OCEANFIRST FINANCIAL CORP

FORM 10-Q
(Quarterly Report)

Filed 11/12/1998 For Period Ending 9/30/1998

Address	975 HOOPER AVE
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Industry	S&Ls/Savings Banks
Sector	Financial
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 1998

[ ] 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 0-27428

OCEAN FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Delaware	22-3412577
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
975 Hooper Avenue, Toms River, NJ	08753
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	(732) 240-4500

(Former name, former address and formal fiscal year, if changed since last report)

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 X NO _____.

As of November 6, 1998, there were 14,757,428 shares of the Registrant's Common Stock, par value $.01 per share, outstanding.

OCEAN FINANCIAL CORP.

INDEX TO FORM 10-Q

PART I. FINANCIAL INFORMATION

Part II. OTHER INFORMATION

OCEAN FINANCIAL CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(dollars in thousands, except per share amounts)

	September 30, 1998 (Unaudited)	December 31, 1997
ASSETS		
Cash and due from banks	$ 8,738	$ 2,225
Federal funds sold	-	-
Cash and cash equivalents	8,738	2,225
Investment securities available for sale	145,468	207,357
Federal Home Loan Bank of New York stock, at cost	15,042	14,980
Mortgage-backed securities available for sale	428,955	457,148
Loans receivable, net	893,417	783,695
Interest and dividends receivable	10,242	11,064
Real estate owned, net	576	1,198
Premises and equipment, net	14,251	14,279
Other assets	27,645	19,001
Total assets	$ 1,544,334	$ 1,510,947
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	$ 1,028,522	$ 976,764
Federal Home Loan Bank borrowings	27,000	20,400
Securities sold under agreements to repurchase	275,405	288,200
Advances by borrowers for taxes and insurance	5,453	4,773
Other liabilities	11,368	5,266
Total liabilities	1,347,748	1,295,403
Stockholders' Equity:		
Preferred stock, $.01 par value, 5,000,000 shares authorized, no shares issued	-	-
Common stock, $.01 par value, 55,000,000 shares authorized, 18,118,248 shares issued and 14,757,428 and 15,705,720 shares outstanding at September 30, 1998 and December 31, 1997, respectively	181	181
Additional paid-in capital	178,306	177,223
Retained earnings-substantially restricted	102,606	97,487
Accumulated other comprehensive income	(1,728)	989
Less: Unallocated common stock held by		
Employee Stock Ownership Plan	(18,079)	(10,903)
Unearned Incentive Awards	(6,447)	(7,897)
Treasury Stock at cost (3,360,820 and 2,412,528 shares at September 30, 1998 and December 31, 1997, respectively)	(58,253)	(41,536)
Total stockholders' equity	196,586	215,544
Total liabilities and stockholders' equity	$ 1,544,334	$ 1,510,947

See accompanying notes to unaudited consolidated financial statements Note: Shares and related amounts for prior periods have been adjusted for the two-for-one stock split effected in the form of a 100% stock dividend paid on May 15, 1998.

OCEAN FINANCIAL CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(dollars and shares in thousands, except per share amounts)

	For the three months ended September 30, 1998	For the three months ended September 30, 1997	For the nine months ended September 30, 1998	For the nine months ended September 30, 1997
	(Unaudited)		(Unaudited)	
Interest income:				
Loans	$17,048	$14,637	$49,465	$42,328
Mortgage-backed securities	5,853	7,192	19,185	19,602
Investment securities and other	3,593	3,739	10,290	10,493
Total interest income	26,494	25,568	78,940	72,423
Interest expense:				
Deposits	11,248	11,001	32,923	31,901
Borrowed funds	4,412	3,657	13,194	8,300
Total interest expense	15,660	14,658	46,117	40,201
Net interest income	10,834	10,910	32,823	32,222
Provision for loan losses	225	225	675	675
Net interest income after provision for loan losses	10,609	10,685	32,148	31,547
Other income:				
Fees and service charges	622	477	1,663	1,427
Net gain on sales of loans available for sale	53	1	221	1
Net income from other real estate operations	20	5	160	12
Other	181	89	506	294
Total other income	876	572	2,550	1,734
Operating expenses:				
Compensation and employee benefits	3,710	3,492	10,994	10,290
Occupancy	490	480	1,408	1,445
Equipment	343	307	1,011	978
Marketing	301	138	1,053	541
Federal deposit insurance	217	210	651	506
Data processing	319	288	945	959
General and administrative	924	809	2,897	2,311
Total operating expenses	6,304	5,724	18,959	17,030
Income before provision for income taxes	5,181	5,533	15,739	16,251
Provision for income taxes	1,845	1,993	5,692	5,906
Net income	$ 3,336	$ 3,540	$10,047	$10,345
Basic earnings per share	$ .25	$ .24	$ .74	$ .66
Diluted earnings per share	$ .25	$ .23	$ .72	$ .65
Average basic shares outstanding	13,202	14,834	13,517	15,706
Average diluted shares outstanding	13,505	15,169	13,893	15,887

See accompanying notes to unaudited consolidated financial statements.

Note: Earnings per share and shares outstanding for prior periods have been adjusted for the two-for-one stock split effected in the form of a 100% stock dividend paid on May 15, 1998.

OCEAN FINANCIAL CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	For the nine months ended September 30, 1998	1997
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 10,047	$ 10,345
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	1,093	1,008
Amortization of Incentive Awards	1,450	1,289
Amortization of ESOP	1,024	1,071
ESOP adjustment	826	613
Tax benefit of stock plans	257	-
Amortization of servicing asset	238	138
Net premium amortization in excess of discount accretion on securities	2,524	2,719
Net accretion of deferred fees and discounts in excess of premium amortization on loans	(380)	(272)
Provision for loan losses	675	675
Net gain on sales of real estate owned	(107)	(184)
Net gain on sales of loans available for sale	(221)	(1)
Proceeds from sales of mortgage loans held for sale	15,962	703
Mortgage loans originated for sale	(16,132)	-
Decrease (increase) in interest and dividends receivable	822	(2,456)
Increase in other assets	(5,866)	(612)
Increase in other liabilities	6,102	1,007
Total adjustments	8,267	5,698
Net cash provided by operating activities	18,314	16,043
Cash flows from investing activities:		
Net increase in loans receivable	(110,864)	(77,843)
Purchase of investment securities available for sale	(126,986)	(50,984)
Purchase of mortgage-backed securities available for sale	(131,172)	(202,319)
Proceeds from maturities of investment securities available for sale	185,160	20,270
Principal payments on mortgage-backed securities available for sale	156,243	123,253
Purchases of Federal Home Loan Bank of New York stock	(62)	(4,709)
Proceeds from sales of real estate owned	1,576	2,205
Purchases of premises and equipment	(1,065)	(1,407)
Net cash used in investing activities	(27,170)	(191,534)

Continued

OCEAN FINANCIAL CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(dollars in thousands)

	For the nine months ended September 30, 1998	1997
	(Unaudited)	
Cash flows from financing activities:		
Acquisition of deposits	$ 10,732	--
Deposit premium	(1,030)	--
Increase in deposits	41,026	31,006
Increase in Federal Home Loan Bank borrowings	6,600	9,600
(Decrease) increase in securities sold under agreements to repurchase	(12,795)	169,793
Increase in advances by borrowers for taxes and insurance	680	854
Dividends paid	(4,927)	(3,287)
Purchase of Incentive Award stock	--	(10,176)
Purchase of ESOP shares	(8,200)	--
Purchase of treasury stock	(16,717)	(29,546)
Net cash provided by financing activities	15,369	168,244
Net increase (decrease) in cash and cash equivalents	6,513	(7,247)
Cash and cash equivalents at beginning of period	2,225	5,372
Cash and cash equivalents at end of period	$ 8,738	$ 1,875
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 45,691	$ 39,656
Income taxes	20	5,346
Noncash investing activities:		
Transfer of loans receivable to real estate owned	847	1,455
Mortgage loans securitized into mortgage-backed securities	16,082	--

See accompanying notes to unaudited consolidated financial statements.

