

# OCEANFIRST FINANCIAL CORP

## FORM 10-Q (Quarterly Report)

Filed 11/13/2000 For Period Ending 9/30/2000

|             |                                                     |
|-------------|-----------------------------------------------------|
| Address     | 975 HOOPER AVE<br>TOMS RIVER, New Jersey 08753-8396 |
| Telephone   | 732-240-4500                                        |
| CIK         | 0001004702                                          |
| Industry    | S&Ls/Savings Banks                                  |
| Sector      | Financial                                           |
| Fiscal Year | 12/31                                               |

**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 September 30, 2000

**[ ] 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*

**OceanFirst Financial Corp.**

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(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

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(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.

**X**

**YES** \_\_\_\_ **NO** \_\_\_\_.

As of November 9, 2000, there were 11,327,111 shares of the Registrant's Common Stock, par value \$.01 per share, outstanding.

# OceanFirst Financial Corp.

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OceanFirst Financial Corp.  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
(dollars in thousands, except per share amounts)

|                                                                                                                                                                                                           | September 30,<br>2000 | December 31,<br>1999 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
|                                                                                                                                                                                                           | -----<br>(Unaudited)  | -----                |
| <b>ASSETS</b>                                                                                                                                                                                             |                       |                      |
| -----                                                                                                                                                                                                     |                       |                      |
| Cash and due from banks                                                                                                                                                                                   | \$ 15,047             | \$ 10,007            |
| Investment securities available for sale                                                                                                                                                                  | 132,622               | 120,780              |
| Federal Home Loan Bank of New York stock, at cost                                                                                                                                                         | 20,000                | 16,800               |
| Mortgage-backed securities available for sale                                                                                                                                                             | 272,993               | 346,182              |
| Loans receivable, net                                                                                                                                                                                     | 1,126,950             | 1,042,975            |
| Mortgage loans held for sale                                                                                                                                                                              | 33,387                | -                    |
| Interest and dividends receivable                                                                                                                                                                         | 10,152                | 8,468                |
| Real estate owned, net                                                                                                                                                                                    | 223                   | 292                  |
| Premises and equipment, net                                                                                                                                                                               | 14,344                | 13,889               |
| Servicing asset                                                                                                                                                                                           | 13,902                | 2,244                |
| Other assets                                                                                                                                                                                              | 29,897                | 29,270               |
|                                                                                                                                                                                                           | -----                 | -----                |
| Total assets                                                                                                                                                                                              | \$1,669,517           | \$1,590,907          |
|                                                                                                                                                                                                           | =====                 | =====                |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                                               |                       |                      |
| -----                                                                                                                                                                                                     |                       |                      |
| Deposits                                                                                                                                                                                                  | \$1,098,007           | \$1,056,950          |
| Federal Home Loan Bank advances                                                                                                                                                                           | 127,300               | 115,000              |
| Securities sold under agreements to repurchase                                                                                                                                                            | 273,985               | 239,867              |
| Advances by borrowers for taxes and insurance                                                                                                                                                             | 7,057                 | 5,990                |
| Other liabilities                                                                                                                                                                                         | 5,129                 | 5,570                |
|                                                                                                                                                                                                           | -----                 | -----                |
| Total liabilities                                                                                                                                                                                         | 1,511,478             | 1,423,377            |
|                                                                                                                                                                                                           | -----                 | -----                |
| Stockholders' Equity:                                                                                                                                                                                     |                       |                      |
| Preferred stock, \$.01 par value,<br>5,000,000 shares authorized, no shares issued                                                                                                                        | -                     | -                    |
| Common stock, \$.01 par value, 55,000,000 shares authorized,<br>18,118,248 shares issued and 11,380,111 and 12,620,923<br>shares outstanding at September 30, 2000 and December 31,<br>1999, respectively | 181                   | 181                  |
| Additional paid-in capital                                                                                                                                                                                | 179,331               | 178,850              |
| Retained earnings-substantially restricted                                                                                                                                                                | 119,824               | 113,169              |
| Accumulated other comprehensive loss                                                                                                                                                                      | (7,641)               | (9,568)              |
| Less: Unallocated common stock held by<br>Employee Stock Ownership Plan                                                                                                                                   | (14,548)              | (15,727)             |
| Unearned Incentive Awards                                                                                                                                                                                 | (2,579)               | (4,030)              |
| Treasury stock, (6,738,137 and 5,497,325 shares<br>at September 30, 2000 and December 31, 1999,<br>respectively)                                                                                          | (116,529)             | (95,345)             |
|                                                                                                                                                                                                           | -----                 | -----                |
| Total stockholders' equity                                                                                                                                                                                | 158,039               | 167,530              |
|                                                                                                                                                                                                           | -----                 | -----                |
| Total liabilities and stockholders' equity                                                                                                                                                                | \$1,669,517           | \$1,590,907          |
|                                                                                                                                                                                                           | =====                 | =====                |

See accompanying notes to unaudited consolidated financial statements.

