

Investors Bancorp Inc  
Form 10-Q  
May 09, 2008

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

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the quarterly period ended: March 31, 2008**

**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 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a 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

As of April 30, 2008 there were 116,275,688 shares of the Registrant's common stock, par value \$0.01 per share, issued and 107,995,967 outstanding, of which 63,099,781 shares, or 58.42% of the Registrant's outstanding common stock, were held by Investors Bancorp, MHC, the Registrant's mutual holding company parent.

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## Consolidated Balance Sheets

March 31, 2008 (Unaudited) and June 30, 2007

	<b>March 31, 2008</b>	<b>June 30, 2007</b>
	(In thousands)	
<b>Assets</b>		
Cash and cash equivalents	\$ 90,938	24,810
Securities available-for-sale, at estimated fair value	214,049	251,970
Securities held-to-maturity, net (estimated fair value of \$1,271,313 and \$1,472,385 at March 31, 2008 and June 30, 2007, respectively)	1,302,356	1,517,664
Loans receivable, net	4,078,254	3,589,373
Loans held-for-sale	6,722	3,410
Stock in the Federal Home Loan Bank	41,846	33,887
Accrued interest receivable	26,183	24,300
Office properties and equipment, net	28,009	27,155
Net deferred tax asset	38,571	39,399
Bank owned life insurance contract	90,949	88,018
Other assets	1,153	1,102
Total assets	\$ 5,919,030	5,601,088
 <b>Liabilities and Stockholders Equity</b>		
Liabilities:		
Deposits	\$ 3,887,967	3,664,966
Borrowed funds	1,155,589	1,038,710
Advance payments by borrowers for taxes and insurance	19,374	17,671
Other liabilities	36,215	36,376
Total liabilities	5,099,145	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; 108,135,665 and 111,468,952 outstanding at March 31, 2008 and June 30, 2007, respectively	532	532
Additional paid-in capital	511,850	506,016
Retained earnings	465,575	453,751
Treasury stock, at cost; 8,276,765 and 4,806,736 shares at March 31, 2008 and June 30, 2007, respectively	(116,774)	(70,973)
Unallocated common stock held by the employee stock ownership plan	(37,932)	(38,996)
Accumulated other comprehensive loss	(3,366)	(6,965)

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Total stockholders' equity	819,885	843,365
Total liabilities and stockholders' equity	\$ 5,919,030	5,601,088

See accompanying notes to consolidated financial statements.

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## Consolidated Statements of Income

(Unaudited)

	<b>For the Three Months Ended March 31,</b>		<b>For the Nine Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	(Dollars in thousands, except per share data)			
Interest and dividend income:				
Loans receivable and loans held-for-sale	\$ 57,123	45,868	166,777	131,906
Securities:				
Government-sponsored enterprise obligations	1,042	1,339	3,714	4,017
Mortgage-backed securities	14,919	18,286	47,358	60,988
Equity securities available-for-sale		443		1,370
Municipal bonds and other debt	2,627	2,410	8,773	7,228
Interest-bearing deposits	151	154	452	545
Repurchase agreements	162		162	
Federal Home Loan Bank stock	971	798	2,364	2,248
<b>Total interest and dividend income</b>	<b>76,995</b>	<b>69,298</b>	<b>229,600</b>	<b>208,302</b>
Interest expense:				
Deposits	37,980	35,673	116,899	100,467
Secured borrowings	12,887	11,995	41,414	42,744
<b>Total interest expense</b>	<b>50,867</b>	<b>47,668</b>	<b>158,313</b>	<b>143,211</b>
Net interest income	26,128	21,630	71,287	65,091
Provision for loan losses	1,000	200	2,950	525
<b>Net interest income after provision for loan losses</b>	<b>25,128</b>	<b>21,430</b>	<b>68,337</b>	<b>64,566</b>
Non-interest income:				
Fees and service charges	740	642	2,219	1,961
Income on bank owned life insurance contract	954	910	2,931	2,629
Gain on sales of mortgage loans, net	234	135	466	89
Gain (loss) on securities transactions, net	(17)		1	(3,666)
Other income	171	23	301	65
<b>Total non-interest income</b>	<b>2,082</b>	<b>1,710</b>	<b>5,918</b>	<b>1,078</b>
Non-interest expenses:				
Compensation and fringe benefits	13,027	12,962	37,378	35,520
Advertising and promotional expense	635	767	1,865	2,525
Office occupancy and equipment expense	2,565	2,469	7,703	7,407
Federal insurance premiums	112	108	326	326

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Stationery, printing, supplies and telephone	465	399	1,305	1,172
Legal, audit, accounting, and supervisory examination fees	543	504	1,517	1,551
Data processing service fees	1,076	1,004	3,061	2,912
Other operating expenses	878	891	3,043	3,025
Total non-interest expenses	19,301	19,104	56,198	54,438
Income before income tax expense (benefit)	7,909	4,036	18,057	11,206
Income tax expense (benefit)	2,905	1,042	6,244	(8,159)
Net income	\$ 5,004	2,994	11,813	19,365
Earnings per share basic and diluted	\$ 0.05	\$ 0.03	\$ 0.11	\$ 0.17
Weighted average shares outstanding				
Basic	102,952,725	109,165,928	104,064,944	111,066,524
Diluted	103,080,783	109,252,301	104,208,845	111,071,493
See accompanying notes to consolidated financial statements.				

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**INVESTORS BANCORP, INC.**  
Consolidated Statements of Stockholders Equity  
Nine months ended March 31, 2008 and 2007  
(Unaudited)

	<b>Common stock</b>	<b>Additional paid-in capital</b>	<b>Retained earnings</b>	<b>Treasury stock</b>	<b>Unallocated Common Stock Held by ESOP</b>	<b>Accumulated other comprehensive loss</b>	<b>Total stockholders equity</b>
Balance at June 30, 2006	\$ 532	524,962	426,233		(40,414)	(11,126)	900,187
Comprehensive income:							
Net income			19,365				19,365
Unrealized gain on securities available- for-sale, net of tax expense of \$6,760						10,117	10,117
Reclassification adjustment for losses included in net income, net of tax benefit of \$1,347						(1,951)	(1,951)
Total comprehensive income							27,531
Cummulative effect of change in accounting for bank owned life insurance			5,564				5,564
Purchase of treasury stock (4,856,295 shares)				(74,082)			(74,082)
Treasury stock allocated to restricted stock plan		(25,421)	(312)	25,733			
Compensation cost for stock options and restricted stock		3,458					3,458
ESOP shares allocated or committed to be		512			1,064		1,576



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Balance at March 31, 2007	\$ 532	503,511	450,850	(48,349)	(39,350)	(2,960)	864,234
Balance at June 30, 2007	\$ 532	506,016	453,751	(70,973)	(38,996)	(6,965)	843,365
Comprehensive income:							
Net income			11,813				11,813
Change in funded status of postretirement plan due to plan curtailment and settlement, net of tax expense of \$891						1,337	1,337
Amortization related to postretirement obligations, net of tax expense of \$54						80	80
Unrealized gain on securities available- for-sale, net of tax expense of \$1,521						2,182	2,182
Total comprehensive income							15,412
Cummulative effect adjustment upon adoption of FIN 48			300				300
Purchase of treasury stock (3,470,029 shares)				(47,920)			(47,920)
Treasury stock allocated to restricted stock plan		(1,830)	(289)	2,119			
Compensation cost for stock options and restricted stock		7,215					7,215
ESOP shares allocated or committed to be released		449			1,064		1,513
	\$ 532	511,850	465,575	(116,774)	(37,932)	(3,366)	819,885

Balance at  
March 31, 2008

See accompanying notes to consolidated financial statements.

