

OCEANFIRST FINANCIAL CORP  
Form 10-Q  
August 10, 2009  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 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 June 30, 2009**

**.. 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 001-11713**

**OceanFirst Financial Corp.**

**(Exact name of registrant as specified in its charter)**

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|  |  |
|--|--|
| <b>Delaware</b><br>(State or other jurisdiction of<br>incorporation or organization) | <b>22-3412577</b><br>(I.R.S. Employer<br>Identification No.) |
| <b>975 Hooper Avenue, Toms River, NJ</b><br>(Address of principal executive offices) | <b>08754-2009</b><br>(Zip Code)                              |
| <b>Registrant's telephone number, including area code: (732) 240-4500</b>            |  |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

|  |   |
|--|---|
| Large Accelerated Filer <input type="checkbox"/> | Accelerated Filer <input checked="" type="checkbox"/> |
| Non-accelerated Filer <input type="checkbox"/>   | Smaller Reporting Company <input type="checkbox"/>    |

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 August 5, 2009, there were 12,371,768 shares of the Registrant's Common Stock, par value \$.01 per share, outstanding.

**Table of Contents**

**OceanFirst Financial Corp.**

INDEX TO FORM 10-Q

|   | <b>PAGE</b> |
|---|-------------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>   |             |
| Item 1. Consolidated Financial Statements (Unaudited)   |             |
| <u>Consolidated Statements of Financial Condition as of June 30, 2009 and December 31, 2008</u>                   | 1           |
| <u>Consolidated Statements of Income for the three and six months ended June 30, 2009 and 2008</u>                | 2           |
| <u>Consolidated Statements of Changes in Stockholders' Equity for the six months ended June 30, 2009 and 2008</u> | 3           |
| <u>Consolidated Statements of Cash Flows for the six months ended June 30, 2009 and 2008</u>                      | 4           |
| <u>Notes to Unaudited Consolidated Financial Statements</u>   | 6           |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>              | 13          |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>   | 19          |
| Item 4. <u>Controls and Procedures</u>  | 20          |
| <b><u>PART II. OTHER INFORMATION</u></b>  |             |
| Item 1. <u>Legal Proceedings</u>  | 20          |
| Item 1A. <u>Risk Factors</u>  | 20          |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>  | 22          |
| Item 3. <u>Defaults Upon Senior Securities</u>  | 22          |
| Item 4. <u>Submission of Matters to a Vote of Security Holders</u>  | 22          |
| Item 5. <u>Other Information</u>  | 22          |
| Item 6. <u>Exhibits</u>   | 22          |
| <u>Signatures</u>   | 23          |

**Table of Contents****OceanFirst Financial Corp.****Consolidated Statements of Financial Condition**

(dollars in thousands, except per share amounts)

|   | <b>June 30,<br/>2009<br/>(Unaudited)</b> | <b>December 31,<br/>2008</b> |
|---|--|------------------------------|
| <b>ASSETS</b>   |  |                              |
| Cash and due from banks   | \$ 22,423                                | \$ 18,475                    |
| Investment securities available for sale  | 31,890                                   | 34,364                       |
| Federal Home Loan Bank of New York stock, at cost   | 16,188                                   | 20,910                       |
| Mortgage-backed securities available for sale   | 89,436                                   | 40,801                       |
| Loans receivable, net   | 1,643,704                                | 1,648,378                    |
| Mortgage loans held for sale  | 13,475                                   | 3,903                        |
| Interest and dividends receivable   | 6,411                                    | 6,298                        |
| Real estate owned, net  | 1,348                                    | 1,141                        |
| Premises and equipment, net   | 21,216                                   | 21,336                       |
| Servicing asset   | 6,817                                    | 7,229                        |
| Bank Owned Life Insurance   | 39,566                                   | 39,135                       |
| Other assets  | 17,111                                   | 15,976                       |
| <br>  |  |                              |
| Total assets  | \$ 1,909,585                             | \$ 1,857,946                 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |  |                              |
| Deposits  | \$ 1,364,570                             | \$ 1,274,132                 |
| Securities sold under agreements to repurchase with retail customers  | 77,246                                   | 62,422                       |
| Federal Home Loan Bank advances   | 258,000                                  | 359,900                      |
| Other borrowings  | 27,500                                   | 27,500                       |
| Advances by borrowers for taxes and insurance   | 8,716                                    | 7,581                        |
| Other liabilities   | 11,644                                   | 6,628                        |
| <br>  |  |                              |
| Total liabilities   | 1,747,676                                | 1,738,163                    |
| <br>  |  |                              |
| Stockholders' equity:   |  |                              |
| Preferred stock, \$.01 par value, \$1,000 liquidation preference, 5,000,000 shares authorized, 38,263 shares issued at June 30, 2009  | 37,285                                   |                              |
| Common stock, \$.01 par value, 55,000,000 shares authorized, 27,177,372 shares issued and 12,371,768 and 12,364,573 shares outstanding at June 30, 2009 and December 31, 2008, respectively | 272                                      | 272                          |
| Additional paid-in capital  | 205,949                                  | 204,298                      |
| Retained earnings   | 162,088                                  | 160,267                      |
| Accumulated other comprehensive loss  | (13,356)                                 | (14,462)                     |
| Less: Unallocated common stock held by Employee Stock Ownership Plan  | (4,923)                                  | (5,069)                      |
| Treasury stock, 14,805,604 and 14,812,799 shares at June 30, 2009 and December 31, 2008, respectively   | (225,406)                                | (225,523)                    |
| Common stock acquired by Deferred Compensation Plan   | 970                                      | 981                          |
| Deferred Compensation Plan Liability  | (970)                                    | (981)                        |
| <br>  |  |                              |
| Total stockholders' equity  | 161,909                                  | 119,783                      |

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|  |              |              |
|--|--------------|--------------|
| Total liabilities and stockholders' equity | \$ 1,909,585 | \$ 1,857,946 |
|--|--------------|--------------|

See accompanying Notes to Unaudited Consolidated Financial Statements.

**Table of Contents****OceanFirst Financial Corp.****Consolidated Statements of Income**

(in thousands, except per share amounts)

|   | For the three months<br>ended June 30,<br>2009      2008<br>(Unaudited) |               | For the six months<br>ended June 30,<br>2009      2008<br>(Unaudited) |               |
|---|---|---------------|---|---------------|
| <b>Interest income:</b>   |   |               |   |               |
| Loans   | \$ 22,791   | \$ 24,103     | \$ 45,963   | \$ 49,105     |
| Mortgage-backed securities  | 873   | 573           | 1,641   | 1,184         |
| Investment securities and other                                     | 552   | 991           | 1,002   | 2,900         |
| <b>Total interest income</b>  | <b>24,216</b>   | <b>25,667</b> | <b>48,606</b>   | <b>53,189</b> |
| <b>Interest expense:</b>  |   |               |   |               |
| Deposits  | 4,777   | 6,707         | 9,873   | 14,571        |
| Borrowed funds  | 3,285   | 4,698         | 6,918   | 10,120        |
| <b>Total interest expense</b>                                       | <b>8,062</b>  | <b>11,405</b> | <b>16,791</b>   | <b>24,691</b> |
| <b>Net interest income</b>  | <b>16,154</b>   | <b>14,262</b> | <b>31,815</b>   | <b>28,498</b> |
| <b>Provision for loan losses</b>                                    | <b>1,200</b>  | <b>400</b>    | <b>2,000</b>  | <b>775</b>    |
| <b>Net interest income after provision for loan losses</b>          | <b>14,954</b>   | <b>13,862</b> | <b>29,815</b>   | <b>27,723</b> |
| <b>Other income:</b>  |   |               |   |               |
| Loan servicing (loss) income  | 9   | 81            | (221)   | 172           |
| Fees and service charges  | 2,585   | 2,900         | 5,103   | 5,668         |
| Net gain (loss) on sales of loans and securities available for sale | 1,352   | (718)         | 2,025   | (122)         |
| Net gain from other real estate operations                          | 6   | 39            | 5   | 18            |
| Income from Bank Owned Life Insurance                               | 201   | 309           | 431   | 642           |
| Other   | 2   | 9             | 6   | 11            |
| <b>Total other income</b>   | <b>4,155</b>  | <b>2,620</b>  | <b>7,349</b>  | <b>6,389</b>  |
| <b>Operating expenses:</b>  |   |               |   |               |
| Compensation and employee benefits                                  | 5,738   | 5,806         | 11,565  | 11,740        |
| Occupancy   | 1,814   | 1,195         | 3,289   | 2,396         |
| Equipment   | 501   | 454           | 950   | 965           |
| Marketing   | 380   | 453           | 704   | 847           |
| Federal deposit insurance   | 1,405   | 341           | 1,907   | 651           |
| Data processing   | 858   | 748           | 1,693   | 1,597         |
| Legal   | 520   | 524           | 1,097   | 1,072         |
| Check card processing   | 254   | 247           | 505   | 499           |
| Accounting and audit  | 171   | 290           | 331   | 539           |
| General and administrative  | 1,599   | 1,310         | 2,982   | 2,697         |
| <b>Total operating expenses</b>                                     | <b>13,240</b>   | <b>11,368</b> | <b>25,023</b>   | <b>23,003</b> |

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|  |          |          |          |          |
|--|----------|----------|----------|----------|
| Income before provision for income taxes           | 5,869    | 5,114    | 12,141   | 11,109   |
| Provision for income taxes                         | 2,270    | 1,579    | 4,589    | 3,568    |
| Net income   | 3,599    | 3,535    | 7,552    | 7,541    |
| Dividends on preferred stock and warrant accretion | 538      |          | 996      |          |
| Net income available to common stockholders        | \$ 3,061 | \$ 3,535 | \$ 6,556 | \$ 7,541 |
| Basic earnings per share                           | \$ 0.26  | \$ 0.30  | \$ 0.56  | \$ 0.65  |
| Diluted earnings per share                         | \$ 0.26  | \$ 0.30  | \$ 0.56  | \$ 0.64  |
| Average basic shares outstanding                   | 11,710   | 11,666   | 11,703   | 11,653   |
| Average diluted shares outstanding                 | 11,757   | 11,740   | 11,750   | 11,709   |

See accompanying Notes to Unaudited Consolidated Financial Statements.

