Investors Bancorp Inc
Form 10-Q
November 14, 2005

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

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

For the quarterly period ended: September 30, 2005

Commission file number: 0-51557

Investors Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**22-3493930**
(State or other jurisdiction of incorporation or organization)	(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 þ NO o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES o NO þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO þ

As of October 31, 2005, 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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Part I. Financial Information

Item 1. Financial Statements

INVESTORS BANCORP, INC.
Consolidated Balance Sheets
September 30, 2005 and June 30, 2005

	September 30, 2005 (Unaudited)	June 30, 2005
	(In thousands)	
Assets		
Cash and cash equivalents	$ 297,657	81,329
Repurchase agreements	200,000	
Securities available-for-sale, at estimated fair value	626,415	673,951
Securities held-to-maturity, net (estimated fair value of $2,167,211 and $2,032,939 at September 30, 2005 (unaudited) and June 30, 2005, respectively)	2,195,458	2,040,882
Loans receivable, net	2,203,294	1,993,904
Loans held-for-sale	2,905	3,412
Stock in the Federal Home Loan Bank	48,038	60,688
Accrued interest and dividends receivable	20,623	18,263
Office properties and equipment, net	29,274	29,544
Net deferred tax asset	17,172	13,128
Bank owned life insurance contract	76,102	76,229
Other assets	2,517	1,423
Total assets	$ 5,719,455	4,992,753
Liabilities and Stockholder s Equity		
Liabilities:		
Deposits	$ 3,360,677	3,240,420
Borrowed funds	960,762	1,313,769
Stock subscription proceeds	955,963	
Advance payments by borrowers for taxes and insurance	11,204	10,817
Other liabilities	20,509	19,920
Total liabilities	5,309,115	4,584,926
Stockholder s equity:		
Common stock, par value $0.10. Authorized 3,000 shares; outstanding 50 shares		
Additional paid-in capital	25	25
Retained earnings	417,180	411,219
Accumulated other comprehensive loss:		

Net unrealized loss on securities available for sale, net of tax	(5,764)	(2,316)
Minimum pension liability, net of tax	(1,101)	(1,101)
	(6,865)	(3,417)
Total stockholder s equity	410,340	407,827
Total liabilities and stockholder s equity	$ 5,719,455	4,992,753

See accompanying notes to consolidated financial statements.

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INVESTORS BANCORP, INC.
Consolidated Statements of Operations
Three months ended September 30, 2005 and 2004
(Unaudited)

	2005	2004
	(In thousands)	
Interest and dividend income:		
Loans receivable and loans held-for-sale	$ 26,550	15,802
Securities:		
Government-sponsored enterprise obligations	1,674	1,410
Mortgage-backed securities	25,984	38,037
Equity securities available-for-sale	455	402
Municipal bonds and other debt	714	328
Interest-bearing deposits	833	76
Repurchase agreements	262	
Federal Home Loan Bank stock	728	434
Total interest and dividend income	57,200	56,489
Interest expense:		
Deposits and stock subscription proceeds	21,716	16,247
Secured borrowings	10,918	15,355
Total interest expense	32,634	31,602
Net interest income	24,566	24,887
Provision for loan losses	100	100
Net interest income after provision for loan losses	24,466	24,787
Other income:		
Fees and service charges	639	673
(Decrease) increase on bank owned life insurance contract	(127)	1,033
Gain on sales of mortgage loans, net	77	109
Total other income	589	1,815
Operating expenses:		
Compensation and fringe benefits	9,640	8,416
Advertising and promotional expense	603	680
Office occupancy and equipment expense	2,644	2,659
Federal insurance premiums	109	119
Stationery, printing, supplies and telephone	492	470

Legal, audit, accounting, and supervisory examination fees	349	370
Data processing service fees	887	888
Amortization of premium on deposit acquisition		486
Other operating expenses	875	682
Total operating expenses	15,599	14,770
Income before income tax expense	9,456	11,832
Income tax expense	3,495	3,790
Net income	$ 5,961	8,042

See accompanying notes to consolidated financial statements.

INVESTORS BANCORP, INC.
Consolidated Statements of Stockholder s Equity
Three months ended September 30, 2005 and 2004
(Unaudited)

				Accumulated other comprehensive loss		
	Common stock	Additional paid-in capital	Retained earnings	Minimum pension liability	Unrealized losses on securities	Total stockholder s equity
			(In thousands)			
Balance at June 30, 2004	$	25	414,361	(755)	(11,968)	401,663
Comprehensive income:						
Net income			8,042			8,042
Unrealized gain on securities available-for-sale, net of tax expense of $6,478					10,592	10,592
Total comprehensive income						18,634
Balance at September 30, 2004	$	25	422,403	(755)	(1,376)	420,297
Balance at June 30, 2005	$	25	411,219	(1,101)	(2,316)	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	(1,101)	(5,764)	410,340

See accompanying notes to consolidated financial statements.