OCEAN FINANCIAL CORP. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Ocean Financial Corp. (the "Company") and its wholly-owned subsidiary, Ocean Federal Savings Bank (the "Bank") and its wholly-owned subsidiaries, Ocean Federal Realty Inc. and Ocean Investment Services, Inc.

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 nine months ended September 30, 1998 are not necessarily indicative of the results of operations that may be expected for all of 1998.

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.

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, 1997.

NOTE 2. EARNINGS PER SHARE

Amounts per common share for prior periods have been adjusted for the two-for-one stock split effected in the form of a 100% stock dividend declared by the Company's Board of Directors on April 22, 1998 and paid on May 15, 1998.

The following reconciles shares outstanding for basic and diluted earnings per share for the three and nine months ended September 30, 1998 and 1997

	Three months ended September 30,		Nine months ended September 30,	
	1998	1997	1998	1997
Weighted average shares issued net of Treasury shares	15,172	16,647	15,322	17,470
Less: Unallocated ESOP Shares	(1,424)	(1,142)	(1,243)	(1,177)
Unallocated incentive award shares	(546)	(671)	(562)	(587)
Average basic shares outstanding	13,202	14,834	13,517	15,706
Add: Effect of dilutive securities:				
Stock options	166	190	222	97
Incentive awards	137	145	154	84
Average diluted shares outstanding	13,505	15,169	13,893	15,887

NOTE 3. IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

Effective January 1, 1998, the Company adopted the provisions of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130). SFAS 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Under SFAS 130, comprehensive income is divided into net income and other comprehensive income. Other comprehensive income includes items previously recorded directly inequity, such as unrealized gains or losses on securities available for sale. Comparative financial statements provided for earlier periods have been reclassified to conform with the provisions of this Statement.

SFAS 130 requires total comprehensive income and its components to be displayed on the face of a financial statement for annual financial statements. For interim financial statements, SFAS 130 requires only total comprehensive income to be reported and allows such disclosure to be presented in the notes to the interim financial statements.

For the three month periods ended September 30, 1998 and 1997 total comprehensive income (loss) amounted to $(161,000) and $6,266,000, respectively. For the nine month periods ended September 30, 1998 and 1997, total comprehensive income amounted to $7,330,000 and $13,131,000, respectively.

In February 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits" (SFAS 132). SFAS 132 revises employers' disclosures about pension and other postretirement benefit plans. It does not change the measurement or recognition of those plans. It standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable, requires additional information about changes in the benefit obligations and fair value of plan assets that will facilitate financial analysis, and eliminates certain required disclosures of previous accounting pronouncements. SFAS 132 is effective for fiscal years beginning after December 15, 1997. Earlier application is encouraged. Restatement of disclosures for earlier periods provided for comparative purposes is required unless the information is not readily available. As SFAS 132 affects disclosure requirements, it is not expected to have an impact on the financial statements of the Company.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Actitivies." This statement establishes accounting and reporting standards for derivative instruments, and for hedging activities. SFAS No. 133 supersedes the disclosure requirements in SFAS No. 80, 105 and 119. This statement is effective for periods after June 15, 1999. The adoption of SFAS No. 133 is not expected to have a material impact on the financial position or results of operations of the Company.

In October 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 134 "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise." This Statement amends FASB Statement 65 "Accounting for Certain Mortgage Banking Activities" to require that after the securitization of mortgage loans held for sale, an entity engaged in mortgage banking activities classify the resulting mortgage-backed securities or other retained interests based on its ability and intent to sell or hold those investments. This Statement is effective for the first fiscal quarter beginning after December 15, 1998. The adoption of this Statement is not expected to have a material impact on the financial position or results of operations of the Company.

NOTE 4. LOANS RECEIVABLE, NET

Loans receivable, net at September 30, 1998 and December 31, 1997 consisted of the following (in thousands):

	September 30, 1998 (Unaudited)	December 31, 1997
Real estate:		
One- to four-family	$802,662	$711,548
Commercial real estate, multi-family and land	36,139	25,699
Construction	7,284	8,748
Consumer	51,635	45,417
Commercial	6,340	2,904
Total loans	904,060	794,316
Less:		
Loans in process	2,712	2,867
Deferred fees	676	1,133
Unearned discounts	9	9
Allowance for loan losses	7,246	6,612
Total loans, net	893,417	783,695
Less: mortgage loans held for sale	-	-
Loans receivable, net	$893,417	$783,695

NOTE 5. DEPOSITS

The major types of deposits at September 30, 1998 and December 31, 1997 were as follows (in thousands):

Type of Account	September 30, 1998 (Unaudited)	December 31, 1997
Non-interest bearing	$ 21,686	$ 13,149
NOW	85,950	77,994
Money market deposit	74,147	67,979
Savings	168,140	163,202
Time deposits	678,599	654,440
	$1,028,522	$ 976,764

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION

Total assets at September 30, 1998 were $1.544 billion, an increase of $33.4 million, compared to $1.511 billion at December 31, 1997.

Investment securities available for sale decreased by $61.9 million, to a balance of $145.5 million at September 30, 1998, compared to a balance of $207.4 million at December 31, 1997, and mortgage-backed securities available for sale decreased by $28.2 million, to $429.0 million at September 30, 1998, from $457.1 million at December 31, 1997. The investment and mortgage-backed securities available for sale portfolios decreased in order to fund growth in the Bank's loans receivable. Loans receivable, net, increased by $109.7 million, or 14.0%, to a balance of $893.4 million at September 30, 1998, compared to a balance of $783.7 million at December 31, 1997. The increase was largely attributable to robust residential loan growth (including mortgage refinance activity) in the Bank's market area, as well as commercial lending (including commercial real estate) initiatives which accounted for $13.9 million of this growth. Included in the residential loan growth is $64.0 million of 30-year fixed-rate non-conforming mortgage loans which the Bank retained in portfolio, while $16.1 million of 30-year fixed-rate mortgage loans were sold. In the past, the Bank has often sold most of this product into the secondary market. Of the loans retained, the Bank funded $58.5 million with repurchase agreements with approximate terms of three to seven years, mitigating part of the interest rate risk associated with retaining these mortgages.

Total deposits at September 30, 1998 were $1.029 billion, an increase of $51.8 million, compared to $976.8 million at December 31, 1997. On June 29, 1998, the Company completed the purchase of $10.7 million in deposit balances from Summit Bank's Whiting, New Jersey branch, for a deposit premium of $1.0 million. Stockholders' equity at September 30, 1998 was $196.6 million, compared to $215.5 million at December 31, 1997. The Company repurchased 948,292 shares of common stock during the nine months ended September 30, 1998 for $16.7 million, fully completing the remainder of a 5% repurchase program announced in October 1997 and another 5% repurchase program announced in July 1998. Additionally, during the second quarter of 1998, the Company loaned $8.2 million to the Bank's Employee Stock Ownership Plan ("ESOP" or the "Plan") which enabled the ESOP trustee to purchase 422,500 shares of common stock. After the initial 12 year ESOP term expires in year 2008, these shares will begin to be allocated to employees covered by the Plan at which time they will be expensed by the Company.

RESULTS OF OPERATIONS

GENERAL

Net income decreased to $3.3 million for the three months ended September 30, 1998 as compared to net income of $3.5 million for the three months ended September 30, 1997. For the nine months ended September 30, 1998 net income decreased to $10.0 million from $10.3 million for the nine months ended September 30, 1997.

