

PROVIDENT FINANCIAL SERVICES INC  
Form 10-Q  
November 10, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2008

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-31566

**PROVIDENT FINANCIAL SERVICES, INC.**

(Exact Name of Registrant as Specified in Its Charter)

<b>Delaware</b> (State or Other Jurisdiction of Incorporation or Organization)	<b>42-1547151</b> (I.R.S. Employer Identification No.)
<b>830 Bergen Avenue, Jersey City, New Jersey</b> (Address of Principal Executive Offices)	<b>07306-4599</b> (Zip Code)
<b>(201) 333-1000</b> (Registrant's Telephone Number, Including Area Code)	

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company   
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

As of November 1, 2008 there were 83,209,293 shares issued and 60,049,720 shares outstanding of the Registrant's Common Stock, par value \$0.01 per share, including 438,563 shares held by the First Savings Bank Directors' Deferred Fee Plan not otherwise considered outstanding under U.S. generally accepted accounting principles.

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## Consolidated Statements of Financial Condition

September 30, 2008 (Unaudited) and December 31, 2007

(Dollars in thousands, except share data)

	September 30, 2008	December 31, 2007
<b><u>ASSETS</u></b>		
Cash and due from banks	\$ 84,970	\$ 83,737
Federal funds sold		18,000
Short-term investments	3,664	38,892
<b>Total cash and cash equivalents</b>	<b>88,634</b>	<b>140,629</b>
Investment securities held to maturity (market value of \$347,193 (unaudited) and \$359,699 at September 30, 2008 and December 31, 2007, respectively)	354,112	358,491
Securities available for sale, at fair value	832,659	769,615
Federal Home Loan Bank ( FHLB ) stock	43,149	39,764
Loans	4,378,148	4,296,291
Less allowance for loan losses	43,329	40,782
<b>Net loans</b>	<b>4,334,819</b>	<b>4,255,509</b>
Foreclosed assets, net	3,556	1,041
Banking premises and equipment, net	77,078	79,138
Accrued interest receivable	23,587	24,665
Intangible assets	516,031	520,722
Bank-owned life insurance ( BOLI )	125,654	121,674
Other assets	51,826	48,143
<b>Total assets</b>	<b>\$ 6,451,105</b>	<b>\$ 6,359,391</b>
<b><u>LIABILITIES AND STOCKHOLDERS EQUITY</u></b>		
Deposits:		
Demand deposits	\$ 1,732,534	\$ 1,553,625
Savings deposits	904,596	1,031,725
Certificates of deposit of \$100,000 or more	431,744	480,362
Other time deposits	1,067,003	1,159,108
<b>Total deposits</b>	<b>4,135,877</b>	<b>4,224,820</b>
Mortgage escrow deposits	19,648	18,075
Borrowed funds	1,244,794	1,075,104
Other liabilities	35,218	40,598
<b>Total liabilities</b>	<b>5,435,537</b>	<b>5,358,597</b>

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Stockholders' Equity:

Preferred stock, \$0.01 par value, 50,000,000 shares authorized, none issued		
Common stock, \$0.01 par value, 200,000,000 shares authorized, 83,209,293 shares issued and 59,609,837 shares outstanding at September 30, 2008, and 59,646,936 shares outstanding at December 31, 2007	832	832
Additional paid-in capital	1,013,080	1,009,120
Retained earnings	451,856	437,503
Accumulated other comprehensive income	186	4,335
Treasury stock, at cost	(384,852)	(383,407)
Unallocated common stock held by Employee Stock Ownership Plan ( ESOP )	(65,534)	(67,589)
Common stock acquired by the Directors' Deferred Fee Plan ( DDFP )	(7,690)	(7,759)
Deferred compensation - DDFP	7,690	7,759
Total stockholders' equity	1,015,568	1,000,794
Total liabilities and stockholders' equity	\$ 6,451,105	\$ 6,359,391

See accompanying notes to unaudited consolidated financial statements.

