# OCEANFIRST FINANCIAL CORP

## FORM 10-Q
(Quarterly Report)

## Filed 8/10/2001 For Period Ending 6/30/2001

| | |
|---|---|
| Address | 975 HOOPER AVE |
| | TOMS RIVER, New Jersey 08753-8396 |
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| 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 June 30, 2001

**[ ] 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.

(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 August 8, 2001, there were 10,423,086 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)

| | June 30, 2001 (Unaudited) | December 31, 2000 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | $ 17,175 | $ 7,235 |
| Investment securities available for sale | 91,997 | 103,536 |
| Federal Home Loan Bank of New York stock, at cost | 20,850 | 20,000 |
| Mortgage-backed securities available for sale | 282,300 | 268,042 |
| Loans receivable, net | 1,217,518 | 1,136,879 |
| Mortgage loans held for sale | 25,152 | 35,588 |
| Interest and dividends receivable | 8,946 | 9,318 |
| Real estate owned, net | 149 | 157 |
| Premises and equipment, net | 16,049 | 14,676 |
| Servicing asset | 6,772 | 6,363 |
| Other assets | 37,902 | 38,423 |
| Total assets | $ 1,724,810 | $ 1,640,217 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Deposits | $ 1,106,320 | $ 1,104,188 |
| Federal Home Loan Bank advances | 84,800 | 127,500 |
| Securities sold under agreements to repurchase | 362,665 | 236,494 |
| Advances by borrowers for taxes and insurance | 7,148 | 6,388 |
| Other liabilities | 10,075 | 7,911 |
| Total liabilities | 1,571,008 | 1,482,481 |
| 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 10,497,086 and 11,084,123 shares outstanding at June 30, 2001 and December 31, 2000, respectively | 181 | 181 |
| Additional paid-in capital | 181,000 | 179,805 |
| Retained earnings | 126,185 | 121,737 |
| Accumulated other comprehensive loss | (1,905) | (4,927) |
| Less: Unallocated common stock held by Employee Stock Ownership Plan | (13,414) | (14,156) |
| Unearned Incentive Awards | (1,128) | (2,096) |
| Treasury stock, 7,621,162 and 7,034,125 shares at June 30, 2001 and December 31, 2000, respectively | (137,117) | (122,808) |
| Total stockholders' equity | 153,802 | 157,736 |
| Total liabilities and stockholders' equity | $ 1,724,810 | $ 1,640,217 |

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 ended June 30 | | For the Six Months ended June 30 | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| | (Unaudited) | | (Unaudited) | |
| Interest income: | | | | |
| Loans | $23,099 | $20,713 | $45,830 | $40,642 |
| Mortgage-backed securities | 4,520 | 5,502 | 8,894 | 11,227 |
| Investment securities and other | 1,801 | 2,398 | 4,004 | 4,826 |
| Total interest income | 29,420 | 28,613 | 58,728 | 56,695 |
| Interest expense: | | | | |
| Deposits | 11,065 | 10,870 | 22,782 | 21,322 |
| Borrowed funds | 5,414 | 5,199 | 10,275 | 10,193 |
| Total interest expense | 16,479 | 16,069 | 33,057 | 31,515 |
| Net interest income | 12,941 | 12,544 | 25,671 | 25,180 |
| Provision for loan losses | 260 | 250 | 515 | 490 |
| Net interest income after provision for loan losses | 12,681 | 12,294 | 25,156 | 24,690 |
| Other income: | | | | |
| Fees and service charges | 1,270 | 1,125 | 2,625 | 2,113 |
| Net gain on sales of loans and securities available for sale | 1,426 | 12 | 2,504 | 72 |
| Net income from other real estate operations | 40 | 82 | 55 | 71 |
| Other | 556 | 303 | 907 | 596 |
| Total other income | 3,292 | 1,522 | 6,091 | 2,852 |
| Operating expenses: | | | | |
| Compensation and employee benefits | 4,737 | 4,229 | 10,105 | 8,559 |
| Occupancy | 742 | 556 | 1,436 | 1,138 |
| Equipment | 562 | 367 | 1,057 | 727 |
| Marketing | 457 | 375 | 794 | 691 |
| Federal deposit insurance | 123 | 119 | 246 | 239 |
| Data processing | 568 | 373 | 1,059 | 765 |
| General and administrative | 1,874 | 1,192 | 3,476 | 2,287 |
| Total operating expenses | 9,063 | 7,211 | 18,173 | 14,406 |
| Income before provision for income taxes | 6,910 | 6,605 | 13,074 | 13,136 |
| Provision for income taxes | 2,417 | 2,267 | 4,561 | 4,486 |
| Net income | $ 4,493 | $ 4,338 | $ 8,513 | $ 8,650 |
| Basic earnings per share | $ .47 | $ .42 | $ 0.89 | $ 0.82 |
| Diluted earnings per share | $ .45 | $ .41 | $ 0.85 | $ 0.80 |
| Average basic shares outstanding | 9,503 | 10,361 | 9,595 | 10,613 |
| Average diluted shares outstanding | 9,980 | 10,593 | 10,059 | 10,821 |

