PROVIDENT FINANCIAL HOLDINGS INC
Form 10-Q/A
May 16, 2008

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

FORM 10-Q/A

(Mark One) (Amendment No. 1)

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

For the quarterly period ended ………………………………………..... September 30, 2007

[ ] 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	33-0704889
(State or other jurisdiction of incorporation or organization)	(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 X . No .

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

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ]

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 November 5, 2007
Common stock, $ 0.01 par value, per share	6,218,510 shares*

* Includes 80,567 shares held by the Employee Stock Ownership Plan that have not been released, committed to be released, or allocated to participant accounts.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A ("Form 10-Q/A") to our Form 10-Q for the quarter ended September 30, 2007, initially filed with the Securities and Exchange Commission ("SEC") on November 9, 2007 ("Original Form 10-Q"), is being filed to reflect the restatement of our Condensed Consolidated Statements of Financial Condition as of September 30, 2007 and June 30, 2007, the related Condensed Consolidated Statements of Operations, Condensed Consolidated Statements of Stockholders' Equity and Condensed Consolidated Statements of Cash Flows for the quarters ended September 30, 2007 and 2006, and the notes related thereto. For a more detailed description of the restatement, see Note 1, "Restatement of Condensed Consolidated Financial Statements" to the accompanying condensed consolidated financial statements.

On April 22, 2008, the Corporation's Audit Committee determined that the financial statements should be restated after concluding that an error occurred in the accounting for the Corporation sponsored Employee Stock Ownership Plan ("ESOP"). The error consisted of releasing fewer shares of common stock than required to be released commensurate with the repayment of the ESOP loan. The restated financial statements reflect the additional compensation expense required as a result of releasing more shares. For a description of the changes made in connection with the restatement ("Restatement") see Note 1, "Restatement of Condensed Consolidated Financial Statements" to the accompanying unaudited interim condensed consolidated financial statements contained in this report.

This Form 10-Q/A only amends and restates Items 1, 2 and 4 of Part I in each case as a result of, and to reflect, the restatement of the Original Form 10-Q. In addition, pursuant to the rules of the SEC, Item 6 of Part II of the Original Form 10-Q has been amended to contain currently dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. Except for the forgoing amended information, this Form 10-Q/A continues to speak as of the date of the Original Form 10-Q and we have not updated the disclosure contained herein to reflect events that have been or will be addressed in our quarterly reports on Form 10-Q for the quarters ended December 31, 2007 and March 31, 2008 and our current reports on Form 8-K filed subsequent to the Original Form 10-Q and any reports filed with the SEC subsequent to the date of this filing.

PROVIDENT FINANCIAL HOLDINGS, INC.

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

	September 30, 2007 (As Restated – See Note 1)	June 30, 2007 (As Restated – See Note 1)
Assets		
Cash and due from banks	$ 9,947	$ 11,024
Federal funds sold	4,300	1,800
Cash and cash equivalents	14,247	12,824
Investment securities – held to maturity (fair value $8,935 and $18,837, respectively)	9,001	19,001
Investment securities – available for sale, at fair value	135,107	131,842
Loans held for investment, net of allowance for loan losses of $15,599 and $14,845, respectively	1,366,792	1,350,696
Loans held for sale, at lower of cost or market	4,042	1,337
Receivable from sale of loans	17,591	60,513
Accrued interest receivable	7,442	7,235
Real estate owned, net	5,567	3,804
Federal Home Loan Bank ("FHLB") – San Francisco stock	30,754	43,832
Premises and equipment, net	6,969	7,123
Prepaid expenses and other assets	8,801	10,716
Total assets	$ 1,606,313	$ 1,648,923
Liabilities and Stockholders' Equity		
Liabilities:		
Non interest-bearing deposits	$ 41,556	$ 45,112
Interest-bearing deposits	970,615	956,285
Total deposits	1,012,171	1,001,397
Borrowings	452,764	502,774
Accounts payable, accrued interest and other liabilities	15,406	15,955
Total liabilities	1,480,341	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; 6,232,803 and 6,376,945 shares outstanding, respectively)	124	124
Additional paid-in capital	73,627	72,935
Retained earnings	145,659	146,194

Treasury stock at cost (6,203,062 and 6,051,420 shares, respectively)		(94,097)		(90,694)
Unearned stock compensation		(358)		(455)
Accumulated other comprehensive income, net of tax		1,017		693
Total stockholders' equity		125,972		128,797
Total liabilities and stockholders' equity	$	1,606,313	$	1,648,923

