

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)

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Delaware
(State or other jurisdiction of

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

incorporation or organization)

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 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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Table of Contents**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 |

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| | | |
|--|--------------|--------------|
| Total liabilities and stockholders' equity | \$ 2,199,233 | \$ 2,030,028 |
|--|--------------|--------------|

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, 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 |

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| | | |
|--|----------|----------|
| 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.

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, 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 |

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| | | | | | | | | | | |
|--|-------|--------|------------|------------|------------|------------|--------------|--------|----------|------------|
| 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.

Table of Contents**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) |

Continued

Table of Contents**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.

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 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):

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| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---------------------------------|-------------------|------------------------------|-------------------------------|------------------------------|
| <u>March 31, 2010</u> | | | | |
| 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) |
| December 31, 2009 | | | | | | |

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| | | | | | | |
|---------------------------|--------|-----|-----------|-------------|-------------|-------------|
| 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 |
| 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 |

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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) |

The mortgage-backed securities are issued and guaranteed by FNMA, a corporation which is chartered by the United States Government and whose debt obligations are typically rated AAA by one of the internationally-recognized credit rating services. FNMA has been under the conservatorship of the Federal Housing Financial Agency since September 8, 2008. The conservatorship has no specified termination date. Also, FNMA has entered into a Stock Purchase Agreement, which following the issuance of Senior Preferred Stock and Warrants to the United States Treasury, provides FNMA funding commitments from the United States Treasury. The Company considers the unrealized losses to be the result of changes in interest rates which over time can have both a positive and negative impact on the estimated market value of the mortgage-backed securities. Although these mortgage-backed securities are available for sale, the Company does not intend to sell these securities before recovery of their amortized cost. As a result, the Company concluded that these available for sale securities were only temporarily impaired at March 31, 2010.

Note 4. Loans Receivable, Net

Loans receivable, net at March 31, 2010 and December 31, 2009 consisted of the following (in thousands):

| | March 31, 2010 | December 31, 2009 |
|---|----------------|-------------------|
| Real estate: | | |
| One-to-four family | \$ 953,612 | \$ 954,736 |
| Commercial real estate, multi-family and land | 402,098 | 396,883 |
| Construction | 9,585 | 9,241 |
| Consumer | 215,115 | 217,290 |
| Commercial | 75,423 | 70,214 |
| Total loans | 1,655,833 | 1,648,364 |
| Loans in process | (3,262) | (3,466) |
| Deferred origination costs, net | 4,878 | 4,767 |
| Allowance for loan losses | (15,632) | (14,723) |

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| | | |
|------------------------------------|--------------|--------------|
| Total loans, net | 1,641,817 | 1,634,942 |
| Less: Mortgage loans held for sale | 1,668 | 5,658 |
| Loans receivable, net | \$ 1,640,149 | \$ 1,629,284 |

An analysis of the allowance for loan losses for the three months ended March 31, 2010 and 2009 is as follows (in thousands):

| | Three months ended | |
|---------------------------------|--------------------|-----------|
| | March 31, | |
| | 2010 | 2009 |
| Balance at beginning of period | \$ 14,723 | \$ 11,665 |
| Provision charged to operations | 2,200 | 800 |
| Charge-offs | (1,381) | (452) |
| Recoveries | 90 | 6 |
| Balance at end of period | \$ 15,632 | \$ 12,019 |

Table of Contents**Note 5. Reserve for Repurchased Loans**

An analysis of the reserve for repurchased loans for the three months ended March 31, 2010 and 2009 is as follows (in thousands). The reserve is included in other liabilities in the accompanying statements of financial condition.

| | Three months ended March 31, | |
|--------------------------------|---------------------------------|----------|
| | 2010 | 2009 |
| Balance at beginning of period | \$ 819 | \$ 1,143 |
| Recoveries | | (34) |
| Loss on loans repurchased | | |
| Balance at end of period | \$ 819 | \$ 1,109 |

The reserve for repurchased loans was established to provide for expected losses related to outstanding loan repurchase requests and additional repurchase requests which may be received on loans previously sold to investors. In establishing the reserve for repurchased loans, the Company considered all types of sold loans. At March 31, 2010, there is one outstanding loan repurchase request on a loan with a principal balance of \$236,000 which the Company is evaluating. There are also six claims from one loan investor totaling \$2.2 million that the Company believes are covered by a settlement agreement and release between Columbia and the loan investor executed in August 2007. The Company intends to vigorously contest these claims and believes there are valid defenses, including the settlement and release agreement.

Note 6. Deposits

The major types of deposits at March 31, 2010 and December 31, 2009 were as follows (in thousands):

| <u>Type of Account</u> | March 31, 2010 | December 31, 2009 |
|---------------------------|----------------|-------------------|
| Non-interest-bearing | \$ 117,562 | \$ 107,721 |
| Interest-bearing checking | 615,618 | 615,347 |
| Money market deposit | 100,086 | 96,886 |
| Savings | 243,970 | 232,081 |
| Time deposits | 303,872 | 312,164 |
| Total deposits | \$ 1,381,108 | \$ 1,364,199 |

Note 7. Recent Accounting Pronouncements

Accounting Standards Certification (ASC) 810, *Consolidation*, replaces the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable-interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable-interest entity that most significantly effect the entity's economic performance and (i) the obligation to absorb losses of the entity or (ii) the right to receive benefits from the entity. The pronouncement was effective January 1, 2010 and did not have a significant effect on the Company's consolidated financial statements.

