OCEANFIRST FINANCIAL CORP
Form 10-Q
May 10, 2010
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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 March 31, 2010

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission file number 001-11713

OceanFirst Financial Corp.

(Exact name of registrant as specified in its charter)

Delaware	**22-3412577**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
975 Hooper Avenue, Toms River, NJ	**08754-2009**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (732)240-4500

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 ¨.

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

YES ¨ NO ¨.

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

Large Accelerated Filer	¨	Accelerated Filer	x
Non-accelerated Filer	¨	Smaller Reporting Company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ¨ NO x.

As of May 5, 2010, there were 18,821,956 shares of the Registrant s Common Stock, par value $.01 per share, outstanding.

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OceanFirst Financial Corp.

Consolidated Statements of Financial Condition

(dollars in thousands, except per share amounts)

	March 31, 2010 (Unaudited)	December 31, 2009
ASSETS		
Cash and due from banks	$ 20,884	$ 23,016
Investment securities available for sale	39,177	37,267
Federal Home Loan Bank of New York stock, at cost	27,906	19,434
Mortgage-backed securities available for sale	367,189	213,622
Loans receivable, net	1,640,149	1,629,284
Mortgage loans held for sale	1,668	5,658
Interest and dividends receivable	6,818	6,059
Real estate owned, net	2,864	2,613
Premises and equipment, net	21,862	22,088
Servicing asset	6,147	6,515
Bank Owned Life Insurance	40,166	39,970
Other assets	24,403	24,502
Total assets	$ 2,199,233	$ 2,030,028
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits	$ 1,381,108	$ 1,364,199
Securities sold under agreements to repurchase with retail customers	67,969	64,573
Federal Home Loan Bank advances	521,100	333,000
Other borrowings	27,500	27,500
Due to brokers		40,684
Advances by borrowers for taxes and insurance	8,047	7,453
Other liabilities	6,328	9,083
Total liabilities	2,012,052	1,846,492
Stockholders equity:		
Preferred stock, $.01 par value, $1,000 liquidation preference, 5,000,000 shares authorized, no shares issued at March 31, 2010 and December 31, 2009		
Common stock, $.01 par value, 55,000,000 shares authorized, 33,566,772 shares issued and 18,821,956, shares outstanding at March 31, 2010 and December 31, 2009	336	336
Additional paid-in capital	259,837	260,130
Retained earnings	165,277	163,063
Accumulated other comprehensive loss	(9,102)	(10,753)
Less: Unallocated common stock held by Employee Stock Ownership Plan	(4,703)	(4,776)
Treasury stock, 14,744,816 shares at March 31, 2010 and December 31, 2009	(224,464)	(224,464)
Common stock acquired by Deferred Compensation Plan	943	986
Deferred Compensation Plan Liability	(943)	(986)
Total stockholders equity	187,181	183,536

Total liabilities and stockholders equity	$ 2,199,233	$ 2,030,028

See accompanying Notes to Unaudited Consolidated Financial Statements.

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OceanFirst Financial Corp.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

	For the three months ended March 31, 2010	2009
	(Unaudited)	
Interest income:		
Loans	$ 21,984	$ 23,172
Mortgage-backed securities	2,762	768
Investment securities and other	330	450
Total interest income	25,076	24,390
Interest expense:		
Deposits	3,432	5,096
Borrowed funds	2,674	3,632
Total interest expense	6,106	8,728
Net interest income	18,970	15,662
Provision for loan losses	2,200	800
Net interest income after provision for loan losses	16,770	14,862
Other income:		
Loan servicing income (loss)	46	(230)
Fees and service charges	2,557	2,518
Net gain on sales of loans and securities available for sale	503	673
Net loss from other real estate operations	(335)	(1)
Income from Bank Owned Life Insurance	196	231
Other	1	3
Total other income	2,968	3,194
Operating expenses:		
Compensation and employee benefits	6,530	5,828
Occupancy	1,464	1,474
Equipment	476	449
Marketing	304	324
Federal deposit insurance	634	502
Data processing	830	835
Legal	296	577
Check card processing	317	251
Accounting and audit	143	160
General and administrative	1,708	1,384
Total operating expenses	12,702	11,784

Income before provision for income taxes	7,036	6,272
Provision for income taxes	2,632	2,319
Net income	4,404	3,953
Dividends on preferred stock and warrant accretion		458
Net income available to common stockholders	$ 4,404	$ 3,495
Basic earnings per share	$ 0.24	$ 0.30
Diluted earnings per share	$ 0.24	$ 0.30
Average basic shares outstanding	18,132	11,696
Average diluted shares outstanding	18,180	11,743

See accompanying Notes to Unaudited Consolidated Financial Statements.

