

Edgar Filing: OCEANFIRST FINANCIAL CORP - Form 10-Q/A

OCEANFIRST FINANCIAL CORP

Form 10-Q/A

May 13, 2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q/A

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2002

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 (I.R.S. Employer Identification No.)  
incorporation or organization)

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  NO  .

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As of May 10, 2002, there were 14,471,222 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)

|  | March 31,<br>2002 | December 31,<br>2001 |
|--|-------------------|----------------------|
|  | -----             | -----                |
|  | (Unaudited)       |                      |
| <b>ASSETS</b><br>-----                   |                   |                      |
| Cash and due from banks                  | \$ 19,167         | \$ 16,876            |
| Investment securities available for sale | 78,330            | 80,017               |

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|   |              |              |
|---|--------------|--------------|
| Federal Home Loan Bank of New York<br>stock, at cost  | 23,885       | 23,560       |
| Mortgage-backed securities available for sale   | 199,531      | 233,302      |
| Loans receivable, net   | 1,253,340    | 1,300,889    |
| Mortgage loans held for sale  | 73,473       | 37,828       |
| Interest and dividends receivable   | 8,066        | 7,632        |
| Real estate owned, net  | 181          | 133          |
| Premises and equipment, net   | 17,616       | 16,730       |
| Servicing asset   | 8,477        | 7,628        |
| Other assets  | 40,433       | 39,071       |
|   | -----        | -----        |
| Total assets  | \$ 1,722,499 | \$ 1,763,666 |
|   | =====        | =====        |
| LIABILITIES AND STOCKHOLDERS' EQUITY  |              |              |
| -----   |              |              |
| Deposits  | \$ 1,114,030 | \$ 1,109,043 |
| Federal Home Loan Bank advances   | 258,200      | 272,000      |
| Securities sold under agreements to repurchase  | 191,127      | 212,332      |
| Advances by borrowers for taxes and insurance   | 6,504        | 6,371        |
| Other liabilities   | 9,343        | 17,191       |
|   | -----        | -----        |
| Total liabilities   | 1,579,204    | 1,616,937    |
|   | -----        | -----        |
| 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>27,177,372 shares issued and 14,503,472 and 14,791,334<br>shares outstanding at March 31, 2002 and December 31,<br>2001, respectively | 272          | 272          |
| Additional paid-in capital  | 182,733      | 181,780      |
| Retained earnings   | 134,524      | 131,655      |
| Accumulated other comprehensive loss  | (3,011)      | (824)        |
| Less: Unallocated common stock held by<br>Employee Stock Ownership Plan   | (12,309)     | (12,663)     |
| Unearned Incentive Awards   | --           | (161)        |
| Treasury stock, 12,673,900 and 12,386,038 shares<br>at March 31, 2002 and December 31, 2001,<br>respectively  | (158,914)    | (153,330)    |
|   | -----        | -----        |
| Total stockholders' equity  | 143,295      | 146,729      |
|   | -----        | -----        |
| Total liabilities and stockholders' equity  | \$ 1,722,499 | \$1,763,666  |
|   | =====        | =====        |

See accompanying notes to unaudited consolidated financial statements.

Note: Shares and related amounts have been adjusted for the three-for-two stock split effected in the form of a 50% stock dividend payable on May 17, 2002 to common stockholders of record as of May 3, 2002.

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## CONSOLIDATED STATEMENTS OF INCOME (in thousands, except per share amounts)

|   | For the three months<br>ended March 31 |           |
|---|--|-----------|
|   | 2002                                   | 2001      |
|   | (Unaudited)                            |           |
| Interest income:  |  |           |
| Loans   | \$ 23,856                              | \$ 22,732 |
| Mortgage-backed securities                                      | 3,098                                  | 4,374     |
| Investment securities and other                                 | 1,460                                  | 2,203     |
| Total interest income   | 28,414                                 | 29,309    |
| Interest expense:   |  |           |
| Deposits  | 7,385                                  | 11,717    |
| Borrowed funds  | 5,361                                  | 4,861     |
| Total interest expense  | 12,746                                 | 16,578    |
| Net interest income   | 15,668                                 | 12,731    |
| Provision for loan losses                                       | 500                                    | 255       |
| Net interest income after provision<br>for loan losses          | 15,168                                 | 12,476    |
| Other income:   |  |           |
| Fees and service charges  | 1,478                                  | 1,356     |
| Net gain on sales of loans and securities<br>available for sale | 394                                    | 1,079     |
| Net income from other real estate operations                    | 19                                     | 14        |
| Other   | 534                                    | 351       |
| Total other income  | 2,425                                  | 2,800     |
| Operating expenses:   |  |           |
| Compensation and employee benefits                              | 5,262                                  | 5,368     |
| Occupancy   | 792                                    | 694       |
| Equipment   | 543                                    | 495       |
| Marketing   | 424                                    | 337       |
| Federal deposit insurance                                       | 126                                    | 123       |
| Data processing   | 588                                    | 491       |
| General and administrative                                      | 2,143                                  | 1,602     |
| Total operating expenses  | 9,878                                  | 9,110     |
| Income before provision for income taxes                        | 7,715                                  | 6,166     |
| Provision for income taxes                                      | 2,666                                  | 2,145     |
| Net income  | \$ 5,049                               | \$ 4,021  |