See accompanying notes to unaudited consolidated financial statements.

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

| | For the six months ended June 30, 2001 | 2000 |
|---|---|---|
| | (Unaudited) | |
| Cash flows from operating activities: | | |
| Net income | $ 8,513 | $ 8,650 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization of premises and equipment | 951 | 766 |
| Amortization of Incentive Awards | 968 | 968 |
| Amortization of ESOP | 742 | 786 |
| ESOP adjustment | 619 | 225 |
| Tax benefit of stock plans | 576 | - |
| Amortization of servicing asset | 759 | 143 |
| Amortization of intangible assets | 179 | 52 |
| Net premium amortization in excess of discount accretion on securities | 308 | 192 |
| Net accretion of deferred fees and discounts in excess of premium amortization on loans | (83) | (171) |
| Provision for loan losses | 515 | 490 |
| Net gain on sales of real estate owned | (86) | (94) |
| Net gain on sales of loans and securities available for sale | (2,504) | (72) |
| Proceeds from sales of mortgage loans held for sale | 165,375 | 8,963 |
| Mortgage loans originated for sale | (152,435) | (17,422) |
| Decrease (increase) in interest and dividends receivable | 372 | (1,044) |
| Increase in other assets | (2,601) | (831) |
| Increase (decrease) in other liabilities | 2,164 | (249) |
| Total adjustments | 15,819 | (7,298) |
| Net cash provided by operating activities | 24,332 | 1,352 |
| Cash flows from investing activities: | | |
| Net increase in loans receivable | (81,411) | (57,679) |
| Purchase of mortgage-backed securities available for sale | (49,006) | - |
| Purchase of investment securities available for sale | (92) | - |
| Proceeds from maturities of investment securities available for sale | 13,500 | 200 |
| Principal payments on mortgage-backed securities available for sale | 37,369 | 28,053 |
| Purchases of Federal Home Loan Bank of New York Stock | (850) | (895) |
| Proceeds from sales of real estate owned | 434 | 670 |
| Purchases of premises and equipment | (2,324) | (1,064) |
| Net cash used in investing activities | (82,380) | (30,715) |

**Continued**

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

| | For the six months ended June 30, 2001 | 2000 |
|---|---|---|
| | (Unaudited) | |
| Cash flows from financing activities: | | |
| Increase in deposits | $ 2,132 | $ 30,075 |
| Decrease in Federal Home Loan Bank advances | (42,700) | (17,000) |
| Increase in securities sold under agreements to repurchase | 126,171 | 34,730 |
| Increase in advances by borrowers for taxes and insurance | 760 | 748 |
| Exercise of stock options | 863 | 292 |
| Dividends paid | (3,912) | (3,693) |
| Purchase of treasury stock | (15,326) | (16,529) |
| Net cash provided by financing activities | 67,988 | 28,623 |
| Net increase (decrease) in cash and due from banks | 9,940 | (740) |
| Cash and due from banks at beginning of period | 7,235 | 10,007 |
| Cash and due from banks at end of period | $ 17,175 | $ 9,267 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid during the period for: | | |
| Interest | $ 33,389 | $ 31,418 |
| Income taxes | 1,747 | 4,420 |
| Noncash investing activities: | | |
| Transfer of loans receivable to real estate owned | 340 | 370 |
| Mortgage loans securitized into mortgage-backed securities | 11,698 | 2,007 |