ASC 860, *Transfers and Servicing*, improves the information a reporting entity provides in its financial statements about a transfer of financial assets, including the effect of a transfer on an entity's financial position, financial performance and cash flows and the transferor's continuing involvement in the transferred assets. ASC 860 eliminates the concept of a qualifying, special-purpose entity and changes the guidance for evaluation for consolidation. This pronouncement was effective January 1, 2010 and did not have a significant effect on the Company's consolidated financial statements.

Accounting Standards Update No. 2010-06 under ASC 820 requires new disclosures and clarifies certain existing disclosure requirements about fair value measurements. Specifically, the update requires an entity to disclose separately the amounts of significant transfers in and out of Level

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Level 1 and Level 2 fair value measurements and describe the reasons for such transfers. A reporting entity is required to present separately information about purchases, sales, issuances, and settlements in the reconciliation for fair value measurements using Level 3 inputs. In addition, the update clarifies the following requirements of the existing disclosure: (i) for the purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets; and (ii) a reporting entity is required to include disclosures about the valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements. The amendments are effective for interim and annual reporting periods beginning after December 15, 2009, except for the separate disclosures of purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The new guidance did not have a significant impact on the Company's consolidated financial statements other than additional disclosures.

Table of Contents**Note 8. Fair Value Measurements**

The following table summarizes financial assets and financial liabilities measured at fair value as of March 31, 2010 and December 31, 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands):

| | Fair Value Measurements at Reporting Date Using: | | | |
|--|--|--|---|---|
| | Total Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| March 31, 2010 | | | | |
| Items measured on a recurring basis: | | | | |
| Investment securities available for sale: | | | | |
| Corporate debt securities | \$ 38,249 | | \$ 38,249 | |
| Other securities | 928 | 628 | 300 | |
| Mortgage-backed securities available for sale | 367,189 | | 367,189 | |
| Items measured on a non-recurring basis: | | | | |
| Real estate owned | 410 | | | 410 |
| Loans measured for impairment based on the fair value of the underlying collateral | 3,461 | | | 3,461 |

| | Fair Value Measurements at Reporting Date Using: | | | |
|--|--|--|---|---|
| | Total Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| December 31, 2009 | | | | |
| Items measured on a recurring basis: | | | | |
| Investment securities available for sale: | | | | |
| Corporate debt securities | \$ 36,369 | | \$ 36,369 | |
| Other securities | 898 | 598 | 300 | |
| Mortgage-backed securities available for sale | 213,622 | | 213,622 | |
| Items measured on a non-recurring basis: | | | | |
| Real estate owned | 2,613 | | | 2,613 |
| Loans measured for impairment based on the fair value of the underlying collateral | 499 | | | 499 |

Certain financial assets and financial liabilities are measured at fair value on a non-recurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

Transfers between levels are recognized at the end of the reporting period. Securities classified as available for sale are reported at fair value utilizing Level 1 and Level 2 inputs. Most of the Company's investment and mortgage-backed securities are fixed income instruments that are not quoted on an exchange, but are bought and sold in active markets. Prices for these instruments are obtained through third party pricing vendors or security industry sources that actively participate in the buying and selling of securities. Prices obtained from these sources include market quotation and matrix pricing. Matrix pricing is a mathematical technique used principally to value certain securities without relying exclusively on quoted prices for the specific securities, but comparing the securities to benchmark or comparable securities.

The Company utilizes third party pricing services to obtain market values for its corporate bonds. Management's policy is to obtain and review all available documentation from the third party pricing service relating to their market and value determinations, including their methodology and summary of inputs. Management reviews this documentation, makes inquiries of the third party pricing service and makes a determination as to the level of valuation inputs. Based on the Company's review of available documentation and discussions with the third party pricing

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service, management concluded that Level 2 inputs were utilized. The significant observable inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities and observations of equity and credit default swap curves related to the issuer.

Real estate owned and loans measured for impairment based on the fair value of the underlying collateral are recorded at estimated fair value, less estimated selling costs. Fair value is based on independent appraisals.

Note 9. Fair Value of Financial Instruments

Fair value estimates, methods and assumptions are set forth below for the Company's financial instruments.

Cash and Due from Banks

For cash and due from banks, the carrying amount approximates fair value.

Table of Contents**Investments and Mortgage-Backed Securities**

Most of the Company's investment and mortgage-backed securities are fixed income instruments that are not quoted on an exchange, but are bought and sold in active markets. Prices for these instruments are obtained through third party pricing vendors or security industry sources that actively participate in the buying and selling of securities. Prices obtained from these sources include market quotations and matrix pricing. Matrix pricing is a mathematical technique used principally to value certain securities without relying exclusively on quoted prices for the specific securities, but comparing the securities to benchmark or comparable securities.