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|                                    |        |        |
|------------------------------------|--------|--------|
| Basic earnings per share           | \$ .38 | \$ .28 |
|                                    | =====  | =====  |
| Diluted earnings per share         | \$ .36 | \$ .26 |
|                                    | =====  | =====  |
| Average basic shares outstanding   | 13,181 | 14,532 |
|                                    | =====  | =====  |
| Average diluted shares outstanding | 13,894 | 15,205 |
|                                    | =====  | =====  |

See accompanying notes to unaudited consolidated financial statements.

Note: Earnings per share and shares outstanding have been adjusted for the three-for-two stock split effected in the form of a 50% stock dividend payable on May 17, 2002 to common stockholders of record as of May 3, 2002.

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

|  | For the three<br>ended March<br>-----<br>2002<br>-----<br>(Unaudited) |
|--|---|
| Cash flows from operating activities:  |   |
| Net income   | \$ 5,049  |
|  | -----   |
| Adjustments to reconcile net income to net cash (used in)<br>provided by operating activities: |   |
| Depreciation and amortization of premises<br>and equipment                                     | 475   |
| Amortization of Incentive Awards   | 161   |
| Amortization of ESOP   | 354   |
| ESOP adjustment  | 395   |
| Amortization of servicing asset  | 462   |
| Amortization of intangible assets  | 26  |
| Net premium amortization in excess of discount<br>accretion on securities                      | 321   |
| Net accretion of deferred fees and discounts<br>in excess of premium amortization on loans     | 1   |
| Provision for loan losses  | 500   |
| Net gain on sales of real estate owned   | (23)  |
| Net gain on sales of loans and securities available for sale                                   | (394)   |
| Proceeds from sales of mortgage loans held for sale  | 127,543   |
| Mortgage loans originated for sale   | (162,794)   |
| Increase in value of Bank Owned Life Insurance   | (524)   |
| (Increase) decrease in interest and dividends receivable                                       | (434)   |
| Increase in other assets   | (891)   |
| (Decrease) increase in other liabilities   | (7,290)   |
|  | -----   |
| Total adjustments  | (42,112)  |
|  | -----   |

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|  |          |
|--|----------|
| Net cash (used in) provided by operating activities                  | (37,063) |
| -----  |          |
| Cash flows from investing activities:                                |          |
| Net decrease (increase) in loans receivable                          | 46,951   |
| Purchase of mortgage-backed securities available for sale            | -        |
| Purchase of investment securities available for sale                 | (600)    |
| Proceeds from maturities of investment securities available for sale | -        |
| Principal payments on mortgage-backed securities available for sale  | 32,266   |
| Purchase of Federal Home Loan Bank of New York Stock                 | (325)    |
| Proceeds from sales of real estate owned                             | 72       |
| Purchases of premises and equipment                                  | (1,361)  |
|  | -----    |
| Net cash provided by (used in) investing activities                  | 77,003   |
|  | -----    |

