

Investors Bancorp Inc
Form 10-Q
November 09, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

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

For the quarterly period ended: September 30, 2006

Commission file number: 0-51557

Investors Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or
organization)

22-3493930

(I.R.S. Employer Identification No.)

101 JFK Parkway, Short Hills, New Jersey 07078

(Address of principal executive offices)

(973) 924-5100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all the reports 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 report), and (2) has been subject to such filing requirements for the past 90 days. YES NO

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

Large Accelerated Filer Yes No Accelerated Filer Yes No Non-Accelerated Filer Yes No

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

Yes No

As of October 31, 2006 there were 116,275,688 shares of the Registrant's common stock, par value \$0.01 per share, outstanding, of which 63,099,781 shares, or 54.27% of the Registrant's outstanding common stock, were held by Investors Bancorp, MHC, the Registrant's mutual holding company.

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Consolidated Balance Sheets

September 30, 2006 (Unaudited) and June 30, 2006

	September 30, 2006	June 30, 2006
	(In thousands)	
Assets		
Cash and cash equivalents	\$ 28,075	39,824
Securities available-for-sale, at estimated fair value	508,137	528,876
Securities held-to-maturity, net (estimated fair value of \$1,643,786 and \$1,695,975 at September 30, 2006 and June 30, 2006, respectively)	1,683,418	1,763,032
Loans receivable, net	3,191,520	2,960,583
Loans held-for-sale	2,414	974
Stock in the Federal Home Loan Bank	48,893	46,125
Accrued interest receivable	23,790	21,053
Office properties and equipment, net	27,446	27,911
Net deferred tax asset	26,052	28,176
Bank owned life insurance contract	85,262	78,903
Other assets	1,700	1,789
Total assets	\$ 5,626,707	5,497,246
Liabilities and Stockholders Equity		
Liabilities:		
Deposits	\$ 3,356,658	3,302,043
Borrowed funds	1,307,232	1,245,740
Advance payments by borrowers for taxes and insurance	16,050	15,337
Other liabilities	31,677	33,939
Total liabilities	4,711,617	4,597,059
Stockholders equity:		
Preferred stock, \$0.01 par value, 500,000 authorized shares; none issued		
Common stock, \$0.01 par value, 200,000,000 shares authorized; 116,275,688 issued and outstanding at September 30, 2006 and June 30, 2006	532	532
Additional paid-in capital	525,105	524,962
Unallocated common stock held by the employee stock ownership plan	(40,059)	(40,414)
Retained earnings	436,148	426,233
Accumulated other comprehensive loss:		

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Net unrealized loss on securities available for sale, net of tax	(6,268)	(10,758)
Minimum pension liability, net of tax	(368)	(368)
	(6,636)	(11,126)
Total stockholders' equity	915,090	900,187
Total liabilities and stockholders' equity	\$ 5,626,707	5,497,246

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Income

(Unaudited)

	For the Three Months Ended September 30,	
	2006	2005
	(Dollars in thousands, except per share data)	
Interest and dividend income:		
Loans receivable and loans held-for-sale	\$ 41,912	26,550
Securities:		
Government-sponsored enterprise obligations	1,339	1,674
Mortgage-backed securities	22,053	25,984
Equity securities available-for-sale	455	455
Municipal bonds and other debt	2,406	714
Interest-bearing deposits	169	833
Repurchase agreements		262
Federal Home Loan Bank stock	697	728
 Total interest and dividend income	 69,031	 57,200
 Interest expense:		
Deposits	30,750	21,716
Secured borrowings	15,814	10,918
 Total interest expense	 46,564	 32,634
 Net interest income	 22,467	 24,566
Provision for loan losses	225	100
 Net interest income after provision for loan losses	 22,242	 24,466
 Non-interest income:		
Fees and service charges	660	619
Increase (decrease) in and death benefits on bank owned life insurance contract	795	(127)
Gain on sales of mortgage loans, net	83	77
Other income	21	20
 Total non-interest income	 1,559	 589
 Non-interest expense:		
Compensation and fringe benefits	10,443	9,640
Advertising and promotional expense	900	603
Office occupancy and equipment expense	2,423	2,644
Federal insurance premiums	110	109
Stationery, printing, supplies and telephone	393	492

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Legal, audit, accounting, and supervisory examination fees	775	349
Data processing service fees	936	887
Other non-interest expense	1,107	875
Total non-interest expense	17,087	15,599
Income before income tax expense	6,714	9,456
Income tax expense	2,363	3,495
Net income	\$ 4,351	5,961
Earnings per share basic and diluted	\$ 0.04	n/a
Weighted average shares outstanding basic and diluted	112,246,699	n/a
See accompanying notes to consolidated financial statements.		