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 interim consolidated financial statements reflect all normal and recurring adjustments which are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. The results of operations for the three and six months ended June 30, 2001 are not necessarily indicative of the results of operations that may be expected for all of 2001.

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, 2000.

### Note 2. Earnings per Share

The following reconciles shares outstanding for basic and diluted earnings per share for the three and six months ended June 30, 2001 and 2000 (in thousands):

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| Weighted average shares issued net of Treasury shares | 10,704 | 11,841 | 10,833 | 12,134 |
| Less: Unallocated ESOP shares | (1,074) | (1,195) | (1,088) | (1,211) |
| Unallocated incentive award shares | (127) | (285) | (150) | (310) |
| Average basic shares outstanding | 9,503 | 10,361 | 9,595 | 10,613 |
| Add: Effect of dilutive securities: | | | | |
| Stock options | 415 | 144 | 392 | 115 |
| Incentive awards | 62 | 88 | 72 | 93 |
| Average diluted shares outstanding | 9,980 | 10,593 | 10,059 | 10,821 |

### Note 3. Comprehensive Income

For the three month periods ended June 30, 2001 and 2000 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 $5,410,000 and $3,355,000, respectively. For the six months ended June 30, 2001 and 2000, total comprehensive income amounted to $11,535,000 and $5,590,000, respectively.

### Note 4. Impact of Recent Accounting Pronouncements

In June 2000, the Financial Accounting Standards Board ("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 did not 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. The provisions of SFAS No. 140 are effective for transactions entered into after March 31, 2001. The initial adoption of SFAS No. 140 did not have a material impact on the Company's financial statements.

On July 20, 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS 141 also specifies the criteria acquired intangible assets must meet to be recognized and reported apart from goodwill. SFAS 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long Lived Assets and for Long Lived Assets to Be Disposed Of."

SFAS 142 requires that goodwill and any intangible asset determined to have an indefinite useful life acquired after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-SFAS 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of SFAS 142.

The Company is required to adopt the provisions of SFAS 141 immediately. The initial adoption of SFAS 141 had no impact on the Company's consolidated financial statements. The Company is required to adopt SFAS 142 effective January 1, 2002. As of June 30, 2001, the Company has $1.1 million in recorded goodwill with quarterly amortization of $63,000 which will cease upon the adoption of SFAS 142. The Company is currently evaluating the goodwill impairment criteria of SFAS 142 and is not able to estimate the impact, if any, that SFAS 142 may have on recorded goodwill upon the adoption of SFAS 142. The impairment adjustment, if any, will have to be recorded by the Company by no later than December 31, 2002. The Company does not anticipate that SFAS 142 will significantly impact the Company's accounting for currently recorded intangible assets, primarily core deposit intangibles.

## Note 5. Loans Receivable, Net

Loans receivable, net at June 30, 2001 and December 31, 2000 consisted of the following (in thousands):

| | June 30, 2001 | December 31, 2000 |
|---|---|---|
| Real estate: | | |
| One- to four-family | $1,052,676 | $ 993,706 |
| Commercial real estate, multi-family and land | 95,963 | 89,663 |
| Construction | 7,621 | 7,973 |
| Consumer | 63,746 | 62,923 |
| Commercial | 33,661 | 29,687 |
| Total loans | 1,253,667 | 1,183,952 |
| Loans in process | (2,038) | (2,927) |
| Deferred origination costs (fees), net | 708 | 561 |
| Unearned premium | 8 | 19 |
| Allowance for loan losses | (9,675) | (9,138) |
| Total loans, net | 1,242,670 | 1,172,467 |
| Less: mortgage loans held for sale | 25,152 | 35,588 |
| Loans receivable, net | $1,217,518 | $1,136,879 |