Continued

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

|  | For the thr<br>ended M |
|--|------------------------|
|  | -----<br>2002<br>----- |
|  | (Unaud                 |
| Cash flows from financing activities:                        |                        |
| Increase in deposits   | \$ 4,987               |
| (Decrease) increase in short-term borrowings                 | (45,005)               |
| Proceeds from Federal Home Loan Bank advances                | 25,000                 |
| Repayments of Federal Home Loan Bank advances                | (15,000)               |
| Proceeds from securities sold under agreements to repurchase | -                      |
| Repayments of securities sold under agreement to repurchase  | -                      |
| Increase in advances by borrowers for taxes and insurance    | 133                    |
| Exercise of stock options                                    | 246                    |
| Dividends paid   | (2,129)                |
| Purchase of treasury stock                                   | (5,881)                |
|  | -----                  |
| Net cash (used in) provided by financing activities          | (37,649)               |
|  | -----                  |
| Net increase in cash and due from banks                      | 2,291                  |
| Cash and due from banks at beginning of period               | 16,876                 |
|  | -----                  |
| Cash and due from banks at end of period                     | \$ 19,167              |

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Supplemental Disclosure of Cash Flow  
Information:

Cash paid during the period for:

|              |           |
|--------------|-----------|
| Interest     | \$ 12,960 |
| Income taxes | 2,353     |

Noncash investing activities:

|  |        |
|--|--------|
| Transfer of loans receivable to real estate owned          | 97     |
| Mortgage loans securitized into mortgage-backed securities | 47,624 |

See accompanying notes to unaudited consolidated financial statements.

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OceanFirst Financial Corp.

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 REIT Holdings, Inc., OceanFirst Realty Corp. and Ocean Investment Services, LLC.

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, 2002 are not necessarily indicative of the results of operations that may be expected for all of 2002.

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, 2001.

Note 2. Earnings per Share

Amounts per common share have been adjusted for the three-for-two stock split effected in the form of a 50% stock dividend declared by the Company's Board of Directors on April 17, 2002 and payable on May 17, 2002 to common stockholders of record as of May 3, 2002.

The following reconciles shares outstanding for basic and diluted earnings per share for the three months ended March 31, 2002 and 2001 (in thousands):

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|   | Three months<br>March 31 |   |
|---|--------------------------|---|
|   | -----                    |   |
|   | 2002                     |   |
|   | -----                    |   |
| Weighted average shares issued net of Treasury shares | 14,740                   | 1 |
| Less: Unallocated ESOP shares                         | (1,481)                  | ( |
| Unallocated incentive award shares                    | (78)                     | ) |
|   | -----                    |   |
| Average basic shares outstanding                      | 13,181                   | 1 |
| Add: Effect of dilutive securities:                   |                          |   |
| Stock options   | 648                      |   |
| Incentive awards                                      | 65                       |   |
|   | -----                    |   |
| Average diluted shares outstanding                    | 13,894                   | 1 |
|   | =====                    | = |

Note 3. Comprehensive Income

-----

For the three month periods ended March 31, 2002 and 2001 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 \$2,862,000 and \$6,126,000, respectively.

Note 4. Impact of Recent Accounting Pronouncements

-----

On July 20, 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS 142 requires 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 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed periodically

for impairment. SFAS 142 requires that goodwill and any intangible asset determined to have an indefinite useful life acquired after June 30, 2001 not be amortized, but continue to be evaluated for impairment in accordance with the appropriate pre-SFAS 142 accounting literature. The Company adopted SFAS 142 effective January 1, 2002. As of December 31, 2001, the Company had \$1.0 million in unamortized goodwill with annual amortization of \$253,000 which ceased upon the adoption of SFAS 142. The cessation of goodwill amortization for the three months ended March 31, 2002 did not have a significant impact on the Company's consolidated financial statements as compared to the same prior year period. The Company is currently evaluating the transitional goodwill impairment criteria of SFAS 142 and is not able to estimate the impact, if any, that SFAS 142 may have on recorded goodwill. The impairment, if any, will be recognized as a cumulative effect of a change in accounting principle and will be recorded in the first interim reporting period of 2002. The adoption of SFAS 142 did not significantly impact the Company's accounting for currently recorded intangible assets, primarily core deposit intangibles.

On October 3, 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses financial accounting and



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reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," it retains many of the fundamental provisions of that Statement. The Statement is effective for fiscal years beginning after December 15, 2001. The initial adoption of SFAS No. 144 did not have a significant impact on the Company's financial statements.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 requires an enterprise to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets. The Company is required to adopt the provisions of SFAS No. 143 for fiscal years beginning after June 15, 2002. The Company does not anticipate that SFAS No. 143 will significantly impact the Company's consolidated financial statements.

