BofI Holding, Inc.
Form 10-Q
May 06, 2008
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period ended March 31, 2008

OR

¨ **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 000-51201

BofI HOLDING, INC.

(Exact name of registrant as specified in its charter)

Delaware	**33-0867444**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

12777 High Bluff Drive, Suite 100, San Diego, CA 92130

(Address of principal executive offices and zip code)

(858) 350-6200

(Registrant s telephone number and area code)

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 filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares outstanding of the registrant s common stock on the last practicable date: 8,287,590 shares of common stock as of May 2, 2008.

BofI HOLDING, INC.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BofI HOLDING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

(Unaudited)

	March 31, 2008	June 30, 2007
ASSETS		
Cash and due from banks	$ 2,918	$ 1,233
Federal funds sold	12,645	38,475
Total cash and cash equivalents	15,563	39,708
Time deposits in financial institutions	3,762	12,082
Investment securities available for sale	293,184	296,068
Investment securities held to maturity	168,892	61,902
Stock of the Federal Home Loan Bank, at cost	14,297	12,659
Loans net of allowance for loan losses of $2,067 in March 2008, $1,450 in June 2007	599,198	507,906
Accrued interest receivable	6,216	6,013
Furniture, equipment and software net	409	242
Deferred income tax	168	431
Bank-owned life insurance cash surrender value	4,480	4,364
Other assets	3,935	5,788
TOTAL	$ 1,110,104	$ 947,163
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Non-interest bearing	$ 909	$ 993
Interest bearing	589,133	546,956
Total deposits	590,042	547,949
Securities sold under agreements to repurchase	130,000	90,000
Advances from the Federal Home Loan Bank	302,448	227,292
Junior subordinated debentures	5,155	5,155
Accrued interest payable	2,784	2,712
Accounts payable and accrued liabilities	2,735	1,305
Total liabilities	1,033,164	874,413
STOCKHOLDERS EQUITY:		
Convertible preferred stock $10,000 stated value; 1,000,000 shares authorized; 515 shares issued and outstanding (March 2008) and 515 shares outstanding (June 2007)	5,063	5,063
Common stock $.01 par value; 25,000,000 shares authorized; 8,607,090 shares issued and 8,287,590 shares outstanding (March 2008) and 8,587,090 shares issued and 8,267,590 shares outstanding (June 2007)	86	86
Additional paid-in capital	60,462	59,803
Accumulated other comprehensive income (loss), net of tax	482	(865)

Retained earnings	13,275	11,091
Treasury stock	(2,428)	(2,428)
Total stockholders equity	76,940	72,750
TOTAL	$ 1,110,104	$ 947,163

See condensed notes to consolidated financial statements.

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BofI HOLDING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except earnings per share)

(Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2008	2007	2008	2007
INTEREST AND DIVIDEND INCOME:				
Loans, including fees	$ 8,559	$ 7,183	$ 23,780	$ 21,851
Investments	7,615	4,150	20,987	10,185
Total interest and dividend income	16,174	11,333	44,767	32,036
INTEREST EXPENSE:				
Deposits	7,187	5,367	21,683	15,607
Advances from the Federal Home Loan Bank	2,870	2,581	7,988	7,791
Other borrowings	1,456	515	4,043	829
Total interest expense	11,513	8,463	33,714	24,227
Net interest income	4,661	2,870	11,053	7,809
Provision (benefit) for loan losses	835		1,104	(105)
Net interest income, after provision for loan losses	3,826	2,870	9,949	7,914
NON-INTEREST INCOME:				
Prepayment penalty fee income	45	144	230	284
Mortgage banking income		7	2	86
Gain on sale of securities	881		1,307	403
Banking service fees and other income	97	75	265	198
Total non-interest income	1,023	226	1,804	971
NON-INTEREST EXPENSE:				
Salaries, employee benefits and stock-based compensation	1,659	766	4,038	2,235
Professional services	216	120	465	457
Occupancy and equipment	93	89	278	269
Data processing and internet	170	162	477	445
Advertising and promotional	230	122	705	382
Depreciation and amortization	37	23	92	65
Other general and administrative	733	321	1,643	941
Total non-interest expense	3,138	1,603	7,698	4,794
INCOME BEFORE INCOME TAXES	1,711	1,493	4,055	4,091
INCOME TAXES	693	631	1,639	1,676
NET INCOME	$ 1,018	$ 862	$ 2,416	$ 2,415

NET INCOME ATTRIBUTABLE TO COMMON STOCK	$ 940	$ 784	$ 2,184	$ 2,180
COMPREHENSIVE INCOME (LOSS)	$ (175)	$ 1,463	$ 3,763	$ 3,569
Basic earnings per share	$ 0.11	$ 0.09	$ 0.26	$ 0.26
Diluted earnings per share	$ 0.11	$ 0.09	$ 0.26	$ 0.26

See condensed notes to consolidated financial statements.

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BofI HOLDING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

	Convertible Preferred Stock		Common Stock Number of Shares						Accumulated Other Comprehensive Income (Loss), Net of Tax		
	Shares	Amount	Issued	Treasury	Outstanding	Amount	Additional Paid in Capital	Retained Earnings		Treasury Stock	Total
BALANCE July 1, 2007	515	$ 5,063	8,587,090	(319,500)	8,267,590	$ 86	$ 59,803	$ 11,091	$ (865)	$ (2,428)	$ 72,750
Comprehensive income:											
Net income								2,416			2,416
Net unrealized gain from available for sale securities net of income tax benefit and reclassifications									1,347		1,347
Total comprehensive income											$ 3,763
Cash dividends on convertible preferred stock								(232)			(232)
Stock-based compensation expense							555				555
Stock options exercises			20,000		20,000		84				84
Tax effect of stock options exercised							25				25
Tax effect of stock options cancelled							(5)				(5)
BALANCE March 31, 2008	515	$ 5,063	8,607,090	(319,500)	8,287,590	$ 86	$ 60,462	$ 13,275	$ 482	$ (2,428)	$ 76,940

See condensed notes to consolidated financial statements.

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BofI HOLDING, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Nine Months Ended March 31,	
	2008	**2007**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,416	$ 2,415
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of premiums, net accretion of discounts on investment securities	78	248
Amortization of premiums, net accretion of discounts and deferred loan fees	1,645	1,214
Amortization of borrowing costs	56	86
Stock-based compensation expense	555	363
Gain on sale of securities	(1,307)	(403)
Provision (benefit) for loan losses	1,104	(105)
Deferred income taxes	(653)	442
Origination of loans held for sale	(516)	(5,785)
Net gain on sale of loans held for sale	(2)	(23)
Proceeds from sale of loans held for sale	518	5,808
Depreciation and amortization	92	65
Stock dividends from Federal Home Loan Bank	(502)	(475)
Net changes in assets and liabilities which provide (use) cash:		
Accrued interest receivable	(203)	(1,825)
Other assets	2,040	(1,781)
Accrued interest payable	72	1,499
Accounts payable and accrued liabilities	1,440	209
Net cash provided by operating activities	6,833	1,952
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities available for sale	(210,032)	(240,886)
Purchases of investment securities held to maturity and time deposits	(146,855)	(54,784)
Proceeds from sale of available for sale securities	145,606	74,746
Proceeds from repayments of available for sale securities	70,174	43,255
Proceeds from repayments of securities held to maturity and time deposits	48,798	20,483
Purchase of stock of Federal Home Loan Bank	(1,355)	(924)
Proceeds from redemption of stock of Federal Home Loan Bank	219	
Origination of loans	(58,603)	(21,318)
Purchase of loans	(141,018)	(32,867)
Principal repayments and participation sales on loans	105,277	95,434
Purchases of furniture, equipment and software	(259)	(40)
Net cash used in investing activities	(188,048)	(116,901)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	42,093	37,249
Proceeds from Federal Home Loan Bank advances	141,000	33,000
Repayment of the Federal Home Loan Bank advance	(65,900)	(26,000)
Proceeds from securities sold under agreements to repurchase	40,000	60,000

Purchase of treasury stock		(1,027)
Proceeds from exercise of common stock options	84	
Tax benefit from exercise of common stock options	25	
Cash dividends paid on convertible preferred stock	(232)	(235)
Net cash provided by financing activities	157,070	102,987
NET CHANGE IN CASH AND CASH EQUIVALENTS	(24,145)	(11,962)
CASH AND CASH EQUIVALENTS Beginning of year	39,708	25,288
CASH AND CASH EQUIVALENTS End of period	$ 15,563	$ 13,326
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid on deposits and borrowed funds	$ 33,589	$ 22,520
Income taxes paid	$ 1,395	$ 1,600

See condensed notes to consolidated financial statements.

BofI HOLDING, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED March 31, 2008 AND 2007

(Dollars in thousands, except per share data)

(Unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements include the accounts of BofI Holding, Inc. and its wholly owned subsidiary, Bank of Internet USA (the Bank and collectively with BofI Holding, the Company). All significant intercompany balances have been eliminated in consolidation.

The accompanying interim condensed consolidated financials statements, presented in accordance with accounting principles generally accepted in the United States of America (GAAP),are unaudited and reflect all adjustments which, in the opinion of management, are necessary for a fair statement of financial condition and results of operations for the interim periods. All adjustments are of a normal and recurring nature. Results for the nine months ended March 31, 2008 are not necessarily indicative of results that may be expected for any other interim period or for the year as a whole. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes for the year ended June 30, 2007 included in our Annual Report on Form 10-K.

Certain reclassifications have been made to the prior-period financial statements to conform to the current period presentation.

2. SIGNIFICANT ACCOUNTING POLICIES

Allowance for Loan Losses The allowance for loan losses is maintained at a level estimated to provide for probable losses in the loan portfolio. Management determines the adequacy of the allowance based on reviews of individual loans and pools of loans, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. This evaluation is inherently subjective and requires estimates that are susceptible to significant revision as more information becomes available. The allowance is increased by the provision for loan losses, which is charged against current period operating results and recoveries of loans previously charged-off. The allowance is decreased by the amount of charge-offs of loans deemed uncollectible.

