Investors Bancorp Inc
Form 10-Q
November 09, 2007

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

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

**For the quarterly period ended: September 30, 2007**
**Commission file number: 0-51557**
**Investors Bancorp, Inc.**
(Exact name of registrant as specified in its charter)

| **Delaware** | **22-3493930** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**101 JFK Parkway, Short Hills, New Jersey 07078**
(Address of principal executive offices)
**(973) 924-5100**
(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.
Large Accelerated Filer Yes þ No o Accelerated Filer Yes o No o Non-Accelerated Filer Yes o No o

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

As of October 31, 2007 there were 110,053,252 shares of the Registrant s common stock, par value $0.01 per share, outstanding, of which 63,099,781 shares, or 57.33% of the Registrant s outstanding common stock, were held by Investors Bancorp, MHC, the Registrant s mutual holding company.

**Investors Bancorp, Inc.**
**FORM 10-Q**
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## Part I. Financial Information

### Item 1. Financial Statements

**INVESTORS BANCORP, INC. AND SUBSIDIARY**
Consolidated Balance Sheets
September 30, 2007 (Unaudited) and June 30, 2007

| | September 30, 2007 | June 30, 2007 |
|---|---|---|
| | (In thousands) | |
| **Assets** | | |
| Cash and cash equivalents | $ 23,802 | 24,810 |
| Securities available-for-sale, at estimated fair value | 237,088 | 251,970 |
| Securities held-to-maturity, net (estimated fair value of $1,433,098 and $1,472,385 at September 30, 2007 and June 30, 2007, respectively) | 1,465,466 | 1,517,664 |
| Loans receivable, net | 3,862,504 | 3,589,373 |
| Loans held-for-sale | 8,662 | 3,410 |
| Stock in the Federal Home Loan Bank | 46,104 | 33,887 |
| Accrued interest receivable | 27,214 | 24,300 |
| Office properties and equipment, net | 27,258 | 27,155 |
| Net deferred tax asset | 39,941 | 39,399 |
| Bank owned life insurance contract | 88,950 | 88,018 |
| Other assets | 1,140 | 1,102 |
| Total assets | $ 5,828,129 | 5,601,088 |
| **Liabilities and Stockholders Equity** | | |
| Liabilities: | | |
| Deposits | $ 3,728,419 | 3,664,966 |
| Borrowed funds | 1,210,202 | 1,038,710 |
| Advance payments by borrowers for taxes and insurance | 18,545 | 17,671 |
| Other liabilities | 38,580 | 36,376 |
| Total liabilities | 4,995,746 | 4,757,723 |
| Stockholders equity: | | |
| Preferred stock, $0.01 par value, 50,000,000 authorized shares; none issued | | |
| Common stock, $0.01 par value, 200,000,000 shares authorized; 116,275,688 issued; 110,073,752 and 111,468,952 outstanding at September 30, 2007 and June 30, 2007, respectively | 532 | 532 |
| Additional paid-in capital | 508,501 | 506,016 |
| Retained earnings | 456,903 | 453,751 |
| Treasury stock, at cost; 6,201,936 and 4,806,736 shares at September 30, 2007 and June 30, 2007, respectively | (89,236) | (70,973) |
| Unallocated common stock held by the employee stock ownership plan | (38,641) | (38,996) |
| Accumulated other comprehensive loss | (5,676) | (6,965) |

| | | |
|---|---|---|
| Total stockholders equity | 832,383 | 843,365 |
| Total liabilities and stockholders equity | $ 5,828,129 | 5,601,088 |

See accompanying notes to consolidated financial statements

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**INVESTORS BANCORP, INC. AND SUBSIDIARY**
Consolidated Statements of Income
(Unaudited)

| | | For the Three Months Ended September 30, | |
|---|---|---|---|
| | | 2007 | 2006 |
| | | (Dollars in thousands, except per share data) | |
| Interest and dividend income: | | | |
| Loans receivable and loans held-for-sale | $ | 52,966 | 41,912 |
| Securities: | | | |
| Government-sponsored enterprise obligations | | 1,337 | 1,339 |
| Mortgage-backed securities | | 16,656 | 22,053 |
| Equity securities available-for-sale | | | 455 |
| Municipal bonds and other debt | | 3,096 | 2,406 |
| Interest-bearing deposits | | 160 | 169 |
| Federal Home Loan Bank stock | | 593 | 697 |
| Total interest and dividend income | | 74,808 | 69,031 |
| Interest expense: | | | |
| Deposits | | 39,302 | 30,750 |
| Secured borrowings | | 14,103 | 15,814 |
| Total interest expense | | 53,405 | 46,564 |
| Net interest income | | 21,403 | 22,467 |
| Provision for loan losses | | 200 | 225 |
| Net interest income after provision for loan losses | | 21,203 | 22,242 |
| Other income: | | | |
| Fees and service charges | | 711 | 660 |
| Income on bank owned life insurance contract | | 932 | 795 |
| Gain on sales of mortgage loans, net | | 81 | 83 |
| Other income | | 64 | 21 |
| Total other income | | 1,788 | 1,559 |
| Operating expenses: | | | |
| Compensation and fringe benefits | | 12,990 | 10,300 |
| Advertising and promotional expense | | 502 | 900 |
| Office, occupancy and equipment expense | | 2,548 | 2,423 |
| Federal insurance premiums | | 105 | 110 |
| Stationery, printing, supplies and telephone | | 401 | 393 |
| Legal, audit, accounting, and supervisory examination fees | | 429 | 790 |
| Data processing service fees | | 1,010 | 936 |
| Other operating expenses | | 1,012 | 1,235 |

| | | | |
|---|---|---|---|
| Total operating expenses | | 18,997 | 17,087 |
| Income before income tax expense | | 3,994 | 6,714 |
| Income tax expense | | 1,142 | 2,363 |
| Net income | $ | 2,852 | 4,351 |
| Earnings per share basic and diluted | $ | 0.03 | 0.04 |
| Weighted average shares outstanding | | | |
| Basic | | 106,732,844 | 112,246,699 |
| Diluted | | 106,880,099 | 112,246,699 |

See accompanying notes to consolidated financial statements.