Note 5. Loans Receivable, Net  
-----

Loans receivable, net at March 31, 2002 and December 31, 2001 consisted of the following (in thousands):

|   | March 31, 2002<br>----- | December 31, 2001<br>----- |
|---|-------------------------|----------------------------|
| Real estate:                                  |                         |                            |
| One- to four-family                           | \$ 1,090,897            | \$                         |
| Commercial real estate, multi-family and land | 116,786                 |                            |
| Construction                                  | 8,366                   |                            |
| Consumer                                      | 68,340                  |                            |
| Commercial                                    | 51,411                  |                            |
|   | -----                   | -----                      |
| Total loans                                   | 1,335,800               |                            |
|   |                         |                            |
| Loans in process                              | (2,004)                 |                            |
| Deferred origination costs, net               | 1,495                   |                            |
| Unearned (discount) premium                   | (2)                     |                            |
| Allowance for loan losses                     | (8,476)                 |                            |
|   | -----                   | -----                      |
| Total loans, net                              | 1,326,813               |                            |
|   |                         |                            |
| Less: mortgage loans held for sale            | 73,473                  |                            |
|   | -----                   | -----                      |
| Loans receivable, net                         | \$ 1,253,340            | \$                         |
|   | =====                   | =====                      |

Note 6. Deposits  
-----

The major types of deposits at March 31, 2002 and December 31, 2001 were as

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follows (in thousands):

| Type of Account      | March 31, 2002 | December 31, 2001 |
|----------------------|----------------|-------------------|
| Non-interest bearing | \$ 76,140      | \$ 73,799         |
| NOW                  | 223,663        | 212,328           |
| Money market deposit | 86,219         | 78,903            |
| Savings              | 207,674        | 196,879           |
| Time deposits        | 520,334        | 547,134           |
|                      | \$1,114,030    | \$1,109,043       |

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

#### Financial Condition

Total assets at March 31, 2002 were \$1.722 billion, a decrease of \$41.2 million, compared to \$1.764 billion at December 31, 2001.

Loans receivable, net and mortgage loans held for sale together decreased by \$11.9 million to a balance of \$1.327 billion at March 31, 2002, compared to a balance of \$1.339 billion at December 31, 2001 as the Bank actively sold 30-year fixed-rate mortgage loans during the quarter.

Proceeds from the loan sales and the cash flow from mortgage-backed securities were used to reduce total borrowings (Federal Home Loan Bank advances and securities sold under agreements to repurchase) which declined by \$35.0 million, to \$449.3 million at March 31, 2002 from \$484.3 million at December 31, 2001. The sale of 30-year fixed-rate mortgage loans and the reduction in the total borrowings reduces the Company's interest rate risk exposure and better positions the Bank for the higher rate environment expected in the second half of 2002.

Deposit balances increased \$5.0 million to \$1.114 billion at March 31, 2002 from \$1.109 billion at December 31, 2001. Although overall deposit growth was modest, core deposit categories, a key emphasis for the Company, increased by \$31.8 million as time deposits declined.

Stockholder's equity at March 31, 2002 decreased to \$143.3 million, compared to \$146.7 million at December 31, 2001 due to the first quarter execution of the Company's ninth stock repurchase program. The Company repurchased 312,600 shares of common stock during the three months ended March 31, 2002 at a total cost of \$5.9 million. Under the 10% repurchase program authorized by the Board of Directors July 19, 2001, 471,564 shares remain to be purchased as of March 31, 2002.

#### Results of Operations

##### General

Net income increased to \$5.0 million for the three months ended March 31, 2002, as compared to net income of \$4.0 million for the three months ended March 31, 2001, while diluted earnings per share increased to \$.36 for the three months ended March 31, 2002, as compared to \$.26 for the same prior year period. Earnings per share is favorably affected by the Company's repurchase program, which reduced the number of shares outstanding.

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### Interest Income

Interest income for the three months ended March 31, 2002 was \$28.4 million compared to \$29.3 million for the three months ended March 31, 2001. The decrease in interest income was due to a decline in the yield on interest-earning assets to 6.82% for the three months ended March 31, 2002, as compared to 7.54%, for the same prior year period. Despite the decline, which was reflective of the general interest rate environment, the asset yield 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 months ended March 31, 2002 loans receivable represented 80.7% of average interest-earning assets as compared to 75.4%, for the same prior year period. The decline in the yield on interest-earning

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assets was partly offset by an increase in average interest-earning assets of \$112.3 million for the three months ended March 31, 2002, as compared to the same prior year period.