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

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PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Operations
(Unaudited)
In Thousands, Except Per Share Information

	Quarters Ended September 30, 2007 (As Restated – See Note 1)	Quarters Ended September 30, 2006 (As Restated – See Note 1)
Interest income:		
Loans receivable, net	$ 21,514	$ 21,958
Investment securities	1,744	1,696
FHLB – San Francisco stock	469	514
Interest-earning deposits	9	19
Total interest income	23,736	24,187
Interest expense:		
Checking and money market deposits	425	353
Savings deposits	787	644
Time deposits	8,058	5,827
Borrowings	5,093	6,624
Total interest expense	14,363	13,448
Net interest income, before provision for loan losses	9,373	10,739
Provision for loan losses	1,519	637
Net interest income, after provision for loan losses	7,854	10,102
Non-interest income:		
Loan servicing and other fees	491	476
Gain on sale of loans, net	122	3,492
Deposit account fees	658	522
Gain on sale of real estate, net	61	2,313
Other	43	591
Total non-interest income	1,375	7,394
Non-interest expense:		
Salaries and employee benefits	5,124	5,648
Premises and occupancy	707	784
Equipment	400	393
Professional expenses	319	264
Sales and marketing expenses	173	261
Other	1,045	1,099
Total non-interest expense	7,768	8,449

Income before income taxes	1,461	9,047
Provision for income taxes	849	4,021
Net income	$ 612	$ 5,026
Basic earnings per share	$ 0.10	$ 0.74
Diluted earnings per share	$ 0.10	$ 0.73
Cash dividends per share	$ 0.18	$ 0.15

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

PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Stockholders' Equity
(As Restated – See Note 1)
(Unaudited)
Dollars in Thousands
For the Quarters Ended September 30, 2007 and 2006.

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned Stock Compensation	Accumulated Other Compre-hensive Income	Total
Balance at July 1, 2007, as previously reported	6,376,945	$ 124	$ 69,456	$ 149,523	$ (90,694)	$ (175)	$ 693	$ 128,927
Adjustments to opening stockholders' equity	-	-	3,479	(3,329)	-	(280)	-	(130)
Balance at July 1, 2007, as restated	6,376,945	124	72,935	146,194	(90,694)	(455)	693	128,797
Comprehensive income:								
Net income (1)				612				612
Unrealized holding gain on securities available for sale, net of tax expense of $235							324	324
Total comprehensive income (1)								936
Purchase of treasury stock (2)	(151,642)				(3,396)			(3,396)
Exercise of stock options	7,500	-	69					69
Amortization of restricted stock			68					68
Awards of restricted stock			(45)		45			-
Forfeiture of restricted stock			52		(52)			-
Stock options expense			140					140
Tax benefit from non-qualified equity compensation			6					6
Allocation of contributions to ESOP (1) (3)			402			97		499
Cash dividends				(1,147)				(1,147)
Balance at September 30, 2007	6,232,803	$ 124	$ 73,627	$ 145,659	$ (94,097)	$ (358)	$ 1,017	$ 125,972

(1) As restated, see Note 1.
(2) Includes the repurchase of 930 shares of distributed restricted stock.
(3) Employee Stock Ownership Plan ("ESOP").

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned Stock Compensation	Accumulated Other Comprehensive (Loss) Income	Total
Balance at July 1, 2006, as previously reported	6,991,842	$ 124	$ 66,798	$ 142,867	$ (72,524)	$ (644)	$ (411)	$ 136,210
Adjustments to opening stockholders' equity	-	-	2,642	(2,494)	-	(210)	-	(62)
Balance at July 1, 2006, as restated	6,991,842	124	69,440	140,373	(72,524)	(854)	(411)	136,148
Comprehensive income:								
Net income (1)				5,026				5,026
Unrealized holding gain on securities available for sale, net of tax expense of $446							615	615
Total comprehensive income (1)								5,641
Purchase of treasury stock	(111,997)				(3,398)			(3,398)
Exercise of stock options	6,500	-	154					154
Amortization of restricted stock			18					18
Stock options expense			33					33
Tax benefit from non-qualified equity compensation			23					23
Allocation of contributions to ESOP (1)			626			102		728
Cash dividends				(1,043)				(1,043)
Balance at September 30, 2006	6,886,345	$ 124	$ 70,294	$ 144,356	$ (75,922)	$ (752)	$ 204	$ 138,304

(1) As restated, see Note 1.

