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Urban Edge Properties
Form DEF 14A
March 26, 2019

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

SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant Filed by a Party other than the Registrant
Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

URBAN EDGE PROPERTIES

(Exact name of Registrant as specified in its charter)

(Name of Person(s) Filing Proxy Statement, if Other Than The Registrant)

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(1) Title of each class of securities to which transaction applies:

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(3) Filing Party:

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March 26, 2019

Dear Shareholder:

The Board of Trustees and officers of Urban Edge Properties join me in extending to you a cordial invitation to attend the 2019 annual meeting of our shareholders. This meeting will be held on Wednesday, May 8, 2019, at 9:00 a.m. Eastern Time, at the offices of Goodwin Procter LLP, The New York Times Building, 620 Eighth Avenue, New York, NY 10018.

As permitted by the rules of the Securities and Exchange Commission, we have provided access to our proxy materials over the Internet. Accordingly, we are sending a Notice of Internet Availability of Proxy Materials, or E-proxy notice, to our shareholders of record as of the close of business on March 11, 2019. The E-proxy notice contains instructions for your use of this process, including how to access our proxy statement and annual report and how to authorize your proxy to vote online. In addition, the E-proxy notice contains instructions on how you may receive a paper copy of the proxy statement and annual report or elect to receive your proxy statement and annual report over the Internet.

If you are unable to attend the annual meeting in person, it is very important that your shares be represented and voted at the meeting. You may authorize your proxy to vote your shares over the Internet as described in the E-proxy notice. Alternatively, if you received a paper copy of the proxy card by mail, please complete, date, sign and promptly return the proxy card in the self-addressed stamped envelope provided. You may also authorize your proxy to vote your shares by telephone as described in your proxy card. If you authorize your proxy to vote your shares over the Internet, return your proxy card by mail or vote by telephone prior to the annual meeting, you may nevertheless revoke your proxy and cast your vote personally at the meeting.

We look forward to seeing you on May 8, 2019.

Sincerely,

Jeffrey S. Olson
Chairman of the Board and Chief Executive Officer

Urban Edge Properties
888 Seventh Avenue
New York, New York 10019

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 8, 2019

To Our Shareholders:

You are cordially invited to attend the Annual Meeting of Shareholders (the “Annual Meeting”) of Urban Edge Properties (“we”, the “Company” or “UE”), to be held on Wednesday, May 8, 2019, at 9:00 a.m. Eastern Time, at the offices of Goodwin Procter LLP, The New York Times Building, 620 Eighth Avenue, New York, NY 10018, for the following purposes:

1. To elect the seven trustees named in the Proxy Statement, each to serve until our annual meeting of shareholders held in 2020 and until their successors are duly elected and qualify;
2. To consider and vote on a proposal to ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2019;
3. To consider and vote, on a non-binding advisory basis, on a resolution to approve the compensation of our named executive officers as described in the Proxy Statement; and
4. To transact such other business as may properly come before the Annual Meeting, including any adjournments or postponements thereof.

We are furnishing proxy materials to you electronically, via the Internet, instead of mailing printed copies of those materials to each shareholder. We believe that this process expedites receipt of our proxy materials by shareholders, while lowering the costs and reducing the environmental impact of our Annual Meeting. We have provided a Notice of Internet Availability of Proxy Materials (the “Notice”) to our shareholders of record on March 11, 2019. The Notice contains instructions on how to access our Proxy Statement and annual report over the Internet and how to vote online. The Notice also includes instructions on how you can request and receive a paper copy of the Proxy Statement and annual report for this Annual Meeting and future meetings of shareholders.

The Board of Trustees has fixed the close of business on March 11, 2019 as the record date for determining the shareholders entitled to notice of and to vote at our Annual Meeting. Only holders of record of our common shares of beneficial interest, par value \$.01 per share (the “Common Shares”), as of the close of business on March 11, 2019 are entitled to notice of and to vote at the Annual Meeting and at any adjournment or postponement thereof.

The Board of Trustees appreciates and encourages your participation in the Annual Meeting. Whether or not you plan to attend the Annual Meeting, it is important that your shares be represented. You may authorize your proxy to vote your shares over the Internet as described in the Notice. Alternatively, if you requested and received a paper copy of the proxy card by mail, please complete, date, sign and promptly return the proxy card in the self-addressed stamped envelope provided. You also may vote by telephone as described in your proxy card. If you vote your shares over the Internet, by mail or by telephone prior to the Annual Meeting, you may nevertheless revoke your proxy and cast your vote personally at the meeting, as described in the Proxy Statement. If you intend to attend the meeting in person, you must bring with you appropriate identification, as further described in the Proxy Statement.

By Order
of the
Board of
Trustees,

ROBERT
C.

MILTON
III

EXECUTIVE
VICE
PRESIDENT,
GENERAL
COUNSEL
AND
SECRETARY

New York, New York
March 26, 2019

TABLE OF CONTENTS

	Page
QUESTIONS AND ANSWERS	<u>1</u>
PROPOSAL 1 ELECTION OF TRUSTEES	<u>5</u>
Nominees for Election to Term Expiring 2020	<u>6</u>
CORPORATE GOVERNANCE AND RELATED MATTERS	<u>9</u>
Board Leadership Structure	<u>9</u>
Trustee Independence	<u>9</u>
Lead Trustee	<u>10</u>
Corporate Governance Guidelines	<u>10</u>
Board Committees	<u>10</u>
Role of the Board and its Committees in Risk Oversight	<u>11</u>
Compensation Committee Interlocks and Insider Participation	<u>12</u>
Board and Committee Meetings	<u>12</u>
Nomination of Trustees	<u>12</u>
Governance Enhancement Adopted Regarding Bylaws	<u>13</u>
Availability of Corporate Governance Materials	<u>13</u>
Communication with the Board of Trustees	<u>13</u>
COMPENSATION OF TRUSTEES	<u>14</u>
Stock Ownership Guidelines	<u>15</u>
EXECUTIVE OFFICERS	<u>16</u>
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	<u>17</u>
SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE	<u>18</u>
PROPOSAL 2 RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	<u>19</u>
RELATIONSHIP WITH INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	<u>19</u>
AUDIT COMMITTEE REPORT	<u>21</u>
EXECUTIVE OFFICER COMPENSATION	<u>22</u>
Compensation Discussion and Analysis	<u>22</u>
2018 Summary Compensation Table	<u>34</u>
All Other Compensation Table	<u>35</u>
Grants of Plan-Based Awards in 2018	<u>36</u>
Shares or Units Vested in 2018	<u>37</u>
2018 Outstanding Equity Awards at Fiscal Year End	<u>38</u>
Employment Agreements and Potential Payments Upon Termination of Employment or a Corporate Transaction/Change in Control	<u>40</u>
Employee Retirement Plan	<u>47</u>
Deferred Compensation	<u>48</u>
Pay Ratio Disclosure	<u>48</u>

COMPENSATION COMMITTEE REPORT	<u>49</u>
PROPOSAL 3 ADVISORY VOTE ON NAMED EXECUTIVE OFFICER COMPENSATION	<u>50</u>
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	<u>51</u>
OTHER BUSINESS	<u>53</u>
NON-GAAP FINANCIAL MEASURES	<u>54</u>
FINANCIAL STATEMENTS	<u>57</u>
SHAREHOLDER PROPOSALS FOR THE 2020 ANNUAL MEETING	<u>57</u>

Urban Edge Properties
888 Seventh Avenue
New York, New York 10019

PROXY STATEMENT

QUESTIONS AND ANSWERS

Why did I receive a Notice of Internet Availability of Proxy Materials?

As permitted by the rules of the Securities and Exchange Commission (the “SEC”), we are making this Proxy Statement and our annual report available to our shareholders electronically via the Internet. We provided a Notice of Internet Availability of Proxy Materials (the “Notice”) to our shareholders of record on March 11, 2019. If you received the Notice electronically, you will not receive a printed copy of the proxy materials in the mail. If you would like to receive a printed copy of our proxy materials, please follow the instructions for requesting printed materials contained in the Notice.