Federal Home Loan Bank of New York Stock

The fair value for Federal Home Loan Bank of New York (FHLB) stock is its carrying value since this is the amount for which it could be redeemed. There is no active market for this stock and the Company is required to maintain a minimum investment based upon the outstanding balance of mortgage related assets and outstanding borrowings.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as residential mortgage, construction, consumer and commercial. Each loan category is further segmented into fixed and adjustable rate interest terms.

Fair value of performing and non-performing loans was estimated by discounting the future cash flows, net of estimated prepayments, at a rate for which similar loans would be originated to new borrowers with similar terms. Fair values estimated in this manner do not fully incorporate an exit price approach to fair value, but instead are based on a comparison to current market rates for comparable loans.

Deposits

The fair value of deposits with no stated maturity, such as non-interest-bearing demand deposits, savings, and interest-bearing checking accounts and money market accounts are, by definition, equal to the amount payable on demand. The related insensitivity of the majority of these deposits to interest rate changes creates a significant inherent value which is not reflected in the fair value reported. The fair value of time deposits are based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Borrowed Funds

Fair value estimates are based on discounting contractual cash flows using rates which approximate the rates offered for borrowings of similar remaining maturities.

Commitments to Extend Credit and Sell Loans

The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

The estimated fair values of the Bank's significant financial instruments as of March 31, 2010 and December 31, 2009 are presented in the following tables (in thousands).

| | Book Value | Fair Value |
|---|-------------------|-------------------|
| <u>March 31, 2010</u> | | |
| Financial Assets: | | |
| Cash and due from banks | \$ 20,884 | \$ 20,884 |
| Investment securities available for sale | 39,177 | 39,177 |
| Mortgage-backed securities available for sale | 367,189 | 367,189 |
| Federal Home Loan Bank of New York stock | 27,906 | 27,906 |
| Loans receivable and mortgage loans held for sale | 1,641,817 | 1,643,207 |

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Financial Liabilities:

| | | |
|----------------|-----------|-----------|
| Deposits | 1,381,108 | 1,383,665 |
| Borrowed funds | 616,569 | 617,619 |

| | Book Value | Fair Value |
|---|------------|------------|
| December 31, 2009 | | |
| Financial Assets: | | |
| Cash and due from banks | \$ 23,016 | \$ 23,016 |
| Investment securities available for sale | 37,267 | 37,267 |
| Mortgage-backed securities available for sale | 213,622 | 213,622 |
| Federal Home Loan Bank of New York stock | 19,434 | 19,434 |
| Loans receivable and mortgage loans held for sale | 1,634,942 | 1,628,898 |
| Financial Liabilities: | | |
| Deposits | 1,364,199 | 1,366,206 |
| Borrowed funds | 425,073 | 427,061 |

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Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other significant unobservable inputs. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets and liabilities that are not considered financial assets or liabilities include deferred tax assets, and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

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

Critical Accounting Policies

Note 1 to the Company's Audited Consolidated Financial Statements for the year ended December 31, 2009 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, as supplemented by this report, contains a summary of significant accounting policies. Various elements of these accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. Certain assets are carried in the consolidated statements of financial condition at fair value or the lower of cost or fair value. Policies with respect to the methodologies used to determine the allowance for loan losses, the reserve for repurchased loans and the valuation of Mortgage Servicing Rights and judgments regarding securities impairment are the most critical accounting policies because they are important to the presentation of the Company's financial condition and results of operations. These judgments and policies involve a higher degree of complexity and require management to make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions and estimates could result in material differences in the results of operations or financial condition. These critical accounting policies and their application are reviewed periodically and, at least annually, with the Audit Committee of the Board of Directors.

Summary

The Company's results of operations are primarily dependent on net interest income, which is the difference between the interest income earned on interest-earning assets, such as loans and investments, and the interest expense on interest-bearing liabilities, such as deposits and borrowings. The Company also generates non-interest income such as income from loan sales, loan servicing, loan originations, merchant credit card services, deposit accounts, the sale of alternative investments, trust and asset management services and other fees. The Company's operating expenses primarily consist of compensation and employee benefits, occupancy and equipment, marketing, data processing, Federal deposit insurance and general and administrative expenses. The Company's results of operations are also significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory agencies.

Throughout 2009, and continuing into 2010, short-term interest rates remained low and the interest rate yield curve was unusually steep. This environment has generally had a positive impact on the Bank's results of operations and net interest margin. Interest-earning assets, both loans and securities, are generally priced against longer-term indices, while interest-bearing liabilities, primarily deposits and borrowings, are generally priced against shorter-term indices. The overall economy remains weak with continued high unemployment coupled with concern surrounding the housing market. These conditions have had an adverse impact on the Bank's results of operations as non-performing loans and the provision for loan losses have increased.

Analysis of Net Interest Income

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends upon the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them.