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OceanFirst Financial Corp.

Consolidated Statements of

Changes in Stockholders Equity (Unaudited)

(in thousands, except per share amounts)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Employee Stock Ownership Plan	Treasury Stock	Common Stock Acquired by Deferred Compensation Plan	Deferred Compensation Plan Liability	Total
Balance at December 31, 2008	$	$ 272	$ 204,298	$ 160,267	$ (14,462)	$ (5,069)	$ (225,523)	$ 981	$ (981)	$ 119,783
Comprehensive income:										
Net income				3,953						3,953
Other comprehensive loss:										
Unrealized loss on securities (net of tax benefit $1,068)					(1,547)					(1,547)
Total comprehensive income										2,406
Proceeds from issuance of preferred stock and a warrant	36,921		1,342							38,263
Accretion of discount on preferred stock	60			(60)						
Stock awards			149							149
Allocation of ESOP stock						74				74
ESOP adjustment			30							30
Cash dividend - $0.20 per share				(2,353)						(2,353)
Cash dividend on preferred stock	244			(398)						(154)
Sale of stock for the deferred compensation plan								(11)	11	
Balance at March 31, 2009	$ 37,225	$ 272	$ 205,819	$ 161,409	$ (16,009)	$ (4,995)	$ (225,523)	$ 970	$ (970)	$ 158,198
Balance at December 31, 2009	$	$ 336	$ 260,130	$ 163,063	$ (10,753)	$ (4,776)	$ (224,464)	$ 986	$ (986)	$ 183,536
Comprehensive income:										
Net income				4,404						4,404
Other comprehensive income:										
Unrealized gain on securities (net of tax benefit $1,031)					1,651					1,651
Total comprehensive income										6,055

Expenses of common stock offering			(109)							(109)
Tax expense of stock plans			(23)							(23)
Stock awards			249							249
Redemption of warrants			(431)							(431)
Allocation of ESOP stock						73				73
ESOP adjustment			21							21
Cash dividend - $0.12 per share				(2,190)						(2,190)
Sale of stock for the deferred compensation plan								(43)	43	
Balance at March 31, 2010	$	$ 336	$ 259,837	$ 165,277	$ (9,102)	$ (4.703)	$ (224,464)	$ 943	$ (943)	$ 187,181

See accompanying Notes to Unaudited Consolidated Financial Statements.

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OceanFirst Financial Corp.

Consolidated Statements of Cash Flows

(dollars in thousands)

	For the three months ended March 31, 2010	2009
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 4,404	$ 3,953
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	532	488
Allocation of ESOP stock	73	74
ESOP adjustment	21	30
Stock awards	249	149
Amortization and impairment of servicing asset	537	816
Net premium amortization in excess of discount accretion on securities	291	96
Net amortization of deferred costs and discounts on loans	172	113
Provision for loan losses	2,200	800
Net gain on sale of real estate owned	(6)	(22)
Recovery from reserve for repurchased loans		(34)
Net gain on sales of loans and securities	(503)	(639)
Proceeds from sales of mortgage loans held for sale	29,617	48,794
Mortgage loans originated for sale	(25,293)	(46,357)
Increase in value of Bank Owned Life Insurance	(196)	(231)
Increase in interest and dividends receivable	(759)	(278)
Increase in other assets	(933)	(651)
(Decrease) increase in other liabilities	(2,755)	6,426
Total adjustments	3,247	9,574
Net cash provided by operating activities	7,651	13,527
Cash flows from investing activities:		
Net increase in loans receivable	(13,780)	(3,077)
Proceeds from sale of investment securities available for sale		1,823
Purchases of mortgage-backed securities available for sale	(203,481)	(59,468)
Principal payments on mortgage-backed securities available for sale	9,712	3,899
(Increase) decrease in Federal Home Loan Bank of New York stock	(8,472)	1,879
Proceeds from sales of real estate owned	298	115
Purchases of premises and equipment	(306)	(140)
Net cash used in investing activities	(216,029)	(54,969)

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OceanFirst Financial Corp.

Consolidated Statements of Cash Flows (Continued)

(dollars in thousands)

	For the three months ended March 31, 2010	2009
	(Unaudited)	
Cash flows from financing activities:		
Increase in deposits	$ 16,909	$ 39,338
Increase (decrease) in short-term borrowings	201,496	(11,268)
Proceeds from Federal Home Loan Bank advances	15,000	12,000
Repayments of Federal Home Loan Bank advances	(25,000)	(30,000)
Increase in advances by borrowers for taxes and insurance	594	910
Expenses of common stock offering	(109)	
Tax expense of stock plans	(23)	
Dividends paid common stock	(2,190)	(2,353)
Dividends paid preferred stock		(154)
Redemption of preferred stock and warrants	(431)	
Proceeds from issuance of preferred stock and warrant		38,263
Net cash provided by financing activities	206,246	46,736
Net (decrease) increase in cash and due from banks	(2,132)	5,294
Cash and due from banks at beginning of period	23,016	18,475
Cash and due from banks at end of period	$ 20,884	$ 23,769
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 6,150	$ 8,858
Income taxes	2,805	7
Non cash activities:		
Transfer of loans receivable to real estate owned	543	409

See accompanying Notes to Unaudited Consolidated Financial Statements.

