

TF FINANCIAL CORP  
Form 10-Q  
November 13, 2007

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM 10-Q

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

For the period ended September 30, 2007

- or -

**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: 0-24168

## TF FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of Incorporation  
or Organization)

**3 Penns Trail, Newtown, Pennsylvania**  
(Address of Principal Executive Offices)

**74-2705050**  
(I.R.S. Employer Identification No.)

**18940**  
(Zip Code)

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Registrant's telephone number, including area code: **(215) 579-4000**

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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: **November 9, 2007**

Class	Outstanding
\$ .10 par value common stock	2,874,694 shares

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32. Certification pursuant of Section 906 of the Sarbanes-Oxley Act of 2002

## TF Financial Corporation and Subsidiaries

## CONSOLIDATED BALANCE SHEETS

	Unaudited September 30, 2007	Audited December 31, 2006
	(in thousands)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,863	\$ 12,364
Certificates of deposit in other financial institutions		40
Investment securities available for sale at fair value	28,827	34,524
Investment securities held to maturity (fair value of \$461 and \$681, respectively)	459	677
Mortgage-backed securities available for sale at fair value	80,262	74,338
Mortgage-backed securities held to maturity (fair value of \$6,565 and \$7,788, respectively)	6,468	7,697
Loans receivable, net	510,966	483,570
Loans receivable held for sale	210	969
Federal Home Loan Bank stock at cost	7,883	7,130
Accrued interest receivable	2,966	3,030
Premises and equipment, net	6,382	6,544
Goodwill	4,324	4,324
Bank-owned life insurance	15,728	15,274
Other assets	3,455	2,122
<b>TOTAL ASSETS</b>	<b>\$ 672,793</b>	<b>652,603</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Liabilities</b>		
Deposits	\$ 472,532	\$ 478,087
Borrowings from the Federal Home Loan Bank	124,272	101,701
Advances from borrowers for taxes and insurance	1,710	1,866
Accrued interest payable	3,822	3,177
Other liabilities	2,577	2,133
<b>Total liabilities</b>	<b>604,913</b>	<b>586,964</b>
<b>Stockholders equity</b>		
Preferred stock, no par value; 2,000,000 shares authorized at September 30, 2007 and December 31, 2006, none issued		
Common stock, \$0.10 par value; 10,000,000 shares authorized, 5,290,000 shares issued, 2,712,275 and 2,702,845 shares outstanding at September 30, 2007 and December 31, 2006, respectively, net of shares in treasury 2,414,929 and 2,415,766, respectively	529	529
Retained earnings	67,055	65,075
Additional paid-in capital	53,375	52,700
Unearned ESOP shares	(1,617)	(1,703)
Treasury stock at cost	(49,987)	(48,980)
Accumulated other comprehensive loss	(1,475)	(1,982)
<b>Total stockholders equity</b>	<b>67,880</b>	<b>65,639</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 672,793</b>	<b>\$ 652,603</b>

The accompanying notes are an integral part of these statements



## TF Financial Corporation and Subsidiaries

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2007	2006	2007	2006
	(in thousands, except per share data)			
Interest income				
Loans, including fees	\$ 8,262	\$ 8,243	\$ 24,027	\$ 24,081
Mortgage-backed securities	1,054	872	2,993	2,841
Investment securities	393	453	1,231	1,354
Interest-bearing deposits and other	11	43	97	65
<b>TOTAL INTEREST INCOME</b>	<b>9,720</b>	<b>9,611</b>	<b>28,348</b>	<b>28,341</b>
Interest expense				
Deposits	3,530	2,949	10,176	7,757
Borrowings	1,211	1,144	3,246	3,880
<b>TOTAL INTEREST EXPENSE</b>	<b>4,741</b>	<b>4,093</b>	<b>13,422</b>	<b>11,637</b>
<b>NET INTEREST INCOME</b>	<b>4,979</b>	<b>5,518</b>	<b>14,926</b>	<b>16,704</b>
Provision for loan losses				150
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>4,979</b>	<b>5,518</b>	<b>14,926</b>	<b>16,554</b>
Non-interest income				
Service fees, charges and other operating income	503	535	1,564	1,606
Bank-owned life insurance	153	126	454	374
Gain on sale of loans	52	152	169	190
Loss on sale of mortgage-backed securities available for sale				(51)
Other income			777	
<b>TOTAL NON-INTEREST INCOME</b>	<b>708</b>	<b>813</b>	<b>2,964</b>	<b>2,119</b>
Non-interest expense				
Compensation and benefits	2,598	2,693	7,946	8,015
Occupancy and equipment	729	772	2,133	2,170
Professional fees	146	128	503	475
Marketing and advertising		176	326	528
Other operating	584	601	2,007	1,853
<b>TOTAL NON-INTEREST EXPENSE</b>	<b>4,057</b>	<b>4,370</b>	<b>12,915</b>	<b>13,041</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>1,630</b>	<b>1,961</b>	<b>4,975</b>	<b>5,632</b>
Income taxes	442	549	1,352	1,573