Under the allowance for loan loss policy, impairment calculations are determined based on general portfolio data for general reserves and loan level data for specific reserves. Specific loans are evaluated for impairment and are classified as nonperforming or in foreclosure when they are 90 days or more delinquent. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan s effective interest rate or the fair value of the collateral if repayment of the loan is expected primarily from the sale of collateral.

General loan loss reserves for real estate loans are calculated by grouping each loan by collateral type and by grouping the loan-to-value ratios of each loan within the collateral type. Loan-to-value ratios are calculated using the loan principal balance at period end and the loan valuation at the time of origination or purchase of loan. An estimated allowance rate for each loan-to-value group within each type of loan is multiplied by the total principal amount in the group to calculate the required general reserve attributable to that group. Management uses an allowance rate that provides a larger loss allowance for loans with greater loan-to-value ratios. General loan loss reserves for consumer loans are calculated by grouping each loan by credit score (e.g. FICO) at origination and applying an estimated allowance rate to each group. Specific reserves are calculated when an internal asset review of a loan identifies a significant adverse change in the financial position of the borrower or the value of the collateral. The specific reserve is based on discounted cash flows, observable market prices or the estimated value of underlying collateral.

Stock-Based Compensation The Company determines stock-based compensation expense using the fair value method required by Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-based Payment.* Refer to Note 4, Stock-based Compensation below, for additional disclosures.

New Accounting Pronouncements In September 2006, the Financial Accounting Standards Board (the FASB) issued Statement No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value

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and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. The Company has not completed its evaluation of the impact of the adoption of this standard.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, (SFAS No. 159). This Statement allows entities to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities (as well as certain non-financial instruments that are similar to financial instruments) at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. The Statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Earlier adoption of the Statement is permitted as of the beginning of an entity s fiscal year, provided the choice to early adopt is made within 120 days of the beginning of the fiscal year of adoption and the entity has not yet issued financial statements for any interim period of that fiscal year. The Company expects to adopt SFAS No. 159 on July 1, 2008.

In July 2006, the FASB issued Interpretation No. 48 (FIN 48) Accounting for Uncertainty in Income Taxes: an interpretation of FASB Statement No. 109. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. Under FIN 48, an income tax position will be recognized if it is more likely than not that it will be sustained upon IRS examination, based upon its technical merits. Once that status is met, the amount recorded will be the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 was effective as of the fiscal year beginning July 1, 2007.

The Company adopted FIN 48 effective July 1, 2007. There was no cumulative effect of applying the provisions of FIN 48 and there was no material effect on the Company s provision for income taxes for the three or nine months ended March 31, 2008. The adoption of FIN 48 had no effect on our financial condition or results of operations. The Company is subject to federal income tax and income tax of the state of California as well as various other states. The Company s federal income tax returns for the years ended June 30, 2004, 2005, 2006, and 2007 and its California state tax returns for the years ended June 30, 2003, 2004, 2005, 2006 and 2007 are open to audit under the statutes of limitations by the Internal Revenue Service and California Franchise Tax Board. The Company records interest and penalties related to uncertain tax positions as part of income tax expense. There was no penalty or interest expense recorded for the quarter or the nine months ended March 31, 2008 or 2007. The Company does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months.

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (EITF 06-4). This issue requires that a liability be recorded during the service period when a split-dollar life insurance agreement continues after participants employment or retirement. The required accrued liability will be based on either the post-employment benefit cost for the continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. This issue is effective for fiscal years beginning after December 15, 2007. The Company does not expect the adoption of this EITF to have a material impact on the Company s consolidated financial position or results of operations.

3. INVESTMENT SECURITIES

The following table sets forth the amortized cost and the estimated fair values of investment securities available for sale as of March 31, 2008:

Available for sale	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
		March 31, 2008 (In thousands)		
Mortgage-backed securities (GNMA, FNMA, FHLMC)	$ 282,305	$ 1,876	$ (704)	$ 283,477
Preferred Stock - FNMA	10,072		(365)	9,707
	$ 292,377	$ 1,876	$ (1,069)	$ 293,184

The following table sets forth the amortized cost and the estimated fair values of investment securities held to maturity as of March 31, 2008:

Held to maturity	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
		March 31, 2008 *(In thousands)*		
Mortgage-backed securities (Government agency)	$ 23,797	$ 205	$ (21)	$ 23,981
Mortgage-backed securities (Non-agency)	124,045	9,392	(4,616)	128,821
Collateralized debt obligations	11,067		(1,155)	9,912
U.S. Government agency debt	9,983	90		10,073
	$ 168,892	$ 9,687	$ (5,792)	$ 172,787

The Company believes that the unrealized gains and losses on the securities disclosed above are primarily driven by changes in market interest rates. Other factors can influence market prices and more recently liquidity and economic uncertainty have increased the volatility of market pricing for mortgage-backed securities. Although the fair value will fluctuate, the majority of the investment portfolio consists of mortgage-backed securities from GNMA, FNMA and FHLMC and AAA-rated senior mortgage-backed securities (non-agency). If held to maturity, the contractual principal and interest payments of the securities are expected to be received in full. No loss in principal is expected over the lives of the securities. Although not all of the securities are classified as held to maturity, the Company has the ability and intent to hold these securities until they mature or for a period of time sufficient to allow for a recovery in the fair value. Thus, unrealized losses are not other-than-temporary. The determination of whether a decline in market value is other-than-temporary is necessarily a matter of subjective judgment.

4. STOCK-BASED COMPENSATION

The Company has two stock incentive plans, the 2004 Stock Incentive Plan (2004 Plan) and the 1999 Stock Option Plan (1999 Plan), which provide for the granting of non-qualified and incentive stock options, restricted stock and restricted stock units, stock appreciation rights and other awards to employees, directors and consultants.

2004 Stock Incentive Plan In October 2004, the Company s Board of Directors and the stockholders approved the 2004 Plan. In November 2007, the 2004 Plan was amended and approved by the Company s stockholders. The maximum number of shares of common stock available for issuance under the 2004 Plan is 14.8% of the Company s outstanding common stock measured from time to time. In addition, the number of shares of the Company s common stock reserved for issuance will also automatically increase by an additional 1.5% on the first day of each of four fiscal years starting July 1, 2007. At March 31, 2008, there were a maximum of 1,350,877 shares available for issuance under the limits of the 2004 Plan.

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1999 Stock Option Plan In November 2007, the stockholders of the Company approved the termination of the 1999 Plan. No new option awards will be made under the 1999 Plan and the outstanding awards under the 1999 Plan will continue to be subject to the terms and conditions of the 1999 Plan. The options issued under the 1999 Plan generally vest over periods between three and five years.

Stock Options Prior to July 1, 2005, the Company accounted for the Plans under the recognition and measurement provisions of APB Opinion No. 25 and related Interpretations, as permitted by SFAS No. 123. No stock option compensation cost was recognized in the income statements as all options granted had an exercise price equal to the market value of the underlying common stock on the grant date.

Effective July 1, 2005, the Company adopted the fair value recognition provisions of SFAS No. 123(R), *Share-Based Payment*, using the modified-prospective-transition method. Under this method, compensation cost recognized for the period includes compensation cost for all options granted prior to, but not yet vested as of July 1, 2005, and all options granted subsequent to January 1, 2005, based on the grant date fair value estimated in accordance with the provisions of Statements No. 123 and 123(R), respectively. Under this transition method, the Company was not required to restate its operating results for periods ending prior to July 1, 2005 for additional compensation cost associated with the change to fair value recognition.

The Company s income before income taxes for the quarters ended March 31, 2008 and 2007 included stock option compensation expense of $206 and $74, respectively. For the nine months ended March 31, 2008 and 2007 stock option compensation expense was $400 and $295, respectively. At March 31, 2008, unrecognized compensation expense related to non-vested stock option grants aggregated $394 and is expected to be recognized in future periods as follows:

	Stock Option Compensation Expense
Remainder of fiscal:	
2008	$ 69
2009	247
2010	71
2011	7
Total	$ 394

The fair value of each option awarded under the Plans is estimated on the date of grant based on the Black-Scholes option pricing model. The weighted average grant-date fair value and the assumptions used in the valuations for each period are summarized as follows. There were no options granted during the quarter or the nine months ended March 31, 2008. There were no options granted during the quarter ended March 31, 2007.

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2008	2007	2008	2007
Weighted-average grant-date fair value per share				$2.80 to $3.09
Assumptions used:				
Risk-free interest rates				4.75% to 5.0%
Dividends				0%
Volatility				31.87% to 32.45%
Weighted-average expected life				6.0 to 6.25 years
Grant-date market and exercise price				$6.76 to $7.35

Prior to March 15, 2005, the Company was a nonpublic entity and used the minimum value method, which excludes a volatility factor in estimating the value of stock options in accordance with SFAS 123. The Company was a public entity at the time SFAS 123(R) became effective. After the Company became publicly traded on March 15, 2005, expected volatilities have been based on the historical volatility of the Company s common stock and the common stock volatility of similar banks with a longer history of public trading. The weighted-average

expected life of options granted is based upon an estimate of the life, as prescribed in SAB 107. A forfeiture rate of 1.5% was estimated in determining expense for the nine months ended March 31, 2008 and 2007, based upon past experience.