### Interest Expense

Interest expense for the three months ended March 31, 2002 was \$12.7 million compared to \$16.6 million for the three months ended March 31, 2001. The decrease in interest expense was primarily the result of a decrease in the cost of interest-bearing liabilities to 3.36% for the three months ended March 31, 2002, as compared to 4.70% in 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 52.6% of average deposits for the three months ended March 31, 2002, as compared to 41.8%, for the same prior year period. The decline in funding costs was partly offset by an increase in average interest-bearing liabilities which rose by \$110.1 million for the three months ended March 31, 2002, as compared to the same prior year period.

### Provision for Loan Losses

For the three months ended March 31, 2002, the Company's provision for loan losses was \$500,000, as compared to \$255,000 for the same prior year period. The increase was due to the deterioration and charge-off during the quarter of the Bank's one non-performing commercial loan.

### Other Income

Other income was \$2.4 million for the three months ended March 31, 2002, compared to \$2.8 million for the same prior year period. For the three months ended March 31, 2002 the Company recorded a gain of \$394,000 on the sale of loans, as compared to a gain of \$1.1 million in the same prior year period.

Excluding the respective net gains on the sale of loans, other income increased by \$310,000, or 18.0%, for the three months ended March 31, 2002, as compared to the same prior year period. Fees and service charges increased due to the growth in commercial account services, retail core account balances and trust fees. These gains were partly offset by a \$112,000 reduction in loan servicing fee income due to higher prepayment speeds.

### Operating Expenses

Operating expenses were \$9.9 million for the three months ended March 31, 2002,

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as compared to \$9.1 million in the same prior year period. The increase was principally due to the costs associated with the opening and operation of the Bank's sixteenth branch office in September 2001, as well as higher loan related expenses. Compensation expense benefited from the elimination, in February 2002, of the amortization expense relating to the stock awards granted under the 1997 Incentive Plan, a cost savings of \$322,000 for the three months ended March 31, 2002 as compared to the same prior year period. This savings was partly offset by a \$92,000 increase in ESOP expense due to the higher average market price for OCFC shares during the first quarter of 2002 as compared to the same prior year quarter.

### Provision for Income Taxes

Income tax expense was \$2.7 million for the three months ended March 31, 2002 compared to \$2.1 for the same prior year period. The effective tax rate was essentially unchanged at 34.6% for the three months ended March 31, 2002 as compared to 34.7% for the same prior year period.

### Liquidity and Capital Resources

The Company's primary sources of funds are deposits, principal and interest payments on loans 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 March 31, 2002, the Company had \$31.2 million of outstanding overnight borrowings from the FHLB, a decrease from \$80.0 million at December 31, 2001. The Company utilizes the overnight line from time to time to fund short-term liquidity needs. The Company also had other borrowings of \$418.1 million at March 31, 2002, an increase from \$404.3 million at December 31, 2001. These borrowings were used to fund a wholesale leverage strategy designed to improve returns on invested capital.

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The Company's cash needs for the three months ended March 31, 2002, were primarily provided by principal payments on loans and mortgage-backed securities, maturities of investment securities and proceeds from the sale of mortgage loans held for sale. The cash was principally utilized for loan originations, a reduction in total borrowings and the purchase of treasury stock. For the three months ended March 31, 2001, 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 March 31, 2002, the Bank exceeded all of its regulatory capital requirements with tangible capital of \$124.3 million, or 7.2%, of total adjusted assets, which is above the required level of \$25.8 million or 1.5%; core capital of \$124.3 million or 7.2% of total adjusted assets, which is above the required level of \$51.6 million, or 3.0%; and risk-based capital of \$132.4 million, or 12.7% of risk-weighted assets, which is above the required level of \$83.3 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

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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.

|   | March 31,<br>2002 | December 31,<br>2001 |
|---|-------------------|----------------------|
| -----   |                   |                      |
| (dollars in thousands)  |                   |                      |
| Non-accrual loans:  |                   |                      |
| Real estate:  |                   |                      |
| One-to four-family  | \$ 3,613          | \$ 3,661             |
| Commercial real estate,<br>multi-family and land                      | -                 | -                    |
| Consumer  | 165               | 151                  |
| Commercial  | -                 | 2,368                |
|   | -----             | -----                |
| Total   | 3,778             | 6,180                |
| REO, net  | 181               | 133                  |
|   | -----             | -----                |
| Total non-performing assets   | \$ 3,959          | \$ 6,313             |
|   | =====             | =====                |
| <br>  |                   |                      |
| Non-performing loans as a percent of total<br>loans receivable        | .28%              | .46%                 |
| Non-performing assets as a percent of total<br>assets                 | .23               | .36                  |
| Allowance for loan losses as a percent of<br>total loans receivable   | .63               | .77                  |
| Allowance for loan losses as percent of<br>total non-performing loans | 224.35            | 167.49               |