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

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

	Three Months Ended September 30, 2007 (As Restated – See Note 1)	Three Months Ended September 30, 2006 (As Restated - See Note 1)
Cash flows from operating activities:		
Net income	$ 612	$ 5,026
Adjustments to reconcile net income to net cash provided by (used for)		
Operating activities:		
Depreciation and amortization	570	454
Provision for loan losses	1,519	637
Provision for losses on real estate	241	-
Gain on sale of loans	(122)	(3,492)
Gain on sale of real estate	(61)	(2,313)
Stock compensation	659	721
FHLB – San Francisco stock dividend	(560)	(493)
Tax benefit from non-qualified equity compensation	(6)	(23)
(Decrease) increase in accounts payable and other liabilities	(1,529)	1,481
Decrease in prepaid expense and other assets	1,524	731
Loans originated for sale	(99,513)	(319,541)
Proceeds from sale of loans and net change in receivable from sale of loans	138,417	312,920
Net cash provided by (used for) operating activities	41,751	(3,892)
Cash flows from investing activities:		
Net increase in loans held for investment	(18,580)	(44,929)
Maturity and call of investment securities held to maturity	10,000	3,000
Maturity and call of investment securities available for sale	129	-
Principal payments from mortgage-backed securities	11,974	10,012
Purchase of investment securities available for sale	(14,795)	(28,647)
Net proceeds from sale of real estate	1,092	2,966
Net redemption (purchase) of FHLB – San Francisco stock	13,638	(2,679)
Purchase of premises and equipment	(108)	(143)
Net cash provided by (used for) investing activities	3,350	(60,420)

Cash flows from financing activities:		
Net increase (decrease) in deposits	10,774	(1,335)
(Repayment of) proceeds from borrowings, net	(50,010)	71,391
ESOP loan payment	26	36
Exercise of stock options	69	154
Tax benefit from non-qualified equity compensation	6	23
Cash dividends	(1,147)	(1,043)
Treasury stock purchases	(3,396)	(3,398)
Net cash (used for) provided by financing activities	(43,678)	65,828
Net increase in cash and cash equivalents	1,423	1,516
Cash and cash equivalents at beginning of period	12,824	16,358
Cash and cash equivalents at end of period	$ 14,247	$ 17,874
Supplemental information:		
Cash paid for interest	$ 14,579	$ 13,102
Cash paid for income taxes	$ -	$ -
Transfer of loans held for sale to loans held for investment	$ 6,390	$ 854
Real estate acquired in the settlement of loans	$ 3,682	$ 414

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

September 30, 2007

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 as of September 30, 2007 and June 30, 2007 and for the quarters ended September 30, 2007 and 2006 are summarized in the following tables.

	As of September 30, 2007			As of June 30, 2007		
(Dollars in thousands)	As Previously Reported	Adjustment	Restated	As Previously Reported	Adjustment	Restated
Condensed Consolidated Statements of Financial Condition						
Accounts payable, accrued interest and other liabilities	$ 15,251	$ 155	$ 15,406	$ 15,825	$ 130	$ 15,955
Total liabilities	1,480,186	155	1,480,341	1,519,996	130	1,520,126
Additional paid-in capital	70,010	3,617	73,627	69,456	3,479	72,935
Retained earnings	149,134	(3,475)	145,659	149,523	(3,329)	146,194
Unearned stock compensation	(61)	(297)	(358)	(175)	(280)	(455)
Total stockholders' equity	126,127	(155)	125,972	128,927	(130)	128,797

(Dollars in thousands, except earnings per share)	Quarter Ended September 30, 2007 As Previously Reported	Adjustment	Restated	Quarter Ended September 30, 2006 As Previously Reported	Adjustment	Restated
Condensed Consolidated Statements of Operations						
Salaries and employee benefits	$ 4,982	$ 142	$ 5,124	$ 5,416	$ 232	$ 5,648
Total non-interest expense	7,626	142	7,768	8,217	232	8,449
Income before income taxes	1,603	(142)	1,461	9,279	(232)	9,047
Provision for income taxes	845	4	849	4,021	-	4,021
Net income	758	(146)	612	5,258	(232)	5,026
Basic earnings per share	0.12	(0.02)	0.10	0.79	(0.05)	0.74
Diluted earnings per share	0.12	(0.02)	0.10	0.77	(0.04)	0.73
Condensed Consolidated Statements of Stockholders' Equity						
Net income	758	(146)	612	5,258	(232)	5,026
Total comprehensive income	1,082	(146)	936	5,873	(232)	5,641
Allocation of contributions to ESOP	332	167	499	461	267	728
Prepayment of ESOP loan	46	(46)	-	48	(48)	-
Total stockholders' equity	126,127	(155)	125,972	138,379	(75)	138,304
Condensed Consolidated Statements of Cash Flows						
Cash flows from operating activities						
Net income	758	(146)	612	5,258	(232)	5,026
Stock-based compensation	517	142	659	489	232	721