**Note 6. Deposits**

The major types of deposits at June 30, 2001 and December 31, 2000 were as follows (in thousands):

| Type of Account | June 30, 2001 | December 31, 2000 |
|---|---|---|
| Non-interest bearing | $ 65,627 | $ 49,910 |
| NOW | 193,855 | 170,976 |
| Money market deposit | 75,459 | 71,010 |
| Savings | 175,596 | 165,866 |
| Time deposits | 595,783 | 646,426 |
| | $1,106,320 | $1,104,188 |

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

### Financial Condition

Total assets at June 30, 2001 were $1.725 billion, an increase of $84.6 million, compared to $1.640 billion at December 31, 2000.

Loans receivable, net, increased by $80.6 million to a balance of $1.218 billion at June 30, 2001, compared to a balance of $1.137 billion at December 31, 2000. The increase was partly attributable to commercial lending (including commercial real estate) initiatives which accounted for $10.3 million of this growth. Additionally, mortgage loan volume was strong due to increased refinance activity in the low interest rate environment. Deposit balances increased $2.1 million to $1.106 billion at June 30, 2001 from $1.104 billion at December 31, 2000. Although overall deposit growth was modest, core deposit categories, a key emphasis for the Company, increased by $52.8 million as time deposits declined.

Stockholder's equity at June 30, 2001 decreased to $153.8 million, compared to $157.7 million at December 31, 2000 due to the execution of the Company's eighth stock repurchase program. The Company repurchased 646,100 shares of common stock during the first half of 2001 at a total cost of $15.3 million. Under the 10% repurchase program authorized by the Board of Directors in August 2000, 139,343 shares remain to be purchased as of June 30, 2001. On July 19, 2001, the Company's Board of Directors authorized an additional repurchase program for 10% of the outstanding common stock, or 1,040,476 common shares. The new repurchase program will begin upon consummation of the existing plan.

### Results of Operations

### General

Net income increased to $4.5 million for the three months ended June 30, 2001, as compared to net income of $4.3 million for the three months ended June 30, 2000, while diluted earnings per share increased to $.45 for the three months ended June 30, 2001, as compared to $.41 for the same prior year period. For the six months ended June 30, 2001, net income decreased to $8.5 million from $8.7 million for the six months ended June 30, 2000, while diluted earnings per share increased to $.85 for the six months ended June 30, 2001 as compared to $.80 in the same prior year period. Earnings per share is favorably affected by the Company's repurchase program, which reduced the number of shares outstanding.

### Interest Income

Interest income for the three and six months ended June 30, 2001 was $29.4 million and $58.7 million, respectively, compared to $28.6 million and $56.7 million for the three and six months ended June 30, 2000, respectively. The increases in interest income were due to increases in average interest-earning assets of $73.0 million and $49.3 million for the three and six months ended June 30, 2001, as compared to the same prior year periods. The yield on interest-earning assets decreased to 7.28% for the three months ended June 30, 2001 as compared to 7.42% for the same prior year period. For the six months ended June 30, 2001, the yield on earning assets increased to 7.41%, as compared to 7.38% for the same prior year period. Despite the second quarter decline, which was reflective of the general interest rate environment, the asset yield in both periods still benefited from the Bank's strong loan growth, which was partly funded by reductions in the lower yielding investment and mortgage-backed securities available for sale portfolios. For the three and six months ended June 30, 2001 loans receivable represented 75.1% and 75.2%, respectively, of average interest-earning assets as compared to 70.2% and 69.4%, respectively, for the same prior year periods.