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**INVESTORS BANCORP, INC. AND SUBSIDIARY**
Consolidated Statements of Stockholders Equity
Three months ended September 30, 2007 and 2006
(Unaudited)

| | Common stock | Additional paid-in capital | Retained earnings | Treasury stock | Unallocated Common Stock Held by ESOP | Accumulated other comprehensive loss | Total stockholders equity |
|---|---|---|---|---|---|---|---|
| | | | (In thousands) | | | | |
| Balance at June 30, 2006 | $ 532 | 524,962 | 426,233 | | (40,414) | (11,126) | 900,187 |
| Comprehensive income: | | | | | | | |
| Net income | | | 4,351 | | | | 4,351 |
| Unrealized gain on securities available-for-sale, net of tax expense of $2,944 | | | | | | 4,490 | 4,490 |
| Total comprehensive income | | | | | | | 8,841 |
| Cumulative effect of change in accounting principle | | | 5,564 | | | | 5,564 |
| ESOP shares allocated or committed to be released | | 143 | | | 355 | | 498 |
| Balance at September 30, 2006 | $ 532 | 525,105 | 436,148 | | (40,059) | (6,636) | 915,090 |
| Balance at June 30, 2007 | $ 532 | 506,016 | 453,751 | (70,973) | (38,996) | (6,965) | 843,365 |
| Comprehensive income: | | | | | | | |
| Net income | | | 2,852 | | | | 2,852 |
| Unrealized gain on securities available-for-sale, net of tax expense of | | | | | | 1,289 | 1,289 |

$891

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total comprehensive income | | | | | | | 4,141 |
| Cummulative effect adjustment upon adoption of FIN 48 | | | 300 | | | | 300 |
| Purchase of treasury stock (1,395,200 shares) | | | | (18,263) | | | (18,263) |
| Compensation cost for stock options and restricted stock | | 2,361 | | | | | 2,361 |
| ESOP shares allocated or committed to be released | | 124 | | | 355 | | 479 |
| Balance at September 30, 2007 | $ 532 | 508,501 | 456,903 | (89,236) | (38,641) | (5,676) | 832,383 |

See accompanying notes to consolidated financial statements.

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

| | For the Three Months Ended September 30, 2007 | 2006 |
|---|---|---|
| | (In thousands) | |
| Cash flows from operating activities: | | |
| Net income | $ 2,852 | 4,351 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| ESOP and stock-based compensation expense | 2,840 | 498 |
| Amortization of premiums and accretion of discounts on securities, net | 315 | 485 |
| Amortization of premium and accretion of fees and costs on loans, net | 442 | 569 |
| Provision for loan losses | 200 | 225 |
| Depreciation and amortization of office properties and equipment | 667 | 667 |
| Mortgage loans originated for sale | (16,214) | (10,194) |
| Proceeds from mortgage loan sales | 11,043 | 8,837 |
| Gain on sales of mortgage loans, net | (81) | (83) |
| Increase in bank owned life insurance contract | (932) | (795) |
| Increase in accrued interest receivable | (2,914) | (2,737) |
| Deferred tax benefit | (1,433) | (820) |
| (Increase) decrease in other assets | (38) | 89 |
| Increase (decrease) in other liabilities | 2,504 | (2,262) |
| Total adjustments | (3,601) | (5,521) |
| Net cash used in operating activities | (749) | (1,170) |
| Cash flows from investing activities: | | |
| Purchases of loans receivable | (234,629) | (240,366) |
| Net (originations) repayments of loans receivable | (39,144) | 8,635 |
| Purchases of mortgage-backed securities held-to-maturity | | (5,317) |
| Purchases of debt securities held-to-maturity | (10,000) | |
| Proceeds from paydowns/maturities on mortgage-backed securities held-to-maturity | 61,639 | 84,459 |
| Proceeds from calls/maturities on debt securities held-to-maturity | 210 | 14 |
| Proceeds from paydowns/maturities on mortgage-backed securities available-for-sale | 17,096 | 28,146 |
| Proceeds from redemptions of Federal Home Loan Bank stock | 3,803 | 8,932 |
| Purchases of Federal Home Loan Bank stock | (16,020) | (11,700) |
| Purchases of office properties and equipment | (770) | (202) |
| Net cash used in investing activities | (217,815) | (127,399) |

| | | |
|---|---|---|
| Cash flows from financing activities: | | |
| Net increase in deposits | 63,453 | 54,615 |
| Net increase (decrease) in funds borrowed under short-term repurchase agreements | 379,500 | (150,000) |
| Proceeds from funds borrowed under other repurchase agreements | 75,000 | 125,000 |
| Repayments of funds borrowed under other repurchase agreements | (50,000) | |
| Net (decrease) increase in other borrowings | (233,008) | 86,492 |
| Net increase in advance payments by borrowers for taxes and insurance | 874 | 713 |
| Purchase of treasury stock | (18,263) | |
| Net cash provided by financing activities | 217,556 | 116,820 |
| Net decrease in cash and cash equivalents | (1,008) | (11,749) |
| Cash and cash equivalents at beginning of period | 24,810 | 39,824 |
| Cash and cash equivalents at end of period | $ 23,802 | 28,075 |
| Supplemental cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | 52,047 | 44,599 |
| Income taxes | 343 | 3,258 |

See accompanying notes to consolidated financial statements.

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**INVESTORS BANCORP, INC. AND SUBSIDIARY**
Notes to Consolidated Financial Statements

**1. Basis of Presentation**

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

In the opinion of management, all the adjustments (consisting of normal and recurring adjustments) necessary for the fair presentation of the consolidated financial condition and the consolidated results of operations for the unaudited periods presented have been included. The results of operations and other data presented for the three-month period ended September 30, 2007 are not necessarily indicative of the results of operations that may be expected for the fiscal year ending June 30, 2008.

Certain information and note disclosures usually included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ) for the preparation of the Form 10-Q. The consolidated financial statements presented should be read in conjunction with the Company s audited consolidated financial statements and notes to consolidated financial statements included in the Company s June 30, 2007 Annual Report on Form 10-K.

**2. Earnings Per Share**

The following is a summary of our earnings per share calculations and reconciliation of basic to diluted earnings per share.

| | For the Three Months Ended September 30, 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | **Income** | **Shares** | **Per Share Amount** | **Income** | **Shares** | **Per Share Amount** |
| | (In thousands, except per share data) | | | | | |
| Net Income | $ 2,852 | | | $ 4,351 | | |
| Basic earnings per share: | | | | | | |
| Income available to common stockholders | $ 2,852 | 106,732,844 | $ 0.03 | $ 4,351 | 112,246,699 | $ 0.04 |
| Effect of dilutive common stock equivalents | | 147,255 | | | | |
| Diluted earnings per share: | | | | | | |
| Income available to common stockholders | $ 2,852 | 106,880,099 | $ 0.03 | $ 4,351 | 112,246,699 | $ 0.04 |

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### 3. Loans Receivable, Net

Loans receivable, net are summarized as follows:

| | September 30, 2007 | June 30, 2007 |
|---|---|---|
| | (In thousands) | |
| Residential mortgage loans | $ 3,372,015 | 3,153,212 |
| Multi-family and commercial | 125,946 | 107,350 |
| Construction loans | 178,793 | 152,670 |
| Consumer and other loans | 169,001 | 161,395 |
| Total loans | 3,845,755 | 3,574,627 |
| Premiums on purchased loans | 25,793 | 23,587 |
| Deferred loan fees, net | (1,932) | (1,924) |
| Allowance for loan losses | (7,112) | (6,917) |
| Net loans | $ 3,862,504 | 3,589,373 |

### 4. Deposits

Deposits are summarized as follows:

| | September 30, 2007 | June 30, 2007 |
|---|---|---|
| | (In thousands) | |
| Savings acounts | $ 311,105 | 320,880 |
| Checking accounts | 385,277 | 388,215 |
| Money market accounts | 197,169 | 182,274 |
| Total core deposits | 893,551 | 891,369 |
| Certificates of deposit | 2,834,868 | 2,773,597 |
| | $ 3,728,419 | 3,664,966 |

### 5. Equity Incentive Plan

During the three months ended September 30, 2007, the Company recorded $2.4 million of share-based expense, comprised of stock option expense of $996,000 and restricted stock expense of $1.4 million.