**OceanFirst Financial Corp.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except per share amounts)

|                                                                        | For the three months<br>ended September 30 |          | For the nine months,<br>ended September 30, |          |
|------------------------------------------------------------------------|--------------------------------------------|----------|---------------------------------------------|----------|
|                                                                        | 2000                                       | 1999     | 2000                                        | 1999     |
|                                                                        | (Unaudited)                                |          | (Unaudited)                                 |          |
| Interest income:                                                       |                                            |          |                                             |          |
| Loans                                                                  | \$21,753                                   | \$18,913 | \$62,395                                    | \$55,258 |
| Mortgage-backed securities                                             | 5,216                                      | 5,974    | 16,442                                      | 17,728   |
| Investment securities and other                                        | 2,578                                      | 2,224    | 7,404                                       | 6,718    |
| Total interest income                                                  | 29,547                                     | 27,111   | 86,241                                      | 79,704   |
| Interest expense:                                                      |                                            |          |                                             |          |
| Deposits                                                               | 11,361                                     | 10,240   | 32,682                                      | 30,646   |
| Borrowed funds                                                         | 6,025                                      | 4,534    | 16,219                                      | 12,970   |
| Total interest expense                                                 | 17,386                                     | 14,774   | 48,901                                      | 43,616   |
| Net interest income                                                    | 12,161                                     | 12,337   | 37,340                                      | 36,088   |
| Provision for loan losses                                              | 255                                        | 225      | 745                                         | 675      |
| Net interest income after provision<br>for loan losses                 | 11,906                                     | 12,112   | 36,595                                      | 35,413   |
| Other income:                                                          |                                            |          |                                             |          |
| Fees and service charges                                               | 1,227                                      | 919      | 3,340                                       | 2,586    |
| Net (loss) gain on sales of loans and securities<br>available for sale | (1,261)                                    | 35       | (1,189)                                     | 502      |
| Income from other real estate operations, net                          | 56                                         | 69       | 127                                         | 145      |
| Other                                                                  | 400                                        | 241      | 997                                         | 629      |
| Total other income                                                     | 422                                        | 1,264    | 3,275                                       | 3,862    |
| Operating expenses:                                                    |                                            |          |                                             |          |
| Compensation and employee benefits                                     | 4,397                                      | 3,869    | 12,956                                      | 11,247   |
| Occupancy                                                              | 646                                        | 564      | 1,785                                       | 1,557    |
| Equipment                                                              | 418                                        | 326      | 1,145                                       | 991      |
| Marketing                                                              | 320                                        | 431      | 1,011                                       | 1,254    |
| Federal deposit insurance                                              | 120                                        | 208      | 360                                         | 642      |
| Data processing                                                        | 425                                        | 336      | 1,190                                       | 989      |
| General and administrative                                             | 1,934                                      | 1,101    | 4,219                                       | 3,397    |
| Total operating expenses                                               | 8,260                                      | 6,835    | 22,666                                      | 20,077   |
| Income before provision for income taxes                               | 4,068                                      | 6,541    | 17,204                                      | 19,198   |
| Provision for income taxes                                             | 248                                        | 2,364    | 4,733                                       | 6,895    |
| Net income                                                             | \$ 3,820                                   | \$ 4,177 | \$12,471                                    | \$12,303 |
| Basic earnings per share                                               | \$ .38                                     | \$ .35   | \$1.19                                      | \$1.01   |
| Diluted earnings per share                                             | \$ .36                                     | \$ .34   | \$1.16                                      | \$ .98   |
| Average basic shares outstanding                                       | 10,091                                     | 11,884   | 10,437                                      | 12,238   |
| Average diluted shares outstanding                                     | 10,501                                     | 12,250   | 10,739                                      | 12,501   |

See accompanying notes to unaudited consolidated financial statements.