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INVESTORS BANCORP, INC.
Consolidated Statements of Stockholders Equity
Three months ended September 30, 2006 and 2005
(Unaudited)

	Common stock	Additional paid-in capital	Unallocated Common Stock Held by ESOP	Retained earnings (In thousands)	Accumulated other comprehensive loss Unrealized gain (loss) on securities	Minimum pension liability	Total stockholders equity
Balance at June 30, 2005	\$	25		411,219	(2,316)	(1,101)	407,827
Comprehensive income:							
Net income				5,961			5,961
Unrealized loss on securities available-for-sale, net of tax benefit of \$2,416					(3,448)		(3,448)
Total comprehensive income							2,513
Balance at September 30, 2005	\$	25		417,180	(5,764)	(1,101)	410,340
Balance at June 30, 2006	\$ 532	524,962	(40,414)	426,233	(10,758)	(368)	900,187
Comprehensive income:							
Net income				4,351			4,351
Unrealized gain on securities available-for-sale, net of tax expense of \$2,944					4,490		4,490
Total comprehensive income							8,841
Cumulative effect of change in accounting principle				5,564			5,564
Allocation of ESOP stock		143	355				498

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Balance at							
September 30, 2006	\$ 532	525,105	(40,059)	436,148	(6,268)	(368)	915,090

See accompanying notes to consolidated financial statements.

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INVESTORS BANCORP, INC. AND SUBSIDIARY
 Consolidated Statements of Cash Flows
 (Unaudited)

	For the Three Months Ended September 30,	
	2006	2005
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 4,351	5,961
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Allocation of ESOP shares	498	
Amortization of premiums and accretion of discounts on securities, net	485	793
Provision for loan losses	225	100
Depreciation and amortization of office properties and equipment	667	791
Mortgage loans originated for sale	(10,194)	(7,808)
Proceeds from mortgage loan sales	8,837	8,392
Gain on sales of mortgage loans, net	(83)	(77)
(Increase) decrease in bank owned life insurance contract	(795)	127
Increase in accrued interest receivable	(2,737)	(2,360)
Deferred tax benefit	(820)	(1,628)
Decrease (increase) in other assets	89	(1,094)
(Decrease) increase in other liabilities	(2,262)	589
Total adjustments	(6,090)	(2,175)
Net cash (used in) provided by operating activities	(1,739)	3,786
Cash flows from investing activities:		
Originations of loans	(84,139)	(118,793)
Purchases of loans	(237,726)	(197,452)
Payments on loans	90,703	106,755
Purchases of mortgage-backed securities held-to-maturity	(5,317)	(8,551)
Purchases of debt securities held-to-maturity		(316,856)
Proceeds from paydowns/maturities on mortgage-backed securities held-to-maturity	84,459	170,047
Proceeds from calls/maturities on debt securities held-to-maturity	14	35
Proceeds from paydowns/maturities on mortgage-backed securities available-for-sale	28,146	41,628
Increase in repurchase agreements		(200,000)
Proceeds from redemptions of Federal Home Loan Bank stock	8,932	17,800
Purchases of Federal Home Loan Bank stock	(11,700)	(5,150)
Purchases of office properties and equipment	(202)	(521)

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Net cash used in investing activities	(126,830)	(511,058)
Cash flows from financing activities:		
Net increase in deposits	54,615	120,257
Increase in stock subscription payable		955,963
Net decrease in funds borrowed under short-term repurchase agreements	(150,000)	
Proceeds from funds borrowed under other repurchase agreements	125,000	
Repayments of funds borrowed under other repurchase agreements		(265,000)
Net increase (decrease) in Federal Home Loan Bank advances	86,492	(88,007)
Net increase in advance payments by borrowers for taxes and insurance	713	387
Net cash provided by financing activities	116,820	723,600
Net (decrease) increase in cash and cash equivalents	(11,749)	216,328
Cash and cash equivalents at beginning of period	39,824	81,329
Cash and cash equivalents at end of period	\$ 28,075	297,657
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	44,599	34,642
Income taxes	3,258	189
See accompanying notes to consolidated financial statements.		

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INVESTORS BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

1. Basis of Presentation

The consolidated financial statements are composed of the accounts of Investors Bancorp, Inc. and its wholly owned subsidiary, Investors Savings Bank (Bank) (collectively, the Company) and the Bank's wholly-owned significant subsidiaries, ISB Mortgage Company LLC and ISB Asset Corporation.

In the opinion of management, all the adjustments (consisting of normal and recurring adjustments) necessary for the fair presentation of the consolidated financial condition and the consolidated results of operations for the unaudited periods presented have been included. The results of operations and other data presented for the three-month period ended September 30, 2006 are not necessarily indicative of the results of operations that may be expected for the fiscal year ending June 30, 2007.

Certain information and note disclosures usually included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for the preparation of the Form 10-Q. The consolidated financial statements presented should be read in conjunction with Company's audited consolidated financial statements and notes to consolidated financial statements included in the Company's June 30, 2006 Annual Report on Form 10-K.

