

OCEANFIRST FINANCIAL CORP

Form 10-Q

November 10, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2008

.. 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)

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| | |
|--|--|
| Delaware (State or other jurisdiction of incorporation or organization) | 22-3412577 (I.R.S. Employer Identification No.) |
| 975 Hooper Avenue, Toms River, NJ (Address of principal executive offices) | 08754-2009 (Zip Code) |
| Registrant's telephone number, including area code: (732)240-4500 | |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO .

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO .

As of November 5, 2008, there were 12,364,573 shares of the Registrant's Common Stock, par value \$.01 per share, outstanding.

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OceanFirst Financial Corp.

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

(dollars in thousands, except per share amounts)

| | September 30, 2008 (Unaudited) | December 31, 2007 |
|--|--------------------------------------|----------------------|
| ASSETS | | |
| Cash and due from banks | \$ 26,730 | \$ 27,547 |
| Investment securities available for sale | 45,309 | 57,625 |
| Federal Home Loan Bank of New York stock, at cost | 19,130 | 22,941 |
| Mortgage-backed securities available for sale | 43,487 | 54,137 |
| Loans receivable, net | 1,647,317 | 1,675,919 |
| Mortgage loans held for sale | 4,161 | 6,072 |
| Interest and dividends receivable | 6,896 | 6,915 |
| Real estate owned, net | 654 | 438 |
| Premises and equipment, net | 20,988 | 17,882 |
| Servicing asset | 7,658 | 8,940 |
| Bank Owned Life Insurance | 39,387 | 38,430 |
| Other assets | 14,541 | 10,653 |
| Total assets | \$ 1,876,258 | \$ 1,927,499 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Deposits | \$ 1,315,748 | \$ 1,283,790 |
| Securities sold under agreements to repurchase with retail customers | 67,682 | 69,807 |
| Securities sold under agreements to repurchase with the Federal Home Loan Bank | | 12,000 |
| Federal Home Loan Bank advances | 323,500 | 393,000 |
| Other borrowings | 27,500 | 27,500 |
| Advances by borrowers for taxes and insurance | 8,088 | 7,588 |
| Other liabilities | 9,695 | 9,508 |
| Total liabilities | 1,752,213 | 1,803,193 |
| 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 12,364,573 and 12,346,465 shares outstanding at September 30, 2008 and December 31, 2007, respectively | 272 | 272 |
| Additional paid-in capital | 204,040 | 203,532 |
| Retained earnings | 159,107 | 154,929 |
| Accumulated other comprehensive loss | (8,710) | (3,211) |
| Less: Unallocated common stock held by | | |
| Employee Stock Ownership Plan | (5,141) | (5,360) |
| Treasury stock, 14,812,799 and 14,830,907 shares at September 30, 2008 and December 31, 2007, respectively | (225,523) | (225,856) |
| Common stock acquired by Deferred Compensation Plan | 982 | 1,307 |
| Deferred Compensation Plan Liability | (982) | (1,307) |
| Total stockholders' equity | 124,045 | 124,306 |

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| | | |
|--|--------------|--------------|
| Total liabilities and stockholders' equity | \$ 1,876,258 | \$ 1,927,499 |
|--|--------------|--------------|

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

(in thousands, except per share amounts)

| | For the three months ended September 30, 2008 | | For the nine months ended September 30, 2008 | |
|--|---|---------------|--|----------------|
| | 2007 | 2008 | 2007 | 2008 |
| | (Unaudited) | | (Unaudited) | |
| Interest income: | | | | |
| Loans | \$ 23,821 | \$ 25,945 | \$ 72,926 | \$ 79,528 |
| Mortgage-backed securities | 525 | 688 | 1,710 | 2,127 |
| Investment securities and other | 888 | 1,590 | 3,787 | 5,494 |
| Total interest income | 25,234 | 28,223 | 78,423 | 87,149 |
| Interest expense: | | | | |
| Deposits | 6,256 | 9,326 | 20,827 | 27,778 |
| Borrowed funds | 4,348 | 6,066 | 14,469 | 19,431 |
| Total interest expense | 10,604 | 15,392 | 35,296 | 47,209 |
| Net interest income | 14,630 | 12,831 | 43,127 | 39,940 |
| Provision for loan losses | 400 | 75 | 1,175 | 525 |
| Net interest income after provision for loan losses | 14,230 | 12,756 | 41,952 | 39,415 |
| Other income (loss): | | | | |
| Loan servicing income | 121 | 126 | 293 | 356 |
| Fees and service charges | 2,625 | 2,942 | 8,292 | 8,724 |
| Net gain (loss) and lower of cost or market adjustment on sales of loans and securities available for sale | 466 | 1,156 | 344 | (11,676) |
| Net gain from other real estate operations | 79 | 8 | 97 | 27 |
| Income from Bank Owned Life Insurance | 314 | 324 | 957 | 942 |
| Other | 2 | 6 | 13 | 41 |
| Total other income (loss) | 3,607 | 4,562 | 9,996 | (1,586) |
| Operating expenses: | | | | |
| Compensation and employee benefits | 6,166 | 6,755 | 17,907 | 22,227 |
| Occupancy | 1,548 | 1,569 | 3,943 | 4,028 |
| Equipment | 468 | 543 | 1,433 | 1,631 |
| Marketing | 452 | 359 | 1,298 | 1,046 |
| Federal deposit insurance | 301 | 168 | 952 | 444 |
| Data processing | 779 | 859 | 2,375 | 2,625 |
| General and administrative | 2,549 | 2,357 | 7,357 | 8,430 |
| Goodwill impairment | | | | 1,014 |
| Total operating expenses | 12,263 | 12,610 | 35,265 | 41,445 |
| Income (loss) before provision (benefit) for income taxes | 5,574 | 4,708 | 16,683 | (3,616) |
| Provision (benefit) for income taxes | 1,852 | 1,582 | 5,420 | (1,597) |

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| | | | | |
|------------------------------------|----------|----------|-----------|------------|
| Net income (loss) | \$ 3,722 | \$ 3,126 | \$ 11,263 | \$ (2,019) |
| Basic earnings (loss) per share | \$ 0.32 | \$ 0.27 | \$ 0.97 | \$ (0.18) |
| Diluted earnings (loss) per share | \$ 0.32 | \$ 0.27 | \$ 0.96 | \$ (0.18) |
| Average basic shares outstanding | 11,678 | 11,561 | 11,661 | 11,522 |
| Average diluted shares outstanding | 11,751 | 11,643 | 11,722 | 11,522 |