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NET INCOME	\$	1,188	\$	1,412	\$	3,623	\$	4,059
Earnings per share basic	\$	0.44	\$	0.52	\$	1.32	\$	1.50
Earnings per share diluted	\$	0.44	\$	0.52	\$	1.32	\$	1.49
Dividends paid	\$	0.20	\$	0.19	\$	0.60	\$	0.57

The accompanying notes are an integral part of these statements

## TF Financial Corporation and Subsidiaries

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the nine months ended September 30,	
	2007	2006
	(in thousands)	
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 3,623	\$ 4,059
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of		
Mortgage loan servicing rights	37	23
Deferred loan origination fees	(82)	(151)
Premiums and discounts on investment securities, net	67	49
Premiums and discounts on mortgage-backed securities, net	32	201
Premiums and discounts on loans, net	95	129
Discount on wholesale deposits	14	12
Core deposit intangibles		83
Provision for loan losses		150
Provision for decrease in fair value of mortgage servicing rights	7	5
Depreciation of premises and equipment	666	708
Increase in value of bank-owned life insurance	(454)	(373)
Stock grant expense	271	271
Stock option expense	293	287
Stock-based benefit programs: ESOP	253	402
Proceeds from sale of loans originated for sale	14,371	8,380
Origination of loans held for sale	(13,644)	(8,911)
(Gain) loss on sale of		
Mortgage loans available for sale	(169)	(60)
Mortgage-backed securities available for sale		51
Real estate acquired through foreclosure		(29)
Mortgage loans held to maturity		(130)
Income from mortgage loan derivatives	(1)	(1)
Expense associated with forward loan sales	2	3
(Increase) decrease in		
Accrued interest receivable	64	266
Other assets	(1,227)	(731)
Increase in		
Accrued interest payable	645	1,709
Other liabilities	312	138
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>5,175</b>	<b>6,540</b>
<b>INVESTING ACTIVITIES</b>		
Loan originations	(96,875)	(101,166)
Loan principal payments	68,190	71,412
Principal repayments on mortgage-backed securities held to maturity	1,224	2,133
Principal repayments on mortgage-backed securities available for sale	8,479	11,754
Proceeds from loan sales		16,251
Proceeds from sale of loan participations	1,276	5,027
Purchase of investment securities available for sale	(771)	(3,795)



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Purchase of mortgage-backed securities available for sale	(13,798)	
Proceeds from the sale of mortgaged-backed securities available for sale		4,971
Proceeds from maturity of investment securities available for sale	6,455	
Proceeds from maturities of investment securities held to maturity	220	3,018
Purchases of Federal Home Loan Bank stock, net	(753)	(102)
Purchase of premises and equipment	(504)	(896)
Proceeds from the sale of real estate acquired through foreclosure		729
Maturities of certificates of deposit in other financial institutions	40	
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	(26,817)	9,336

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	For the nine months ended September 30,	
	2007	2006
	(in thousands)	
<b>FINANCING ACTIVITIES</b>		
Net decrease in customer deposits	(5,569)	(135)
Net increase (decrease) in short-term borrowings from the Federal Home Loan Bank	11,495	(11,436)
Proceeds of long-term Federal Home Loan Bank borrowings	26,026	15,535
Repayment of long-term Federal Home Loan Bank borrowings	(14,950)	(13,993)
Net decrease in advances from borrowers for taxes and insurance	(156)	(631)
Treasury stock acquired	(3,239)	(1,421)
Exercise of stock options	1,814	312
Tax benefit arising from stock compensation	363	102
Common stock dividends paid	(1,643)	(1,538)
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<b>14,141</b>	<b>(13,205)</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(7,501)</b>	<b>2,671</b>
Cash and cash equivalents at beginning of period	12,364	3,821
Cash and cash equivalents at end of period	\$ 4,863	\$ 6,492
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for		
Interest on deposits and borrowings from Federal Home Loan Bank	\$ 12,777	\$ 9,928
Income taxes	\$ 830	\$ 1,415
<b>Non-cash transactions</b>		
Capitalization of mortgage servicing rights	\$ 210	\$ 126