**Table of Contents****PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY**

## Consolidated Statements of Income

Three and nine months ended September 30, 2008 and 2007 (Unaudited)

(Dollars in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
<b>Interest income:</b>				
Real estate secured loans	\$ 42,465	\$ 42,791	\$ 124,406	\$ 125,315
Commercial loans	10,665	11,547	32,568	29,880
Consumer loans	9,106	10,227	27,932	29,061
Investment securities	3,606	3,802	10,860	11,664
Securities available for sale	10,770	9,418	32,372	28,614
Other short-term investments	26	37	329	115
Federal funds sold		5	164	110
<b>Total interest income</b>	<b>76,638</b>	<b>77,827</b>	<b>228,631</b>	<b>224,759</b>
<b>Interest expense:</b>				
Deposits	20,133	30,307	68,945	83,663
Borrowed funds	11,154	8,237	32,577	24,501
<b>Total interest expense</b>	<b>31,287</b>	<b>38,544</b>	<b>101,522</b>	<b>108,164</b>
<b>Net interest income</b>	<b>45,351</b>	<b>39,283</b>	<b>127,109</b>	<b>116,595</b>
<b>Provision for loan losses</b>	<b>3,800</b>	<b>1,300</b>	<b>6,600</b>	<b>2,800</b>
<b>Net interest income after provision for loan losses</b>	<b>41,551</b>	<b>37,983</b>	<b>120,509</b>	<b>113,795</b>
<b>Non-interest income:</b>				
Fees	7,281	6,435	18,287	18,599
Gain on insurance settlement				5,947
BOLI	1,320	1,339	3,980	4,026
Net (loss) gain on securities transactions	(966)	2	(565)	(61)
Other income	140	297	1,525	1,490
<b>Total non-interest income</b>	<b>7,775</b>	<b>8,073</b>	<b>23,227</b>	<b>30,001</b>
<b>Non-interest expense:</b>				
Compensation and employee benefits	16,591	20,842	50,768	54,784
Net occupancy expense	5,195	4,938	15,626	14,451
Data processing expense	2,296	2,249	6,903	6,913
Amortization of intangibles	1,373	1,677	4,706	4,915
Advertising and promotion expense	1,160	1,089	2,989	3,341
Other operating expenses	5,343	4,916	16,210	14,775
<b>Total non-interest expense</b>	<b>31,958</b>	<b>35,711</b>	<b>97,202</b>	<b>99,179</b>
<b>Income before income tax expense</b>	<b>17,368</b>	<b>10,345</b>	<b>46,534</b>	<b>44,617</b>

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Income tax expense	4,205	2,085	12,325	11,932
Net income	\$ 13,163	\$ 8,260	\$ 34,209	\$ 32,685
Basic earnings per share	\$ 0.23	\$ 0.14	\$ 0.61	\$ 0.55
Average basic shares outstanding	56,078,691	58,968,076	56,006,174	59,787,076
Diluted earnings per share	\$ 0.23	\$ 0.14	\$ 0.61	\$ 0.55
Average diluted shares outstanding	56,078,870	58,968,076	56,006,234	59,787,076

See accompanying notes to unaudited consolidated financial statements.

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Consolidated Statements of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2008 and 2007 (Unaudited)

(Dollars in thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 2006	\$ 799	\$ 937,616	\$ 424,958	\$ (7,150)	\$ (266,587)	\$ (70,480)	\$ (13,010)	\$ 13,010	\$ 1,019,156
Comprehensive income:									
Net income			32,685						32,685
Other comprehensive income:									
Unrealized holding gains on securities arising during the period (net of tax of \$1,821)				2,444					2,444
Reclassification adjustment for losses included in net income (net of tax of (\$27))				34					34
Amortization related to post-retirement obligations (net of tax of (\$124))				(179)					(179)
Total comprehensive income									\$ 34,984
Common stock issued in connection with the First Morris acquisition, net	33	61,902							61,935
Cash dividends declared			(19,894)						(19,894)
Tax contingency reserve reversal		2,048							2,048
Distributions from DDFP		47					166	(166)	47
Purchase of treasury stock					(80,275)				(80,275)
Allocation of ESOP shares		(21)				2,047			2,026
		3,763							3,763

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Allocation of SAP shares										
Allocation of stock options				2,585						2,585
Balance at September 30, 2007										
	\$ 832	\$ 1,007,940	\$ 437,749	\$ (4,851)	\$ (346,862)	\$ (68,433)	\$ (12,844)	\$ 12,844	\$	1,026,375

See accompanying notes to unaudited consolidated financial statements.