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, 2006 | \$ 272 | \$ 201,936 | \$ 164,121 | \$ (470) | \$ (6,369) | \$ (227,170) | \$ 1,457 | \$ (1,457) | \$ 132,320 |
| Comprehensive loss: | | | | | | | | | |
| Net loss | | | (2,019) | | | | | | (2,019) |
| Other comprehensive loss: | | | | | | | | | |
| Unrealized loss on securities (net of tax benefit \$1,543) | | | | (2,234) | | | | | (2,234) |
| Total comprehensive loss | | | | | | | | | (4,253) |
| Stock awards | | 354 | | | | | | | 354 |
| Treasury stock allocated to restricted stock plan | | (295) | (3) | | | 298 | | | |
| Tax benefit of stock plans | | 337 | | | | | | | 337 |
| Purchase 49,701 shares of common stock | | | | | | (1,112) | | | (1,112) |
| Allocation of ESOP stock | | | | | 757 | | | | 757 |
| ESOP adjustment | | 905 | | | | | | | 905 |
| Cash dividend - \$.60 per share | | | (6,784) | | | | | | (6,784) |
| Exercise of stock options | | | (998) | | | 2,045 | | | 1,047 |
| Sale of stock for the deferred compensation plan | | | | | | | (51) | 51 | |
| Balance at September 30, 2007 | \$ 272 | \$ 203,237 | \$ 154,317 | \$ (2,704) | \$ (5,612) | \$ (225,939) | \$ 1,406 | \$ (1,406) | \$ 123,571 |
| Balance at December 31, 2007 | \$ 272 | \$ 203,532 | \$ 154,929 | \$ (3,211) | \$ (5,360) | \$ (225,856) | \$ 1,307 | \$ (1,307) | \$ 124,306 |

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| | | | | | | | | | | | |
|--|---------|------------|------------|------------|------------|--------------|--------|----------|------------|---------|-----|
| Comprehensive income: | | | | | | | | | | | |
| Net income | 11,263 | | | | | | | | | 11,263 | |
| Other comprehensive loss: | | | | | | | | | | | |
| Unrealized loss on securities (net of tax benefit \$3,277) | (6,085) | | | | | | | | | (6,085) | |
| Reclassification adjustment for losses included in net income (net of tax benefit \$316) | 586 | | | | | | | | | 586 | |
| Total comprehensive income | | | | | | | | | | 5,764 | |
| Stock awards | 431 | | | | | | | | | 431 | |
| Treasury stock allocated to restricted stock plan | (172) | (24) | 196 | | | | | | | | |
| Allocation of ESOP stock | 219 | | | | | | | | | 219 | |
| ESOP adjustment | 249 | | | | | | | | | 249 | |
| Cash dividend - \$.60 per share | (7,025) | | | | | | | | | (7,025) | |
| Exercise of stock options | (36) | | | | | | | | | 137 | 101 |
| Sale of stock for the deferred compensation plan | | | | | | | | | | (325) | 325 |
| Balance at | | | | | | | | | | | |
| September 30, 2008 | \$ 272 | \$ 204,040 | \$ 159,107 | \$ (8,710) | \$ (5,141) | \$ (225,523) | \$ 982 | \$ (982) | \$ 124,045 | | |

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

(dollars in thousands)

| | For the nine months ended September 30, 2008 2007 (Unaudited) | |
|---|---|---------------|
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 11,263 | \$ (2,019) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization of premises and equipment | 1,276 | 1,486 |
| Amortization of ESOP | 219 | 757 |
| ESOP adjustment | 249 | 905 |
| Stock award | 431 | 354 |
| Amortization of servicing asset | 1,590 | 1,648 |
| Amortization and impairment of intangible assets | | 1,091 |
| Net premium amortization in excess of discount accretion on securities | 32 | 81 |
| Net amortization of deferred costs and discounts on loans | 727 | 729 |
| Provision for loan losses | 1,175 | 525 |
| Lower of cost or market write-down on loans held for sale | | 9,400 |
| Net gain on sale of real estate owned | (164) | (11) |
| (Recovery) provision for repurchased loans | (211) | 3,760 |
| Net loss on write-off of fixed assets | | 21 |
| Net gain on sales of loans and securities | (133) | (1,484) |
| Loans repurchased | | (1,012) |
| Proceeds from sales of mortgage loans held for sale | 79,220 | 352,373 |
| Mortgage loans originated for sale | (76,582) | (281,342) |
| Increase in value of Bank Owned Life Insurance | (957) | (942) |
| Decrease (increase) in interest and dividends receivable | 19 | (274) |
| Increase in other assets | (929) | (1,862) |
| Increase (decrease) in other liabilities | 1,405 | (12,453) |
| Total adjustments | 7,367 | 73,750 |
| Net cash provided by operating activities | 18,630 | 71,731 |
| Cash flows from investing activities: | | |
| Net decrease in loans receivable | 25,520 | 15,880 |
| Loans repurchased | (968) | (14,128) |
| Proceeds from sales of loans repurchased | | 8,666 |
| Proceeds from maturities or calls of investment securities available for sale | 300 | 20,780 |
| Proceeds from sale of investment securities available for sale | 3,122 | |
| Purchases of investment securities available for sale | (937) | (681) |
| Principal payments on mortgage-backed securities available for sale | 11,089 | 10,378 |
| Decrease in Federal Home Loan Bank of New York stock | 3,811 | 3,306 |
| Proceeds from sales of real estate owned | 1,089 | 638 |
| Purchases of premises and equipment | (4,382) | (683) |
| Net cash provided by investing activities | 38,644 | 44,156 |