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

	<b>For the Nine Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 11,813	19,365
Adjustments to reconcile net income to net cash provided by operating activities:		
ESOP and stock-based compensation expense	8,728	5,034
Amortization of premiums and accretion of discounts on securities, net	785	1,228
Amortization of premium and accretion of fees and costs on loans, net	1,559	1,386
Provision for loan losses	2,950	525
Depreciation and amortization of office properties and equipment	2,026	2,106
(Gain) loss on securities transactions, net	(1)	3,666
Mortgage loans originated for sale	(59,982)	(35,225)
Proceeds from mortgage loan sales	57,136	30,471
Gain on sales of mortgage loans, net	(466)	(89)
Income on bank owned life insurance contract	(2,931)	(2,629)
Increase in accrued interest receivable	(1,883)	(2,819)
Deferred tax benefit	(1,638)	(14,058)
(Increase) decrease in other assets	(51)	147
Increase (decrease) in other liabilities	2,501	(4,709)
 Total adjustments	 8,732	 (14,966)
 Net cash provided by operating activities	 20,545	 4,399
 Cash flows from investing activities:		
Purchases of loans receivable	(467,362)	(503,647)
Net (originations) repayments of loans receivable	(26,028)	73,334
Purchases of mortgage-backed securities held-to-maturity		(22,701)
Purchases of debt securities held-to-maturity	(23,118)	(13,000)
Purchases of other investments available-for-sale	(1,400)	
Proceeds from paydowns/maturities on mortgage-backed securities held-to-maturity	170,072	214,761
Proceeds from calls/maturities on debt securities held-to-maturity	67,508	2,063
Proceeds from paydowns/maturities on mortgage-backed securities available-for-sale	43,087	70,809
Proceeds from call of equity securities available-for-sale		10,000
Proceeds from sale of mortgage-backed securities held-to-maturity		22,942
Proceeds from sale of mortgage-backed securities available-for-sale		161,112
Proceeds from redemptions of Federal Home Loan Bank stock	21,323	29,251
Purchases of Federal Home Loan Bank stock	(29,282)	(16,650)
Purchases of office properties and equipment	(2,880)	(1,396)

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Net cash (used in) provided by investing activities	(248,080)	26,878
Cash flows from financing activities:		
Net increase in deposits	223,001	282,066
Net decrease in funds borrowed under short-term repurchase agreements	(160,000)	(125,000)
Proceeds from funds borrowed under other repurchase agreements	590,000	310,000
Repayments of funds borrowed under other repurchase agreements	(80,000)	(475,000)
Net (decrease) increase in other borrowings	(233,121)	34,977
Net increase in advance payments by borrowers for taxes and insurance	1,703	689
Purchase of treasury stock	(47,920)	(74,082)
Net cash provided by (used in) financing activities	293,663	(46,350)
Net increase (decrease) in cash and cash equivalents	66,128	(15,073)
Cash and cash equivalents at beginning of period	24,810	39,824
Cash and cash equivalents at end of period	\$ 90,938	24,751
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	155,635	143,168
Income taxes	2,194	7,615
See accompanying notes to consolidated financial statements.		

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## Notes to Consolidated Financial Statements

**1. Basis of Presentation**

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

In the opinion of management, all the adjustments (consisting of normal and recurring adjustments) necessary for the fair presentation of the consolidated financial condition and the consolidated results of operations for the unaudited periods presented have been included. The results of operations and other data presented for the three and nine month periods ended March 31, 2008 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.

	<b>For the Three Months Ended March 31,</b>					
	<b>2008</b>			<b>2007</b>		
	<b>Income</b>	<b>Shares</b>	<b>Per Share Amount</b>	<b>Income</b>	<b>Shares</b>	<b>Per Share Amount</b>
	(In thousands, except per share data)					
Net Income	\$ 5,004			\$ 2,994		
Basic earnings per share:						
Income available to common stockholders	\$ 5,004	102,952,725	\$ 0.05	\$ 2,994	109,165,928	\$ 0.03
Effect of dilutive common stock equivalents		128,058			86,373	
Diluted earnings per share:						
Income available to common stockholders	\$ 5,004	103,080,783	\$ 0.05	\$ 2,994	109,252,301	\$ 0.03

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	<b>For the Nine Months Ended March 31,</b>					
	<b>2008</b>			<b>2007</b>		
	<b>Income</b>	<b>Shares</b>	<b>Per Share Amount</b>	<b>Income</b>	<b>Shares</b>	<b>Per Share Amount</b>
	(In thousands, except per share data)					
Net Income	\$ 11,813			\$ 19,365		
Basic earnings per share:						
Income available to common stockholders	\$ 11,813	104,064,944	\$ 0.11	\$ 19,365	111,066,524	\$ 0.17
Effect of dilutive common stock equivalents		143,901			4,969	
Diluted earnings per share:						
Income available to common stockholders	\$ 11,813	104,208,845	\$ 0.11	\$ 19,365	111,071,493	\$ 0.17

Anti-dilutive stock options and awards totaling 4,925,994 shares at March 31, 2008 were excluded from the earnings per share calculations.

**3. Loans Receivable, Net**

Loans receivable, net are summarized as follows:

	<b>March 31, 2008</b>	<b>June 30, 2007</b>
	(In thousands)	
Residential mortgage loans	\$ 3,488,985	3,153,212
Multi-family and commercial	155,106	107,350
Construction loans	254,766	152,670
Consumer and other loans	166,745	161,395
Total loans	4,065,602	3,574,627
Premiums and deferred costs	25,011	23,587
Deferred loan fees	(2,522)	(1,924)
Allowance for loan losses	(9,837)	(6,917)
Net loans	\$ 4,078,254	3,589,373

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Deposits are summarized as follows:

	<b>March 31, 2008</b>	<b>June 30, 2007</b>
	(In thousands)	
Savings accounts	\$ 362,694	320,880
Checking accounts	382,866	388,215
Money market accounts	211,193	182,274
Total core deposits	956,753	891,369
Certificates of deposit	2,931,214	2,773,597
	<b>\$ 3,887,967</b>	<b>3,664,966</b>

**5. Equity Incentive Plan**

During the nine months ended March 31, 2008 and 2007, the Company recorded \$7.2 million and \$3.5 million, respectively, of share-based compensation expense, comprised of stock option expense of \$3.0 million and \$1.5 million, respectively, and restricted stock expense of \$4.2 million and \$2.0 million, respectively.