INTEREST INCOME

Interest income for the three months ended September 30, 1998 was $26.5 million, compared to $25.6 million for the three months ended September 30, 1997, an increase of $926,000, or 3.6%. For the nine months ended September 30, 1998, interest income was $78.9 million compared to $72.4 million for the same period in 1997, an increase of $6.5 million or 9.0%. The increases in interest income were the result of increases in the average balance of loans receivable which increased by $143.5 million and $133.5 million for the three and nine months ended September 30, 1998, respectively, as compared to the same prior year periods. For the three months ended September 30, 1998, a $77.0 million increase in earning assets was largely offset by a decline in the yield on earning assets which decreased to 7.11% as compared to 7.24% for the same period in 1997 due to declines in yields for loans and investment and mortgage-backed securities. For the nine months ended September 30, 1998 the yield on earning assets increased 1 basis point to 7.14% as compared to the same period in 1997 as declines in yields for loans and investment securities were offset by a shift in the asset mix from lower yielding securities to higher yielding loans receivable.

INTEREST EXPENSE

Interest expense for the three months ended September 30, 1998 was $15.7 million, compared to $14.7 million for the three months ended September 30, 1997, an increase of $1.0 million, or 6.8%. For the nine months ended September 30, 1998 interest expense was $46.1 million compared to $40.2 million for the same period in 1997, an increase of $5.9 million or 14.7%. The increases in interest expense were primarily the result of an increase in the average outstanding balance of total borrowings (Federal Home Loan Bank and securities sold under agreements to repurchase) which increased by $46.3 million and $106.8 million for the three and nine months ended September 30, 1998, respectively, as compared to the same prior year periods and an additional increase in average interest-bearing deposits of $50.1 million and $38.4 million for the three and nine months ended September 30, 1998, respectively, as compared to the same prior year periods. The increase in wholesale borrowings was part of a leverage strategy adopted in late 1996 to improve returns on invested capital. Proceeds from the borrowings were invested in mortgage loans and investment and mortgage-backed securities. The average cost of interest-bearing liabilities decreased to 4.79% for the three months ended September 30, 1998, as compared to 4.84% for the same prior year period, due to the recent market decline in interest rates. For the nine months ended September 30, 1998, the average cost of interest-bearing liabilities increased to 4.79%, as compared to 4.70% for the same prior year period due to a greater percentage increase in higher cost wholesale funding over retail deposit funding.

PROVISION FOR LOAN LOSSES

For the three and nine months ended September 30, 1998, the Company's provision for loan losses was $225,000 and $675,000, respectively, unchanged from the same prior year periods. The Company's non-performing assets declined by $1.4 million at September 30, 1998 as compared to September 30, 1997 allowing for stable provisions despite loan growth.

OTHER INCOME

Other income increased to $876,000 and $2.6 million for the three and nine months ended September 30, 1998, respectively, compared to $572,000 and $1.7 million for the same prior year periods. The increases were primarily due to gains recognized on the sale of 30-year fixed-rate mortgage loans, which the Company periodically sells as part of the management of interest rate risk. These gains amounted to $53,000 and $221,000 for the three and nine months ended September 30, 1998, respectively. Additionally, deposit related fees (part of fees and service charges) increased by $129,000 and $315,000 for the three and nine months ended September 30, 1998, respectively, as compared to the same prior year periods, due to growth in commercial account services and retail core account balances. The Company also realized $40,000 in fee income during the third quarter of 1998 from the sale of alternative investment products, a service the Company introduced late in this year's second quarter. The growth in these fees was partly offset by reductions in loan servicing fees due to prepayments of the loans underlying the servicing portfolio.

OPERATING EXPENSES

Operating expenses were $6.3 million and $19.0 million for the three and nine months ended September 30, 1998, representing increases of $580,000 and $1.9 million compared to the same prior year periods. For the nine months ended September 30, 1998, the increase was partly due to higher non-cash charges relating to the Employee Stock Ownership Plan and expenses associated with the stock awards granted to directors and officers under the 1997 Incentive Plan. For the three and nine months ended September 30, 1998, marketing expense increased by $163,000 and $512,000 as the Bank aggressively promoted its new retail checking products. The Bank also opened its eleventh branch office in early April of 1998.

PROVISION FOR INCOME TAXES

Income tax expense was $1.8 million and $5.7 million for the three and nine months ended September 30, 1998, respectively, compared to $2.0 million and $5.9 million for the three and nine months ended September 30, 1997, respectively. The effective tax rate was relatively stable at 36.2% for the nine months ended September 30, 1998 as compared to 36.3% for the same prior year period.

LIQUIDITY AND CAPITAL RESOURCES

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

At September 30, 1998, the Company had $27.0 outstanding in overnight borrowings from the FHLB, representing an increase from $20.4 million at December 31, 1997. The Company utilizes the overnight line from time to time to fund short-term liquidity needs. The Company also borrowed $275.4 million at September 30, 1998 through securities sold under agreements to repurchase, a decrease from $288.2 million at December 31, 1997. These borrowings were used to fund a wholesale leverage strategy designed to improve returns on invested capital.

The Company's cash needs for the nine months ended September 30, 1998, were principally provided by maturities of investment securities available for sale, principal payments on loans and mortgage-backed securities and increased deposits, including a deposit acquisition. The cash provided was principally used for investing activities, which included the purchase of investment and mortgage-backed securities and the origination of loans. For the nine months ended September 30, 1997, the cash needs of the Company were primarily satisfied by principal payments on loans and mortgage-backed securities, securities sold under agreements to repurchase and increased deposits. The cash was principally utilized for loan originations, purchases of investment and mortgage-backed securities and the purchase of treasury stock.

Federal regulations require the Bank to maintain minimum levels of liquid assets. The required percentage has varied from time to time based upon economic conditions and savings flows and is currently 4% of net withdrawable savings deposits and borrowings payable on demand or in one year or less during the preceding calendar month. Liquid assets for purposes of this ratio include cash, accrued interest receivable, certain time deposits, U.S. Treasury and Government agencies and other securities and obligations generally having remaining maturities of less than five years. The levels of these assets are dependent on the Bank's operating, financing, lending and investing activities during any given period. As of September 30, 1998 and December 31, 1997, the Bank's liquidity ratios were 38.7% and 9.8%, respectively, both in excess of the minimum regulatory requirement.

At September 30, 1998, the Bank exceeded all of its regulatory capital requirements with tangible capital of $164.1 million, or 10.68%, of total adjusted assets, which is above the required level of $23.0 million or 1.5%; core capital of $164.1 million or 10.68% of total adjusted assets, which is above the required level of $61.5 million, or 4.0%; and risk-based capital of $171.2 million, or 23.2% of risk-weighted assets, which is above the required level of $59.0 million or 8.0%. The Bank is considered a "well capitalized" institution under the Office of Thrift Supervision's prompt corrective action regulations.

NON-PERFORMING ASSETS

The following table sets forth information regarding the Company's nonperforming assets consisting of non-accrual loans and Real Estate Owned (REO). The Company had no troubled-debt restructured loans within the meaning of SFAS 15 at September 30, 1998 or December 31, 1997. 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.

	September 30, 1998	December 31, 1997
	(Dollars in thousands)	
	(Unaudited)	
Non-accrual loans:		
Real estate:		
One-to four-family	$5,059	$5,062
Commercial real estate, multi-family and land	574	382
Consumer	161	110
Total	5,794	5,554
REO, net	576	1,198
Total non-performing assets	$6,370	$6,752
Non-performing loans as a percent of total loans receivable	.64%	.70%
Non-performing assets as a percent of total assets	.41%	.45%
Allowance for loan losses as a percent of total loans receivable	.80%	.83%
Allowance for loan losses as percent of total non-performing loans	125.06%	119.03%

IMPACT OF YEAR 2000

The Company has developed a formal project plan to prepare its systems, hardware, and facilities for the Year 2000. The project plan has been in place since 1997 and is designed to follow the guidelines and recommendations of the Federal Financial Institutions Examination Council (FFIEC). The Year 2000 effort is being implemented by qualified personnel from areas throughout the Company.