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The following table sets forth certain information relating to the Company for the three months ended March 31, 2010 and 2009. The yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown except where noted otherwise. Average balances are derived from average daily balances. The yields and costs include certain fees which are considered adjustments to yields.

| | FOR THE THREE MONTHS ENDED MARCH 31, | | | | | |
|--|--------------------------------------|-----------|---|--------------------|-----------|---------------------------|
| | 2010 | | | 2009 | | |
| | AVERAGE BALANCE | INTEREST | AVERAGE YIELD/ COST (Dollars in thousands) | AVERAGE BALANCE | INTEREST | AVERAGE YIELD/ COST |
| Assets | | | | | | |
| Interest-earning assets: | | | | | | |
| Investment securities (1) | \$ 55,971 | \$ 126 | .90% | \$ 56,136 | \$ 301 | 2.14% |
| FHLB stock | 24,284 | 204 | 3.36 | 19,102 | 149 | 3.12 |
| Mortgage-backed securities (1) | 307,528 | 2,762 | 3.59 | 76,492 | 768 | 4.02 |
| Loans receivable, net (2) | 1,632,904 | 21,984 | 5.39 | 1,652,110 | 23,172 | 5.61 |
| Total interest-earning assets | 2,020,687 | 25,076 | 4.96 | 1,803,840 | 24,390 | 5.41 |
| Non-interest-earning assets | 107,697 | | | 85,853 | | |
| Total assets | \$ 2,128,384 | | | \$ 1,889,693 | | |
| Liabilities and Stockholders Equity | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Transaction deposits | \$ 965,181 | 1,984 | .82 | \$ 844,953 | 2,653 | 1.26 |
| Time deposits | 306,230 | 1,448 | 1.89 | 360,136 | 2,443 | 2.71 |
| Total | 1,271,411 | 3,432 | 1.08 | 1,205,089 | 5,096 | 1.69 |
| Borrowed funds | 537,561 | 2,674 | 1.99 | 411,199 | 3,632 | 3.53 |
| Total interest-bearing liabilities | 1,808,972 | 6,106 | 1.35 | 1,616,288 | 8,728 | 2.16 |
| Non-interest-bearing deposits | 113,518 | | | 105,363 | | |
| Non-interest-bearing liabilities | 22,540 | | | 16,944 | | |
| Total liabilities | 1,945,030 | | | 1,738,595 | | |
| Stockholders equity | 183,354 | | | 151,098 | | |
| Total liabilities and stockholders equity | \$ 2,128,384 | | | \$ 1,889,693 | | |
| Net interest income | | \$ 18,970 | | | \$ 15,662 | |
| Net interest rate spread (3) | | | 3.61% | | | 3.25% |
| Net interest margin (4) | | | 3.76% | | | 3.47% |

(1) Amounts are recorded at average amortized cost.

(2)

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Amount is net of deferred loan fees, undisbursed loan funds, discounts and premiums and estimated loss allowances and includes loans held for sale and non-performing loans.

- (3) Net interest rate spread represents the difference between the yield on interest - earning assets and the cost of interest - bearing liabilities.
- (4) Net interest margin represents net interest income divided by average interest - earning assets.

Comparison of Financial Condition at March 31, 2010 and December 31, 2009

Total assets at March 31, 2010 were \$2.199 billion, an increase of \$169.2 million, compared to \$2.030 billion at December 31, 2009.

Mortgage-backed securities available for sale increased to \$367.2 million at March 31, 2010, as compared to \$213.6 million at December 31, 2009 primarily due to purchases of \$162.8 million, all of which were issued by U.S. government sponsored enterprises.

Loans receivable, net increased by \$10.9 million to a balance of \$1.640 billion at March 31, 2010, compared to a balance of \$1.629 billion at December 31, 2009. The growth was concentrated in commercial and commercial real estate loans.

Deposit balances increased \$16.9 million to \$1.381 billion at March 31, 2010 from \$1.364 billion at December 31, 2009. Core deposits, defined as all deposits excluding time deposits, increased \$25.2 million partly offset by a \$8.3 million decrease in time deposits as the Bank continued to moderate its pricing for this product. Federal Home Loan Bank advances increased by \$188.1 million to \$521.1 million at March 31, 2010, as compared to \$333.0 million at December 31, 2009 and were primarily used to fund the increase in mortgage-backed securities.

Stockholders' equity at March 31, 2010 increased to \$187.2 million, as compared to \$183.5 million at December 31, 2009, primarily due to net income and a reduction in accumulated other comprehensive loss partly offset by the cash dividend on common stock.

Comparison of Operating Results for the Three Months Ended March 31, 2010 and March 31, 2009

General

Net income available to common stockholders for the three months ended March 31, 2010 was \$4.4 million or \$0.24 per diluted share, as compared to net income available to common stockholders of \$3.5 million, or \$0.30 per diluted share, for the corresponding prior year period. The decrease in diluted earnings per share was due to the higher number of average diluted shares outstanding from the issuance of additional common shares in November 2009.

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Interest Income

Interest income for the three months ended March 31, 2010 was \$25.1 million, as compared to \$24.4 million for the three months ended March 31, 2009. The yield on interest-earning assets declined to 4.96% for the three months ended March 31, 2010, as compared to 5.41% for the same prior year period. Average interest-earning assets increased by \$216.8 million for the three months ended March 31, 2010, as compared to the same prior year period. The increase was in average mortgage-backed securities which rose \$231.0 million.

