

OCEANFIRST FINANCIAL CORP
Form 10-Q
May 10, 2006
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2006

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
(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 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

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

Edgar Filing: OCEANFIRST FINANCIAL CORP - Form 10-Q

YES NO .

As of May 2, 2006, there were 12,515,878 shares of the Registrant's Common Stock, par value \$.01 per share, outstanding.

Table of Contents

OceanFirst Financial Corp.

INDEX TO FORM 10-Q

	PAGE
PART I. FINANCIAL INFORMATION	
Item 1. Consolidated Financial Statements (Unaudited)	
<u>Consolidated Statements of Financial Condition as of March 31, 2006 and December 31, 2005</u>	1
<u>Consolidated Statements of Income for the three months ended March 31, 2006 and 2005</u>	2
<u>Consolidated Statements of Changes in Stockholders' Equity for the three months ended March 31, 2006 and 2005</u>	3
<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2006 and 2005</u>	4
<u>Notes to Unaudited Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	9
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	15
Item 4. <u>Controls and Procedures</u>	17
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	17
Item 1A. <u>Risk Factors</u>	17
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	18
Item 3. <u>Defaults Upon Senior Securities</u>	18
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	18
Item 5. <u>Other Information</u>	19
Item 6. <u>Exhibits</u>	19
<u>Signatures</u>	19

Table of Contents**OceanFirst Financial Corp.****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

(dollars in thousands, except per share amounts)

	March 31, 2006 (Unaudited)	December 31, 2005
ASSETS		
Cash and due from banks	\$ 24,010	\$ 31,108
Investment securities available for sale	83,978	83,861
Federal Home Loan Bank of New York stock, at cost	22,279	21,792
Mortgage-backed securities available for sale	80,333	85,025
Loans receivable, net	1,688,525	1,654,544
Mortgage loans held for sale	31,031	32,044
Interest and dividends receivable	7,374	7,089
Real estate owned, net	245	278
Premises and equipment, net	16,345	16,118
Servicing asset	9,578	9,730
Bank Owned Life Insurance	36,271	36,002
Intangible Assets	1,246	1,272
Other assets	7,282	6,494
Total assets	\$ 2,008,497	\$ 1,985,357
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits	\$ 1,372,928	\$ 1,356,568
Securities sold under agreements to repurchase with retail customers	50,972	54,289
Securities sold under agreements to repurchase with the Federal Home Loan Bank	44,000	59,000
Federal Home Loan Bank advances	380,000	354,900
Subordinated debenture and other borrowings	5,800	5,000
Advances by borrowers for taxes and insurance	8,868	7,699
Other liabilities	10,093	9,117
Total liabilities	1,872,661	1,846,573
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, 27,177,372 shares issued and 12,494,153 and 12,698,505 shares outstanding at March 31, 2006 and December 31, 2005, respectively	272	272
Additional paid-in capital	198,439	197,621
Retained earnings	166,139	164,613
Accumulated other comprehensive loss	(1,476)	(1,223)
Less: Unallocated common stock held by Employee Stock Ownership Plan	(7,196)	(7,472)
Treasury stock, 14,683,219 and 14,478,867 shares at March 31, 2006 and December 31, 2005, respectively	(220,342)	(215,027)
Common stock acquired by Deferred Compensation Plan	1,495	1,383
Deferred Compensation Plan Liability	(1,495)	(1,383)
Total stockholders equity	135,836	138,784
Total liabilities and stockholders equity	\$ 2,008,497	\$ 1,985,357

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 March 31, 2006 2005 (Unaudited)	
Interest income:		
Loans	\$ 25,019	\$ 21,773
Mortgage-backed securities	874	1,094
Investment securities and other	1,893	1,454
Total interest income	27,786	24,321
Interest expense:		
Deposits	7,080	4,692
Borrowed funds	5,289	4,452
Total interest expense	12,369	9,144
Net interest income	15,417	15,177
Provision for loan losses	50	50
Net interest income after provision for loan losses	15,367	15,127
Other income:		
Loan servicing income	126	41
Fees and service charges	2,347	2,182
Net gain on sales of loans and securities available for sale	1,680	3,340
Income from Bank Owned Life Insurance	268	273
Other	6	37
Total other income	4,427	5,873
Operating expenses:		
Compensation and employee benefits	7,378	7,529
Occupancy	1,184	1,069
Equipment	626	634
Marketing	307	698
Federal deposit insurance	134	125
Data processing	906	783
General and administrative	2,641	2,531
Total operating expenses	13,176	13,369
Income before provision for income taxes	6,618	7,631
Provision for income taxes	2,304	2,685
Net income	\$ 4,314	\$ 4,946

