

Edgar Filing: Kearny Financial Corp. - Form 10-Q

Kearny Financial Corp.  
Form 10-Q  
May 12, 2008  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008

OR

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

For the transition period from to

Commission File Number 000-51093

KEARNY FINANCIAL CORP.  
(Exact name of registrant as specified in its charter)

UNITED STATES  
(State or other jurisdiction of  
incorporation or organization)

22-3803741  
(I.R.S. Employer  
Identification Number)

120 Passaic Ave., Fairfield, New Jersey  
(Address of principal executive offices)

07004-3510  
(Zip Code)

Registrant's telephone number, including  
area code 973-244-4500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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Non-accelerated filer

Smaller reporting company

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

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: May 1, 2008.

\$0.10 par value common stock - 70,628,303 shares outstanding

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In Thousands, Except Share Data, Unaudited)

	March 31, 2008	June 30, 2007
<u>Assets</u>		
Cash and amounts due from depository institutions	\$ 17,888	\$ 18,999
Interest-bearing deposits in other banks	131,926	144,342
Cash and Cash Equivalents	149,814	163,341
Securities available for sale (amortized cost \$41,040 and \$90,580)	39,384	88,869
Loans receivable, including net deferred loan costs of \$1,057 and \$1,511	953,355	866,542
Less allowance for loan losses	(6,135 )	(6,049 )
Net Loans Receivable	947,220	860,493
Mortgage-backed securities available for sale (amortized cost \$752,457 and \$655,123)	762,026	643,779
Premises and equipment	35,041	35,369
Federal Home Loan Bank of New York ("FHLB") stock	12,690	4,162
Interest receivable	8,712	8,028
Goodwill	82,263	82,263
Bank owned life insurance	15,568	15,154
Other assets	7,321	15,795
Total Assets	\$ 2,060,039	\$ 1,917,253
<u>Liabilities and Stockholders' Equity</u>		
<u>Liabilities</u>		
Deposits:		
Non-interest bearing	\$ 53,705	\$ 56,339
Interest-bearing	1,296,969	1,355,374
Total Deposits	1,350,674	1,411,713
Advances from FHLB	218,000	28,488
Advance payments by borrowers for taxes	5,366	5,460
Other liabilities	8,714	9,000
Total Liabilities	1,582,754	1,454,661
<u>Stockholders' Equity</u>		

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Preferred stock \$0.10 par value, 25,000,000 shares authorized; none issued and outstanding	—	—
Common stock \$0.10 par value, 75,000,000 shares authorized; 72,737,500 shares issued; 70,628,303 and 71,143,337 shares outstanding, respectively	7,274	7,274
Paid-in capital	201,966	197,976
Retained earnings	307,273	304,970
Unearned Employee Stock Ownership Plan shares; 1,297,152 shares and 1,406,258 shares, respectively	(12,972 )	(14,063 )
Treasury stock, at cost; 2,109,197 shares and 1,594,163 shares, respectively	(30,479 )	(24,361 )
Accumulated other comprehensive income (loss)	4,223	(9,204 )
 Total Stockholders' Equity	 477,285	 462,592
 Total Liabilities and Stockholders' Equity	 \$ 2,060,039	 \$ 1,917,253

See notes to consolidated financial statements.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Per Share Data, Unaudited)

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2008	2007	2008	2007
Interest Income:				
Loans	\$ 13,906	\$ 11,658	\$ 41,014	\$ 33,044
Mortgage-backed securities	8,665	8,095	25,451	24,193
Securities:				
Taxable	279	351	966	1,141
Tax-exempt	161	825	914	4,086
Other interest-earning assets	1,543	3,229	4,233	9,065
Total Interest Income	24,554	24,158	72,578	71,529
Interest Expense:				
Deposits	10,650	12,150	32,874	34,991
Borrowings	2,293	754	5,058	2,412
Total Interest Expense	12,943	12,904	37,932	37,403
Net Interest Income	11,611	11,254	34,646	34,126
Provision for Loan Losses	—	101	94	378
Net Interest Income after Provision for Loan Losses	11,611	11,153	34,552	33,748
Non-Interest Income:				
Fees and service charges	334	188	996	692
Gain (loss) on sale of securities available for sale	(5 )	(97 )	0	55
Miscellaneous	341	392	1,055	1,076
Total Non-Interest Income	670	483	2,051	1,823
Non-interest expenses:				
Salaries and employee benefits	6,035	7,070	18,360	20,623
Net occupancy expense of premises	1,001	895	2,793	2,594
Equipment	1,067	1,098	3,190	3,274
Advertising	186	362	592	1,164
Federal insurance premium	138	144	419	428
Amortization of intangible assets	11	159	230	477

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Directors' compensation	576	544	1,686	1,762
Miscellaneous	1,056	1,030	3,260	3,277
Total Non-Interest Expenses	10,070	11,302	30,530	33,599
Income before Income Taxes	2,211	334	6,073	1,972
Income Taxes	(462	) 92	994	257
Net Income	\$ 2,673	\$ 242	\$ 5,079	\$ 1,715

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (Continued)

(In Thousands, Except Per Share Data, Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2008	2007	2008	2007
Net Income per Common Share (EPS):				
Basic	\$ 0.04	\$ 0.00	\$ 0.07	\$ 0.02
Diluted	0.04	0.00	0.07	0.02
Weighted Average Number of Common Shares Outstanding:				
Basic	68,625	69,012	68,718	69,343
Diluted	68,646	69,293	68,841	69,664
Dividends Declared Per Common Share	\$ 0.05	\$ 0.05	\$ 0.15	\$ 0.15

See notes to consolidated financial statements.



