

OCEANFIRST FINANCIAL CORP

Form 10-Q

November 09, 2009

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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 September 30, 2009

“ 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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

22-3412577
(I.R.S. Employer Identification No.)

975 Hooper Avenue, Toms River, NJ
(Address of principal executive offices)

08754-2009
(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 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

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

As of November 4, 2009, there were 17,988,556 shares of the Registrant's Common Stock, par value \$.01 per share, outstanding.

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OceanFirst Financial Corp.

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Table of Contents**OceanFirst Financial Corp.****Consolidated Statements of Financial Condition**

(dollars in thousands, except per share amounts)

	September 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Cash and due from banks	\$ 21,767	\$ 18,475
Investment securities available for sale	34,547	34,364
Federal Home Loan Bank of New York stock, at cost	14,878	20,910
Mortgage-backed securities available for sale	83,001	40,801
Loans receivable, net	1,622,531	1,648,378
Mortgage loans held for sale	4,960	3,903
Interest and dividends receivable	6,412	6,298
Real estate owned, net	1,204	1,141
Premises and equipment, net	21,226	21,336
Servicing asset	6,750	7,229
Bank Owned Life Insurance	39,768	39,135
Other assets	15,959	15,976
Total assets	\$ 1,873,003	\$ 1,857,946
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	\$ 1,357,909	\$ 1,274,132
Securities sold under agreements to repurchase with retail customers	72,996	62,422
Federal Home Loan Bank advances	230,500	359,900
Other borrowings	27,500	27,500
Advances by borrowers for taxes and insurance	7,823	7,581
Other liabilities	10,103	6,628
Total liabilities	1,706,831	1,738,163
Stockholders' equity:		
Preferred stock, \$.01 par value, \$1,000 liquidation preference, 5,000,000 shares authorized, 38,263 shares issued at September 30, 2009	37,345	
Common stock, \$.01 par value, 55,000,000 shares authorized, 27,177,372 shares issued and 12,432,556 and 12,364,573 shares outstanding at September 30, 2009 and December 31, 2008, respectively	272	272
Additional paid-in capital	205,565	204,298
Retained earnings	163,487	160,267
Accumulated other comprehensive loss	(11,184)	(14,462)
Less: Unallocated common stock held by Employee Stock Ownership Plan	(4,849)	(5,069)
Treasury stock, 14,744,816 and 14,812,799 shares at September 30, 2009 and December 31, 2008, respectively	(224,464)	(225,523)
Common stock acquired by Deferred Compensation Plan	981	981
Deferred Compensation Plan liability	(981)	(981)
Total stockholders' equity	166,172	119,783

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Total liabilities and stockholders' equity	\$ 1,873,003	\$ 1,857,946
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See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents**OceanFirst Financial Corp.****Consolidated Statements of Income**

(in thousands, except per share amounts)

	For the three months ended September 30, 2009 2008 (Unaudited)		For the nine months ended September 30, 2009 2008 (Unaudited)	
Interest income:				
Loans	\$ 22,618	\$ 23,821	\$ 68,581	\$ 72,926
Mortgage-backed securities	817	525	2,458	1,710
Investment securities and other	406	888	1,408	3,787
Total interest income	23,841	25,234	72,447	78,423
Interest expense:				
Deposits	4,263	6,256	14,136	20,827
Borrowed funds	2,876	4,348	9,794	14,469
Total interest expense	7,139	10,604	23,930	35,296
Net interest income	16,702	14,630	48,517	43,127
Provision for loan losses	1,500	400	3,500	1,175
Net interest income after provision for loan losses	15,202	14,230	45,017	41,952
Other income:				
Loan servicing income (loss)	119	121	(102)	293
Fees and service charges	2,700	2,625	7,804	8,292
Net gain on sales of loans and securities available for sale	1,094	466	3,119	344
Net gain from other real estate operations	67	79	71	97
Income from Bank Owned Life Insurance	202	314	634	957
Other	363	2	368	13
Total other income	4,545	3,607	11,894	9,996
Operating expenses:				
Compensation and employee benefits	6,216	6,166	17,781	17,907
Occupancy	1,398	1,548	4,687	3,943
Equipment	478	468	1,428	1,433
Marketing	467	452	1,171	1,298
Federal deposit insurance	605	301	2,512	952
Data processing	812	779	2,506	2,375
Legal	236	683	1,086	1,754
Check card processing	287	276	792	775
Accounting and audit	135	193	466	742
General and administrative	1,719	1,397	4,948	4,086
Total operating expenses	12,353	12,263	37,377	35,265