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A summary of stock option activity under the Plans during the period July 1, 2006 to March 31, 2008 is presented below:

	Number of Shares	Average Exercise Price Per Share
Outstanding July 1, 2006	816,069	$ 7.08
Granted	160,000	$ 7.28
Exercised	(1,575)	$ 4.19
Cancelled	(37,500)	$ 8.94
Outstanding June 30, 2007	936,994	$ 7.05
Exercised	(20,000)	$ 4.19
Cancelled	(3,500)	$ 9.48
Outstanding March 31, 2008	913,494	$ 7.10
Options exercisable June 30, 2007	651,924	$ 6.51
Options exercisable March 31, 2008	786,471	$ 6.92

The following table summarizes information as of March 31, 2008 concerning currently outstanding and exercisable options:

	Options Outstanding		Options Exercisable	
Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Number Exercisable	Exercise Price
$ 4.19	360,583	1.9	360,583	$ 4.19
$ 6.76	20,000	8.6	7,083	$ 6.76
$ 7.35	136,100	8.3	77,938	$ 7.35
$ 8.50	15,000	7.7	11,667	$ 8.50
$ 9.20	7,500	7.4	6,458	$ 9.20
$ 9.50	187,000	7.3	146,146	$ 9.50
$ 10.00	186,311	5.1	175,596	$ 10.00
$ 11.00	1,000	4.3	1,000	$ 11.00
$ 7.11	913,494	4.9	786,471	$ 6.92

The aggregate intrinsic value of options outstanding and options exercisable under the Plans at March 31, 2008 were $656 and $656 respectively.

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Restricted Stock and Restricted Stock Units Under the Company s 2004 Plan, employees and directors are eligible to receive grants of restricted stock and restricted stock units. In accordance with SFAS 123R, the fair value of restricted stock and restricted stock units is equal to the closing sale price of the Company s common stock on the date of grant. On November 20, 2007, the Company s Board of Directors granted 115,200 restricted stock units to the chief executive officer and directors. During the quarter ended March 31, 2008, two executives were granted a total of 16,053 in restricted stock units. The chief executive officer s restricted stock units vest ratably on each of the four fiscal year ends of the initial term in his employment contract. All other restricted stock unit awards granted during the nine months ended March 31, 2008, vest over three years, one-third on each anniversary date.

The Company s income before income taxes for the quarters ended March 31, 2008 and 2007 included restricted stock compensation expense of $83 and $23, respectively. For the nine months ended March 31, 2008 and 2007, the Company s income before income taxes included restricted stock compensation expense of $155 and $68, respectively. The Company recognizes compensation expense based upon the grant-date fair value divided by the vesting and the service period between each vesting date. At March 31, 2008, unrecognized compensation expense related to non-vested grants aggregated $903 and is expected to be recognized in future periods as follows:

	Restricted Stock Compensation Expense
Remainder of fiscal:	
2008	$ 88
2009	300
2010	260
2011	198
2012	57
Total	$ 903

The following table presents the status and changes in non-vested restricted stock and restricted stock unit grants from July 1, 2006 through March 31, 2008:

	Restricted Stock Shares and Units	Weighted-Average Grant-Date Fair Value
Non-vested balance at July 1, 2006	17,500	$ 9.50
Granted	16,100	$ 7.35
Vested	(5,831)	$ 9.50
Non-vested balance at June 30, 2007	27,769	$ 8.25
Vested	(11,201)	$ 8.47
Granted	131,253	$ 6.98
Non-vested balance at March 31, 2008	147,821	$ 7.11

2004 Employee Stock Purchase Plan In October 2004, the Company s Board of Directors and stockholders approved the 2004 Employee Stock Purchase Plan, which is intended to qualify as an Employee Stock Purchase Plan under Section 423 of the Internal Revenue Code. An aggregate of 500,000 shares of the Company s common stock has been reserved for issuance and will be available for purchase under the 2004 Employee Stock Purchase Plan. At March 31, 2008, there have been no shares issued under the 2004 Employee Stock Purchase Plan.

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5. EARNINGS PER SHARE

Information used to calculate earnings per share was as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2008	**2007**	**2008**	**2007**
Net income	$ 1,018	$ 862	$ 2,416	$ 2,415
Dividends on preferred stock	78	78	232	235
Net income attributable to common shares	$ 940	$ 784	$ 2,184	$ 2,180
Weighted-average shares:				
Basic weighted-average number of common shares outstanding and average common shares earned on restricted stock awards	8,274,065	8,255,058	8,258,763	8,293,197
Dilutive effect of stock options	101,967	124,179	116,227	120,824
Dilutive weighted-average number of common shares outstanding	8,376,032	8,379,237	8,374,990	8,414,021
Net income per common share:				
Basic	$ 0.11	$ 0.09	$ 0.26	$ 0.26
Diluted	$ 0.11	$ 0.09	$ 0.26	$ 0.26

Options and stock grants of 700,732 and 587,868 shares for the three and nine months ended March 31, 2008 and 2007, respectively, were not included in determining diluted earnings per share, as they were anti-dilutive.

6. COMMITMENTS AND CONTINGENCIES

Credit-Related Financial Instruments The Company is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. At March 31, 2008, the Company had $43.3 million in commitments to originate or purchase loans and investment securities.

7. EMPLOYMENT AGREEMENTS

On October 22, 2007, the Company executed an employment agreement (the Employment Agreement) with Gregory Garrabrants pursuant to which he was appointed to serve as the Company s Chief Executive Officer (CEO) effective immediately. The term of the Employment Agreement is from October 22, 2007 through October 22, 2011. Under the Employment Agreement, Mr. Garrabrants receives an annual base salary of $285,000, an annual short-term cash bonus, an initial restricted stock grant, an annual restricted stock grant and medical and other benefits. Mr. Garrabrants will earn an annual short-term bonus of a minimum of $137,000 and $86,000 for fiscal 2008 and 2009, respectively, which will be paid in quarterly installments during the year. Mr. Garrabrants has the opportunity to earn as much as $171,000 (or 60% of his base pay at the time) as an annual short-term bonus based upon annual objectives set by the Board of Directors. Also under the terms of the Employment Agreement, Mr. Garrabrants is entitled to i) an initial restricted stock unit award of 83,000 shares, which vests ratably over four years and ii) an annual restricted stock unit award, starting at the end of fiscal 2008 and consisting of a minimum of 44,000 shares and 32,000 shares at the end of fiscal 2008 and 2009, respectively. The annual restricted stock unit award increases based upon the return on equity of the Company each year. Annual awards vest over three years from the grant date of each award after each fiscal year. The maximum annual restricted stock unit shares Mr. Garrabrants may be awarded in any year is 272,000 and the maximum aggregate number of shares for all restricted share awards under the Employment Agreement is 500,000 shares. Mr. Garrabrants will receive a relocation allowance not to exceed $95,000, net of income tax, and shall be entitled to the same paid vacation and fringe benefits including health and welfare benefits that all senior executives receive under the current Company policies. Upon termination of the Employment Agreement by the Company without cause or by Mr. Garrabrants for good reason (as such terms are defined in the Employment Agreement), Mr. Garrabrants will be entitled to (a) an amount in cash equal to two times his base salary, (b) a pro-rated portion of his

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annual short-term bonus, (c) accelerated vesting of his outstanding restricted stock unit awards, (d) at the Company s election, either a pro-rated portion of his annual restricted stock unit award based upon the Company s return on equity, or an equivalent amount in cash, and (e) continuation of health benefits for up to twelve months.

On March 6, 2008, the Compensation Committee and the Board of Directors of the Company approved an amendment to the July 1, 2003 employment contract of Gary Lewis Evans to provide that the severance and vesting provisions of Mr. Evan s employment contract are the same whether he resigns or is terminated without cause. The amendment was made in connection with the resignation of Mr. Evans as a director of the Company and its subsidiary, Bank of Internet USA and supersedes any prior amendment. As a result of the amendment of Mr. Evans employment agreement, registrant incurred a one-time pretax compensation expense of $352,000 in the quarter ended March 31, 2008.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides information about the results of operations, financial condition, liquidity, off balance sheet items, contractual obligations and capital resources of BofI Holding, Inc. and subsidiary. This information is intended to facilitate the understanding and assessment of significant changes and trends related to our financial condition and the results of our operations. This discussion and analysis should be read in conjunction with our financial information in our Annual Report on Form 10-K and the accompanying interim unaudited condensed consolidated financial statements and notes thereto.

Certain matters discussed in this report may constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and as such, may involve risks and uncertainties. These forward-looking statements can be identified by the use of terminology such as estimate, project, anticipate, expect, intends, believe, will, or the negative thereof or other thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. These forward-looking statements relate to, among other things, expectations of the environment in which the Company operates and projections of future performance. Forward-looking statements are inherently unreliable and actual results may vary. Factors that could cause actual results to differ from these forward-looking statements include economic conditions, changes in the interest rate environment, changes in the competitive marketplace, risks associated with credit quality and other risk factors summarized in Part II, Item 1A under the heading Risk Factors in this report, and discussed in greater detail under the heading Risk Factors in our Prospectus dated March 14, 2005, and under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations Factors That May Affect Our Performance in our Annual Report on Form 10-K for the year ended June 30, 2007, both of which have been filed with the Securities and Exchange Commission. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. All written and oral forward-looking statements made in connection with this report, which are attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing information.

General

Our company, BofI Holding, Inc., is the holding company for Bank of Internet USA, a consumer-focused, nationwide savings bank operating primarily over the Internet. We offer loans and deposits in all 50 states to our customers directly through our websites, including www.BankofInternet.com, www.BofI.com, and www.Apartmentbank.com. We are a unitary savings and loan holding company and, along with Bank of Internet USA, are subject to primary federal regulation by the Office of Thrift Supervision, or OTS .

Using online applications on our websites, our customers apply for deposit products, including time deposits, interest-bearing demand accounts (including interest-bearing checking accounts) and savings accounts (including money market savings accounts). We originate small- to medium-size multifamily and single-family mortgage loans and secured consumer loans, primarily home equity and vehicle loans. More recently, we increased our efforts to purchase single family and multifamily loans. We also purchase mortgage-backed securities. We manage our cash and cash equivalents based upon our need for liquidity, and we seek to minimize the assets we hold as cash and cash equivalents by investing our excess liquidity in higher yielding assets such as mortgage loans or mortgage-backed securities.

