

Investors Bancorp Inc
Form 10-Q
May 12, 2006

**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: **March 31, 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 reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

As of May 10, 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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Part I. Financial Information**Item 1. Financial Statements****INVESTORS BANCORP, INC. AND SUBSIDIARY**

Consolidated Balance Sheets

March 31, 2006 (Unaudited) and June 30, 2005

	March 31, 2006	June 30, 2005
	(In thousands)	
Assets		
Cash and cash equivalents	\$ 24,539	81,329
Securities available-for-sale, at estimated fair value	559,128	673,951
Securities held-to-maturity, net (estimated fair value of \$1,769,073 and \$2,032,939 at March 31, 2006 and June 30, 2005, respectively)	1,824,780	2,040,882
Loans receivable, net	2,616,825	1,993,904
Loans held-for-sale	2,607	3,412
Stock in the Federal Home Loan Bank	55,834	60,688
Accrued interest receivable	21,150	18,263
Office properties and equipment, net	28,272	29,544
Net deferred tax asset	20,765	13,128
Bank owned life insurance contract	78,005	76,229
Other assets	956	1,423
Total assets	\$ 5,232,861	4,992,753
Liabilities and Stockholders Equity		
Liabilities:		
Deposits	\$ 3,291,215	3,240,420
Borrowed funds	1,019,247	1,313,769
Advance payments by borrowers for taxes and insurance	12,896	10,817
Other liabilities	16,527	19,920
Total liabilities	4,339,885	4,584,926
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 March 31, 2006, and \$0.10 par value, 3,000 shares authorized; 50 issued and outstanding at June 30, 2005	532	
Additional paid-in capital	524,751	25
Unallocated common stock held by the employee stock ownership plan	(41,123)	
Retained earnings	419,953	411,219
Accumulated other comprehensive loss:		
Net unrealized loss on securities available for sale, net of tax	(10,036)	(2,316)
Minimum pension liability, net of tax	(1,101)	(1,101)
	(11,137)	(3,417)

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Total stockholders' equity	892,976	407,827
Total liabilities and stockholders' equity	\$ 5,232,861	4,992,753

See accompanying notes to consolidated financial statements.

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INVESTORS BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Operations

(Unaudited)

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
	2006	2005	2006	2005
	(In thousands, except per share data)			
Interest and dividend income:				
Loans receivable and loans held-for-sale	\$ 33,177	19,604	89,554	53,524
Securities:				
Government-sponsored enterprise obligations	1,341	1,466	5,505	4,155
Mortgage-backed securities	23,878	35,120	74,542	109,085
Equity securities available-for-sale	460	464	1,370	1,302
Municipal bonds and other debt	2,105	344	4,520	994
Interest-bearing deposits	184	149	2,675	343
Repurchase agreements			613	
Federal Home Loan Bank stock	756	577	2,247	1,463
 Total interest and dividend income	 61,901	 57,724	 181,026	 170,866
Interest expense:				
Deposits	24,343	17,551	69,114	50,831
Secured borrowings	10,187	14,982	32,246	45,683
 Total interest expense	 34,530	 32,533	 101,360	 96,514
 Net interest income	 27,371	 25,191	 79,666	 74,352
Provision for loan losses	200	200	400	400
 Net interest income after provision for loan losses	 27,171	 24,991	 79,266	 73,952
Other income (loss):				
Fees and service charges	598	559	1,886	1,778
Increase (decrease) in and death benefits on bank owned life insurance contract	646	(361)	1,776	4,333
Gain on sales of mortgage loans, net	93	136	232	382
Loss on securities transactions, net		(10,352)		(9,750)
Gain on sale of other real estate owned, net		7	5	12
Other income	21	59	62	176
 Total other income (loss)	 1,358	 (9,952)	 3,961	 (3,069)
Operating expenses:				
Compensation and fringe benefits	10,696	9,282	31,323	26,693
Advertising and promotional expense	666	701	1,752	2,161
Office occupancy and equipment expense	2,528	2,605	7,797	7,332
Federal insurance premiums	141	117	359	354

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Stationery, printing, supplies and telephone	419	361	1,327	1,323
Legal, audit, accounting, and supervisory examination fees	384	309	1,183	981
Data processing service fees	910	852	2,726	2,584
Amortization of premium on deposit acquisition		130		1,102
Loss on early extinguishment of debt		43,616		43,616
Contribution to charitable foundation			20,651	
Other operating expenses	1,113	792	2,900	2,177
Total operating expenses	16,857	58,765	70,018	88,323
Income (loss) before income tax expense (benefit)	11,672	(43,726)	13,209	(17,440)
Income tax expense (benefit)	3,960	(14,770)	4,475	(7,299)
Net income (loss)	\$ 7,712	(28,956)	8,734	(10,141)
Earnings per share basic and diluted	\$ 0.07	n/a	n/a	n/a
Weighted average shares outstanding basic and diluted	112,163,418	n/a	n/a	n/a
See accompanying notes to consolidated financial statements.				