The following is a summary of the Company s stock option activity and related information for its option plans for the three months ended September 30, 2007:

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| | Number of Stock Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at June 30, 2007 | 4,437,401 | $ 15.26 | 9.4 years | $ |
| Granted | | | | |
| Exercised | | | | |
| Forfeited | | | | |
| Outstanding at September 30, 2007 | 4,437,401 | $ 15.26 | 9.2 years | $ |
| Exercisable at September 30, 2007 | | | N/A | N/A |

The following is a summary of the status of the Company s non-vested options as of September 30, 2007 and changes therein during the three months then ended:

| | Number of Stock Options | Weighted Average Grant Date Fair Value |
|---|---|---|
| Non-vested at June 30, 2007 | 4,437,401 | $ 4.17 |
| Granted | | |
| Exercised | | |
| Forfeited | | |
| Non-vested at September 30, 2007 | 4,437,401 | $ 4.17 |

Expected future expense relating to the 4.4 million non-vested options outstanding as of September 30, 2007 is $16.5 million over a weighted average period of 4.1 years.

Upon exercise of vested options, management expects to draw on treasury stock as the source of the shares.

The following is a summary of the status of the Company s restricted shares as of September 30, 2007 and changes therein during the three months then ended:

| | Number of Shares Awarded | Weighted Average Grant Date Fair Value |
|---|---|---|
| Non-vested at June 30, 2007 | 1,666,959 | $ 15.25 |
| Granted | | |
| Vested | | |
| Forfeited | | |
| Non-vested at September 30, 2007 | 1,666,959 | $ 15.25 |

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Expected future compensation expense relating to the 1.7 million restricted shares at September 30, 2007 is $22.6 million over a weighted average period of 4.1 years.

**6. Net Periodic Benefit Plans Expense**

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

Effective December 31, 2006, the Company limited participation in the Directors retirement plan to the current participants and placed a cap on director s fees for plan purposes at the December 31, 2006 rate.

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

The components of net periodic benefit expense are as follows:

| | Three months ended September 30, | | | |
|---|---|---|---|---|
| | SERP and Directors Plan | | Other Benefits | |
| | 2007 | 2006 | 2007 | 2006 |
| | (In thousands) | | | |
| Service cost | $ 135 | 296 | $ 43 | 40 |
| Interest cost | 252 | 225 | 140 | 135 |
| Amortization of: | | | | |
| Transition obligation | | | 50 | 50 |
| Prior service cost | (25) | 5 | | |
| Net loss | 49 | 37 | | |
| Total net periodic benefit expense | $ 411 | 563 | $ 233 | 225 |

Due to the unfunded nature of these plans, no contributions are expected to be made to the SERP and Directors plans and Other Benefits plan in fiscal year 2008.

The Company also maintains a defined benefit pension plan. Since it is a multiemployer plan, costs of the pension plan are based on contributions required to be made to the pension plan. We did not contribute to the defined benefit pension plan during the first three months of fiscal year 2008. We anticipate contributing funds to the plan to meet any minimum funding requirements.

**7. Income Taxes**

Effective July 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, or FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 are to be applied to all tax positions upon initial adoption of this standard. Tax positions must meet the more-likely-than-not recognition threshold at the effective date in order for the related tax benefits to be recognized or continue to be recognized upon adoption of FIN 48. As a result of the adoption of FIN 48, the Company recognized a $300,000 decrease in the liability for unrecognized tax benefits, which was accounted for as an addition to the July 1, 2007, balance of retained earnings. The Company recognizes accrued interest and penalties related to unrecognized tax benefits, where applicable, in income tax expense.

The Company files income tax returns in the United States federal jurisdiction and in the state of New Jersey jurisdiction. With few exceptions, we are no longer subject to federal and state income tax examinations by tax authorities for years prior to 2002. Currently, the Company is not under examination by any taxing authority.

**8. Stock Repurchase Program**

The Board of Directors approved a second share repurchase program at their April 2007 meeting, which authorizes the repurchase of an additional 10% of the Company s outstanding common stock. The second share repurchase program commenced upon completion of the first program on May 10, 2007. Under this program, up to 10% of its publicly held outstanding shares of common stock, or 4,785,831 shares of Investors Bancorp, Inc. common stock may be purchased in the open market and through other privately negotiated transactions in accordance with applicable federal securities laws. During the three month period ended September 30, 2007, the Company repurchased 1,395,200 shares of its common stock at an average cost of $13.09 per share. Under the current share repurchase program, 2,234,526 shares remain available for repurchase. As of September 30, 2007, a total of 7,868,895 shares have been purchased under Board authorized share repurchase programs, of which 1,666,959 shares were allocated to fund the restricted stock portion of the Company s 2006 Equity Incentive Plan. The remaining shares are held for general corporate use.

**9. Recent Accounting Pronouncements**

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments-an amendment of FASB Statements No. 133 and 140. This statement permits fair value remeasurement of certain hybrid financial instruments, clarifies the scope of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities regarding interest-only and principal-only strips, and provides further guidance on certain issues regarding beneficial interests in securitized financial assets, concentrations of credit risk and qualifying special purpose entities. SFAS No. 155 is effective as of the beginning of the first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 155 on July 1, 2007 did not impact the Company s financial condition or results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. SFAS

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No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not expect that the adoption of SFAS No. 157 will have a material impact on its financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities . SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007 with early adoption permitted as of the beginning of a fiscal year that begins on or before November 15, 2007. The Company did not elect early adoption. The Company does not expect that the adoption of SFAS No. 159 will have a material impact on its financial statements.

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

**Forward Looking Statements**

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

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

**Executive Summary**

Investors Bancorp s fundamental business strategy is to be a well capitalized, full service, community bank and to provide high quality customer service and competitively priced products and services to individuals and businesses in the communities we serve. An integral part of this strategy is to continue to reposition the assets and liabilities on our balance sheet by adding more loans and deposits. Over the past few years we have been successful in this repositioning effort and remain committed to this strategy. Total loans have grown from $3.57 billion at June 30, 2007 to $3.85 billion at September 30, 2007, an increase of 7.6%. The majority of that growth came from residential mortgage loans which grew 6.9%, or $218.8 million, from the year ended June 30, 2007 to $3.37 billion at September 30, 2007. As our loan portfolio grows we remain focused on diversifying by originating different types of loans. During the quarter ended September 30, 2007 commercial real estate, construction and multi-family loans increased $44.7 million. We believe our expansion into commercial real estate lending will provide us with an opportunity to increase net interest income, diversify our loan portfolio and improve our interest rate risk position.