(Decrease) increase in accounts payable, accrued interest and other liabilities	(1,507)	(22)	(1,529)	1,517	(36)	1,481
Net cash provided by (used for) operating activities	41,777	(26)	41,751	(3,856)	(36)	(3,892)
Cash flows from financing activities						
ESOP loan payment	-	26	26	-	36	36
Net cash (used for) provided by financing activities	(43,704)	26	(43,678)	65,792	36	65,828

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 Statement of Operations for the quarter ended September 30, 2006, $17,000 of interest expense on escrow balances, previously reported in other non-interest expense, was reclassified to interest expense - checking and money market deposits.

The results of operations for the quarter ended September 30, 2007 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. 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 September 30, 2007 and 2006 were 748,200 and 605,493, respectively. Of these options outstanding as of September 30, 2007 and 2006, 485,500 and 5,000, 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 ended September 30, 2007 and 2006, respectively.

(In Thousands, Except Earnings Per Share)	For the Quarters Ended September 30, 2007	2006
Numerator:		
Net income – numerator for basic earnings per share and diluted earnings per share - income available to common stockholders	$ 612	$ 5,026
Denominator:		
Denominator for basic earnings per share:		
Weighted-average shares	6,239	6,757
Effect of dilutive securities:		
Stock option dilution	52	131
Restricted stock dilution	2	3
Denominator for diluted earnings per share:		
Adjusted weighted-average shares and assumed conversions	6,293	6,891
Basic earnings per share	$ 0.10	$ 0.74
Diluted earnings per share	$ 0.10	$ 0.73

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 first quarter ended September 30, 2007 and 2006 was $140,000 and $33,000, respectively. For the first three months of fiscal 2008 and 2007, cash provided by operating activities decreased by $6,000 and $23,000, 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.

The following tables set forth condensed statements of operations and total assets for the Corporation's operating segments for the quarters ended September 30, 2007 and 2006, respectively (in thousands).

	For the Quarter Ended September 30, 2007		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income (loss), after provision for loan losses	$ 8,710	$ (856)	$ 7,854
Non-interest income:			
Loan servicing and other fees (1)	(64)	555	491
Gain on sale of loans, net	23	99	122
Deposit account fees	658	-	658
Gain on sale of real estate, net	55	6	61
Other	202	(159)	43
Total non-interest income	874	501	1,375
Non-interest expense:			
Salaries and employee benefits	3,480	1,644	5,124
Premises and occupancy	550	157	707
Operating and administrative expenses	989	948	1,937
Total non-interest expense	5,019	2,749	7,768
Income (loss) before taxes	$ 4,565	$ (3,104)	$ 1,461
Total assets, end of period	$ 1,581,652	$ 24,661	$ 1,606,313

(1) Includes an inter-company charge of $343 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

	For the Quarter Ended September 30, 2006		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income, after provision for loan losses	$ 9,826	$ 276	$ 10,102
Non-interest income:			
Loan servicing and other fees (1)	(95)	571	476
Gain on sale of loans, net	108	3,384	3,492
Deposit account fees	522	-	522
Gain on sale of real estate	2,313	-	2,313
Other	591	-	591
Total non-interest income	3,439	3,955	7,394
Non-interest expense:			
Salaries and employee benefits	3,466	2,182	5,648

Premises and occupancy	541	243	784
Operating and administrative expenses	1,007	1,010	2,017
Total non-interest expense	5,014	3,435	8,449
Income before taxes	$ 8,251	$ 796	$ 9,047
Total assets, end of period	$ 1,583,272	$ 115,273	$ 1,698,545

(1) Includes an inter-company charge of $436 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 September 30, 2007 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 $36.7 million and $44.5 million, respectively.

Commitments (In Thousands)	September 30, 2007	June 30, 2007
Undisbursed loan funds – Construction loans	$ 24,085	$ 25,484
Undisbursed lines of credit – Single-family loans	3,320	3,326
Undisbursed lines of credit – Commercial business loans	11,582	14,532
Undisbursed lines of credit – Consumer loans	1,620	1,637
Commitments to extend credit on loans to be held for investment	12,752	9,387
Total	$ 53,359	$ 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 commitment to purchase 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 consolidated statements of operations during the quarters ended September 30, 2007 and 2006 was a loss of $73,000 and a gain of $319,000, respectively.