Urban Edge Properties (“we”, the “Company” or “UE”) has furnished this Proxy Statement to you in connection with the solicitation of proxies by our Board of Trustees (“Board”) for use at the 2019 Annual Meeting to be held at the offices of Goodwin Procter LLP, The New York Times Building, 620 Eighth Avenue, New York, NY 10018, on Wednesday, May 8, 2019, at 9:00 a.m. Eastern Time. The Notice and this Proxy Statement provide the information you need to know to vote by proxy or in person at the Annual Meeting. We are first sending this Proxy Statement and the accompanying materials to shareholders on or about March 26, 2019.

What items will be voted on at the Annual Meeting?

Shareholders will vote on the following items at the Annual Meeting:

• Proposal 1: the election of the seven trustees named in this Proxy Statement, each to serve until our annual meeting of shareholders held in 2020 and until their successors are duly elected and qualify;

• Proposal 2: the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the year ending December 31, 2019; and

• Proposal 3: the approval, on a non-binding advisory basis, of the compensation of our named executive officers as described in this Proxy Statement.

In addition, shareholders will vote on such other business as may properly come before the Annual Meeting, including any adjournments or postponements thereof.

What is the Board’s voting recommendation for each item to be considered at the Annual Meeting?

The Board recommends that you vote your shares as follows:

• Proposal 1: “FOR” the election of the seven trustee nominees named in this Proxy Statement;

• Proposal 2: “FOR” the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2019; and

• Proposal 3: “FOR” the approval, on a non-binding, advisory basis, of the compensation of our named executive officers as described in this Proxy Statement.

What vote is required to approve the proposals?

Once a quorum is present, the following vote is required to approve each proposal:

Proposals 1, 2 and 3: The election of a trustee nominee, the ratification of the appointment of Deloitte & Touche LLP and the non-binding advisory approval of the compensation of our named executive officers must each be approved by a majority of the votes cast on the proposal.

Other Items: A majority of the votes cast will be sufficient to approve any other matter which may properly come before the Annual Meeting. The Board does not currently know of any other matters that may properly be brought before the Annual Meeting.

What is the quorum for the meeting?

The presence in person or by proxy of shareholders entitled to cast a majority of all the votes entitled to be cast at the Annual Meeting will constitute a quorum to transact business at the Annual Meeting. Your shares will be counted for purposes of determining if there is a quorum, whether representing votes for, against or abstained, if you:

• Are present and vote in person at the Annual Meeting; or

• Have authorized a proxy on the Internet, by telephone or by properly submitting a proxy card or vote instruction form by mail.

If a quorum is not present at the Annual Meeting, the chairman of the meeting may adjourn the Annual Meeting sine die or from time to time to a date not more than 120 days after the original record date of March 11, 2019 without notice other than announcement at the meeting.

Who is entitled to attend and vote at the Annual Meeting?

All shareholders of record as of the close of business on March 11, 2019, the record date for the Annual Meeting, are entitled to attend and vote at the Annual Meeting. You may authorize a proxy to vote your shares without attending the Annual Meeting. You are entitled to cast one vote for each whole common share of beneficial interest, par value \$.01 per share (a "Common Share"), you held of record as of the record date. As of the record date, there were 120,099,668 shares of our Common Shares issued and outstanding.

Attendance at the Annual Meeting is limited to shareholders. In order to attend the Annual Meeting in person, each shareholder will be required to present valid U.S. federal or state government issued picture identification, such as a driver's license or passport, to confirm share ownership as of the record date. Beneficial owners will also be required to present proof of beneficial ownership, such as a vote instruction form or brokerage statement, to be admitted to the meeting. The use of cell phones, smartphones, pagers, recording and photographic equipment and/or computers is not permitted in the meeting room at the Annual Meeting.

Directions to attend the Annual Meeting and vote in person are available at our website at www.uedge.com.

What is the difference between a shareholder of record and a beneficial owner?

If your shares are registered directly in your name with our transfer agent, American Stock Transfer & Trust Company, LLC ("AST"), you are considered the shareholder of record with respect to those shares, and the Notice, and if requested, the proxy materials, were sent directly to you by AST.

If your shares are held in an account at a brokerage firm, bank, broker-dealer, or other similar organization, then you are the beneficial owner of shares held in "street name," and the Notice, and if requested, the proxy materials, will be forwarded to you by that organization. The organization holding your account is considered the shareholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to instruct that organization on how to vote the shares held in your account. Those instructions are contained in a "vote instruction form" provided to you by the organization that holds your shares.

If I am a shareholder of record, how do I vote?

Whether or not you plan to attend the Annual Meeting, we urge you to authorize your proxy to vote your shares. As described in the Notice, there are four ways to vote:

• Via the Internet. You may authorize a proxy via the Internet by visiting www.proxyvote.com and entering the control number found on the Notice.

• By Telephone. If you received your proxy materials by mail, you may authorize a proxy by calling the toll free number found on the proxy card.

• By Mail. If you received your proxy materials by mail, you may authorize a proxy by filling out the proxy card and sending it back in the envelope provided.

• In Person. You may vote in person at the Annual Meeting. We will give you a ballot when you arrive at the Annual Meeting.

Telephone and internet authorization methods for shareholders of record will be available until 11:59 p.m. (Eastern Time) on May 7, 2019. If you vote by mail, you must ensure proper completion and receipt of the proxy no later than May 7, 2019.

If I am a beneficial owner of shares held in street name, how do I vote?

If you own shares held by a broker, you may instruct your broker to vote your shares in the manner that you direct by following the instructions that the broker provides to you. If you are the beneficial owner of shares held in street name and you wish to vote in person at the Annual Meeting, you must obtain a legal proxy from the organization that holds your shares prior to the Annual Meeting. Please contact that organization for instructions on how to obtain a legal proxy.

Can I change or revoke my proxy?

Yes. If you are a shareholder of record, you may revoke your proxy at any time prior to its exercise by filing with our Secretary a duly executed revocation of proxy, by properly submitting, either by Internet, mail or telephone, a proxy bearing a later date or by appearing at the meeting and voting in person. Attendance at the meeting will not by itself constitute revocation of a proxy. If you are the beneficial owner of shares held in street name, you must contact the organization that holds your shares to receive instructions as to how you may revoke your voting instructions.

How are proxies voted?

Proxies properly submitted via the Internet, mail or telephone will be voted at the Annual Meeting in accordance with your directions. If your properly-submitted proxy does not provide voting instructions on a proposal, then the proxy holders will vote your shares (i) in the manner recommended by the Board on all matters presented in this Proxy Statement and (ii) as the proxy holders may determine in their discretion with respect to any other matters properly presented for a vote at the Annual Meeting. Mark J. Langer, Robert C. Milton III and Alexandra Ferrone have been designated as proxy holders for the Annual Meeting.

How are abstentions and broker non-votes treated?

If you are a beneficial owner whose shares are held of record by a brokerage firm, bank, broker-deal, or other similar organization, you must instruct the broker how to vote your shares. A "broker non-vote" occurs when a bank, broker or other holder of record holding shares for a beneficial owner does not vote on a particular proposal because that holder does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner. Your brokerage firm, bank, broker-dealer, or other similar organization will have discretion to vote on Proposal 2 (ratification of auditors) without any instructions from you, but such organization will not have the ability to vote your uninstructed shares on Proposal 1 (election of directors) or Proposal 3 (vote to approve by non-binding advisory resolution the named executive officer compensation) on a discretionary basis. Accordingly, if you hold your shares in "street name" and you do not instruct your brokerage firm, bank, broker-deal, or other similar organization how to vote on these proposals, such organization cannot vote these shares and will report them as "broker non-votes," meaning that no votes will be cast on your behalf for Proposals 1 and 3.

You may choose to abstain or refrain from voting your shares on one or more issues presented for a vote at the Annual Meeting. However, both abstentions and broker non-votes are counted as present for purposes of determining the presence of a quorum. Abstentions and broker non-votes are not considered votes cast and therefore will not affect the outcome of the vote on any of the proposals.