**OceanFirst Financial Corp.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(dollars in thousands)

|                                                                                            | For the nine months<br>ended September 30, |           |
|--------------------------------------------------------------------------------------------|--------------------------------------------|-----------|
|                                                                                            | 2000                                       | 1999      |
|                                                                                            | (Unaudited)                                |           |
| Cash flows from operating activities:                                                      |                                            |           |
| Net income                                                                                 | \$ 12,471                                  | \$ 12,303 |
| Adjustments to reconcile net income to net cash<br>provided by operating activities:       |                                            |           |
| Depreciation and amortization of premises<br>and equipment                                 | 1,185                                      | 1,122     |
| Amortization of Incentive Awards                                                           | 1,451                                      | 1,450     |
| Amortization of ESOP                                                                       | 1,179                                      | 978       |
| ESOP adjustment                                                                            | 442                                        | 644       |
| Amortization of servicing asset                                                            | 361                                        | 289       |
| Amortization of deposit premium                                                            | 78                                         | 78        |
| Net premium amortization in excess of discount<br>accretion on securities                  | 293                                        | 926       |
| Net accretion of deferred fees and discounts<br>in excess of premium amortization on loans | (202)                                      | (259)     |
| Provision for loan losses                                                                  | 745                                        | 675       |
| Net gain on sales of real estate owned                                                     | (161)                                      | (220)     |
| Net loss (gain) on sales of loans and securities available for sale                        | 1,189                                      | (502)     |
| Proceeds from sales of mortgage loans held for sale                                        | 51,297                                     | 43,619    |
| Mortgage loans originated for sale                                                         | (61,866)                                   | (24,228)  |
| (Increase) decrease in interest and dividends receivable                                   | (1,586)                                    | 457       |
| Decrease (increase) in servicing asset and other assets                                    | 192                                        | (577)     |
| Decrease in other liabilities                                                              | (1,217)                                    | 165       |
| Total adjustments                                                                          | (6,620)                                    | 24,617    |
| Net cash provided by operating activities                                                  | 5,851                                      | 36,920    |
| Cash flows from investing activities:                                                      |                                            |           |
| Net increase in loans receivable                                                           | (85,162)                                   | (73,803)  |
| Purchase of investment securities available for sale                                       | (12,500)                                   | (14,426)  |
| Proceeds from sale of investment securities                                                | 30,279                                     | 121       |
| Purchase of mortgage-backed securities available for sale                                  | -                                          | (97,251)  |
| Proceeds from maturities of investment securities<br>available for sale                    | 200                                        | 30,042    |
| Principal payments on mortgage-backed securities<br>available for sale                     | 44,498                                     | 103,859   |
| Purchases of Federal Home Loan Bank of New York Stock                                      | (3,200)                                    | -         |
| Proceeds from sales of real estate owned                                                   | 974                                        | 902       |
| Purchases of premises and equipment                                                        | (1,321)                                    | (692)     |
| Acquisition of Columbia Equities, Ltd. net of cash and cash equivalents                    | (2,954)                                    | -         |
| Net cash used in investing activities                                                      | (29,186)                                   | (51,248)  |

Continued

**OceanFirst Financial Corp.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**  
(dollars in thousands)

|                                                                                                                                                                                                                                                  | For the nine months<br>ended September 30, |           |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|-----------|
|                                                                                                                                                                                                                                                  | 2000                                       | 1999      |
|                                                                                                                                                                                                                                                  | (Unaudited)                                |           |
| Cash flows from financing activities:                                                                                                                                                                                                            |                                            |           |
| Increase in deposits                                                                                                                                                                                                                             | \$ 41,057                                  | \$ 9,626  |
| Increase in Federal Home Loan Bank advances                                                                                                                                                                                                      | (20,396)                                   | -         |
| Increase in securities sold under agreements<br>to repurchase                                                                                                                                                                                    | 34,118                                     | 30,429    |
| Increase in advances by borrowers for taxes and<br>insurance                                                                                                                                                                                     | 596                                        | 1,015     |
| Exercise of Stock Options                                                                                                                                                                                                                        | 908                                        | 17        |
| Dividends paid                                                                                                                                                                                                                                   | (5,632)                                    | (5,382)   |
| Purchase of treasury stock                                                                                                                                                                                                                       | (22,276)                                   | (25,058)  |
| Net cash provided by financing activities                                                                                                                                                                                                        | 28,375                                     | 10,647    |
| Net increase (decrease) in cash and due from banks                                                                                                                                                                                               | 5,040                                      | (3,681)   |
| Cash and due from banks at beginning of period                                                                                                                                                                                                   | 10,007                                     | 10,295    |
| Cash and due from banks at end of period                                                                                                                                                                                                         | \$ 15,047                                  | \$ 6,614  |
| Supplemental Disclosure of Cash Flow<br>Information:                                                                                                                                                                                             |                                            |           |
| Cash paid during the period for:                                                                                                                                                                                                                 |                                            |           |
| Interest                                                                                                                                                                                                                                         | \$ 48,971                                  | \$ 43,376 |
| Income taxes                                                                                                                                                                                                                                     | 4,295                                      | 5,374     |
| Noncash investing activities:                                                                                                                                                                                                                    |                                            |           |
| Transfer of loans receivable to real estate owned                                                                                                                                                                                                | 644                                        | 1,041     |
| Mortgage loans securitized into mortgage-backed<br>Securities                                                                                                                                                                                    | 14,035                                     | 37,200    |
| Supplemental Information to the Consolidated Statements of Cash<br>Flows Relating to the Acquisition of Columbia Equities, Ltd:                                                                                                                  |                                            |           |
| Non cash investing and financing transactions relating to<br>the acquisition of Columbia Equities, Ltd. that are not<br>reflected in the Consolidated Statements of Cash Flows for<br>the nine months ended September 30, 2000 are listed below: |                                            |           |
| Fair value of assets acquired, excluding cash and cash<br>equivalents                                                                                                                                                                            | \$ 36,045                                  | (33,982)  |
| Liabilities assumed                                                                                                                                                                                                                              |                                            |           |

See accompanying notes to unaudited consolidated financial statements.