Interest Expense

Interest expense for the three months ended March 31, 2010 was \$6.1 million, compared to \$8.7 million for the three months ended March 31, 2009. The cost of interest-bearing liabilities decreased to 1.35% for the three months ended March 31, 2010, as compared to 2.16% in the same prior year period. Average interest-bearing liabilities increased by \$192.7 million for the three months ended March 31, 2010, as compared to the same prior year period. The increase was primarily in average borrowed funds which increased \$126.4 million and average transaction deposits which increased \$120.2 million partly offset by a decrease in average time deposits of \$53.9 million. The additional borrowings were used to fund the increase in mortgage-backed securities.

Net Interest Income

Net interest income for the three months ended March 31, 2010 increased to \$19.0 million, as compared to \$15.7 million in the same prior year period reflecting a higher net interest margin and higher levels of interest-earning assets. The net interest margin increased to 3.76% for the three months ended March 31, 2010 from 3.47% in the same prior year period.

Provision for Loan Losses

For the three months ended March 31, 2010, the provision for loan losses was \$2.2 million, compared to \$800,000 in the same prior year period primarily due to the increase in non-performing loans and net charge-offs. Non-performing loans increased \$4.0 million at March 31, 2010 to \$32.3 million from \$28.3 million at December 31, 2009. Loans receivable, net increased modestly during the first three months of 2010 while net charge-offs for the three months ended March 31, 2010 were \$1.3 million, as compared to \$446,000 in the same prior year period. Net charge-offs for the three months ended March 31, 2010 included \$844,000 relating to loans originated by Columbia, the Company's mortgage banking subsidiary which has since been shuttered.

Other Income

Other income decreased to \$3.0 million for the three months ended March 31, 2010, as compared to \$3.2 million in the same prior year period. Loan servicing income was \$46,000 for the three months ended March 31, 2010 as compared to a loan servicing loss of \$230,000 for the three months ended March 31, 2009 due to an impairment to the loan servicing asset of \$263,000 recognized in the first quarter of 2009. The net gain on sales of loans and securities available for sale decreased to \$503,000 for the three months ended March 31, 2010, as compared to \$673,000 for the three months ended March 31, 2009 due to a decline in the volume of loans sold. The net loss from other real estate operations was \$335,000 for the three months ended March 31, 2010, as compared to a net loss of \$1,000 in the same prior year period due to write-downs in the value of properties previously acquired.

Operating Expenses

Operating expenses increased to \$12.7 million for the three months ended March 31, 2010, as compared to \$11.8 million for the corresponding prior year period. The increase was primarily related to increases in compensation and employee benefits relating to incentive compensation and stock plan expense. The increase was also due to the reduction in mortgage loan closings from prior year levels. Higher loan closings in the prior year increased deferred loan expense which is reflected as a reduction to compensation expense.

Provision for Income Taxes

Income tax expense was \$2.6 million for the three months ended March 31, 2010, as compared to an expense of \$2.3 million for the same prior year period. The effective tax rate increased slightly to 37.4% for the three months ended March 31, 2010, as compared to 37.0% in the same prior period.

Dividends on Preferred Stock and Warrant Accretion

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Dividends on preferred stock and warrant accretion totaled \$458,000 for three months ended March 31, 2009, as compared to no amounts in the current year period. The preferred stock was redeemed on December 30, 2009 and the related warrant was repurchased February 3, 2010. The warrant repurchase had no effect on net income available to common stockholders for the three months ended March 31, 2010.

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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, 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 interest rates, economic conditions and competition. The Company has other sources of liquidity if a need for additional funds arises, including various lines of credit.

At March 31, 2010, the Company had outstanding overnight borrowings from the FHLB of \$135.1 million, as compared to \$87.0 million in overnight borrowings at December 31, 2009. The Company utilizes the overnight line to fund short-term liquidity needs. The Company had total FHLB borrowings, including overnight borrowings, of \$521.1 million at March 31, 2010, an increase from \$333.0 million at December 31, 2009.

The Company's cash needs for the three months ended March 31, 2010 were primarily satisfied by principal payments on loans and mortgage-backed securities, proceeds from the sale of mortgage loans held for sale, increased deposits and increased short-term borrowings. The cash was principally utilized for loan originations and the purchase of mortgage-backed securities. For the three months ended March 31, 2009, 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, increased deposits and the issuance of preferred stock. The cash provided was principally used for loan originations, the purchase of mortgage-backed securities and to reduce borrowings.

In the normal course of business, the Company routinely enters into various off-balance-sheet commitments, primarily relating to the origination and sale of loans. At March 31, 2010, outstanding commitments to originate loans totaled \$50.4 million; outstanding unused lines of credit totaled \$214.4 million; and outstanding commitments to sell loans totaled \$24.3 million. The Company expects to have sufficient funds available to meet current commitments arising in the normal course of business.

Time deposits scheduled to mature in one year or less totaled \$194.6 million at March 31, 2010. Based upon historical experience management estimates that a significant portion of such deposits will remain with the Company.