**Table of Contents****OceanFirst Financial Corp.****Consolidated Statements of****Changes in Stockholders Equity (Unaudited)**

(in thousands, except per share amounts)

|  | Preferred<br>Stock | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Employee<br>Stock<br>Ownership<br>Plan | Treasury<br>Stock | Common<br>Stock<br>Acquired<br>by<br>Deferred<br>Compensation<br>Plan | Deferred<br>Compensation<br>Plan<br>Liability | Total      |
|--|--------------------|-----------------|----------------------------------|----------------------|---|--|-------------------|---|---|------------|
| Balance at<br>December 31, 2007  | \$                 | \$ 272          | \$ 203,532                       | \$ 154,929           | \$ (3,211)                                    | \$ (5,360)                             | \$ (225,856)      | \$ 1,307  | \$ (1,307)                                    | \$ 124,306 |
| Comprehensive<br>income:   |                    |                 |                                  |                      |   |  |                   |   |   |            |
| Net income   |                    |                 |                                  | 7,541                |   |  |                   |   |   | 7,541      |
| Other comprehensive<br>loss:   |                    |                 |                                  |                      |   |  |                   |   |   |            |
| Unrealized loss on<br>securities (net of tax<br>benefit \$2,263)                                     |                    |                 |                                  |                      | (4,204)                                       |  |                   |   |   | (4,204)    |
| Reclassification<br>adjustment for losses<br>included in net income<br>(net of tax benefit<br>\$399) |                    |                 |                                  |                      | 742   |  |                   |   |   | 742        |
| Total comprehensive<br>income  |                    |                 |                                  |                      |   |  |                   |   |   | 4,079      |
| Stock awards   |                    |                 | 281                              |                      |   |  |                   |   |   | 281        |
| Treasury stock<br>allocated to restricted<br>stock plan  |                    |                 | (172)                            | (24)                 |   |  | 196               |   |   |            |
| Allocation of ESOP<br>stock  |                    |                 |                                  |                      |   | 146                                    |                   |   |   | 146        |
| ESOP adjustment  |                    |                 | 158                              |                      |   |  |                   |   |   | 158        |
| Cash dividend - \$0.40<br>per share  |                    |                 |                                  | (4,682)              |   |  |                   |   |   | (4,682)    |
| Exercise of stock<br>options   |                    |                 |                                  | (36)                 |   |  | 137               |   |   | 101        |
| Sale of stock for the<br>deferred compensation<br>plan   |                    |                 |                                  |                      |   |  |                   | (329)   | 329   |            |
| Balance at June 30,<br>2008  | \$                 | \$ 272          | \$ 203,799                       | \$ 157,728           | \$ (6,673)                                    | \$ (5,214)                             | \$ (225,523)      | \$ 978  | \$ (978)                                      | \$ 124,389 |
|  | \$                 | \$ 272          | \$ 204,298                       | \$ 160,267           | \$ (14,462)                                   | \$ (5,069)                             | \$ (225,523)      | \$ 981  | \$ (981)                                      | \$ 119,783 |



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Balance at  
December 31, 2008

|  |           |        |            |            |             |            |              |        |          |            |         |
|--|-----------|--------|------------|------------|-------------|------------|--------------|--------|----------|------------|---------|
| Comprehensive income:                                    |           |        |            |            |             |            |              |        |          |            |         |
| Net income   |           |        |            |            |             |            |              |        |          | 7,552      | 7,552   |
| Other comprehensive income:                              |           |        |            |            |             |            |              |        |          |            |         |
| Unrealized loss on securities (net of tax benefit \$764) |           |        |            |            |             |            |              |        |          | 1,106      | 1,106   |
| Total comprehensive income                               |           |        |            |            |             |            |              |        |          |            |         |
|  |           |        |            |            |             |            |              |        |          |            |         |
| Proceeds from issuance of preferred stock and warrants   | 36,921    |        | 1,342      |            |             |            |              |        |          |            | 38,263  |
| Accretion of discount on preferred stock                 | 119       |        |            | (119)      |             |            |              |        |          |            |         |
| Treasury stock allocated to restricted stock plan        |           |        | (63)       | (13)       |             |            | 76           |        |          |            |         |
| Stock awards   |           |        | 311        |            |             |            |              |        |          |            | 311     |
| Allocation of ESOP stock                                 |           |        |            |            |             |            | 146          |        |          |            | 146     |
| ESOP adjustment  |           |        | 61         |            |             |            |              |        |          |            | 61      |
| Cash dividend - \$0.40 per share                         |           |        |            | (4,707)    |             |            |              |        |          |            | (4,707) |
| Cash dividend on preferred stock                         | 245       |        |            | (877)      |             |            |              |        |          |            | (632)   |
| Exercise of stock options                                |           |        |            | (15)       |             |            | 41           |        |          |            | 26      |
| Sale of stock for the deferred compensation plan         |           |        |            |            |             |            |              | (11)   | 11       |            |         |
| Balance at June 30, 2009                                 |           |        |            |            |             |            |              |        |          |            |         |
|  | \$ 37,285 | \$ 272 | \$ 205,949 | \$ 162,088 | \$ (13,356) | \$ (4,923) | \$ (225,406) | \$ 970 | \$ (970) | \$ 161,909 |         |

See accompanying Notes to Unaudited Consolidated Financial Statements.

**Table of Contents****OceanFirst Financial Corp.****Consolidated Statements of Cash Flows**

(dollars in thousands)

|  | <b>For the six months<br/>ended June 30,</b> |               |
|--|--|---------------|
|  | <b>2009</b>                                  | <b>2008</b>   |
|  | <b>(Unaudited)</b>                           |               |
| <b>Cash flows from operating activities:</b>   |  |               |
| Net income   | \$ 7,552                                     | \$ 7,541      |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |  |               |
| Depreciation and amortization of premises and equipment                                  | 972  | 832           |
| Amortization of ESOP   | 146  | 146           |
| ESOP adjustment  | 61   | 158           |
| Stock awards   | 311  | 281           |
| Amortization and impairment of servicing asset   | 1,387  | 1,099         |
| Net premium amortization in excess of discount accretion on securities                   | 281  | 15            |
| Net amortization of deferred costs and discounts on loans                                | 442  | 423           |
| Provision for loan losses  | 2,000  | 775           |
| Net gain on sale of real estate owned  | (45)   | (60)          |
| Other than temporary impairment on investment securities available for sale              |  | 1,141         |
| Recovery from reserve for repurchased loans  | (245)  | (161)         |
| Net gain on sales of loans and securities  | (1,780)                                      | (858)         |
| Proceeds from sales of mortgage loans held for sale                                      | 132,163                                      | 59,603        |
| Mortgage loans originated for sale   | (140,926)                                    | (59,890)      |
| Increase in value of Bank Owned Life Insurance   | (431)  | (642)         |
| (Increase) decrease in interest and dividends receivable                                 | (113)  | 362           |
| Increase in other assets   | (529)  | (552)         |
| Increase in other liabilities  | 5,261  | 2,088         |
| Total adjustments  | (1,045)                                      | 4,760         |
| <b>Net cash provided by operating activities</b>   | <b>6,507</b>                                 | <b>12,301</b> |
| <b>Cash flows from investing activities:</b>   |  |               |
| Net decrease in loans receivable   | 1,491  | 40,546        |
| Loans repurchased  |  | (408)         |
| Proceeds from maturities or calls of investment securities available for sale            |  | 300           |
| Proceeds from sale of investment securities available for sale                           | 1,823  | 122           |
| Purchases of investment securities available for sale                                    |  | (937)         |
| Purchases of mortgage-backed securities available for sale                               | (59,468)                                     |               |
| Principal payments on mortgage-backed securities available for sale                      | 11,699                                       | 7,509         |
| Decrease in Federal Home Loan Bank of New York stock                                     | 4,722  | 3,560         |
| Proceeds from sales of real estate owned   | 579  | 251           |
| Purchases of premises and equipment  | (852)  | (2,726)       |
| <b>Net cash (used in) provided by investing activities</b>                               | <b>(40,006)</b>                              | <b>48,217</b> |

Continued



**Table of Contents****OceanFirst Financial Corp.****Consolidated Statements of Cash Flows (Continued)**

(dollars in thousands)

|  | <b>For the six months<br/>ended June 30,<br/>2009                  2008<br/>(Unaudited)</b> |                 |
|--|---|-----------------|
| <b>Cash flows from financing activities:</b>   |   |                 |
| Increase in deposits   | \$ 90,438   | \$ 15,516       |
| Decrease in short-term borrowings  | (52,076)  | (46,072)        |
| Repayments of securities sold under agreements to repurchase with the Federal Home Loan Bank |   | (12,000)        |
| Proceeds from Federal Home Loan Bank advances  | 28,000  | 47,000          |
| Repayments of Federal Home Loan Bank advances  | (63,000)  | (61,000)        |
| Proceeds from other borrowings   |   | 525             |
| Increase in advances by borrowers for taxes and insurance                                    | 1,135   | 1,293           |
| Exercise of stock options  | 26  | 101             |
| Dividends paid - common stock  | (4,707)   | (4,682)         |
| Dividends paid - preferred stock   | (632)   |                 |
| Proceeds from issuance of preferred stock and warrant  | 38,263  |                 |
| <b>Net cash provided by (used in) financing activities</b>                                   | <b>37,447</b>   | <b>(59,319)</b> |
| <br>   |   |                 |
| Net increase in cash and due from banks  | 3,948   | 1,199           |
| Cash and due from banks at beginning of period   | 18,475  | 27,547          |
| <br>   |   |                 |
| Cash and due from banks at end of period   | \$ 22,423   | \$ 28,746       |
| <br><b>Supplemental Disclosure of Cash Flow<br/>Information:</b>                             |   |                 |
| <b>Cash paid during the period for:</b>  |   |                 |
| Interest   | \$ 17,133   | \$ 25,034       |
| Income taxes   | 4,868   | 2,120           |
| <b>Non cash activities:</b>  |   |                 |
| Transfer of loans receivable to real estate owned  | 741   | 935             |

See accompanying Notes to Unaudited Consolidated Financial Statements.

**Table of Contents****OceanFirst Financial Corp.****Notes To Unaudited Consolidated Financial Statements****Note 1. Summary of Significant Accounting Policies**

The accompanying unaudited consolidated financial statements include the accounts of OceanFirst Financial Corp. (the Company) and its wholly-owned subsidiary, OceanFirst Bank (the Bank) and its wholly-owned subsidiaries, Columbia Home Loans, LLC (Columbia), OceanFirst REIT Holdings, Inc., and OceanFirst Services, LLC. The operations of Columbia were shuttered in late 2007.

The interim consolidated financial statements reflect all normal and recurring adjustments which are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. The results of operations for the three and six months ended June 30, 2009 are not necessarily indicative of the results of operations that may be expected for all of 2009.

Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC).

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report to Stockholders on Form 10-K for the year ended December 31, 2008.

**Earnings per Share**

The following reconciles shares outstanding for basic and diluted earnings per share for the three and six months ended June 30, 2009 and 2008 (in thousands):

|  | Three months ended<br>June 30, |        | Six months ended<br>June 30, |        |
|--|--------------------------------|--------|------------------------------|--------|
|  | 2009                           | 2008   | 2009                         | 2008   |
| Weighted average shares issued net of Treasury shares                            | 12,369                         | 12,363 | 12,366                       | 12,357 |
| Less: Unallocated ESOP shares  | (588)                          | (623)  | (592)                        | (627)  |
| Unallocated incentive award shares and shares held by deferred compensation plan | (71)                           | (74)   | (71)                         | (77)   |
| Average basic shares outstanding   | 11,710                         | 11,666 | 11,703                       | 11,653 |
| Add: Effect of dilutive securities:  |                                |        |                              |        |
| Stock options  | 1                              | 28     | 1                            | 6      |
| Incentive awards and shares held by deferred compensation plan                   | 46                             | 46     | 46                           | 50     |
| Average diluted shares outstanding   | 11,757                         | 11,740 | 11,750                       | 11,709 |

For the three months ended June 30, 2009 and 2008, 1,644,000 and 1,201,000, respectively, antidilutive stock options were excluded from earnings per share calculations. For the six months ended June 30, 2009 and 2008, 1,620,000 and 1,301,000, respectively, antidilutive stock options were excluded from earnings per share calculations.