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

(dollars in thousands)

| | For the nine months ended September 30, 2008 2007 (Unaudited) | |
|--|---|------------------|
| Cash flows from financing activities: | | |
| Increase (decrease) in deposits | \$ 31,958 | \$ (61,387) |
| (Decrease) increase in short-term borrowings | (37,625) | 3,760 |
| Repayments of securities sold under agreements to repurchase with the Federal Home Loan Bank | (12,000) | |
| Proceeds from Federal Home Loan Bank advances | 57,000 | 20,000 |
| Repayments of Federal Home Loan Bank advances | (91,000) | (85,000) |
| Proceeds from other borrowings | | 10,000 |
| Increase in advances by borrowers for taxes and insurance | 500 | 504 |
| Exercise of stock options | 101 | 1,047 |
| Dividends paid | (7,025) | (6,784) |
| Purchase of treasury stock | | (1,112) |
| Tax benefit of stock plans | | 337 |
| Net cash used in financing activities | (58,091) | (118,635) |
| Net decrease in cash and due from banks | (817) | (2,748) |
| Cash and due from banks at beginning of period | 27,547 | 32,204 |
| Cash and due from banks at end of period | \$ 26,730 | \$ 29,456 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 35,718 | \$ 47,590 |
| Income taxes | 4,529 | 227 |
| Non cash activities: | | |
| Transfer of loans receivable to real estate owned | 1,141 | 772 |
| Transfer of securities sold under agreements to repurchase to advances | | 21,000 |

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, LLC, and OceanFirst Services, LLC. The operations of Columbia Home Loans, LLC (Columbia) were shuttered in late 2007.

The interim consolidated financial statements reflect all normal and recurring adjustments which are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. The results of operations for the three and nine months ended September 30, 2008 are not necessarily indicative of the results of operations that may be expected for all of 2008.

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, 2007.

Earnings per Share

The following reconciles shares outstanding for basic and diluted earnings per share for the three and nine months ended September 30, 2008 and 2007 (in thousands):

| | Three months ended | | Nine months ended | |
|--|---------------------------|----------------------|--------------------------|----------------------|
| | September 30, | September 30, | September 30, | September 30, |
| | 2008 | 2007 | 2008 | 2007 |
| Weighted average shares issued net of Treasury shares | 12,365 | 12,329 | 12,359 | 12,317 |
| Less: Unallocated ESOP shares | (614) | (681) | (623) | (710) |
| Unallocated incentive award shares and shares held by deferred compensation plan | (73) | (87) | (75) | (85) |
| Average basic shares outstanding | 11,678 | 11,561 | 11,661 | 11,522 |
| Add: Effect of dilutive securities: | | | | |
| Stock options | 27 | 15 | 12 | |
| Incentive awards and shares held by deferred compensation plan | 46 | 67 | 49 | |
| Average diluted shares outstanding | 11,751 | 11,643 | 11,722 | 11,522 |

For the three months ended September 30, 2008 and 2007, 1,200,000 and 1,408,000, respectively, antidilutive stock options were excluded from earnings per share calculations. For the nine months ended September 30, 2008 and 2007, 1,267,000 and 1,312,000, respectively, antidilutive stock options were excluded from earnings per share calculations. In addition, for the nine months ended September 30, 2007, 113,000 antidilutive potential shares of common stock have been excluded from the calculation of average diluted shares outstanding, as the Company incurred a net loss for the period.

Comprehensive Income (Loss)

For the three month periods ended September 30, 2008 and 2007, total comprehensive income, representing net income plus or minus the change in unrealized gains or losses on securities available for sale amounted to \$1,685,000 and \$1,224,000, respectively. For the nine month periods ended September 30, 2008 and 2007, total comprehensive income (loss) amounted to \$5,764,000 and \$(4,253,000), respectively.

Table of Contents**Note 2. Loans Receivable, Net**

Loans receivable, net at September 30, 2008 and December 31, 2007 consisted of the following (in thousands):

| | September 30, 2008 | December 31, 2007 |
|---|---------------------|---------------------|
| Real estate: | | |
| One-to-four family | \$ 1,052,411 | \$ 1,084,687 |
| Commercial real estate, multi-family and land | 328,711 | 326,707 |
| Construction | 7,889 | 10,816 |
| Consumer | 215,291 | 213,282 |
| Commercial | 55,982 | 54,279 |
| Total loans | 1,660,284 | 1,689,771 |
| Loans in process | (2,795) | (2,452) |
| Deferred origination costs, net | 5,207 | 5,140 |
| Allowance for loan losses | (11,218) | (10,468) |
| Total loans, net | 1,651,478 | 1,681,991 |
| Less: Mortgage loans held for sale | 4,161 | 6,072 |
| Loans receivable, net | \$ 1,647,317 | \$ 1,675,919 |

An analysis of the allowance for loan losses for the three and nine months ended September 30, 2008 and 2007 is as follows (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---------------------------------|-------------------------------------|------------------|------------------------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Balance at beginning of period | \$ 10,919 | \$ 10,619 | \$ 10,468 | \$ 10,238 |
| Provision charged to operations | 400 | 75 | 1,175 | 525 |
| Charge-offs | (104) | (14) | (641) | (84) |
| Recoveries | 3 | 7 | 216 | 8 |
| Balance at end of period | \$ 11,218 | \$ 10,687 | \$ 11,218 | \$ 10,687 |

Note 3. Reserve for Repurchased Loans

An analysis of the reserve for repurchased loans for the three and nine months ended September 30, 2008 and 2007 follows (in thousands). The reserve is included in other liabilities in the accompanying statements of financial condition.

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|-----------------|------------------------------------|-----------------|
| | 2008 | 2007 | 2008 | 2007 |
| Balance at beginning of period | \$ 1,705 | \$ 5,397 | \$ 2,398 | \$ 9,600 |
| (Recovery) provision charged to operations | (50) | (200) | (211) | 3,760 |
| Loss on loans repurchased | (475) | (2,444) | (1,007) | (10,607) |
| Balance at end of period | \$ 1,180 | \$ 2,753 | \$ 1,180 | \$ 2,753 |

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The reserve for repurchased loans is 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, however, the actual types of loans which resulted in loss estimates primarily included subprime loans with 100% financing and all other subprime loans and, to a lesser extent, ALT-A and prime loans. At September 30, 2008, there was one unresolved prime loan repurchase request outstanding which is subject to an arbitration proceeding.