Who has paid for this proxy solicitation?

We have paid the entire expense of preparing, printing and mailing the Notice and, to the extent requested by our shareholders, the proxy materials and any additional materials furnished to shareholders. We have requested banks, brokers or other nominees and fiduciaries to forward the proxy materials to beneficial owners of our Common Shares and to obtain authorization for the execution of proxies. We will reimburse such parties for their reasonable expenses in forwarding proxy materials to beneficial owners upon request.

Proxies may be solicited by our trustees, officers or employees personally or by telephone without additional compensation for such activities. No arrangements or contracts have been made with any solicitors as of the date of this Proxy Statement, although we reserve the right to engage solicitors if we deem them necessary. Such solicitations may be made by mail, telephone, facsimile, e-mail or personal interviews.

Where can I find additional information?

Our website is located at www.uedge.com. Although the information contained on or connected to our website is not part of this Proxy Statement, you can view additional information on the website, such as the charters of our Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee, our Corporate Governance Guidelines, our Code of Business Conduct and Ethics, and reports that we file with the SEC. Copies of these documents may be obtained free of charge by writing to Urban Edge Properties, 888 Seventh Avenue, New York, New York 10019, Attention: Robert C. Milton III, Executive Vice President, General Counsel and Secretary.

4

PROPOSAL 1

ELECTION OF TRUSTEES

Our Board of Trustees (“Board”) currently consists of seven trustees (“Trustees”). Each Trustee is elected annually for a term of one year and hold office until the next succeeding annual meeting and until a successor is duly elected and qualifies. Under our Bylaws, at a shareholder meeting to elect Trustees, a majority of the votes cast with respect to a nominee's election is sufficient to elect a Trustee (as long as a quorum is present), unless the election is contested, in which case a plurality of all votes cast will be sufficient.

In evaluating the suitability of individual Board members, our Corporate Governance and Nominating Committee takes into account many factors such as general understanding of various business disciplines (e.g., marketing or finance), understanding of the Company’s business environment, educational and professional background, judgment, integrity, ability to make independent analytical inquiries and willingness to devote adequate time to Board duties. The Board evaluates each individual in the context of the Board as a whole with the objective of retaining a group with diverse and relevant experience that can best perpetuate the Company’s success and represent shareholder interests through sound judgment.

The following table sets forth the name, age, starting year and position for each of our current Trustees as of March 11, 2019.

Name	Age	Trustee Since	Position
Jeffrey S. Olson	51	2014	Trustee (Chairman) and Chief Executive Officer
Michael A. Gould	76	2015	Trustee (Lead Trustee)
Steven H. Grapstein	61	2015	Trustee
Steven J. Guttman	72	2015	Trustee
Amy B. Lane	66	2015	Trustee
Kevin P. O'Shea	53	2014	Trustee
Steven Roth	77	2015	Trustee

Nominees for Election to Term Expiring 2020

Jeffrey S. Olson, Michael A. Gould, Steven H. Grapstein, Steven J. Guttman, Amy B. Lane, Kevin P. O'Shea and Steven Roth have been nominated to serve on the Board until our 2020 annual meeting of shareholders and until their respective successors are elected and qualify. The Board has no reason to believe that Messrs. Olson, Gould, Grapstein, Guttman, O'Shea or Roth or Mdme. Lane will be unable, or will decline, to serve if elected. Trustees will be elected by a majority of the votes cast in the election of Trustees.

The biographical descriptions below set forth certain information with respect to each nominee for election as a Trustee at the Annual Meeting. The Board has identified specific attributes of each nominee that the Board has determined qualify that person for service on the Board.

Jeffrey S. Olson Chairman and Chief Executive Officer	Jeffrey S. Olson has served as our Chairman and Chief Executive Officer since December 29, 2014 and has served as a Trustee since December 19, 2014.	\$ 7,608,786	8,258,392	23,220,232	25,448,767	
Other loans		2,865,066		1,744,170	7,311,046	4,729,418
Mortgage-backed securities available-for-sale		98,318		107,310	301,435	415,612
Investment securities available-for-sale and interest bearing deposits with financial institutions		1,266,227		1,202,610	3,685,013	3,717,910
Total interest income		11,838,397		11,312,482	34,517,726	34,311,707
Interest expense:						
Deposits		3,391,593		3,017,886	9,433,012	9,238,516
Borrowed money	Mr. Olson served as chief executive officer and a member of the board of directors of Equity One, Inc. from 2006 until September 1, 2014, at which time Mr. Olson joined Vornado Realty Trust ("Vornado") in order to work on the separation of the Company from Vornado. From 2006-2008, Mr. Olson	2,612,469		2,372,350	7,370,052	6,950,759

also served as
the president
of Equity One.

Prior to
joining Equity
One, he
served as
president of
the Eastern
and Western
Regions of
Kimco Realty
Corporation
from 2002 to
2006.

Mr. Olson has
a M.S. in Real
Estate from
The Johns
Hopkins
University, a
B.S. in
Accounting
from the
University of
Maryland and
was
previously a
Certified
Public
Accountant.

Mr. Olson's
qualifications
to serve on
our Board
include his
role as our
Chief
Executive
Officer, his
experience as
chief
executive
officer and a
board member
of Equity One
and general
expertise in
real estate
operations as

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well as his knowledge of the REIT industry developed as an analyst covering many U.S. REITs. Mr. Olson currently serves as an Executive Board Member of the National Association of Real Estate Investment Trusts ("NAREIT").

Total interest expense	6,004,062	5,390,236	16,803,064	16,189,275
Net interest income before provision for loan losses	5,834,335	5,922,246	17,714,662	18,122,432
Provision for loan losses	210,000	140,000	550,000	463,250
Net interest income after provision for loan losses	5,624,335	5,782,246	17,164,662	17,659,182
Noninterest income:				
Service fees	795,295	572,810	2,080,527	1,555,618
Insurance and brokerage commissions	151,396	136,292	493,325	250,322
Information technology sales and service income, net	75,519	146,628	311,048	642,882
Gain on sale of foreclosed real estate				41,315
Gain on sale of office properties and equipment			149,396	
Gain on sale of securities		290,385	249,418	816,454
Gain on sale of loans	16,348		277,972	156,223
Bank owned life insurance	207,735	234,543	654,061	600,675
Other	43,944	102,626	151,449	175,855
Total noninterest income	1,290,237	1,483,284	4,367,196	4,239,344
Noninterest expense:				
Compensation and benefits	2,713,958	2,740,615	8,336,106	8,062,139
Office building, net	747,492	683,434	2,140,727	2,058,996
Federal insurance premiums	23,125	21,669	68,528	66,055
Advertising	250,712	160,877	761,724	594,003
Data processing	285,555	220,938	860,877	704,934
NOW/checking account expenses	189,290	177,093	460,247	432,866
Other	1,125,105	561,355	2,444,359	1,852,196
Total noninterest expense	5,335,237	4,565,981	15,072,568	13,771,189

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Income before income taxes and minority interest		1,579,335	2,699,549	6,459,290	8,127,337
Income tax expense		350,856	889,286	1,728,192	2,766,221
Income before minority interest		1,228,479	1,810,263	4,731,098	5,361,116
Minority interest		(10,103)	10,615		81,265
Net income	\$	1,218,376	1,820,878	4,731,098	5,442,381
Earnings per share:					
Basic	\$	0.28	0.43	1.10	1.29
Diluted		0.27	0.41	1.04	1.22

See accompanying notes to consolidated financial statements.