**Comprehensive Income**

For the three month periods ended June 30, 2009 and 2008, total comprehensive income, representing net income plus or minus the change in unrealized gains or losses on securities available for sale amounted to \$6,252,000 and \$3,120,000, respectively. For the six month periods ended June 30, 2009 and 2008, total comprehensive income amounted to \$8,658,000 and \$4,079,000, respectively.

**Note 2. Acquisition**

On May 27, 2009, the Company announced the signing of an agreement and plan of merger with Central Jersey Bancorp (Central Jersey), pursuant to which Central Jersey will merge with and into the Company in an all stock transaction. Under the terms of the agreement, Central

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Jersey common stockholders will receive 0.50 shares of the Company's common stock for each common share of Central Jersey. The Company expects to consummate the transaction by year-end subject to customary closing conditions, including regulatory and shareholder approvals.

**Table of Contents****Note 3. Investment Securities Available for Sale**

The amortized cost and estimated market value of investment securities available for sale at June 30, 2009 and December 31, 2008 are as follows (in thousands):

|                                 | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Market<br>Estimated<br>Value |
|---------------------------------|-------------------|------------------------------|-------------------------------|------------------------------|
| <b>June 30, 2009</b>            |                   |                              |                               |                              |
| U. S. agency obligations        | \$ 302            | \$ 8                         | \$                            | \$ 310                       |
| State and municipal obligations | 150               |                              |                               | 150                          |
| Corporate debt securities       | 55,000            |                              | (23,799)                      | 31,201                       |
| Equity investments              | 370               |                              | (141)                         | 229                          |
|                                 | \$ 55,822         | \$ 8                         | \$ (23,940)                   | \$ 31,890                    |
| <b>December 31, 2008</b>        |                   |                              |                               |                              |
| U. S. agency obligations        | \$ 302            | \$ 12                        | \$                            | \$ 314                       |
| State and municipal obligations | 150               |                              |                               | 150                          |
| Corporate debt securities       | 55,000            |                              | (23,314)                      | 31,686                       |
| Equity investments              | 2,196             | 25                           | (7)                           | 2,214                        |
|                                 | \$ 57,648         | \$ 37                        | \$ (23,321)                   | \$ 34,364                    |

There were no realized gains on the sale of investment securities available for sale for the three and six months ended June 30, 2009. For the three and six months ended June 30, 2008, the Company realized gains on the sale of investment securities available for sale of \$0 and \$122,000. There were no realized losses on the sale of investment securities available for sale for the three and six months ended June 30, 2009. For the three and six months ended June 30, 2008 the Company recognized an other than temporary impairment loss of \$1.1 million on investment securities available for sale.

The amortized cost and estimated market value of investment securities available for sale, excluding equity investments, at June 30, 2009 by contractual maturity, are shown below (in thousands). Actual maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. At June 30, 2009, investment securities available for sale with an amortized cost and estimated market value of \$55.0 million and \$31.2 million, respectively, were callable prior to the maturity date.

|  | Amortized<br>Cost | Estimated<br>Market<br>Value |
|--|-------------------|------------------------------|
| <b>June 30, 2009</b>                   |                   |                              |
| Less than one year                     | \$ 452            | \$ 460                       |
| Due after one year through five years  |                   |                              |
| Due after five years through ten years | 55,000            | 31,201                       |
| Due after ten years                    |                   |                              |
|  | \$ 55,452         | \$ 31,661                    |

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The estimated market value and unrealized loss for investment securities available for sale at June 30, 2009 and December 31, 2008 segregated by the duration of the unrealized loss are as follows (in thousands):

|                           | Less than 12 months    |                   | 12 months or longer    |                   | Total                  |                   |
|---------------------------|------------------------|-------------------|------------------------|-------------------|------------------------|-------------------|
|                           | Estimated Market Value | Unrealized Losses | Estimated Market Value | Unrealized Losses | Estimated Market Value | Unrealized Losses |
| <b>June 30, 2009</b>      |                        |                   |                        |                   |                        |                   |
| Corporate debt securities | \$                     | \$                | \$ 31,201              | \$ (23,799)       | \$ 31,201              | \$ (23,799)       |
| Equity investments        | 229                    | (141)             |                        |                   | 229                    | (141)             |
|                           | \$ 229                 | \$ (141)          | \$ 31,201              | \$ (23,799)       | \$ 31,430              | \$ (23,940)       |

|                           | Less than 12 months    |                   | 12 months or longer    |                   | Total                  |                   |
|---------------------------|------------------------|-------------------|------------------------|-------------------|------------------------|-------------------|
|                           | Estimated Market Value | Unrealized Losses | Estimated Market Value | Unrealized Losses | Estimated Market Value | Unrealized Losses |
| <b>December 31, 2008</b>  |                        |                   |                        |                   |                        |                   |
| Corporate debt securities | \$                     | \$                | \$ 31,686              | \$ (23,314)       | \$ 31,686              | \$ (23,314)       |
| Equity investments        | 1,819                  | (7)               |                        |                   | 1,819                  | (7)               |
|                           | \$ 1,819               | \$ (7)            | \$ 31,686              | \$ (23,314)       | \$ 33,505              | \$ (23,321)       |



**Table of Contents**

At June 30, 2009 the market value of each corporate debt security was below cost. The portfolio consisted of eleven \$5.0 million issues spread between eight issuers. The corporate debt securities are issued by other financial institutions. During 2009, six of the issues, totaling \$30.0 million, experienced credit rating downgrades to below investment grade status. Despite the downgrades, all of the financial institutions were considered well-capitalized and continue to make interest payments under the terms of the debt securities. No interest payments have been deferred. Based upon management's analysis, the financial institutions have the ability to meet debt service requirements for the foreseeable future. These floating rate securities were purchased during the period May 1998 to September 1998 and have paid coupon interest continuously since issuance. Floating rate debt securities such as these pay a fixed interest rate spread over LIBOR. Following the purchase of these securities, the required spread increased for these types of securities causing a decline in the market price. In addition, the market for these types of securities has become increasingly illiquid and volatile. Although these investment securities are available for sale, the Company does not have the intent to sell these securities and it is more likely than not that the Company will not be required to sell the securities. As a result, the Company concluded that available for sale securities were only temporarily impaired at June 30, 2009.

**Note 4. Mortgage-Backed Securities Available for Sale**

The amortized cost and estimated market value of mortgage-backed securities available for sale at June 30, 2009 and December 31, 2008 are as follows (in thousands):

|                          | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Market<br>Value |
|--------------------------|-------------------|------------------------------|-------------------------------|------------------------------|
| <b>June 30, 2009</b>     |                   |                              |                               |                              |
| FHLMC                    | \$ 15,663         | \$ 327                       | \$ (1)                        | \$ 15,989                    |
| FNMA                     | 71,120            | 906                          | (22)                          | 72,004                       |
| GNMA                     | 1,301             | 142                          |                               | 1,443                        |
|                          | \$ 88,084         | \$ 1,375                     | \$ (23)                       | \$ 89,436                    |
| <b>December 31, 2008</b> |                   |                              |                               |                              |
| FHLMC                    | \$ 9,593          | \$ 114                       | \$ (20)                       | \$ 9,687                     |
| FNMA                     | 29,597            | 171                          | (139)                         | 29,629                       |
| GNMA                     | 1,407             | 78                           |                               | 1,485                        |
|                          | \$ 40,597         | \$ 363                       | \$ (159)                      | \$ 40,801                    |

There were no gains or losses realized on the sale of mortgage-backed securities available for sale for the three and six months ended June 30, 2009 and 2008.

The contractual maturities of mortgage-backed securities available for sale generally exceed 20 years; however, the effective lives are expected to be shorter due to principal prepayments.

The estimated market value and unrealized loss for mortgage-backed securities available for sale at June 30, 2009 and December 31, 2008, segregated by the duration of the unrealized loss are as follows (in thousands):

|  | Less than 12 months          |                      | 12 months or longer          |                      | Total                        |                      |
|--|------------------------------|----------------------|------------------------------|----------------------|------------------------------|----------------------|
|  | Estimated<br>Market<br>Value | Unrealized<br>Losses | Estimated<br>Market<br>Value | Unrealized<br>Losses | Estimated<br>Market<br>Value | Unrealized<br>Losses |

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June 30, 2009

|       |          |         |        |        |          |         |
|-------|----------|---------|--------|--------|----------|---------|
| FHLMC | \$ 299   | \$ (1)  | \$     | \$     | \$ 299   | \$ (1)  |
| FNMA  | 6,845    | (19)    | 214    | (3)    | 7,059    | (22)    |
|       | \$ 7,144 | \$ (20) | \$ 214 | \$ (3) | \$ 7,358 | \$ (23) |

|                          | Less than 12 months |            | 12 months or longer |            | Total     |            |
|--------------------------|---------------------|------------|---------------------|------------|-----------|------------|
|                          | Estimated           | Unrealized | Estimated           | Unrealized | Estimated | Unrealized |
|                          | Market              | Losses     | Market              | Losses     | Market    | Losses     |
|                          | Value               |            | Value               |            | Value     | Losses     |
| <u>December 31, 2008</u> |                     |            |                     |            |           |            |
| FHLMC                    | \$ 1,105            | \$ (10)    | \$ 455              | \$ (10)    | \$ 1,560  | \$ (20)    |
| FNMA                     | 5,133               | (68)       | 5,894               | (71)       | 11,027    | (139)      |
|                          | \$ 6,238            | \$ (78)    | \$ 6,349            | \$ (81)    | \$ 12,587 | \$ (159)   |

**Table of Contents**

The mortgage-backed securities are issued and guaranteed by either FHLMC or FNMA, corporations which are chartered by the United States Government and whose debt obligations are typically rated AAA by one of the internationally recognized credit rating services. The Company considers the unrealized losses to be the result of changes in interest rates which over time can have both a positive and negative impact on the estimated market value of the mortgage-backed securities. Although these mortgage-backed securities are available for sale, the Company does not have the intent to sell these securities and it is more likely than not that the Company will not be required to sell the securities. As a result, the Company concluded that available for sale securities were only temporarily impaired at June 30, 2009.