Critical Accounting Policies

Our consolidated financial statements and the notes thereto, have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make a number of estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. On an ongoing basis, we evaluate our estimates and assumptions based upon historical experience and various factors and circumstances.

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We believe that our estimates and assumptions are reasonable under the circumstances. However, actual results may differ significantly from these estimates and assumptions that could have a material effect on the carrying value of assets and liabilities at the balance sheet dates and our results of operations for the reporting periods.

Our significant accounting policies and practices are described in greater detail in Note 1 to our June 30, 2007 audited consolidated financial statements and under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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Selected Financial Data

The following tables set forth certain selected financial data concerning the periods indicated:

BofI HOLDING, INC.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(Dollars in thousands, except per share data)

	March 31, 2008	June 30, 2007	March 31, 2007
Selected Balance Sheet Data:			
Total assets	$ 1,110,104	$ 947,163	$ 846,976
Loans net of allowance for loan losses	599,198	507,906	491,283
Allowance for loan losses	2,067	1,450	1,370
Investment securities available for sale	293,184	296,068	252,211
Investment securities held to maturity	168,892	61,902	49,662
Total deposits	590,042	547,949	461,453
Securities sold under agreements to repurchase	130,000	90,000	60,000
Advances from the FHLB	302,448	227,292	243,263
Junior subordinated debentures	5,155	5,155	5,155
Total stockholders equity	76,940	72,750	72,996

	At or For the Three Months Ended March 31,		At or For Nine Months Ended March 31,	
	2008	2007	2008	2007
Selected Income Statement Data:				
Interest and dividend income	$ 16,174	$ 11,333	$ 44,767	$ 32,036
Interest expense	11,513	8,463	33,714	24,227
Net interest income	4,661	2,870	11,053	7,809
Provision for loan losses	835		1,104	(105)
Net interest income after provision for loan losses	3,826	2,870	9,949	7,914
Non-interest income	1,023	226	1,804	971
Non-interest expense	3,138	1,603	7,698	4,794
Income before income tax expense	1,711	1,493	4,055	4,091
Income tax expense	693	631	1,639	1,676
Net income	$ 1,018	$ 862	$ 2,416	$ 2,415
Net income attributable to common stock	$ 940	$ 784	$ 2,184	$ 2,180
Per Share Data:				
Net income:				
Basic	$ 0.11	$ 0.09	$ 0.26	$ 0.26
Diluted	$ 0.11	$ 0.09	$ 0.26	$ 0.26
Book value per common share	$ 8.67	$ 8.21	$ 8.67	$ 8.21
Tangible book value per common share	$ 8.67	$ 8.21	$ 8.67	$ 8.21
Weighted average number of common shares outstanding:				
Basic	8,274,065	8,255,058	8,258,763	8,293,197
Diluted	8,376,032	8,379,237	8,374,990	8,414,021

Common shares outstanding at end of period	8,287,590	8,276,515	8,287,590	8,276,515
Common shares issued at end of period	8,607,090	8,585,515	8,607,090	8,585,515

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BofI HOLDING, INC.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(Dollars in thousands, except per share data)

	At or For the Three Months Ended March 31,		At or For the Nine Months Ended March 31,	
	2008	**2007**	**2008**	**2007**
Performance Ratios and Other Data:				
Loan originations	$ 8,873	$ 15,791	$ 58,603	$ 21,318
Loan originations for sale		1,825	516	5,785
Loan purchases	110,416	2,353	141,018	32,867
Return on average assets	0.38%	0.42%	0.31%	0.41%
Return on average common stockholders equity	5.10%	4.66%	4.10%	4.38%
Interest rate spread[1]	1.44%	1.06%	1.13%	0.97%
Net interest margin[2]	1.76%	1.42%	1.45%	1.34%
Efficiency ratio[3]	55.2%	51.8%	59.9%	54.6%
Capital ratios:				
Equity to assets at end of period	6.93%	8.62%	6.93%	8.62%
Tier 1 leverage (core) capital to adjusted tangible assets[4]	7.13%	8.60%	7.13%	8.60%
Tier 1 risk-based capital ratio[4]	13.49%	15.47%	13.49%	15.47%
Total risk-based capital ratio[4]	13.84%	15.76%	13.84%	15.76%
Tangible capital to tangible assets[4]	7.13%	8.60%	7.13%	8.60%
Asset Quality Ratios:				
Net charge-offs to average loans outstanding	0.05%		0.09%	
Nonperforming loans to total loans	0.09%		0.09%	
Allowance for loan losses to total loans held for investment	0.34%	0.28%	0.34%	0.28%
Allowance for loan losses to nonperforming loans	3.7 X		3.7 X	

1 Interest rate spread represents the difference between the annualized weighted average yield on interest-earning assets and the weighted average rate paid on interest-bearing liabilities.

2 Net interest margin represents annualized net interest income as a percentage of average interest-earning assets.

3 Efficiency ratio represents non-interest expense as a percentage of the aggregate of net interest income and non-interest income.

4 Reflects regulatory capital ratios of Bank of Internet USA only.

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RESULTS OF OPERATIONS Comparison of Three Months and the Nine Months Ended March 31, 2008 and 2007

For the three months ended March 31, 2008, we earned $1,018,000 or $0.11 per diluted share compared to $862,000, or $0.09 per diluted share for the three months ended March 31, 2007. Key comparisons between our operating results for the quarters ended March 31, 2008 and 2007 are:

- Net interest income increased $1,791,000 in the 2008 quarter due to a 31.4% increase in average earning assets from increased investments in mortgage-backed securities and a larger loan portfolio. In addition, the net interest margin increased 34 basis points in the quarter ended in March 2008 compared to March 2007, as the earning rates on most loans and investment securities increased more than the rates paid on time deposits and borrowings.

- The loan loss provision was $835,000 for the March 2008 quarter compared to zero for the quarter ended March 2007. During the March 2008 quarter, the loan portfolio grew a net $81.9 million, requiring a net increase in general loan loss allowance of $565,000, primarily for multifamily and commercial mortgage loans. Also during the March 2008 quarter, we charged-off loans totaling of $270,000. There was no meaningful change in the loan portfolio, no loan write-offs and no loan loss provision for the March 2007 quarter.

- Non-interest income increased $797,000 for the March 2008 quarter compared to the quarter ended March 2007. During the March 2008 quarter, we sold $70.0 million in government agency mortgage-backed securities and purchased loans and non-agency mortgage-backed securities at higher yields contributing to the increase in net interest margin. The government agency mortgage backed securities were sold at a gain of $881,000 in the March 2008 quarter and no investment securities were sold in the March 2007 quarter.

- Salaries, employee benefits and stock-based compensation increased $893,000 for the March 2008 quarter compared to the quarter ended March 2007. The amendment of the employment agreement of the Chief Operating Officer, Gary Evans resulted in a one-time expense of $352,000 charged to bonus and stock-based compensation recorded during the March 2008 quarter.

For the nine months ended March 31, 2008, we earned $2.4 million or $0.26 per diluted share compared to $2.4 million, or $0.26 per diluted share for the nine months ended March 31, 2007.

Net Interest Income

Net interest income for the quarter ended March 31, 2008 totaled $4.7 million, a 62.1% increase compared to net interest income of $2.9 million for the quarter ended March 31, 2007. Net interest income for the nine months ended March 31, 2008 increased 42.3% to $11.1 million up from the $7.8 million for the nine months ended March 31, 2007.

Total interest and dividend income during the quarter ended March 31, 2008 increased 43.4% to $16.2 million, compared to $11.3 million during the quarter ended March 31, 2007. For the nine months ended March 31, 2008, total interest and dividend income increased 40.0% to $44.8 million, compared to $32.0 million for the nine months ended in 2007. The increase in interest and dividend income for the quarter and the nine months was attributable primarily to growth in average earning assets, primarily investment securities and loans. The average balance of investment securities (primarily mortgage-backed securities) increased 68.8% and 98.1% when compared for the three-month and the nine-month periods ended March 31, 2008 and 2007, respectively. The increase in interest income was also the result of our higher rates earned on new loans originated and purchased as well as new non-agency mortgage backed securities purchased. The loan portfolio yield increased 37 and 39 basis points when compared for the three-month and nine-month periods. The investment security portfolio yield increased 82 and 64 basis points when compared for the three-month and nine-month periods. The net growth in average earning assets for the three-month and the nine-month periods was funded largely by increases in time deposits and securities sold under agreements to repurchase, which account for the majority of the increases in interest expense. Total interest expense increased 35.3% to $11.5 million for the quarter ended March 31, 2008 compared with $8.5 million for the quarter ended March 31, 2007. For the nine months ended March 31, 2008, total interest expense increased 39.3% to $33.7 million, compared to $24.2 million for the nine months ended in 2007. The average balances for time deposits and securities sold under agreements to repurchase increased 49.1% and 56.5 % when compared for the three-month and the nine-month periods ended March 31, 2008 and 2007, respectively. Also contributing to the increase in total interest expense were higher funding rates for time deposits and FHLB advances. The average time deposit rate increased 13 and 26 basis points when compared for the three-month and the nine-month periods ended

March 31, 2008 and 2007, respectively. Similarly, higher rates paid on FHLB advances used to replace maturing advances caused an increase of 7 and 14 basis points when compared for the three-month and the nine-month periods ended March 31, 2008 and 2007, respectively.

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Net interest margin, defined as net interest income divided by average earning assets, increased by 34 basis points to 1.76% for the quarter ended March 31, 2008, compared with 1.42% for the quarter ended March 31, 2007. For the nine-month period, the net interest margin increased 11 basis points.