**Interest Expense**

Interest expense for the three and six months ended June 30, 2001 was $16.5 million and $33.1 million, respectively, compared to $16.1 million and $31.5 million for the three and six months ended June 30, 2000, respectively. The increase in interest expense was primarily the result of an increase in average interest-bearing liabilities which rose by $69.5 million and $52.1 million for the three and six months ended June 30, 2001, respectively, as compared to the same prior year periods. The cost of interest-bearing liabilities decreased to 4.50% for the three months ended June 30, 2001, as compared to 4.61% in the same prior year period. For the six months ended June 30, 2001, the cost of interest-bearing liabilities increased to 4.60% as compared to 4.55% for the same prior year period. Funding costs were partly restrained due the Company's focus on lower costing core deposit growth. Core deposits (including non-interest-bearing deposits) represented 44.6% and 43.2% of average deposits for the three and six months ended June 30, 2001, respectively, as compared to 38.0% and 37.8%, respectively, for 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 six months ended June 30, 2001, the Company's provision for loan losses was $260,000 and $515,000, respectively, as compared to $250,000 and $490,000 for the same prior year periods.

**Other Income**

Other income was $3.3 million and $6.1 million for the three and six months ended June 30, 2001, respectively, compared to $1.5 million and $2.9 million for the same prior year periods. For the three and six months ended June 30, 2001 the Company recorded a gain of $1.4 million and $2.5 million, respectively, on the sale of loans, as compared to gains of $12,000 and $72,000, respectively, in the same prior year periods. The increased gains from loan sales are primarily due to the mortgage banking activities of Columbia Equities, Ltd. ("Columbia"), a mortgage banking company acquired by the Company on August 18, 2000. The Bank also periodically sells 30 year fixed-rate mortgage loans to assist in the management of interest rate risk.

Excluding the respective net gains on the sale of loans, other income increased by $356,000, or 23.6%, and $807,000, or 29.0%, for the three and six months ended June 30, 2001, respectively, as compared to the same prior year periods. Fees and service charges increased due to the growth in commercial account services, retail core account balances, investment services and trust fees. The Company continues to focus on growing non-interest revenue with the expected introduction of insurance services later this year.

**Operating Expenses**

Operating expenses were $9.1 million and $18.2 million, respectively, for the three and six months ended June 30, 2001, as compared to $7.2 million and $14.4 million, respectively, in the same prior year periods. The increases were principally due to operating expenses associated with Columbia, and the costs associated with the opening and operation of the Bank's fourteenth and fifteenth branch offices in May 2000 and February 2001, respectively.

**Provision for Income Taxes**

Income tax expense was $2.4 million and $4.6 million for the three and six months ended June 30, 2001 compared to $2.3 million and $4.5 million for the same prior year periods.

**Liquidity and Capital Resources**

The Company's primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, proceeds from the sale of loans, Federal Home Loan Bank ("FHLB") and other borrowings and, to a lesser extent, investment maturities. While scheduled amortization of loans is a predictable source of funds, deposit flows and mortgage prepayments 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 June 30, 2001, the Company had $84.8 million of outstanding overnight borrowings from the FHLB, an increase from $52.5 million at December 31, 2000. The Company utilizes the overnight line from time to time to fund short-term liquidity needs. The Company also had other borrowings of $362.7 million at June 30, 2001, an increase from $311.5 million at December 31, 2000. These borrowings were used to fund a wholesale leverage strategy designed to improve returns on invested capital.

The Company's cash needs for the six months ended June 30, 2001, were primarily provided by principal payments on loans and mortgage-backed securities, proceeds from the sale of mortgage loans held for sale and increased total borrowings. The cash was principally utilized for loan originations, the purchase of mortgage-backed securities and the purchase of treasury stock. For the six months ended June 30, 2000, the cash needs of the Company were primarily satisfied by principal payments on loans and mortgage-backed securities, proceeds from the sale of mortgage loans held for sale and increased deposits and total borrowings. The cash provided was principally used for the origination of loans and the purchase of treasury stock.