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Income before provision for income taxes	7,394	5,574	19,534	16,683
Provision for income taxes	2,860	1,852	7,448	5,420
Net income	4,534	3,722	12,086	11,263
Dividends on preferred stock and warrant accretion	537		1,539	
Net income available to common stockholders	\$ 3,997	\$ 3,722	\$ 10,547	\$ 11,263
Basic earnings per share	\$ 0.34	\$ 0.32	\$ 0.90	\$ 0.97
Diluted earnings per share	\$ 0.34	\$ 0.32	\$ 0.90	\$ 0.96
Average basic shares outstanding	11,724	11,678	11,710	11,661
Average diluted shares outstanding	11,772	11,751	11,758	11,722

See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents**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, 2007	\$	\$ 272	\$ 203,532	\$ 154,929	\$ (3,211)	\$ (5,360)	\$ (225,856)	\$ 1,307	\$ (1,307)	\$ 124,306
Comprehensive income:										
Net income				11,263						11,263
Other comprehensive loss:										
Unrealized loss on securities (net of tax benefit \$3,277)					(6,085)					(6,085)
Reclassification adjustment for losses included in net income (net of tax benefit \$316)					586					586
Total comprehensive income										5,764
Stock awards			431							431
Treasury stock allocated to restricted stock plan			(172)	(24)			196			
Allocation of ESOP stock						219				219
ESOP adjustment			249							249
Cash dividend - \$0.60 per share				(7,025)						(7,025)
Exercise of stock options				(36)			137			101
Sale of stock for the deferred compensation plan								(325)	325	
Balance at September 30, 2008	\$	\$ 272	\$ 204,040	\$ 159,107	\$ (8,710)	\$ (5,141)	\$ (225,523)	\$ 982	\$ (982)	\$ 124,045
	\$	\$ 272	\$ 204,298	\$ 160,267	\$ (14,462)	\$ (5,069)	\$ (225,523)	\$ 981	\$ (981)	\$ 119,783

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Balance at
December 31, 2008

Comprehensive income:											
Net income											12,086
Other comprehensive income											
Unrealized gain on securities (net of tax expense \$2,264)											3,278
Total comprehensive income											15,364
Proceeds from issuance of preferred stock and warrants											
	36,921		1,342								38,263
Accretion of discount on preferred stock											
	179			(179)							
Treasury stock allocated to restricted stock plan											
			(695)		(221)			916			
Stock awards											
			524								524
Allocation of ESOP stock											
							220				220
ESOP adjustment											
			96								96
Cash dividend - \$0.60 per share											
					(7,061)						(7,061)
Cash dividend on preferred stock											
	245				(1,355)						(1,110)
Exercise of stock options											
				(50)				143			93
Balance at September 30, 2009											
	\$ 37,345	\$ 272	\$ 205,565	\$ 163,487	\$ (11,184)	\$ (4,849)	\$ (224,464)	\$ 981	\$ (981)	\$ 166,172	

See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents**OceanFirst Financial Corp.****Consolidated Statements of Cash Flows**

(dollars in thousands)