Table of Contents**Note 4. Deposits**

The major types of deposits at September 30, 2008 and December 31, 2007 were as follows (in thousands):

| <u>Type of Account</u> | <u>September 30, 2008</u> | <u>December 31, 2007</u> |
|---------------------------|---------------------------|--------------------------|
| Non-interest-bearing | \$ 111,604 | \$ 103,656 |
| Interest-bearing checking | 534,835 | 454,666 |
| Money market deposit | 83,563 | 84,287 |
| Savings | 205,636 | 187,095 |
| Time deposits | 380,110 | 454,086 |
| | \$ 1,315,748 | \$ 1,283,790 |

Note 5. Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities . SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Company adopted the statement effective January 1, 2008. The adoption of SFAS No. 159 did not have a material impact on the Company s financial statements as the Company did not choose to measure any additional financial instruments or certain other items at fair value.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements . This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this statement does not require any new fair value measurements. The Company adopted the statement effective January 1, 2008. The adoption of SFAS No. 157 did not have a material impact on the Company s operations. In February 2008, Financial Accounting Standards Board Staff Position (FSP) No. 157-2, Effective Date of FASB Statement No. 157 was issued. FSP No. 157-2 delayed the application of SFAS No. 157 for non-financial assets and non-financial liabilities until January 1, 2009. In October 2008, FSP No. 157-3 Determining the Fair Value of a Financial Asset When the Market for that Asset Is Not Active was issued which clarifies the applications of SFAS No. 157 in a market that is not active.

In June 2007, the Emerging Issues Task Force (EITF) of the FASB issued EITF 06-11 which provides guidance on how an entity should recognize the income tax benefit received on dividends that are (a) paid to employees holding equity-classified nonvested shares, equity-classified nonvested share units, or equity-classified outstanding share options and (b) charged to retained earnings under SFAS No. 123(R). The Company adopted EITF 06-11 effective January 1, 2008. The adoption of EITF 06-11 did not have a material impact on the Company s financial statements.

In June 2008, EITF 03-6-1 was issued which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share. EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of EITF 03-6-1 is not expected to have a material impact on the Company s financial statements.

Note 6. Fair Value Measurements

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair market measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or the most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes

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exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

SFAS No. 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, SFAS No. 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example, interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlations or other means.

Level 3 Inputs Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available for Sale 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 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.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of September 30, 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (dollars in thousands):

| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
|-------------------------------|---------------------------|---------------------------|---------------------------|-----------------------------|
| Securities available for sale | \$ 741 | \$ 88,055 | \$ | \$ 88,796 |

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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). Financial assets and liabilities measured at fair value on a non-recurring basis were not significant as of September 30, 2008.

SFAS No. 157 will be applicable to certain non-financial assets and non-financial liabilities measured at fair value on a recurring and non-recurring basis, such as real estate owned, beginning January 1, 2009.

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, 2007 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, 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, 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, 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 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.

During 2008, short-term interest rates declined and the interest rate yield curve steepened as compared to 2007. The changing interest rate 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. Also during 2008, there has been a general weakening of the overall economy coupled with continued 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.

The Company incurred a net loss for the nine months ended September 30, 2007 due to losses at Columbia, the Company's mortgage banking subsidiary, relating to the origination of subprime loans. In March 2007, Columbia discontinued the origination of all subprime loans and in September 2007, the Bank discontinued all loan origination activity at Columbia. At September 30, 2008, the Bank was still holding subprime loans with a gross principal balance of \$5.6 million and a carrying value, net of reserves and lower of cost or market adjustment, of \$3.5 million and ALT-A loans with a gross principal balance of \$7.3 million and a carrying value, net of reserves and lower of cost or market adjustment, of \$6.3 million.

Table of Contents**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.

The following tables set forth certain information relating to the Company for the three and nine months ended September 30, 2008 and 2007. 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 SEPTEMBER 30, | | | | | |
|--|--|-----------|---|--------------------|-----------|---------------------------|
| | 2008 | | | 2007 | | |
| | AVERAGE BALANCE | INTEREST | AVERAGE YIELD/ COST (Dollars in thousands) | AVERAGE BALANCE | INTEREST | AVERAGE YIELD/ COST |
| Assets | | | | | | |
| Interest-earning assets: | | | | | | |
| Interest-earning deposits and short-term investments | \$ 13,123 | \$ 43 | 1.31% | \$ 17,191 | \$ 217 | 5.05% |
| Investment securities (1) | 60,379 | 524 | 3.47 | 62,836 | 895 | 5.70 |
| FHLB stock | 19,019 | 321 | 6.75 | 22,432 | 478 | 8.52 |
| Mortgage-backed securities (1) | 44,984 | 525 | 4.67 | 60,539 | 688 | 4.55 |
| Loans receivable, net (2) | 1,636,707 | 23,821 | 5.82 | 1,696,679 | 25,945 | 6.12 |
| Total interest-earning assets | 1,774,212 | 25,234 | 5.69 | 1,859,677 | 28,223 | 6.07 |
| Non-interest-earning assets | 91,203 | | | 102,284 | | |
| Total assets | \$ 1,865,415 | | | \$ 1,961,961 | | |
| Liabilities and Stockholders Equity | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Transaction deposits | \$ 799,671 | 3,299 | 1.65 | \$ 727,233 | 3,837 | 2.11 |
| Time deposits | 392,893 | 2,957 | 3.01 | 488,688 | 5,489 | 4.49 |
| Total | 1,192,564 | 6,256 | 2.10 | 1,215,921 | 9,326 | 3.07 |
| Borrowed funds | 417,873 | 4,348 | 4.16 | 489,662 | 6,066 | 4.96 |
| Total interest-bearing liabilities | 1,610,437 | 10,604 | 2.63 | 1,705,583 | 15,392 | 3.61 |
| Non-interest-bearing deposits | 113,303 | | | 116,895 | | |
| Non-interest-bearing liabilities | 18,050 | | | 16,834 | | |
| Total liabilities | 1,741,790 | | | 1,839,312 | | |
| Stockholders equity | 123,625 | | | 122,649 | | |
| Total liabilities and stockholders equity | \$ 1,865,415 | | | \$ 1,961,961 | | |
| Net interest income | | \$ 14,630 | | | \$ 12,831 | |
| Net interest rate spread (3) | | | 3.06% | | | 2.46% |
| Net interest margin (4) | | | 3.30% | | | 2.76% |