EFC BANCORP, INC.**AND SUBSIDIARIES**

Consolidated Statements of Cash Flows (unaudited)

For the nine months ended September 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Net income	\$ 4,731,098	5,442,381
Adjustment to reconcile net income to net cash provided by operating activities:		
Amortization of premiums and discounts, net	79,945	75,318
Provision for loan losses	550,000	463,250
FHLB of Chicago stock dividends	(888,500)	(568,000)
Stock award plan shares allocated	25,031	381,843
ESOP shares committed to be released	448,064	448,064
Change in fair value of ESOP shares	639,191	132,887
Depreciation of office properties and equipment	933,366	855,482
Gain on sale of foreclosed real estate		(41,315)
Gain on sale of securities	(249,418)	(816,454)
Gain on sale of loans receivable	(277,972)	(156,223)
Change in minority interest in subsidiary	158,666	(81,265)
Increase in bank owned life insurance	(555,823)	(534,210)
Decrease in accrued interest receivable and other assets, net	1,837,399	40,294
Increase in income taxes payable, accrued expenses and other liabilities, net	816,962	1,510,496
Net cash provided by operating activities	8,248,009	7,152,548
Cash flows from investing activities:		
Net increase in loans receivable	(47,907,447)	(32,964,799)
Purchases of loans receivable	(70,023,873)	(83,263,883)
Proceeds from the sale of loans receivable	40,528,222	12,894,951
Increase in real estate held for development	(731,059)	(823,830)
Purchases of mortgage-backed securities available-for-sale	(4,035,625)	(2,549,222)
Principal payments on mortgage-backed securities available-for-sale	3,231,485	5,738,497
Maturities of investment securities available-for-sale	23,331,922	25,465,274
Purchases of investment securities available-for-sale	(32,276,933)	(42,909,565)
Proceeds from the sale of investment securities	3,747,338	15,349,744
Purchases of office properties and equipment	(6,993,235)	(1,334,060)
Investment in bank owned life insurance	(425,000)	(5,000,000)
Purchases of stock in the Federal Home Loan Bank of Chicago		(760,200)
Proceeds from the sale of foreclosed real estate		2,027,057
Net cash used in investing activities	(91,554,205)	(108,130,036)
Cash flows from financing activities:		
Net increase in deposits	75,896,317	65,965,874
Proceeds from borrowed money	119,000,785	91,070,325
Repayments on borrowed money	(98,789,536)	(61,051,470)
Purchase of treasury stock	(268,963)	(2,514,270)
Stock options exercised	1,126,375	545,178

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Cash dividends paid	(1,910,044)	(1,761,869)
Net cash provided by financing activities	95,054,934	92,253,768
Net increase/(decrease) in cash and cash equivalents	11,748,738	(8,723,720)
Cash and cash equivalents at beginning of period	21,875,988	32,844,290
Cash and cash equivalents at end of period	\$ 33,624,726	24,120,570
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 16,680,058	16,241,964
Income taxes	2,005,000	2,340,000
Noncash investing activities - transfer of loans to foreclosed real estate		39,190

See accompanying notes to consolidated financial statements.

EFC BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements

Note 1: BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of EFC Bancorp, Inc. (the Company), its wholly-owned subsidiary, EFS Bank (the Bank) and its wholly-owned subsidiary, EFS Service Corporation of Elgin. The accompanying unaudited consolidated financial statements also include the accounts of Computer Dynamics Group, Inc. (CDGI), the Company's formerly majority-owned subsidiary. The Company was informed in October 2004 of the bankruptcy filing of its minority partner in CDGI. Upon notification of the bankruptcy, as of September 30, 2004, the Company recorded its investment in CDGI as a wholly-owned subsidiary. Certain amounts for the prior period have been reclassified to conform to the current period presentation. The Company operates as a single segment.

In the opinion of the management of the Company, the accompanying consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of the financial position and results of operations for the periods presented. All significant intercompany transactions have been eliminated in consolidation. These interim financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission and therefore certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. generally accepted accounting principles have been condensed or omitted. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. It is suggested that the accompanying unaudited consolidated financial statements be read in conjunction with the Company's 2003 Annual Report on Form 10-K. Currently, other than investing in various securities, the Company does not directly transact any material business other than through the Bank. Accordingly, the discussion herein addresses the operations of the Company as they are conducted through the Bank.

Note 2: COMPREHENSIVE INCOME

The Company's comprehensive income for the three and nine month periods ended September 30, 2004 and 2003 are as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2004	2003	2004	2003
Net income	\$ 1,218,376	1,820,878	\$ 4,731,098	5,442,381
Other comprehensive income, net of tax:				
Unrealized holding gains/(losses) on securities arising during the period, net of tax effect	2,123,059	(1,577,044)	37,896	(851,953)
Reclassification adjustment for net gain on sales of securities realized in net income, net of tax		(182,943)	(157,133)	(514,366)
Comprehensive income	\$ 3,341,435	60,891	4,611,861	4,076,062

There were no sales of securities for the three months ended September 30, 2004. For the nine month period ended September 30, 2004 the sale of securities resulted in a gain of \$249,418 (\$157,133 net of tax effect). For the three and nine month periods ended September 30, 2003 the sale of securities resulted in gains of \$290,385 and \$816,454, respectively (\$182,943 and \$514,366 net of tax effect).

Note 3: COMPUTATION OF PER SHARE EARNINGS

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding adjusted for the dilutive effect of outstanding stock options. ESOP shares are only considered outstanding for earnings per share calculations when they are released or committed to be released.

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Presented below are the calculations for the basic and diluted earnings per share:

	Three months ended			Nine months ended	
	September 30,			September 30,	
	2004	2003		2004	2003
Basic:					
Net income	\$ 1,218,376	1,820,878		4,731,098	5,442,381
Weighted average shares outstanding	4,340,546	4,205,803		4,287,395	4,213,292
Basic earnings per share	\$ 0.28	0.43		1.10	1.29
Diluted:					
Net income	\$ 1,218,376	1,820,878		4,731,098	5,442,381
Weighted average shares outstanding	4,340,546	4,205,803		4,287,395	4,213,292
Effect of dilutive stock options outstanding	247,455	243,877		252,164	234,472
Diluted weighted average shares outstanding	4,588,001	4,449,680		4,539,559	4,447,764
Diluted earnings per share	\$ 0.27	0.41		1.04	1.22

Note 4: STOCK OPTION PLANS

The Company accounts for stock-based compensation plans under APB Opinion No. 25. For the stock option program, no compensation cost is recognized in connection with the granting of stock options with an exercise price equal to the fair market value of the stock on the date of the grant. For the stock award plan, the Company uses the fixed method of accounting and records compensation expense, over the vesting period of the grant, based upon the fair market value of the stock at the date of grant. In accordance with the disclosure requirements of SFAS No. 123, as amended by SFAS No. 148, the following table provides the pro forma effect on net income and earnings per share if the fair value method of accounting for stock-based compensation had been used for all awards:

	For the Three Months Ended			For the Nine Months Ended	
	September 30,			September 30,	
	2004	2003		2004	2003
Net income as reported	\$ 1,218,376	1,820,878		4,731,098	5,442,381
Add: Stock-based compensation, net of tax, included in the determination of net income, as reported	8,344	127,281		25,032	381,843
Deduct: Stock-based compensation, net of tax, that would have been reported if the fair value based method had been applied to all awards	(27,831)	(245,185)		(80,394)	(732,202)
Pro forma net income	\$ 1,198,889	1,702,974		4,675,736	5,092,022
Basic earnings per share					
As reported	\$ 0.28	0.43		1.10	1.29
Pro forma	0.28	0.40		1.09	1.21
Diluted earnings per share					

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As reported	\$	0.27	0.41	1.04	1.22
Pro forma		0.26	0.38	1.03	1.14

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

Set forth below are highlights and significant items for the third quarter of 2004:

A \$424,000 non-recurring charge was recorded related to Computer Dynamics Group, Inc., the Company's majority-owned subsidiary;

The Bank continues to experience margin compression as a result of the recent interest rate environment, which management continues to monitor;

Diluted earnings per share were \$0.27 for the quarter and \$0.41 for the comparable prior year period;

Net income was \$1.2 million for the quarter and \$1.8 million for the comparable prior year period;

Return on average equity was 5.99% for the quarter and 9.45% for the comparable prior year period;

The quarterly dividend was increased to \$0.1550 per share from \$0.1525 for the second quarter of 2004.

