decreased \$86.8 million, or five percent, to \$1.58 billion in the first nine months of fiscal 2008 from \$1.67 billion in the comparable period of fiscal 2007.

The Corporation's efficiency ratio improved to 59 percent in the third quarter of fiscal 2008 from 61 percent in the same period of fiscal 2007. For the nine months ended March 31, 2008, the efficiency ratio increased to 65 percent from 54 percent in the same period ended March 31, 2007. The deterioration in the efficiency ratio was a result of the declines in net interest income and non-interest income, which outpaced the decline in non-interest expense.

Return on average assets for the quarter ended March 31, 2008 decreased 31 basis points to 0.23 percent from 0.54 percent in the same period last year. For the nine months ended March 31, 2008 and 2007, the return on average assets was 0.22 percent and 0.67 percent, respectively, a decrease of 45 basis points.

Return on average equity for the quarter ended March 31, 2008 decreased to 2.99 percent from 7.07 percent for the same period last year. For the nine months ended March 31, 2008, the return on average equity decreased to 2.73 percent from 8.47 percent for the same period last year.

Diluted earnings per share for the quarter ended March 31, 2008 were \$0.15, a decrease of 58 percent from \$0.36 for the quarter ended March 31, 2007. For the nine months ended March 31, 2008 and 2007, diluted earnings per share were \$0.42 and \$1.28, respectively, a decrease of 67 percent.

Interest Income:

For the Quarters Ended March 31, 2008 and 2007. Total interest income decreased by \$2.2 million, or eight percent, to \$24.0 million for the third quarter of fiscal 2008 from \$26.2 million in the same quarter of fiscal 2007. This decrease was primarily the result of a lower average balance of earning assets and a lower average earning asset yield. The average yield on earning assets during the third quarter of fiscal 2008 was 6.03 percent, nine basis points lower than the average yield of 6.12 percent during the same period of fiscal 2007.

Loan receivable interest income decreased \$2.1 million, or nine percent, to \$21.6 million in the quarter ended March 31, 2008 from \$23.7 million for the same quarter of fiscal 2007. This decrease was attributable to a lower average loan balance and a lower average loan yield. The average balance of loans outstanding, including the receivable from sale of loans and loans held for sale, decreased \$90.0 million, or six percent, to \$1.40 billion during the third quarter of fiscal 2008 from \$1.49 billion during the same quarter of fiscal 2007. The average loan yield during the third quarter of fiscal 2008 decreased 18 basis points to 6.17 percent from 6.35 percent during the same quarter last year. The decrease in the average loan yield was primarily attributable to accrued interest reversals from newly classified non-accrual loans and loan payoffs which carried a higher average yield, partly offset by mortgage loans originated with higher interest rates and a higher percentage of preferred loans, which generally have a higher yield than our residential loans.

Interest income from investment securities increased \$131,000, or seven percent, to \$2.0 million during the quarter ended March 31, 2008 from \$1.8 million in the same quarter of fiscal 2007. This increase was primarily a result of an increase in average yield, partly offset by a decrease in the average balance. The average yield on the investment securities increased 71 basis points to 4.95 percent during the quarter ended March 31, 2008 from 4.24 percent during the quarter ended March 31, 2007. The increase in the average yield of investment securities was due primarily to new purchases of investment securities with an average yield of 4.64 percent and the maturities of investment securities with an average yield of 3.42 percent. The average balance of investment securities decreased \$14.3 million, or eight percent, to \$158.2 million in the third quarter of fiscal 2008 from \$172.5 million in the same quarter of fiscal 2007. During the third quarter of fiscal 2008, the Bank purchased \$34.6 million of investment securities, while \$8.9 million matured or were called by the issuer and \$11.7 million of principal payments were received on MBS.