**Note 5. Loans Receivable, Net**

Loans receivable, net at June 30, 2009 and December 31, 2008 consisted of the following (in thousands):

|   | June 30, 2009       | December 31, 2008   |
|---|---------------------|---------------------|
| Real estate:                                  |                     |                     |
| One-to-four family                            | \$ 1,012,013        | \$ 1,039,375        |
| Commercial real estate, multi-family and land | 364,475             | 329,844             |
| Construction                                  | 10,150              | 10,561              |
| Consumer                                      | 218,784             | 222,797             |
| Commercial                                    | 62,112              | 59,760              |
| <b>Total loans</b>                            | <b>1,667,534</b>    | <b>1,662,337</b>    |
| Loans in process                              | (2,602)             | (3,586)             |
| Deferred origination costs, net               | 5,005               | 5,195               |
| Allowance for loan losses                     | (12,758)            | (11,665)            |
| <b>Total loans, net</b>                       | <b>1,657,179</b>    | <b>1,652,281</b>    |
| Less: Mortgage loans held for sale            | 13,475              | 3,903               |
| <b>Loans receivable, net</b>                  | <b>\$ 1,643,704</b> | <b>\$ 1,648,378</b> |

An analysis of the allowance for loan losses for the three and six months ended June 30, 2009 and 2008 is as follows (in thousands):

|                                 | Three months ended |                  | Six months ended |                  |
|---------------------------------|--------------------|------------------|------------------|------------------|
|                                 | June 30,           |                  | June 30,         |                  |
|                                 | 2009               | 2008             | 2009             | 2008             |
| Balance at beginning of period  | \$ 12,019          | \$ 10,739        | \$ 11,665        | \$ 10,468        |
| Provision charged to operations | 1,200              | 400              | 2,000            | 775              |
| Charge-offs                     | (461)              | (220)            | (914)            | (537)            |
| Recoveries                      |                    |                  | 7                | 213              |
| <b>Balance at end of period</b> | <b>\$ 12,758</b>   | <b>\$ 10,919</b> | <b>\$ 12,758</b> | <b>\$ 10,919</b> |

**Note 6. Reserve for Repurchased Loans**

An analysis of the reserve for repurchased loans for the three and six months ended June 30, 2009 and 2008 is as follows (in thousands). The reserve is included in other liabilities in the accompanying statements of financial condition.

| Three months<br>ended June 30, | Six months ended<br>June 30, |
|--------------------------------|------------------------------|
|--------------------------------|------------------------------|

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|                                | 2009     | 2008     | 2009     | 2008     |
|--------------------------------|----------|----------|----------|----------|
| Balance at beginning of period | \$ 1,109 | \$ 1,713 | \$ 1,143 | \$ 2,398 |
| Recoveries                     | (211)    |          | (245)    | (161)    |
| Loss on loans repurchased      | (63)     | (8)      | (63)     | (532)    |
| Balance at end of period       | \$ 835   | \$ 1,705 | \$ 835   | \$ 1,705 |

The reserve for repurchased loans was established to provide for expected losses related to outstanding loan repurchase requests and additional repurchase requests which may be received on loans previously sold to investors. In establishing the reserve for repurchased loans, the Company considered all types of sold loans. At June 30, 2009, there were no loan repurchase requests outstanding, although one request was received subsequent to June 30, 2009 which the Company is evaluating.

**Table of Contents****Note 7. Deposits**

The major types of deposits at June 30, 2009 and December 31, 2008 were as follows (in thousands):

| <u>Type of Account</u>    | <u>June 30, 2009</u> | <u>December 31, 2008</u> |
|---------------------------|----------------------|--------------------------|
| Non-interest-bearing      | \$ 112,047           | \$ 97,278                |
| Interest-bearing checking | 589,144              | 517,334                  |
| Money market deposit      | 92,604               | 84,928                   |
| Savings                   | 224,082              | 207,224                  |
| Time deposits             | 346,693              | 367,368                  |
| <b>Total deposits</b>     | <b>\$ 1,364,570</b>  | <b>\$ 1,274,132</b>      |

**Note 8. Recent Accounting Pronouncements**

In June 2008, the Emergency Issues Task Force ( EITF ) of the Financial Accounting Standards Board ( FASB ) issued EITF 03-6-1 which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share. EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of EITF 03-6-1 did not have a material impact on the Company's financial statements.

In April 2009, the FASB issued the following three Staff Positions:

Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. The objective of an other than temporary impairment analysis under existing U.S. Generally Accepted Accounting Principles ( GAAP ) is to determine whether the holder of an investment in a debt or equity security for which changes in fair value are not regularly recognized in earnings (such as securities classified as held to maturity or available for sale) should recognize a loss in earnings when the investment is impaired. An investment is impaired if the fair value of the investment is less than its amortized cost basis. The FASB Staff Position ( FSP ) amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments of equity securities.

Staff Position No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FSP provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions.

Staff Position No. FAS 107-1 and Accounting Principles Board ( APB ) Opinion No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods.

All of the FSPs are effective for interim and annual reporting periods after June 15, 2009. The adoption of the FSPs did not have a material impact on the Company's financial statements.

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In May 2009, the FASB issued Statement of Financial Accounting Standards ( SFAS ) No. 165, Subsequent Events. SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted SFAS No. 165 during the second quarter of 2009. In accordance with SFAS No. 165, the Company evaluated subsequent events through the date its financial statements are filed. The adoption of this standard did not have an impact on the Company s financial position, results of operations, and earnings per share.

**Table of Contents****Note 9. Fair Value Measurements**

The following table summarizes financial assets and financial liabilities measured at fair value as of June 30, 2009 and December 31, 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

|   | Fair Value Measurements at Reporting Date<br>Using: |   |  |  |
|---|---|---|--|--|
|   | Total Fair<br>Value                                 | Quoted Prices<br>in<br>Active<br>Markets<br>for<br>Identical Assets<br>(Level<br>1) | Significant<br>Other Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b><u>June 30, 2009</u></b>   |   |   |  |  |
| Items measured on a recurring basis:  |   |   |  |  |
| Investment securities available for sale  | \$ 31,890   | \$ 539  | \$ 31,351  | \$   |
| Mortgage-backed securities available for sale   | 89,436  |   | 89,436   |  |
| Items measured on a non-recurring basis:  |   |   |  |  |
| Real estate owned   | 830   |   |  | 830  |
| Loans measured for impairment based on the fair value of the underlying collateral in accordance with SFAS No.114   | 389   |   |  | 389  |
| <b><u>December 31, 2008</u></b>   |   |   |  |  |
| Investment securities available for sale  | 34,364  | 709   | 33,655   |  |
| Mortgage-backed securities available for sale   | 40,801  |   | 40,801   |  |
| Certain financial assets and financial liabilities are measured at fair value on a non-recurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). |   |   |  |  |

**Note 10. Fair Value of Financial Instruments**

Fair value estimates, methods and assumptions are set forth below for the Company's financial instruments.

**Cash and Due from Banks**

For cash and due from banks, the carrying amount approximates fair value.

**Investments and Mortgage-Backed Securities**

The fair value of investment and mortgage-backed securities is estimated based on bid quotations received from securities dealers, if available. If a quoted market price was not available, fair value was estimated using quoted market prices of similar instruments, adjusted for differences between the quoted instruments and the instruments being valued.

**Federal Home Loan Bank of New York Stock**

The fair value for Federal Home Loan Bank of New York ( FHLB ) stock is its carrying value since this is the amount for which it could be redeemed. There is no active market for this stock and the Company is required to maintain a minimum investment based upon the outstanding balance of mortgage related assets and outstanding borrowings.

**Loans**

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Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as residential mortgage, construction, consumer and commercial. Each loan category is further segmented into fixed and adjustable rate interest terms.

Fair value of performing and non-performing loans was estimated by discounting the future cash flows, net of estimated prepayments, at a rate for which similar loans would be originated to new borrowers with similar terms.

### Deposits

The fair value of deposits with no stated maturity, such as non-interest-bearing demand deposits, savings, and interest-bearing checking accounts and money market accounts are, by definition, equal to the amount payable on demand. The related insensitivity of the majority of these deposits to interest rate changes creates a significant inherent value which is not reflected in the fair value reported. The fair value of time deposits are based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

### Borrowed Funds

Fair value estimates are based on discounting contractual cash flows using rates which approximate the rates offered for borrowings of similar remaining maturities.



**Table of Contents****Commitments to Extend Credit and Sell Loans**

The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

The estimated fair values of the Bank's significant financial instruments as of June 30, 2009 and December 31, 2008 are presented in the following tables (in thousands).

|   | <b>Book Value</b> | <b>Fair Value</b> |
|---|-------------------|-------------------|
| <b><u>June 30, 2009</u></b>                       |                   |                   |
| Financial Assets:                                 |                   |                   |
| Cash and due from banks                           | \$ 22,423         | \$ 22,423         |
| Investment securities available for sale          | 31,890            | 31,890            |
| Mortgage-backed securities available for sale     | 89,436            | 89,436            |
| Federal Home Loan Bank of New York stock          | 16,188            | 16,188            |
| Loans receivable and mortgage loans held for sale | 1,657,179         | 1,640,894         |
| Financial Liabilities:                            |                   |                   |
| Deposits  | 1,364,570         | 1,366,862         |
| Borrowed funds                                    | 362,746           | 365,377           |

|   | <b>Book Value</b> | <b>Fair Value</b> |
|---|-------------------|-------------------|
| <b><u>December 31, 2008</u></b>                   |                   |                   |
| Financial Assets:                                 |                   |                   |
| Cash and due from banks                           | \$ 18,475         | \$ 18,475         |
| Investment securities available for sale          | 34,364            | 34,364            |
| Mortgage-backed securities available for sale     | 40,801            | 40,801            |
| Federal Home Loan Bank of New York stock          | 20,910            | 20,910            |
| Loans receivable and mortgage loans held for sale | 1,652,281         | 1,644,004         |
| Financial Liabilities:                            |                   |                   |
| Deposits  | 1,274,132         | 1,277,248         |
| Borrowed funds                                    | 449,822           | 456,365           |

**Limitations**

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other significant unobservable inputs. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial assets or liabilities include deferred tax assets, and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

**Note 11. Issuance of Preferred Stock**

On January 16, 2009, (the "Closing Date") as part of the U.S. Department of the Treasury (the "Treasury") Troubled Asset Relief Program ("TARP") Capital Purchase Program, the Company entered into a Letter Agreement ("Letter Agreement") and a Securities Purchase Agreement ("Standard Terms attached thereto" ("Securities Purchase Agreement")) with the Treasury, pursuant to which the Company agreed to issue and sell, and the Treasury agreed to purchase, (i) 38,263 shares of the Company's Fixed Rate Cumulative Preferred Stock, Series A (the "Preferred Shares"), having

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a liquidation preference of \$1,000 per share, and (ii) a ten-year warrant (the Warrant ) to purchase up to 380,853 shares of the Company's common stock, \$0.01 par value ( Common Stock ), at an exercise price of \$15.07 per share, for an aggregate purchase price of \$38.3 million in cash.