During this past quarter significant attention has been paid to subprime lending in the residential mortgage market. As we have stated in previous filings, Investors Savings Bank neither originates nor purchases any subprime loans or option ARMs. We have benefited however from this turmoil as many mortgage originators stopped providing prime and subprime loans and many qualified, credit worthy borrowers turned to us for their mortgage needs.

Total deposits grew by $63.5 million to $3.73 billion at September 30, 2007, an increase of 1.7%. We continue to focus our attention on increasing core deposits and de-emphasizing certificates of deposit, however, this task has proven more difficult given the interest rate environment and the extreme competition in the New Jersey marketplace. As a result of strong loan growth that exceeded the available cash flows from the investment and deposit portfolios, borrowed funds increased $171.5 million, or 16.5%, to $1.21 billion at September 30, 2007 from $1.04 billion at June 30, 2007.

While pleased with the overall progress of our balance sheet transformation and the return of some minor positive slope to the yield curve, our net interest income remained under pressure as cost of funds increased this quarter reducing both net interest rate spread and net interest margin. The Federal Reserve Bank s fifty basis point rate reduction on September 18, 2007 and twenty five basis point rate reduction on October 31, 2007 should favorably impact both net interest rate spread and net interest margin going forward.

We recently announced the definitive agreement to acquire Summit Federal Bankshares, MHC, the parent company of Summit Federal Bankshares and Summit Federal Savings Bank (Summit). In this acquisition of a mutual thrift, we will acquire five new branch locations that complement our current geographic markets. As of September 30, 2007, Summit Federal Savings Bank had $117.9 million in assets. This transaction is expected to close sometime during fiscal 2008.

**Comparison of Financial Condition at September 30, 2007 and June 30, 2007**

***Total Assets***. Total assets increased by $227.0 million, or 4.1%, to $5.83 billion at September 30, 2007 from $5.60 billion at June 30, 2007. This increase was largely the result of an increase in the loan portfolio partially offset by the decrease in our securities portfolio.

***Securities.*** Securities, in aggregate, decreased by $67.1 million, or 3.8%, to $1.70 billion at September 30, 2007, from $1.77 billion at June 30, 2007. This decrease was a result of utilizing the cash flow from investments to fund a portion of our loan growth, as opposed to re-investment in securities, which is consistent with our strategic plan.

***Net Loans.*** Net loans, including loans held for sale, increased by $278.4 million, or 7.7%, to $3.87 billion at September 30, 2007 from $3.59 billion at June 30, 2007. This increase in loans reflects our continued focus on loan originations and purchases. The loans we originate and purchase are made primarily on properties in New Jersey. To a lesser degree we originate and purchase loans in states contiguous to New Jersey as a way to geographically diversify our residential loan portfolio.

We originate residential mortgage loans directly and through our mortgage subsidiary, ISB Mortgage Co. During the three months ended September 30, 2007 we originated $72.7 million in residential mortgage loans. In addition, we purchase mortgage loans from correspondent entities including other banks and mortgage bankers. Our agreements with these correspondent entities require them to originate loans that adhere to our underwriting standards. During the three months ended September 30, 2007 we purchased loans totaling $224.8 million from these entities. We also purchase pools of mortgage loans in the secondary market on a bulk purchase basis from several well-established financial institutions. During the three months ended September 30, 2007, we purchased loans totaling $9.8 million on a bulk purchase basis.

Additionally, for the three months ended September 30, 2007, we originated $11.9 million in multi-family and commercial real estate loans and $45.7 million in construction loans. This is consistent with our strategy of originating multi-family, commercial real estate and construction loans to diversify our loan portfolio.

The Company also originates interest-only one-to four-family mortgage loans in which the borrower makes only interest payments for the first five, seven or ten years of the mortgage loan term. This feature will result in future increases in the borrower s loan repayment when the contractually required repayments increase due to the required amortization of the principal amount. These payment increases could affect the borrower s ability to repay the loan. The amount of interest-only one-to four-family mortgage loans at September 30, 2007 was $289.0 million compared to $287.9 million at June 30, 2007. The ability of borrowers to repay their obligations are dependent upon various factors including the borrowers income and net worth, cash flows generated by the underlying collateral, value of the underlying collateral and priority of the Company s lien on the property. Such factors are dependent upon various economic conditions and individual circumstances beyond the Company s control; the Company is, therefore, subject to risk of loss.

The Company maintains stricter underwriting criteria for these interest-only loans than it does for its amortizing loans. The Company believes these criteria adequately minimize the potential exposure to such risks and that adequate provisions for loan losses are provided for all known and inherent risks.

Non-performing loans, defined as non-accruing loans, decreased by $836,000 to $4.3 million at September 30, 2007 from $5.1 million at June 30, 2007. The ratio of non-performing loans to total loans was 0.11% at September 30, 2007 compared with 0.14% at June 30, 2007. The ratio of the allowance for loan losses to non-performing loans was 164.90% at September 30, 2007 compared with 134.33% at June 30, 2007. The ratio of the allowance for loan losses to total loans was 0.18% at September 30, 2007 compared to 0.19% at June 30, 2007. We believe our allowance for loan losses is adequate based on the overall growth in our loan portfolio, the current level of loan charge-offs, the stability of the New Jersey real estate market in general, and the performance and stability of our loan portfolio.

Although we believe we have established and maintained an adequate level of allowance for loan losses, additions may be necessary if future economic conditions differ substantially from the current operating environment. Although we use the best information available, the level of allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. See Critical Accounting Policies.

***Bank Owned Life Insurance, Stock in the Federal Home Loan Bank and Other Assets.*** Bank owned life insurance increased by $932,000 from $88.0 million at June 30, 2007 to $89.0 million at September 30, 2007. The Company s investment in the bank owned life insurance contract is reported at contract value determined in accordance with Emerging Issues Task Force Issue No. 06-5. The increase is primarily the result of the change in the cash surrender value associated with the contract. In addition, the amount of stock we own in the Federal Home Loan Bank (FHLB) increased by $12.2 million from $33.9 million at June 30, 2007 to $46.1 million at September 30, 2007 as a result of an increase in our level of borrowings which determines our stock purchase requirement. There was also an increase in accrued interest receivable of $2.9 million resulting from an increase in interest-earning assets and the timing of certain cash flows resulting from the change in the mix of our assets.

***Deposits***. Deposits increased by $63.5 million, or 1.7%, to $3.73 billion at September 30, 2007 from $3.66 billion at June 30, 2007. The increase was due primarily to an increase in certificates of deposits and money market account balances.

***Borrowed Funds***. Borrowed funds increased $171.5 million, or 16.5%, to $1.21 billion at September 30, 2007 from $1.04 billion at June 30, 2007. This increase in borrowed funds was the result of strong loan growth that exceeded the available cash flows from the investment and deposit portfolios.