FHLB – San Francisco stock dividends decreased by \$178,000, or 30 percent, to \$419,000 in the third quarter of fiscal 2008 from \$597,000 in the same period of fiscal 2007. This decrease was attributable to a lower average balance in the amount of FHLB – San Francisco stock owned and a lower average yield earned on this stock. The average balance of FHLB – San Francisco stock decreased \$11.7 million to \$31.3

million during the third quarter of fiscal 2008 from \$43.0 million during the same period of fiscal 2007. The average balance of FHLB – San Francisco stock was consistent with the borrowing requirements of the FHLB – San Francisco. The average yield on FHLB – San Francisco stock decreased 19 basis points to 5.36 percent during the third quarter of fiscal 2008 from 5.55 percent during the same period last year.

For the Nine Months Ended March 31, 2008 and 2007. Total interest income decreased by \$4.0 million, or five percent, to \$71.8 million for the first nine months of fiscal 2008 from \$75.8 million in the same period of fiscal 2007. This decrease was primarily the result of a lower average balance of earning assets and a lower average earning asset yield. The average yield on earning assets during the first nine months of fiscal 2008 was 6.06 percent, one basis point lower than the average yield of 6.07 percent during the same period of fiscal 2007.

Loan receivable interest income decreased \$3.8 million, or six percent, to \$64.9 million in the nine months ended March 31, 2008 from \$68.7 million for the same period of fiscal 2007. This decrease was attributable to a lower average loan balance and a lower average loan yield. The average balance of loans outstanding, including the receivable from sale of loans and loans held for sale, decreased \$51.3 million, or four percent, to \$1.39 billion during the first nine months of fiscal 2008 from \$1.44 billion during the same period of fiscal 2007. The average loan yield during the first nine months of fiscal 2008 decreased 13 basis points to 6.21 percent from 6.34 percent during the same period last year. The decrease in the average loan yield was primarily attributable to accrued interest reversals from newly classified non-accrual loans and loan payoffs which carried a higher average yield, partly offset by mortgage loans originated with higher interest rates and a higher percentage of preferred loans, which generally have a higher yield than our residential loans.

Interest income from investment securities increased \$224,000 to \$5.6 million during the nine months ended March 31, 2008 from \$5.4 million in the same period of fiscal 2007. This increase was primarily a result of an increase in average yield, partly offset by a decrease in the average balance. The average yield on the investment securities increased 88 basis points to 4.86 percent during the nine months ended March 31, 2008 from 3.98 percent during the nine months ended March 31, 2007. The increase in the average yield of investment securities was primarily a result of the new purchases with a higher average yield (5.06 percent versus the average yield of 4.86 percent) and the maturities and called investment securities with an average yield of 3.25 percent. The average balance of investment securities decreased \$26.3 million, or 15 percent, to \$153.8 million in the first nine months of fiscal 2008 from \$180.1 million in the same period of fiscal 2007. During the first nine months of fiscal 2008, \$75.8 million of investment securities were purchased and \$25.0 million matured or were called by the issuer, while \$35.1 million of principal payments were received on MBS.

FHLB – San Francisco stock dividends decreased by \$384,000, or 23 percent, to \$1.3 million in the first nine months of fiscal 2008 from \$1.7 million in the same period of fiscal 2007. This decrease was attributable to a lower average yield and a lower average balance in the amount of FHLB – San Francisco stock owned. The average yield on FHLB – San Francisco stock decreased 13 basis points to 5.43 percent during the first nine months of fiscal 2008 from 5.56 percent during the same period last year. The average balance of FHLB – San Francisco stock decreased \$8.5 million to \$32.4 million during the first nine months of fiscal 2008 from \$40.9 million during the same period of fiscal 2007. The average balance of FHLB – San Francisco stock was consistent with the borrowing requirements of the FHLB – San Francisco.

Interest Expense:

For the Quarters Ended March 31, 2008 and 2007. Total interest expense for the quarter ended March 31, 2008 was \$13.3 million as compared to \$15.5 million for the same period of fiscal 2007, a decrease of \$2.2 million, or 14 percent. This decrease was primarily attributable to a lower average balance and a lower average cost of interest-bearing liabilities. The average balance of interest-bearing liabilities, principally deposits and borrowings, decreased \$108.9 million, or seven percent, to \$1.49 billion during the third quarter of fiscal 2008 from \$1.59 billion

during the same period of fiscal 2007. The average cost of interest-bearing liabilities was 3.60 percent during the quarter ended March 31, 2008, down 34 basis points from 3.94 percent during the same period of fiscal 2007.