The improvement in the net interest margin has resulted from specific actions we have taken to manage our assets and liabilities, as well as general changes in the U.S. Treasury yield curve and loan risk premiums. Our specific actions include selling our agency mortgage-backed securities and replacing them with higher yielding loans and non-agency mortgage backed securities. In addition, we have lowered our deposit offering rates in an effort to take advantage of lower borrowing rates tied to U.S. Treasury rates. Since August of 2007, the Federal Reserve has reduced the short-term Fed funds rate by 375 basis points, including a series of rate cuts totaling 225 basis points in the quarter ended in March 2008. The rate cuts have reduced and will likely continue to reduce our cost of funding through lower borrowing and deposit rates. The yield on our loans and on certain investment securities we have acquired have not declined because we have significantly expanded the reach of our wholesale banking operations, re-entered the multifamily asset class, and taken advantage of wider credit spreads. Additionally, although we have significantly reduced our interest rate risk in the most recent quarter, the steeper yield curve may also provide us opportunities to increase our net interest margin. As a result, it is likely our net interest margin will continue to increase in the short-term.

Average Balances, Net Interest Income, Yields Earned and Rates Paid

The following table presents information regarding (i) average balances; (ii) the total amount of interest income from interest-earning assets and the weighted average yields on such assets; (iii) the total amount of interest expense on interest-bearing liabilities and the weighted average rates paid on such liabilities; (iv) net interest income; (v) interest rate spread; and (vi) net interest margin for the three months ended March 31, 2008 and 2007:

	For the Three Months Ended March 31,					
	2008			2007		
	Average Balance	Interest Income / Expense	Rates Earned / Paid [1]	Average Balance	Interest Income / Expense	Rates Earned / Paid [1]
	(Dollars in thousands)					
Assets						
Loans [2 3]	$ 559,064	$ 8,559	6.12%	$ 499,444	$ 7,183	5.75%
Federal funds sold	17,880	154	3.45%	6,607	83	5.02%
Interest-bearing deposits in other financial institutions	6,298	87	5.53%	13,900	192	5.53%
Investment securities [3 4]	463,521	7,186	6.20%	274,616	3,695	5.38%
Stock of FHLB, at cost	13,690	188	5.49%	12,389	180	5.81%
Total interest-earning assets	1,060,453	16,174	6.10%	806,956	11,333	5.62%
Non-interest earning assets	13,302			11,733		
Total assets	$ 1,073,755			$ 818,689		
Liabilities and Stockholders Equity						
Interest-bearing demand and savings	$ 68,786	$ 619	3.60%	$ 59,883	$ 489	3.27%
Time deposits	520,962	6,568	5.04%	397,745	4,878	4.91%
Securities sold under agreements to repurchase	128,203	1,366	4.26%	37,517	413	4.40%
Advances from FHLB	264,465	2,870	4.34%	241,879	2,581	4.27%
Other borrowings	5,155	90	6.98%	5,155	102	7.91%
Total interest-bearing liabilities	987,571	11,513	4.66%	742,179	8,463	4.56%
Noninterest-bearing demand deposits	999			1,067		
Other interest-free liabilities	6,461			3,101		
Stockholders equity	78,724			72,342		
Total liabilities and stockholders equity	$ 1,073,755			$ 818,689		
Net interest income		$ 4,661			$ 2,870	
Net interest spread [5]			1.44%			1.06%
Net interest margin [6]			1.76%			1.42%

[1] Annualized

[2] Loans include loans held for sale, loan premiums and unearned fees.

[3] Interest income includes reductions for amortization of loan and investment securities premiums and earnings from accretion of discounts and loan fees. Loan fee income is not significant. The rate earned on loans does not include loan prepayment penalty income, which is classified as non-interest income.

[4] All investments are taxable.

[5] Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate paid on interest-bearing liabilities.

[6] Net interest margin represents net interest income annualized as a percentage of average interest-earning assets.

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The following table presents information regarding (i) average balances; (ii) the total amount of interest income from interest-earning assets and the weighted average yields on such assets; (iii) the total amount of interest expense on interest-bearing liabilities and the weighted average rates paid on such liabilities; (iv) net interest income; (v) interest rate spread; and (vi) net interest margin for the nine months ended March 31, 2008 and 2007:

	For the Nine Months Ended March 31,					
	2008			2007		
	Average Balance	Interest Income / Expense	Rates Earned / Paid [1]	Average Balance	Interest Income / Expense	Rates Earned / Paid [1]
	(Dollars in thousands)					
Assets						
Loans [2,3]	$ 525,362	$ 23,780	6.04%	$ 515,773	$ 21,851	5.65%
Federal funds sold	29,731	997	4.47%	12,945	507	5.22%
Interest-bearing deposits in other financial institutions	9,437	371	5.24%	14,791	591	5.33%
Investment securities [3,4]	435,688	19,079	5.84%	219,883	8,572	5.20%
Stock of FHLB, at cost	12,989	540	5.54%	11,907	515	5.77%
Total interest-earning assets	1,013,207	44,767	5.89%	775,299	32,036	5.51%
Non-interest earning assets	14,462			11,063		
Total assets	$ 1,027,669			$ 786,362		
Liabilities and Stockholders Equity						
Interest-bearing demand and savings	$ 68,580	$ 1,866	3.63%	$ 60,860	$ 1,516	3.32%
Time deposits	517,816	19,817	5.10%	388,314	14,092	4.84%
Securities sold under agreements to repurchase	114,691	3,746	4.35%	15,766	518	4.38%
Advances from FHLB	238,956	7,988	4.46%	240,710	7,791	4.32%
Other borrowings	5,155	297	7.68%	5,155	310	8.02%
Total interest-bearing liabilities	945,198	33,714	4.76%	710,805	24,227	4.54%
Noninterest-bearing demand deposits	1,011			1,072		
Other interest-free liabilities	5,388			2,980		
Stockholders equity	76,072			71,505		
Total liabilities and stockholders equity	$ 1,027,669			$ 786,362		
Net interest income		$ 11,053			$ 7,809	
Net interest spread [5]			1.13%			0.97%
Net interest margin [6]			1.45%			1.34%

1 Annualized

2 Loans include loans held for sale, loan premiums and unearned fees.

3 Interest income includes reductions for amortization of loan and investment securities premiums and earnings from accretion of discounts and loan fees. Loan fee income is not significant. The rate earned on loans does not include loan prepayment penalty income, which is classified as non-interest income.

[4] All investments are taxable.

[5] Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate paid on interest-bearing liabilities.

[6] Net interest margin represents net interest income annualized as a percentage of average interest-earning assets.

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Analysis of Changes in Net Interest Income

Changes in net interest income are a function of changes in rates and volumes of both interest-earning assets and interest-bearing liabilities. The following table presents information regarding changes in interest income and interest expense for the periods indicated. The total change for each category of interest-earning asset and interest-bearing liability is segmented into the change attributable to changes in volume (changes in volume multiplied by prior rate), the change attributable to variations in interest rates (changes in rates multiplied by old volume) and the change attributable to changes in rate/volume (change in rate multiplied by the change in volume):

	For the Three Months Ended March 31, 2008 vs 2007 Increase (decrease) due to				For the Nine Months Ended March 31, 2008 vs 2007 Increase (decrease) due to			
	Volume	Rate	Rate / Volume	Total net Increase (Decrease)	Volume	Rate	Rate / Volume	Total net Increase (Decrease)
	(In Thousands)							
Increase / (decrease) in interest income:								
Loans	$ 857	$ 464	$ 55	$ 1,376	$ 406	$ 1,495	$ 28	$ 1,929
Federal funds sold	142	(26)	(45)	71	657	(73)	(94)	490
Interest-bearing deposits in other financial institutions	(105)			(105)	(213)	(10)	3	(220)
Mortgage-backed security	2,542	562	387	3,491	8,413	1,057	1,037	10,507
Stock of Federal Home Loan Bank	19	(10)	(1)	8	47	(20)	(2)	25
	$ 3,455	$ 990	$ 396	$ 4,841	$ 9,310	$ 2,449	$ 972	$ 12,731
Increase / (decrease) in interest expense:								
Interest-bearing demand and savings	$ 73	$ 50	$ 7	$ 130	$ 192	$ 140	$ 18	$ 350
Time deposits	1,511	137	42	1,690	4,700	769	256	5,725
Securities sold under agreements to repurchase	998	(13)	(32)	953	3,250	(3)	(19)	3,228
Federal Home Loan Bank advances	241	44	4	289	(57)	256	(2)	197
Other borrowings		(12)		(12)		(13)		(13)
	$ 2,823	$ 206	$ 21	$ 3,050	$ 8,085	$ 1,149	$ 253	$ 9,487

Provision for Loan Losses

The loan loss provision was $835,000 for the quarter ended March 31, 2008, compared to no provision for the quarter ended March 31, 2007. For the nine months ended March 31, 2008, loan loss provisions totaled $1,104,000, compared to a benefit of $105,000 for the nine months ended March 31, 2007. The increased provision for the quarter ended March 31, 2008 was the result of loan portfolio growth and increased net charge-offs. During the three months and the nine months ended March 31, 2008, the loan portfolio grew a net $81.9 million and $91.3 million, respectively, requiring a net increase in the general loan loss allowance during each period. Also contributing to the provision were loan charge-offs, net recoveries which were $270,000 and $487,000 for the three months and nine months ended March 31, 2008, respectively. The benefit for nine months ended in March 2007 resulted from shifting our asset mix out of our loan portfolio and into government-sponsored mortgage-backed securities, which do not require loan loss reserves. Provisions for loan losses are charged to income to bring the allowance for loan losses to a level deemed appropriate by management based on the factors discussed under the Allowance for Loan Losses section of this report.