Cash dividends on common stock declared and paid by OceanFirst Financial Corp. during the first three months of 2010 were \$2.2 million as compared to \$2.4 million in the same prior year period. On April 21, 2010, the Board of Directors declared a quarterly cash dividend of twelve cents (\$0.12) per common share. The dividend is payable on May 14, 2010 to stockholders of record at the close of business on May 3, 2010.

The primary sources of liquidity specifically available to OceanFirst Financial Corp., the holding company of OceanFirst Bank, are capital distributions from the banking subsidiary, short-term borrowings and the issuance of preferred and common stock, long-term debt and trust preferred securities. For the first three months of 2010, OceanFirst Financial Corp. received no dividend payments from OceanFirst Bank. OceanFirst Financial Corp.'s ability to continue to pay dividends will be partly dependent upon capital distributions from OceanFirst Bank which may be adversely affected by capital constraints imposed by the Office of Thrift Supervision (OTS). Pursuant to OTS regulations, a notice is required to be filed with the OTS prior to the Bank paying a dividend to OceanFirst Financial Corp. The OTS could object to a proposed capital distribution by any institution, which would otherwise be permitted by regulation, if the OTS determines that such distribution would constitute an unsafe and unsound practice. The Company cannot predict whether the OTS may object to any future notices or fail to approve any future applications to pay a dividend to OceanFirst Financial Corp. At March 31, 2010, OceanFirst Financial Corp. held \$28.4 million in cash and \$325,000 in investment securities available for sale. Additionally, OceanFirst Financial Corp. has an available line of credit for up to \$2.0 million, all of which was available at March 31, 2010.

At March 31, 2010, the Bank exceeded all of its regulatory capital requirements with tangible capital of \$188.2 million, or 8.5% of total adjusted assets, which is above the required level of \$33.1 million or 1.5%; core capital of \$188.2 million or 8.5% of total adjusted assets, which is above the required level of \$88.4 million, or 4.0% and risk-based capital of \$199.3 million, or 14.2% of risk-weighted assets, which is above the required level of \$112.7 million or 8.0%. The Bank is considered a well-capitalized institution under the OTS Prompt Corrective Action Regulations.

At March 31, 2010, the Company maintained tangible common equity of \$187.2 million, for a tangible common equity to assets ratio of 8.5%.

Off-Balance-Sheet Arrangements and Contractual Obligations

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in the financial statements. These transactions involve, to varying degrees, elements of credit, interest rate, and liquidity risk. Such transactions are used for general corporate purposes or for customer needs. Corporate purpose transactions are used

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to help manage credit, interest rate, and liquidity risk or to optimize capital. Customer transactions are used to manage customers' requests for funding. These financial instruments and commitments include unused consumer lines of credit and commitments to extend credit. The Company also has outstanding commitments to sell loans amounting to \$24.3 million.

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The following table shows the contractual obligations of the Company by expected payment period as of March 31, 2010 (in thousands):

| Contractual Obligation | Total | Less than One year | 1-3 years | 3-5 years | More than 5 years |
|--|--------------|-------------------------------|------------------|------------------|------------------------------|
| Debt Obligations | \$ 616,569 | \$ 494,069 | \$ 49,000 | \$ 46,000 | \$ 27,500 |
| Commitments to Originate Loans | 50,399 | 50,399 | | | |
| Commitments to Fund Unused Lines of Credit | 214,414 | 214,414 | | | |

Commitments to originate loans and commitments to fund unused lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company's exposure to credit risk is represented by the contractual amount of the instruments.

Non-Performing Assets

The following table sets forth information regarding the Company's non-performing assets consisting of non-performing 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, 2010 | December 31, 2009 |
|--|-------------------------------|------------------------------|
| | (dollars in thousands) | |
| Non-performing loans: | | |
| Real estate one-to-four family | \$ 22,633 | \$ 19,142 |
| Commercial real estate | 4,844 | 5,152 |
| Construction | 368 | 368 |
| Consumer | 3,992 | 3,031 |
| Commercial | 466 | 627 |
| Total non-performing loans | 32,303 | 28,320 |
| REO, net | 2,864 | 2,613 |
| Total non-performing assets | \$ 35,167 | \$ 30,933 |
| | | |
| Delinquent loans 30-89 days | \$ 11,478 | \$ 15,528 |
| | | |
| Allowance for loan losses as a percent of total loans receivable | .94% | .89% |
| Allowance for loan losses as percent of total non-performing loans | 48.39 | 51.99 |
| Non-performing loans as a percent of total loans receivable | 1.95 | 1.72 |
| Non-performing assets as a percent of total assets | 1.60 | 1.52 |

Included in the non-accrual loan total at March 31, 2010 was \$506,000 of troubled debt restructured loans, as compared to \$1.6 million at December 31, 2009. The non-performing loan total includes \$644,000 of repurchased one-to-four family and consumer loans and \$2.1 million of one-to-four family and consumer loans previously held for sale, which were written down to their fair market value in a prior period.