At the January 2008 Compensation and Benefits Committee meeting, the Committee approved the issuance of an additional 136,742 restricted stock awards and 341,851 stock options to the independent directors of the Board. Additionally, during the quarter ended March 31, 2008, 10,000 stock options were issued to certain officers. The awards were made pursuant to the shareholder approved 2006 Equity Incentive Plan.

The following is a summary of the Company's stock option activity and related information for its option plans for the nine months ended March 31, 2008 and 2007:

	<b>Nine months ended March 31,</b>			
	<b>2008</b>		<b>2007</b>	
	Number of Stock Options	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise Price
Outstanding at beginning of period	4,437,401	\$ 15.26		\$
Granted	351,851	13.39	4,447,401	15.26
Exercised				
Forfeited				
Outstanding at end of period	4,789,252	\$ 15.12	4,447,401	\$ 15.26
Exercisable at end of period	887,480	\$ 15.26		\$

The following is a summary of the status of the Company's non-vested options as of March 31, 2008 and 2007 and changes therein during the nine months then ended:

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	<b>Nine months ended March 31,</b>		<b>2007</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	Number of	Weighted	Number of	Weighted
	Stock	Average	Stock	Average
		Grant		Grant
		Date		Date
		Fair		Fair
	Options	Value	Options	Value
Non-vested at the beginning of period	4,437,401	\$ 4.17		\$
Granted	351,851	3.46	4,447,401	4.17
Vested	(887,480)	4.17		
Forfeited				
Non-vested at end of period	3,901,772	\$ 4.10	4,447,401	\$ 4.17

Expected future expense relating to the 3.9 million non-vested options outstanding as of March 31, 2008 is \$14.1 million over a weighted average period of 3.8 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 March 31, 2008 and 2007 and changes therein during the nine months then ended:

	<b>Nine months ended March 31,</b>		<b>2007</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	Number of	Weighted	Number of	Weighted
	Shares	Average	Shares	Average
		Grant		Grant
		Date		Date
		Fair		Fair
	Awarded	Value	Awarded	Value
Non-vested at the beginning of period	1,666,959	\$ 15.25		\$
Granted	136,742	13.38	1,666,959	15.25
Vested	(333,389)	15.25		
Forfeited				
Non-vested at end of period	1,470,312	\$ 15.08	1,666,959	\$ 15.25

Expected future compensation expense relating to the 1.5 million restricted shares at March 31, 2008 is \$19.5 million over a weighted average period of 3.8 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.



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

The Company also provided (i) postretirement health care benefits to retired employees hired prior to April 1991 who attained at least ten years of service and (ii) certain life insurance benefits to all retired employees. In December 2007, the Company curtailed the benefits to current employees and settled its obligations to retired employees related to the postretirement benefit plan and recognized a pre-tax gain of \$2.3 million as a reduction of compensation and fringe benefits expense in the consolidated statements of income.

The components of net periodic benefit expense are as follows:

	<b>Three months ended March 31,</b>			
	<b>SERP and directors plan</b>		<b>Other Benefits</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
		( In thousands)		
Service cost	\$ 135	296		40
Interest cost	253	225	12	135
Amortization of:				
Transition obligation			9	50
Prior service cost	(25)	5		
Net loss (gain)	49	37	(5)	
<b>Total net periodic benefit expense</b>	<b>\$ 412</b>	<b>563</b>	<b>16</b>	<b>225</b>

	<b>Nine months ended March 31,</b>			
	<b>SERP and directors plan</b>		<b>Other Benefits</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
		(In thousands)		
Service cost	\$ 404	888	46	119
Interest cost	758	674	229	404
Amortization of:				
Transition obligation			66	150
Prior service cost	(74)	14		
Net loss (gain)	146	113	(4)	
<b>Total net periodic benefit expense</b>	<b>\$ 1,234</b>	<b>1,689</b>	<b>337</b>	<b>673</b>

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 for employees. Since it is a multiemployer plan, costs of the pension plan are based on contributions required to be made to

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the pension plan. The Company contributed \$1.5 million to the defined benefit pension plan during the first nine 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 Financial Accounting Standards Board ( 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 Statement of Financial Accounting Standards ( 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.

A deferred tax asset is recognized for the estimated future tax effects attributable to temporary differences and carryforwards. The measurement of deferred tax assets is reduced by the amount of any tax benefits that, based on available evidence, are more likely than not to be realized. On a quarterly basis the Company assesses the realizability of its deferred tax assets. In December 2006, the Company performed an assessment of its ability to realize certain deferred tax assets and concluded that, based on the facts and circumstances at the time, a portion of the associated valuation allowance was no longer required. Those facts and circumstances included, but were not limited to, the projected amount of taxable income the Company and its subsidiaries are expected to generate in future years, the Company s ability to generate capital gains, and the decision to discontinue the operations of the Company s Real Estate Investment Trust s ( REIT ) operations and transfer the REIT s assets to the Bank due to legislation passed in the State of New Jersey. As a result, the Company recognized a deferred tax benefit of \$9.9 million related to the reversal of the previously established deferred tax asset valuation allowance during the quarter ended December 31, 2006. This benefit was partially offset by an additional valuation allowance established for the contribution to the charitable foundation.

The Company files income tax returns in the United States federal jurisdiction and in the state of New Jersey jurisdiction. With few exceptions, the Company is 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**

At its January 2008 meeting, the Board of Directors approved a third share repurchase program which authorizes the repurchase of an additional 10% of the Company s publicly-held outstanding common stock, or 4,307,248 shares. The newly approved share repurchase program will commence immediately upon completion of the current program, under which an additional

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159,697 shares may be purchased as of March 31, 2008. Under these programs, 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 nine month period ended March 31, 2008, the Company repurchased 3,470,029 shares of its common stock at an average cost of \$13.81 per share. At March 31, 2008, a total of 4,466,945 shares remained available for repurchase under the share repurchase programs. As of March 31, 2008, a total of 9,943,724 shares have been purchased, at an average cost of \$14.54 per share, under Board authorized share repurchase programs, of which 1,803,701 shares were allocated to fund the restricted stock portion of the Company's 2006 Equity Incentive Plan. The remaining repurchased shares are held for general corporate use, including stock option exercises.

**9. Pending Acquisition**

In August 2007, the Company entered into an Agreement and Plan of Merger with Summit Federal Bankshares, Inc. As required by the Office of Thrift Supervision (OTS), Investors Bancorp has agreed to issue additional shares of its common stock to Investors Bancorp, MHC ( Investors MHC ), based on a pro forma market valuation of Summit Federal. An independent appraisal has determined that, as of March 17, 2008, Summit Federal had a pro forma market value of \$25.0 million.