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Non-interest Income

The following table sets forth information regarding our non-interest income for the periods shown:

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2008	2007	2008	2007
	(in thousands)		*(in thousands)*	
Prepayment penalty fee income	$ 45	$ 144	$ 230	$ 284
Mortgage banking fee income		7	2	86
Gain on sale of securities	881		1,307	403
Banking service fees and other income	97	75	265	198
Total non-interest income	$ 1,023	$ 226	$ 1,804	$ 971

Non-interest income for the quarter ended March 31, 2008 increased $797,000 to $1,023,000 compared to $226,000 for the quarter ended March 31, 2007. For the nine months ended March 31, 2008, non-interest income increased 85.8%. The increases in non-interest income for the three month and the nine month periods were primarily the result of increased gains on sales of investment securities. During the three months and nine months ended March 31, 2008, we sold $70.0 million and $145.6 million in government agency mortgage-backed securities and purchased loans and non-agency mortgage-backed securities at higher net yields.

Non-interest Expense

The following table sets forth information regarding our non-interest expense for the periods shown:

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2008	2007	2008	2007
	(in thousands)		*(in thousands)*	
Salaries, benefits and stock-based compensation	$ 1,659	$ 766	$ 4,038	$ 2,235
Professional services	216	120	465	457
Occupancy and equipment	93	89	278	269
Data processing and internet	170	162	477	445
Advertising and promotional	230	122	705	382
Depreciation and amortization	37	23	92	65
Other general and administrative	733	321	1,643	941
Total	$ 3,138	$ 1,603	$ 7,698	$ 4794
Efficiency ratio[1]	55.2%	51.8%	59.9%	54.6%
Non-interest expense as annualized % of average assets	1.17%	0.82%	1.00%	0.97%

Non-interest expense, which is comprised primarily of compensation, data processing and internet expenses, occupancy and other operating expenses, was $3.1 million for the three months ended March 31, 2008 up from $1.6 million for the three months ended March 31, 2007. Non-interest expense increased to $7.7 million for the nine months ended 2008 compared to $4.8 million for the nine months ended 2007.

Total salaries, benefits and stock-based compensation increased $893,000 and $1,803,000 for the respective three-month and nine-month periods ending March 31, 2008 and 2007. Included in the increase for the three month period was a one-time charge of $352,000 associated with the amendment of the employment agreement of our chief operating officer. Included in the nine-month

[1] Represents non-interest expense divided by the aggregate of net interest income before provision for loan losses and non-interest income.

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increase was $323,000 of recruiting and moving costs for our new chief executive officer, as well as the $352,000 employment agreement expense for the chief operating officer for a total one-time charge of $675,000. The remainder of the increase in salaries, benefits and stock-based compensation is primarily related to staff increases in the consumer lending business as our bank staff increased from 35 full time equivalents to 50 full-time equivalents between March 31, 2007 and 2008.

Professional services, which includes accounting and legal fees, increased $96,000 for the quarter and $8,000 for the nine-month comparison. The increase in professional services for the March 2008 quarter was primarily due to documentation work for Sarbanes Oxley 404 compliance, contract underwriters used in connection with loan pool purchases and various legal fees.

Advertising and promotion expense increased $108,000 and $323,000 for the comparison of the three-month and nine-month periods ending March 31, 2008 and 2007. These increases were primarily due to increased activity for internet advertising and lead acquisitions for our home equity loan program. For the quarter ended March 31, 2008, the origination volume of home equity loans was $6.6 million; an increase of $4.6 million over the $2.0 million originated in the quarter ended in March 2007.

Other general and administrative expense increased $412,000 and $702,000 when comparing the three-month and nine-month periods ending March 31, 2008 and 2007. The cost of our FDIC and OTS standard regulatory charges increased $275,000 and $412,000 for the three-month and the nine-month comparison periods ended March 31, 2008 and 2007. Loan processing expense increased $55,000 and $158,000 for the three-month and nine-month comparison periods due to increased home equity loan originations.

Provision for Income Taxes

Our effective income tax rates (income tax provision divided by net income before income tax) for the three months ended March 31, 2008 and 2007 were 40.50% and 42.26%, respectively. Our effective income tax rates for the nine months ended March 31, 2008 and 2007 were 40.42% and 40.97%, respectively. The higher effective income tax rate for the quarter ended March 31, 2007 was due to adjustments to the tax treatment for incentive stock options.

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FINANCIAL CONDITION

Balance Sheet Analysis

Our total assets increased $162.9 million, or 17.2%, to $1,110.1 million, as of March 31, 2008, up from $947.2 million at June 30, 2007. The increase in total assets was primarily due to the purchase and origination of new loans and the purchase of mortgage-backed securities. The loan portfolio increased a net of $91.3 million and the investment securities held to maturity increased a net of $107.0 million during the nine-month period ending March 2008. The asset growth was funded by a net increase in deposits totaling $42.1 million, a $40.0 million increase in borrowing through securities sold under repurchase agreements and a $75.1 million increase in borrowing from the Federal Home Loan Bank of San Francisco.

Loans

Net loans held for investment increased to $599.2 million at March 31, 2008 from $507.9 million at June 30, 2007. The home equity portfolio and the RV portfolio increased by $25.8 and $15.9 million, respectively, due to increased origination activity. The growth in the single-family, multifamily and commercial mortgage portfolios was due to loan pool purchases during the nine months ended March 31, 2008.

The following table sets forth the composition of the loan portfolio as of the dates indicated:

	March 31, 2008		June 30, 2007	
	Amount	**Percent**	**Amount**	**Percent**
Residential real estate loans:				
Single family (one to four units)	$ 122,734	20.6%	$ 104,960	20.8%
Home equity	44,660	7.5%	18,815	3.8%
Multifamily (five units or more)	335,506	56.3%	325,880	64.6%
Commercial real estate and land	33,846	5.7%	11,256	2.2%
Consumer - Recreational vehicle	58,254	9.8%	42,327	8.4%
Other	797	0.1%	981	0.2%
Total loans	595,797	100.0%	504,219	100.0%
Allowance for loan losses	(2,067)		(1,450)	
Unamortized premiums, net of deferred loan fees	5,468		5,137	
Net loans	$ 599,198		$ 507,906	

The Bank originates and purchases mortgage loans with terms that may include repayments that are less than the repayments for fully amortizing loans, including interest only loans, option adjustable-rate mortgages, and other loan types that permit payments that may be smaller than interest accruals. Through March 31, 2008, the net amount of deferred interest on these loan types was not material to the financial position or operating results of the Company.

Nonperforming Assets

Nonperforming loans are comprised of nonaccrual loans, loans past due 90 days or more and on nonaccrual and troubled debt restructured loans. Nonperforming assets include nonperforming loans plus other foreclosed real estate or assets owned, net. At March 31, 2008, our nonperforming loans totaled $564,000, or 0.09% of total gross loans and our total nonperforming assets totaled $845,000, or 0.08% of total assets.

Allowance for Loan Losses

We are committed to maintaining the allowance for loan losses at a level that is considered to be commensurate with estimated and known risks in the portfolio. Although the adequacy of the allowance is reviewed quarterly, our management performs an ongoing assessment of the risks inherent in the portfolio. While we believe that the allowance for loan losses is adequate at March 31, 2008, future additions to the allowance will be subject to continuing evaluation of estimated and known, as well as inherent, risks in the loan portfolio.

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The assessment of the adequacy of our allowance for loan losses is based upon a number of quantitative and qualitative factors, including levels and trends of past due and nonaccrual loans, change in volume and mix of loans, collateral values and charge-off history.

Since inception in 2000 through December 31, 2007, our Bank had no charge-offs associated with its large prime mortgage loan portfolio. During the March 2008 quarter, the Bank experienced its first mortgage loan charge-off of $108,000. In March 2007, we commenced RV lending which has more credit risk than prime mortgage lending. For the nine-months ended March 31, 2008, we had net charge-offs of $373, 000 associated with our RV portfolio.

We provide general loan loss reserves for our RV and auto loans based upon the borrower credit score at the time of origination and our loss experience to date. We provide general loan loss reserves for our mortgage loans based upon the size and type of the mortgage loan and the loan-to-value ratio. If we experience a large increase in charge-offs relative to the loan portfolio size, we may be required to increase our loan loss provisions in the future to provide a larger loss allowance.

The following table summarizes activity in the allowance for loan losses for the nine months ended March 31, 2008:

	Single Family	Home Equity	Multi-family	Commercial Real Estate and Land	Recreational Vehicles and Autos	Other	Total
				(Dollars in thousands)			
Balance at July 1, 2007	$ 256	$ 66	$ 850	$ 49	$ 223	$ 6	$ 1,450
Provision for loan loss	113	85	209	154	539	4	1,104
Charge-offs	(108)				(395)	(6)	(509)
Recoveries					22		22
Balance at March 31, 2008	$ 261	$ 151	$ 1,059	$ 203	$ 389	$ 4	$ 2,067

The following table reflects management s allocation of the allowance for loan losses by loan category and the ratio of each loan category to total loans as of the dates indicated:

	March 31, 2008		June 30, 2007	
	(Dollars in thousands)			
	Amount of Allowance	Allocation as a % of Allowance	Amount of Allowance	Allocation as a % of Allowance
Single family	$ 261	12.63%	$ 256	17.66%
Home equity	151	7.31%	66	4.55%
Multifamily	1,059	51.23%	850	58.62%
Commercial real estate and land	203	9.82%	49	3.38%
Consumer - Recreational vehicles	389	18.82%	223	15.38%
Other	4	0.19%	6	0.41%
Total	$ 2,067	100.00%	$ 1,450	100.00%

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Investment Securities

Total investment securities available for sale were $293.2 million as of March 31, 2008, compared with $296.1 million at June 30, 2007. During the nine months ended March 31, 2008, we purchased $199.9 million in mortgage-backed securities available for sale, $10.1 million in preferred stock, and received principal repayments of approximately $70.2 million. During that same period, we sold $145.6 million in available for sale mortgaged-backed securities to provide proceeds to purchase higher yielding mortgage-backed securities and to reduce our interest rate risk. We also purchased $143.7 million of mortgage-backed securities held to maturity and had $28.8 million in callable bonds called. We currently classify agency mortgage-backed and debt securities as held to maturity at the time of purchase based upon small issue size and based on issue features, such as callable terms. We also classify non-agency mortgage-backed securities and certain collateralized debt obligations as held to maturity, based upon issue factors such as monthly adjustable rates, current yields, and other terms that compare favorably to our loan portfolio. Until we increase our level of origination of consumer and mortgage loans, we are likely to continue to increase our investments in mortgage-backed securities.