At June 30, 2001, the Bank exceeded all of its regulatory capital requirements with tangible capital of $129.5 million, or 7.5%, of total adjusted assets, which is above the required level of $25.8 million or 1.5%; core capital of $129.5 million or 7.5% of total adjusted assets, which is above the required level of $51.6 million, or 3.0%; and risk-based capital of $139.1 million, or 14.1% of risk-weighted assets, which is above the required level of $78.9 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). It is the policy of the Company to cease accruing interest on loans 90 days or more past due or in the process of foreclosure.

| | June 30, 2001 | December 31, 2000 |
|---|---|---|
| | (dollars in thousands) | |
| Non-accrual loans: | | |
| Real estate: | | |
| One-to four-family | $3,271 | $2,594 |
| Commercial real estate, multi-family and land | -- | -- |
| Consumer | 158 | 147 |
| Commercial | 2,368 | 182 |
| Total | 5,797 | 2,923 |
| REO, net | 149 | 157 |
| Total non-performing assets | $5,946 | $3,080 |
| Non-performing loans as a percent of total loans receivable | .46% | .25% |
| Non-performing assets as a percent of total assets | .34 | .19 |
| Allowance for loan losses as a percent of total loans receivable | .77 | .77 |
| Allowance for loan losses as percent of total non-performing loans | 166.90 | 312.62 |

The increase in non-performing loans is due primarily to one non-performing commercial loan with an outstanding balance of $2.4 million, which was placed on non-accrual status during the quarter ended June 30, 2001. The loan is represented by a participation interest in a $125 million shared national credit on a company headquartered in New Jersey, and is secured by corporate assets and various commercial real estate properties. The Bank does not participate in any other shared national credits.

**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 2000 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 June 30, 2001 was negative 9.5% as compared to negative 10.8% at December 31, 2000. Additionally, the table below sets forth the Company's exposure to interest rate risk as measured by the change in net portfolio value ("NPV") and net interest income under varying rate shocks as of June 30, 2001 and December 31, 2000. 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, 2000.

At June 30, 2001, the Company's NPV in a static rate environment is less than the NPV at December 31, 2000, reflecting the Company's declining capital levels resulting from common stock repurchase programs and the lower interest rate environment which reduces the value of the Company's core deposits. Also, in a shocked interest rate environment, the Company projects a greater percent change in NPV at June 30, 2001 than was the case at December 31, 2000. The heightened interest rate sensitivity is primarily due to the declining capital base which accentuates, on a percentage basis, similar dollar changes in NPV.

| | June 30, 2001 | | | | | December 31, 2000 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | $ 90,126 | (46.3)% | 5.7% | $45,112 | (15.2)% | $122,407 | (37.9)% | 8.2% | $42,061 | (13.9)% |
| 200 | 125,582 | (25.2) | 7.6 | 48,312 | (9.2) | 153,064 | (22.3) | 9.9 | 44,556 | (8.8) |
| 100 | 153,556 | (8.5) | 9.0 | 51,224 | (3.7) | 179,453 | (8.9) | 11.3 | 46,728 | (4.3) |
| Static | 167,907 | --- | 9.7 | 53,193 | --- | 197,049 | --- | 12.1 | 48,837 | --- |
| (100) | 168,812 | .5 | 9.5 | 54,580 | 2.6 | 201,071 | 2.0 | 12.1 | 49,569 | 1.5 |
| (200) | 163,792 | (2.4) | 9.1 | 54,874 | 3.2 | 196,426 | (.3) | 11.6 | 49,483 | 1.3 |
| (300) | 154,806 | (7.8) | 8.5 | 53,733 | 1.0 | 186,175 | (5.5) | 10.9 | 48,675 | (.3) |

## 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.*

b) There were no reports on Form 8-K filed during the three months ended June 30, 2001.

* 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:* | *August 10, 2001* | */s/ John R. Garbarino*<br>-----------------------------------------<br>*John R. Garbarino*<br>*Chairman of the Board, President*<br>*and Chief Executive Officer* |
| *DATE:* | *August 10, 2001* | */s/ Michael Fitzpatrick*<br>-----------------------------------------<br>*Michael Fitzpatrick*<br>*Executive Vice President and*<br>*Chief Financial Officer* |