At the closing of the merger, which is expected to occur in June 2008 subject to receipt of depositor (Summit Federal) and regulatory approvals, Investors Bancorp will issue the additional shares of common stock to Investors MHC. The number of shares of common stock to be issued to Investors MHC will equal \$25.0 million divided by the average of the closing sales price of a share of Investors Bancorp common stock, as reported on the Nasdaq Stock Market, for the twenty (20) consecutive trading days ending on the second trading day preceding the completion date of the merger. The merger will be accounted for as a pooling of interest of mutual enterprises. As of March 31, 2008, Summit Federal Savings Bank had \$112 million in assets.

**10. 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 and requires various additional fair value disclosures, but does not require any new fair value measurements. SFAS 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 on July 1, 2008 will have a material impact on its financial statements.

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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 on July 1, 2008 will have a material impact on its financial statements.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations. SFAS 141R requires most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at full fair value. SFAS No. 141R applies to all business combinations, including combinations among mutual entities and combinations by contract alone. Under SFAS No. 141R, all business combinations will be accounted for by applying the acquisition method. SFAS No. 141R is effective for business combinations completed on or after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements. SFAS No. 160 will require noncontrolling interests (previously referred to as minority interests) to be treated as a separate component of equity, not as a liability or other item outside of permanent equity. SFAS No. 160 applies to the accounting for noncontrolling interests and transactions with noncontrolling interest holders in consolidated financial statements. SFAS No. 160 is effective for periods beginning on or after December 15, 2008. Earlier application is prohibited. SFAS No. 160 is not expected to have a material impact on the Company's financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities. SFAS No. 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company does not expect that the adoption of SFAS No. 161 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)

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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.

Our results of operations depend primarily on net interest income, which is directly impacted by the market interest rate environment. Net interest income is the difference between the interest income we earn on our interest-earning assets, primarily mortgage loans and investment securities, and the interest we pay on our interest-bearing liabilities, primarily time deposits, interest-bearing transaction accounts and borrowed funds. Net interest income is affected by the shape of the market yield curve, the timing of the placement and repricing of interest-earning assets and interest-bearing liabilities on our balance sheet, and the prepayment rate on our mortgage-related assets.

The Federal Reserve Board aggressively reduced the Fed Funds rate during the quarter ended March 31, 2008, including a surprise 75 basis point rate cut on January 22, 2008. These rate reductions combined with those enacted by the Fed in late 2007 caused a steepening of the yield curve which should have a positive impact on net interest income going forward as the cost of interest-bearing liabilities will decrease at a faster pace than the yield on interest-earning assets.

While the interest rate environment is important to our net interest income, so is the composition of our balance sheet. Although the recent turmoil in the financial markets has created uncertainty and volatility, we remain committed to the strategy of replacing wholesale assets and liabilities with more loans and deposits. However, we will evaluate and take advantage of favorable pricing in the wholesale markets when opportunities exist. This may include purchasing loans on a "bulk purchase" basis from well established financial institutions to supplement our normal loan production as well as borrowing in the wholesale markets when those costs are less than the cost of raising deposits.

Total loans have increased to \$4.07 billion at March 31, 2008 from \$3.57 billion at June 30, 2007, an increase of 13.7%. The majority of the growth came from residential mortgage loans which grew 10.6%, or \$335.8 million to \$3.49 billion. In order to diversify our loan portfolio we have continued our expansion into commercial real estate lending. During the nine months ended March 31, 2008 commercial real estate, construction and multi-family loans increased \$150.0 million or

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57.6%. We believe this may provide us with an opportunity to increase net interest income and improve our interest rate risk position.

During the nine months ended March 31, 2008, we recorded a \$3.0 million provision for loan losses. This reflected the growth in our loan portfolio, particularly in commercial real estate and the risk associated with this type of lending and an internal downgrade of the risk ratings on two construction loans. Our nonperforming assets have increased in line with our recent loan growth, such that the ratio of non-performing assets to total loans has remained consistent at 0.14% at both March 31, 2008 and June 30, 2007.

Total deposits increased by \$223.0 million to \$3.89 billion at March 31, 2008, an increase of 6.1%. We continue to focus on increasing core deposits and de-emphasizing certificates of deposit, however, this task has proven difficult given the interest rate environment, consumer preference 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, loan and deposit portfolios, borrowed funds increased \$116.9 million, or 11.3%, to \$1.16 billion at March 31, 2008 from \$1.04 billion at June 30, 2007.

In August 2007, the Company entered into an Agreement and Plan of Merger with Summit Federal Bankshares, Inc. As required by the Office of Thrift Supervision (OTS), Investors Bancorp has agreed to issue additional shares of its common stock to Investors Bancorp, MHC ( Investors MHC ), based on a pro forma market valuation of Summit Federal. An independent appraisal has determined that, as of March 17, 2008, Summit Federal had a pro forma market value of \$25.0 million.

At the closing of the merger, which is expected to occur in June 2008 subject to receipt of depositor (Summit Federal) and regulatory approvals, Investors Bancorp will issue the additional shares of common stock to Investors MHC. The number of shares of common stock to be issued to Investors MHC will equal \$25.0 million divided by the average of the closing sales price of a share of Investors Bancorp common stock, as reported on the Nasdaq Stock Market, for the twenty (20) consecutive trading days ending on the second trading day preceding the completion date of the merger. The merger will be accounted for as a pooling of interest of mutual enterprises. As of March 31, 2008, Summit Federal Savings Bank had \$112 million in assets and five branch locations that complement our current geographic markets.

**Comparison of Financial Condition at March 31, 2008 and June 30, 2007**

**Total Assets.** Total assets increased by \$317.9 million, or 5.7%, to \$5.92 billion at March 31, 2008 from \$5.60 billion at June 30, 2007. This increase was largely the result of an increase in our loan portfolio partially offset by a decrease in the securities portfolio.

**Securities.** Securities, in the aggregate, decreased by \$253.2 million, or 14.3%, to \$1.52 billion at March 31, 2008, from \$1.77 billion at June 30, 2007. The cash flows from our securities portfolio are being used to fund our loan growth. This is consistent with our strategic plan to change our mix of assets by reducing the size of our securities portfolio and increasing the size of our loan portfolio.

**Net Loans.** Net loans, including loans held for sale, increased by \$492.2 million, or 13.7%, to \$4.08 billion at March 31, 2008 from \$3.59 billion at June 30, 2007. This increase in loans

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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 in close proximity to New Jersey as a way to geographically diversify our loan portfolio. We do not originate or purchase, and our loan portfolio does not include, any sub-prime loans or option ARMs.

We originate residential mortgage loans directly and through our mortgage subsidiary, ISB Mortgage Co. During the nine months ended March 31, 2008, we originated \$173.5 million in residential mortgage loans. In addition, we purchased 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 nine months ended March 31, 2008, we purchased loans totaling \$404.4 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 nine months ended March 31, 2008, we purchased loans totaling \$62.9 million on a bulk purchase basis.