The decrease in non-performing loans is primarily due to the first quarter charge-off of the Bank's one non-performing commercial loan with an outstanding balance of \$2.4 million. The loan is 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. The creditor filed for bankruptcy protection in March 2002 and an orderly asset liquidation appears less likely. Any future recovery of principal would increase the Bank's allowance for loan losses.

### 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

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Bank's loan and investment portfolios, changes in accounting principles, policies or guidelines, and other economic, competitive, governmental and technological factors, and the effects of war or terrorism activities 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 2001 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 March 31, 2002 was a flat 0.0% as compared to negative 6.7% at December 31, 2001. 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 March 31, 2002 and December 31, 2001. 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, 2001.

At March 31, 2002 passbook, NOW and Money Market accounts ("core deposits") were assumed to decay, or runoff, at 1.75% per month as compared to an assumed decay rate of 2.78% per month at December 31, 2001. The slower decay rate was partly responsible for reducing the Company's negative gap, increasing NPV in a static rate environment and reducing interest rate sensitivity in a shocked interest rate environment. The increase in core deposits and the decline in time deposits from December 31, 2001 to March 31, 2002 also contributed to this trend. Additionally, the results were similarly affected by the Bank's sale of 30-year fixed-rate mortgage loans during the quarter. The proceeds from these sales were used to reduce overnight borrowings which declined by \$48.8 million from December 31, 2001 to March 31, 2002.

|   | March 31, 2002      |          |                     |          |                     |           | Dec 31, 2001        |           |          |
|---|---------------------|----------|---------------------|----------|---------------------|-----------|---------------------|-----------|----------|
|   | 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            | Amount    | % Change |
| (dollars in thousands)                                |                     |          |                     |          |                     |           |                     |           |          |
| 200   | \$142,173           | (18.0)%  | 8.7%                | \$57,059 | (3.1)%              | \$118,006 | (22.1)%             | \$118,006 | (22.1)%  |
| 100   | 161,853             | (6.7)    | 9.6                 | 58,668   | (0.4)               | 141,155   | (6.8)               | 141,155   | (6.8)    |
| Static  | 173,438             | -        | 10.0                | 58,900   | -                   | 151,507   | -                   | 151,507   | -        |
| (100)   | 171,468             | (1.1)    | 9.7                 | 58,374   | (0.9)               | 154,728   | 2.1                 | 154,728   | 2.1      |
| (200)   | 161,753             | (6.7)    | 9.1                 | 56,058   | (4.8)               | 153,274   | 1.2                 | 153,274   | 1.2      |

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### PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings

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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

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Not Applicable

#### Item 3. Defaults Upon Senior Securities

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Not Applicable

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

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The annual meeting of stockholders was held on April 18, 2002. The following directors were elected for terms of three years: Thomas F. Curtin, John R. Garbarino and Frederick E. Schlosser. The following proposals were voted on by the stockholders:

| Proposal  | For       | Against | Withheld/<br>Abstain |
|---|-----------|---------|----------------------|
|   |           |         |                      |
| 1) Election of Directors:   |           |         |                      |
| Thomas F. Curtin  | 7,472,000 | -       | 25,542               |
| John R. Garbarino   | 7,470,835 | -       | 26,707               |
| Frederick E. Schlosser  | 7,466,204 | -       | 31,338               |
| 2) Ratification of KPMG LLP<br>as independent auditors for the<br>Company for the year ending<br>December 31, 2002. | 7,479,953 | 10,835  | 6,754                |

#### Item 5. Other Information

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Not Applicable

#### Item 6. Exhibits and Reports on Form 8-K

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a) Exhibits:

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- 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 March 31, 2002.

\* 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.

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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.

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Registrant

DATE: May 13, 2002

/s/ John R. Garbarino

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

DATE: May 13, 2002

/s/ Michael Fitzpatrick

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Michael Fitzpatrick  
Executive Vice President and  
Chief Financial Officer

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