***Stockholders Equity***. Stockholders equity decreased $11.0 million, or 1.3%, to $832.4 million at September 30, 2007 from $843.4 million at June 30, 2007. The majority of this decrease is attributed to the repurchase of our common stock totaling $18.3 million during the three months ended September 30, 2007.

**Average Balance Sheets for the Three Months ended September 30, 2007 and 2006**

The following table presents certain information regarding Investors Bancorp, Inc. s financial condition and net interest income for the three months ended September 30, 2007 and 2006. The table presents the annualized average yield on interest-earning assets and the annualized average cost of interest-bearing liabilities. We derived the yields and costs by dividing annualized income or expense by the average balance of interest-earning assets and interest-bearing liabilities, respectively, for the periods shown. We derived average balances from daily balances over the periods indicated. Interest income includes fees that we consider adjustments to yields.

| | For Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2007 | | | September 30, 2006 | | |
| | Average Outstanding Balance | Interest Earned/Paid | Average Yield/Rate | Average Outstanding Balance | Interest Earned/Paid | Average Yield/Rate |
| | (Dollars in thousands) | | | | | |
| Interest-earning assets: | | | | | | |
| Interest-bearing deposits | $ 16,238 | $ 160 | 3.94% | $ 20,078 | $ 169 | 3.37% |
| Securities available-for-sale(1) | 251,340 | 2,880 | 4.58% | 534,833 | 5,722 | 4.28% |
| Securities held-to-maturity | 1,495,413 | 18,209 | 4.87% | 1,729,172 | 20,531 | 4.75% |
| Net loans | 3,717,582 | 52,966 | 5.70% | 3,081,486 | 41,912 | 5.44% |
| Stock in FHLB | 39,447 | 593 | 6.01% | 47,782 | 697 | 5.83% |
| Total interest-earning assets | 5,520,020 | 74,808 | 5.42% | 5,413,351 | 69,031 | 5.10% |
| Non-interest earning assets | 174,060 | | | 149,168 | | |
| Total assets | $ 5,694,080 | | | $ 5,562,519 | | |
| Interest-bearing Liabilities: | | | | | | |
| Savings | $ 314,195 | 1,815 | 2.31% | $ 223,182 | 526 | 0.94% |
| Interest-bearing checking | 353,947 | 2,448 | 2.77% | 307,730 | 1,845 | 2.40% |
| Money market accounts | 187,534 | 1,239 | 2.64% | 207,345 | 873 | 1.68% |
| Certificates of deposit | 2,793,867 | 33,800 | 4.84% | 2,555,204 | 27,506 | 4.31% |
| Borrowed funds | 1,118,723 | 14,103 | 5.04% | 1,282,547 | 15,814 | 4.93% |
| Total interest-bearing liabilities | 4,768,266 | 53,405 | 4.48% | 4,576,008 | 46,564 | 4.07% |
| Non-interest bearing liabilities | 99,883 | | | 83,243 | | |
| Total liabilities | 4,868,149 | | | 4,659,251 | | |
| Stockholders equity | 825,931 | | | 903,268 | | |
| Total liabilities and stockholders equity | $ 5,694,080 | | | $ 5,562,519 | | |
| Net interest income | | $ 21,403 | | | $ 22,467 | |
| Net interest rate spread(2) | | | 0.94% | | | 1.03% |

| | | | | |
|---|---|---|---|---|
| Net interest earning assets(3) | $ 751,754 | | $ 837,343 | |
| Net interest margin(4) | | 1.55% | | 1.66% |
| Ratio of interest-earning assets to total interest-bearing liabilities | 1.16X | | 1.18X | |

(1) Securities available-for-sale are stated at amortized cost, adjusted for unamortized purchased premiums and discounts.

(2) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by average total interest-earning assets.

**Comparison of Operating Results for the Three Months Ended September 30, 2007 and 2006**

***Net Income***. Net income decreased by $1.5 million, to $2.9 million for the three months ended September 30, 2007, from $4.4 million for the three months ended September 30, 2006.

***Net Interest Income*.** Net interest income decreased by $1.1 million or 4.7%, to $21.4 million for the three months ended September 30, 2007 from $22.5 million for the three months ended September 30, 2006. The decrease was caused primarily by a 9 basis point decrease in our net interest rate spread to 0.94% for the three months ended September 30, 2007 from 1.03% for the three months ended September 30, 2006 as a result of the increase in the cost of average interest-bearing liabilities more than offsetting the increase in the yield on average interest-earning assets. Our net interest margin also decreased by 11 basis points from 1.66% for the three months ended September 30, 2006 to 1.55% for the three months ended September 30, 2007.

***Interest and Dividend Income*.** Interest and dividend income increased by $5.8 million, or 8.4%, to $74.8 million for the three months ended September 30, 2007 from $69.0 million for the three months ended September 30, 2006. This increase was due to a 26.4% increase in interest income on loans, partially offset by a 19.5% decrease in interest income on securities and other interest-earning assets.

Interest income on loans increased by $11.1 million, or 26.4%, to $53.0 million for the three months ended September 30, 2007 from $41.9 million for the three months ended September 30, 2006. This increase resulted from a $636.1 million, or 20.6%, increase in the average balance of net loans to $3.72 billion for the three months ended September 30, 2007 from $3.08 billion for the three months ended September 30, 2006. This increase also reflects a 26 basis point increase in the average yield on net loans to 5.70% for the three months ended September 30, 2007 from 5.44% for the three months ended September 30, 2006.

Interest income on all other interest-earning assets, excluding loans, decreased by $5.3 million, or 19.5%, to $21.8 million for the three months ended September 30, 2007 from $27.1 million for the three months ended September 30, 2006. This decrease resulted from a $529.4 million decrease in the average balance of securities and other interest-earning assets, partially offset by a 20 basis point increase in the average yield on securities and other interest-earning assets to 4.85% for the three months ended September 30, 2007 from 4.65% for the three months ended September 30, 2006.

***Interest Expense.*** Interest expense increased by $6.8 million, or 14.7%, to $53.4 million for the three months ended September 30, 2007 from $46.6 million for the three months ended September 30, 2006.

Interest expense on interest-bearing deposits increased $8.6 million, or 27.8% to $39.3 million for the three months ended September 30, 2007 from $30.8 million for the three months ended September 30, 2006. This increase was due to a 58 basis point increase in the average cost of interest-bearing deposits to 4.31% for the three months ended September 30, 2007 from 3.73% for the three months ended September 30, 2006. In addition, the average balance of interest-bearing deposits increased $356.1 million, or 10.8%, to $3.65 billion for the three months ended September 30, 2007 from $3.29 billion for the three months ended September 30, 2006.

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Interest expense on borrowed funds decreased by $1.7 million or 10.8%, to $14.1 million for the three months ended September 30, 2007 from $15.8 million for the three months ended September 30, 2006. The average balance of borrowed funds decreased by $163.8 million, or 12.8%, to $1.12 billion for the three months ended September 30, 2007 from $1.28 billion for the three months ended September 30, 2006. This was partially offset by an 11 basis point increase in the cost of borrowed funds to 5.04% for the three months ended September 30, 2007 from 4.93% for the three months ended September 30, 2006.