Additionally, for the nine months ended March 31, 2008, we originated \$65.0 million in multi-family and commercial real estate loans and \$146.4 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 March 31, 2008 was \$318.2 million compared to \$287.9 million at June 30, 2007. The ability of borrowers to repay their obligations is dependent upon various factors including the borrower's 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 lessen the potential exposure to such risks and that adequate provisions for loan losses are provided for all known and inherent risks.

The allowance for loan losses increased by \$2.9 million to \$9.8 million at March 31, 2008 from \$6.9 million at June 30, 2007. The increase in the allowance reflects the overall growth in the loan portfolio, particularly commercial real estate loans, as well as the credit risk associated with this type of lending and an internal downgrade of the risk ratings on two construction loans. The allowance for loan losses also reflects the overall inherent credit risk in our loan portfolio, the level of our non-performing loans and our charge-off experience.

Total non-performing loans, defined as non-accruing loans, increased by \$556,000 to \$5.7 million at March 31, 2008 from \$5.1 million at June 30, 2007. The ratio of non-performing loans to total loans was 0.14% at both March 31, 2008 and June 30, 2007. The allowance for loan losses as a percentage of non-performing loans was 172.43% at March 31, 2008 compared with

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134.33% at June 30, 2007. At March 31, 2008 our allowance for loan losses as a percentage of total loans was 0.24% compared with 0.19% at June 30, 2007.

Although we believe we have established and maintained an adequate level of allowance for loan losses, additions may be necessary based on growth of the loan portfolio, the change in composition of the loan portfolio, and the possible continuation of the current adverse economic 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.

**Stock in the Federal Home Loan Bank, Bank Owned Life Insurance and Other Assets.** The amount of stock we own in the Federal Home Loan Bank (FHLB) increased by \$8.0 million from \$33.9 million at June 30, 2007 to \$41.8 million at March 31, 2008 as a result of an increase in our level of borrowings at March 31, 2008. Bank owned life insurance increased by \$2.9 million from \$88.0 million at June 30, 2007 to \$90.9 million at March 31, 2008. There was also an increase in accrued interest receivable of \$1.9 million resulting from an increase in the yield on interest-earning assets and the timing of certain cash flows resulting from the change in the mix of our assets.

**Deposits.** Deposits increased by \$223.0 million, or 6.1%, to \$3.89 billion at March 31, 2008 from \$3.66 billion at June 30, 2007. The increase was due primarily to a \$157.6 million increase in certificates of deposits. Savings account deposits and money market account deposits also increased by \$41.8 million and \$28.9 million, respectively. These increases were partially offset by a \$7.0 million decrease in checking account deposits.

**Borrowed Funds.** Borrowed funds increased \$116.9 million, or 11.3%, to \$1.16 billion at March 31, 2008 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, loan and deposit portfolios.

**Stockholders Equity.** Stockholders equity decreased \$23.5 million to \$819.9 million at March 31, 2008 from \$843.4 million at June 30, 2007. The decrease is primarily attributed to the repurchase of our common stock totaling \$45.8 million partially offset by net income of \$11.8 million for the nine months ended March 31, 2008. Other factors impacting stockholders equity were compensation costs associated with stock options and restricted stock, the change in the accumulated other comprehensive loss, and the allocation of ESOP shares.

**Average Balance Sheets for the Three and Nine Months ended March 31, 2008 and 2007**

The following tables present certain information regarding Investors Bancorp, Inc.'s financial condition and net interest income for the three and nine months ended March 31, 2008 and 2007. The tables present 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.



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	March 31, 2008			March 31, 2007		
	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate (Dollars in thousands)	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate
Interest-earning assets:						
Interest-bearing deposits	\$ 27,013	\$ 151	2.24%	\$ 18,317	\$ 154	3.36%
Repurchase agreements and Fed Funds	23,626	162	2.74%			
Securities available-for-sale (1)	221,914	2,557	4.61%	318,611	3,643	4.57%
Securities held-to-maturity	1,355,945	16,031	4.73%	1,573,901	18,835	4.79%
Net loans	4,020,387	57,123	5.68%	3,313,269	45,868	5.54%
Stock in FHLB	44,088	971	8.81%	35,541	798	8.98%
<b>Total interest-earning assets</b>	<b>5,692,973</b>	<b>76,995</b>	<b>5.41%</b>	<b>5,259,639</b>	<b>69,298</b>	<b>5.27%</b>
Non-interest-earning assets	176,304			173,157		
<b>Total assets</b>	<b>\$ 5,869,277</b>			<b>\$ 5,432,796</b>		
Interest-bearing liabilities:						
Savings	\$ 353,576	2,014	2.28%	\$ 275,530	1,306	1.90%
Interest-bearing checking	330,973	1,595	1.93%	303,904	1,817	2.39%
Money market accounts	208,798	1,225	2.35%	174,671	856	1.96%
Certificates of deposit	2,880,853	33,146	4.60%	2,711,528	31,694	4.68%
Borrowed funds	1,190,571	12,887	4.33%	1,003,698	11,995	4.78%
<b>Total interest-bearing liabilities</b>	<b>4,964,771</b>	<b>50,867</b>	<b>4.10%</b>	<b>4,469,331</b>	<b>47,668</b>	<b>4.27%</b>
Non-interest-bearing liabilities	93,214			83,284		
<b>Total liabilities</b>	<b>5,057,985</b>			<b>4,552,615</b>		
Stockholders equity	811,292			880,181		
<b>Total liabilities and stockholders equity</b>	<b>\$ 5,869,277</b>			<b>\$ 5,432,796</b>		
Net interest income		\$ 26,128			\$ 21,630	

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Net interest rate spread (2)		1.31%	1.00%
Net interest-earning assets (3)	\$ 728,202	\$ 790,308	
Net interest margin (4)		1.84%	1.64%
Ratio of interest-earning assets to total interest- bearing liabilities	1.15X	1.18X	

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	March 31, 2008			For Nine Months Ended March 31, 2007		
	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate (Dollars in thousands)	Average Outstanding Balance	Interest Earned/Paid	Average Yield/Rate
Interest-earning assets:						
Interest-bearing deposits	\$ 19,039	\$ 452	3.17%	\$ 20,346	\$ 545	3.57%
Repurchase agreements and Fed Funds	7,732	162	2.79%			
Securities available-for-sale (1)	236,034	8,130	4.59%	441,337	14,541	4.39%
Securities held-to-maturity	1,428,165	51,715	4.83%	1,650,542	59,062	4.77%
Net loans	3,893,275	166,777	5.71%	3,204,120	131,906	5.49%
Stock in FHLB	43,145	2,364	7.31%	42,903	2,248	6.99%
Total interest-earning assets	5,627,390	229,600	5.44%	5,359,248	208,302	5.18%
Non-interest-earning assets	176,401			159,065		
Total assets	\$ 5,803,791			\$ 5,518,313		
Interest-bearing liabilities:						
Savings	\$ 324,851	5,471	2.25%	\$ 247,467	2,740	1.48%
Interest-bearing checking	338,648	5,920	2.33%	303,209	5,452	2.40%
Money market accounts	201,230	3,889	2.58%	189,401	2,658	1.87%
Certificates of deposit	2,851,958	101,619	4.75%	2,633,313	89,617	4.54%
Borrowed funds	1,170,464	41,414	4.72%	1,165,815	42,744	4.89%
Total interest-bearing liabilities	4,887,151	158,313	4.32%	4,539,205	143,211	4.21%
Non-interest-bearing liabilities	97,620			83,321		
Total liabilities	4,984,771			4,622,526		
Stockholders equity	819,020			895,787		
Total liabilities and stockholders equity	\$ 5,803,791			\$ 5,518,313		
Net interest income		\$ 71,287			\$ 65,091	