Interest expense on deposits for the quarter ended March 31, 2008 was \$8.5 million as compared to \$8.1 million for the same period of fiscal 2007, an increase of \$403,000, or five percent. The increase in interest expense on deposits was primarily attributable to a higher average balance, partly offset by a lower average cost. The average cost of deposits decreased to 3.36 percent during the quarter ended March 31, 2008 from 3.41 percent during the same quarter of fiscal 2007, a decrease of five basis points. The decrease in the average cost of deposits was attributable primarily to a higher composition of time deposits with a lower average cost, consistent with declining short-term interest rates. The average balance of deposits increased \$53.8 million, or six percent, to \$1.01 billion during the quarter ended March 31, 2008 from \$958.5 million during the same period of fiscal 2007. The average balance of transaction accounts decreased by \$22.8 million, or six percent, to \$342.5 million in the quarter ended March 31, 2008 from \$365.3 million in the quarter ended March 31, 2007. The average balance of time deposits increased by \$76.6 million, or 13 percent, to \$669.8 million in the quarter ended March 31, 2008 compared to \$593.2 million in the quarter ended March 31, 2007. The increase in time deposits was primarily attributable to a time deposit marketing campaign and depositors switching from transaction accounts to time deposits which pay higher interest rates. The average balance of transaction account deposits to total deposits in the third quarter of fiscal 2008 was 34 percent, compared to 38 percent in the same period of fiscal 2007.

Interest expense on borrowings, consisting primarily of FHLB – San Francisco advances, for the quarter ended March 31, 2008 decreased \$2.6 million, or 35 percent, to \$4.8 million from \$7.4 million for the same period of fiscal 2007. The decrease in interest expense on borrowings was primarily a result of a lower average balance and a lower average cost. The average balance of borrowings decreased \$162.8 million, or 26 percent, to \$473.3 million during the quarter ended March 31, 2008 from \$636.1 million during the same period of fiscal 2007. The average cost of borrowings decreased to 4.11 percent for the quarter ended March 31, 2008 from 4.74 percent in the same quarter of fiscal 2007, a decrease of 63 basis points. The decrease in the average cost of borrowings was the result of lower short-term interest rates during the third quarter of fiscal 2008 compared to the same period of fiscal 2007.

For the Nine Months Ended March 31, 2008 and 2007. Total interest expense was \$42.1 million for the first nine months of fiscal 2008 as compared to \$43.9 million for the same period of fiscal 2007, a decrease of \$1.8 million, or four percent. This decrease was primarily attributable to a lower average balance of interest-bearing liabilities, partly offset by an increase in the average cost. The average balance of interest-bearing liabilities, principally deposits and borrowings, decreased \$75.0 million, or five percent, to \$1.47 billion during the first nine months of fiscal 2008 from \$1.54 billion during the same period of fiscal 2007. The average cost of interest-bearing liabilities was 3.82 percent during the nine months ended March 31, 2008, up three basis points from 3.79 percent during the same period of fiscal 2007.

Interest expense on deposits for the nine months ended March 31, 2008 was \$26.9 million as compared to \$22.4 million for the same period of fiscal 2007, an increase of \$4.5 million, or 20 percent. The increase in interest expense on deposits was primarily attributable to a higher average cost and a higher average balance. The average cost of deposits increased to 3.55 percent during the nine months ended March 31, 2008 from 3.20 percent during the same period of fiscal 2007, an increase of 35 basis points. The increase in the average cost of deposits was primarily attributable to a higher composition of time deposits. The average balance of deposits increased \$76.7 million, or eight percent, to \$1.01 billion during the nine months ended March 31, 2008 from \$932.1 million during the same period of fiscal 2007. The average balance of transaction accounts decreased by \$29.7 million, or eight percent, to \$344.2 million in the nine months ended March 31, 2008 from \$373.9 million in the nine months ended March 31, 2007. The average balance of time deposits increased by \$106.3 million, or 19 percent, to \$664.6 million in the nine months ended March 31, 2008 as compared to \$558.3 million in the nine months ended March 31, 2007. The increase in time deposits was primarily attributable to a time deposit marketing campaign and depositors switching from transaction accounts to time deposits which pay higher interest rates. The average balance of transaction account deposits to total deposits in the first nine months of fiscal 2008 was 34 percent, compared to 40 percent in the same period of fiscal 2007.