	September 30, 2007		June 30, 2007		September 30, 2006	
Derivative Financial Instruments (In Thousands)	Amount	Fair Value	Amount	Fair Value	Amount	Fair Value
Commitments to extend credit on loans to be held for sale (1)	$ 23,966	$ (96)	$ 35,130	$ 24	$ 53,891	$ 116
Forward loan sale agreements	15,500	29	27,012	(51)	33,467	6
Forward commitments to purchase MBS	-	-	(6,500)	23	-	-
Put option contracts	3,500	8	11,500	112	12,000	14
Call option contracts	-	-	(1,000)	4	-	-
Total	$ 42,966	$ (59)	$ 66,142	$ 112	$ 99,358	$ 136

(1) Net of 32.8 percent at September 30, 2007, 34.7 percent at June 30, 2007 and 31.8 percent at September 30, 2006 of commitments, which may not fund.

Note 7: Income Taxes

In July 2006, the Financial Accounting Standards Board 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 derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. On July 1, 2007, the Corporation adopted the provisions of FIN 48 and had no cumulative effect 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 Consolidated Statements of Financial Condition as of July 1, 2007 and September 30, 2007. 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 Consolidated Statement of Operations for the quarter ended September 30, 2007. Also, the Corporation does not anticipate any changes in the amount of unrecognized tax benefits prior to the end of fiscal year 2008. The Corporation files income tax returns with the U.S. federal and state of California jurisdictions. The Corporation is no longer subject to U.S. federal and state income tax examinations by tax authorities for years ended on or before June 30, 2002. Accordingly, the tax years ended June 30, 2002 through 2007 remain open to examination by the federal and state taxing authorities. There are no income tax examinations currently in process.

Note 8: Subsequent Events

On October 15, 2007, the Corporation announced a reduction in workforce at PBM and intends to close its loan production offices in Diamond Bar, La Quinta, San Diego, Temecula and Torrance, California by December 31, 2007.

On October 25, 2007, the Corporation announced a cash dividend of $0.18 per share on the Corporation's outstanding shares of common stock for shareholders of record as of the close of business on November 19, 2007, payable on December 14, 2007.

On October 25, 2007, the Corporation announced an amendment of the Corporation's Bylaws to allow for the issuance of uncertificated shares of the Corporation's capital stock and to provide for electronic notice of shareholders' meeting.

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 September 30, 2007, the Corporation had total assets of $1.61 billion, total deposits of $1.01 billion and total stockholders' equity of $126.0 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 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 sold loans 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 as a way to enhance the Corporation's earnings per share. 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 September 30, 2007, see Part II, Item 2 – "Unregistered Sales of Equity Securities and Use of Proceeds" on page 30 of the Original Form 10-Q ended September 30, 2007.

The Corporation began to distribute quarterly cash dividends in the quarter ended September 30, 2002. On July 26, 2007, 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 August 20, 2007, which was paid on September 10, 2007. 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. On July 26, 2007, the Board of Directors of the Bank declared a $12.0 million cash dividend to the Corporation, which was paid on August 13, 2007. 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/A for the quarter ended September 30, 2007 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 ability to access cost-effective funding, interest rates, the California real estate market, the demand for loans, the repurchase of sold loans 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, as amended, for the fiscal year ended June 30, 2007. 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 Ended September 30, 2007 and 2006 - Provision for Loan Losses" on page 19 of this Form 10-Q/A.

Interest is generally not accrued on any loan when its contractual payments are more than 90 days 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 lessor 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 increase the community banking business by growing total assets; restructuring 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"). 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 quarter ended September 30, 2007, the Bank closed one PBM loan production office in Vista, California. The closure of the PBM office 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. For the first quarter ended September 30, 2007, the charge related to the action described above was immaterial. As of September 30, 2007, the Bank does not have a remaining liability with respect to this action and does not believe that additional charges will be incurred. 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 its 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. Real estate operations primarily consist of loan foreclosures and the sales of real estate owned by the Bank. 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 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 September 30, 2007 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
Operating lease obligations	$ 881	$ 1,621	$ 698	$ 862	$ 4,062
Time deposits	490,577	205,203	4,301	-	700,081

FHLB – San Francisco advances	214,322	115,876	158,313	2,713	491,224
FHLB – San Francisco letter of credit	1,500	-	-	-	1,500
Total	$ 707,280	$ 322,700	$ 163,312	$ 3,575	$ 1,196,867

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

Comparison of Financial Condition at September 30, 2007 and June 30, 2007

Total assets decreased $42.6 million, or three percent, to $1.61 billion at September 30, 2007 from $1.65 billion at June 30, 2007. The decrease was primarily attributable to a decrease in the receivable from sale of loans.