INVESTORS BANCORP, INC.
Consolidated Statements of Stockholders Equity
Nine months ended March 31, 2006 and 2005
(Unaudited)

	Common stock	Additional paid-in capital	Unallocated common stock Held by ESOP	Retained earnings	Accumulated other comprehensive loss Unrealized losses on securities	Minimum pension liability	Total stockholders equity
Balance at June 30, 2004	\$	25		414,361	(11,968)	(755)	401,663
Comprehensive loss:							
Net loss				(10,141)			(10,141)
Unrealized loss on securities available- for-sale, net of tax benefit of \$214					(383)		(383)
Reclassification adjustment for losses included in net income, net of tax of \$3,885					6,778		6,778
Comprehensive loss							(3,746)
Balance at March 31, 2005	\$	25		404,220	(5,573)	(755)	397,917
Balance at June 30, 2005	\$	25		411,219	(2,316)	(1,101)	407,827
Comprehensive income:							
Net income				8,734			8,734
Unrealized loss on securities available- for-sale, net of tax benefit of \$5,356					(7,720)		(7,720)
Comprehensive income							1,014

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Sale of 53,175,907 shares of common stock in the initial public offering and issuance of 63,099,781 shares to the mutual holding company	532	524,642					525,174
Purchase of common stock by the ESOP			(42,541)				(42,541)
Allocation of ESOP stock		84	1,418				1,502
Balance at March 31, 2006	\$ 532	524,751	(41,123)	419,953	(10,036)	(1,101)	892,976

See accompanying notes to consolidated financial statements.

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

	For the Nine Months Ended March 31,	
	2006	2005
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ 8,734	(10,141)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Contribution of stock to charitable foundation	15,488	
Allocation of ESOP shares	1,502	
Amortization of premiums and accretion of discounts on securities, net	888	10,160
Amortization of premium on deposit acquisition		1,102
Provision for loan losses	400	400
Depreciation and amortization of office properties and equipment	2,199	2,279
Loss on securities transactions, net		9,750
Loss on early extinguishment of debt		43,616
Mortgage loans originated for sale	(21,323)	(44,923)
Proceeds from mortgage loan sales	22,360	42,862
Gain on sales of mortgage loans, net	(232)	(382)
Proceed from sales of other real estate owned	5	166
Net gain on sales of other real estate owned	(5)	(12)
Death benefits on bank owned life insurance contract		(2,732)
Increase in bank owned life insurance contract	(1,776)	(1,601)
(Increase) decrease in accrued interest	(2,887)	4,018
Deferred tax benefit	(2,280)	(2,201)
Decrease (increase) in other assets	467	(3,264)
Decrease in other liabilities	(3,393)	(21,281)
 Total adjustments	 11,413	 37,957
 Net cash provided by operating activities	 20,147	 27,816
 Cash flows from investing activities:		
Net increase in loans receivable	(623,321)	(558,743)
Purchases of mortgage-backed securities held-to-maturity	(39,458)	(260,782)
Purchases of debt securities held-to-maturity	(344,484)	(17,000)
Purchases of mortgage-backed securities available-for-sale		(62,175)
Proceeds from paydowns/maturities on mortgage-backed securities held-to-maturity	373,839	515,154
Proceeds from calls/maturities on debt securities held-to-maturity	225,397	25,328
Proceeds from paydowns/maturities on mortgage-backed securities available-for-sale	101,666	204,539
Proceeds from sales of mortgage-backed securities held-to-maturity		46,942
Proceeds from sales of mortgage-backed securities available-for-sale		470,828
Proceeds from sale of equity securities available-for-sale		20,729

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Proceeds from redemptions of Federal Home Loan Bank stock	62,807	74,776
Purchases of Federal Home Loan Bank stock	(57,953)	(47,500)
Purchases of office properties and equipment	(927)	(5,980)
Proceeds from death benefits on bank owned life insurance contract		3,291
Net cash (used in) provided by investing activities	(302,434)	409,407
Cash flows from financing activities:		
Net increase in deposits	50,795	6,502
Net proceeds from sale of common stock	509,686	
Loan to ESOP	(42,541)	
Net increase in funds borrowed under short-term repurchase agreements	250,000	55,000
Proceeds from funds borrowed under other repurchase agreements		420,000
Repayments of funds borrowed under other repurchase agreements	(515,000)	(947,616)
(Repayments of) proceeds from Federal Home Loan Bank advances	(29,522)	18,478
Net increase in advance payments by borrowers for taxes and insurance	2,079	2,004
Net cash provided by (used in) financing activities	225,497	(445,632)
Net decrease in cash and cash equivalents	(56,790)	(8,409)
Cash and cash equivalents at beginning of period	81,329	37,653
Cash and cash equivalents at end of period	\$ 24,539	29,244
Supplemental cash flow information:		
Noncash investing activities:		
Real estate acquired through foreclosure	\$	123
Cash paid during the period for:		
Interest	104,437	96,514
Income taxes	5,022	15,700
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 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 and nine-month periods ended March 31, 2006 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 Company's audited consolidated financial statements and notes to consolidated financial statements included in Company's June 30, 2005 Special Financial Report on Form 10-K.

2. Stock Offering

The Company completed its initial public stock offering on October 11, 2005. 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 Company contributed \$5,163,000 in cash and issued 1,548,813 shares of its 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 recorded in the quarter ended December 31, 2005. Net proceeds from the initial offering were \$509.7 million. Investors Bancorp, Inc. contributed \$255.0 million of the net proceeds to Investors Savings Bank. Stock subscription proceeds of \$557.9 million were returned to subscribers.

3. Recent Accounting Pronouncements

Financial Accounting Standards Board (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 (SFAS) 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 application of the FSP did not have a material impact on our financial condition or results of operations.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments-an amendment of FASB statements No. 133 and 140. This statement permits fair value remeasurement of certain hybrid financial instruments, clarifies the scope of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities regarding interest-only and principal-only strips, and provides further guidance on certain issues regarding beneficial interests in securitized financial assets, concentrations of credit risk and qualifying special purpose entities. SFAS No. 155 is effective as of the beginning of the fiscal year that begins after September 15, 2006. The application of SFAS No. 155 is not expected to have an impact on our financial condition or results of operations.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets-an amendment of FASB Statement No. 140. This statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset, and that the servicing assets and servicing liabilities be initially measured at fair value. The statement also permits an entity to choose a subsequent measurement method for each class of s