Non-performing loans are concentrated in one-to-four family loans which comprise 70.1% of the total. At March 31, 2010, the average weighted loan-to-value ratio (using appraisal value at time of origination) of non-performing loans was 71% as compared to 58% for the total mortgage loan portfolio. The largest non-performing loan is a one-to-four family loan for \$3.5 million which is secured by a first mortgage on a property with a recent appraised value of \$4.1 million. The largest commercial real estate non-performing loan is a \$2.0 million loan to a residential builder. The loan is secured by first mortgages on residential property and land. A specific reserve of \$111,000 has been established for this loan.

The Company also classifies loans in accordance with regulatory guidelines. At March 31, 2010, the Company had \$10.7 million designated as Special Mention, \$50.8 million classified as Substandard and \$61,900 classified as Doubtful as compared to \$12.0 million, \$41.4 million and

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\$33,000, respectively, at December 31, 2009. The largest Special Mention loan at March 31, 2010 is a loan for \$2.5 million to a sports and fitness club which is current on payments but was criticized due to poor operating results. The loan is secured by commercial real estate and also carries a personal guarantee. The largest Substandard loan relationship is comprised of several credit facilities to a building supply company with an aggregate balance of \$6.5 million, which was current as to payments, but criticized due to declining revenue and poor operating results. The loans are well-secured by commercial real estate and other business assets. In addition to loan classifications, the Company classified investment securities with an amortized cost of \$30.0 million and a carrying value of \$19.9 million as Substandard, which represents the amount of investment securities with a credit rating below investment grade from one of the internationally-recognized credit rating services.

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At March 31, 2010, the Bank was holding subprime loans with a gross principal balance of \$2.2 million and a carrying value, net of write-downs and lower of cost or market adjustment, of \$1.8 million, and ALT-A loans with a gross principal balance of \$4.1 million and a carrying value, net of write-downs and lower of cost or market adjustment, of \$3.9 million.

Private Securities Litigation Reform Act Safe Harbor Statement

In addition to historical information, this quarterly report contains certain forward-looking statements which are based on certain assumptions and describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the words believe, expect, intend, anticipate, estimate, project, or similar expressions. The Company's ability to predict results or the actual future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company and the subsidiaries include, but are not limited to, changes in interest rates, general economic conditions, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Board of Governors of the Federal Reserve System, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Company's market area and accounting principles and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on statements. The Company does not undertake and specifically disclaims any obligation to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. Further description of the risks and uncertainties to the business are included in Item 1, Business and Item 1A, Risk Factors of the Company's 2009 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's interest rate sensitivity is monitored through the use of an interest rate risk (IRR) model. The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at March 31, 2010 which were anticipated by the Company, based upon certain assumptions, to reprice or mature in each of the future time periods shown. At March 31, 2010, the Company's one-year gap was negative 8.38% as compared to negative 0.04% at December 31, 2009.

| At March 31, 2010 (dollars in thousands) | 3 Months Or Less | More than 3 Months to 1 Year | More than 1 Year to 3 Years | More than 3 Years to 5 Years | More than 5 Years | Total |
|--|---------------------|------------------------------------|--------------------------------------|------------------------------------|-------------------------|-------------------|
| Interest-earning assets: (1) | | | | | | |
| Interest-earning deposits and short-term investments | \$ 10,086 | \$ | \$ | \$ | \$ | \$ 10,086 |
| Investment securities | 55,300 | 301 | | | 370 | 55,971 |
| FHLB stock | | | | | 27,906 | 27,906 |
| Mortgage-backed securities | 20,620 | 57,868 | 97,951 | 64,907 | 124,437 | 365,783 |
| Loans receivable (2) | 289,559 | 457,485 | 548,635 | 215,892 | 141,000 | 1,652,571 |
| Total interest-earning assets | 375,565 | 515,654 | 646,586 | 280,799 | 293,713 | 2,112,317 |
| Interest-bearing liabilities: | | | | | | |
| Money market deposit accounts | 4,549 | 13,648 | 36,395 | 45,494 | | 100,086 |
| Savings accounts | 11,044 | 34,134 | 88,352 | 110,440 | | 243,970 |
| Interest-bearing checking accounts | 241,489 | 52,230 | 143,538 | 178,361 | | 615,618 |
| Time deposits | 86,509 | 108,056 | 62,929 | 21,123 | 25,255 | 303,872 |
| FHLB advances | 355,100 | 71,000 | 49,000 | 46,000 | | 521,100 |
| Securities sold under agreements to repurchase | 67,969 | | | | | 67,969 |
| Other borrowings | 22,500 | | | | 5,000 | 27,500 |
| Total interest-bearing liabilities | 789,160 | 279,068 | 380,214 | 401,418 | 30,255 | 1,880,115 |
| Interest sensitivity gap (3) | \$ (413,595) | \$ 236,586 | \$ 266,372 | \$ (120,619) | \$ 263,458 | \$ 232,202 |