As stated in the FFIEC guidelines, the Company has created a plan consisting of five phases. The phases include awareness, assessment, renovation, validation and implementation. The awareness phase was completed with the development of a Year 2000 committee and a formal reporting and tracking process. A thorough analysis of all hardware, software, and facilities that may be effected by the turn of the century was done to complete the assessment phase. Based on this analysis, items were prioritized and the renovation effort was started. The Company primarily utilizes third-party vendors to provide processing of its mission critical systems. Vendors are being closely monitored to ensure that renovation and validation dates are met. The planned completion date for all renovations is December 31, 1998 with all validation and implementation scheduled to be complete by June 30, 1999. Detailed updates are provided to the Board of Directors covering all aspects of the project on a periodic basis.

In the case where third party systems fail or are not completed on time, there is the potential to experience operational problems throughout the Company. To reduce the risk of any problem due to this type of failure, contingency plans are being drafted for all mission critical functions and systems. The contingency plans will address other methods and vendors that may be required to continue to do business. In the event that any mission critical system renovation or validation falls behind schedule, the Company may decide to execute contingency plans to ensure uninterrupted service to customers.

The cost of the Year 2000 project is estimated to be between $300,000 and $400,000. The cost includes all renovation, testing, and contingency planning expense for in-house and third-party processing. The expense for the nine months ended September 30, 1998 is $52,000. The expenses associated with the Year 2000 project are not considered to be incremental to the Company in total. Although the expense was necessitated by the Year 2000 project, the Company has realized substantial improvements in its internal system technology.

Estimated expenses and completion dates associated with this project are based on all known facts and available resources. It is the expectation that the represented estimates will not change materially, but there can be no guarantee that the estimates will be achieved. Factors that may influence changes in the estimates include, but are not limited to, expenses associated for obtaining qualified personnel, ability to correctly identify and renovate all functions related to the Year 2000 and other similar items.

PRIVATE SECURITIES LITIGATION REFORM ACT SAFE HARBOR STATEMENT

In addition to historical information, this quarterly report may include certain forward looking statements based on current management expectations. The Company's actual results could differ materially from those management expectations. Factors that could cause future results to vary from current management expectations include, but are not limited to, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the federal government, changes in tax policies, rates and regulations of federal and state tax authorities, changes in interest rates, deposit flows, the cost of funds, demand for loan products, demand for financial services, competition, changes in the quality or composition of the Bank's loan and investment portfolios, changes in accounting principles, policies or guidelines, and other economic, competitive, governmental and technological factors affecting the Company's operations, markets, products, services and prices. Further description of the risks and uncertainties to the business are included in Item 1, Business, of the Company's 1997 Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company's interest rate sensitivity is monitored by management through the use of an interest rate risk (IRR) model. Based on internal IRR modeling, management does not believe that there has been a material change in the Company's interest rate sensitivity from December 31, 1997 to September 30, 1998. 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 fiscal year ended December 31, 1997.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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.

Item 2. Changes in Securities

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Submission of Matters to Vote of Security Holders

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits:

3.1 Certificate of Incorporation of Ocean Financial Corp.*

3.2 Bylaws of Ocean Financial Corp.*

4.0 Stock Certificate of Ocean Financial Corp.*

10.8 Amended and Restated Ocean Financial Corp. 1997 Incentive Plan
(filed herewith)

27 Financial Data Schedule (filed herewith)

b) There were no reports on Form 8-K filed during the three months ended September 30, 1998.

* Incorporated herein by reference into this document from the Exhibits to Form S-1, Registration Statement, filed on December 7, 1995, as amended, Registration No. 33-80123.

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.

<u>Ocean Financial Corp.</u>
Registrant

DATE: November 12, 1998

/s/ John R. Garbarino

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

DATE: November 12, 1998

/s/ Michael Fitzpatrick

Michael Fitzpatrick
Executive Vice President and Chief Financial Officer

EXHIBIT 10.8

AMENDED AND RESTATED
OCEAN FINANCIAL CORP.
1997 INCENTIVE PLAN

The Amended and Restated Ocean Financial Corp. 1997 Incentive Plan (the "Plan") is effective as of October 21, 1998 and reflects certain amendments to the provisions of the Ocean Financial Corp. 1997 Incentive Plan, which was effective February 4, 1997.

1. DEFINITIONS.

(a) "Affiliate" means (i) a member of a controlled group of corporations of which the Holding Company is a member or (ii) an unincorporated trade or business which is under common control with the Holding Company as determined in accordance with Section 414(c) of the Code and the regulations issued thereunder. For purposes hereof, a "controlled group of corporations" shall mean a controlled group of corporations as defined in Section 1563(a) of the Code determined without regard to Section 1563(a)(4) and (e)(3)(C).

(b) "Alternate Option Payment Mechanism" refers to one of several methods available to a Participant to fund the exercise of a stock option set out in Section 11 hereof. These mechanisms include: broker assisted cashless exercise and stock for stock exchange.

(c) "Award" means a grant of one or some combination of one or more Non-statutory Stock Options, Incentive Stock Options and Stock Awards under the provisions of this Plan.

(d) "Bank" means Ocean Federal Savings Bank.

(e) "Board of Directors" or "Board" means the board of directors of the Holding Company or the Bank and directors emeritus of the Holding Company or the Bank.

(f) "Change in Control" means a change in control of the Bank or Holding Company of a nature that: (i) would be required to be reported in response to Item 1 of the current report on Form 8-K, as in effect on the date hereof, pursuant to Section 13 or 15(d) of the Exchange Act; or (ii) results in a Change in Control within the meaning of the Home Owners' Loan Act of 1933, as amended ("HOLA") and the Rules and Regulations promulgated by the Office of Thrift Supervision ("OTS") (or its predecessor agency), as in effect on the date hereof (provided, that in applying the definition of change in control as set forth under such rules and regulations the Board shall substitute its judgment for that of the OTS); or (iii) without limitation such a Change in Control shall be deemed to have occurred at such time as (A) any "person" (as the term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Bank or the Holding Company representing 20% or more of the Bank's or the Holding Company's outstanding securities except for any securities of the Bank purchased by the Holding Company and any securities purchased by any tax qualified employee benefit plan of the Bank; or (B) individuals who constitute the Board of Directors of the Holding Company on the date hereof (the "Incumbent Board") cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the date hereof whose election was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board, or whose nomination for election by the Holding Company's stockholders was approved by a Nominating Committee serving under an Incumbent Board, shall be, for purposes of this clause (B), considered as though he were a member of the Incumbent Board; or (C) a plan of reorganization, merger, consolidation, sale of all or substantially all the assets of the

Bank or the Holding Company or similar transaction occurs in which the Bank or Holding Company is not the resulting entity; or (D) after a solicitation of shareholders of the Holding Company, by someone other than current management of the Holding Company, stockholders approve a plan of reorganization, merger or consolidation of the Holding Company or Bank or similar transaction with one or more corporations, as a result of which the outstanding shares of the class of securities then subject to the plan would be exchanged for or converted into cash or property or securities not issued by the Bank or the Holding Company; or (E) a tender offer is made for 20% or more of the voting securities of the Bank or the Holding Company and such offer is successful.

(g) "Code" means the Internal Revenue Code of 1986, as amended.

(h) "Committee" means a committee consisting of the entire Board of Directors or consisting solely of two or more members of the Board of Directors who are defined as Non-Employee Directors as such term is defined under Rule 16b-3(b)(3)(i) under the Exchange Act as promulgated by the Securities and Exchange Commission.

(i) "Common Stock" means the Common Stock of the Holding Company, par value, $.01 per share or any stock exchanged for shares of Common Stock pursuant to Section 15 hereof.

(j) "Date of Grant" means the effective date of an Award.

(k) "Disability" means the permanent and total inability by reason of mental or physical infirmity, or both, of a Participant to perform the work customarily assigned to him or, in the case of a Director, to serve on the Board. Additionally, a medical doctor selected or approved by the Board of Directors must advise the Committee that it is either not possible to determine when such Disability will terminate or that it appears probable that such Disability will be permanent during the remainder of said Participant's lifetime.