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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Nine Months Ended March 31, 2007

(In Thousands, Except Share Data, Unaudited)

	Common Stock		Paid-In	Retained	Unearned	Treasury	Accumulated	
	Shares	Amount	Capital	Earnings	ESOP	Stock	Other	Total
					Shares		Comprehensive	
							(Loss)	
Balance - June 30, 2006	72,737	\$ 7,274	\$ 192,534	\$ 306,728	\$ (15,517)	\$ -	\$ (15,885)	\$ 475,134
Comprehensive income:								
Net income	-	-	-	1,715	-	-	-	1,715
Realized gain on securities available for sale, net of income tax of \$19	-	-	-	-	-	-	(36)	(36)
Unrealized gain on securities available for sale, net of deferred income tax of \$6,633	-	-	-	-	-	-	12,320	12,320
Total Comprehensive income								13,999
ESOP shares committed to be released (108 shares)	-	-	576	-	1,091	-	-	1,667
Stock option expense	-	-	1,494	-	-	-	-	1,494
Treasury stock purchases	(1,144)	-	-	-	-	(18,169)	-	(18,169)
Treasury stock reissued	9	-	(27)	-	-	135	-	108
Restricted stock plan shares purchased (54 shares)	-	-	(789)	-	-	-	-	(789)
Restricted stock plan shares earned (201 shares)	-	-	2,477	-	-	-	-	2,477
Tax effect from stock based compensation	-	-	434	-	-	-	-	434
Cash dividends declared (\$0.15/share)	-	-	-	(2,768)	-	-	-	(2,768)
Balance - March 31, 2007	71,602	\$ 7,274	\$ 196,699	\$ 305,675	\$ (14,426)	\$ (18,034)	\$ (3,601)	\$ 473,587

See notes to consolidated financial statements.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Nine Months Ended March 31, 2008

(In Thousands, Except Share Data, Unaudited)

	Common Stock		Paid-In Capital	Retained Earnings	Unearned		Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount			ESOP Shares	Treasury Stock		
Balance - June 30, 2007	71,143	\$ 7,274	\$ 197,976	\$ 304,970	\$ (14,063)	\$ (24,361)	\$ (9,204)	\$ 462,592
Comprehensive income:								
Net income	-	-	-	5,079	-	-	-	5,079
Unrealized gain on securities available for sale, net of deferred income tax of \$8,015	-	-	-	-	-	-	12,954	12,954
Benefit plans, net of deferred income tax of \$315	-	-	-	-	-	-	473	473
Total Comprehensive income								18,506
ESOP shares committed to be released (108 shares)	-	-	238	-	1,091	-	-	1,329
Dividends contributed for payment of ESOP loan	-	-	36	-	-	-	-	36
Stock option expense	-	-	1,431	-	-	-	-	1,431
Treasury stock purchases	(520)	-	-	-	-	(6,194)	-	(6,194)
Treasury stock reissued	5	-	(13)	-	-	76	-	63
Restricted stock plan shares earned (189 shares)	-	-	2,313	-	-	-	-	2,313
Tax effect from stock based Compensation	-	-	(15)	-	-	-	-	(15)
Cash dividends declared (\$0.15/share)	-	-	-	(2,776)	-	-	-	(2,776)
Balance - March 31, 2008	70,628	\$ 7,274	\$ 201,966	\$ 307,273	\$ (12,972)	\$ (30,479)	\$ 4,223	\$ 477,285

See notes to consolidated financial statements.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands, Unaudited)