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| | | | | | | |
|-------------------------------------|--------------|--------------|-----------|-------------|------------|------------|
| Cumulative interest sensitivity gap | \$ (413,595) | \$ (177,009) | \$ 89,363 | \$ (31,256) | \$ 232,202 | \$ 232,202 |
|-------------------------------------|--------------|--------------|-----------|-------------|------------|------------|

| | | | | | | |
|---|----------|---------|-------|---------|--------|--------|
| Cumulative interest sensitivity gap as a percent of total interest-earning assets | (19.58)% | (8.38)% | 4.23% | (1.48)% | 10.99% | 10.99% |
|---|----------|---------|-------|---------|--------|--------|

- (1) Interest-earning assets are included in the period in which the balances are expected to be redeployed and/or repriced as a result of anticipated prepayments, scheduled rate adjustments, and contractual maturities.
- (2) For purposes of the gap analysis, loans receivable includes loans held for sale and non-performing loans gross of the allowance for loan losses, unamortized discounts and deferred loan fees.
- (3) Interest sensitivity gap represents the difference between interest-earning assets and interest-bearing liabilities.

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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, 2010 and December 31, 2009. 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, 2009.

| Change in Interest Rates in Basis Points (Rate Shock) (dollars in thousands) | March 31, 2010 | | | | | | December 31, 2009 | | | | | |
|---|---------------------|---------|-------|---------------------|--------|-------|---------------------|---------|-------|---------------------|--------|-------|
| | Net Portfolio Value | | | Net Interest Income | | | Net Portfolio Value | | | Net Interest Income | | |
| | % | | NPV | % | | NPV | % | | NPV | % | | NPV |
| | Amount | Change | Ratio | Amount | Change | Ratio | Amount | Change | Ratio | Amount | Change | Ratio |
| 200 | \$ 177,930 | (21.6)% | 8.5% | \$ 70,699 | (9.5)% | 9.9% | \$ 192,771 | (12.6)% | 9.9% | \$ 68,804 | (7.0)% | 10.6 |
| 100 | 207,449 | (8.7) | 9.6 | 74,813 | (4.2) | 10.6 | 209,887 | (4.8) | 10.6 | 71,779 | (3.0) | 10.9 |
| Static | 227,094 | | 10.3 | 78,110 | | 10.9 | 220,452 | | 10.9 | 74,004 | | 10.5 |
| (100) | 228,299 | 0.5 | 10.2 | 76,450 | (2.1) | 10.5 | 216,497 | (1.8) | 10.5 | 70,661 | (4.5) | 10.1 |
| (200) | 219,090 | (3.5) | 9.8 | 72,854 | (6.7) | 10.1 | 206,585 | (6.3) | 10.1 | 65,067 | (12.1) | |

Item 4. Controls and Procedures

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the Exchange Act). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective. Disclosure controls and procedures are the controls and other procedures that are designed to ensure that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the SEC (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. In addition, based on that evaluation, there were no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION**Item 1. Legal Proceedings**

The Company is not engaged in any legal proceedings of a material nature at the present time. From time to time, the Company is a party to routine legal proceedings within the normal course of business. Such routine legal proceedings in the aggregate are believed by management to be immaterial to the Company's financial condition or results of operations.

Item 1A. Risk Factors

For a summary of risk factors relevant to the Company, see Part I, Item 1A, Risk Factors, in the 2009 Form 10-K. There were no material changes to risk factors relevant to the Company's operations since December 31, 2009.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not Applicable

Item 3. Defaults Upon Senior Securities
Not Applicable

Table of Contents**Item 4. Removed and Reserved****Item 5. Other Information**

The annual meeting of stockholders was held on May 6, 2010. The following directors were elected for terms of three years: Donald E. McLaughlin and John E. Walsh. The following proposals were voted on by the stockholders:

| Proposal | For | Against | Withheld/ Abstain | Broker Non-Votes |
|--|------------|---------|----------------------|---------------------|
| 1) Election of Directors | | | | |
| Donald E. McLaughlin | 14,400,920 | | 428,412 | |
| John E. Walsh | 14,407,220 | | 422,171 | |
| 2) Ratification of the appointment of KPMG LLP as independent registered public accounting firm of the Company for the fiscal year ending December 31, 2010. | 16,986,116 | 113,063 | 28,142 | |

Item 6. Exhibits

Exhibits:

- 3.1 Certificate of Incorporation of OceanFirst Financial Corp.*
- 3.2 Bylaws of OceanFirst Financial Corp.**
- 4.0 Stock Certificate of OceanFirst Financial Corp.*
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.0 Certifications pursuant to 18 U.S.C. Section 1350 as added by Section 906 of the Sarbanes-Oxley Act of 2002.

* Incorporated herein by reference into this document from the Exhibits to Form S-1, Registration Statement, effective May 13, 1996, as amended, Registration No. 33-80123.

** Incorporated herein by reference into this document from the Exhibit to Form10-K, Annual Report, filed on March 25, 2003.

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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.
Registrant

DATE: May 10, 2010

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

DATE: May 10, 2010

/s/ Michael J. Fitzpatrick
Michael J. Fitzpatrick
Executive Vice President and Chief Financial Officer

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Exhibit Index

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| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | 24 |
| 32.0 | Certification pursuant to 18 U.S.C. Section 1350 as added by Section 906 of the Sarbanes-Oxley Act of 2002 | 25 |