Net interest rate spread (2)		1.12%	0.97%
Net interest-earning assets (3)	\$ 740,239	\$ 820,043	
Net interest margin (4)		1.69%	1.62%
Ratio of interest-earning assets to total interest- bearing liabilities	1.15X	1.18X	

(1) Securities available-for-sale are stated at amortized cost, adjusted for unamortized purchase 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.

**Table of Contents****Comparison of Operating Results for the Three Months Ended March 31, 2008 and 2007**

**Net Income.** Net income was \$5.0 million for the three months ended March 31, 2008 compared to net income of \$3.0 million for the three months ended March 31, 2007. This increase reflects an increase in net interest income, partially offset by an increase in our effective tax rate and an increase in the provision for loan losses.

**Net Interest Income.** Net interest income increased by \$4.5 million, or 20.8%, to \$26.1 million for the three months ended March 31, 2008 from \$21.6 million for the three months ended March 31, 2007. During the three months ended March 31, 2008, our net interest rate spread increased 31 basis points to 1.31% as a result of a 14 basis point improvement in our yield on interest-earning assets to 5.41% for the three months ended March 31, 2008 from 5.27% for the three months ended March 31, 2007 and the cost of interest-bearing liabilities decreasing 17 basis points to 4.10% for the three months ended March 31, 2008 from 4.27% for the three months ended March 31, 2007. Our net interest margin increased 20 basis points to 1.84% as compared to the three months ended March 31, 2007. This improvement can be attributed to the growth in our loan portfolio and the Fed's recent reduction in rates.

**Interest and Dividend Income.** Total interest and dividend income increased by \$7.7 million, or 11.1%, to \$77.0 million for the three months ended March 31, 2008 from \$69.3 million for the three months ended March 31, 2007. This increase is primarily due to the average balance of interest-earning assets increasing \$433.3 million, or 8.2%, to \$5.69 billion for the three months ended March 31, 2008 from \$5.26 billion for the three months ended March 31, 2007. In addition, the weighted average yield on interest-earning assets increased 14 basis points to 5.41% for the three months ended March 31, 2008 compared to 5.27% for the three months ended March 31, 2007. Interest income on loans increased by \$11.3 million, or 24.5%, to \$57.1 million for the three months ended March 31, 2008 from \$45.9 million for the three months ended March 31, 2007, reflecting a \$707.1 million, or 21.3%, increase in the average balance of net loans to \$4.02 billion for the three months ended March 31, 2008 from \$3.31 billion for the three months ended March 31, 2007. In addition, the average yield on net loans increased 14 basis points to 5.68% for the three months ended March 31, 2008 from 5.54% for the three months ended March 31, 2007.

Interest income on all other interest-earning assets, excluding loans, decreased by \$3.6 million, or 15.2%, to \$19.9 million for the three months ended March 31, 2008 from \$23.4 million for the three months ended March 31, 2007. This decrease reflected a \$273.8 million decrease in the average balance of securities and other interest-earning assets and a 7 basis point decrease in the average yield on securities and other interest-earning assets to 4.75% for the three months ended March 31, 2008 from 4.82% for the three months ended March 31, 2007.

**Interest Expense.** Total interest expense increased by \$3.2 million, or 6.7%, to \$50.9 million for the three months ended March 31, 2008 from \$47.7 million for the three months ended March 31, 2007. This increase was due to the average balance of total interest-bearing liabilities increasing by \$495.4 million, or 11.1%, to \$4.96 billion for the three months ended March 31, 2008 from \$4.47 billion for the three months ended March 31, 2007. This was partially offset by a 17 basis point decrease in the weighted average cost of total interest-bearing liabilities to 4.10% for the three months ended March 31, 2008 compared to 4.27% for the three months ended March 31, 2007.

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Interest expense on interest-bearing deposits increased \$2.3 million, or 6.5%, to \$38.0 million for the three months ended March 31, 2008 from \$35.7 million for the three months ended March 31, 2007. This increase was due to the average balance of interest-bearing deposits increasing \$308.6 million, or 8.9%, to \$3.77 billion for the three months ended March 31, 2008 from \$3.47 billion for the three months ended March 31, 2007, partially offset by a 9 basis point decrease in the average cost of interest-bearing deposits to 4.03% for the three months ended March 31, 2008 from 4.12% for the three months ended March 31, 2007.

Interest expense on borrowed funds increased by \$892,000, or 7.4%, to \$12.9 million for the three months ended March 31, 2008 from \$12.0 million for the three months ended March 31, 2007. This is due to the average balance of borrowed funds increasing \$186.9 million, or 18.6% to \$1.19 billion for the three months ended March 31, 2008 from \$1.00 billion for the three months ended March 31, 2007. This was partially offset by the average cost of borrowed funds decreasing 45 basis points to 4.33% for the three months ended March 31, 2008 from 4.78% for the three months ended March 31, 2007.

**Provision for Loan Losses.** Our provision for loan losses was \$1.0 million for the three months ended March 31, 2008 compared to \$200,000 for the three months ended March 31, 2007. There were \$21,000 in net charge-offs for the three months ended March 31, 2008 (none for the three months ended March 31, 2007). See discussion of the allowance for loan losses and non-accrual loans in "*Comparison of Financial Condition at March 31, 2008 and June 30, 2007*."

**Non-interest Income.** Total non-interest income increased by \$372,000, or 21.8% to \$2.1 million for the three months ended March 31, 2008 from \$1.7 million for the three months ended March 31, 2007. This was partially due to a \$105,000 gain realized on the redemption of the Visa stock received in connection with Visa's initial public offering in the quarter ended March 31, 2008. Additionally there was a \$99,000 increase in gain on loan sales and a \$98,000 increase in fees and service charges.

**Non-interest Expenses.** Total non-interest expenses increased by \$197,000, or 1.0%, to \$19.3 million for the three months ended March 31, 2008 from \$19.1 million for the three months ended March 31, 2007.