	Nine Months Ended	
	March 31,	
	2008	2007
Cash Flows from Operating Activities:		
Net income	\$ 5,079	\$ 1,715
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	1,394	1,462
Net amortization of premiums, discounts and loan fees and costs	575	678
Deferred income taxes	(1,423 )	1,031
Amortization of intangible assets	231	477
Amortization of benefit plans' unrecognized net loss, net of gain from curtailment and tax effects	96	—
Provision for loan losses	94	378
Realized gains on sales of securities available for sale	—	(55 )
Increase in cash surrender value of bank owned life insurance	(414 )	(392 )
ESOP, stock option plan and restricted stock plan expenses	5,073	5,638
Realized gain on disposition of premises and equipment	—	(3 )
(Increase) decrease in interest receivable	(684 )	1,019
Decrease (increase) in other assets	1,401	(2,714 )
Increase (decrease) in interest payable	893	(3 )
(Decrease) increase in other liabilities	(551 )	60
 Net Cash Provided by Operating Activities	 11,764	 9,291
Cash Flows from Investing Activities:		
Purchases of securities available for sale	(299 )	(286 )
Proceeds from sale of securities available for sale	48,476	131,383
Proceeds from calls and maturities of securities available for sale	656	3,894
Proceeds from repayments of securities available for sale	708	1,395
Purchase of loans	(50,343 )	(71,377 )
Net increase in loans receivable	(36,655 )	(43,287 )
Purchases of mortgage-backed securities available for sale	(202,815 )	(81,703 )
Principal repayments on mortgage-backed securities available for sale	105,082	102,545
Additions to premises and equipment	(1,066 )	(1,189 )
Proceeds from cash settlement on premises and equipment	—	21
Purchase of FHLB stock	(9,000 )	—
Redemption of FHLB stock	472	245
 Net Cash (Used In) Provided by Investing Activities	 \$ (144,784 )	 \$ 41,641



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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(In Thousands, Unaudited)

	Nine Months Ended	
	March 31,	
	2008	2007
Cash Flows from Financing Activities:		
Net (decrease) increase in deposits	\$ (61,021 )	\$ 22,933
Repayment of long-term FHLB advances	(10,488 )	(5,459 )
Long-term FHLB advances	200,000	—
Decrease in advance payments by borrowers for taxes	(94 )	(34 )
Dividends paid to minority stockholders of Kearny Financial Corp.	(2,794 )	(2,750 )
Purchase of common stock of Kearny Financial Corp. for treasury	(6,194 )	(18,169 )
Treasury stock reissued	63	108
Purchase of common stock of Kearny Financial Corp. for restricted stock plan	—	(789 )
Dividends contributed for payment of ESOP loan	36	—
Tax (expense) benefit from stock based compensation	(15 )	434
Net Cash Provided by (Used in) Financing Activities	119,493	(3,726 )
Net (Decrease) Increase in Cash and Cash Equivalents	(13,527 )	47,206
Cash and Cash Equivalents – Beginning	163,341	230,279
Cash and Cash Equivalents – Ending	\$ 149,814	\$ 277,485
Supplemental Disclosures of Cash Flows Information:		
Cash paid during the year for:		
Income taxes, net of refunds	\$ 1,424	\$ 1,313
Interest	\$ 37,039	\$ 37,406

See notes to consolidated financial statements.

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KEARNY FINANCIAL CORP. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Kearny Financial Corp. (the "Company"), its wholly-owned subsidiaries, Kearny Federal Savings Bank (the "Bank") and Kearny Financial Securities, Inc., and the Bank's wholly-owned subsidiaries, KFS Financial Services, Inc. and Kearny Federal Investment Corp. The Company conducts its business principally through the Bank. Management prepared the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, including the elimination of all significant inter-company accounts and transactions during consolidation.

#### 2. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and Regulation S-X and do not include information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with generally accepted accounting principles ("GAAP"). However, in the opinion of management, all adjustments (consisting of normal adjustments) necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the three-month and nine-month periods ended March 31, 2008, are not necessarily indicative of the results that may be expected for the entire fiscal year or any other period.

The data in the consolidated statements of financial condition for June 30, 2007 was derived from the Company's annual report on Form 10-K. That data, along with the interim financial information presented in the consolidated statements of financial condition, income, changes in stockholders' equity and cash flows should be read in conjunction with the 2007 consolidated financial statements, including the notes thereto included in the Company's annual report on Form 10-K.

#### 3. NET INCOME PER COMMON SHARE ("EPS")

Basic EPS is based on the weighted average number of common shares actually outstanding adjusted for Employee Stock Ownership Plan ("ESOP") shares not yet committed to be released and unvested restricted stock awards. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as unvested restricted stock awards and outstanding stock options, were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Diluted EPS is calculated by adjusting the weighted average number of shares of common stock outstanding to include the effect of contracts or securities exercisable or which could be converted into common stock, if dilutive, using the treasury stock method. Shares issued and reacquired during any period are weighted for the portion of the period they were outstanding.



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The following is a reconciliation of the numerator and denominators of the basic and diluted earnings per share computations:

	Three Months Ended March 31, 2008			Nine Months Ended March 31, 2008		
	Income (Numerator) (In Thousands, Except Per Share Data)	Shares (Denominator)	Per Share Amount	Income (Numerator) (In Thousands, Except Per Share Data)	Shares (Denominator)	Per Share Amount
Net income	\$ 2,673			\$ 5,079		
Basic earnings per share, income available to common stockholders	\$ 2,673	68,625	\$ 0.04	\$ 5,079	68,718	\$ 0.07
Effect of dilutive securities:						
Stock options	—	—		—	—	
Restricted stock awards	—	21				