(l) "Effective Date" means February 4, 1997, the effective date of the Plan.

(m) "Employee" means any person who is currently employed by the Holding Company or an Affiliate, including officers, but such term shall not include Outside Directors.

(n) "Employee Participant" means an Employee who holds an outstanding Award under the terms of the Plan.

(o) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(p) "Exercise Price" means the purchase price per share of Common Stock deliverable upon the exercise of each Option in order for the option to be exchanged for shares of Common Stock.

(q) "Fair Market Value" means, when used in connection with the Common Stock on a certain date, the average of the high and low bid prices of the Common Stock as reported by the National Association of Securities Dealers Automated Quotation System ("NASDAQ") or the New York Stock Exchange ("NYSE") (as published by the Wall Street Journal, if published) on such date or if the Common Stock was not traded on such date, on the next preceding day on which the Common Stock was traded thereon or the last previous date on which a sale is reported. If the Common Stock is not traded on the NASDAQ or the NYSE, the Fair Market Value of the Common Stock is the value so determined by the Board in good faith.

(r) "Holding Company" means Ocean Financial Corp.

(s) "Incentive Stock Option" means an Option granted by the Committee to a Participant, which Option is designated by the Committee as an Incentive Stock Option pursuant to Section 7 hereof and is intended to be such under Section 422 of the Code.

(t) "Limited Right" means the right to receive an amount of cash based upon the terms set forth in Section 8 hereof.

(u) "Non-statutory Stock Option" means an Option to a Participant pursuant to Section 6 hereof, which is not designated by the Committee as an Incentive Stock Option or which is redesignated by the Committee as a Non- statutory Stock Option or which is designated an Incentive Stock Option under
Section 7 hereof, but does not meet the requirements of such under Section 422 of the Code.

(v) "Option" means the right to buy a fixed amount of Common Stock at the Exercise Price within a limited period of time designated as the term of the option as granted under Section 6 or 7 hereof.

(w) "Outside Director" means a member of the Board of Directors or a Director Emeritus of the Holding Company or its Affiliates, who is not also an Employee.

(x) "Outside Director Participant" means an Outside Director who holds an outstanding Award under the terms of the Plan.

(y) "Participant(s)" means collectively an Employee Participant and/or an Outside Director Participant who hold(s) outstanding Awards under the terms of the Plan.

(z) "Performance Goal" is a specific condition or goal which may be set by the Committee as a prerequisite to the vesting of a Stock Award in accordance with Section 9(b) hereof.

(aa) "Retirement" with respect to an Employee Participant means termination of employment which constitutes retirement under any tax qualified plan maintained by the Bank. However, "Retirement" will not be deemed to have occurred for purposes of this Plan if a Participant continues to serve as a consultant to or on the Board of Directors of the Holding Company or its Affiliates even if such Participant is receiving retirement benefits under any retirement plan of the Holding Company or its Affiliates. With respect to an Outside Director Participant, "Retirement" means the termination of service from the Board of Directors of the Holding Company or its Affiliates following written notice to the Board as a whole of such Outside Director's intention to retire, except that an Outside Director Participant shall not be deemed to have "retired" for purposes of the Plan in the event he continues to serve as a consultant to the Board or as an advisory director or director emeritus, including pursuant to any retirement plan of the Holding Company or the Bank.

(bb) "Stock Awards" are Awards of Common Stock which may vest immediately or over a period of time. Vesting of Stock Awards under Section 9 hereof may be contingent upon the occurrence of specified events or the attainment of specified performance goals as determined by the Committee.

(cc) "Termination for Cause" shall mean, in the case of a Director, removal from the Board of Directors, or, in the case of an Employee, termination of employment, in both such cases as determined by the Board of Directors, because of Participant's personal dishonesty, incompetence, willful misconduct, any breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule or regulation (other than traffic violations or similar offenses) or in the case of an employee without a written employment agreement with the Bank or Holding Company, any other grounds provided for under employment policies of the Bank or Holding Company in effect at the Effective Date or as amended from time to time.

(dd) "Trust" means a trust established by the Board in connection with this Plan to hold Plan assets for the purposes set forth herein.

(ee) "Trustee" means that person or persons and entity or entities approved by the Board to hold legal title to any of the Trust assets for the purposes set forth herein.

2. ADMINISTRATION.

(a) The Plan shall be administered by the Committee. The Committee is authorized, subject to the provisions of the Plan, to grant awards to Employees and establish such rules and regulations as it deems necessary for the proper administration of the Plan and to make whatever determinations and interpretations in connection with the Plan it deems necessary or advisable. All determinations and interpretations made by the Committee shall be binding and conclusive on all Employee Participants and Outside Director Participants in the Plan and on their legal representatives and beneficiaries.

(b) Awards to Outside Directors of the Holding Company or its Affiliates shall be granted by the Board of Directors or the Committee, pursuant to the terms of this Plan.

(c) Actual transference of the Award requires no, nor allows any, discretion by the Trustee.

3. TYPES OF AWARDS AND RELATED RIGHTS.

The following Awards and related rights as described below in Paragraphs 6 through 12 hereof may be granted under the Plan:

(a) Non-statutory Stock Options
(b) Incentive Stock Options
(c) Limited Rights
(d) Stock Awards

4. STOCK SUBJECT TO THE PLAN.

Subject to adjustment as provided in Section 15 hereof, the maximum number of shares of Common Stock reserved for Awards under the Plan is 1,174,330 shares which number may not be in excess of 14 % of the outstanding shares of the Common Stock determined immediately as of the Effective Date. Subject to adjustment as provided in Section 15 hereof, the maximum number of shares of Common Stock reserved hereby for purchase pursuant to the exercise of Options and Option-related Awards granted under the Plan is 838,807 shares, which number may not be in excess of 10% of the outstanding shares of Common Stock as of the Effective Date. The maximum number of the shares of Common Stock reserved for award as Stock Awards is 335,523 shares, which number is not in excess of 4% of the outstanding shares of Common Stock as of the Effective Date. These shares of Common Stock may be either authorized but unissued shares or authorized shares previously issued and reacquired by the Holding Company. To the extent that Options and Stock Awards are granted under the Plan, the shares underlying such Awards will be unavailable for any other use including future grants under the Plan except that, to the extent that Stock Awards or Options terminate, expire, or are forfeited without having been exercised (or in cases where a Limited Right has been granted in connection with an option, the amount of such Limited Right received in lieu of the exercise of such option), new Awards may be made with respect to those shares underlying such terminated, expired or forfeited Options or Stock Awards.

5. ELIGIBILITY.

Subject to the terms herein, all Employees and Outside Directors shall be eligible to receive Awards under the Plan.

6. NON-STATUTORY STOCK OPTIONS.

The Committee may, subject to the limitations of the Plan and the availability of shares reserved but unawarded under the Plan, from time to time, grant Non-statutory Stock Options to Employees and Outside Directors, upon such terms and conditions as the Committee may determine. Further, subject to receipt of stockholder approval, the Committee may grant Non-statutory Stock Options in exchange for and upon surrender of previously granted Awards under this Plan under such terms and conditions as the Committee may determine. Non- statutory Stock Options granted under this Plan are subject to the following terms and conditions:

(a) Exercise Price. The Exercise Price of each Non-statutory Stock Option shall be determined by the Committee, and once determined and documented in an NSO Agreement, may not be revised without stockholder approval or in accordance with Section 15 hereof. Such Exercise Price shall not be less than 100% of the Fair Market Value of the Holding Company's Common Stock on the Date of Grant. Shares of Common Stock underlying a Non-statutory Stock Option may be purchased only upon full payment of the Exercise Price or upon operation of an Alternate Option Payment Mechanism set out in Section 11 hereof.