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Consolidated Statements of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2008 and 2007 (Unaudited) (Continued)

(Dollars in thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 2007	\$ 832	\$ 1,009,120	\$ 437,503	\$ 4,335	\$ (383,407)	\$ (67,589)	\$ (7,759)	\$ 7,759	\$ 1,000,794
Comprehensive income:									
Net income			34,209						34,209
Other comprehensive income:									
Unrealized holding losses on securities arising during the period (net of tax of (\$3,057))				(4,784)					(4,784)
Reclassification adjustment for losses included in net income (net of tax of (\$226))				339					339
Amortization related to post-retirement obligations (net of tax of \$204)				296					296
Total comprehensive income									\$30,060
Cash dividends declared			(19,856)						(19,856)
Distributions from DDFP		(3)					69	(69)	(3)
Purchases of treasury stock					(1,445)				(1,445)
Allocation of ESOP shares		(324)				2,055			1,731
Allocation of SAP shares		2,513							2,513
Allocation of stock options		1,774							1,774
Balance at September 30, 2008	\$ 832	\$ 1,013,080	\$ 451,856	\$ 186	\$ (384,852)	\$ (65,534)	\$ (7,690)	\$ 7,690	\$ 1,015,568

See accompanying notes to unaudited consolidated financial statements.



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## Consolidated Statements of Cash Flows

Nine months ended September 30, 2008 and 2007 (Unaudited)

(Dollars in thousands)

	<b>Nine months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 34,209	\$ 32,685
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization of intangibles	10,531	10,425
Provision for loan losses	6,600	2,800
Deferred tax benefit	(4,495)	(4,545)
Increase in cash surrender value of BOLI	(3,980)	(4,026)
Net amortization of premiums and discounts on securities	229	797
Accretion of net deferred loan fees	(1,608)	(1,575)
Amortization of premiums on purchased loans, net	1,966	2,477
Net increase in loans originated for sale	(13,281)	(6,209)
Proceeds from sales of loans originated for sale	13,275	6,284
Proceeds from sales of foreclosed assets, net	4,953	689
Allocation of ESOP shares	1,731	2,026
Allocation of SAP shares	2,513	3,763
Allocation of stock options	1,774	2,585
Net loss (gain) on sale of loans	6	(75)
Net gain on securities available for sale	(844)	(61)
Impairment charge on securities	1,409	
Net gain on sale of premises and equipment	(87)	(153)
Net gain on sale of foreclosed assets	(1)	
Decrease (increase) in accrued interest receivable	1,078	(984)
(Increase) decrease in other assets	(3,587)	9,887
(Decrease) increase in other liabilities	(5,380)	1,056
<b>Net cash provided by operating activities</b>	<b>47,011</b>	<b>57,846</b>
<b>Cash flows from investing activities:</b>		
Proceeds from maturities, calls and paydowns of investment securities	35,855	32,638
Purchases of investment securities	(31,774)	(8,642)
Proceeds from sales of securities available for sale	7,731	43,287
Proceeds from maturities and paydowns of securities available for sale	159,087	163,207
Purchases of securities available for sale	(181,918)	(21,680)
Purchases of loans	(228,426)	(58,353)
Net decrease (increase) in loans	83,098	(52,597)
Cash consideration paid to acquire First Morris, net of cash and cash equivalents received		(1,383)
Proceeds from sales of premises and equipment	818	328
Purchases of premises and equipment, net	(4,496)	(6,959)
<b>Net cash (used in) provided by investing activities</b>	<b>(160,025)</b>	<b>89,846</b>
<b>Cash flows from financing activities:</b>		
Net decrease in deposits	(88,943)	(61,099)

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Increase (decrease) in mortgage escrow deposits	1,573	(99)
Purchases of treasury stock	(1,445)	(80,275)
Cash dividends paid to stockholders	(19,856)	(19,894)
Proceeds from long-term borrowings	390,600	