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OceanFirst Financial Corp.

Notes To Unaudited Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

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

The interim consolidated financial statements reflect all normal and recurring adjustments which are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. The results of operations for the three months ended March 31, 2010 are not necessarily indicative of the results of operations that may be expected for all of 2010. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statements of financial condition and the results of operations for the period. Actual results could differ from these estimates. The allowance for loan losses is a material estimate that is particularly susceptible to near-term change. The current economic environment has increased the degree of uncertainty inherent in this material estimate.

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

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report to Stockholders on Form 10-K for the year ended December 31, 2009.

Earnings per Share

The following reconciles shares outstanding for basic and diluted earnings per share for the three months ended March 31, 2010 and 2009 (in thousands):

	Three months ended March 31,	
	2010	2009
Weighted average shares issued net of Treasury shares	18,822	12,365
Less: Unallocated ESOP shares	(562)	(597)
Unallocated incentive award shares and shares held by deferred compensation plan	(128)	(72)
Average basic shares outstanding	18,132	11,696
Add: Effect of dilutive securities:		
Stock options		
Incentive awards and shares held by deferred compensation plan	48	47
Average diluted shares outstanding	18,180	11,743

For the three months ended March 31, 2010 and 2009, 1,776,000 and 1,595,000, respectively, antidilutive stock options were excluded from earnings per share calculations.

Note 2. Investment Securities Available for Sale

The amortized cost and estimated market value of investment securities available for sale at March 31, 2010 and December 31, 2009 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
March 31, 2010				
U. S. agency obligations	$ 301	$ 2	$	$ 303
State and municipal obligations	300			300
Corporate debt securities	55,000		(16,751)	38,249
Equity investments	370		(45)	325
	$ 55,971	$ 2	$ (16,796)	$ 39,177

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
December 31, 2009				
U. S. agency obligations	$ 301	$ 5	$	$ 306
State and municipal obligations	300			300
Corporate debt securities	55,000		(18,631)	36,369
Equity investments	370		(78)	292
	$ 55,971	$ 5	$ (18,709)	$ 37,267

There were no realized gains or losses on the sale of investment securities available for sale for the three months ended March 31, 2010. For the three months ended March 31, 2009, the Company realized a loss on the sale of investment securities available for sale of $4,000.

The amortized cost and estimated market value of investment securities available for sale, excluding equity investments, at March 31, 2010 by contractual maturity, are shown below (in thousands). Actual maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. At March 31, 2010, investment securities available for sale with an amortized cost and estimated market value of $55.0 million and $38.2 million, respectively, were callable prior to the maturity date.

	Amortized Cost	Estimated Market Value
March 31, 2010		
Less than one year	$ 601	$ 603
Due after one year through five years		
Due after five years through ten years		
Due after ten years	55,000	38,249
	$ 55,601	$ 38,852

The estimated market value and unrealized loss for investment securities available for sale at March 31, 2010 and December 31, 2009 segregated by the duration of the unrealized loss are as follows (in thousands):

	Less than 12 months		12 months or longer		Total	
	Estimated Market Value	Unrealized Losses	Estimated Market Value	Unrealized Losses	Estimated Market Value	Unrealized Losses
March 31, 2010						
Corporate debt securities	$	$	$ 38,249	$ (16,751)	$ 38,249	$ (16,751)
Equity investments			325	(45)	325	(45)
	$	$	$ 38,574	$ (16,796)	$ 38,574	$ (16,796)

	Less than 12 months		12 months or longer		Total	
	Estimated Market Value	Unrealized Losses	Estimated Market Value	Unrealized Losses	Estimated Market Value	Unrealized Losses
December 31, 2009						

Corporate debt securities	$	$	$ 36,369	$ (18,631)	$ 36,369	$ (18,631)
Equity investments	292	(78)			292	(78)
	$ 292	$ (78)	$ 36,369	$ (18,631)	$ 36,661	$ (18,709)

At March 31, 2010, the amortized cost, estimated market value and credit rating of the individual corporate debt securities in an unrealized loss position for greater than one year are as follows (in thousands):