(b) Terms of Non-statutory Stock Options. The term during which each Non-statutory Stock Option may be exercised shall be determined by the Committee, but in no event shall a Non-statutory Stock Option be exercisable in whole or in part more than 10 years from the Date of Grant. The Committee shall determine the date on which each Non-statutory Stock Option shall become exercisable. The shares of Common Stock underlying each Non-statutory Stock Option installment may be purchased in whole or in part by the Participant at any time during the term of such Non-statutory Stock Option after such installment becomes exercisable. The Committee may, in its sole discretion, accelerate the time at which any Non-statutory Stock Option may be exercised in whole or in part. The acceleration of any Non-statutory Stock Option under the authority of this paragraph shall create no right, expectation or reliance on the part of any other Participant or that certain Participant regarding any other unaccelerated Non-statutory Stock Options. Unless determined otherwise by the Committee and except in the event of the Participant's death or pursuant to a domestic relations order, a Non-statutory Stock Option is not transferable and may be exercisable in his lifetime only by the Participant to whom it is granted. Upon the death of a Participant, a Non-statutory Stock Option is transferable by will or the laws of descent and distribution.

(c) NSO Agreement. The terms and conditions of any Non-statutory Stock Option granted shall be evidenced by an agreement (the "NSO Agreement") which shall be subject to the terms and conditions of the Plan.

(d) Termination of Employment or Service. Unless otherwise determined by the Committee, upon the termination of a Participant's employment or service for any reason other than Disability, death or Termination for Cause, the Participant's Non-statutory Stock Options shall be exercisable only as to those shares that were immediately exercisable by the Participant at the date of termination and only for a period of three months following termination. Notwithstanding any provisions set forth herein or contained in any NSO Agreement relating to an award of a Non-statutory Stock Option, in the event of termination of the Participant's employment or service for Disability or death, all Non-statutory Stock Options held by such Participant shall immediately vest and be exercisable for one year after such termination of service, and, in the event of a

Termination for Cause, all rights under the Participant's Non-statutory Stock Options shall expire immediately upon such Termination for Cause.

(e) Change in Control. Unless otherwise determined by the Committee, and notwithstanding any other provision of the Plan, in the event of a Change in Control, all Non-statutory Stock Options held by the Participant, whether or not vested at such time, shall become vested to the Participant or his legal representatives or beneficiaries upon the Change in Control.

7. INCENTIVE STOCK OPTIONS.

The Committee may, subject to the limitations of the Plan and the availability of shares reserved but unawarded under the Plan, from time to time, grant Incentive Stock Options to Employees upon such terms and conditions as the Committee may determine. Incentive Stock Options granted pursuant to the Plan shall be subject to the following terms and conditions:

(a) Exercise Price. The Exercise Price of each Incentive Stock Option shall be not less than 100% of the Fair Market Value of the Common Stock on the Date of Grant. However, if at the time an Incentive Stock Option is granted to an Employee Participant, such Employee Participant owns Common Stock representing more than 10% of the total combined voting securities of the Holding Company (or, under Section 424(d) of the Code, is deemed to own Common Stock representing more than 10% of the total combined voting power of all classes of stock of the Holding Company, by reason of the ownership of such classes of stock, directly or indirectly, by or for any brother, sister, spouse, ancestor or lineal descendent of such Employee Participant, or by or for any corporation, partnership, estate or trust of which such Employee Participant is a shareholder, partner or beneficiary) ("10% Owner"), the Exercise Price per share of Common Stock deliverable upon the exercise of each Incentive Stock Option shall not be less than 110% of the Fair Market Value of the Common Stock on the Date of Grant. Shares may be purchased only upon payment of the full Exercise Price or upon operation of an Alternate Option Payment Mechanism set out in Section 11 hereof.

(b) Amounts of Incentive Stock Options. Incentive Stock Options may be granted to any Employee in such amounts as determined by the Committee; provided that the amount granted is consistent with the terms of Section 422 of the Code. In the case of an Option intended to qualify as an Incentive Stock Option, the aggregate Fair Market Value (determined as of the time the Option is granted) of the Common Stock with respect to which Incentive Stock Options granted are exercisable for the first time by the Employee Participant during any calendar year (under all plans of the Employee Participant's employer corporation and its parent and subsidiary corporations) shall not exceed $100,000. The provisions of this Section 7(b) shall be construed and applied in accordance with Section 422(d) of the Code and the regulations, if any, promulgated thereunder. To the extent an Award of an Incentive Stock Option under this Section 7 exceeds this $100,000 limit, the portion of the Award in excess of such limit shall be deemed a Non-statutory Stock Option. The Committee shall have discretion to redesignate Options granted as Incentive Stock Options as Non-Statutory Stock Options. Such Non-statutory Stock Options shall be subject to Section 6 hereof.

(c) Terms of Incentive Stock Options. The term during which each Incentive Stock Option may be exercised shall be determined by the Committee, but in no event shall an Incentive Stock Option be exercisable in whole or in part more than 10 years from the Date of Grant. If at the time an Incentive Stock Option is granted to an Employee Participant who is a 10% Owner, the Incentive Stock Option granted to such Employee Participant shall not be exercisable after the expiration of five years from the Date of Grant. No Incentive Stock Option is transferable except by will or the laws of descent and distribution and is exercisable in his or her lifetime only by the Employee Participant to whom it is granted. The designation of a beneficiary does not constitute a transfer.

The Committee shall determine the date on which each Incentive Stock Option shall become exercisable. The shares comprising each installment of the Incentive Stock Option may be purchased in whole or in part at any time during the term of such Option after such installment becomes exercisable. The Committee may, in its sole discretion, accelerate the time at which any Incentive Stock Option may be exercised in whole or in part. The acceleration of any Incentive Stock Option under the authority of this paragraph shall not create a right, expectation or reliance on the part of any other Participant or that certain Participant regarding any other unaccelerated Incentive Stock Options.

(d) ISO Agreement. The terms and conditions of any Incentive Stock Option granted shall be evidenced by an agreement (the "ISO Agreement") which shall be subject to the terms and conditions of the Plan.

(e) Termination of Employment. Unless otherwise determined by the Committee, upon the termination of an Employee Participant's employment for any reason other than Disability, death or Termination for Cause, the Employee Participant's Incentive Stock Options shall be exercisable only as to those shares that were immediately exercisable by the Participant at the date of termination and only for a period of three months following termination. Notwithstanding any provision set forth herein or contained in any ISO Agreement relating to an award of an Incentive Stock Option, in the event of termination of the Employee Participant's employment for Disability or death, all Incentive Stock Options held by such Employee Participant shall immediately vest and be exercisable for one year after such termination, and, in the event of Termination for Cause, all rights under the Employee Participant's Incentive Stock Options shall expire immediately upon termination. No Incentive Stock Option shall be eligible for treatment as an Incentive Stock Option in the event such Incentive Stock Option is exercised more than three months following the date of Participant's cessation of employment. In no event shall an Incentive Stock Option be exercisable beyond the expiration of the Incentive Stock Option term.

(f) Change in Control. Unless otherwise determined by the Committee, and notwithstanding any other provision of the Plan, in the event of a Change in Control, all Incentive Stock Options held by the Participant, whether or not vested at such time, shall become vested to the Participant or his legal representatives or beneficiaries upon the Change in Control.

(g) Compliance with Code. The Incentive Stock Options granted under this Section 7 are intended to qualify as "incentive stock options" within the meaning of Section 422 of the Code, but the Holding Company makes no warranty as to the qualification of any Option as an incentive stock option within the meaning of Section 422 of the Code. All Options that do not so qualify shall be treated as Non-statutory Stock Options.