| | FOR THE NINE MONTHS ENDED SEPTEMBER 30, | | | | | |
|--|---|-----------|---|--------------------|-----------|---------------------------|
| | 2008 | | | 2007 | | |
| | AVERAGE BALANCE | INTEREST | AVERAGE YIELD/ COST (Dollars in thousands) | AVERAGE BALANCE | INTEREST | AVERAGE YIELD/ COST |
| Assets | | | | | | |
| Interest-earning assets: | | | | | | |
| Interest-earning deposits and short-term investments | \$ 11,949 | \$ 185 | 2.06% | \$ 11,212 | \$ 430 | 5.11% |
| Investment securities (1) | 62,074 | 2,374 | 5.10 | 69,980 | 3,661 | 6.98 |
| FHLB stock | 20,280 | 1,228 | 8.07 | 24,575 | 1,403 | 7.61 |
| Mortgage-backed securities (1) | 48,650 | 1,710 | 4.69 | 63,912 | 2,127 | 4.44 |
| Loans receivable, net (2) | 1,653,794 | 72,926 | 5.88 | 1,743,488 | 79,528 | 6.08 |
| Total interest-earning assets | 1,796,747 | 78,423 | 5.82 | 1,913,167 | 87,149 | 6.07 |
| Non-interest-earning assets | 93,887 | | | 101,345 | | |
| Total assets | \$ 1,890,634 | | | \$ 2,014,512 | | |
| Liabilities and Stockholders Equity | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Transaction deposits | \$ 772,577 | 9,643 | 1.66 | \$ 723,194 | 11,116 | 2.05 |
| Time deposits | 419,712 | 11,184 | 3.55 | 501,697 | 16,662 | 4.43 |
| Total | 1,192,289 | 20,827 | 2.33 | 1,224,891 | 27,778 | 3.02 |
| Borrowed funds | 447,750 | 14,469 | 4.31 | 529,584 | 19,431 | 4.89 |
| Total interest-bearing liabilities | 1,640,039 | 35,296 | 2.87 | 1,754,475 | 47,209 | 3.59 |
| Non-interest-bearing deposits | 110,157 | | | 115,299 | | |
| Non-interest-bearing liabilities | 17,121 | | | 19,153 | | |
| Total liabilities | 1,767,317 | | | 1,888,927 | | |
| Stockholders equity | 123,317 | | | 125,585 | | |
| Total liabilities and stockholders equity | \$ 1,890,634 | | | \$ 2,014,512 | | |
| Net interest income | | \$ 43,127 | | | \$ 39,940 | |
| Net interest rate spread (3) | | | 2.95% | | | 2.48% |
| Net interest margin (4) | | | 3.20% | | | 2.78% |

(1) Amounts are recorded at average amortized cost.

(2) 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.

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Comparison of Financial Condition at September 30, 2008 and December 31, 2007

Total assets at September 30, 2008 were \$1.876 billion, a decrease of \$51.2 million, compared to \$1.927 billion at December 31, 2007.

Loans receivable, net decreased by \$28.6 million to a balance of \$1.647 billion at September 30, 2008, compared to a balance of \$1.676 billion at December 31, 2007 primarily related to increased prepayments and the Bank's ongoing strategy to sell newly-originated select one-to-four family loans partly offset by growth in commercial real estate of \$12.0 million.

Deposit balances increased \$32.0 million to \$1.316 billion at September 30, 2008 from \$1.284 billion at December 31, 2007. Core deposits, defined as all deposits excluding time deposits, increased \$105.9 million partly offset by a \$74.0 million decrease in certificates of deposit as the Bank continued to moderate its pricing for this product. Total Federal Home Loan Bank borrowings decreased by \$81.5 million to \$323.5 million at September 30, 2008 as compared to \$405.0 million at December 31, 2007 primarily due to the reduction in loans receivable, net and the increase in deposits.

Stockholders' equity at September 30, 2008 was \$124.0 million compared to \$124.3 million at December 31, 2007. Stockholders' equity was reduced by an increase in accumulated other comprehensive loss and the cash dividend partly offset by net income.

Comparison of Operating Results for the Three and Nine Months Ended September 30, 2008 and September 30, 2007

General

Net income for the three months ended September 30, 2008 was \$3.7 million or \$.32 per diluted share, as compared to net income of \$3.1 million, or \$.27 per diluted share, for the corresponding prior year period. For the nine months ended September 30, 2008, net income was \$11.3 million, or \$.96 per diluted share, as compared to a net loss of \$2.0 million or \$.18 per share for the corresponding prior year period.

Interest Income

Interest income for the three and nine months ended September 30, 2008 was \$25.2 million and \$78.4 million, respectively, as compared to \$28.2 million and \$87.1 million, respectively, for the three and nine months ended September 30, 2007. The yield on interest-earning assets declined to 5.69% and 5.82%, respectively, for the three and nine months ended September 30, 2008 as compared to 6.07% for both the same prior year periods. Additionally, average interest-earning assets decreased by \$85.5 million and \$116.4 million, respectively, for the three and nine months ended September 30, 2008 as compared to the same prior year period primarily reflective of the shuttering of Columbia's mortgage banking operations.

Interest Expense

Interest expense for the three and nine months ended September 30, 2008 was \$10.6 million and \$35.3 million, respectively, compared to \$15.4 million and \$47.2 million, respectively, for the three and nine months ended September 30, 2007. The cost of interest-bearing liabilities decreased to 2.63% and 2.87%, respectively, for the three and nine months ended September 30, 2008, as compared to 3.61% and 3.59%, respectively, in the same prior year periods. Additionally, average interest-bearing liabilities decreased by \$95.1 million and \$114.4 million, respectively, for the three and nine months ended September 30, 2008, as compared to the same prior year periods.

Net Interest Income

Net interest income for the three and nine months ended September 30, 2008 increased to \$14.6 million and \$43.1 million, respectively, as compared to \$12.8 million and \$39.9 million, respectively, in the same prior year periods reflecting a higher net interest margin partly offset by lower levels of interest-earning assets. The net interest margin increased to 3.30% and 3.20%, respectively, for the three and nine months ended September 30, 2008 from 2.76% and 2.78%, respectively, in the same prior year periods.