Cumulative dividends on the Preferred Shares will accrue on the liquidation preference at a rate of 5% per annum for the first five years, and at a rate of 9% per annum thereafter, but will be paid only if, as and when declared by the Company's Board of Directors. The Preferred Shares have no maturity date and rank senior to the Common Stock with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of the Company. Notwithstanding any provision in the Securities Purchase Agreement, the American Recovery and Reinvestment Act of 2009 ( ARRA ) permits the Company, with the approval of the Secretary of the Treasury after consultation with the Office

**Table of Contents**

of Thrift Supervision (OTS), to repurchase the Preferred Shares without regard to whether the Company has raised gross proceeds from a Qualified Equity Offering or any other source and without regard to any waiting period. In the event the Company would repurchase the Preferred Shares, the Company may also repurchase the Warrants at the fair market value as determined by the Board of Directors in reliance on an opinion of a nationally recognized investment banking firm. In the event the Treasury does not accept such fair market value as determined by the Board, either party may submit to an appraisal procedure as set forth in the Securities Purchase Agreement. The Securities Purchase Agreement, pursuant to which the Preferred Shares and Warrant were sold, contains limitations on the payment of dividends on the Common Stock (including with respect to the payment of cash dividends in excess of \$0.20 per share, which was the amount of the last regular dividend declared by the Company prior to October 14, 2008). There are additional limitations on the Company's ability to repurchase its common stock and repurchase or redeem its trust preferred securities, and the Company is subjected to certain of the executive compensation limitations included in the Emergency Economic Stabilization Act of 2008 (the EESA) and the ARRA. The Securities Purchase Agreement and all related documents may be amended unilaterally by the Treasury to the extent required to comply with any changes in applicable Federal statutes after the execution thereof.

Of the \$38.3 million in issuance proceeds, \$36.9 million and \$1.3 million were allocated to the Preferred Shares and the Warrant, respectively, based upon their relative fair values as of the Closing Date. The resulting discount of \$1.3 million is accreted by a charge to retained earnings over a five year estimated life.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Critical Accounting Policies**

Note 1 to the Company's Audited Consolidated Financial Statements for the year ended December 31, 2008 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, as supplemented by this report, contains a summary of significant accounting policies. Various elements of these accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. Certain assets are carried in the consolidated statements of financial condition at fair value or the lower of cost or fair value. Judgments regarding securities impairment and policies with respect to the methodologies used to determine the allowance for loan losses, the reserve for repurchased loans and the valuation of Mortgage Servicing Rights are the most critical accounting policies because they are important to the presentation of the Company's financial condition and results of operations. These judgments and policies involve a higher degree of complexity and require management to make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions and estimates could result in material differences in the results of operations or financial condition. These critical accounting policies and their application are reviewed periodically and, at least annually, with the Audit Committee of the Board of Directors.

**Summary**

The Company's results of operations are primarily dependent on net interest income, which is the difference between the interest income earned on interest-earning assets, such as loans and investments, and the interest expense on interest-bearing liabilities, such as deposits and borrowings. The Company also generates non-interest income such as income from loan sales, loan servicing, loan originations, merchant credit card services, deposit accounts, the sale of alternative investments, trust and asset management services and other fees. The Company's operating expenses primarily consist of compensation and employee benefits, occupancy and equipment, marketing, data processing, Federal deposit insurance and general and administrative expenses. The Company's results of operations are also significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory agencies.

On January 16, 2009, the Company received \$38.3 million in proceeds from the issuance of Preferred Shares and Warrants to the U.S. Treasury under the Capital Purchase Program. Proceeds from the Preferred Shares were supplemented with FHLB borrowings and the combined amount was initially invested in mortgage-backed securities and Bank-originated loans. Cash flows generated by the Company as a result of the Preferred Shares investment are currently invested in additional Bank-originated loans. The initial investment strategy was designed to effectively eliminate earnings dilution from the Preferred Shares dividend and Warrant accretion. The addition of Preferred Shares to the Company's total stockholder equity increased the Company's tangible equity to assets ratio to 8.5% at June 30, 2009 from 6.5% at December 31, 2008.

In late 2008, short-term interest rates declined and the interest rate yield curve steepened. This environment has generally had a positive impact on the Bank's results of operations and net interest margin. Interest-earning assets, both loans and securities, are generally priced against longer-term indices, while interest-bearing liabilities, primarily deposits and borrowings, are generally priced against shorter-term indices. There has also been a continued weakening of the overall economy coupled with concern surrounding the housing market. These conditions have had

an adverse impact on the Bank's results of operations as non-performing loans and the provision for loan losses have increased.

**Table of Contents****Analysis of Net Interest Income**

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends upon the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them.

The following table sets forth certain information relating to the Company for the three and six months ended June 30, 2009 and 2008. The yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown except where noted otherwise. Average balances are derived from average daily balances. The yields and costs include certain fees which are considered adjustments to yields.

|  | FOR THE THREE MONTHS ENDED JUNE 30, |           |   |                    |           |                           |
|--|-------------------------------------|-----------|---|--------------------|-----------|---------------------------|
|  | 2009                                |           |   | 2008               |           |                           |
|  | AVERAGE<br>BALANCE                  | INTEREST  | AVERAGE<br>YIELD/<br>COST<br>(Dollars in thousands) | AVERAGE<br>BALANCE | INTEREST  | AVERAGE<br>YIELD/<br>COST |
| <b>Assets</b>                              |                                     |           |   |                    |           |                           |
| Interest-earning assets:                   |                                     |           |   |                    |           |                           |
| Interest-earning deposits                  |                                     |           |   |                    |           |                           |
| and short-term investments                 | \$                                  | \$        | %   | \$ 17,843          | \$ 81     | 1.82%                     |
| Investment securities (1)                  | 55,822                              | 288       | 2.06  | 63,245             | 484       | 3.06                      |
| FHLB stock                                 | 17,117                              | 264       | 6.17  | 19,862             | 426       | 8.58                      |
| Mortgage-backed securities (1)             | 93,215                              | 873       | 3.75  | 48,408             | 573       | 4.73                      |
| Loans receivable, net (2)                  | 1,650,217                           | 22,791    | 5.52  | 1,654,792          | 24,103    | 5.83                      |
| Total interest-earning assets              | 1,816,371                           | 24,216    | 5.33  | 1,804,150          | 25,667    | 5.69                      |
| Non-interest-earning assets                | 85,951                              |           |   | 92,239             |           |                           |
| Total assets                               | \$ 1,902,322                        |           |   | \$ 1,896,389       |           |                           |
| <b>Liabilities and Stockholders Equity</b> |                                     |           |   |                    |           |                           |
| Interest-bearing liabilities:              |                                     |           |   |                    |           |                           |
| Transaction deposits                       | \$ 885,946                          | 2,504     | 1.13  | \$ 777,350         | 3,053     | 1.57                      |
| Time deposits                              | 353,608                             | 2,273     | 2.57  | 423,120            | 3,654     | 3.45                      |
| Total                                      | 1,239,554                           | 4,777     | 1.54  | 1,200,470          | 6,707     | 2.23                      |
| Borrowed funds                             | 375,891                             | 3,285     | 3.50  | 443,202            | 4,698     | 4.24                      |
| Total interest-bearing liabilities         | 1,615,445                           | 8,062     | 2.00  | 1,643,672          | 11,405    | 2.78                      |
| Non-interest-bearing deposits              | 111,895                             |           |   | 112,730            |           |                           |
| Non-interest-bearing liabilities           | 17,668                              |           |   | 17,156             |           |                           |
| Total liabilities                          | 1,745,008                           |           |   | 1,773,558          |           |                           |
| Stockholders equity                        | 157,314                             |           |   | 122,831            |           |                           |
| Total liabilities and stockholders equity  | \$ 1,902,322                        |           |   | \$ 1,896,389       |           |                           |
| Net interest income                        |                                     | \$ 16,154 |   |                    | \$ 14,262 |                           |

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|                              |       |       |
|------------------------------|-------|-------|
| Net interest rate spread (3) | 3.33% | 2.91% |
| Net interest margin (4)      | 3.56% | 3.16% |

FOR THE SIX MONTHS ENDED JUNE 30,

|  | 2009               |           |   | 2008               |           |                           |
|--|--------------------|-----------|---|--------------------|-----------|---------------------------|
|  | AVERAGE<br>BALANCE | INTEREST  | AVERAGE<br>YIELD/<br>COST<br>(Dollars in thousands) | AVERAGE<br>BALANCE | INTEREST  | AVERAGE<br>YIELD/<br>COST |
| <b>Assets</b>                              |                    |           |   |                    |           |                           |
| Interest-earning assets:                   |                    |           |   |                    |           |                           |
| Interest-earning deposits                  |                    |           |   |                    |           |                           |
| and short-term investments                 | \$                 | \$        | %   | \$ 11,634          | \$ 142    | 2.44%                     |
| Investment securities (1)                  | 55,978             | 589       | 2.10  | 62,931             | 1,851     | 5.88                      |
| FHLB stock                                 | 18,104             | 413       | 4.56  | 20,918             | 907       | 8.67                      |
| Mortgage-backed securities (1)             | 84,899             | 1,641     | 3.87  | 50,503             | 1,184     | 4.69                      |
| Loans receivable, net (2)                  | 1,651,158          | 45,963    | 5.57  | 1,662,431          | 49,105    | 5.91                      |
| Total interest-earning assets              | 1,810,139          | 48,606    | 5.37  | 1,808,417          | 53,189    | 5.88                      |
| Non-interest-earning assets                | 85,903             |           |   | 94,964             |           |                           |
| Total assets                               | \$ 1,896,042       |           |   | \$ 1,903,381       |           |                           |
| <b>Liabilities and Stockholders Equity</b> |                    |           |   |                    |           |                           |
| Interest-bearing liabilities:              |                    |           |   |                    |           |                           |
| Transaction deposits                       | \$ 865,581         | 5,157     | 1.19  | \$ 758,864         | 6,344     | 1.67                      |
| Time deposits                              | 356,854            | 4,716     | 2.64  | 433,269            | 8,227     | 3.80                      |
| Total                                      | 1,222,435          | 9,873     | 1.62  | 1,192,133          | 14,571    | 2.44                      |
| Borrowed funds                             | 393,447            | 6,918     | 3.52  | 462,853            | 10,120    | 4.37                      |
| Total interest-bearing liabilities         | 1,615,882          | 16,791    | 2.08  | 1,654,986          | 24,691    | 2.98                      |
| Non-interest-bearing deposits              | 108,629            |           |   | 108,584            |           |                           |
| Non-interest-bearing liabilities           | 17,308             |           |   | 16,649             |           |                           |
| Total liabilities                          | 1,741,819          |           |   | 1,780,219          |           |                           |
| Stockholders equity                        | 154,223            |           |   | 123,162            |           |                           |
| Total liabilities and stockholders equity  | \$ 1,896,042       |           |   | \$ 1,903,381       |           |                           |
| Net interest income                        |                    | \$ 31,815 |   |                    | \$ 28,498 |                           |
| Net interest rate spread (3)               |                    |           | 3.29%   |                    |           | 2.90%                     |
| Net interest margin (4)                    |                    |           | 3.52%   |                    |           | 3.15%                     |

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## **Table of Contents**

- (1) Amounts are recorded at average amortized cost.
- (2) Amount is net of deferred loan fees, undisbursed loan funds, discounts and premiums and estimated loss allowances and includes loans held for sale and non-performing loans.
- (3) Net interest rate spread represents the difference between the yield on interest earning assets and the cost of interest bearing liabilities.
- (4) Net interest margin represents net interest income divided by average interest earning assets.

### **Comparison of Financial Condition at June 30, 2009 and December 31, 2008**

Total assets at June 30, 2009 were \$1.910 billion, an increase of \$51.6 million, compared to \$1.858 billion at December 31, 2008.