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Basis of Presentation**

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 Equities, Ltd., OceanFirst Realty Inc. and Ocean Investment Services, Inc.

The Bank completed the acquisition of Columbia Equities, Ltd. ("Columbia"), a mortgage brokerage company based in Tarrytown, New York on August 18, 2000 in a transaction accounted for as a purchase. Accordingly, the assets and liabilities of Columbia were recorded on the books of the Bank at their fair market values of \$37.1 million and \$34.0 million, respectively. In October 2000, the Company sold servicing rights with a book value and market value of \$7.1 million. The cost of the acquisition was \$4 million. The Company's consolidated results of operations include Columbia's results commencing on August 18, 2000.

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, 2000 are not necessarily indicative of the results of operations that may be expected for all of 2000.

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, 1999.

**Note 2. Earnings per Share**

The following reconciles shares outstanding for basic and diluted earnings per share for the three and nine months ended September 30, 2000 and 1999:

|                                                       | Three months ended<br>September 30, |         | Nine months ended<br>September 30, |         |
|-------------------------------------------------------|-------------------------------------|---------|------------------------------------|---------|
|                                                       | 2000                                | 1999    | 2000                               | 1999    |
| Weighted average shares issued net of Treasury shares | 11,534                              | 13,594  | 11,932                             | 13,994  |
| Less: Unallocated ESOP shares                         | (1,164)                             | (1,292) | (1,195)                            | (1,325) |
| Unallocated incentive award shares                    | (279)                               | (418)   | (300)                              | (431)   |
| Average basic shares outstanding                      | 10,091                              | 11,884  | 10,437                             | 12,238  |
| Add: Effect of dilutive securities:                   |                                     |         |                                    |         |
| Stock options                                         | 288                                 | 228     | 180                                | 132     |
| Incentive awards                                      | 122                                 | 138     | 122                                | 131     |
| Average diluted shares outstanding                    | 10,501                              | 12,250  | 10,739                             | 12,501  |
|                                                       | =====                               | =====   | =====                              | =====   |

**Note 3. Comprehensive Income**

For the three month periods ended September 30, 2000 and 1999 total comprehensive income, representing net income plus or minus items recorded directly in equity, such as the change in unrealized gains or losses on securities available for sale amounted to \$8,807,000 and \$64,000, respectively. For the nine months ended September 30, 2000 and 1999, total comprehensive income amounted to \$14,398,000 and \$4,326,000, respectively.

#### **Note 4. Impact of Recent Accounting Pronouncements**

In March 2000, the Financial Accounting Standards Board (FASB) issued Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25". The interpretation clarifies certain issues with respect to the application of Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" (APB Opinion No. 25). The interpretation results in a number of changes in the application of APB Opinion No. 25 including, the accounting for modifications to equity awards as well as extending APB Opinion No. 25 accounting treatment to options granted to outside directors for their services as directors. The provisions of the interpretation were effective July 1, 2000 and apply prospectively, except for certain modifications to equity awards made after December 15, 1998. The initial adoption of the interpretation did not have a significant impact on the company's financial statements.

In June 2000, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment to FASB Statement No. 133". SFAS No. 138 amends certain aspects of SFAS No. 133 to simplify the accounting for derivatives and hedges under SFAS No. 133. SFAS No. 138 is effective upon the company's adoption of SFAS No. 133 (January 1, 2001). The initial adoption of SFAS No. 133 and SFAS No. 138 are not expected to have a material impact on the Company's financial statements.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (A Replacement of FASB Statement 125)." SFAS No. 140 supersedes and replaces the guidance in SFAS No. 125 and, accordingly, provides guidance on the following topics: securitization transactions involving financial assets, sales of financial assets such as receivables, loans, and securities; factoring transactions; wash sales; servicing assets and liabilities, collateralized borrowing arrangements; securities lending transactions; repurchase agreements; loan collateralized borrowing arrangements; securities lending transactions; repurchase agreements; loan participations; and extinguishment of liabilities. While most of the provision of SFAS No. 140 are effective for transactions entered into after March 31, 2001, companies with fiscal year ends that hold beneficial interests from previous securitizations will be required to make additional disclosures in their December 31, 2000 financial statements. The initial adoption of SFAS No. 140 is not expected to have a material impact on the Company's financial statements.