Provision for Loan Losses

For the three and nine months ended September 30, 2008, the Bank's provision for loan losses was \$400,000 and \$1.2 million, respectively, compared to \$75,000 and \$525,000, respectively, in the same prior year periods. Non-performing loans increased \$3.7 million at September 30, 2008 to \$12.5 million from \$8.7 million at December 31, 2007. The non-performing loan total includes \$1.4 million of repurchased one-to-four family and home-equity loans and \$3.8 million of one-to-four family and home-equity loans which had been held for sale, and were previously

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written down to their fair market value, including an individual assessment of each loan's potential credit impairment. Loans receivable, net declined modestly during the first nine months of 2008 while net charge-offs for the three and nine months ended September 30, 2008 were \$101,000 and \$425,000, respectively, as compared to \$7,000 and \$76,000 in the same prior year periods. The increase in the provision for loan losses was primarily due to the increase in non-performing loans and the increase in net charge-offs.

Table of Contents**Other Income (Loss)**

Other income amounted to \$3.6 million and \$10.0 million, respectively, for the three and nine months ended September 30, 2008, compared to other income of \$4.6 and a net loss of \$1.6 million, respectively, for the same prior year periods. The net gain (loss) and lower of cost or market adjustment on sales of loans and securities available for sale was \$466,000 and \$344,000, respectively, for the three and nine months ended September 30, 2008 as compared to a net gain of \$1.2 million and a loss of \$11.7 million, respectively, for the three and nine months ended September 30, 2007. The net gain for the three months ended September 30, 2008 includes a gain of \$117,000 on the sale of an investment security. The net gain for the nine months ended September 30, 2008 includes a \$902,000 loss on investment securities transactions. The net loss for the nine months ended September 30, 2007 includes a \$9.4 million charge by Columbia to reduce loans held for sale to their current fair market value, a \$1.3 million loss on the bulk sale of subprime loans and a \$3.8 million charge to supplement the reserve for repurchased loans. For the three and nine months ended September 30, 2008, the Company recognized reversals of the provision for repurchased loans of \$50,000 and \$211,000, respectively.

Operating Expenses

Operating expenses were \$12.3 million and \$35.3 million, respectively, for the three and nine months ended September 30, 2008, as compared to \$12.6 million and \$41.4 million, respectively, in the same prior year periods. The decrease in operating expenses is primarily due to the shuttering of Columbia in late 2007 which eliminated most, but not all, of the expenses related to this entity. Also, operating expenses for the three and nine months ended September 30, 2007 included an expense of \$1.0 million representing the write-off of the previously established goodwill on the acquisition of Columbia. Operating expenses for the three and nine months ended September 30, 2008 also benefited from a reduction in retirement plan expense. Operating expenses for the three and nine months ended September 30, 2008 include costs relating to the opening of new branches in Freehold, Waretown and Bayville, New Jersey. Additionally, the Company experienced increased charges relating to vacant office space at Columbia as well as continued elevated professional fees. The elevated professional fees were related to a number of areas, including revision of Bank benefit plans for regulatory compliance and costs associated with Columbia.

Provision (benefit) for Income Taxes

Income tax expense (benefit) was an expense of \$1.9 million and \$5.4 million, respectively, for the three and nine months ended September 30, 2008, as compared to an expense of \$1.6 million and a benefit of \$1.6 million, respectively, for the same prior year periods.

Liquidity and Capital Resources

The Company's primary sources of funds are deposits, principal and interest payments on loans and mortgage-backed securities, proceeds from the sale of loans, Federal Home Loan Bank (FHLB) and other borrowings and, to a lesser extent, investment maturities. While scheduled amortization of loans is a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by 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 September 30, 2008, the Company had outstanding overnight borrowings from the FHLB of \$22.5 million as compared to \$58.0 million in overnight borrowings at December 31, 2007. The Company utilizes the overnight line to fund short-term liquidity needs. The Company had total FHLB borrowings, including overnight borrowings, of \$323.5 million at September 30, 2008, a decrease from \$405.0 million at December 31, 2007.

The Company's cash needs for the nine months ended September 30, 2008 were primarily satisfied by principal payments on loans and mortgage-backed securities, proceeds from the sale of mortgage loans held for sale and increased deposits. The cash was principally utilized for loan originations and to reduce borrowings. For the nine months ended September 30, 2007, the cash needs of the Company were primarily satisfied by principal payments on loans and mortgage-backed securities, maturities or calls of investment securities, proceeds from the sale of mortgage loans held for sale and the issuance of debt in the form of trust preferred securities. The cash provided was principally used for loan originations and repurchases, to fund deposit outflows and reduce Federal Home Loan Bank 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 September 30, 2008, outstanding commitments to originate loans totaled \$38.9 million; outstanding unused lines of credit totaled \$184.2 million; and outstanding commitments to sell loans totaled \$10.6 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 \$281.4 million at September 30, 2008. Based upon historical experience management estimates that a significant portion of such deposits will remain with the Company.

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Under the Company's stock repurchase programs, shares of OceanFirst Financial Corp. common stock may be purchased in the open market and through other privately-negotiated transactions, from time-to-time, depending on market conditions. The repurchased shares are held as treasury stock for general corporate use. For the nine months ended September 30, 2008, the Company did not purchase any shares of common stock compared with purchases of 49,701 shares for the nine months ended September 30, 2007 at a total cost of \$1.1 million. At September 30, 2008, there were 489,062 shares remaining to be repurchased under the existing stock repurchase program. Cash dividends declared and paid during the first nine months of 2008 were \$7.0 million as compared to \$6.8 million in the same prior year period. On October 22, 2008, the Board of Directors declared a quarterly cash dividend of twenty cents (\$.20) per common share. The dividend is payable on November 14, 2008 to stockholders of record at the close of business on October 31, 2008.