Mortgage-backed securities available for sale increased to \$89.4 million at June 30, 2009 as compared to \$40.8 million at December 31, 2008 primarily due to the \$38.3 million investment of Preferred Shares proceeds from the Treasury's Capital Purchase Program.

Loans receivable, net decreased by \$4.7 million to a balance of \$1.644 billion at June 30, 2009, compared to a balance of \$1.648 billion at December 31, 2008. Growth in commercial real estate loans of \$34.6 million was offset by a decline in one-to-four family mortgage loans due to increased prepayments and the Bank's ongoing strategy to sell longer-term, fixed-rate newly-originated one-to-four family mortgage loans. Originations of mortgage loans held for sale increased to \$140.9 million for the six months ended June 30, 2009 as compared to \$59.9 million for the same prior year period. Mortgage loans held for sale increased to \$13.5 million at June 30, 2009 from \$3.9 million at December 31, 2008 due to an increase in longer-term, fixed-rate one-to-four family mortgage loans which the Bank sells.

Deposit balances increased \$90.4 million to \$1.365 billion at June 30, 2009 from \$1.274 billion at December 31, 2008. Core deposits, defined as all deposits excluding time deposits, increased \$111.1 million partly offset by a \$20.7 million decrease in time deposits as the Bank continued to moderate its pricing for time deposits. FHLB advances decreased by \$101.9 million to \$258.0 million at June 30, 2009 as compared to \$359.9 million at December 31, 2008 primarily due to the increase in deposits.

Stockholders' equity at June 30, 2009 increased to \$161.9 million as compared to \$119.8 million at December 31, 2008 primarily due to the issuance of \$38.3 million of Preferred Shares.

### **Comparison of Operating Results for the Three and Six Months Ended June 30, 2009 and June 30, 2008**

#### General

Net income available to common stockholders for the three months ended June 30, 2009 was \$3.1 million or \$.26 per diluted share, as compared to net income available to common stockholders of \$3.5 million, or \$.30 per diluted share, for the corresponding prior year period. For the six months ended June 30, 2009, net income available to common stockholders was \$6.6 million or \$.56 per diluted share, as compared to net income available to common stockholders of \$7.5 million or \$.64 per diluted share for the corresponding prior year period.

#### Interest Income

Interest income for the three and six months ended June 30, 2009 was \$24.2 million and \$48.6 million, respectively, as compared to \$25.7 million and \$53.2 million, respectively, for the three and six months ended June 30, 2008. The yield on interest-earning assets declined to 5.33% and 5.37%, respectively, for the three and six months ended June 30, 2009, as compared to 5.69% and 5.88%, respectively, for the same prior year periods. The asset yield for the six months ended June 30, 2008 benefited from \$633,000 of income relating to an equity investment which was sold by the end of 2008. Average interest-earning assets increased by \$12.2 million and \$1.7 million, respectively, for the three and six months ended June 30, 2009, as compared to the same prior year periods. The increase was in mortgage-backed securities which rose \$44.8 million and \$34.4 million for the three and six months ended June 30, 2009, respectively, due to investment of the Preferred Shares proceeds from the Treasury's Capital Purchase Program.

#### Interest Expense

Interest expense for the three and six months ended June 30, 2009 was \$8.1 million and \$16.8 million, respectively, compared to \$11.4 million and \$24.7 million, respectively, for the three and six months ended June 30, 2008. The cost of interest-bearing liabilities decreased to 2.00% and 2.08%, respectively, for the three and six months ended June 30, 2009, as compared to 2.78% and 2.98%, respectively, in the same prior year periods. Additionally, average interest-bearing liabilities decreased by \$28.2 million and \$39.1 million, respectively, for the three and six months

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ended June 30, 2009, as compared to the same prior year periods. Average borrowed funds decreased \$67.3 million and \$69.4 million, respectively, for the three and six months ended June 30, 2009 due to an increase in average deposits and average stockholder's equity as funding sources. The increase in average stockholder's equity was related to the issuance of Preferred Shares.



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**Table of Contents****Net Interest Income**

Net interest income for the three and six months ended June 30, 2009 increased to \$16.2 million and \$31.8 million, respectively, as compared to \$14.3 million and \$28.5 million, respectively, in the same prior year periods reflecting a higher net interest margin and higher levels of interest-earning assets. The net interest margin increased to 3.56% and 3.52%, respectively, for the three and six months ended June 30, 2009 from 3.16% and 3.15%, respectively, in the same prior year periods.

**Provision for Loan Losses**

For the three and six months ended June 30, 2009, the provision for loan losses was \$1.2 million and \$2.0 million, respectively, compared to \$400,000 and \$775,000, respectively, in the same prior year periods. Non-performing loans increased \$6.5 million at June 30, 2009 to \$20.9 million from \$14.4 million at June 30, 2008. Loans receivable, net decreased modestly during the first six months of 2009 while net charge-offs for the three and six months ended June 30, 2009 were \$461,000 and \$907,000 respectively, as compared to \$220,000 and \$324,000, respectively, in the same prior year periods. Net charge-offs for the three and six months ended June 30, 2009 included \$269,000 and \$635,000, respectively, relating to subprime loans originated by Columbia Home Loans, LLC, the Company's mortgage banking subsidiary which has since been shuttered. The increase in the provision for loan losses was primarily due to the increase in non-performing loans and net charge-offs.

**Other Income**

Other income increased to \$4.2 million and \$7.3 million, respectively, for the three and six months ended June 30, 2009 as compared to \$2.6 million and \$6.4 million, respectively, in the same prior year periods. Loan servicing income (loss) decreased to a loss of \$221,000 for the six months ended June 30, 2009 from income of \$172,000 for the six months ended June 30, 2008 due to an impairment to the loan servicing asset of \$263,000 recognized in the first quarter of 2009. The net gain (loss) on sales of loans and securities available for sale was \$1.4 million and \$2.0 million, respectively, for the three and six months ended June 30, 2009 as compared to losses of \$718,000 and \$122,000, respectively, for the three and six months ended June 30, 2008. For the three and six months ended June 30, 2009 the net gain on the sales of loans includes a reversal of the provision for repurchased loans of \$211,000 and \$245,000, respectively, as compared to a reversal of \$0 and \$161,000, respectively for the three and six months ended June 30, 2008. Fees and service charges decreased to \$2.6 million and \$5.1 million, respectively, for the three and six months ended June 30, 2009 as compared to \$2.9 million and \$5.7 million, respectively, for the corresponding prior year periods primarily due to a decrease in trust and investment service revenue. Income from Bank Owned Life Insurance decreased by \$108,000 and \$211,000, respectively, for the three and six months ended June 30, 2009 as compared to the same prior year periods due to the lower interest rate environment.

**Operating Expenses**

Operating expenses increased to \$13.2 million and \$25.0 million, respectively, for the three and six months ended June 30, 2009, as compared to \$11.4 million and \$23.0 million, respectively, for the corresponding prior year periods. Federal deposit insurance increased to \$1.4 million and \$1.9 million, respectively, for the three and six months ended June 30, 2009, as compared to \$341,000 and \$651,000, respectively, in the same prior year periods due to a special assessment of \$869,000 for the three and six months ended June 30, 2009 and an increase in the assessment rate for FDIC deposit insurance effective January 1, 2009. Occupancy expense was adversely affected by a second quarter charge of \$556,000 relating to all future lease obligations of Columbia Home Loans, LLC, the Company's mortgage banking subsidiary which was shuttered in the fourth quarter of 2007. In light of the economic downturn and weak real estate market, the Company no longer expects to be able to sublet the vacant office space. Therefore, the entire remaining lease obligation was recognized in the second quarter of 2009. General and administrative expense include \$169,000 of costs related to the Company's previously announced merger with Central Jersey Bancorp. Under FASB 141R these costs are expensed in the period incurred and are likely to be significant during the second half of 2009. Operating expenses for the three and six months ended June 30, 2009 also include costs relating to the opening of two new branches in the latter part of 2008.

**Provision for Income Taxes**

Income tax expense was \$2.3 million and \$4.6 million, respectively, for the three and six months ended June 30, 2009, as compared to an expense of \$1.6 million and \$3.6 million, respectively, for the same prior year periods. The effective tax rate increased to 38.7% and 37.8%, respectively, for the three and six months ended June 30, 2009 as compared to 30.9% and 32.1%, respectively, in the same prior periods primarily due to an increase in state tax expense.

**Liquidity and Capital Resources**

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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, FHLB and other borrowings and, to a lesser extent, investment maturities. While scheduled amortization of loans is a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by interest rates, economic conditions and competition. The Company has other sources of liquidity if a need for additional funds arises, including various lines of credit.

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## **Table of Contents**

At June 30, 2009, the Company had outstanding overnight borrowings from the FHLB of \$17.0 million as compared to \$83.9 million in overnight borrowings at December 31, 2008. The Company utilizes the overnight line to fund short-term liquidity needs. The Company had total FHLB borrowings, including overnight borrowings, of \$258.0 million at June 30, 2009, a decrease from \$359.9 million at December 31, 2008.

The Company's cash needs for the six months ended June 30, 2009 were primarily satisfied by principal payments on loans and mortgage-backed securities, proceeds from the sale of mortgage loans held for sale, increased deposits and the issuance of Preferred Shares. The cash was principally utilized for loan originations, the purchase of mortgage-backed securities and to reduce borrowings. For the six months ended June 30, 2008, the cash needs of the Company were primarily satisfied by principal payments on loans and mortgage-backed securities, proceeds from the sale of mortgage loans held for sale and increased deposits. The cash provided was principally used for loan originations and to reduce FHLB borrowings.

In the normal course of business, the Company routinely enters into various off-balance-sheet commitments, primarily relating to the origination and sale of loans. At June 30, 2009, outstanding commitments to originate loans totaled \$69.1 million; outstanding unused lines of credit totaled \$204.5 million; and outstanding commitments to sell loans totaled \$35.0 million. The Company expects to have sufficient funds available to meet current commitments arising in the normal course of business.

Time deposits scheduled to mature in one year or less totaled \$260.1 million at June 30, 2009. Based upon historical experience management estimates that a significant portion of such deposits will remain with the Company.

Cash dividends on common stock declared and paid by OceanFirst Financial Corp. during the first six months of 2009 were \$4.7 million, unchanged from the same prior year period. On July 21, 2009, the Board of Directors declared a quarterly cash dividend of twenty cents (\$0.20) per common share. The dividend is payable on August 14, 2009 to stockholders of record at the close of business on August 3, 2009. Cash dividends on Preferred Shares declared and paid during the six months ended June 30, 2009 were \$632,000. On July 21, 2009 the Board of Directors declared a quarterly cash dividend of \$12.50 per Preferred Share for an aggregate payment of \$478,000. The dividend is payable on August 15, 2009 to stockholders of record at the close of business on July 31, 2009.