Interest expense on borrowings, consisting primarily of FHLB – San Francisco advances, for the nine months ended March 31, 2008 decreased \$6.4 million, or 30 percent, to \$15.2 million from \$21.6 million for the same period of fiscal 2007. The decrease in interest expense on borrowings was primarily a result of a lower average cost and a lower average balance. The average cost of borrowings decreased to 4.39 percent for the nine months ended March 31, 2008 from 4.69 percent in the same period ended March 31, 2007, a decrease of 30 basis points. The decrease in the average cost of borrowings was the result of lower

short-term interest rates in the first nine months of fiscal 2008 as compared to the same period of fiscal 2007. The average balance of borrowings decreased \$151.6 million, or 25 percent, to \$461.2 million during the nine months ended March 31, 2008 from \$612.8 million during the same period of fiscal 2007.

The following table depicts the average balance sheets for the quarters and nine months ended March 31, 2008 and 2007, respectively:

Average Balance Sheets

(Dollars in thousands)

	Quarter Ended March 31, 2008			Quarter Ended March 31, 2007		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
Interest-earning assets:						
Loans receivable, net (1)	\$ 1,403,695	\$ 21,645	6.17%	\$ 1,493,713	\$ 23,725	6.35%
Investment securities	158,187	1,959	4.95%	172,503	1,828	4.24%
FHLB – San Francisco stock	31,274	419	5.36%	43,004	597	5.55%
Interest-earning deposits	562	4	2.85%	1,099	14	5.10%
Total interest-earning assets	1,593,718	24,027	6.03%	1,710,319	26,164	6.12%
Non interest-earning assets	37,948			38,157		
Total assets	\$ 1,631,666			\$ 1,748,476		
Interest-bearing liabilities:						
Checking and money market accounts (2)	\$ 196,711	351	0.72%	\$ 205,404	379	0.75%
Savings accounts	145,783	725	2.00%	159,891	724	1.84%
Time deposits	669,789	7,393	4.44%	593,159	6,963	4.76%
Total deposits	1,012,283	8,469	3.36%	958,454	8,066	3.41%
Borrowings	473,334	4,839	4.11%	636,073	7,441	4.74%
Total interest-bearing liabilities	1,485,617	13,308	3.60%	1,594,527	15,507	3.94%
Non interest-bearing liabilities	18,028			20,550		
Total liabilities	1,503,645			1,615,077		
Stockholders' equity	128,021			133,399		
Total liabilities and stockholders' equity	\$ 1,631,666			\$ 1,748,476		

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Net interest income	\$	\$
	10,719	10,657
Interest rate spread (3)	2.43%	2.18%
Net interest margin (4)	2.69%	2.49%
Ratio of average interest-earning assets to average interest-bearing liabilities	107.28%	107.26%
Return on average assets	0.23%	0.54%
Return on average equity	2.99%	7.07%

(1) Includes the receivable from sale of loans, loans held for sale and non-accrual loans, as well as net deferred loan cost amortization of \$209

and \$121 for the quarters ended March 31, 2008 and 2007, respectively.

(2) Includes the average balance of non interest-bearing checking accounts of \$46.2 million and \$49.5 million during the quarters ended

March 31, 2008 and 2007, respectively.

(3) Represents the difference between the weighted-average yield on all interest-earning assets and the weighted-average rate on all

interest-bearing liabilities.

(4) Represents net interest income before provision for loan losses as a percentage of average interest-earning assets.