The following table sets forth the amortized cost and the estimated fair values of investment securities available for sale as of March 31, 2008:

	March 31, 2008			
Available for sale	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
	(In thousands)			
Mortgage-backed securities				
(Government agency)	$ 282,305	$ 1,876	$ (704)	$ 283,477
Preferred Stock - FNMA	10,072		(365)	9,707
	$ 292,377	$ 1,876	$ (1,069)	$ 293,184

The following table sets forth the amortized cost and the estimated fair values of investment securities held to maturity as of March 31, 2008:

	March 31, 2008			
Held to maturity	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
	(In thousands)			
Mortgage-backed securities				
(Government agency)	$ 23,797	$ 205	$ (21)	$ 23,981
Mortgage-backed securities				
(Non-agency)	124,045	9,392	(4,616)	128,821
Collateralized debt obligations	11,067		(1,155)	9,912
U.S. Government agency debt	9,983	90		10,073
	$ 168,892	$ 9,687	$ (5,792)	$ 172,787

We believe that the estimated fair value of the securities disclosed above are primarily driven by changes in market interest rates. Other factors can influence market prices and more recently liquidity and economic uncertainty have increased the volatility of market pricing for mortgage-backed securities. Although the fair value will fluctuate, the majority of our investment portfolio consists of mortgage-backed securities from government agencies and AAA-rated senior mortgage-backed securities (non-agency). If held to maturity, the contractual principal and interest payments of the securities are expected to be received in full. No loss in principal is expected over the lives of the securities. Although not all of the securities are classified as held to maturity, we have the ability and intent to hold these securities until they mature or for a period of time sufficient to allow for a recovery in the fair value. Thus, unrealized losses are not other-than-temporary. The determination of whether a decline in market value is other-than-temporary is necessarily a matter of subjective judgment.

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Deposits

Deposits increased a net $42.1 million, or 7.7%, to $590.0 million at March 31, 2008, from $547.9 million at June 30, 2007. Our deposit growth composition was 37.3% interest bearing demand and savings accounts and 62.7% time deposit accounts. Our growth in deposits was the result of increased promotion and competitive pricing on time deposits during the first three to six months of the fiscal year.

The following table sets forth the composition of the deposit portfolio as of the dates indicated:

	March 31, 2008		June 30, 2007	
	Amount	Rate*	Amount	Rate*
(Dollars in thousands)				
Non-interest bearing	$ 909	0.00%	$ 993	0.00%
Interest bearing:				
Demand	55,011	3.18%	48,575	3.52%
Savings	32,067	3.77%	22,840	3.75%
Time deposits:				
Under $100,000	306,950	5.00%	298,767	5.06%
$100,000 or more	195,105	5.04%	176,774	5.09%
Total time deposits	502,055	5.01%	475,541	5.07%
Total interest bearing	589,133	4.81%	546,956	4.87%
Total deposits	$ 590,042	4.80%	$ 547,949	4.87%

* Based on weighted-average stated interest rates at end of period.

The following table sets forth the number of deposit accounts by type at the date indicated:

	March 31, 2008	June 30, 2007	March 31, 2007
Checking and savings accounts	8,602	8,315	8,341
Time deposits	17,690	17,502	15,784
Total number of deposit accounts	26,292	25,817	24,125

Securities Sold Under Agreements to Repurchase

Since November 2006, the Company has sold securities under various agreements to repurchase for total proceeds of $130.0 million. The repurchase agreements have interest rates between 3.24% and 4.65% and scheduled maturities between January 2012 and December 2017. Under these agreements, the Company may be required to repay the $130.0 million and repurchase its securities before the scheduled maturity if the issuer requests repayment on scheduled quarterly call dates. The weighted-average remaining contractual maturity period is 6.6 years and the weighted average remaining period before such repurchase agreements could be called is 1.3 years.

FHLB Advances

We regularly use FHLB advances to manage our interest rate risk and, to a lesser extent, manage our liquidity position. Generally, FHLB advances with terms between three and ten years have been used to fund the purchase of single family and multifamily mortgages and to provide

us with interest rate risk protection should rates rise. At March 31, 2008, a total of $62.0 million of FHLB advances include agreements that allow the FHLB, at its option, to put the advances back to us after specified dates. The weighted-average remaining contractual maturity period of the $62.0 million in advances is 4.0 years and the weighted average remaining period before such advances could be put to us is 1.2 years.

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Stockholders Equity

Stockholders equity increased $4.1 million to $76.9 million at March 31, 2008 compared to $72.8 million at June 30, 2007. The increase was the result of our net income for nine months of $2.4 million, a $1.3 million unrealized gain from our available for sale securities, and $0.6 million of paid in capital from stock-based compensation activity, partially offset by a $0.2 million for dividends paid to holders of our convertible preferred stock.

LIQUIDITY

During the nine months ended March 31, 2008, we had net cash inflows from operating activities of $6.8 million compared to $2.0 million for the nine months ended March 31, 2007. Net operating cash inflows for the periods ended in 2008 and 2007 were primarily due to net income earned during the period, plus the add-back of non-cash adjustments of amortization of loan and security premiums, loan loss provisions and the increase in accrued interest receivable.

Net cash outflows from investing activities totaled $188.0 million and $116.9 million for the nine months ended March 31, 2008 and 2007, respectively. Net cash outflows from investing activities increased $71.1 million for the nine months ended March 31, 2008 primarily due to a $108.2 million increase in loan purchases, and an increase of $37.3 million in loan originations, offset by an increase of $70.9 million in proceeds from the sale of investment securities.

Our net cash provided by financing activities totaled $157.1 million and $103.0 million for the nine months ended March 31, 2008 and 2007, respectively. Net cash provided from financing activities increased $54.1 million for the nine months ended March 31, 2008 compared to March 31, 2007, primarily due to in-flows from deposits of a net $4.8 million and inflow from reverse repurchases of $20.0 million and new FHLB advances of $108.0 million, less net maturities of FHLB advances of $39.9 million. During the quarter, Bank of Internet USA could borrow up to 40.0% of its total assets from the FHLB. Borrowings are collateralized by the pledge of certain mortgage loans and investment securities to the FHLB. We increased our borrowing capacity with the FHLB to 40.0% of total assets in October 2007. Based on the loans and securities pledged at March 31, 2008 we had total borrowing capacity of $416.0 million, of which $302.5 million was outstanding and $113.5 million was available. At March 31, 2008, we also had a $10.0 million unsecured federal funds purchase line with a bank under which no borrowings were outstanding. In the past, we have used long-term borrowings to fund our loans and to minimize our interest rate risk.

We believe our liquidity sources to be stable and adequate for our anticipated needs and contingencies. We can increase our level of deposits and borrowings to address our future liquidity needs.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

At March 31, 2008, we had commitments to originate or purchase loans and investment securities of $43.3 million. Time deposits due within one year of March 31, 2008 totaled $269.3 million. We believe the large percentage of time deposits that mature within one year reflects customers hesitancy to invest their funds long term. If these maturing deposits do not remain with us, we may be required to seek other sources of funds, including other time deposits and borrowings. Depending on market conditions, we may be required to pay higher rates on deposits and borrowings than we currently pay on time deposits maturing within one year. We believe, however, based on past experience, a significant portion of our time deposits will remain with us. We believe we have the ability to attract and retain deposits by adjusting interest rates offered.

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The following table presents certain of our contractual obligations as of March 31, 2008:

		Payments Due by Period[1]			
	Total	Less Than One Year	One To Three Years	Three To Five Years	More Than Five Years
			(in thousands)		
Long-term debt obligations [2]	$ 1,053,617	$ 405,756	$ 288,377	$ 210,457	$ 149,027
Operating lease obligations [3]	1,556	321	673	562	
Total	$ 1,055,173	$ 406,077	$ 289,050	$ 211,019	$ 149,027

1 Our contractual obligations include long-term debt, time deposits and operating leases as shown. We had no capitalized leases or material commitments for capital expenditures at March 31, 2008.

2 Amounts include principal and interest due to recipient.

3 Payments are for a lease of real property.

CAPITAL RESOURCES AND REQUIREMENTS

Bank of Internet USA is subject to various regulatory capital requirements set by the federal banking agencies. Failure by our Bank to meet minimum capital requirements could result in certain mandatory and discretionary actions by regulators that could have a material adverse effect on our consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, our Bank must meet specific capital guidelines that involve quantitative measures of our Bank s assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Our Bank s capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation require our Bank to maintain certain minimum capital amounts and ratios. The Office of Thrift Supervision requires our Bank to maintain minimum ratios of tangible capital to tangible assets of 1.5%, core capital to tangible assets of 4.0% and total risk-based capital to risk-weighted assets of 8.0%. At March 31, 2008, our Bank met all the capital adequacy requirements to which it was subject. At March 31, 2008, our Bank was well capitalized under the regulatory framework for prompt corrective action. To be well capitalized, our Bank must maintain minimum leverage, tier 1 risk-based and total risk-based capital ratios of at least 5.0%, 6.0% and 10.0%, respectively. No conditions or events have occurred since that date that management believes would materially adversely change the Bank s capital levels. From time to time, we may need to raise additional capital to support our Bank s further growth and to maintain its well capitalized status.