The primary sources of liquidity specifically available to OceanFirst Financial Corp., the holding company of OceanFirst Bank, are capital distributions from the banking subsidiary, short-term borrowings and the issuance of Preferred Shares, long-term debt and trust preferred securities. On January 16, 2009, the Company received \$38.3 million in proceeds from the issuance of Preferred Shares and Warrants. The Company invested \$19.1 million of the proceeds into the Bank and retained the remaining proceeds. For the first six months of 2009, OceanFirst Financial Corp. received \$3.6 million in dividend payments from OceanFirst Bank. OceanFirst Financial Corp.'s ability to continue to pay dividends will be partly dependent upon capital distributions from OceanFirst Bank which may be adversely affected by capital constraints imposed by the OTS. Pursuant to OTS regulations, a notice is required to be filed with the OTS prior to the Bank paying a dividend to OceanFirst Financial Corp. The OTS could object to a proposed capital distribution by any institution, which would otherwise be permitted by regulation, if the OTS determines that such distribution would constitute an unsafe and unsound practice. The Bank filed a capital distribution notice with the OTS of its intention to make quarterly capital distributions of \$3.6 million each throughout 2009 to OceanFirst Financial Corp. The OTS did not object to the payment of these dividends as long as the Bank remains well-capitalized after each capital distribution. Additionally, if the Bank incurs an other than temporary impairment charge relating to its investment securities so that the total proposed capital distribution exceeds net income for the year to date, plus retained net income for the preceding two years, then the Bank must submit an application requesting approval of the OTS for the remaining unpaid capital distributions. The Company cannot predict whether the OTS may object to any future notices or fail to approve any future applications to pay a dividend to OceanFirst Financial Corp. At June 30, 2009, OceanFirst Financial Corp. held \$19.1 million in cash and \$229,000 in investment securities available for sale. Additionally, OceanFirst Financial Corp. has an available line of credit for up to \$2.0 million, all of which was available at June 30, 2009.

At June 30, 2009, the Bank exceeded all of its regulatory capital requirements with tangible capital of \$176.9 million, or 9.1% of total adjusted assets, which is above the required level of \$29.0 million or 1.5%; core capital of \$176.9 million or 9.1% of total adjusted assets, which is above the required level of \$77.4 million, or 4.0% and risk-based capital of \$186.4 million, or 14.1% of risk-weighted assets, which is above the required level of \$105.7 million or 8.0%. The Bank is considered a well-capitalized institution under the OTS Prompt Corrective Action Regulations.

At June 30, 2009, the Company maintained tangible equity of \$161.9 million, for a tangible equity to assets ratio of 8.5%, and tangible common equity of \$124.6 million, for a tangible common equity to assets ratio of 6.5%.

## **Off-Balance-Sheet Arrangements and Contractual Obligations**

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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 involve, to varying degrees, elements of credit, interest rate, and liquidity risk. Such transactions are used for general corporate purposes or for customer needs. Corporate purpose transactions are used to help manage credit, interest rate, and liquidity risk or to optimize capital. Customer transactions are used to manage customers' requests for funding. These financial instruments and

**Table of Contents**

commitments include unused consumer lines of credit and commitments to extend credit. The Company also has outstanding commitments to sell loans amounting to \$35.0 million.

The following table shows the contractual obligations of the Company by expected payment period as of June 30, 2009 (in thousands):

| Contractual Obligation                     | Total      | Less than  | 1-3 years  | 3-5 years | More than |
|--|------------|------------|------------|-----------|-----------|
|  |            | One year   |            |           | 5 years   |
| Debt Obligations                           | \$ 362,746 | \$ 184,246 | \$ 120,000 | \$ 31,000 | \$ 27,500 |
| Commitments to Originate Loans             | 69,100     | 69,100     |            |           |           |
| Commitments to Fund Unused Lines of Credit | 204,542    | 204,542    |            |           |           |

Commitments to originate loans and commitments to fund unused lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company's exposure to credit risk is represented by the contractual amount of the instruments.

**Non-Performing Assets**

The following table sets forth information regarding the Company's non-performing assets consisting of non-accrual loans and Real Estate Owned ( REO ). It is the policy of the Company to cease accruing interest on loans 90 days or more past due or in the process of foreclosure.

|                                | June 30,<br>2009       | December 31,<br>2008 |
|--------------------------------|------------------------|----------------------|
|                                | (dollars in thousands) |                      |
| Non-performing loans:          |                        |                      |
| Real estate one-to-four family | \$ 12,290              | \$ 8,696             |
| Commercial real estate         | 5,361                  | 5,527                |
| Construction                   | 67                     |                      |
| Consumer                       | 2,517                  | 1,435                |
| Commercial                     | 702                    | 385                  |
| Total non-performing loans     | 20,937                 | 16,043               |
| REO, net                       | 1,348                  | 1,141                |
| Total non-performing assets    | \$ 22,285              | \$ 17,184            |

|  |       |       |
|--|-------|-------|
| Allowance for loan losses as a percent of total loans receivable   | .77%  | .70%  |
| Allowance for loan losses as percent of total non-performing loans | 60.94 | 72.71 |
| Non-performing loans as a percent of total loans receivable        | 1.26  | .97   |
| Non-performing assets as a percent of total assets                 | 1.17  | .92   |

The non-performing loan total includes \$911,000 of repurchased one-to-four family and consumer loans and \$3.1 million of one-to-four family and consumer loans previously held for sale, which were written down to their fair market value in a prior period. The two largest commercial non-performing loan relationships totaled \$2.5 million. The largest of the two is \$1.9 million and both relationships are well secured by commercial real estate collateral. The Company also classifies loans in accordance with regulatory guidelines. At June 30, 2009, the Company had \$7.6 million designated as Special Mention, \$35.1 million classified as Substandard and \$34,000 classified as Doubtful as compared to \$9.0 million, \$17.2 million and \$14,300, respectively, at December 31, 2008. The largest Special Mention loan relationship at June 30, 2009 is comprised of several credit facilities totaling \$3.4 million to a leasing company which is current on payments but was criticized due to declining revenue. The loan is secured by commercial real estate, auto titles, other business assets and personal guarantees. The largest Substandard loan relationship at June 30, 2009 is comprised of several credit facilities to a building supply company with an aggregate balance of \$4.0 million which was current as to payments, but criticized due to declining revenue and poor operating results. The loans are well-secured by commercial real estate and other business assets. In addition to loan classifications, the Company classified investment securities with an amortized cost of

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\$30.0 million and a carrying value of \$15.5 million as Substandard, which represents the amount of investment securities with a credit rating below investment grade from one of the internationally-recognized credit rating services. At June 30, 2009, the Bank was holding subprime loans with a gross principal balance of \$3.0 million and a carrying value, net of reserves and lower of cost or market adjustment, of \$1.9 million, and ALT-A loans with a gross principal balance of \$5.6 million and a carrying value, net of reserves and lower of cost or market adjustment, of \$4.9 million.

**Table of Contents****Private Securities Litigation Reform Act Safe Harbor Statement**

In addition to historical information, this quarterly report contains certain forward-looking statements which are based on certain assumptions and describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the words believe, expect, intend, anticipate, estimate, project, or similar expressions. The Company's ability to predict results or the actual future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and the subsidiaries include, but are not limited to, changes in interest rates, general economic conditions, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Board of Governors of the Federal Reserve System, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company's market area and accounting principles and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on statements. The Company does not undertake and specifically disclaims any obligation - to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. Further description of the risks and uncertainties to the business are included in Item 1, Business and Item 1A, Risk Factors of the Company's 2008 Form 10-K.

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

The Company's interest rate sensitivity is monitored through the use of an interest rate risk ( IRR ) model. The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at June 30, 2009 which were anticipated by the Company, based upon certain assumptions, to reprice or mature in each of the future time periods shown. At June 30, 2009, the Company's one-year gap was negative 1.70% as compared to negative 5.72% at December 31, 2008.

| At June 30, 2009<br>(dollars in thousands)           | 3 Months<br>Or Less | More than<br>3 Months to<br>1 Year | More<br>than<br>1 Year to<br>3 Years | More<br>than<br>3 Years to<br>5 Years | More<br>than<br>5 Years | Total             |
|--|---------------------|------------------------------------|--------------------------------------|---------------------------------------|-------------------------|-------------------|
| <b>Interest-earning assets: (1)</b>                  |                     |                                    |                                      |                                       |                         |                   |
| Interest-earning deposits and short-term investments | \$ 7,305            | \$                                 | \$                                   | \$                                    | \$                      | \$ 7,305          |
| Investment securities                                | 55,000              | 452                                |                                      |                                       | 370                     | 55,822            |
| FHLB stock   |                     |                                    |                                      |                                       | 16,188                  | 16,188            |
| Mortgage-backed securities                           | 12,773              | 20,026                             | 17,385                               | 25,803                                | 12,098                  | 88,085            |
| Loans receivable (2)                                 | 286,285             | 419,439                            | 552,654                              | 235,597                               | 170,957                 | 1,664,932         |
| <b>Total interest-earning assets</b>                 | <b>361,363</b>      | <b>439,917</b>                     | <b>570,039</b>                       | <b>261,400</b>                        | <b>199,613</b>          | <b>1,832,332</b>  |
| <b>Interest-bearing liabilities:</b>                 |                     |                                    |                                      |                                       |                         |                   |
| Money market deposit accounts                        | 4,209               | 12,628                             | 33,674                               | 42,093                                |                         | 92,604            |
| Savings accounts                                     | 10,122              | 31,761                             | 80,977                               | 101,222                               |                         | 224,082           |
| Interest-bearing checking accounts                   | 259,737             | 47,039                             | 125,438                              | 156,930                               |                         | 589,144           |
| Time deposits  | 115,040             | 145,101                            | 52,985                               | 19,990                                | 13,577                  | 346,693           |
| FHLB advances  | 52,000              | 55,000                             | 120,000                              | 31,000                                |                         | 258,000           |
| Securities sold under agreements to repurchase       | 77,246              |                                    |                                      |                                       |                         | 77,246            |
| Other borrowings                                     | 22,500              |                                    |                                      |                                       | 5,000                   | 27,500            |
| <b>Total interest-bearing liabilities</b>            | <b>540,854</b>      | <b>291,529</b>                     | <b>413,074</b>                       | <b>351,235</b>                        | <b>18,577</b>           | <b>1,615,269</b>  |
| <b>Interest sensitivity gap (3)</b>                  | <b>\$ (179,491)</b> | <b>\$ 148,388</b>                  | <b>\$ 156,965</b>                    | <b>\$ (89,835)</b>                    | <b>\$ 181,036</b>       | <b>\$ 217,063</b> |
| <b>Cumulative interest sensitivity gap</b>           | <b>\$ (179,491)</b> | <b>\$ (31,103)</b>                 | <b>\$ 125,862</b>                    | <b>\$ 36,027</b>                      | <b>\$ 217,063</b>       | <b>\$ 217,063</b> |

|   |         |         |       |       |        |        |
|---|---------|---------|-------|-------|--------|--------|
| Cumulative interest sensitivity gap as a percent of total interest-earning assets | (9.80)% | (1.70)% | 6.87% | 1.97% | 11.85% | 11.85% |
|---|---------|---------|-------|-------|--------|--------|

- (1) Interest-earning assets are included in the period in which the balances are expected to be redeployed and/or repriced as a result of anticipated prepayments, scheduled rate adjustments, and contractual maturities.
  - (2) For purposes of the gap analysis, loans receivable includes loans held for sale and non-performing loans gross of the allowance for loan losses, unamortized discounts and deferred loan fees.
  - (3) Interest sensitivity gap represents the difference between interest-earning assets and interest-bearing liabilities.
- Additionally, the table below sets forth the Company's exposure to interest rate risk as measured by the change in net portfolio value ( NPV ) and net interest income under varying rate shocks as of June 30, 2009 and December 31, 2008. All methods used to measure interest rate sensitivity involve the use of assumptions, which may tend to oversimplify the manner in which actual yields and costs respond to changes in market interest rates. The Company's interest rate sensitivity should be reviewed in conjunction with the financial statements and notes thereto contained in the Company's Annual Report for the year ended December 31, 2008. The increase in NPV in the static case at June 30, 2009 when compared to December 31, 2008 was primarily a result of the Preferred Shares issuance.