#### **Note 5. Loans Receivable, Net**

Loans receivable, net at September 30, 2000 and December 31, 1999 consisted of the following (in thousands):

|                                               | September 30, 2000 | December 31, 1999 |
|-----------------------------------------------|--------------------|-------------------|
|                                               | -----              | -----             |
| Real estate:                                  |                    |                   |
| One- to four-family                           | \$ 988,410         | \$ 917,481        |
| Commercial real estate, multi-family and land | 87,635             | 57,142            |
| Construction                                  | 6,698              | 7,791             |
| Consumer                                      | 60,866             | 56,040            |
| Commercial                                    | 27,673             | 15,569            |
|                                               | -----              | -----             |
| Total loans                                   | 1,171,282          | 1,054,023         |
|                                               |                    |                   |
| Loans in process                              | (2,450)            | (2,790)           |
| Deferred fees                                 | 398                | (78)              |
| Unearned premium                              | 28                 | 43                |
| Allowance for loan losses                     | (8,921)            | (8,223)           |
|                                               | -----              | -----             |
| Total loans, net                              | 1,160,337          | 1,042,975         |
|                                               |                    |                   |
| Less: mortgage loans held for sale            | 33,387             | -                 |
|                                               | -----              | -----             |
| Loans receivable, net                         | \$1,126,950        | \$1,042,975       |
|                                               | =====              | =====             |

## **Note 6. Deposits**

The major types of deposits at September 30, 2000 and December 31, 1999 were as follows (in thousands):

|                      | September 30, 2000 | December 31, 1999 |
|----------------------|--------------------|-------------------|
| Type of Account      |                    |                   |
| Non-interest bearing | \$ 49,832          | \$ 31,328         |
| NOW                  | 136,637            | 113,426           |
| Money market deposit | 73,413             | 80,597            |
| Savings              | 170,221            | 171,064           |
| Time deposits        | 667,904            | 660,535           |
|                      | -----              | -----             |
|                      | \$1,098,007        | \$1,056,950       |
|                      | =====              | =====             |

## **Note 7. Income Taxes**

The Company recognized an income tax benefit of \$1.1 million in the third quarter of 2000 relating to the additional charitable donation expense associated with the 1996 formation of the OceanFirst Foundation (the "Foundation"). The Company established the Foundation as part of the conversion to public ownership and recorded a charitable donation expense of \$13.4 million in 1996. Charitable donations are tax deductible subject to a limitation of 10% of annual taxable income. The Company is able to carry forward any unused portion of the deduction for five years following the year in which the contribution is made. Based on the Company's original estimate of taxable income for 1996 and the carry forward period, \$4.3 million of charitable donation expense was considered not tax deductible because the Company believed it was unlikely to realize sufficient earnings over the six year period to take the full deduction. After considering the Company's recent strong earnings performance and expectations for taxable income through December 31, 2001, the Company now estimates that an additional \$3.0 million of charitable donation expense will be recognized for tax purposes, providing for a tax benefit of \$1.1 million. The Company has a remaining charitable expense carry forward of \$1,256,000 (\$440,000 on an after-tax basis) which expires at December 31, 2001.

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

### **Financial Condition**

Total assets at September 30, 2000 were \$1.670 billion, an increase of \$78.6 million, compared to \$1.591 billion at December 31, 1999.

Loans receivable, net, increased by \$84.0 million, or 8.1%, to a balance of \$1.127 billion at September 30, 2000, compared to a balance of \$1.043 billion at December 31, 1999. The increase was largely attributable to commercial lending (including commercial real estate) initiatives which accounted for \$42.6 million of this growth. Mortgage loans held for sale increased to \$33.4 million at September 30, 2000 as compared to no mortgage loans held for sale at December 31, 1999 with most of this increase representing loans held by Columbia Equities, Ltd. Deposit balances increased \$41.1 million to \$1.098 billion at September 30, 2000 from \$1.057 billion at December 31, 1999, partly due to the results of new branches opened in late 1999 and early 2000.

Stockholder's equity at September 30, 2000 decreased to \$158.0 million, compared to \$167.5 million at December 31, 1999 due to the execution of the Company's seventh and eighth stock repurchase programs. The Company repurchased 1,304,592 shares of common stock during the first nine months of 2000 at a total cost of \$22.3 million. Under the 10% repurchase program authorized by the Board of Directors in August 2000, 1,095,743 shares remain to be purchased as of September 30, 2000.