	For the nine months ended September 30, 2009 2008 (Unaudited)	
Cash flows from operating activities:		
Net income	\$ 12,086	\$ 11,263
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	1,469	1,276
Amortization of ESOP	220	219
ESOP adjustment	96	249
Stock awards	524	431
Amortization and impairment of servicing asset	1,856	1,590
Net premium amortization in excess of discount accretion on securities	429	32
Net amortization of deferred costs and discounts on loans	705	727
Provision for loan losses	3,500	1,175
Net gain on sale of real estate owned	(166)	(164)
Recovery from reserve for repurchased loans	(245)	(211)
Net gain on sales of loans and securities	(2,874)	(133)
Net loss on sale of fixed assets	6	
Proceeds from sales of mortgage loans held for sale	194,302	79,220
Mortgage loans originated for sale	(193,858)	(76,582)
Increase in value of Bank Owned Life Insurance	(633)	(957)
(Increase) decrease in interest and dividends receivable	(114)	19
Increase in other assets	(878)	(929)
Increase in other liabilities	3,720	1,405
Total adjustments	8,059	7,367
Net cash provided by operating activities	20,145	18,630
Cash flows from investing activities:		
Net decrease in loans receivable	20,675	25,520
Loans repurchased		(968)
Proceeds from maturities or calls of investment securities available for sale	150	300
Proceeds from sale of investment securities available for sale	1,823	3,122
Purchases of investment securities available for sale		(937)
Purchases of mortgage-backed securities available for sale	(59,468)	
Principal payments on mortgage-backed securities available for sale	18,852	11,089
Decrease in Federal Home Loan Bank of New York stock	6,032	3,811
Proceeds from sales of real estate owned	1,402	1,089
Real estate owned acquired	(332)	
Purchases of premises and equipment	(1,365)	(4,382)
Net cash (used in) provided by investing activities	(12,231)	38,644

Continued

Table of Contents**OceanFirst Financial Corp.****Consolidated Statements of Cash Flows (Continued)**

(dollars in thousands)

	For the nine months ended September 30, 2009 2008 (Unaudited)	
Cash flows from financing activities:		
Increase in deposits	\$ 83,777	\$ 31,958
Decrease in short-term borrowings	(48,826)	(37,625)
Repayments of securities sold under agreements to repurchase with the Federal Home Loan Bank		(12,000)
Proceeds from Federal Home Loan Bank advances	28,000	57,000
Repayments of Federal Home Loan Bank advances	(98,000)	(91,000)
Increase in advances by borrowers for taxes and insurance	242	500
Exercise of stock options	93	101
Dividends paid - common stock	(7,061)	(7,025)
Dividends paid - preferred stock	(1,110)	
Proceeds from issuance of preferred stock and warrant	38,263	
 Net cash used in financing activities	 (4,622)	 (58,091)
 Net increase (decrease) in cash and due from banks	 3,292	 (817)
Cash and due from banks at beginning of period	18,475	27,547
 Cash and due from banks at end of period	 \$ 21,767	 \$ 26,730
 Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 24,449	\$ 35,718
Income taxes	6,868	4,529
Non cash activities:		
Transfer of loans receivable to real estate owned	967	1,141

See accompanying Notes to Unaudited Consolidated Financial Statements.

Table of Contents**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 and nine months ended September 30, 2009 are not necessarily indicative of the results of operations that may be expected for all of 2009.

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, 2008.

Earnings per Share

The following reconciles shares outstanding for basic and diluted earnings per share for the three and nine months ended September 30, 2009 and 2008 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Weighted average shares issued net of Treasury shares	12,387	12,365	12,374	12,359
Less: Unallocated ESOP shares	(579)	(614)	(588)	(623)
Unallocated incentive award shares and shares held by deferred compensation plan	(84)	(73)	(76)	(75)
Average basic shares outstanding	11,724	11,678	11,710	11,661
Add: Effect of dilutive securities:				
Stock options	1	27	1	12
Incentive awards and shares held by deferred compensation plan	47	46	47	49
Average diluted shares outstanding	11,772	11,751	11,758	11,722

For the three months ended September 30, 2009 and 2008, 1,639,000 and 1,200,000, respectively, antidilutive stock options were excluded from earnings per share calculations. For the nine months ended September 30, 2009 and 2008, 1,623,000 and 1,267,000, respectively, antidilutive stock options were excluded from earnings per share calculations.

Comprehensive Income

For the three month periods ended September 30, 2009 and 2008, total comprehensive income, representing net income plus or minus the change in unrealized gains or losses on securities available for sale amounted to \$6,706,000 and \$1,685,000, respectively. For the nine month periods ended September 30, 2009 and 2008, total comprehensive income amounted to \$15,364,000 and \$5,764,000, respectively.

Note 2. Acquisition

On May 27, 2009, the Company announced the signing of an agreement and plan of merger with Central Jersey Bancorp (Central Jersey), pursuant to which Central Jersey will merge with and into the Company in an all stock transaction. Under the terms of the agreement, Central

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Jersey common stockholders will receive 0.50 shares of the Company's common stock for each common share of Central Jersey. On October 1, 2009, the shareholders of each of the Company and Central Jersey approved the agreement and plan of merger by the requisite number of votes. The Company expects to consummate the transaction by year-end subject to customary closing conditions, including regulatory approval.