***Provision for Loan Losses.*** Our provision for loan losses was $200,000 and $225,000 for the three months ended September 30, 2007 and 2006, respectively. There were net charge-offs of $4,000 and $2,000 for three months ended September 30, 2007 and 2006, respectively. The allowance for loan losses increased by $196,000 to $7.1 million at September 30, 2007 from $6.9 million at June 30, 2007. This increase in the allowance for loan losses reflects the overall growth of our loan portfolio, the level of our non-performing loans and the low level of charge-offs. See discussion of the allowance for loan losses and non-accrual loans in *Comparison of Financial Condition at September 30, 2007 and June 30, 2007.*

***Other Income.*** Other income increased by $229,000 to $1.8 million for the three months ended September 30, 2007 from $1.6 million for the three months ended September 30, 2006. This increase was primarily due to a $137,000 increase in income on bank owned life insurance.

***Operating Expenses***. Operating expenses increased by $1.9 million or 11.2%, to $19.0 million for the three months ended September 30, 2007 from $17.1 million for the three months ended September 30, 2006. The increase was primarily due to compensation and fringe benefits increasing by $2.7 million, or 26.1%, to $13.0 million for the three months ended September 30, 2007. The increase in compensation and fringe benefits includes $2.3 million attributed to the implementation of the 2006 Equity Incentive Plan, as approved by the shareholders at the annual meeting in October 2006. The increase also reflects normal merit increases and increases in employee benefits costs. This was partially offset by a decrease of $361,000 in professional fees mainly attributed to the new assessment method by the New Jersey Department of Banking and Insurance.

***Income Taxes.*** Income tax expense was $1.1 million for the three months ended September 30, 2007, a decrease of $1.2 million, or 51.7%, from income tax expense of $2.4 million for the three months ended September 30, 2006. Our effective tax rate was 28.6% for the three months ended September 30, 2007, compared to 35.2% for the three months ended September 30, 2006, due primarily to the recognition of deferred tax assets during the three months ended September 30, 2007. Similar deferred tax assets generated during the three months ended September 30, 2006 had a full valuation allowance at that time.

## Liquidity and Capital Resources

The Company s primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, proceeds from the sale of loans, Federal Home Loan Bank ( FHLB ) and other borrowings and, to a lesser extent, investment maturities. While scheduled amortization of loans is a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. The Company has other sources of liquidity if a need for additional funds arises, including an overnight line of credit and other borrowings from the FHLB and other correspondent banks.

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At September 30, 2007 the Company had no overnight borrowings outstanding compared to $200.0 million of outstanding overnight borrowings at June 30, 2007. The Company utilizes the overnight line from time to time to fund short-term liquidity needs. The Company found it more cost effective to use short-term fixed rate advances at September 30, 2007. The Company had total borrowings, of $1.21 billion at September 30, 2007, an increase from $1.04 billion at June 30, 2007. This increase was primarily the result strong loan growth that exceeded the available cash flows from the investment and deposit portfolios.

In the normal course of business, the Company routinely enters into various commitments, primarily relating to the origination of loans. At September 30, 2007, outstanding commitments to originate loans totaled $274.9 million; outstanding unused lines of credit totaled $244.1 million; and outstanding commitments to sell loans totaled $22.8 million. The Company expects to have sufficient funds available to meet current commitments in the normal course of business.

Time deposits scheduled to mature in one year or less totaled $2.37 billion at September 30, 2007. Based upon historical experience management estimates that a significant portion of such deposits will remain with the Company.

The Board of Directors approved a second share repurchase program at their April 2007 meeting, which authorizes the repurchase of an additional 10% of the Company s outstanding common stock. The second share repurchase program commenced upon completion of the first program on May 10, 2007. Under this program, up to 10% of its publicly held outstanding shares of common stock, or 4,785,831 shares of Investors Bancorp, Inc. common stock may be purchased in the open market and through other privately negotiated transactions in accordance with applicable federal securities laws. During the three month period ended September 30, 2007, the Company repurchased 1,395,200 shares of its common stock at an average cost of $13.09 per share. Under the current share repurchase program, 2,234,526 shares remain available for repurchase. As of September 30, 2007, a total of 7,868,895 shares have been purchased under Board authorized share repurchase programs, of which 1,666,959 shares were allocated to fund the restricted stock portion of the Company s 2006 Equity Incentive Plan. The remaining shares are held for general corporate use.

As of September 30, 2007 the Bank exceeded all regulatory capital requirements as follows:

| | As of September 30, 2007 | | | |
|---|---|---|---|---|
| | Actual | | Required | |
| | Amount | Ratio | Amount | Ratio |
| | (Dollars in thousands) | | | |
| Total capital (to risk-weighted assets) | $699,234 | 23.8% | $234,752 | 8.0% |
| Tier I capital (to risk-weighted assets) | 692,122 | 23.6 | 117,376 | 4.0 |
| Tier I capital (to average assets) | 692,122 | 12.2 | 227,617 | 4.0 |

**Critical Accounting Policies**

We consider accounting policies that require management to exercise significant judgment or discretion or to make significant assumptions that have, or could have, a material impact on the

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carrying value of certain assets or on income, to be critical accounting policies. We consider the following to be our critical accounting policies.

***Allowance for Loan Losses.*** The allowance for loan losses is the estimated amount considered necessary to cover credit losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses that is charged against income. In determining the allowance for loan losses, we make significant estimates and therefore have identified the allowance as a critical accounting policy. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management due to the high degree of judgment involved, the subjectivity of the assumptions utilized, and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

The allowance for loan losses has been determined in accordance with U.S. generally accepted accounting principles, under which we are required to maintain an allowance for probable losses at the balance sheet date. We are responsible for the timely and periodic determination of the amount of the allowance required. We believe that our allowance for loan losses is adequate to cover specifically identifiable losses, as well as estimated losses inherent in our portfolio for which certain losses are probable but not specifically identifiable.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions, geographic concentrations, and industry and peer comparisons. This analysis establishes factors that are applied to the loan groups to determine the amount of the general allocations. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. Actual loan losses may be significantly more than the allowance for loan losses we have established which could have a material negative effect on our financial results.

On a quarterly basis, the Allowance for Loan Loss Committee (comprised of the Senior Vice Presidents of Lending Administration, Residential Lending and Commercial Real Estate Lending and the First Vice President of Lending Administration) reviews the current status of various loan assets in order to evaluate the adequacy of the allowance for loan losses. In this evaluation process, specific loans are analyzed to determine their potential risk of loss. This process includes all loans, concentrating on non-accrual and classified loans. Each non-accrual or classified loan is evaluated for potential loss exposure. Any shortfall results in a recommendation of a specific allowance if the likelihood of loss is evaluated as probable. To determine the adequacy of collateral on a particular loan, an estimate of the fair market value of the collateral is based on the most current appraised value available. This appraised value is then reduced to reflect estimated liquidation expenses.