The following analysis discusses changes in the financial condition at September 30, 2004 and results of operations for the three and nine months ended September 30, 2004, and should be read in conjunction with the Company's Unaudited Consolidated Financial Statements and the notes thereto, appearing in Part I, Item 1 of this document.

Critical Accounting Policy

The allowance for loan and lease losses is considered by management to be a critical accounting policy. The allowance for loan losses is maintained through provisions for loan losses based on management's on-going evaluation of the risks in its loan portfolio in consideration of the trends in its loan portfolio, the national and regional economies and the real estate market in the Bank's primary lending area. The allowance for loan losses is maintained at an amount management considers adequate to cover probable losses in its portfolio, based on information currently known to management. The Bank's loan loss allowance determination also incorporates factors and analyses which consider the probable principal loss associated with the loans, costs of acquiring the property and securing the loan through foreclosure or deed in lieu of foreclosure. While management estimates loan losses using the best available information, no assurance can be given that future additions to the allowance will not be necessary based on changes in economic and real estate market conditions, further information obtained regarding problem loans, identification of additional problem loans and other factors, both within and outside of management's control.

Forward-Looking Statements

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities

Litigation Reform Act of 1995, and is including this statement for purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company, are generally identified by use of the words believe, expect, intend, anticipate, estimate, project, or similar expressions. The Company's ability to predict results or the actual future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and its subsidiaries include, but are not limited to, changes in: interest rates, general economic conditions, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company's market area and accounting principles and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Further information concerning the Company and its business, including additional factors that could materially affect the Company's financial results, is included in the Company's filings with the SEC, including its 2003 Annual Report on Form 10-K.

The Company does not undertake - and specifically disclaims 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.

Comparison of Financial Condition at September 30, 2004 and December 31, 2003

Total assets at September 30, 2004 were \$999.0 million, which represented an increase of \$101.9 million, or 11.4%, compared to \$897.1 million at December 31, 2003. The increase in total assets was primarily a result of an increase in net loans receivable of \$77.1 million, or 10.8%, to \$794.0 million at September 30, 2004 from \$716.9 million at December 31, 2003. Of this increase, \$69.3 million, or 89.9%, was directly related to commercial loans, which totaled \$183.6 million at September 30, 2004. Commercial loans totaled \$114.3 million at December 31, 2003. This growth is consistent with management's long-term strategy for the Bank, which includes branch expansion and competitive pricing of deposit accounts in its local market area. In addition, cash and cash equivalents increased \$11.7 million, or 53.7%, to \$33.6 million at September 30, 2004 from \$21.9 million at December 31, 2003, investment securities increased \$5.5 million, or 6.1%, to \$96.2 million at September 30, 2004 from \$90.7 million at December 31, 2003 and office properties and equipment increased \$6.0 million, or 34.3%, to \$23.7 million at September 30, 2004 from \$17.7 million at December 31, 2003, which is primarily due to the Company's continued branch expansion efforts. The most recent branch was opened in September 2004. These increases were partially offset by a decrease in other assets of \$2.2 million, or 78.1%, to \$609,000 at September 30, 2004 from \$2.8 million at December 31, 2003. The loan growth was funded by increases in deposits and borrowed money. Deposits increased \$75.9 million, or 12.7%, to \$672.7 million at September 30, 2004 from \$596.8 million at December 31, 2003. Borrowed money, primarily representing FHLB advances, increased \$20.2 million to \$232.0 million at September 30, 2004 from \$211.8 million at December 31, 2003. Stockholders' equity increased \$4.8 million to \$83.2 million at September 30, 2004 from \$78.4 million at December 31, 2003. The increase in stockholders' equity was primarily the result of

the Company's net income for the nine months ended September 30, 2004, which was partially offset by stock repurchases totaling \$269,000 and dividends paid of \$1.9 million.

Comparison of Operating Results For the Three Months Ended September 30, 2004 and 2003

General. The Company's net income decreased \$603,000, or 33.1%, to \$1.2 million for the three months ended September 30, 2004 as compared to the prior year period.

Interest Income. Interest income increased \$526,000, or 4.7%, to \$11.8 million for the three months ended September 30, 2004, compared to the same period in 2003. This increase resulted from an increase in the average balance of interest-earning assets, partially offset by a decrease in the average rate earned on interest-earning assets. The average yield on interest-earning assets decreased by 40 basis points to 5.17% for the three months ended September 30, 2004 from 5.57% for the three months ended September 30, 2003. The decrease in yield is primarily due to the lower overall level of interest rates. The average balance of interest-earning assets increased by \$105.6 million, or 12.8%, to \$931.4 million for the three months ended September 30, 2004 from \$825.8 million for the comparable period in 2003. This increase resulted primarily from an increase in the average balance of loans receivable of \$105.6 million from \$685.6 million for the three months ended September 30, 2003 to \$791.2 million for the three months ended September 30, 2004.

Mortgage loan interest income decreased by \$650,000 for the three months ended September 30, 2004 compared with the same period in 2003. The average balance of mortgage loans increased \$20.3 million to \$579.5 million, while the mortgage loan yield decreased by 66 basis points from 5.91% to 5.25%. Interest income from other loans increased \$1.1 million for the three months ended September 30, 2004. This increase resulted from a combination of an increase in average balance of \$85.2 million to \$211.6 million, partially offset by a 10 basis point decrease in yield from 5.52% for the three months ended September 30, 2003 to 5.42% for the three months ended September 30, 2004. Of the increase in other loans, \$78.8 million is attributed to commercial loans, which increased 79.6%, to \$177.8 million for the three months ended September 30, 2004 from \$99.0 million for the comparable period in 2003. Interest income from investment securities including stock in the Federal Home Loan Bank of Chicago, mortgage-backed securities and short-term deposits increased \$55,000 to \$1.4 million for the three months ended September 30, 2004, compared with the same period in 2003. The average balance decreased \$22,000 and the yield increased 20 basis points from 4.29% for the three months ended September 30, 2003 to 4.49% for the three months ended September 30, 2004. The average yields are reported on a tax equivalent basis.

Interest Expense. Interest expense increased by \$614,000, or 11.4%, to \$6.0 million for the three months ended September 30, 2004, compared to the same period in 2003. This increase resulted from an increase in the average balance of interest-bearing liabilities, offset by a decrease in the average rate paid on those interest-bearing liabilities. The average balance of interest-bearing liabilities increased by \$107.7 million, or 14.6%, to \$844.9 million for the three months ended September 30, 2004 from \$737.2 million for the three months ended September 30, 2003. This change reflects a \$72.7 million increase in deposit accounts, which is attributable

to a \$4.1 million increase in passbook savings accounts, a \$83.0 million increase in certificates of deposit and a \$1.9 million increase in NOW accounts. These increases were partially offset by a decrease of \$16.3 million in money market accounts. In addition, borrowings increased \$34.9 million to \$225.3 million for the three months ended September 30, 2004 from \$190.4 million for the comparable period in 2003. The average rate paid on combined deposits and borrowed money decreased by 8 basis points to 2.84% for the three months ended September 30, 2004 from 2.92% for the three months ended September 30, 2003.

Net Interest Income Before Provision for Loan Losses. Net interest income before provision for loan losses decreased \$88,000, or 1.5%, to \$5.8 million for the three months ended September 30, 2004 from \$5.9 million for the comparable period in 2003. The average balance of interest-earning assets increased \$105.6 million for the three months ended September 30, 2004 compared to the comparable prior year period. The increase in interest-earning assets was primarily the result of increases in the average balance of mortgage loans of \$20.3 million, \$8.5 million in investment securities and an \$85.2 million increase in other loans. These increases were partially offset by an \$8.1 million decrease in cash and cash equivalents and a \$1.3 million decrease in mortgage-backed securities. The tax equivalent net interest margin as a percent of interest-earning assets decreased by 36 basis points to 2.60% for the three months ended September 30, 2004 from 2.96% for the comparable period in 2003. The Bank continues to experience margin compression as a result of the recent interest rate environment and efforts to reduce interest rate risk. These efforts included the sale of approximately \$32.7 million of fixed rate mortgage loans in 2004. Increasing the net interest margin is dependent on the Bank's ability to generate higher-yielding assets and lower-cost deposits. Management continues to closely monitor the net interest margin.