2. Bank Owned Life Insurance

In September 2006, the Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 06-5, Accounting for Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 to address diversity in practice with respect to the calculation of the amount that could be realized. The Task Force reached a consensus that a policyholder should consider any additional amounts, such as deferred acquisition costs (DAC) and claims stabilization reserves (CSR), in determining the amount that could be realized under the insurance contract and therefore recognized as an asset. The Task Force also agreed that fixed amounts that are recoverable by the policyholder in future periods in excess of one year from the surrender of the policy should be recognized at their present value. The FASB has ratified the consensus which is effective for fiscal years beginning after December 15, 2006. Earlier adoption is permitted as of beginning of a fiscal year for periods in which interim or annual financial statements have not yet been issued. The Company early adopted the new accounting standard as of July 1, 2006.

The Company's guaranteed DAC and CSR balances represent amounts that could be realized under its group insurance contract, in accordance with the Task Force consensus. Accordingly, the Company recorded an asset of \$5.6 million for the guaranteed DAC and CSR balances, through a cumulative effect adjustment to retained earnings due to a change in accounting principle, in the quarter ended September 30, 2006.

The Company's insurance contract provides that, upon full and complete surrender of all outstanding certificates under the group policy held by the Company, the carrier's repayment of the DAC and CSR would be guaranteed if certain conditions are met at the time of surrender.

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The conditions that must be met at the time of surrender to obtain repayment of the DAC and CSR are as follows: (i) the Company must hold harmless and absolve the carrier from payment of all incurred but not reported claims; (ii) the Company must be a well capitalized institution under the regulatory capital rules; (iii) the Company cannot be transacting a non-taxable policy exchange as defined in the Internal Revenue Code; and (iv) the Company cannot have undergone a change in control (as defined) within 30 months prior to payment of the CSR. If these conditions have been met, the terms of the guarantee provide that (i) the CSR will be paid in full six months after full surrender of the policy, and (ii) future payments of the DAC will continue to be made in accordance with the terms of the insurance contract (generally based on a predetermined payment schedule over a period of 11 years from the date of original purchase). The Company has continuously satisfied the conditions of the guarantee, and management believes it is probable that the conditions will continue to be satisfied for the foreseeable future. Absent a full surrender of the policy, the guaranteed amounts are expected to be realized through the passage of time (in the case of the DAC) or the collection of future death benefit claims (in the case of the CSR).

3. Earnings Per Share

The Company completed its initial public stock offering on October 11, 2005. Basic earnings per common share for the three months ended September 30, 2006 were \$0.04, calculated using the weighted average common shares of 112,246,699 for the period. The number of shares for this purpose includes shares issued to Investors Bancorp, MHC but excludes unallocated ESOP shares.

4. Loans Receivable, Net

Loans receivable, net are summarized as follows:

	September 30, 2006	June 30, 2006
	(In thousands)	
Residential mortgage loans	\$ 2,871,256	2,666,559
Multi-family and commercial	81,545	76,976
Construction loans	73,852	65,459
Consumer and other loans	151,244	139,336
Total loans	3,177,897	2,948,330
Premiums on purchased loans	22,202	20,327
Deferred loan fees, net	(2,016)	(1,734)
Allowance for loan losses	(6,563)	(6,340)
	 \$ 3,191,520	 2,960,583

Table of Contents**5. Deposits**

Deposits are summarized as follows:

	September 30, 2006	June 30, 2006
	(In thousands)	
Savings accounts	\$ 233,598	226,245
Checking accounts	331,873	349,014
Money market accounts	198,316	212,200
Total core deposits	763,787	787,459
Certificates of deposit	2,592,871	2,514,584
	\$ 3,356,658	3,302,043

6. Net Periodic Benefit Plans Expense

The Company has a Supplemental Employee Retirement Plan (SERP). The SERP is a nonqualified, defined benefit plan which provides benefits to all employees of the Company if their benefits and/or contributions under the pension plan are limited by the Internal Revenue Code. The Company also has a nonqualified, defined benefit plan which provides benefits to its directors. The SERP and the directors plan are unfunded and the costs of the plans are recognized over the period that services are provided.

The Company also provides (i) health care benefits to retired employees hired prior to April 1, 1991 who attained at least ten years of service and (ii) certain life insurance benefits to all retirees. Accordingly, the Company accrues the cost of retiree health care and other benefits during the employee's period of active service.

The components of net periodic benefit expense are as follows:

	Three months ended September 30, SERP and			
	Directors	Plan	Other Benefits	
	2006	2005	2006	2005
	(In thousands)			
Service cost	\$ 313	345	\$ 44	49
Interest cost	240	200	132	124
Amortization of: Transition obligation			50	50