8. LIMITED RIGHT.

Simultaneously with the grant of any Option to an Employee or Outside Director, the Committee may grant a Limited Right with respect to all or some of the shares covered by such Option. Limited Rights granted under this Plan are subject to the following terms and conditions:

(a) Terms of Rights. In no event shall a Limited Right be exercisable in whole or in part before the expiration of six months from the Date of Grant of the Limited Right. A Limited Right may be exercised only in the event of a Change in Control that is not to be accounted for as a pooling of interests or in the event the Holding Company's independent auditors opine that the exercise of such Limited Rights would not adversely affect the accounting treatment intended for the Change in Control.

The Limited Right may be exercised only when the underlying Option is eligible to be exercised, and only when the Fair Market Value of the underlying shares on the day of exercise is greater than the Exercise Price of the underlying Option.

Upon exercise of a Limited Right, the underlying Option shall cease to be exercisable. Upon exercise or termination of an Option, any related Limited Rights shall terminate. The Limited Rights may be for no more than 100% of the difference between the purchase price and the Fair Market Value of the Common Stock subject to the underlying option. The Limited Right is transferable only when the underlying option is transferable and under the same conditions.

(b) Payment. Upon exercise of a Limited Right, the holder shall promptly receive from the Holding Company an amount of cash equal to the difference between the Exercise Price of the underlying option and the Fair Market Value of the Common Stock subject to the underlying Option on the date the Limited Right is exercised, multiplied by the number of shares with respect to which such Limited Right is exercised. Payments shall be less any applicable tax withholding as set forth in Section 16 hereof.

9. STOCK AWARD.

The Committee may, subject to the limitations of the Plan, from time to time, make an Award of shares of Common Stock to Employees and Outside Directors ("Stock Awards"). The Stock Awards shall be made subject to the following terms and conditions:

(a) Payment of the Stock Award. The Stock Award may only be made in whole shares of Common Stock. Stock Awards may only be granted from shares reserved under the Plan but unawarded at the time the new Stock Award is made.

(b) Terms of the Stock Awards. The Committee shall determine the dates on which Stock Awards granted to a Participant shall vest and any specific conditions or performance goals which must be satisfied prior to the vesting of any installment or portion of the Stock Award. Notwithstanding other paragraphs in this Section 9, the Committee may, in its sole discretion, accelerate the vesting of any Stock Award. The acceleration of any Stock Award under the authority of this paragraph shall create no right, expectation or reliance on the part of any other Participant or that certain Participant regarding any other unaccelerated Stock Awards.

(c) Stock Award Agreement. The terms and conditions of any Stock Award shall be evidenced by an agreement (the "Stock Award Agreement") which such Stock Award Agreement will be subject to the terms and conditions of the Plan. Each Stock Award Agreement shall set forth:

(i) the period over which the Stock Award will vest;

(ii) the performance goals, if any, which must be satisfied prior to the vesting of any installment or portion of the Stock Award. The performance goals may be set by the Committee on an individual level, for all Participants, for all Awards made during a given period of time, or for all Awards for indefinite periods;

(d) Certification of Attainment of the Performance Goal. No Stock Award of portion thereof that is subject to a performance goal is to be distributed to an Employee Participant until the Committee certifies that the underlying performance goal has been achieved, or in the case of an Outside Director Participant, until an independent third party presents a certification to the Board of Directors that the underlying performance goal associated with a Stock Award has been achieved.

(e) Termination of Employment or Service. Unless otherwise determined by the Committee, upon the termination of a Participant's employment or service for any reason other than Disability, death or Termination for Cause, the Participant's unvested Stock Awards as of the date of termination shall be forfeited and any rights the Participant had to such unvested Stock Awards shall become null and void. Notwithstanding any provisions set forth herein or contained in any NSO Agreement relating to an award of a Non-statutory Stock Option, in the event of termination of the Participant's service due to Disability or death, all unvested Stock Awards held by such Participant, including any portion of a Stock Award subject to a performance goal, shall immediately vest and, in the event of the Participant's Termination for Cause, the Participant's unvested Stock Awards as of the date of such termination shall be forfeited and any rights the Participant had to such unvested Stock Awards shall become null and void.

(f) Change in Control. Unless otherwise determined by the Committee, and notwithstanding any other provision of the Plan, in the event of a Change in Control, all Stock Awards held by the Participant, whether or not vested at such time, shall become vested to the Participant or his legal representatives or beneficiaries upon the Change in Control.

(g) Non-Transferability. Except to the extent permitted by the Code, the rules promulgated under Section 16(b) of the Exchange Act or any successor statutes or rules:

(i) The recipient of a Stock Award shall not sell, transfer, assign, pledge, or otherwise encumber shares subject to the Stock Award until full vesting of such shares has occurred. For purposes of this section, the separation of beneficial ownership and legal title through the use of any "swap" transaction is deemed to be a prohibited encumbrance.

(ii) Unless determined otherwise by the Committee and except in the event of the Participant's death or pursuant to a domestic relations order, a Stock Award is not transferable and may be earned in his lifetime only by the Participant to whom it is granted. Upon the death of a Participant, a Stock Award is transferable by will or the laws of descent and distribution. The designation of a beneficiary does not constitute a transfer.

(iii) If a recipient of a Stock Award is subject to the provisions of Section 16 of the Exchange Act, shares of Common Stock subject to such Stock Award may not, without the written consent of the Committee (which consent may be given in the Stock Award Agreement), be sold or otherwise disposed of within six months following the date of grant of the Stock Award .

(h) Accrual of Dividends. Whenever shares of Common Stock underlying a Stock Award are distributed to a Participant or beneficiary thereof under the Plan, such Participant or beneficiary shall also be entitled to receive, with respect to each such share distributed, a payment equal to any cash dividends or distributions (other than distributions in shares of Common Stock) and the number of shares of Common Stock equal to any stock dividends, declared and paid with respect to a share of the Common Stock if the record date for determining shareholders entitled to receive such dividends falls between the date the relevant Stock Award was granted and the date the relevant Stock Award or installment thereof is distributed. There shall also be distributed an appropriate amount of net earnings, if any, of the Trust with respect to any dividends paid out.

(i) Voting of Stock Awards. After a Stock Award has been granted, but for which the shares covered by such Stock Award have not yet been earned and distributed to the Participant pursuant to the Plan, the Participant shall be entitled to direct the Trustee as to the voting of such shares of Common Stock which the Stock Award covers subject to the rules and procedures adopted by the Committee for this purpose. All shares of Common Stock held by the Trust as to which Participants are not entitled to direct, or have not directed the voting, shall be voted by the Trustee in the same proportion as the Common Stock covered by Stock Awards which have been awarded is voted.

10. PAYOUT ALTERNATIVES

Payments due to a Participant upon the exercise or redemption of an Award, may be made subject to the following terms and conditions:

(a) Discretion of the Committee. The Committee has the sole discretion to determine what form of payment (whether monetary, Common Stock, a combination of payout alternatives or otherwise) it shall use in making distributions of payments for all Awards. If the Committee requests any or all Participants to make an election as to form of distribution or payment, it shall not be considered bound by the election.

(b) Payment in the form of Common Stock. Any shares of Common Stock tendered in satisfaction of an obligation arising under this Plan shall be valued at the Fair Market Value of the Common Stock on the day preceding the date of the issuance of such stock to the Participant.

11. ALTERNATE OPTION PAYMENT MECHANISM

The Committee has sole discretion to determine what form of payment it will accept for the exercise of an Option. The Committee may indicate acceptable forms in the ISO or NSO Agreement covering such Options or may reserve its decision to the time of exercise. No Option is to be considered exercised until payment in full is accepted by the Committee or its agent.

(a) Cash Payment. The exercise price may be paid in cash or by certified check.

(b) Borrowed Funds. To the extent permitted by law, the Committee may portion of the exercise price of an Option to be paid through borrowed funds.

(c) Exchange of Common Stock.

(i) The Committee may permit payment by the tendering of previously acquired shares of Common Stock. This includes the use of "pyramiding transactions" whereby some number of Options are exercised; then the shares gained through the exercise are tendered back to the Holding Company as payment for a greater number of Options. This transaction may be repeated as needed to exercise all of the Options available .