**Income Taxes.** Income tax expense was \$2.9 million for the three months ended March 31, 2008, as compared to income tax expense of \$1.0 million for the three months ended March 31, 2007. Our effective tax expense rate was 36.7% for the three months ended March 31, 2008, compared to an effective tax expense rate of 25.8% for the three months ended March 31, 2007. The increase in the effective tax rate can be attributed to the liquidation of our New Jersey Real Estate Investment Trust (REIT) in December 2007. The liquidation was in response to the change in taxation of REITs by the State of New Jersey.

**Comparison of Operating Results for the Nine Months Ended March 31, 2008 and 2007**

**Net Income.** Net income for the nine months ended March 31, 2008 was \$11.8 million compared to net income of \$19.4 million for the nine months ended March 31, 2007. During the nine months ended March 31, 2007 the Company recognized \$9.9 million in deferred tax benefits from the net reduction in previously established valuation allowances for deferred tax assets, partially offset by a \$1.2 million additional valuation allowance established for the

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contribution to our charitable foundation. Additionally, the Company realized a pretax loss of \$3.7 million from a balance sheet restructuring during the nine months ended March 31, 2007.

**Net Interest Income.** Net interest income increased by \$6.2 million, or 9.5%, to \$71.3 million for the nine months ended March 31, 2008 from \$65.1 million for the nine months ended March 31, 2007. During the nine months ended March 31, 2008, our net interest rate spread increased 15 basis points to 1.12% as a result of a 26 basis point improvement in our yield on interest-earning assets to 5.44% for the nine months ended March 31, 2008 from 5.18% for the nine months ended March 31, 2007. This was partially offset by the cost of interest-bearing liabilities increasing 11 basis points to 4.32% for the nine months ended March 31, 2008 from 4.21% for the nine months ended March 31, 2007. Our net interest margin increased 7 basis points to 1.69% as compared to the nine months ended March 31, 2007. This improvement can be attributed to the growth in our loan portfolio and the Fed's recent reduction in rates.

**Interest and Dividend Income.** Total interest and dividend income increased by \$21.3 million, or 10.2%, to \$229.6 million for the nine months ended March 31, 2008 from \$208.3 million for the nine months ended March 31, 2007, reflecting a \$268.1 million, or 5.0%, increase in the average balance of interest-earning assets to \$5.63 billion for the nine months ended March 31, 2008 from \$5.36 billion for the nine months ended March 31, 2007. In addition, there was a 26 basis point increase in the weighted average yield on interest-earning assets to 5.44% for the nine months ended March 31, 2008 compared to 5.18% for the nine months ended March 31, 2007.

Interest income on loans increased by \$34.9 million, or 26.4%, to \$166.8 million for the nine months ended March 31, 2008 from \$131.9 million for the nine months ended March 31, 2007, reflecting a \$689.2 million, or 21.5%, increase in the average balance of net loans to \$3.89 billion for the nine months ended March 31, 2008 from \$3.2 billion for the nine months ended March 31, 2007. In addition, the average yield on loans increased 22 basis points to 5.71% for the nine months ended March 31, 2008 from 5.49% for the nine months ended March 31, 2007.

Interest income on all other interest-earning assets, excluding loans, decreased by \$13.6 million, or 17.8%, to \$62.8 million for the nine months ended March 31, 2008 from \$76.4 million for the nine months ended March 31, 2007. This decrease reflected a \$421.0 million decrease in the average balance of securities and other interest-earning assets partially offset by a 10 basis point increase in the average yield on securities and other interest-earning assets to 4.83% for the nine months ended March 31, 2008 from 4.73% for the nine months ended March 31, 2007.

**Interest Expense.** Total interest expense increased by \$15.1 million, or 10.5%, to \$158.3 million for the nine months ended March 31, 2008 from \$143.2 million for the nine months ended March 31, 2007. This increase was primarily due to the average balance of total interest-bearing liabilities increasing to \$4.89 billion for the nine months ended March 31, 2008 from \$4.54 billion for the nine months ended March 31, 2007. In addition there was an 11 basis point increase in the weighted average cost of total interest-bearing liabilities to 4.32% for the nine months ended March 31, 2008 compared to 4.21% for the nine months ended March 31, 2007.

Interest expense on interest-bearing deposits increased \$16.4 million, or 16.4%, to \$116.9 million for the nine months ended March 31, 2008 from \$100.5 million for the nine months ended March 31, 2007. This increase was due primarily to the average balance of interest-bearing deposits increasing \$343.3 million, or 10.2%, to \$3.72 billion for the nine months ended March 31, 2008 from \$3.37 billion for the nine months ended March 31, 2007. In addition, the



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average cost of interest-bearing deposits increased 22 basis points to 4.19% for the nine months ended March 31, 2008 from 3.97% for the nine months ended March 31, 2007.

Interest expense on borrowed funds decreased by \$1.3 million, or 3.1%, to \$41.4 million for the nine months ended March 31, 2008 from \$42.7 million for the nine months ended March 31, 2007. The decrease is primarily due to the average cost of borrowed funds decreasing 17 basis points to 4.72% for the nine months ended March 31, 2008 from 4.89% for the nine months ended March 31, 2007. This was partially offset by the average balance of borrowed funds increasing \$4.6 million, or 0.4%, to \$1.17 billion for the nine months ended March 31, 2008.

***Provision for Loan Losses.*** Our provision for loan losses was \$3.0 million for the nine month period ended March 31, 2008 compared to \$525,000 for the nine months ended March 31, 2007. There were net charge-offs of \$29,000 for the nine month period ended March 31, 2008 compared to net charge-offs of \$139,000 for the nine months ended March 31, 2007. See discussion of the allowance for loan losses and non-accrual loans in *Comparison of Financial Condition at March 31, 2008 and June 30, 2007*.

***Non-interest Income.*** Total non-interest income increased by \$4.8 million to \$5.9 million for the nine months ended March 31, 2008 from \$1.1 million for the nine months ended March 31, 2007. The nine months ended March 31, 2007 included a \$3.7 million loss on the sale of securities primarily attributed to a balance sheet restructuring. Additionally, the gain on loan sales increased by \$377,000 to \$466,000 for the nine months ended March 31, 2008 from \$89,000 for the nine months ended March 31, 2007. Income associated with our bank owned life insurance contract also increased by \$302,000 to \$2.9 million for the nine months ended March 31, 2008 from \$2.6 million for the nine months ended March 31, 2007.

***Non-interest Expenses.*** Total non-interest expenses increased by \$1.8 million, or 3.2%, to \$56.2 million for the nine months ended March 31, 2008 from \$54.4 million for the nine months ended March 31, 2007. This increase was primarily the result of compensation and fringe benefits increasing by \$1.9 million, or 5.2%, to \$37.4 million for the nine months ended March 31, 2008. The nine month period ended March 31, 2008 included a \$3.5 million increase in expense for the 2006 Equity Incentive Plan compared to the nine month period ended March 31, 2007. This increase was partially offset by a \$2.3 million gain related to the curtailment and settlement of our postretirement benefit obligation recognized during the nine months ended March 31, 2008. In addition, the increase also reflects staff additions in our commercial real estate and retail banking areas, as well as normal merit increases and increases in employee benefit costs.