The results of this quarterly process are summarized along with recommendations and presented to Executive and Senior Management for their review. Based on these recommendations, loan loss allowances are approved by Executive and Senior Management. All supporting documentation with regard to the evaluation process, loan loss experience, allowance levels and the schedules of classified loans are maintained by the Lending Administration Department. A summary of loan loss allowances is presented to the Board of Directors on a quarterly basis.

Our primary lending emphasis has been the origination and purchase of residential mortgage loans and, to a lesser extent, commercial real estate mortgages. We also originate home equity loans and home equity lines of credit. These activities resulted in a loan concentration in residential mortgages. We also have a concentration of loans secured by real property located in New Jersey. As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisal valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly impact the valuation of a property securing a loan and the related allowance determined. The assumptions supporting such appraisals are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans. Based on the composition of our loan portfolio, we believe the primary risks are increases in interest rates, a decline in the general economy, and a decline in real estate market values in New Jersey. Any one or combination of these events may adversely affect our loan portfolio resulting in increased delinquencies, loan losses and future levels of loan loss provisions. We consider it important to maintain the ratio of our allowance for loan losses to total loans at an adequate level given current economic conditions, interest rates, and the composition of the portfolio.

Our provision for loan losses reflects probable losses resulting from the actual growth and change in composition of our loan portfolio. We believe the allowance for loan losses reflects the inherent credit risk in our portfolio, the level of our non-performing loans and our charge-off experience.

Although we believe we have established and maintained the allowance for loan losses at adequate levels, additions may be necessary if future economic and other conditions differ substantially from the current operating environment. Although management uses the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. In addition, the Federal Deposit Insurance Corporation and the New Jersey Department of Banking and Insurance, as an integral part of their examination process, will periodically review our allowance for loan losses. Such agencies may require us to recognize adjustments to the allowance based on its judgments about information available to them at the time of their examination.

***Deferred Income Taxes.*** We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. We consider the determination of this valuation allowance to be a critical accounting policy because of the need to exercise significant judgment in evaluating the amount and timing of recognition of deferred tax liabilities and assets, including projections of future taxable income. These judgments and estimates are reviewed on a continual basis as regulatory and business factors change. A valuation allowance for deferred tax assets may be required if the amounts of taxes recoverable through loss carry back declines, or if we project lower levels of future taxable income. The increase or decrease of a previously established valuation allowance may occur if our projection of future taxable income changes or other facts and circumstances change. Such changes in the valuation allowance would be recorded through income tax expense.

***Asset Impairment Judgments.*** Certain of our assets are carried on our consolidated balance sheets at cost, fair value or at the lower of cost or fair value. Valuation allowances or write- downs are established when necessary to recognize impairment of such assets. We periodically perform analyses to test for impairment of such assets. In addition to the impairment analyses related to our loans discussed above, another significant impairment analysis is the determination of whether there has been an other-than-temporary decline in the value of one or more of our securities.

Our available-for-sale portfolio is carried at estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income or loss in stockholders equity. Our held-to-maturity portfolio, consisting of debt securities for which we have a positive intent and ability to hold to maturity, is carried at amortized cost. We conduct a periodic review and evaluation of the securities portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other-than-temporary. If such decline is deemed other-than-temporary, we would adjust the cost basis of the security by writing down the security to fair market value through a charge to current period operations. The market values of our securities are affected by changes in interest rates. When significant changes in interest rates occur, we evaluate our intent and ability to hold the security to maturity or for a sufficient time to recover our recorded investment balance.

***Stock-Based Compensation.*** We recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards in accordance with SFAS No. 123(R).

We estimate the per share fair value of option grants on the date of grant using the Black-Scholes option pricing model using assumptions for the expected dividend yield, expected stock price volatility, risk-free interest rate and expected option term. These assumptions are subjective in nature, involve uncertainties and, therefore, cannot be determined with precision. The Black-Scholes option pricing model also contains certain inherent limitations when applied to options that are not traded on public markets.

The per share fair value of options is highly sensitive to changes in assumptions. In general, the per share fair value of options will move in the same direction as changes in the expected stock price volatility, risk-free interest rate and expected option term, and in the opposite direction as changes in the expected dividend yield. For example, the per share fair value of options will generally increase as expected stock price volatility increases, risk-free interest rate increases, expected option term increases and expected dividend yield decreases. The use of different assumptions or different option pricing models could result in materially different per share fair values of options.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

***Qualitative Analysis***. We believe our most significant form of market risk is interest rate risk. Interest rate risk results from timing differences in the maturity or re-pricing of our assets, liabilities and off-balance sheet contracts (i.e., loan commitments); the effect of loan prepayments, deposits and withdrawals; the difference in the behavior of lending and funding rates arising from the uses of different indices; and yield curve risk arising from changing interest rate relationships across the spectrum of maturities for constant or variable credit risk investments. Besides directly affecting our net interest income, changes in market interest rates can also affect the amount of new loan originations, the ability of borrowers to repay variable rate loans, the volume of loan prepayments and refinancings, the carrying value of securities classified as available for sale and the mix and flow of deposits.

The general objective of our interest rate risk management is to determine the appropriate level of risk given our business model and then manage that risk in a manner consistent with our policy to reduce, to the extent possible, the exposure of our net interest income to changes in market interest rates. Our Interest Rate Risk Committee, which consists of senior management, evaluates the interest rate risk inherent in certain assets and liabilities, our operating environment and capital and liquidity requirements and modifies our lending, investing and deposit gathering strategies accordingly. On a quarterly basis, our Board of Directors reviews the Interest Rate Risk Committee report, the aforementioned activities and strategies, the estimated effect of those strategies on our net interest margin and the estimated effect that changes in market interest rates may have on the economic value of our loan and securities portfolios, as well as the intrinsic value of our deposits and borrowings.

We actively evaluate interest rate risk in connection with our lending, investing and deposit activities. Historically, our lending activities have emphasized one- to four-family fixed- and variable- rate first mortgages. Our variable-rate mortgage related assets have helped to reduce our exposure to interest rate fluctuations and is expected to benefit our long-term profitability, as the rate earned in the mortgage loans will increase as prevailing market rates increase. However, the current interest rate environment, and the preferences of our customers, has resulted in more of a demand for fixed-rate products. This may adversely impact our net interest income, particularly in a rising rate environment. To help manage our interest rate risk, we have increased our focus on the origination of commercial real estate mortgage loans and adjustable-rate construction loans. In addition, we primarily invest in shorter-to-medium duration securities, which generally have shorter average lives and lower yields compared to longer term securities. Shortening the average lives of our securities, along with originating more adjustable-rate mortgages and commercial real estate mortgages, will help to reduce interest rate risk.