(ii) Any shares of Common Stock tendered in payment of the exercise price of an Option shall be valued at the Fair Market Value of the Common Stock on the date prior to the date of exercise.

12. RIGHTS OF A SHAREHOLDER: NONTRANSFERABILITY.

No Participant shall have any rights as a shareholder with respect to any shares of Common Stock covered by an Option until the date of issuance of a stock certificate for such shares. Nothing in this Plan or in any Award granted confers on any person any right to continue in the employ or service of the Holding Company or its Affiliates or interferes in any way with the right of the Holding Company or its Affiliates to terminate a Participant's services as an officer or other employee at any time.

Except as permitted under the Code (with respect to Incentive Stock Options) and the rules promulgated pursuant to Section 16(b) of the Exchange Act or any successor statutes or rules, no Award under the Plan shall be transferable by the Participant other than by will or the laws of intestate succession or pursuant to a domestic relations order or unless determined otherwise by the Committee.

13. AGREEMENT WITH GRANTEES.

Each Award will be evidenced by a written agreement(s) (whether constituting an NSO Agreement, ISO Agreement, Stock Award Agreement or any combination thereof), executed by the Participant and the Holding Company or its Affiliates that describes the conditions for receiving the Awards including the date of Award, the Exercise Price if any, the terms or other applicable periods, and other terms and conditions as may be required or imposed by the Plan, the Committee, or the Board of Directors, and may describe or specify tax law considerations or applicable securities law considerations.

14. DESIGNATION OF BENEFICIARY.

A Participant may, with the consent of the Committee, designate a person or persons to receive, in the event of death, any Award to which the Participant would then be entitled. Such designation will be made upon forms supplied by and delivered to the Holding Company and may be revoked in writing. If a Participant fails effectively to designate a beneficiary, then the Participant's estate will be deemed to be the beneficiary.

15. DILUTION AND OTHER ADJUSTMENTS.

In the event of any change in the outstanding shares of Common Stock by reason of any stock dividend or split, recapitalization, merger, consolidation, spin-off, reorganization, combination or exchange of shares, or other similar corporate change, or other increase or decrease in such shares without receipt or payment of consideration by the Holding Company, or in the event a capital distribution is made, the Committee will make such adjustments to Awards to prevent dilution, diminution or enlargement of the rights of the Participant, as the Committee deems appropriate, including any or all of the following:

(a) adjustments in the aggregate number or kind of shares of Common Stock or other securities that may underlie future Awards under the Plan;

(b) adjustments in the aggregate number or kind of shares of Common Stock or other securities underlying Awards already made under the Plan;

(c) adjustments in the exercise price of outstanding Incentive and/or Non-statutory Stock Options, or any Limited Rights attached to such Options.

Alternatively, the Committee could provide the participant with a cash benefit for shares underlying vested, but unexercised options, in order to achieve the aforementioned effect. All awards under this Plan shall be binding upon any successors or assigns of the Holding Company.

16. TAX WITHHOLDING.

Awards under this Plan shall be subject to tax withholding to the extent required by any governmental authority. Any withholding shall comply with Rule 16b-3 or any amendment or successor rule. Shares of Common Stock withheld to pay for tax withholding amounts shall be valued at their Fair Market Value on the date the Award is deemed taxable to the Participant and such shares shall be considered to have been awarded and forfeited.

17. AMENDMENT OF THE PLAN.

The Board of Directors may at any time, and from time to time, subject to applicable rules and regulations and shareholder approval when required under the Plan, modify or amend the Plan, or any Award granted under the Plan, in any respect, prospectively or retroactively; provided however, that provisions governing grants of Incentive Stock Options, unless permitted by the rules and regulations or staff pronouncements promulgated under the Code shall be submitted for shareholder approval to the extent required by such law, regulation or interpretation.

Failure to ratify or approve amendments or modifications by shareholders shall be effective only as to the specific amendment or modification requiring such ratification, or as otherwise determined by the Board of Directors. Other provisions, sections, and subsections of this Plan will remain in full force and effect.

No such termination, modification or amendment may adversely affect the rights of a Participant under an outstanding Award without the written permission of such Participant.

18. EFFECTIVE DATE OF PLAN.

The Plan became effective on February 4, 1997. All amendments are effective upon approval by the Board of Directors, subject to shareholder ratification when specifically required under the Plan.

19. TERMINATION OF THE PLAN.

The right to grant Awards under the Plan will terminate upon the earlier of: (i) ten (10) years after the Effective Date; (ii) the issuance of a number of shares of Common Stock pursuant to the exercise of Options or the distribution of Stock Awards which together with the exercise of Limited Rights is equivalent to the maximum number of shares reserved under the Plan as set forth in Section 4. The Board of Directors has the right to suspend or terminate the Plan at any time, provided that no such action will, without the consent of a Participant, adversely affect a Participant's vested rights under a previously granted Award.

20. APPLICABLE LAW.

The Plan will be administered in accordance with the laws of the State of Delaware and applicable federal law.

21. DELEGATION OF AUTHORITY

The Committee may delegate all authority for: the determination of forms of payment to be made by or received by the Plan; the execution of Award agreements; the determination of Fair Market Value; and the determination of all other aspects of administration of the Plan to the executive officer(s) of the Holding Company or the Bank. The Committee may rely on the descriptions, representations, reports and estimates provided to it by the management of the Holding Company or the Bank for determinations to be made pursuant to the Plan, including the attainment of performance goals. However, only the Committee or a portion of the Committee may certify the attainment of a performance goal.

IN WITNESS WHEREOF, the Holding Company has established this Plan to be executed by its duly authorized executive officer and the corporate seal to be affixed and duly attested, effective as of the 18th day of February, 1998.

[CORPORATE SEAL]	*OCEAN FINANCIAL CORP.*
October 21, 1998	*By: /s/ John R. Garbarino*
Date	*Chairman of the Board*

ADOPTED BY THE BOARD OF DIRECTORS:

October 21, 1998	*By: /s/ John K. Kelly*
Date	*Corporate Secretary*

ARTICLE 9

MULTIPLIER: 1,000

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1998
PERIOD START	JAN 01 1998
PERIOD END	SEP 30 1998
CASH	8,738
INT BEARING DEPOSITS	0
FED FUNDS SOLD	0
TRADING ASSETS	0
INVESTMENTS HELD FOR SALE	574,423
INVESTMENTS CARRYING	0
INVESTMENTS MARKET	0
LOANS	893,417
ALLOWANCE	7,246
TOTAL ASSETS	1,544,334
DEPOSITS	1,028,522
SHORT TERM	302,405
LIABILITIES OTHER	16,821
LONG TERM	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	181
OTHER SE	196,405
TOTAL LIABILITIES AND EQUITY	1,544,334
INTEREST LOAN	49,465
INTEREST INVEST	29,475
INTEREST OTHER	0
INTEREST TOTAL	78,940
INTEREST DEPOSIT	32,923
INTEREST EXPENSE	46,117
INTEREST INCOME NET	32,823
LOAN LOSSES	675
SECURITIES GAINS	0
EXPENSE OTHER	18,959
INCOME PRETAX	15,739
INCOME PRE EXTRAORDINARY	15,739
EXTRAORDINARY	0
CHANGES	0
NET INCOME	10,047
EPS PRIMARY	.74
EPS DILUTED	.72
YIELD ACTUAL	7.14
LOANS NON	5,794
LOANS PAST	0
LOANS TROUBLED	0
LOANS PROBLEM	0
ALLOWANCE OPEN	6,612
CHARGE OFFS	0 [1]
RECOVERIES	0 [1]
ALLOWANCE CLOSE	7,246
ALLOWANCE DOMESTIC	0 [1]
ALLOWANCE FOREIGN	0 [1]
ALLOWANCE UNALLOCATED	0 [1]

[1] INFORMATION NOT DISCLOSED IN 10 Q

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