Total investment securities decreased $6.7 million, or four percent, to $144.1 million at September 30, 2007 from $150.8 million at June 30, 2007. The decrease was primarily the result of $10.1 million maturing and $12.0 million of scheduled and accelerated principal payments on mortgage-backed securities, partly offset by the purchase of $14.8 million of investment securities in the first three months of fiscal 2008. The Bank evaluates individual investment securities quarterly for other-than-temporary declines in market value. The Bank believes there are no other-than-temporary impairments at September 30, 2007, therefore, no impairment losses have been recorded as of September 30, 2007.

Loans held for investment increased $16.1 million, or one percent, to $1.37 billion at September 30, 2007 from $1.35 billion at June 30, 2007. During the first three months of fiscal 2008, the Bank originated $91.4 million of loans held for investment, $61.1 million, or 67 percent, were "preferred loans" (multi-family, commercial real estate, construction and commercial business loans), which includes the purchase of $42.2 million of loans. The loans purchased in the first three 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 underwritten by the Corporation prior to purchase using the same underwriting criteria as an originated loan. Total loan principal payments during the first three months of fiscal 2008 were $72.3 million, compared to $78.4 million during the first three months of fiscal 2007. The balance of preferred loans increased to $545.2 million, or 40 percent of loans held for investment at September 30, 2007, as compared to $522.9 million, or 39 percent of loans held for investment at June 30, 2007. Purchased loans serviced by others at September 30, 2007 were $161.1 million, or 12 percent of loans held for investment, compared to $159.8 million, or 12 percent of loans held for investment at June 30, 2007.

The receivable from the sale of loans decreased $42.9 million, or 71 percent, to $17.6 million at September 30, 2007 from $60.5 million at June 30, 2007. The decrease was attributable to fewer loans originated for sale and the timing differences between loan sale and loan sale settlement dates.

Total deposits increased $10.8 million, or one percent, to $1.01 billion at September 30, 2007 from $1.00 billion at June 30, 2007. This increase was primarily attributable to an increase of $27.4 million in time deposits, partly offset by a decrease of $16.6 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, seeking higher interest rates.

Borrowings, which consisted primarily of FHLB – San Francisco advances, decreased $50.0 million, or 10 percent, to $452.8 million at September 30, 2007 from $502.8 million at June 30, 2007. The decrease in borrowings was primarily the result of the decrease in the receivable from sale of loans. 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 September 30, 2007 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 $2.8 million, or two percent, to $126.0 million at September 30, 2007, 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 three months of fiscal 2008, which was partly offset by the net income and stock option exercises during the first three months of fiscal 2008. During the first three 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 150,712 shares of common stock were repurchased during the first three months of fiscal 2008 under the June 2007 stock repurchase program at an average price of $22.40 per share. As of September 30, 2007, 47 percent of the authorized shares of the June 2007 stock repurchase program were purchased, leaving 168,135 shares available for future repurchase. During the first three months of fiscal 2008, the Corporation repurchased 930 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 $22.66 per share. The total cash dividend paid to the Corporation's shareholders in the first three months of fiscal 2008 was $1.1 million.

Comparison of Operating Results for the Quarters Ended September 30, 2007 and 2006

The Corporation's net income for the first quarter ended September 30, 2007 was $612,000, a decrease of $4.4 million, or 88 percent, from $5.0 million during the same quarter of fiscal 2007. This decrease was primarily attributable to a decrease in net interest income, an increase in the provision for loan losses and a decrease in non-interest income, partly offset by lower operating expenses.

The Corporation's net interest income before the provision for loan losses decreased by $1.3 million, or 12 percent, to $9.4 million for the quarter ended September 30, 2007 from $10.7 million during the comparable 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 2.40 percent in the first quarter of fiscal 2008, down 27 basis points from 2.67 percent for the same period of fiscal 2007. The decrease in the net interest margin during the first quarter of fiscal 2008 was primarily attributable to the increase in the average cost of funds, which was more than the increase in the average yield of earning assets. The average balance of earning assets decreased $50.5 million, or three percent, to $1.56 billion in the first quarter of fiscal 2008 from $1.61 billion in the comparable period of fiscal 2007.