Provision for Loan Losses. The provision for loan losses increased by \$70,000, to \$210,000 for the three months ended September 30, 2004 from \$140,000 in 2003. The increase in the provision for loan losses is primarily due to the increased risk in the loan portfolio based on a greater emphasis placed on commercial lending, which is generally considered to involve a higher degree of risk. At September 30, 2004, December 31, 2003 and September 30, 2003, non-performing loans totaled \$2.5 million, \$2.8 million and \$2.9 million, respectively. At September 30, 2004, the ratio of the allowance for loan losses to non-performing loans was 168.2% compared to 135.7% at December 31, 2003 and 126.1% at September 30, 2003. The ratio of the allowance to total loans was 0.54%, 0.52% and 0.51%, at September 30, 2004, December 31, 2003 and September 30, 2003, respectively. Charge-offs for the three months ended September 30, 2004 totaled \$3,000. There were no charge-offs for the three months ended September 30, 2003. Management periodically performs an allowance sufficiency analysis based upon the portfolio composition, asset classifications, loan-to-value ratios, probable impairments in the loan portfolio, and other factors.

Noninterest Income. Noninterest income totaled \$1.3 million and \$1.5 million for the three months ended September 30, 2004 and 2003, respectively. The decrease in noninterest income is primarily attributable to decreases of \$290,000 in gain on sale of securities and \$71,000 in revenues generated by Computer Dynamics Group, Inc. (CDGI). The decrease in income generated by CDGI is largely due to a decrease in sales related to a weaker demand for CDGI's services. These decreases were partially offset by increases of \$222,000 in service fees,

\$15,000 in insurance and brokerage commissions and \$16,000 in gain on sale of loans. Service fees increased primarily due to the growth in the number of deposit accounts.

Noninterest Expense. Noninterest expense increased \$779,000, to \$5.3 million for the three months ended September 30, 2004 from \$4.6 million for the comparable period in 2003. Of this increase, \$424,000 was due to a non-recurring charge related to the Company's majority-owned subsidiary CDGI. The Company was informed in October of the bankruptcy filing of its minority partner in CDGI. Accordingly, a receivable from the minority owner totaling \$265,000 was written-off. Additionally, upon notification of the bankruptcy, the Company recorded its investment in CDGI as a wholly-owned subsidiary, which resulted in a \$159,000 charge to expense to eliminate the minority interest. In addition, expenses relating to professional audit and outsourced internal audit fees increased \$59,000, advertising increased \$90,000 and data processing expenses increased \$65,000 from the comparable period in 2003. Management continues to emphasize the importance of expense management and control while continuing to provide expanded banking services to a growing market base.

Income Tax Expense. Income tax expense totaled \$351,000 and \$889,000 for the three months ended September 30, 2004 and 2003, respectively. The decrease in income tax expense was primarily the result of a decrease in income before income taxes and minority interest of \$1.1 million to \$1.6 million for three months ended September 30, 2004 from \$2.7 million for the comparable prior year period. The effective tax rate was 22.4% and 32.9% for the three months ended September 30, 2004 and 2003, respectively. The decrease in the effective tax rate is due to tax benefits received from the exercise of nonqualified stock options, increases in bank owned life insurance and municipal securities, for which the related income is non-taxable.

Comparison of Operating Results For the Nine Months Ended September 30, 2004 and 2003

General. The Company's net income decreased \$711,000, or 13.1%, to \$4.7 million for the nine months ended September 30, 2004 as compared to the prior year period.

Interest Income. Interest income increased \$206,000, or 1.0%, to \$34.5 million for the nine months ended September 30, 2004, compared to the same period in 2003. This increase resulted from an increase in the average balance of interest-earning assets, partially offset by a decrease in the average rate earned on interest-earning assets. The average balance of interest-earning assets increased by \$101.7 million, or 12.9%, to \$892.6 million for the nine months ended September 30, 2004 from \$790.9 million for the comparable period in 2003. This increase resulted primarily from an increase in the average balance of loans receivable of \$105.6 million from \$650.1 million for the nine months ended September 30, 2003 to \$755.7 million for the nine months ended September 30, 2004. The average yield on interest-earning assets decreased by 67 basis points to 5.22% for the nine months ended September 30, 2004 from 5.89% for the nine months ended September 30, 2003.

Mortgage loan interest income decreased by \$2.2 million for the nine months ended September 30, 2004 compared with the same period in 2003. The average balance of mortgage loans increased \$30.2 million, while the mortgage loan yield decreased by 85 basis points from

6.27% to 5.42%. Interest income from other loans increased \$2.6 million for the nine months ended September 30, 2004. This increase resulted from a combination of an increase in the average balance of \$75.4 million, partially offset by a 50 basis point decrease in yield from 5.78% for the nine months ended September 30, 2003 to 5.28% for the nine months ended September 30, 2004. Of the increase in other loans, \$68.7 million is attributed to commercial loans, which increased 82.4%, to \$152.1 million for the nine months ended September 30, 2004 from \$83.4 million for the comparable period in 2003. Interest income from investment securities including stock in the Federal Home Loan Bank of Chicago, mortgage-backed securities and short-term deposits decreased \$147,000 to \$4.0 million for the nine months ended September 30, 2004, compared with the same period in 2003. The average balance decreased \$3.8 million and the yield decreased 21 basis points from 4.49% for the nine months ended September 30, 2003 to 4.28% for the nine months ended September 30, 2004. The average yields are reported on a tax equivalent basis.

Interest Expense. Interest expense increased \$614,000, or 3.8%, to \$16.8 million for the nine months ended June 30, 2004 compared to the same period in 2003. There was an increase in the average balance of interest-bearing liabilities, and a decrease in the average rate paid on those interest-bearing liabilities for the nine months ended September 30, 2004 from the nine months ended September 30, 2003. The average balance of interest-bearing liabilities increased by \$100.9 million, or 14.3%, to \$806.3 million for the nine months ended September 30, 2004 from \$705.4 million for the nine months ended September 30, 2003. This change reflects a \$75.3 million increase in deposit accounts, which is attributable to a \$14.1 million increase in passbook savings accounts, a \$65.3 million increase in certificates of deposit and a \$4.0 million increase in NOW accounts. These increases were partially offset by a decrease of \$8.1 million in money market accounts. In addition, borrowings increased \$25.5 million to \$209.9 million for the nine months ended September 30, 2004 from \$184.4 million for the comparable period in 2003. The average rate paid on combined deposits and borrowed money decreased by 28 basis points to 2.78% for the nine months ended September 30, 2004 from 3.06% for the nine months ended September 30, 2003.

Net Interest Income Before Provision for Loan Losses. Net interest income before provision for loan losses decreased \$408,000, or 2.3%, to \$17.7 million for the nine months ended September 30, 2004 from \$18.1 million for the comparable period in 2003. The average balance of interest-earning assets increased \$101.8 million for the nine months ended September 30, 2004 compared to the comparable prior year period. The increase in interest-earning assets was primarily the result of increases in the average balance of mortgage loans of \$30.2 million and a \$75.4 million increase in other loans. These increases were partially offset by a \$3.7 million decrease in mortgage-backed securities. The tax equivalent net interest margin as a percent of interest-earning assets decreased by 45 basis points to 2.71% for the nine months ended September 30, 2004 from 3.16% for the comparable period in 2003. The Bank continues to experience margin compression as a result of the recent interest rate environment and efforts to reduce interest rate risk. These efforts included the sale of approximately \$32.7 million of fixed rate mortgage loans in 2004. Increasing the net interest margin is dependent on the Bank's ability to generate higher-yielding assets and lower-cost deposits. Management continues to closely monitor the net interest margin.