The accompanying notes are an integral part of these statements

**TF FINANCIAL CORPORATION AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements as of September 30, 2007 (unaudited) and December 31, 2006 and for the three and nine-month periods ended September 30, 2007 and 2006 (unaudited) include the accounts of TF Financial Corporation (the Company) and its wholly owned subsidiaries Third Federal Bank (the Bank), TF Investments Corporation and Penns Trail Development Corporation. The Company's business is conducted principally through the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

**NOTE 2 - BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all of the disclosures or footnotes required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for fair presentation of the consolidated financial statements have been included. The results of operations for the period ended September 30, 2007 are not necessarily indicative of the results which may be expected for the entire fiscal year or any other period. For further information, refer to consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

**NOTE 3 - CONTINGENCIES**

The Company, from time to time, is a party to routine litigation that arises in the normal course of business. In the opinion of management, the resolution of this litigation, if any, would not have a material adverse effect on the Company's consolidated financial position or results of operations.

**NOTE 4 - OTHER COMPREHENSIVE INCOME**

The Company follows SFAS No. 130, Reporting Comprehensive Income. SFAS No. 130 establishes standards to provide prominent disclosure of comprehensive income items. Comprehensive income is the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The components of other comprehensive income are as follows for the three months ended:

	September 30, 2007		
Before tax amount	Tax (expense) benefit (in thousands)	Net of tax amount	

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Unrealized gains on securities						
Unrealized holding gains arising during period	\$	1,561	\$	(531)	\$	1,030
Pension plan benefit adjustment related to prior service costs and actuarial losses		27		(9)		18
Other comprehensive income, net	\$	1,588	\$	(540)	\$	1,048

		September 30, 2006				
	Before tax amount	Tax (expense) benefit (in thousands)		Net of tax amount		
Unrealized gains on securities						
Unrealized holding gains arising during period	\$	1,805	\$	(614)	\$	1,191
Other comprehensive income, net	\$	1,805	\$	(614)	\$	1,191

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The components of other comprehensive loss are as follows for the nine months ended:

	September 30, 2007		
	Before tax amount	Tax (expense) benefit (in thousands)	Net of tax amount
Unrealized gains on securities			
Unrealized holding gains arising during period	\$ 689	\$ (236)	\$ 453
Pension plan benefit adjustment related to prior service costs and actuarial losses	82	(28)	54
Other comprehensive income, net	\$ 771	\$ (264)	\$ 507

	September 30, 2006		
	Before tax amount	Tax (expense) benefit (in thousands)	Net of tax amount
Unrealized gains on securities			
Unrealized holding gains arising during period	\$ 350	\$ (119)	\$ 231
Reclassification adjustment for losses realized	51	(18)	33
Other comprehensive income, net	\$ 401	\$ (137)	\$ 264

**NOTE 5 EARNINGS PER SHARE**

The following tables illustrate the reconciliation of the numerators and denominators of the basic and diluted earnings per share computations (dollars in thousands, except per share data):

	Three months ended September 30, 2007		
	Income (numerator)	Weighted average shares (denominator)	Per share Amount
Basic earnings per share			
Income available to common stockholders	\$ 1,188	2,715,364	\$ 0.44
Effect of dilutive securities			
Stock options and grants		4,557	
Diluted earnings per share			
Income available to common stockholders plus effect of dilutive securities	\$ 1,188	2,719,921	\$ 0.44

	Nine months ended September 30, 2007		
	Income (numerator)	Weighted average shares (denominator)	Per share Amount
Basic earnings per share			

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Income available to common stockholders	\$	3,623	2,736,639	\$	1.32
Effect of dilutive securities					
Stock options and grants			3,113		
Diluted earnings per share					
Income available to common stockholders plus effect of dilutive securities	\$	3,623	2,739,752	\$	1.32

There were 183,918 options to purchase shares of common stock at an average price of \$29.05 per share which were outstanding during the first nine months of 2007 that were not included in the computation of diluted earnings per share because the options exercise prices were greater than the average market price of the common shares.

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Three months ended September 30, 2006

	Income (numerator)	Weighted average shares (denominator)	Per share Amount
Basic earnings per share			
Income available to common stockholders	1,412	2,696,878	\$ 0.52
Effect of dilutive securities			
Stock options and grants		21,858	
Diluted earnings per share			
Income available to common stockholders plus effect of dilutive securities	\$ 1,412	2,718,736	\$ 0.52

Nine months ended September 30, 2006

	Income (numerator)	Weighted average shares (denominator)	Per share Amount
Basic earnings per share			
Income available to common stockholders	4,059	2,696,798	\$ 1.50
Effect of dilutive securities			
Stock options and grants		18,011	(0.01)
Diluted earnings per share			
Income available to common stockholders plus effect of dilutive securities	\$		