Bank of Internet capital amounts, ratios and requirements at March 31, 2008 were as follows:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
Tier 1 leverage (core) capital to adjusted tangible assets	$ 79,044	7.13%	$ 44,372	4.00%	$ 55,465	5.00%
Tier 1 capital (to risk weighted assets)	$ 79,044	13.49%	N/A	N/A	$ 35,154	6.00%

Total capital (to risk-weighted assets)	$ 81,111	13.84%	46,873	8.00%	$ 58,591	10.00%
Tangible capital (to tangible assets)	$ 79,044	7.13%	16,639	1.50%	N/A	N/A

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We measure interest rate sensitivity as the difference between amounts of interest-earning assets and interest-bearing liabilities that mature or contractually reprice within a given period of time. The difference, or the interest rate sensitivity gap, provides an indication of the extent to which an institution s interest rate spread will be affected by changes in interest rates. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities and negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. In a rising interest rate environment, an institution with a positive gap would be in a better position than an institution with a negative gap to invest in higher yielding assets or to have its asset yields adjusted upward, which would result in the yield on its assets to increase at a faster pace than the cost of its interest-bearing liabilities. During a period of falling interest rates, however, an institution with a positive gap would tend to have its assets mature at a faster rate than one with a negative gap, which would tend to reduce the growth in its net interest income. The following table sets forth the interest rate sensitivity of our assets and liabilities at March 31, 2008:

	Term to Repricing, Repayment, or Maturity at March 31, 2008			
	One Year or Less	Over One Year Through Five Years	Over Five Years	Total
	(Dollars in thousands)			
Interest-earning assets:				
Cash and cash equivalents	$ 15,563	$	$	$ 15,563
Interest-bearing deposits in other financial institutions	3,663	99		3,762
Investment securities [1]	237,143	193,324	31,609	462,076
Stock of the FHLB, at cost	14,297			14,297
Loans - net of allowance for loan loss [2]	197,518	190,532	211,148	599,198
Loans held for sale				
Total interest-earning assets	468,184	383,955	242,757	1,094,896
Non-interest earning assets				15,208
Total assets	$ 468,184	$ 383,955	$ 242,757	$ 1,110,104
Interest-bearing liabilities:				
Interest-bearing deposits [3]	$ 356,411	$ 232,722	$	$ 589,133
Securities sold under agreements to repurchase [4]		20,000	110,000	130,000
Advances from the FHLB [4]	102,500	174,948	25,000	302,448
Other borrowed funds	5,155			5,155
Total interest-bearing liabilities	464,066	427,670	135,000	1,026,736
Other noninterest-bearing liabilities				6,464
Stockholders equity				76,904
Total liabilities and equity	$ 464,066	$ 427,670	$ 135,000	$ 1,110,104
Net interest rate sensitivity gap	$ 4,118	$ (43,715)	$ 107,757	$ 68,160
Cumulative gap	$ 4,118	$ (39,597)	$ 68,160	$ 68,160
Net interest rate sensitivity gap - as a % of interest earning assets	0.88%	(11.39)%	44.39%	6.23%
Cumulative gap - as % of cumulative interest earning assets	0.88%	(4.65)%	6.23%	6.23%

1

Comprised of U.S. government securities and mortgage-backed securities, which are classified as held to maturity and available for sale. The table reflects contractual re-pricing dates and does not estimate prepayments or calls.

[2] The table reflects either contractual re-pricing dates or maturities.

[3] The table assumes that the principal balances for demand deposit and savings accounts will re-price in the first year.

[4] The table reflects either contractual re-pricing dates or maturities and does not estimate prepayments or puts.

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Although gap analysis is a useful measurement device available to management in determining the existence of interest rate exposure, its static focus as of a particular date makes it necessary to utilize other techniques in measuring exposure to changes in interest rates. For example, gap analysis is limited in its ability to predict trends in future earnings and makes no assumptions about changes in prepayment tendencies, deposit or loan maturity preferences or repricing time lags that may occur in response to a change in the interest rate environment.

We attempt to measure the effect market interest rate changes will have on the net present value of assets and liabilities, which is defined as market value of equity. We use the measurement model developed and maintained by our bank regulators, the Office of Thrift Supervision. At December 31, 2007 (the most recent period for which data is available), we analyzed the market value of equity sensitivity to an immediate parallel and sustained shift in interest rates derived from the current treasury and LIBOR yield curves. For rising interest rate scenarios, the base market interest rate forecast was increased by 100, 200 and 300 basis points. For the falling interest rate scenarios, we used 100 and 200 basis point decreases due to limitations inherent in the current rate environment. The following table indicates the sensitivity of market value of equity to the interest rate movement described above at March 31, 2008:

Assumed Interest Rate Change	Sensitivity	Percentage Change from Base	Net Present Value as Percentage of Assets
	(Dollars in thousands)		
Up 300 basis points	$ 53,939	(28)%	5.44%
Up 200 basis points	$ 65,977	(12)%	6.50%
Up 100 basis points	$ 73,508	(1)%	7.09%
Base	$ 74,620	0%	7.08%
Down 100 basis points	$ 79,552	7%	7.42%
Down 200 basis points	$ 82,409	10%	7.53%

The board of directors of our Bank establishes limits on the amount of interest rate risk we may assume, as estimated by the net present value model for each 100 basis point movement. As of March 31, 2008, the board s established minimum was 5.10%, meaning that the net present value after a theoretical 300 basis point instantaneous increase in interest rates must be greater than 5.10%. The Bank s net present value after a theoretical 300 basis point increase was 5.44%, 34 basis points above the board of directors minimum requirement at March 31, 2008.

The computation of the prospective effects of hypothetical interest rate changes is based on numerous assumptions, including relative levels of interest rates, asset prepayments, runoffs in deposits and changes in re-pricing levels of deposits to general market rates, and should not be relied upon as indicative of actual results. Furthermore, these computations do not take into account any actions that we may undertake in response to future changes in interest rates.

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ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES OF MARKET RISKS

For quantitative and qualitative disclosures regarding market risks in our portfolio, see, Management s Discussion and Analysis of Consolidated Financial Condition and Results of Operations Quantitative and Qualitative Disclosures About Market Risk.

ITEM 4: CONTROLS AND PROCEDURES

The Company s management, with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures, pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, our Chief Executive Officer along with our Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company s disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission s rules and forms.

There were no changes in the Company s internal control over financial reporting identified in connection with the evaluation referred to above that occurred during the quarter that have materially affected, or are reasonably likely to materially affect, the registrant s internal control over financial reporting.

The Company s size dictates that it conduct business with a minimal number of financial and administrative employees, which inherently results in a lack of documented controls and segregation of duties within the Company. Management will continue to evaluate the employees involved and the controls procedures in place, the risks associated with such lack of segregation and whether the potential benefits of adding employees to clearly segregate duties justifies the expense associated with such added personnel. In addition, management is aware that many of the internal controls that are in place at the Company are undocumented controls. The Company is working to document these controls and take other steps required to be in compliance with Section 404 of the Sarbanes Oxley Act of 2002 as of June 30, 2008, the Company s deadline under current implementing rules and regulations.

The Company believes that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control are met and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not involved in any material legal proceedings. From time to time we are a party to claims or litigation that arises in the ordinary course of business, such as claims to enforce liens, claims involving the origination and servicing of loans, and other issues related to the business of the Bank. In the opinion of our management, the resolution of any such issues would not have a material adverse impact on our financial position, results of operations, or liquidity.

ITEM 1A. RISK FACTORS

We face a variety of risks that are inherent in our business and our industry. The following are some of the more significant factors that could affect our business and our results of operations:

Our limited operating history makes our future prospects and financial performance unpredictable, which may impair our ability to manage our business and your ability to assess our prospects. Our inability to manage our growth could harm our business, particularly growth in our new products such as home equity loans and other types of consumer loans that are not secured by real estate.

In a rising interest rate environment, an institution with a negative interest rate sensitivity gap generally would be expected, absent the effects of other factors, to experience a greater increase in its cost of liabilities relative to its yield on assets, and thus a decrease in its net interest income.

We face strong competition for customers and may not succeed in implementing our business strategy.

A natural disaster or recurring energy shortage, especially in California, could harm our business. The Bank did not experience any serious long-term interruption in its business as a result of the wildfires experienced in Southern California in October 2007.

Our home equity loans and RV loans, as well as some of our multifamily residential and commercial real estate loans, are unseasoned, and significant defaults on such loans would harm our business.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings, capital adequacy and overall financial condition may suffer materially.

Declining real estate values, particularly in California, could reduce the value of our loan portfolio and impair our profitability and financial condition.

We purchase and originate loans in bulk or pools. We may experience lower yields or losses on loans because the assumptions we use may not always prove correct.

We invest in mortgage-backed securities and other securities issued by entities, which may be downgraded by large credit rating agencies decreasing the value of our securities.

Our success depends in large part on the continuing efforts of a few individuals. If we are unable to retain these personnel or attract, hire and retain others to oversee and manage our company, our business could suffer.

We depend on third-party service providers for our core banking technology, and interruptions in or terminations of their services could materially impair the quality of our services.

We are exposed to risk of environmental liability with respect to properties to which we take title.

We have risks of systems failure and security risks, including hacking and identity theft.

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These risks are described in more detail under Risk Factors in Item 1A of our Form 10-K for the year ended June 30, 2007. We encourage you to read these risk factors in their entirety. Other factors may also exist that we cannot anticipate or that we currently do not consider being significant based on information that is currently available.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Document
10.1	Amendment to employment contract of Gary Evans, dated as of March 5, 2008 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on March 6, 2008).
31.1	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes- Oxley Act of 2002
31.2	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes- Oxley Act of 2002
32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURE

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BofI Holding, Inc.

Dated: May 6, 2008

By: /s/ Gregory Garrabrants
Chief Executive Officer
(Principal Executive Officer)

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