**Table of Contents**

| Change in Interest Rates in Basis Points (Rate Shock)<br>(dollars in thousands) | June 30, 2009       |          |           |                     |          |  | December 31, 2008   |          |           |                     |          |
|---|---------------------|----------|-----------|---------------------|----------|--|---------------------|----------|-----------|---------------------|----------|
|   | Net Portfolio Value |          |           | Net Interest Income |          |  | Net Portfolio Value |          |           | Net Interest Income |          |
|   | Amount              | % Change | NPV Ratio | Amount              | % Change |  | Amount              | % Change | NPV Ratio | Amount              | % Change |
| 200   | \$ 163,281          | (12.8)%  | 9.0%      | \$ 65,603           | (4.9)%   |  | \$ 106,833          | (21.5)%  | 6.0%      | \$ 55,909           | (8.8)%   |
| 100   | 178,343             | (4.8)    | 9.6       | 67,631              | (2.0)    |  | 126,459             | (7.0)    | 7.0       | 59,031              | (3.8)    |
| Static  | 187,334             |          | 9.9       | 69,007              |          |  | 136,020             |          | 7.4       | 61,331              |          |
| (100)   | 183,647             | (2.0)    | 9.5       | 66,563              | (3.5)    |  | 136,226             | 0.2      | 7.2       | 59,363              | (3.2)    |
| (200)   | 183,311             | (2.1)    | 9.5       | 61,844              | (10.4)   |  | 129,958             | (4.5)    | 6.9       | 56,937              | (7.2)    |

**Item 4. Controls and Procedures**

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the Exchange Act). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective. Disclosure controls and procedures are the controls and other procedures that are designed to ensure that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the SEC (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. In addition, based on that evaluation, there were no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2009 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**

With the following exception, the Company is not engaged in any legal proceedings of a material nature at the present time. From time to time, the Company is a party to routine legal proceedings within the normal course of business. Such routine legal proceedings in the aggregate are believed by management to be immaterial to the Company's financial condition or results of operations.

On June 8, 2009, and July 15, 2009, purported class action complaints were filed against the Company, Central Jersey and each director of Central Jersey (except that Robert S. Vuono was not named in the second class action complaint) in the Superior Court of New Jersey in Ocean County. The actions were brought by two separate alleged shareholders of Central Jersey, each on behalf of himself and all others similarly situated. The complaints allege, among other things, that the directors of Central Jersey are in breach of their fiduciary duties to shareholders in connection with Central Jersey's entry into the merger agreement with the Company. The complaints also allege that the Company and Central Jersey knowingly assisted the Central Jersey directors' alleged breaches of fiduciary duty in connection with the proposed merger.

The complaints seek, among other things, damages and injunctive relief to enjoin the Company, Central Jersey and Central Jersey's directors from consummating the transactions contemplated under the merger agreement, along with attorneys' fees and costs. The Company and Central Jersey believe that the allegations in the complaints are without merit and intend to vigorously defend against the claims and causes of action asserted in these legal matters.

**Item 1A. Risk Factors**

For a summary of risk factors relevant to the Company, see Part I, Item 1A, Risk Factors, in the 2008 Annual Report on Form 10-K. Additional risk factors relevant to the Company's operations since December 31, 2008 include the following:

The issuance of any securities under the recently filed Shelf Registration will have an impact on the shareholders of the Company. The Company recently filed a Shelf Registration Statement on Form S-3 with the SEC which allows the Company to issue up to \$80.0 million of common stock, preferred stock, debt securities or warrants, or a combination thereof. The Board of Directors of the Company is authorized to issue the securities registered under the Shelf Registration Statement at any time, or from time to time, without the approval of the shareholders of the Company. If the Board of Directors determines to issue shares of common stock under the Shelf Registration Statement, the Board of Directors

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is authorized to issue such shares at such prices as determined by the Board of Directors. Shareholders of the Company do not have preemptive rights and, therefore, if the Board of Directors determines to issue common stock, the current shareholders will not have the right to subscribe for shares in an amount necessary to maintain their current percentage ownership. Consequently, the issuance of common stock may result in a dilution in the percentage ownership of the Company by current shareholders.

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## Table of Contents

If the Board of Directors determines to issue preferred stock under the Shelf Registration Statement, the Board of Directors is authorized by the Certificate of Incorporation to issue such shares at such prices and in such series, and to establish designations, powers, preferences and rights of such shares, as well as the limitations, qualifications and restrictions. Generally, preferred shares have a preference over common shares in the payment of dividends and upon liquidation.

The Board of Directors may also issue, pursuant to the Shelf Registration Statement, senior or subordinated debt securities at such rates and with such terms and conditions as determined by the Board of Directors. These securities will rank senior to the Company's preferred or common stock upon liquidation of the Company.

The Shelf Registration Statement also registered warrants to purchase common stock, preferred stock and debt securities.

The Board of Directors has not determined to issue any securities under the Shelf Registration Statement. The Board may consider current economic conditions, regulatory requirements, liquidity needs and other matters when determining if and when to issue such securities. Further, the Board of Directors are authorized to determine the use of proceeds of such securities issuance, which may include future growth opportunities, general corporate purposes or repayment of Preferred Shares and repurchase of the Warrants issued to the U.S. Treasury pursuant to the Capital Purchase Program.

The Bank's Federal thrift charter may be eliminated under the Administration's Financial Regulatory Reform Plan. The administration has proposed the creation of a new federal government agency, the National Bank Supervisor ( NBS ) that would charter and supervise all federally chartered depository institutions, and all federal branches and agencies of foreign banks. It is proposed that the NBS take over the responsibilities of the Office of the Comptroller of the Currency, which currently charters and supervises nationally chartered banks, and the responsibility for the institutions currently supervised by the OTS, which supervises federally chartered thrift and thrift holding companies, such as the Bank and the Company. In addition, under the administration's proposal, the thrift charter, under which the Bank is organized, would be eliminated. If the administration's proposal is finalized, the Bank may be subject to a new charter mandated by the NBS. There is no assurance as to how this new charter, or the supervision by the NBS, will affect the Bank's operations going forward.

The elimination of the OTS, as proposed by the administration, also would result in a new regulatory authority for the Company. Such authority may impose restrictions which are the same as, or similar to, those made applicable to bank holding companies by the Board of Governors of the Federal Reserve System, including a holding company consolidated capital requirement. Currently, as a savings and loan holding company supervised by the OTS, the Company is not subject to a holding company consolidated capital requirement. The Company expects that if it were to become subject to a consolidated capital requirement, it would meet the current requirement to be categorized as well-capitalized on a pro forma basis.

The administration's proposal also includes the creation of a new federal agency designed to enforce consumer protection laws. The Consumer Financial Protection Agency ( CFPA ) would have authority to protect consumers of financial products and services and to regulate all providers (bank and non-bank) of such services. The CFPA would be authorized to adopt rules for all providers of consumer financial services, supervise and examine such institutions for compliance and enforce compliance through orders, fines and penalties. The rules of the CFPA would serve as a floor and individual states would be permitted to adopt and enforce stronger consumer protection laws. If adopted as proposed, the Company could become subject to multiple laws affecting its provision of home loans and other credit services to consumers, which may substantially increase the cost of providing such services.

It is unknown at this time whether the administration's proposal for regulatory reform will be adopted and, if so, the final form of such proposal, and what the full impact on the Company may be.

There is no guaranty that the Company will be able to continue to pay a dividend or, if continued, will be able to pay a dividend at the current rate. The Board of Directors of the Company determines at its discretion if, when and the amount of dividends that may be paid on the common stock. In making such determination, the Board of Directors take into account various factors including economic conditions, earnings, liquidity needs, the financial condition of the Company, applicable state law, regulatory requirements and other factors deemed relevant by the Board of Directors. Although the Company has a history of paying a quarterly dividend on its common stock, there is no guaranty that such dividends will continue to be paid in the future, particularly in the event of changes in those factors which may affect the Board of Directors' determination to pay a dividend.

Any future FDIC insurance premiums will adversely impact earnings. On May 22, 2009, the FDIC adopted a final rule levying a five basis point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009. The special assessment is payable on September 30, 2009. The Company recorded an expense of \$869,000 during the quarter ended June 30, 2009, to reflect the special assessment. The final rule permits the FDIC's Board of Directors to levy up to two additional special assessments of up to five basis points each during 2009

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if the FDIC estimates that the Deposit Insurance Fund reserve ratio will fall to a level that the FDIC's Board of Directors believes would adversely affect public confidence or to a level that will be close to or below zero. The FDIC has publicly announced that it is probable that it will levy an additional special assessment of up to five basis points later in 2009, the amount and timing of which are currently uncertain. Any further special assessments that the FDIC levies will be recorded as an expense during the appropriate period.

**Table of Contents**

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

Not Applicable

**Item 3. Defaults Upon Senior Securities**

Not Applicable

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

Not Applicable

**Item 5. Other Information**

Not Applicable

**Item 6. Exhibits**

Exhibits:

- 3.1 Certificate of Incorporation of OceanFirst Financial Corp.\*
- 3.2 Bylaws of OceanFirst Financial Corp.\*\*
- 4.0 Stock Certificate of OceanFirst Financial Corp.\*
- 31.1 Rule 13a-14(a)/15d-14(c) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(c) Certification of Chief Financial Officer
- 32.0 Section 1350 Certifications

\* Incorporated herein by reference into this document from the Exhibits to Form S-1, Registration Statement, effective May 13, 1996, as amended, Registration No. 33-80123.

\*\* Incorporated herein by reference into this document from the Exhibit to Form 10-K, Annual Report, filed on March 25, 2003.

**Table of Contents**

**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.

OceanFirst Financial Corp.  
Registrant

DATE: August 10, 2009

/s/ John R. Garbarino  
John R. Garbarino  
Chairman of the Board, President  
and Chief Executive Officer

DATE: August 10, 2009

/s/ Michael J. Fitzpatrick  
Michael J. Fitzpatrick  
Executive Vice President and  
Chief Financial Officer

**Table of Contents**

Exhibit Index

| <b>Exhibit</b> | <b>Description</b>  | <b>Page</b> |
|----------------|---|-------------|
| 31.1           | Rule 13a-14(a)/15d-14(c) Certification of Chief Executive Officer | 25          |
| 31.2           | Rule 13a-14(a)/15d-14(c) Certification of Chief Financial Officer | 26          |
| 32.0           | Section 1350 Certifications                                       | 27          |