The Corporation's efficiency ratio increased to 72 percent in the first quarter of fiscal 2008 from 47 percent in the same period of fiscal 2007. Return on average assets for the quarter ended September 30, 2007 decreased 107 basis points to 0.15 percent from 1.22 percent in the same period last year. Return on average equity for the quarter ended September 30, 2007 decreased to 1.91 percent from 14.59 percent for the same period last year. Diluted earnings per share for the quarter ended September 30, 2007 were $0.10, a decrease of 86 percent from $0.73 for the quarter ended September 30, 2006.

Interest Income. Total interest income decreased by $451,000, or two percent, to $23.7 million for the first quarter of fiscal 2008 from $24.2 million in the same quarter of fiscal 2007. This decrease was primarily the result of a lower average balance of earning assets, partly offset by a higher average earning asset yield. The average yield on earning assets during the first quarter of fiscal 2008 was 6.09 percent, eight basis points higher than the average yield of 6.01 percent during the same period of fiscal 2007.

Loan interest income decreased $444,000, or two percent, to $21.5 million in the quarter ended September 30, 2007 from $22.0 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 receivable from sale of loans and loans held for sale, decreased $12.7 million, or one percent, to $1.37 billion during the first quarter of fiscal 2008 from $1.39 billion during the same quarter of fiscal 2007. The average loan yield during the first quarter of fiscal 2008 decreased seven basis points to 6.26 percent from 6.33 percent during the same quarter last year. The decrease in the average loan yield was primarily attributable to accrued interest reversal 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, the upward repricing of adjustable rate loans during the period and a higher percentage of preferred loans, which generally have a higher yield.

Interest income from investment securities increased $48,000, or three percent, to $1.7 million during the quarter ended September 30, 2007 from 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 balance of investment securities decreased $33.7 million, or 18 percent, to $149.4 million in the first quarter of fiscal 2008 from $183.1 million in the same quarter of fiscal 2007. During the first quarter of fiscal 2008, the Bank purchased $14.8 million of investment securities, while $10.1 million matured and $12.0 million of principal payments were received on MBS. The average yield on the investment securities increased 96 basis points to 4.67 percent during the quarter ended September 30, 2007 from 3.71 percent during the quarter ended September 30, 2006. The increase in the average yield of investment securities was primarily a result of the new purchases with a higher average yield (5.42 percent versus the average yield of 4.67 percent), the maturities with an average yield of 3.10 percent and a lower premium amortization. The net discount accretion in the first quarter of fiscal 2008 was $4,000, compared to the net premium amortization of $16,000 in the same quarter of fiscal 2007.

FHLB – San Francisco stock dividends decreased by $45,000, or nine percent, to $469,000 in the first quarter of fiscal 2008 from $514,000 in the same period of fiscal 2007. This decrease was attributable to a lower average balance, partly offset by a slightly higher average yield. The average balance of FHLB – San Francisco stock decreased $3.5 million to $34.9 million during the first quarter of fiscal 2008 from $38.4 million during the same period of fiscal 2007. The decrease in FHLB – San Francisco stock was in accordance with the borrowing requirements of the FHLB – San Francisco. The average yield on FHLB – San Francisco stock increased one basis point to 5.37 percent during the first quarter of fiscal 2008 from 5.36 percent during the same period last year.

Interest Expense. Total interest expense for the quarter ended September 30, 2007 was $14.4 million as compared to $13.4 million for the same period of fiscal 2007, an increase of $915,000, or seven percent. This increase was primarily attributable to an increase in the average cost of interest-bearing liabilities, partly offset by a lower average balance. The average cost of interest-bearing liabilities was 3.93 percent during the quarter ended September 30, 2007, up 34 basis points from 3.59 percent during the same period of fiscal 2007. The average balance of interest-bearing liabilities, principally deposits and borrowings, decreased $36.0 million, or two percent, to $1.45 billion during the first quarter of fiscal 2008 from $1.49 billion during the same period of fiscal 2007.