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	Nine Months Ended March 31, 2008			Nine Months Ended March 31, 2007		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
Interest-earning assets:						
Loans receivable, net (1)	\$ 1,392,243	\$ 64,859	6.21%	\$ 1,443,535	\$ 68,684	6.34%
Investment securities	153,808	5,605	4.86%	180,112	5,381	3.98%
FHLB – San Francisco stock	32,392	1,320	5.43%	40,889	1,704	5.56%
Interest-earning deposits	613	18	3.92%	1,306	51	5.21%
Total interest-earning assets	1,579,056	71,802	6.06%	1,665,842	75,820	6.07%
Non interest-earning assets	36,805			37,986		
Total assets	\$ 1,615,861			\$ 1,703,828		
Interest-bearing liabilities:						
Checking and money market accounts (2)	\$ 196,804	1,275	0.86%	\$ 207,438	1,111	0.71%
Savings accounts	147,416	2,316	2.09%	166,424	2,039	1.63%
Time deposits	664,629	23,339	4.67%	558,257	19,227	4.59%
Total deposits	1,008,849	26,930	3.55%	932,119	22,377	3.20%
Borrowings	461,161	15,212	4.39%	612,833	21,562	4.69%
Total interest-bearing liabilities	1,470,010	42,142	3.82%	1,544,952	43,939	3.79%
Non interest-bearing liabilities	18,233			23,183		
Total liabilities	1,488,243			1,568,135		
Stockholders' equity	127,618			135,693		
Total liabilities and stockholders' equity	\$ 1,615,861			\$ 1,703,828		
Net interest income		\$ 29,660			\$ 31,881	
Interest rate spread (3)			2.24%			2.28%
Net interest margin (4)			2.50%			2.55%
Ratio of average interest-earning						

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assets to average interest-bearing liabilities	107.42%	107.82%
Return on average assets	0.22%	0.67%
Return on average equity	2.73%	8.47%

(1) Includes the receivable from sale of loans, loans held for sale and non-accrual loans, as well as net deferred loan cost amortization of \$599

and \$269 for the nine months ended March 31, 2008 and 2007, respectively.

(2) Includes the average balance of non interest-bearing checking accounts of \$43.9 million and \$48.3 million during the nine months ended

March 31, 2008 and 2007, respectively.

(3) Represents the difference between the weighted-average yield on all interest-earning assets and the weighted-average rate on all interest-bearing liabilities.

(4) Represents net interest income before provision for loan losses as a percentage of average interest-earning assets.

The following table provides the rate/volume variances for the quarters and nine months ended March 31, 2008 and 2007, respectively:

Rate/Volume Variance
(In Thousands)

	Quarter Ended March 31, 2008 Compared To Quarter Ended March 31, 2007 Increase (Decrease) Due to			
	Rate	Volume	Rate/ Volume	Net
Interest-earning assets:				
Loans receivable (1)	\$ (692)	\$ (1,429)	\$ 41	\$ (2,080)
Investment securities	308	(152)	(25)	131
FHLB – San Francisco stock	(21)	(163)	6	(178)
Interest-bearing deposits	(6)	(7)	3	(10)
Total net change in income on interest-earning assets	(411)	(1,751)	25	(2,137)
Interest-bearing liabilities:				
Checking and money market accounts	(13)	(16)	1	(28)
Savings accounts	72	(65)	(6)	1
Time deposits	(418)	909	(61)	430
Borrowings	(935)	(1,923)	256	(2,602)
Total net change in expense on interest-bearing liabilities	(1,294)	(1,095)	190	(2,199)
Net increase (decrease) in net interest income	\$ 883	\$ (656)	\$ (165)	\$ 62

(1) Includes the receivable from sale of loans, loans held for sale and non-accrual loans. For purposes of calculating volume, rate and rate/volume variances, non-accrual loans were included in the weighted-average balance outstanding.

	Nine Months Ended March 31, 2008 Compared To Nine Months Ended March 31, 2007 Increase (Decrease) Due to			
	Rate	Volume	Rate/ Volume	Net
Interest-earning assets:				
Loans receivable (1)	\$ (1,436)	\$ (2,439)	\$ 50	\$ (3,825)
Investment securities	1,183	(785)	(174)	