INVESTORS BANCORP, INC.
Consolidated Statements of Cash Flows
Three Months ended September 30, 2005 and 2004
(Unaudited)

	2005	2004
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 5,961	8,042
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premiums and accretion of discounts on securities, net	793	1,770
Amortization of premium on deposit acquisition		486
Provision for loan losses	100	100
Depreciation and amortization of office properties and equipment	791	764
Mortgage loans originated for sale	(7,808)	(13,919)
Proceeds from mortgage loan sales	8,392	12,012
Gain on sales of mortgage loans, net	(77)	(109)
Decrease (increase) in bank owned life insurance contract	127	(1,033)
Increase in accrued interest and dividends receivable	(2,360)	(40)
Deferred tax benefit	(1,628)	(276)
(Increase) decrease in other assets	(1,094)	239
Increase in other liabilities	589	5,182
Total adjustments	(2,175)	5,176
Net cash provided by operating activities	3,786	13,218
Cash flows from investing activities:		
Net increase in loans receivable	(209,490)	(245,519)
Purchases of mortgage-backed securities held-to-maturity	(8,551)	(4,181)
Proceeds from calls/maturities on debt securities held-to-maturity	35	38
Purchases of debt securities held-to-maturity	(316,856)	
Proceeds from paydowns/maturities on mortgage-backed securities held-to-maturity	170,047	184,639
Proceeds from paydowns/maturities on mortgage-backed securities available-for-sale	41,628	77,407
Increase in repurchase agreements	(200,000)	
Proceeds from redemptions of Federal Home Loan Bank stock	17,800	7,000
Purchases of Federal Home Loan Bank stock	(5,150)	(5,800)
Purchases of office properties and equipment	(521)	(2,566)
Net cash (used in) provided by investing activities	(511,058)	11,018
Cash flows from financing activities:		
Net increase (decrease) in deposits	120,257	(4,387)

Increase in stock subscription payable		955,963	
Net increase in funds borrowed under short-term repurchase agreements			172,000
Repayments of funds borrowed under other repurchase agreements		(265,000)	(196,000)
Repayments of Federal Home Loan Bank advances		(88,007)	(7)
Net increase in advance payments by borrowers for taxes and insurance		387	1,304
Net cash provided by (used in) financing activities		723,600	(27,090)
Net increase (decrease) in cash and cash equivalents		216,328	(2,854)
Cash and cash equivalents at beginning of period		81,329	37,653
Cash and cash equivalents at end of period	$	297,657	34,799
Supplemental cash flow information:			
Noncash investing activities:			
Real estate acquired through foreclosure	$		123
Cash paid during the year for:			
Interest		34,642	31,939
Income taxes		189	

See accompanying notes to consolidated financial statements.

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 Bancorp) 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, 2005 are not necessarily indicative of the results of operations that may be expected for the fiscal year ending June 30, 2006.

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 for the preparation of the Form 10-Q. The consolidated financial statements presented should be read in conjunction with Bancorp s audited consolidated financial statements and notes to consolidated financial statements included in Bancorp s June 30, 2005 Special Financial Report on Form 10-K.

2. **Stock Offering**

The Bancorp completed its initial public stock offering on October 11, 2005. Consequently, the information herein does not contain any per share information. The Bancorp sold 51,627,094 shares, or 44.40% of its outstanding common stock, to subscribers in the offering, including 4,254,072 shares purchased by Investors Savings Bank Employee Stock Ownership Plan. Investors Bancorp, MHC, the Bancorp s New Jersey chartered mutual holding company parent holds 63,099,781 shares, or 54.27% of the Bancorp s outstanding common stock. Additionally, the Bancorp contributed $5,163,000 in cash and issued 1,548,813 of common stock, or 1.33% of its outstanding shares, to the Investors Savings Bank Charitable Foundation resulting in a pre-tax expense charge of $20.7 million to be recorded in the quarter ended December 31, 2005. Net proceeds from the initial offering were approximately $510.0 million. Stock subscription proceeds of $557.9 million were returned to subscribers.