We retain two independent, nationally recognized consulting firms who specialize in asset and liability management to complete our quarterly interest rate risk reports. They use a combination of analyses to monitor our exposure to changes in interest rates. The economic value of equity analysis is a model that estimates the change in net portfolio value ( NPV ) over a range of immediately changed interest rate scenarios. NPV is the discounted present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. In calculating changes in NPV, assumptions estimating loan prepayment rates, reinvestment rates and deposit decay rates that seem most likely based on historical experience during prior interest rate changes are used.

The net interest income analysis uses data derived from a dynamic asset and liability analysis, described below, and applies several additional elements, including actual interest rate indices and margins, contractual limitations and the U.S. Treasury yield curve as of the balance sheet date. In addition we apply consistent parallel yield curve shifts (in both directions) to determine possible changes in net interest income if the theoretical yield curve shifts occurred gradually.

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Net interest income analysis also adjusts the dynamic asset and liability repricing analysis based on changes in prepayment rates resulting from the parallel yield curve shifts.

Our dynamic asset and liability analysis determines the relative balance between the repricing of assets and liabilities over multiple periods of time (ranging from overnight to five years). This dynamic asset and liability analysis includes expected cash flows from loans and mortgage-backed securities, applying prepayment rates based on the differential between the current interest rate and the market interest rate for each loan and security type. This analysis identifies mismatches in the timing of asset and liability but does not necessarily provide an accurate indicator of interest rate risk because the assumptions used in the analysis may not reflect the actual response to market changes.

***Quantitative Analysis***. The table below sets forth, as of September 30, 2007 the estimated changes in our NPV and our annual net interest income that would result from the designated changes in the interest rates. Such changes to interest rates are calculated as an immediate and permanent change for the purposes of computing NPV and a gradual change over a one year period for the purposes of computing net interest income. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results. We did not estimate changes in NPV or net interest income for an interest rate decrease or increase of greater than 200 basis points.

| Change in Interest Rates (basis points) | Net Portfolio Value (1),(2) | | | Net Interest Income (3) | | |
|---|---|---|---|---|---|---|
| | Estimated NPV | Estimated Increase (Decrease) | | Estimated Net Interest Income | Increase (Decrease) in Estimated Net Interest Income | |
| | | Amount | Percent | | Amount | Percent |
| | (Dollars in thousands) | | | | | |
| +200bp | 446,551 | (279,872) | (38.5)% | 83,597 | (12,116) | (12.7)% |
| 0bp | 726,423 | | | 95,713 | | |
| -200bp | 820,156 | 93,733 | 12.9% | 109,419 | 13,706 | 14.3% |

(1) NPV is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.

(2) Assumes an instantaneous uniform change in interest rates at all maturities.

(3) Assumes a gradual change in interest rates over a one year

period at all
maturities

The table set forth above indicates at September 30, 2007 in the event of a 200 basis points increase in interest rates, we would be expected to experience a 38.5% decrease in NPV and a $12.1 million or 12.7% decrease in annual net interest income. In the event of a 200 basis points decrease in interest rates, we would be expected to experience a 12.9% increase in NPV and a $13.7 million or 14.3% increase in annual net interest income. These data do not reflect any future actions we may take in response to changes in interest rates, such as changing the mix of our assets and liabilities, which could change the results of the NPV and net interest income calculations.

As mentioned above, we retain two nationally recognized firms to compute our quarterly interest rate risk reports. Although we are confident of the accuracy of the results, certain shortcomings are inherent in any methodology used in the above interest rate risk measurements. Modeling changes in NPV and net interest income require certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. The NPV and net interest income table presented above assumes the composition of our interest-rate sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and, accordingly, the data do not reflect any actions we may take in response to changes in interest rates. The table also assumes a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or the repricing characteristics of specific assets and liabilities. Accordingly, although the NPV and net interest income table provide an indication of our sensitivity to interest rate changes at a particular point in time, such measurement is not intended to and does not provide a precise forecast of the effects of changes in market interest rates on our NPV and net interest income.

**Item 4. Controls and Procedures**

Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

There were no significant changes made in the Company s internal controls over financial reporting or in other factors that could significantly affect the Company s internal controls over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

**Part II Other Information**

**Item 1. Legal Proceedings**

The Company and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Company s financial condition or results of operations.

**Item 1A. Risk Factors**

There have been no material changes in the Risk Factors disclosed in the Company s 2007 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table reports information regarding repurchases of our common stock during the first quarter of fiscal 2008 and the stock repurchase plans approved by our Board of Directors.

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| Period | Total Number of Shares Purchased (1) | Average price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| July 1, 2007 through July 31, 2007 | 583,000 | $ 13.01 | 583,000 | 3,046,726 |
| August 1, 2007 through August 31, 2007 | 618,700 | 12.82 | 618,700 | 2,428,026 |
| September 1, 2007 through September 30, 2007 | 193,500 | 14.20 | 193,500 | 2,234,526 |
| Total | 1,395,200 | $ 13.09 | 1,395,200 | |

(1) On April 26, 2007, the Company announced its second Share Repurchase Program, which authorized the purchase of an additonal 10% of its publicly-held outstanding shares of common stock, or 4,785,831 shares. This stock repurchase program commenced upon completion of the first program on May 10, 2007. This program has no expiration date and has

2,234,526
shares yet to be
purchased as of
September 30,
2007.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Submission of Matters to a Vote of Security Holders**

During the period covered by this report, the Company did not submit any matters to the vote of security holders.

**Item 5. Other Information**

Not applicable

**Item 6. Exhibits**

The following exhibits are either filed as part of this report or are incorporated herein by reference:

| | |
|---|---|
| 3.1 | Certificate of Incorporation of Investors Bancorp, Inc.* |
| 3.2 | Bylaws of Investors Bancorp, Inc.* |
| 4 | Form of Common Stock Certificate of Investors Bancorp, Inc.* |
| 10.1 | Form of Employment Agreement between Investors Bancorp, Inc. and certain executive officers* |
| 10.2 | Form of Change in Control Agreement between Investors Bancorp, Inc. and certain executive officers * |

| | |
|---|---|
| 10.3 | Investors Savings Bank Director Retirement Plan* |
| 10.4 | Investors Savings Bank Supplemental Retirement Plan* |
| 10.5 | Investors Bancorp, Inc. Supplemental Wage Replacement Plan* |
| 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32 | Certification of Principal Executive Officer and Principal Financial and Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

* Filed as exhibits to the Company s Registration Statement on Form S-1, and any amendments thereto, with the Securities and Exchange Commission (Registration No. 333-125703)

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## 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 thereunto duly authorized.

| | |
|---|---|
| | **Investors Bancorp, Inc.** |
| Dated: November 9, 2007 | /s/ Robert M. Cashill<br>Robert M. Cashill<br>President and Chief Executive Officer<br>(Principal Executive Officer) |
| Dated: November 9, 2007 | /s/ Domenick A. Cama<br>Domenick A. Cama<br>Executive Vice President and Chief Financial Officer<br>(Principal Financial and Accounting Officer) |