***Income Taxes.*** Income tax expense was \$6.2 million for the nine months ended March 31, 2008, representing a 35.7% effective tax rate for the period. For the nine months ended March 31, 2007 there was an income tax benefit of \$8.2 million. The tax benefit was attributed to the reversal, in the quarter ended December 31, 2006, of a substantial portion of the previously established deferred tax asset valuation allowance, as management determined that it is more likely than not that the deferred tax asset will be recognized.

**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

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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.

At March 31, 2008 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 had total borrowings of \$1.16 billion at March 31, 2008, an increase from \$1.04 billion at June 30, 2007. This increase was primarily the result of loan growth that exceeded the available cash flows from the investment, loan and deposit portfolios.

In the normal course of business, the Company routinely enters into various commitments, primarily relating to the origination of loans. At March 31, 2008, outstanding commitments to originate and purchase loans totaled \$298.1 million; outstanding unused lines of credit totaled \$275.2 million; and outstanding commitments to sell loans totaled \$25.0 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 \$2.74 billion at March 31, 2008. Based upon historical experience, management estimates that a significant portion of such deposits will remain with the Company.

At its January 2008 meeting, the Board of Directors approved a third share repurchase program which authorizes the repurchase of an additional 10% of the Company's publicly-held outstanding common stock, or 4,307,248 shares. The newly approved share repurchase program will commence immediately upon completion of the current program, under which an additional 159,697 shares may be purchased as of March 31, 2008. Under these programs, 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 nine month period ended March 31, 2008, the Company repurchased 3,470,029 shares of its common stock at an average cost of \$13.81 per share. At March 31, 2008, a total of 4,466,945 shares remained available for repurchase under the share repurchase programs. As of March 31, 2008, a total of 9,943,724 shares have been purchased, at an average cost of \$14.54 per share, under Board authorized share repurchase programs, of which 1,803,701 shares were allocated to fund the restricted stock portion of the Company's 2006 Equity Incentive Plan. The remaining repurchased shares are held for general corporate use, including stock option exercises.

As of March 31, 2008 the Bank exceeded all regulatory capital requirements as follows:

	<b>As of March 31, 2008</b>			
	<b>Actual</b>	<b>Required</b>		
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
	<b>(Dollars in thousands)</b>			
Total capital (to risk-weighted assets)	\$714,675	23.1%	\$247,194	8.0%
Tier I capital (to risk-weighted assets)	704,838	22.8	123,597	4.0
Tier I capital (to average assets)	704,838	12.0	234,335	4.0

**Table of Contents****Off-Balance Sheet Arrangements and Contractual Obligations**

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in the financial statements. These transactions primarily relate to lending commitments.

The following table shows the contractual obligations of the Company by expected payment period as of March 31, 2008:

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than One Year</b>	<b>One-Two Years</b>	<b>Two-Three Years</b>	<b>More than Three Years</b>
Debt obligations (excluding capitalized leases)	\$ 1,155,589	325,000	260,000	175,000	395,589
Commitments to originate and purchase loans	\$ 298,126	298,126			
Commitments to sell loans	\$ 24,982	24,982			

Additionally, at March 31, 2008, the Company's commitments to fund unused lines of credit totaled \$275.2 million. Debt obligations include borrowings from the FHLB and other borrowings. The borrowings have defined terms and, under certain circumstances, \$680.0 million of the borrowings are callable at the option of the lender.

Commitments to originate loans and commitments to fund unused lines of credit are agreements to lend additional funds to customers as long as there have been no violations of any of the conditions established in the agreements. Commitments generally have a fixed expiration or other termination clauses which may or may not require a payment of a fee. Since some of these loan commitments are expected to expire without being drawn upon, total commitments do not necessarily represent future cash requirements.

In addition to the contractual obligations previously discussed, we have other liabilities and capitalized and operating lease obligations. These contractual obligations as of March 31, 2008 have not changed significantly from June 30, 2007.

For further information regarding our off-balance sheet arrangements and contractual obligations, see Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2007 Annual Report on Form 10-K.

**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 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

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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. A loan is deemed to be impaired if it is a commercial real estate, multi-family or construction loan with an outstanding balance greater than \$3.0 million and on non-accrual status. 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, management's Allowance for Loan Loss Committee 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

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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 their 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

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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.

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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 executive and 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. Variable-rate mortgage related assets can help to reduce exposure in a rising rate environment as the rate earned in the mortgage loans increase as prevailing market rates increase. However, the preferences of our customers have resulted in more of a demand for fixed-rate products. This may adversely impact our net interest income, particularly in a rising rate environment since our liabilities will reprice more quickly than our assets. In an effort to help mitigate our exposure, we have increased our focus on the origination of commercial real estate mortgage loans and adjustable-rate construction loans. Although we have limited our securities activity, we historically invested 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. 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

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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 March 31, 2008 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	\$338,981	\$(300,954)	(47.0)%	\$119,890	\$(16,180)	(11.9)%
0bp	639,935			136,070		
-200bp	721,022	81,087	12.7%	145,208	9,138	6.7%

(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 March 31, 2008 in the event of a 200 basis points increase in interest rates, we would be expected to experience a 47.0% decrease in NPV and a \$16.2 million or 11.9% 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



12.7% increase in NPV and a \$9.1 million or 6.7% 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.

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**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 changes made in 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 third quarter of fiscal 2008 and the stock repurchase plans approved by our Board of Directors.

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<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)</b>
January 1, 2008 through January 31, 2008	311,000	\$ 13.67	311,000	4,556,945
February 1, 2008 through February 29, 2008	40,000	14.62	40,000	4,516,945
March 1, 2008 through March 31, 2008	50,000	14.17	50,000	4,466,945
<b>Total</b>	<b>401,000</b>	<b>\$ 13.83</b>	<b>401,000</b>	

(1) On April 26, 2007, the Company announced its second Share Repurchase Program, which authorized the purchase of an additional 10% of its publicly-held outstanding shares of common stock, or 4,785,831 shares. This share repurchase program commenced upon completion of the first program on May 10, 2007. This program has no expiration date and has 159,697

shares yet to be repurchased as of March 31, 2008.

- (2) On January 28, 2008, the Company announced its third Share Repurchase Program, which authorized the purchase of an additional 10% of its publicly-held outstanding shares of common stock, or 4,307,248 shares. This share repurchase program will commence upon completion of the second program. This program has no expiration date.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

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

None.

**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 \*

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- 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: May 9, 2008

/s/ Kevin Cummings  
Kevin Cummings  
President and Chief Executive Officer  
(Principal  
Executive Officer)

Dated: May 9, 2008

/s/ Thomas F. Splaine, Jr.  
Thomas F. Splaine  
Senior Vice President and Chief Financial  
Officer  
(Principal Financial and Accounting Officer)