Security Description	**Amortized Cost**	**Estimated Market Value**	**Credit Rating Moody s/S&P**
BankAmerica Capital	$ 15,000	$ 10,384	Baa3/BB
Chase Capital	10,000	7,803	A2/BBB+
Wells Fargo Capital	5,000	3,141	Baa1/A-
Huntington Capital	5,000	2,764	Ba1/B
Keycorp Capital	5,000	3,319	Baa3/BB
PNC Capital	5,000	3,800	Baa2/BBB
State Street Capital	5,000	3,626	A3/BBB+
SunTrust Capital	5,000	3,412	Baa3/BB
	$ 55,000	$ 38,249	

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At March 31, 2010, the market value of each corporate debt security was below cost. The portfolio consisted of eleven $5.0 million issues spread between eight issuers due to consolidation. The corporate debt securities are issued by other financial institutions with credit ratings ranging from a high of A2 to a low of B as rated by one of the internationally-recognized credit rating services. These floating-rate corporate debt securities were purchased during the period May 1998 to September 1998 and have paid coupon interest continuously since issuance. Floating-rate corporate debt securities such as these pay a fixed interest rate spread over LIBOR. Following the purchase of these securities, the required spread increased for these types of securities causing a decline in the market price. The Company concluded that these available for sale securities were only temporarily impaired at March 31, 2010. In concluding that the impairments were only temporary, the Company considered several factors in its analysis. Although some credit ratings declined since December 31, 2009, the estimated market value for most securities improved over the prior year-end. Additionally, the Company noted that each issuer made all the contractually due payments when required. There were no defaults on principal or interest payments and no interest payments were deferred. All of the financial institutions were also considered well-capitalized. Based on management s analysis of each individual security, the issuers appear to have the ability to meet debt service requirements for the foreseeable future. Furthermore, although these investment securities are available for sale, the Company does not have the intent to sell these securities and it is more likely than not that the Company will not be required to sell the securities. The Company has held the securities continuously since 1998 and expects to receive its full principal at maturity in 2028. The Company has historically not actively sold investment securities and does not utilize the securities portfolio as a source of liquidity. The Company s long range liquidity plans indicate adequate sources of liquidity outside the securities portfolio.

Capital markets in general and the market for these corporate debt securities in particular have been disrupted since the second half of 2007. In its analysis, the Company considered that the severity and duration of unrecognized losses was at least partly due to the illiquidity caused by market disruptions. Steps taken by the U.S. Treasury, the Federal Reserve Bank, the Federal Deposit Insurance Corporation and foreign central banks, among others, have been a positive force in restoring liquidity and confidence in the capital markets. The ability of each of these issuers to raise capital during 2009 was a testament to the effectiveness of these actions.

Due to the reasons noted above, especially the continuing restoration of the capital markets, the improved valuation of the corporate securities, the capital position of the issuers, the uninterrupted payment of all contractually due interest, management has determined that only a temporary impairment existed at March 31, 2010.

Note 3. Mortgage-Backed Securities Available for Sale

The amortized cost and estimated market value of mortgage-backed securities available for sale at March 31, 2010 and December 31, 2009 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
March 31, 2010				
FHLMC	$ 10,932	$ 418	$	$ 11,350
FNMA	353,695	1,799	(969)	354,525
GNMA	1,156	158		1,314
	$ 365,783	$ 2,375	$ (969)	$ 367,189

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
December 31, 2009				
FHLMC	$ 12,423	$ 442	$	$ 12,865
FNMA	199,381	1,517	(1,485)	199,413
GNMA	1,185	159		1,344
	$ 212,989	$ 2,118	$ (1,485)	$ 213,622

There were no gains or losses realized on the sale of mortgage-backed securities available for sale for the three months ended March 31, 2010 and 2009.

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

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The estimated market value and unrealized loss for mortgage-backed securities available for sale at March 31, 2010 and December 31, 2009, segregated by the duration of the unrealized loss are as follows (in thousands):

	Less than 12 months		12 months or longer		Total	
	Estimated Market Value	Unrealized Losses	Estimated Market Value	Unrealized Losses	Estimated Market Value	Unrealized Losses
March 31, 2010						
FNMA	$ 230,586	$ (969)	$	$	$ 230,586	$ (969)
	$ 230,586	$ (969)	$	$	$ 230,586	$ (969)

	Less than 12 months		12 months or longer		Total	
	Estimated Market Value	Unrealized Losses	Estimated Market Value	Unrealized Losses	Estimated Market Value	Unrealized Losses
December 31, 2009						
FNMA	$ 95,655	$ (1,485)	$	$	$ 95,655	$ (1,485)
	$ 95,655	$ (1,485)	$	$	$ 95,655	$ (1,485)