The primary sources of liquidity specifically available to OceanFirst Financial Corp., the holding company of OceanFirst Bank, are capital distributions from the banking subsidiary, borrowings and the issuance of debt and trust preferred securities. For the first nine months of 2008, OceanFirst Financial Corp. received a \$1.6 million dividend payment from OceanFirst Bank which was supplemented by existing liquidity. OceanFirst Financial Corp.'s ability to continue to pay dividends and repurchase stock 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 has the regulatory authority to require the Bank to maintain tier one core and total risk-based capital ratios that are higher than those required to be well capitalized, which may restrict the Bank's ability to pay dividends to the Company. If the Company requires dividends from the Bank to meet its liquidity needs, it will file the required notice with the OTS; however, the Company cannot predict whether the OTS will approve the Bank's request to pay a dividend to OceanFirst Financial Corp. The OTS may disapprove a proposed dividend, notwithstanding the Bank's compliance with its capital requirements, if the dividend raises safety and soundness concerns or if the dividend would violate a prohibition contained in any statute, regulation or agreement between the Bank and the OTS or a condition imposed on the Bank by the OTS. If the OTS disapproves the Bank's request to pay a dividend to the Company, the Company may not have the liquidity necessary to pay a dividend in the future or pay a dividend at the same rate as historically paid, or be able to repurchase its stock. At September 30, 2008, OceanFirst Financial Corp. held \$1.7 million in cash and \$2.4 million in investment securities available for sale. Additionally, OceanFirst Financial Corp. has an available line of credit for up to \$4.0 million which was not drawn upon at September 30, 2008.

At September 30, 2008, the Bank exceeded all of its regulatory capital requirements with tangible capital of \$149.8 million, or 7.9% of total adjusted assets, which is above the required level of \$28.3 million or 1.5%; core capital of \$149.8 million or 7.9% of total adjusted assets, which is above the required level of \$56.6 million, or 3.0%; and risk-based capital of \$159.9 million, or 12.5% of risk-weighted assets, which is above the required level of \$102.0 million or 8.0%. The Bank is considered a well-capitalized institution under the Office of Thrift Supervision's Prompt Corrective Action Regulations.

In October 2008, the United States Treasury announced a Capital Purchase Program (the Program) for qualified financial institutions. Under the Program, the Company would be able to issue Senior Preferred Stock and Warrants to the U.S. Treasury equal to 1% to 3% of risk-weighted assets, or \$12.8 million to \$38.3 million. The Senior Preferred Stock will pay cumulative dividends at the rate of 5% per annum until the fifth anniversary of the date of investment and thereafter at a rate of 9% per annum. In addition, the U.S. Treasury would receive warrants with a term of 10 years to purchase a number of shares of common stock having an aggregate market price equal to 15% of the Senior Preferred Stock amount. The Program has many other terms and conditions, some of which have not been finalized. Although the Bank is well-capitalized, the Company is considering participation in the Program. The application deadline under the Program is November 14, 2008 and any funding would be expected to occur before year end.

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 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 \$10.6 million.

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The following table shows the contractual obligations of the Company by expected payment period as of September 30, 2008 (in thousands):

| Contractual Obligation | Total | Less than | | More than | |
|--|------------|------------|------------|-----------|-----------|
| | | One year | 1-3 years | 3-5 years | 5 years |
| Debt Obligations | \$ 418,682 | \$ 213,182 | \$ 143,000 | \$ 35,000 | \$ 27,500 |
| Commitments to Originate Loans | 38,948 | 38,948 | | | |
| Commitments to Fund Unused Lines of Credit | 184,206 | 184,206 | | | |

Debt obligations include borrowings from the FHLB, Securities Sold under Agreements to Repurchase and other borrowings. The borrowings have defined terms and, under certain circumstances, \$15.0 million of the borrowings from the FHLB are callable at the option of the lender and \$27.5 million of the other borrowings are callable at the option of the Company.

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-accrual loans and Real Estate Owned (REO). It is the policy of the Company to cease accruing interest on loans 90 days or more past due or in the process of foreclosure.

| | September 30, 2008 | December 31, 2007 |
|----------------------------------|------------------------|----------------------|
| | (dollars in thousands) | |
| Non-performing loans: | | |
| Real estate - One-to-four family | \$ 8,332 | \$ 6,620 |
| Commercial Real Estate | 3,179 | 1,040 |
| Construction | | |
| Consumer | 844 | 586 |
| Commercial | 129 | 495 |
| Total non-performing loans | 12,484 | 8,741 |
| REO, net | 654 | 438 |
| Total non-performing assets | \$ 13,138 | \$ 9,179 |

| | | |
|--|-------|--------|
| Allowance for loan losses as a percent of total loans receivable | .68% | .62% |
| Allowance for loan losses as percent of total non-performing loans | 89.86 | 119.76 |
| Non-performing loans as a percent of total loans receivable | .75 | .52 |
| Non-performing assets as a percent of total assets | .70 | .48 |

The non-performing loan total includes \$1.4 million of repurchased one-to-four family and consumer loans and \$3.8 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. The increase in non-performing loans is primarily related to one commercial loan relationship totaling \$1.9 million which became non-performing during 2008. The loan relationship is well secured by adequate commercial real estate collateral. Additionally, non-performing one-to-four family loans increased \$1.7 million. The Company also classifies assets in accordance with certain regulatory guidelines. At September 30, 2008, the Company had \$7.2 million designated as Special Mention, \$15.0 million classified as Substandard and \$15,000 classified as Doubtful as compared to \$8.2 million, \$12.4 million and \$15,000, respectively, at December 31, 2007. The largest Substandard relationship at September 30, 2008 is comprised of two loans totaling \$2.2 million for a service business for which operating revenue is not currently supporting the debt obligation. The largest Special Mention relationship at September 30, 2008 comprised several credit facilities to a large, real estate agency with an aggregate balance of \$3.3 million which was current as to payments, but criticized due to poor operating results. The loans are secured by commercial real estate and the personal guarantee of the principals.

Table of Contents**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 2007 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 September 30, 2008 which were anticipated by the Company, based upon certain assumptions, to reprice or mature in each of the future time periods shown. At September 30, 2008, the Company's one-year gap was negative 7.58% as compared to negative 9.57% at December 31, 2007.