### **Results of Operations**

#### **General**

Net income decreased to \$3.8 million for the three months ended September 30, 2000, as compared to net income of \$4.2 million for the three months ended September 30, 1999 while diluted earnings per share increased to \$.36 for the three months ended September 30, 2000, as compared to \$.34 for the same prior year period. Net income and diluted earnings per share for the nine months ended September 30, 2000 increased to \$12.5 million and \$1.16, respectively, as compared to \$12.3 million and \$.98, respectively, for the same prior year periods. The higher percentage increase in earnings per share is the result of the Company's repurchase program which reduced the number of shares outstanding.

## **Interest Income**

Interest income for the three and nine months ended September 30, 2000 was \$29.5 million and \$86.2 million, respectively, compared to \$27.1 million and \$79.7 million for the three and nine months ended September 30, 1999, respectively. The increases in interest income were due to increases in average interest-earning assets of \$51.0 million and \$40.1 for the three and nine months ended September 30, 2000, respectively, as compared to the same prior year periods. Additionally, the yield on average interest-earning assets increased to 7.50% and 7.42% on average for the three and nine months ended September 30, 2000, respectively, compared to 7.11% and 7.04% on average in the same prior year periods. The asset yield benefited from a change in the mix of average-earning assets towards a higher concentration of loans receivable partly funded by reductions in lower yielding investment and mortgage-backed securities. For the three and nine months ended September 30, 2000 loans receivable represented 71.5% and 70.1%, respectively, of average interest-earning assets as compared to 66.5% and 65.4%, respectively, for the same prior year periods.

## **Interest Expense**

Interest expense for the three and nine months ended September 30, 2000 was \$17.4 million and \$48.9 million respectively, compared to \$14.8 million and \$43.6 million for the three and nine months ended September 30, 1999, respectively. The increases in interest expense were primarily the result of increases in the average cost of interest-bearing liabilities which rose to 4.85% and 4.65%, respectively, for the three and nine months ended September 30, 2000, as compared to 4.37% and 4.36%, respectively, for the same prior year periods, as well as increases in average interest-bearing liabilities which rose by \$81.0 million and \$68.0 million for the three and nine months ended September 30, 2000, respectively, as compared to the same prior year periods. The Company's stock repurchase programs will generally cause interest-bearing liabilities to rise at a greater rate than interest-earning assets due to the reduction in stockholders' equity as a funding source.

## **Provision for Loan Losses**

For the three and nine months ended September 30, 2000, the Company's provision for loan losses was \$255,000 and \$745,000, respectively, as compared to \$225,000 and \$675,000, respectively, for the same prior year periods. While the Company realized substantial loan growth over the past year, especially in the area of higher risk commercial loans, the provision for loan losses rose only modestly due to a decline in non-performing assets which decreased to \$3.4 million at September 30, 2000 as compared to \$4.5 million at September 30, 1999.

## **Other Income**

Other income was \$422,000 and \$3.3 million for the three and nine months ended September 30, 2000, respectively, compared to \$1.3 million and \$3.9 million, respectively, for the same prior year periods. For the three and nine months ended September 30, 2000 the Company recognized a loss of \$1.6 million on the restructuring sale of \$32.1 million of securities available for sale. For the nine months ended September 30, 1999 the Company recorded a loss of \$49,000 on the sale of an investment security. For the three and nine months ended September 30, 2000 the Company also sold 30-year fixed-rate loans for a gain of \$375,000 and \$447,000, respectively, as compared to a gain of \$35,000 and \$551,000, respectively, in the same prior year periods. The Bank periodically sells these loans to assist in the management of interest rate risk, while Columbia Equities, Ltd., as a mortgage banker, sells all of its mortgage loan production.

Excluding the respective net gains or losses on the sale of loans and securities, other income increased by \$454,000, or 36.9%, and \$1.1 million, or 32.9%, for the three and nine months ended September 30, 2000, respectively, as compared to the same prior year periods. Fees and service charges increased due to the growth in commercial account services and retail core account balances. The Company continues to focus on growing non-interest revenue with the March 2000 introduction of Trust and Asset Management services. For the three months ended September 30, 2000 trust service fees amounted to \$27,000 and at September 30, 2000 trust assets under management totaled \$30.2 million.

## **Operating Expenses**

Operating expenses were \$8.3 million and \$22.7 million, respectively, for the three and nine months ended September 30, 2000, as compared to \$6.8 million and \$20.1 million, respectively, in the same prior year periods. Included in general and administrative expense for the three and nine months ended September 30, 2000, are certain costs associated with the acquisition and ongoing operations of Columbia Equities, Ltd., and costs associated with the opening of the Bank's twelfth and thirteenth branch offices in September and October 1999, the Bank's fourteenth branch office in May 2000, and the introduction of the Company's Trust and Asset Management business line. These increases were partly offset by decreases

of \$88,000 and \$282,000 for the three and nine months ended September 30, 2000, respectively, as compared to the same prior year periods in federal deposit insurance due to a decline in the assessment rate.