Table of Contents**Note 3. Investment Securities Available for Sale**

The amortized cost and estimated market value of investment securities available for sale at September 30, 2009 and December 31, 2008 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
September 30, 2009				
U.S. agency obligations	\$ 301	\$ 7	\$	\$ 308
Corporate debt securities	55,000		(21,017)	33,983
Equity investments	370		(114)	256
	\$ 55,671	\$ 7	\$ (21,131)	\$ 34,547

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
December 31, 2008				
U.S. agency obligations	\$ 302	\$ 12	\$	\$ 314
State and municipal obligations	150			150
Corporate debt securities	55,000		(23,314)	31,686
Equity investments	2,196	25	(7)	2,214
	\$ 57,648	\$ 37	\$ (23,321)	\$ 34,364

There were no realized gains on the sale of investment securities available for sale for the three and nine months ended September 30, 2009. For the three and nine months ended September 30, 2008, the Company realized gains on the sale of investment securities available for sale of \$117,000 and \$239,000, respectively. For the nine months ended September 30, 2009 and September 30, 2008, the Company realized losses on the sale of investment securities available for sale of \$4,000 and \$1,141,000, respectively.

The amortized cost and estimated market value of investment securities available for sale, excluding equity investments, at September 30, 2009 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 September 30, 2009, investment securities available for sale with an amortized cost and estimated market value of \$55.0 million and \$34.0 million, respectively, were callable prior to the maturity date.

	Amortized Cost	Estimated Market Value
September 30, 2009		
Less than one year	\$ 301	\$ 308
Due after one year through five years		
Due after five years through ten years		
Due after ten years	55,000	33,983
	\$ 55,301	\$ 34,291

The estimated market value and unrealized loss for investment securities available for sale at September 30, 2009 and December 31, 2008 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
September 30, 2009						
Corporate debt securities	\$	\$	\$ 33,983	\$ (21,017)	\$ 33,983	\$ (21,017)
Equity investments	256	(114)			256	(114)
	\$ 256	\$ (114)	\$ 33,983	\$ (21,017)	\$ 34,239	\$ (21,131)

	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, 2008						
Corporate debt securities	\$	\$	\$ 31,686	\$ (23,314)	\$ 31,686	\$ (23,314)
Equity investments	1,819	(7)			1,819	(7)
	\$ 1,819	\$ (7)	\$ 31,686	\$ (23,314)	\$ 33,505	\$ (23,321)

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At September 30, 2009 the market value of each corporate debt security was below cost. The portfolio consisted of eleven \$5.0 million issues spread between eight issuers. The corporate debt securities are issued by other financial institutions. During 2009, six of the issues, totaling \$30.0 million, experienced credit rating downgrades to below investment grade status. Irrespective of the downgrades, all eleven of the issues were considered well-capitalized and continue to make interest payments under the terms of the debt securities. No interest payments have been deferred. Based upon management's analysis, the financial institutions have the ability to meet debt service requirements for the foreseeable future. These floating rate securities were purchased during the period May 1998 to September 1998 and have paid coupon interest continuously since issuance. Floating rate 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. In addition, the market for these types of securities has become increasingly illiquid and volatile. 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. As a result, the Company concluded that these available for sale securities were only temporarily impaired at September 30, 2009.

Note 4. Mortgage-Backed Securities Available for Sale

The amortized cost and estimated market value of mortgage-backed securities available for sale at September 30, 2009 and December 31, 2008 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
<u>September 30, 2009</u>				
FHLMC	\$ 13,468	\$ 413	\$ (1)	\$ 13,880
FNMA	66,098	1,659	(2)	67,755
GNMA	1,218	148		1,366
	\$ 80,784	\$ 2,220	\$ (3)	\$ 83,001

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
<u>December 31, 2008</u>				
FHLMC	\$ 9,593	\$ 114	\$ (20)	\$ 9,687
FNMA	29,597	171	(139)	29,629
GNMA	1,407	78		1,485