| At September 30, 2008 (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 | \$ 7,711 | \$ | \$ | \$ | \$ | \$ 7,711 |
| Investment securities | 58,573 | | 303 | | 370 | 59,246 |
| FHLB stock | | | | | 19,130 | 19,130 |
| Mortgage-backed securities | 5,891 | 20,289 | 9,783 | 6,329 | 656 | 42,948 |
| Loans receivable (2) | 240,881 | 391,248 | 530,212 | 253,802 | 242,003 | 1,658,146 |
| Total interest-earning assets | 313,056 | 411,537 | 540,298 | 260,131 | 262,159 | 1,787,181 |
| Interest-bearing liabilities: | | | | | | |
| Money market deposit accounts | 3,798 | 11,395 | 30,387 | 37,983 | | 83,563 |
| Savings accounts | 11,119 | 27,788 | 74,102 | 92,627 | | 205,636 |
| Interest-bearing checking accounts | 248,016 | 40,958 | 109,221 | 136,640 | | 534,835 |
| Time deposits | 78,361 | 203,005 | 72,486 | 20,549 | 5,709 | 380,110 |
| FHLB advances | 47,500 | 98,000 | 143,000 | 35,000 | | 323,500 |
| Securities sold under agreements to repurchase | 67,682 | | | | | 67,682 |
| Other borrowings | 22,500 | | | | 5,000 | 27,500 |
| Total interest-bearing liabilities | 478,976 | 381,146 | 429,196 | 322,799 | 10,709 | 1,622,826 |
| Interest sensitivity gap (3) | \$ (165,920) | \$ 30,391 | \$ 111,102 | \$ (62,668) | \$ 251,450 | \$ 164,355 |
| Cumulative interest sensitivity gap | \$ (165,920) | \$ (135,529) | \$ (24,427) | \$ (87,095) | \$ 164,355 | \$ 164,355 |
| Cumulative interest sensitivity gap as a percent of total interest-earning assets | (9.28)% | (7.58)% | (1.37)% | (4.87)% | 9.20% | 9.20% |

- (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.

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 September 30, 2008 and December 31, 2007. 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, 2007.

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| Change in Interest Rates in Basis | September 30, 2008 | | | | | | December 31, 2007 | | | |
|---|---------------------|----------|-----------|---------------------|----------|------------|---------------------|-----------|---------------------|----------|
| | Net Portfolio Value | | | Net Interest Income | | | Net Portfolio Value | | Net Interest Income | |
| | Amount | % Change | NPV Ratio | Amount | % Change | Amount | % Change | NPV Ratio | Amount | % Change |
| Points (Rate Shock) (dollars in thousands) | | | | | | | | | | |
| 200 | 147,656 | (22.0)% | 8.3% | 56,232 | (8.0)% | \$ 125,181 | (25.3)% | 6.8% | \$ 51,081 | (10.2)% |
| 100 | 171,142 | (9.6) | 9.4 | 58,962 | (3.5) | 149,672 | (10.7) | 8.0 | 54,350 | (4.4) |
| Static | 189,378 | | 10.2 | 61,100 | | 167,675 | | 8.7 | 56,872 | |
| (100) | 193,596 | 2.2 | 10.2 | 61,329 | 0.4 | 171,050 | 2.0 | 8.8 | 57,770 | 1.6 |
| (200) | 181,702 | (4.1) | 9.6 | 57,482 | (5.9) | 163,057 | (2.8) | 8.4 | 56,245 | (1.1) |

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 September 30, 2008 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 2007 Annual Report on Form 10-K. There were no other material changes in risk factors relevant to the Company's operations since December 31, 2007 except as discussed below.

Changes in the fair value of securities may reduce stockholders' equity and net income.

At September 30, 2008, the Company maintained a securities portfolio of \$88.8 million all of which was classified as available for sale. The estimated fair value of the available for sale securities portfolio may increase or decrease depending on the credit quality of the underlying issuer, market liquidity, changes in interest rates and other factors. Stockholders' equity is increased or decreased by the amount of the change in the unrealized gain or loss (difference between the estimated fair value and the amortized cost) of the available for sale securities portfolio, net of the related tax benefit, under the category of accumulated other comprehensive income/loss. Therefore, a decline in the estimated fair value of this portfolio will result in a decline in reported stockholders' equity, as well as book value per common share. The decrease will occur even though the securities are not sold.

The Company conducts a periodic review and evaluation of the securities portfolio to determine if the decline in the fair value of any security below its cost basis is other-than-temporary. Factors which are considered in the analysis include, but are not limited to, the severity and duration of the decline in fair value of the security, the financial condition and near-term prospects of the issuer, whether the decline appears to be related to issuer conditions or general market or industry conditions, the intent and ability to retain the security for a period of time sufficient to allow for any anticipated recovery in fair value and the likelihood of any near-term fair value recovery. If such decline is deemed to be other-than-temporary, the security is written down to a new cost basis and the resulting loss is charged to earnings as a component of non-interest income.

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At September 30, 2008, the securities available for sale portfolio included corporate trust preferred securities issued by national and regional banks. The portfolio consisted of eleven \$5,000,000 issues spread between eight issuers. At September 30, 2008, the securities had a book value of \$55.0 million and an estimated fair value of \$40.8 million. The Company may be required to recognize an other-than-temporary impairment charge related to these securities if the fair values do not recover in the future.

Table of ContentsProposed increases in Federal deposit insurance will adversely affect the Company's earnings.

The Federal Deposit Insurance Corp. (FDIC) has proposed new rules which will increase deposit insurance assessment rates and alter the way it differentiates for risk in the risk-based assessment system. The proposed rule will likely increase the Company's Federal deposit insurance beginning in 2009.

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

Information regarding the Company's common stock repurchases for the three month period ended September 30, 2008 is as follows:

| Period | Total Number of Shares Purchased | Average price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|--|----------------------------------|------------------------------|--|--|
| July 1, 2008 through July 31, 2008 | -0- | -0- | -0- | 489,062 |
| August 1, 2008 through August 31, 2008 | -0- | -0- | -0- | 489,062 |
| September 1, 2008 through September 30, 2008 | -0- | -0- | -0- | 489,062 |

On July 19, 2006, the Company announced its intention to repurchase up to an additional 615,883 shares, or 5%, of its outstanding common stock.

Item 3. Defaults Upon Senior Securities

Not Applicable

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

Not Applicable

Item 5. Other Information

Not Applicable

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 Rule 13a-14(a)/15d-14(c) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(c) Certification of Chief Financial Officer
- 32.0 Section 1350 Certifications

* 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.

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** Incorporated herein by reference into this document from the Exhibit to Form 10-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.

DATE: November 10, 2008

OceanFirst Financial Corp.
Registrant

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

DATE: November 10, 2008

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

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| Exhibit | Description | Page |
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| 31.2 | Rule 13a-14(a)/15d-14(c) Certification of Chief Financial Officer | 22 |
| 32.0 | Section 1350 Certifications | 23 |