3. **Recent Accounting Pronouncements**

FASB Staff Position No. FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (the FSP), was issued on November 3, 2005 and addresses the determination of when an investment is considered impaired; whether the impairment is other than temporary; and how to measure an impairment loss. The FSP also addresses accounting considerations subsequent to the recognition of an other-than-temporary impairment on a debt security, and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The FSP replaces the impairment guidance in EITF Issue No. 03-1 with references to existing authoritative literature concerning other-than-temporary determinations (principally Statement of Financial Accounting Standards No. 115 and SEC Staff Accounting Bulletin 59). Under the FSP, impairment losses must be recognized in earnings equal to the entire difference between the security s cost and its fair value at the financial statement date, without considering partial recoveries subsequent to that date. The FSP also requires that an investor recognize an other-than-temporary impairment loss when a decision to sell a security has been made and the investor does not expect the fair value of the security to fully recover prior to the expected time of sale. The FSP is effective for reporting periods beginning after December 15, 2005. The Company does not expect that the application of the FSP will have a material impact on its financial condition, results of operations or financial statement disclosures.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements. Certain statements contained herein are not based on historical facts and are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as may, will, believe, expect, estimate, anticipate, continue, or similar terms or variations on those terms, or the negative of those terms. Forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, those related to the economic environment, particularly in the market areas in which Investors Bancorp, Inc. (the Company) operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset-liability management, the financial and securities markets and the availability of and costs associated with sources of liquidity.

The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company wishes to advise that the factors listed above could affect the Company s financial performance and could cause the Company s actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements. The Company does not undertake and specifically declines any obligation to publicly release the result of any revisions, which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Executive Summary

Investors Bancorp completed its initial public stock offering on October 11, 2005 and consequently, the information herein does not contain any per share information. The Company sold 51,627,094 shares, or 44.40% of its outstanding common stock, to subscribers in the offering, including 4,254,072 shares purchased by Investors Savings Bank Employee Stock Ownership Plan. Investors Bancorp, MHC, the Company s New Jersey chartered mutual holding company parent holds 63,099,781 shares, or 54.27% of the Company s outstanding common stock. Additionally, the Bancorp contributed $5,163,000 in cash and issued 1,548,813 of common stock, or 1.33% of its outstanding shares, to the Investors Savings Bank Charitable Foundation resulting in a pre-tax expense charge of $20.7 million to be recorded in the quarter ended December 31, 2005. Net proceeds from the initial offering were approximately $510.0 million. Stock subscription proceeds of $557.9 million were returned to subscribers.

At September 30, 2005, we had total assets, deposits and stockholder s equity of $5.72 billion, $3.36 billion and $410.3 million, respectively.

Our total assets grew to $5.72 billion at September 30, 2005 from $4.99 billion at June 30, 2005. This growth occurred as a result of investing the funds received from subscribers to our initial public stock offering into a number of short term (less than 6 month) investment securities and additional growth in our loan portfolio. We also used a portion of the funds received in the offering to reduce wholesale borrowings. Borrowed funds fell by $353.0 million or 26.9% to $960.8 million during the three month period September 30, 2005.

Total deposits also grew to $3.36 billion at September 30, 2005 from $3.24 billion at June 30, 2005. While difficult to quantify, we believe most of this growth is attributed to deposit customers moving additional funds into their accounts in anticipation of purchasing stock in the stock offering.

We remain committed to our business strategy of reducing wholesale assets and liabilities, namely, securities and borrowings and replacing them with more retail assets and liabilities, namely, loans and deposits. During the three months ended September 30, 2005 we grew net loans, including loans held for sale by $208.9 million, an increase of approximately 10.5% over June 30, 2005. While investments in securities grew modestly during the period, this growth is attributed to using a portion of the proceeds from the stock offering to invest in short term (less than 6 month) securities. We reported net income of $6.0 million for the three months ended September 30, 2005 compared to net income of $8.0 million for the three months ended September 30, 2004.This reduction in net income is attributed primarily to higher personnel costs we incurred in our commercial real estate loan and retail banking areas. These investments in staff and training reflect our continued efforts to diversify our loan portfolio and expand our retail franchise. We also experienced a decline in income from our bank owned life insurance contract. Our annualized return on average assets was 0.47% for the three months ended September 30, 2005 compared to 0.60% for the three months ended September 30, 2004. Our annualized return on average equity was 5.91% for the three months ended September 30, 2005 compared to 7.96% for the three months ended September 30, 2004.

Short term interest rates increased throughout 2005 as the Federal Open Market Committee of the Federal Reserve Bank raised the Fed Funds or overnight lending rate at each of their scheduled meetings to 3.75% at September 30, 2005. Long term interest rates however have not risen commensurate with short term rates. This flattening of the yield curve has put downward pressure on our net interest income which may continue if this flat yield curve environment persists. Despite this pressure on net interest income, net interest margin and spread increased to 1.96% and 1.82% respectively compared to the September 2004 period. We attribute this increase to the restructuring transaction we executed in March 2005 and our continued focus on retail assets and liabilities.

We will continue to transition our balance sheet to one more focused on retail assets and liabilities although, in the short term, we may increase our investments in short average life securities as a way to profitably invest the portion of the proceeds from our stock offering that can not be immediately deployed into loans.