### **Provision for Income Taxes**

Income tax expense was \$248,000 and \$4.7 million for the three and nine months ended September 30, 2000, respectively, compared to \$2.4 million and \$6.9 million for the same prior year periods due to the recognition of an income tax benefit of \$1.1 million in the third quarter of 2000 relating to the additional charitable donation expense associated with the 1996 formation of the OceanFirst Foundation (see Note 7 to the unaudited consolidated financial statements).

### **Liquidity and Capital Resources**

The Company's primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, Federal Home Loan Bank ("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, 2000, the Company had \$77.3 million of outstanding overnight borrowings from the FHLB, an increase from no overnight borrowings at December 31, 1999. The Company utilizes the overnight line from time to time to fund short-term liquidity needs. The Company also had other borrowings of \$358.3 million at September 30, 2000, an increase from \$354.9 million at December 31, 1999. 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, 2000, were primarily provided by principal payments on loans and mortgage-backed securities, increased deposits and increased total borrowings. The cash was principally utilized for loan originations and the purchase of treasury stock. For the nine months ended September 30, 1999, the cash needs of the Company were primarily satisfied by maturities of investment securities available for sale, principal payments on loans and mortgage-backed securities, proceeds from the sale of mortgage loans held for sale and increased total borrowings. The cash provided was principally used for the purchase of investment and mortgage-backed securities, the origination of loans 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, 2000 and December 31, 1999, the Bank's liquidity ratios were 6.1% and 8.9%, respectively, both in excess of the minimum regulatory requirement.

At September 30, 2000, the Bank exceeded all of its regulatory capital requirements with tangible capital of \$115.0 million, or 6.9%, of total adjusted assets, which is above the required level of \$25.0 million or 1.5%; core capital of \$115.0 million or 6.9% of total adjusted assets, which is above the required level of \$50.0 million, or 3.0%; and risk-based capital of \$123.8 million, or 13.2% of risk-weighted assets, which is above the required level of \$75.1 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, 2000 or December 31, 1999. 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,<br>2000  | December 31,<br>1999 |
|-----------------------------------------------------------------------|------------------------|----------------------|
|                                                                       | -----                  | -----                |
|                                                                       | (dollars in thousands) |                      |
| Non-accrual loans:                                                    |                        |                      |
| Real estate:                                                          |                        |                      |
| One-to four-family                                                    | \$ 2,846               | \$ 2,401             |
| Commercial real estate,<br>multi-family and land                      | 184                    | 362                  |
| Consumer                                                              | 141                    | 222                  |
|                                                                       | -----                  | -----                |
| Total                                                                 | 3,171                  | 2,985                |
| REO, net                                                              | 223                    | 292                  |
|                                                                       | -----                  | -----                |
| Total non-performing assets                                           | \$ 3,394               | \$ 3,277             |
|                                                                       | =====                  | =====                |
| Non-performing loans as a percent of total<br>loans receivable        | .27%                   | .28%                 |
| Non-performing assets as a percent of total<br>assets                 | .20                    | .21                  |
| Allowance for loan losses as a percent of<br>total loans receivable   | .76                    | .78                  |
| Allowance for loan losses as percent of<br>total non-performing loans | 281.33                 | 275.48               |

## 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 1999 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 the Company's one year gap at September 30, 2000 was negative 16.3% as compared to negative 11.8% at December 31, 1999. 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 September 30, 2000 and December 31, 1999. 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, 1999.

At September 30, 2000, the Company's NPV in a static rate environment is less than the NPV at December 31, 1999, reflecting the Company's declining capital levels resulting from common stock repurchase programs. Also, in a shocked interest rate environment, the Company projects a greater percent change in NPV at September 30, 2000 than was the case at December 31, 1999. The heightened interest rate sensitivity is primarily due to the declining capital base which accentuates,

on a percentage basis, similar dollar changes in NPV. Additionally, the generally higher interest rate environment reduces anticipated prepayment speeds on mortgage loans and mortgage-backed securities and reduces the likelihood that a callable security is called before its stated maturity date.