Edgar Filing: OCEANFIRST FINANCIAL CORP - Form 10-Q

Basic earnings per share	\$ 0.37	\$ 0.41
Diluted earnings per share	\$ 0.36	\$ 0.40
Average basic shares outstanding	11,721	11,971
Average diluted shares outstanding	12,107	12,468

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)

	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, 2004	\$ 272	\$ 193,723	\$ 157,575	\$ (667)	\$ (8,652)	\$ (204,295)	\$ 986	\$ (986)	\$ 137,956
Comprehensive income:									
Net income			4,946						4,946
Other comprehensive income:									
Unrealized loss on securities (net of tax benefit \$607)				(880)					(880)
Total comprehensive income									4,066
Stock award		23							23
Tax benefit of stock plans		387							387
Purchase 302,113 shares of common stock						(7,148)			(7,148)
Allocation of ESOP stock					295				295
ESOP adjustment		527							527
Cash dividend - \$.20 per share			(2,414)						(2,414)
Exercise of stock options			(653)			1,605			952
Purchase of stock for the deferred compensation plan							355	(355)	
Balance at March 31, 2005	\$ 272	\$ 194,660	\$ 159,454	\$ (1,547)	\$ (8,357)	\$ (209,838)	\$ 1,341	\$ (1,341)	\$ 134,644
Balance at December 31, 2005	\$ 272	\$ 197,621	\$ 164,613	\$ (1,223)	\$ (7,472)	\$ (215,027)	\$ 1,383	\$ (1,383)	\$ 138,784
Comprehensive income:									
Net income			4,314						4,314
Other comprehensive income:									
Unrealized loss on securities (net of tax benefit \$174)				(253)					(253)
Total comprehensive income									4,061
Stock award		29							29
Tax benefit of stock plans		293							293
Purchase 276,298 shares of common stock						(6,515)			(6,515)
Allocation of ESOP stock					276				276

Edgar Filing: OCEANFIRST FINANCIAL CORP - Form 10-Q

ESOP adjustment		496							496
Cash dividend - \$.20 per share		(2,338)							(2,338)
Exercise of stock options		(450)		1,200					750
Purchase of stock for the deferred compensation plan						112		(112)	
Balance at March 31, 2006	\$ 272	\$ 198,439	\$ 166,139	\$ (1,476)	\$ (7,196)	\$ (220,342)	\$ 1,495	\$ (1,495)	\$ 135,836

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

(dollars in thousands)

	For the three months ended March 31, 2006 2005 (Unaudited)	
Cash flows from operating activities:		
Net income	\$ 4,314	\$ 4,946
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	510	514
Amortization of ESOP	276	295
ESOP adjustment	496	527
Tax benefit of stock plans	293	387
Stock award	29	23
Amortization of servicing asset	516	556
Amortization of intangible assets	26	26
Net premium amortization in excess of discount accretion on securities	78	237
Net amortization of deferred costs and discounts on loans	98	128
Provision for loan losses	50	50
Net gain on sale of fixed assets		(28)
Net gain on sales of loans and securities	(1,680)	(3,340)
Proceeds from sales of mortgage loans held for sale	97,710	163,899
Mortgage loans originated for sale	(95,388)	(138,205)
Increase in value of Bank Owned Life Insurance	(268)	(273)
Increase in interest and dividends receivable	(285)	(228)
Increase in other assets	(614)	(434)
Increase (decrease) in other liabilities	1,008	(21,577)
Total adjustments	2,855	2,557
Net cash provided by operating activities	7,169	7,503
Cash flows from investing activities:		
Net increase in loans receivable	(34,129)	(34,464)
Proceeds from sale of investment securities available for sale	437	
Proceeds from sale of mortgage-backed securities available for sale	6,242	
Purchase of investment securities available for sale	(748)	(2,043)
Purchase of mortgage-backed securities available for sale	(6,439)	
Proceeds from maturities of investment securities available for sale	200	
Principal payments on mortgage-backed securities available for sale	4,385	7,542
(Increase) decrease in Federal Home Loan Bank of New York stock	(487)	600
Proceeds from sale of fixed assets		49
Purchases of premises and equipment	(737)	(556)
Net cash used in investing activities	(31,276)	(28,872)

Continued

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

(dollars in thousands)

	For the three months ended March 31, 2006 2005 (Unaudited)	
Cash flows from financing activities:		
Increase in deposits	\$ 16,360	\$ 27,674
Increase in short-term borrowings	10,783	4,122
Repayments from securities sold under agreements to repurchase with the Federal Home Loan Bank		(5,000)
Proceeds from Federal Home Loan Bank advances	25,000	19,000
Repayments of Federal Home Loan Bank advances	(29,000)	(47,000)
Proceeds from subordinated debenture and other borrowings	800	
Increase in advances by borrowers for taxes and insurance	1,169	1,737
Exercise of stock options	750	952
Dividends paid	(2,338)	(2,414)
Purchase of treasury stock	(6,515)	(7,148)
 Net cash provided by (used in) financing activities	 17,009	 (8,077)
 Net decrease in cash and due from banks	 (7,098)	 (29,446)
Cash and due from banks at beginning of period	31,108	74,021
 Cash and due from banks at end of period	 \$ 24,010	 \$ 44,575
 Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 12,606	\$ 9,510
Income taxes	62	8,710

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, OceanFirst REIT Holdings, Inc. and OceanFirst 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, 2006 are not necessarily indicative of the results of operations that may be expected for all of 2006.