Interest expense on deposits for the quarter ended September 30, 2007 was $9.3 million as compared to $6.8 million for the same period of fiscal 2007, an increase of $2.5 million, or 37 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 3.66 percent during the quarter ended September 30, 2007 from 2.95 percent during the same quarter of fiscal 2007, an increase of 71 basis points. The increase in the average cost of deposits, primarily in time deposits, was attributable to the general rise in short-term interest rates. The average balance of deposits increased $89.3 million, or 10 percent, to $1.01 billion during the quarter ended September 30, 2007 from $916.6 million during the same period of fiscal 2007. The average balance of transaction accounts decreased by $40.6 million, or 10 percent, to $347.2 million in the quarter ended September 30, 2007 from $387.8 million in the quarter ended September 30, 2006. The average balance of time deposits increased by $130.0 million, or 25 percent, to $658.8 million in the quarter ended September 30, 2007 as compared to $528.8 million in the quarter ended September 30, 2006. The increase in time deposits is primarily attributable to the time deposit marketing campaign and depositors switching from transaction accounts to time deposits. The average balance of transaction account deposits to total deposits in the first quarter of fiscal 2008 was 35 percent, compared to 42 percent in the same period of fiscal 2007.

Interest expense on borrowings, which consisted primarily of FHLB – San Francisco advances, for the quarter ended September 30, 2007 decreased $1.5 million, or 23 percent, to $5.1 million from $6.6 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 $125.3 million, or 22 percent, to $444.7 million during the quarter ended September 30, 2007 from $570.0 million during the same period of fiscal 2007. The average cost of borrowings decreased to 4.54 percent for the quarter ended September 30, 2007 from 4.61 percent in the same quarter of fiscal 2007, a decrease of seven basis points. The decrease in the average cost of borrowings was the result of a lower average balance of overnight and short-term advances at a higher average rate, partly offset by maturities of long-term advances at a lower average cost.

The following table depicts the average balance sheets for the quarters ended September 30, 2007 and 2006, respectively:

Average Balance Sheets
(Dollars in thousands)

	Quarter Ended September 30, 2007			Quarter Ended September 30, 2006		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
Interest-earning assets:						
Loans receivable, net (1)	$ 1,374,711	$ 21,514	6.26%	$ 1,387,363	$ 21,958	6.33%
Investment securities	149,421	1,744	4.67%	183,090	1,696	3.71%
FHLB – San Francisco stock	34,915	469	5.37%	38,370	514	5.36%
Interest-earning deposits	746	9	4.83%	1,443	19	5.27%
Total interest-earning assets	1,559,793	23,736	6.09%	1,610,266	24,187	6.01%
Non interest-earning assets	37,450			40,089		
Total assets	$ 1,597,243			$ 1,650,355		
Interest-bearing liabilities:						
Checking and money market accounts (2)	$ 197,942	425	0.85%	$ 211,812	353	0.66%
Savings accounts	149,239	787	2.09%	175,977	644	1.45%
Time deposits	658,764	8,058	4.85%	528,819	5,827	4.37%
Total deposits	1,005,945	9,270	3.66%	916,608	6,824	2.95%
Borrowings	444,698	5,093	4.54%	570,024	6,624	4.61%
Total interest-bearing liabilities	1,450,643	14,363	3.93%	1,486,632	13,448	3.59%
Non interest-bearing liabilities	18,197			25,893		
Total liabilities	1,468,840			1,512,525		
Stockholders' equity	128,403			137,830		
Total liabilities and stockholders' equity	$ 1,597,243			$ 1,650,355		
Net interest income		$ 9,373			$ 10,739	
Interest rate spread (3)			2.16%			2.42%
Net interest margin (4)			2.40%			2.67%

Ratio of average interest-earning assets to average interest-bearing liabilities	107.52%	108.32%
Return on average assets	0.15%	1.22%
Return on average equity	1.91%	14.59%

(1) Includes receivable from sale of loans, loans held for sale and non-accrual loans, as well as net deferred loan (cost) fee amortization of $(180) and $12 for the quarters ended September 30, 2007 and 2006, respectively.
(2) Includes the average balance of non interest-bearing checking accounts of $42.5 million and $49.3 million during the quarters ended September 30, 2007 and 2006, 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 ended September 30, 2007 and 2006, respectively:

Rate/Volume Variance
(In Thousands)

	Quarter Ended September 30, 2007 Compared To Quarter Ended September 30, 2006 Increase (Decrease) Due to			
	Rate	Volume	Rate/ Volume	Net
Interest-earning assets:				
Loans receivable (1)	$ (246)	$ (200)	$ 2	$ (444)
Investment securities	441	(312)	(81)	48
FHLB – San Francisco stock	1	(46)	-	(45)
Interest-bearing deposits	(2)	(9)	1	