| September 30, 2000                                    |           |          |                     |          |          | December 31, 1999   |          |           |                     |          |  |
|-------------------------------------------------------|-----------|----------|---------------------|----------|----------|---------------------|----------|-----------|---------------------|----------|--|
| Net Portfolio Value                                   |           |          | Net Interest Income |          |          | Net Portfolio Value |          |           | Net Interest Income |          |  |
| Change in Interest Rates in Basis Points (Rate Shock) | Amount    | % Change | NPV Ratio           | Amount   | % Change | Amount              | % Change | NPV Ratio | Amount              | % Change |  |
| (dollars in thousands)                                |           |          |                     |          |          |                     |          |           |                     |          |  |
| 300                                                   | \$114,789 | (39.9)%  | 7.7%                | \$37,131 | (15.8)%  | \$119,838           | (40.0)%  | 8.4%      | \$44,212            | (9.3)%   |  |
| 200                                                   | 143,295   | (25.0)   | 9.4                 | 39,645   | (10.1)   | 151,710             | (24.0)   | 10.3      | 46,123              | (5.3)    |  |
| 100                                                   | 170,328   | (10.9)   | 10.8                | 42,151   | (4.5)    | 179,446             | (10.1)   | 11.8      | 47,765              | (2.0)    |  |
| Static                                                | 191,112   | -        | 11.8                | 44,121   | -        | 199,646             | -        | 12.8      | 48,724              | -        |  |
| (100)                                                 | 205,849   | 7.7      | 12.4                | 45,651   | 3.5      | 213,252             | 6.8      | 13.3      | 49,251              | 1.1      |  |
| (200)                                                 | 211,657   | 10.8     | 12.6                | 46,526   | 5.5      | 217,678             | 9.0      | 13.4      | 48,927              | 1.4      |  |
| (300)                                                 | 210,917   | 10.4     | 12.4                | 46,669   | 5.8      | 216,809             | 8.6      | 13.2      | 47,865              | (1.8)    |  |

## **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 a 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 OceanFirst Financial Corp.\*

3.2 Bylaws of OceanFirst Financial Corp.\*\*

4.0 Stock Certificate of OceanFirst Financial Corp.\*

27 Financial Data Schedule (filed herewith)

\* 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.

\*\* Incorporated herein by reference into this document from the Exhibit to Form 10-Q, Quarterly Report, filed on August 11, 2000.

## 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: November 10, 2000

/s/ John R. Garbarino

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

DATE: November 10, 2000

/s/ Michael Fitzpatrick

-----  
Michael Fitzpatrick  
Executive Vice President and  
Chief Financial Officer

**ARTICLE 9**

MULTIPLIER: 1,000

|                              |                |
|------------------------------|----------------|
| PERIOD TYPE                  | 9 MOS          |
| FISCAL YEAR END              | DEC 31 2000    |
| PERIOD START                 | JAN 01 2000    |
| PERIOD END                   | SEP 30 2000    |
| CASH                         | 15,047         |
| INT BEARING DEPOSITS         | 0              |
| FED FUNDS SOLD               | 0              |
| TRADING ASSETS               | 0              |
| INVESTMENTS HELD FOR SALE    | 405,615        |
| INVESTMENTS CARRYING         | 0              |
| INVESTMENTS MARKET           | 0              |
| LOANS                        | 1,160,337      |
| ALLOWANCE                    | 8,921          |
| TOTAL ASSETS                 | 1,669,517      |
| DEPOSITS                     | 1,098,007      |
| SHORT TERM                   | 401,285        |
| LIABILITIES OTHER            | 12,186         |
| LONG TERM                    | 0              |
| PREFERRED MANDATORY          | 0              |
| PREFERRED                    | 0              |
| COMMON                       | 181            |
| OTHER SE                     | 157,858        |
| TOTAL LIABILITIES AND EQUITY | 1,669,517      |
| INTEREST LOAN                | 62,395         |
| INTEREST INVEST              | 23,846         |
| INTEREST OTHER               | 0              |
| INTEREST TOTAL               | 86,241         |
| INTEREST DEPOSIT             | 32,682         |
| INTEREST EXPENSE             | 48,901         |
| INTEREST INCOME NET          | 37,340         |
| LOAN LOSSES                  | 745            |
| SECURITIES GAINS             | (1,636)        |
| EXPENSE OTHER                | 22,666         |
| INCOME PRETAX                | 17,204         |
| INCOME PRE EXTRAORDINARY     | 17,204         |
| EXTRAORDINARY                | 0              |
| CHANGES                      | 0              |
| NET INCOME                   | 12,471         |
| EPS BASIC                    | 1.19           |
| EPS DILUTED                  | 1.16           |
| YIELD ACTUAL                 | 7.42           |
| LOANS NON                    | 3,171          |
| LOANS PAST                   | 0              |
| LOANS TROUBLED               | 0              |
| LOANS PROBLEM                | 0              |
| ALLOWANCE OPEN               | 8,223          |
| CHARGE OFFS                  | 68             |
| RECOVERIES                   | 21             |
| ALLOWANCE CLOSE              | 8,921          |
| ALLOWANCE DOMESTIC           | 0 <sup>1</sup> |
| ALLOWANCE FOREIGN            | 0              |
| ALLOWANCE UNALLOCATED        | 0 <sup>1</sup> |

<sup>1</sup> Information not disclosed in 10 Q.**End of Filing**Powered By **EDGAR**  
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