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, 2005.

Stock-Based Compensation

Prior to January 1, 2006, the Company accounted for stock-based compensation using the intrinsic value method under Accounting Principles Board Opinion No. 25 and accordingly recognized no compensation expense under this method. Effective January 1, 2006, the Company adopted Financial Accounting Standards Board Statement No. 123 (revised 2004) which requires an entity to recognize the grant-date fair-value of stock options and other equity-based compensation issued to employees in the income statement. The modified prospective transition method was adopted so that the current period income statement includes \$29,000 of expense for equity-based compensation, but prior periods have not been restated. At March 31, 2006 the Company had \$1.1 million in compensation cost related to non-vested awards not yet recognized. This cost will be recognized over the remaining vesting period of 4.9 years.

As a result of adopting Statement 123(R) on January 1, 2006, the Company's income before income taxes and net income for the three months ended March 31, 2006 are \$29,000 and \$19,000 lower, respectively, than if it had continued to account for share-based compensation under Opinion 25. Basic and diluted earnings per share for the three months ended March 31, 2006 would have been unchanged at \$.37 and \$.36, respectively, if the Company had not adopted Statement 123(R).

The fair value of stock options granted by the Company was estimated through the use of the Black-Scholes option pricing model applying the following assumptions:

	Three months ended March 31,	
	2006	2005
Risk-free interest rate	4.68%	3.94%
Expected option life	7 years	6 years
Expected volatility	22%	22%
Expected dividend yield	3.41%	3.39%
Weighted average fair value of an option share granted during the period	\$ 4.87	\$ 4.25
Intrinsic value of options exercised during the period	\$ 922,000	\$ 1,585,000

Table of Contents

Had the compensation costs for the Company's stock option plan for the three months ended March 31, 2005 been determined based on the fair value method, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share data):

	Three months ended March 31, 2005
Net income as reported	\$ 4,946
Stock-based compensation expense included in reported net income, net of related tax effects	15
Total stock-based compensation expense determined under the fair value based method, net of related tax effects	(184)
Net stock-based compensation expense not included in reported net income, all relating to stock option grants, net of related tax effects	(169)
Net income pro forma	\$ 4,777
Basic earnings per share:	
As reported	\$.41
Pro forma	\$.40
Diluted earnings per share:	
As reported	\$.40
Pro forma	\$.38

The Company has established the Amended and Restated OceanFirst Financial Corp. 1997 Incentive Plan (the "Incentive Plan") which authorizes the granting of stock options and awards of Common Stock and the OceanFirst Financial Corp. 2000 Stock Option Plan which authorizes the granting of stock options. On April 24, 2003 the Company's shareholders ratified an amendment of the OceanFirst Financial Corp. 2000 Stock Option Plan which increased the number of shares available under option. All officers, other employees and Outside Directors of the Company and its affiliates are eligible to receive awards under the plans.

Under the Incentive Plan and the Amended 2000 Stock Option Plan the Company is authorized to issue up to 4,153,564 shares subject to option. All options expire 10 years from the date of grant and generally vest at the rate of 20% per year. The exercise price of each option equals the market price of the Company's stock on the date of grant. The Company typically issues Treasury shares to satisfy stock option exercises.

A summary of option activity for the three months ended March 31, 2006 follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of period	1,732,410	\$ 16.90
Granted	244,800	23.48
Exercised	(74,986)	10.96
Forfeited	(7,000)	22.92
Outstanding at the end of the period	1,895,224	17.99

Edgar Filing: OCEANFIRST FINANCIAL CORP - Form 10-Q

Options exercisable

1,648,445

17.17

The following table summarizes information about stock options outstanding at March 31, 2006:

Number of Options	Options Outstanding			Number of Options	Options Exercisable		
	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
1,895,224	5.66 years	\$ 17.99	\$ 12,338,000	1,648,445	5.04 years	\$ 17.17	\$ 12,083,000

Table of Contents

Earnings per Share

The following reconciles shares outstanding for basic and diluted earnings per share for the three months ended March 31, 2006 and 2005 (in thousands):

**Three months ended
March 31,
2006**