Comparison of Financial Condition at September 30, 2005 and June 30, 2005

Total Assets. Total assets increased by $726.7 million, or 14.6%, to $5.72 billion at September 30, 2005 from $4.99 billion at June 30, 2005. This increase was largely the result of an increase in funds received during the stock offering subscription period and an increase in the loan portfolio.

Cash and Cash Equivalents. Cash and cash equivalents increased by $216.3 million, or 266.0%, to $297.7 million at September 30, 2005 from $81.3 million at June 30, 2005, due primarily to the cash received during the stock offering subscription period.

Repurchase Agreements. Repurchase agreements increased by $200.0 million in the quarter ended September 30, 2005. This increase was a result of utilizing a portion of the proceeds from the stock offering.

Securities. Securities, both available-for-sale and held-to-maturity, increased by $107.0 million, or 3.9%, to $2.82 billion at September 30, 2005, from $2.71 billion at June 30, 2005. This increase was a result of investing a portion of the proceeds from the stock offering in short term securities.

Net Loans. Net loans, including loans held for sale, increased by $208.9 million, or 10.5%, to $2.20 billion at September 30, 2005 from $2.00 billion at June 30, 2005. This increase in loans reflects our continued focus on loan originations and purchases. The loans we originate and purchase are made on properties almost exclusively in New Jersey. We may, in the future, originate or purchase loans in states contiguous to New Jersey as a way to geographically diversify our residential loan portfolio. We purchase residential mortgage loans from other banks, mortgage bankers and mortgage brokers as a way to complement our current origination capability at a low cost. Our agreements with these correspondent entities require them to originate individual loans that meet our strict underwriting standards. From time to time we may purchase pools of mortgage loans in the secondary market from several well established financial institutions as a way to supplement our current production. Loans purchased from these entities also must meet our strict underwriting standards. During the three months ended September 30, 2005, we purchased $25.2 million from these entities.

Stock in the Federal Home Loan Bank and Other Assets. The amount of stock we own in the Federal Home loan Bank (FHLB) decreased by $12.7 million from $60.7 million at June 30, 2005 to $48.0 million at September 30, 2005 primarily due to a decrease in our level of borrowings. There was also an increase in accrued interest receivable of $2.4 million resulting from an increase in interest-earning assets and the timing of certain cash flows resulting from the change in the mix of our assets.

Deposits and Stock Subscription Proceeds. Deposits and stock subscription proceeds increased by $1.08 billion, or 33.2%, to $ 4.32 billion at September 30, 2005 from $3.24 billion at

June 30, 2005. The increase was due primarily to the proceeds received during the subscription period of the stock offering.

Borrowed Funds. Borrowed funds decreased $353.0 million, or 26.9%, to $960.8 million at September 30, 2005 from $1.31 billion at June 30, 2005 as we used a portion of the proceeds from the stock offering to reduce borrowings.

Other Liabilities. Other liabilities increased $589,000, or 3.0%, to $20.5 million at September 30, 2005, from $19.9 million at June 30, 2005. This increase was due primarily to a $4.9 million increase in income taxes payable as a result of the operating income for the three-month period which was partially offset by a decrease in various other balances.

Stockholder s Equity. Stockholder s equity increased $2.5 million, or 0.6%, to $410.3 million at September 30, 2005 from $407.8 million at June 30, 2005 due to net income of $6.0 million for the three months ended September 30, 2005, partially offset by an increase of $3.4 million in the accumulated other comprehensive loss for the same period.

Average Balance Sheets for the Three Months ended September 30, 2005 and 2004

The table on the following page represents certain information regarding Investors Bancorp, Inc. s financial condition and net interest income for the three months ended September 30, 2005 and 2004. The table presents the annualized average yield on interest-earning assets and the annualized average cost of interest-bearing liabilities. We derived the yields and costs by dividing annualized income or expense by the average balance of interest-earning assets and interest-bearing liabilities, respectively, for the periods shown. We derived average balances from daily balances over the periods indicated. Interest income includes fees that we consider adjustments to yields.

Investors Bancorp, Inc.
Comparative Average Balance Sheets

	For the Three Months Ended September 30,					
	2005			2004		
	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate
	(Dollars in thousands)					
Interest-earning assets:						
Interest bearing deposits	$ 110,533	$ 833	3.01%	$ 24,622	$ 76	1.23%
Repurchase agreements	30,435	262	3.44%			
Securities available-for-sale	661,818	6,945	4.20%	1,409,780	13,636	3.87%
Securities held-to-maturity	2,024,383	21,882	4.32%	2,439,402	26,541	4.35%
Loans , net	2,093,532	26,550	5.07%	1,237,253	15,802	5.11%
Stock in FHLB	57,751	728	5.04%	81,090	434	2.14%
Total interest-earning assets	4,978,452	57,200	4.60%	5,192,147	56,489	4.35%