Provision for Loan Losses. The provision for loan losses increased by \$87,000, to \$550,000 for the nine months ended September 30, 2004 from \$463,000 in 2003. The increase in the provision for loan losses is primarily due to the increased risk in the loan portfolio based on a greater emphasis placed on commercial lending, which is generally considered to involve a higher degree of risk. At September 30, 2004, December 31, 2003 and September 30, 2003, non-performing loans totaled \$2.5 million, \$2.8 million and \$2.9 million, respectively. At September 30, 2004, the ratio of the allowance for loan losses to non-performing loans was 168.2% compared to 135.7% at December 31, 2003 and 126.1% at September 30, 2003. The ratio of the allowance to total loans was 0.54%, 0.52% and 0.51%, at September 30, 2004, December 31, 2003 and September 30, 2003, respectively. Charge-offs for the nine months ended September 30, 2004 totaled \$18,000. There were no charge-offs for the nine months ended September 30, 2003. Management periodically performs an allowance sufficiency analysis based upon the portfolio composition, asset classifications, loan-to-value ratios, probable impairments in the loan portfolio, and other factors.

Noninterest Income. Noninterest income totaled \$4.4 million and \$4.2 million for the nine months ended September 30, 2004 and 2003, respectively. The increase in noninterest income is primarily attributable to increases of \$525,000 in service fees, \$243,000 in insurance and brokerage commissions, \$149,000 in gain on sale of property, which was a building previously occupied by the Bank and \$122,000 in gain on sale of loans. Service fees increased primarily due to the growth in number of deposit accounts. Insurance and brokerage commissions increased primarily due to the hiring of three additional salespeople during the third quarter of 2003. These increases were partially offset by decreases of \$332,000 in revenues generated by CDGI and \$567,000 in gain on sale of securities. The decrease in income generated by CDGI is largely due to a decrease in sales related to a weaker demand for CDGI's services.

Noninterest Expense. Noninterest expense increased \$1.3 million, to \$15.1 million for the nine months ended September 30, 2004 from \$13.8 million for the comparable period in 2003. As previously discussed, \$424,000 of the increase is due to a non-recurring charge related to the Company's majority-owned subsidiary CDGI. In addition, \$274,000 was directly related to compensation and benefits, \$156,000 is related to data processing, \$168,000 is related to advertising and \$162,000 is related to professional audit and outsourced internal audit fees. The increase in compensation and benefits is primarily due to a combination of annual salary increases and the addition of staff. Management continues to emphasize the importance of expense management and control while continuing to provide expanded banking services to a growing market base.

Income Tax Expense. Income tax expense totaled \$1.7 million and \$2.8 million for the nine months ended September 30, 2004 and 2003, respectively. The decrease in income tax expense was primarily the result of a decrease in income before income taxes and minority interest of \$1.6 million to \$6.5 million for nine months ended September 30, 2004 from \$8.1 million for the comparable prior year period. The effective tax rate was 26.8% and 34.0% for the nine months ended September 30, 2004 and 2003, respectively. The decrease in the effective tax rate is due to tax benefits received from the exercise of nonqualified stock options, increases in bank owned life insurance and municipal securities, for which the related income is non-taxable.

Liquidity and Capital Resources

The Company's primary source of funding for dividends and periodic stock repurchases have been dividends from the Bank. The Bank's ability to pay dividends and other capital distributions to the Company is generally limited by the Office of Thrift Supervision regulations.

The Bank's primary sources of funds are savings deposits, proceeds from the principal and interest payments on loans, proceeds from the maturity of securities and borrowings from the FHLB-Chicago. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit outflows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

The primary investing activities of the Bank are the origination and purchase of primarily residential one-to-four-family loans, the purchase of mortgage-backed securities and, to a lesser extent, multi-family and commercial real estate, construction and land, commercial and consumer loans. In addition, the Bank purchases loans, secured by single-family, multi-family and commercial real estate. Deposit flows are affected by the level of interest rates, the interest rates and products offered by the local competitors and other factors.

In addition to the primary investing activities of the Bank, the Company has repurchased shares of its common stock from time to time in the open market. As of September 30, 2004, the Company repurchased a total of 3,087,081 shares of the Company's common stock at an average price per share of \$12.11 since becoming a public company in 1998. There currently is no formal repurchase plan in place and there were no shares repurchased during the three months ended September 30, 2004.

The Bank's most liquid assets are cash and interest-bearing demand accounts. The levels of these assets are dependent on the Bank's operating, financing, lending and investing activities during any given period. At September 30, 2004, cash and interest-bearing demand accounts totaled \$33.6 million, or 3.4% of total assets.

See the Consolidated Statements of Cash Flows in the Unaudited Consolidated Financial Statements included in this Form 10-Q for the sources and uses of cash flows for operating, investing and financing activities for the nine months ended September 30, 2004 and 2003.

At September 30, 2004, the Bank exceeded all of its regulatory capital requirements. The following is a summary of the Bank's regulatory capital ratios at September 30, 2004:

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	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2004:						
Total capital (to risk weighted assets)	\$ 78,126,000	10.83%	\$ 57,704,000	8.0%	\$ 72,130,000	10.0%
Tier I capital (to risk weighted assets)	76,844,000	10.65	28,852,000	4.0	43,278,000	6.0
Tier I capital (to average assets)	76,844,000	7.79	39,470,000	4.0	49,338,000	5.0

At September 30, 2004, the Company had a Total Capital to Total Assets ratio of 8.33%.

On September 15, 2004, the Company announced its third quarter dividend of \$0.1550 per share. The dividend was paid on October 12, 2004 to stockholders of record on September 30, 2004.

Financial Instruments with Off-Balance Sheet Risk

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. Those financial instruments primarily include commitments to extend credit. Commitments to extend credit are agreements to lend to a customer so long as there is no violation of any condition established in the contract. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation of the customer. The Bank's exposure to credit loss in the event of nonperformance by the customer is represented by the contractual amount of those financial instruments. The commitments to originate first mortgage loans represent amounts, which the Bank plans to fund within a period of 30 to 90 days.

The Bank's approved, but unused lines of credit are based on underwriting standards that allow total borrowings, including the equity line of credit to exceed 80% of the current appraised value of the customer's residence. However, the Bank charges a 1% higher interest rate on home equity lines of credit up to 90% of the home's current appraised value.

The Bank's standby letters of credit are conditional commitments issued by the Bank to guarantee performance of a customer to a third party. The credit risk involved in these transactions is essentially the same as that involved in extending a loan to a customer in the normal course of business. Standby letters of credit are collateralized by mortgages, savings accounts or liens on business assets. The fair value of standby letters of credit approximates the amount of recorded related fees, which are not considered material. The maximum risk of accounting loss for these items, which is represented by the total commitment outstanding, totaled \$13.9 million at September 30, 2004.

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At September 30, 2004 and December 31, 2003, the bank had the following commitments to extend credit:

	September 30,	December 31,
	2004	2003
First mortgage loans	\$ 6,208,000	\$ 7,306,000
Construction loans	2,080,000	4,210,000
Unused lines of credit	34,985,000	42,342,000
Standby letters of credit	13,913,000	5,434,000

Contractual Obligations

The Bank has certain obligations and commitments to make future payments under contract. There has been no material change in contractual obligations from December 31, 2003.

Recent Accounting Pronouncements

In December 2003, the American Institute of Certified Public Accountants (AICPA) released Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a transfer (SOP 03-3). SOP 03-3 addresses the accounting for differences between contractual cash flows and cash flows expected to be collected from an investors initial investment in loans or debt securities acquired in a transfer if those differences are attributable to credit quality. SOP 03-3 is effective for loans acquired in fiscal years beginning after December 31, 2004. Adoption of this Statement is not expected to have a material impact on the Company s consolidated financial statements.

In March 2004, the FASB reached a consensus on EITF 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (EITF 03-1). EITF 03-1 provides guidance for determining when an investment is impaired and whether the impairment is other than temporary. EITF 03-1 also incorporates into its consensus the required disclosures about unrealized losses on investments announced by the EITF in late 2003 and adds new disclosure requirements relating to cost-method investments. The impairment accounting guidance was to become effective for reporting periods beginning after June 15, 2004. The new disclosure requirements are effective for annual reporting periods after June 15, 2004. In September 2004, the FASB delayed the effective date of EITF 03-1 for measurement and recognition of impairment losses until implementation guidance is issued. We do not expect the adoption of the impairment guidance contained in EITF 03-1 to have a material impact on our financial position or results of operations.

Average Balance Sheet

The following tables set forth certain information relating to the Bank for the three and nine months ended September 30, 2004 and 2003, respectively. The average yields and costs are derived by dividing income or expense by the average balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods shown and reflect annualized yields and costs. Average balances are derived from average monthly balances. The yields and costs include fees, which are considered adjustments to yields. Tax exempt income has been calculated on a tax equivalent basis using a tax rate of 34% and amounted to \$211,000 and \$195,000 for the three months ended September 30, 2004 and 2003 and \$413,000 and \$610,000 for the nine months ended September 30, 2004 and 2003, respectively.

(in thousands)	Three Months Ended			Three Months Ended		
	Average	September 30, 2004		Average	September 30, 2003	
	Balance	Interest	Yield/Cost	Balance	Interest	Yield/Cost
Assets:						
Interest earning assets:						
Short-term deposits and FHLB						
stock	\$37,386	223	2.39%	44,510	202	1.82%
Investment securities	91,653	1,253	5.47%	83,181	1,195	5.75%
Mortgage-backed securities	11,209	98	3.50%	12,534	107	3.41%
Mortgage loans	579,520	7,609	5.25%	559,186	8,259	5.91%
Other loans	211,637	2,866	5.42%	126,390	1,745	5.52%
Total interest earning assets	931,405	12,049	5.17%	825,801	11,508	5.57%
Noninterest earning assets	58,224			51,559		
Total assets	\$989,629			877,360		
Liabilities and stockholders equity						
Interest-bearing liabilities						
Deposits:						
Money market accounts	\$131,786	547	1.66%	148,128	642	1.73%
Passbook savings accounts	129,961	467	1.44%	125,827	462	1.47%
NOW Accounts	38,890	48	0.49%	36,991	68	0.74%
Certificates of deposit	318,903	2,330	2.92%	235,894	1,846	3.13%
Total deposits	619,540	3,392	2.19%	546,840	3,018	2.21%
FHLB Advances	225,333	2,612	4.64%	190,366	2,372	4.98%
Total interest-bearing liabilities	844,873	6,004	2.84%	737,206	5,390	2.92%
Noninterest-bearing liabilities	63,426			63,048		
Total liabilities	908,299			800,254		
Total stockholders equity	81,330			77,106		
Total liabilities and stockholders equity	\$989,629			877,360		
Net interest income before provision for loan losses						
		6,045			6,118	
Interest rate spread			2.33%			2.65%
Net interest margin as a percent of interest earning assets			2.60			2.96%
Ratio of interest-earning assets to interest-bearing liabilities			110.24%			112.02%

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(in thousands)	Nine Months Ended			Nine Months Ended		
	September 30, 2004			September 30, 2003		
	Average			Average		
	Balance	Interest	Yield/Cost	Balance	Interest	Yield/Cost
Assets:						
Interest earning assets:						
Short-term deposits and FHLB						
stock	\$ 38,806	633	2.17%	38,511	536	1.86%
Investment securities	87,121	3,463	5.30%	87,528	3,789	5.77%
Mortgage-backed securities	11,001	302	3.66%	14,728	415	3.76%
Mortgage loans	571,123	23,220	5.42%	540,907	25,449	6.27%
Other loans	184,574	7,313	5.28%	109,193	4,732	5.78%
Total interest earning assets	892,625	34,931	5.22%	790,867	34,921	5.89%
Noninterest earning assets	54,947			46,369		
Total assets	\$ 947,572			837,236		
Liabilities and stockholders equity						
Interest-bearing liabilities						
Deposits:						
Money market accounts	\$ 138,394	1,675	1.61%	146,530	2,103	1.91%
Passbook savings accounts	131,075	1,370	1.39%	116,937	1,419	1.62%
NOW Accounts	39,393	145	0.49%	35,344	210	0.80%
Certificates of deposit	287,563	6,243	2.89%	222,261	5,506	3.30%
Total deposits	596,425	9,433	2.11%	521,072	9,238	2.36%
FHLB Advances	209,900	7,370	4.68%	184,367	6,951	5.03%
Total interest-bearing liabilities	806,325	16,803	2.78%	705,439	16,189	3.06%
Noninterest-bearing liabilities	60,523			55,765		
Total liabilities	866,848			761,204		
Total stockholders equity	80,724			76,032		
Total liabilities and stockholders equity	\$ 947,572			837,236		
Net interest income before provision for loan losses						
		18,128			18,732	
Interest rate spread			2.44%			2.83%
Net interest margin as a percent of interest earning assets			2.71%			3.16%
Ratio of interest-earning assets to interest-bearing liabilities			110.70%			112.11%

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Bank's interest rate sensitivity is monitored by management through the use of a Net Portfolio Value Model which generates estimates of the change in the Bank's net portfolio value (NPV) over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The model assumes estimated prepayment rates, reinvestment rates and deposit decay rates. The Sensitivity Measure is the decline in the NPV ratio, in basis points, caused by a 3% increase or 1% decrease in rates, whichever produces a larger decline. The higher the institution's Sensitivity Ratio, the greater its exposure to interest rate risk is considered to be. The following NPV Table sets forth the Bank's NPV as of September 30, 2004.

Change in		NPV as % of Portfolio					
Interest Rates		Net Portfolio Value				Value of Assets	
in Basis Points (Rate Shock)	Amount	(In thousands)	\$ Change	% Change	NPV Ratio	% Change	
+300	\$	47,284	\$ (32,584)	(40.80)%	4.85%	(38.45)%	
+200		59,533	(20,335)	(25.46)	6.03	(23.48)	
+100		73,453	(6,415)	(8.03)	7.33	(6.98)	
Static		79,868			7.88		
-100		77,201	(2,667)	(3.34)	7.59	(3.68)	

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV require the making of certain assumptions which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the NPV Table presented assumes that the composition of the Bank's interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the NPV Table provides an indication of the Bank's interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on the Bank's net interest income and may differ from actual results.

Item 4. Controls and Procedures

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the Exchange Act). Based upon their

evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. In addition, based on that evaluation, no change in the Company's internal control over financial reporting occurred during the quarter ended September 30, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business. Such routine legal proceedings, in the aggregate, are believed by management to be immaterial to the Company's financial condition, results of operations and cash flows.

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

(a) Exhibits

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- 3.1 Certificate of Incorporation of EFC Bancorp, Inc. *
 - 3.2 Bylaws of EFC Bancorp, Inc. *
 - 4.0 Specimen Stock Certificate of EFC Bancorp, Inc. *
 - 10.1 The EFS Bank Supplemental Executive Retirement Agreement between EFS Bank and Randy C. Blackburn (filed herewith)
 - 10.2 The EFS Bank Supplemental Executive Retirement Agreement between EFS Bank and Eric J. Wedeen (filed herewith)
 - 11.0 Statement re: Computation of Per Share Earnings Incorporated herein by reference to Note 3 to the unaudited consolidated financial statements.
 - 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
 - 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
 - 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350
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* Incorporated herein by reference from the Exhibits filed with the Registration Statement on Form S-1 and any amendments thereto. Initially filed with the Securities and Exchange Commission (SEC) on October 24, 1997.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

EFC BANCORP, INC.

Dated: November 12, 2004

By: /s/ Barrett J. O Connor
Barrett J. O Connor

Chief Executive Officer

(Principal executive officer)

Dated: November 12, 2004

By: /s/ Eric J. Wedeen
Eric J. Wedeen

Senior Vice President and Chief

Financial Officer

(Principal financial and accounting officer)