

TF FINANCIAL CORP
Form 10-Q
August 13, 2010
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the period ended June 30, 2010

- or -

o **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)

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

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

18940
(Zip Code)

Edgar Filing: TF FINANCIAL CORP - Form 10-Q

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 has submitted electronically and posted on its corporate Web site, 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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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: **August 13, 2010**

| Class | Outstanding |
|------------------------------|------------------|
| \$.10 par value common stock | 2,685,448 shares |

Table of Contents

CONTENTS

PART I-CONSOLIDATED FINANCIAL INFORMATION

| | | |
|-----------------|--|----|
| <u>Item 1.</u> | <u>Consolidated Financial Statements</u> | 3 |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 19 |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 29 |
| <u>Item 4T.</u> | <u>Controls and Procedures</u> | 30 |

PART II-OTHER INFORMATION

| | | |
|-------------------|--|----|
| <u>Item 1.</u> | <u>Legal Proceedings</u> | 31 |
| <u>Item 1A.</u> | <u>Risk Factors</u> | 31 |
| <u>Item 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 31 |
| <u>Item 3.</u> | <u>Defaults Upon Senior Securities</u> | 31 |
| <u>Item 4.</u> | <u>[Removed and Reserved]</u> | 31 |
| <u>Item 5.</u> | <u>Other Information</u> | 31 |
| <u>Item 6.</u> | <u>Exhibits</u> | 31 |
| <u>Signatures</u> | | 32 |

Exhibits

| | |
|------|--|
| 31.1 | Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of CFO pursuant of Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32. | Certification pursuant of Section 906 of the Sarbanes-Oxley Act of 2002 |

Table of Contents

TF Financial Corporation and Subsidiaries

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(Unaudited)

| | June 30, 2010 | December 31, 2009 |
|---|-------------------|----------------------|
| | (in thousands) | |
| ASSETS | | |
| Cash and cash equivalents | \$ 19,965 | \$ 12,801 |
| Investment securities available for sale at fair value | 49,763 | 40,853 |
| Mortgage-backed securities available for sale at fair value | 78,657 | 78,198 |
| Mortgage-backed securities held to maturity (fair value of \$3,869 and \$4,033, respectively) | 3,512 | 3,733 |
| Loans receivable, net | 519,279 | 529,652 |
| Loans receivable held for sale | 919 | 1,082 |
| Federal Home Loan Bank stock at cost | 9,896 | 9,896 |
| Accrued interest receivable | 2,893 | 2,777 |
| Premises and equipment, net | 6,342 | 5,523 |
| Goodwill | 4,324 | 4,324 |
| Bank-owned life insurance | 17,528 | 17,190 |
| Other assets | 7,690 | 8,061 |
| TOTAL ASSETS | \$ 720,768 | \$ 714,090 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities | | |
| Deposits | \$ 559,390 | \$ 552,716 |
| Borrowings from the Federal Home Loan Bank | 79,929 | 80,241 |
| Advances from borrowers for taxes and insurance | 2,413 | 2,231 |
| Accrued interest payable | 2,578 | 2,818 |
| Other liabilities | 3,137 | 4,210 |
| Total liabilities | 647,447 | 642,216 |
| Stockholders' equity | | |
| Preferred stock, no par value; 2,000,000 shares authorized at June 30, 2010 and December 31, 2009, none issued | | |
| Common stock, \$0.10 par value; 10,000,000 shares authorized, 5,290,000 shares issued and, 2,557,968 and 2,539,195 shares outstanding at June 30, 2010 and December 31, 2009, respectively, net of shares in treasury of 2,604,552 and 2,617,397 respectively | 529 | 529 |
| Additional paid-in capital | 54,028 | 54,009 |
| Unearned ESOP shares | (1,275) | (1,334) |
| Treasury stock-at cost | (54,064) | (54,331) |
| Retained earnings | 73,044 | 72,376 |
| Accumulated other comprehensive income | 1,059 | 625 |
| Total stockholders' equity | 73,321 | 71,874 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 720,768 | \$ 714,090 |

The accompanying notes are an integral part of these statements

Table of Contents**TF Financial Corporation and Subsidiaries****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

| | For the three months ended June 30, | | For the six months ended June 30, | |
|--|---|--------------|---|---------------|
| | 2010 | 2009 | 2010 | 2009 |
| | (in thousands, except per share data) | | | |
| Interest income | | | | |
| Loans, including fees | \$ 7,150 | \$ 7,658 | \$ 14,452 | \$ 15,313 |
| Mortgage-backed securities | 929 | 1,294 | 1,896 | 2,679 |
| Investment securities | 442 | 276 | 847 | 553 |
| Interest-bearing deposits and other | 1 | | 2 | |
| TOTAL INTEREST INCOME | 8,522 | 9,228 | 17,197 | 18,545 |
| Interest expense | | | | |
| Deposits | 1,841 | 2,441 | 3,836 | 4,954 |
| Borrowings | 793 | 1,208 | 1,641 | 2,493 |
| TOTAL INTEREST EXPENSE | 2,634 | 3,649 | 5,477 | 7,447 |
| NET INTEREST INCOME | 5,888 | 5,579 | 11,720 | 11,098 |
| Provision for loan losses | 600 | 590 | 1,561 | 1,255 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 5,288 | 4,989 | 10,159 | 9,843 |
| Non-interest income | | | | |
| Service fees, charges and other operating income | 363 | 597 | 892 | 1,034 |
| Bank-owned life insurance | 167 | 170 | 339 | 330 |
| Gain on sale of investments | 7 | 116 | 7 | 306 |
| Gain on sale of loans | 52 | 253 | 112 | 401 |
| Gain (loss) on foreclosed real estate | 8 | 303 | (137) | 303 |
| TOTAL NON-INTEREST INCOME | 597 | 1,439 | 1,213 | 2,374 |
| Non-interest expense | | | | |
| Employee compensation and benefits | 2,667 | 2,645 | 5,367 | 5,316 |
| Occupancy and equipment | 723 | 708 | 1,482 | 1,418 |
| Professional fees | 256 | 183 | 484 | 456 |
| Marketing and advertising | 120 | 116 | 240 | 264 |
| FDIC insurance premiums | 259 | 511 | 453 | 532 |
| Other operating | 566 | 613 | 1,157 | 1,214 |
| TOTAL NON-INTEREST EXPENSE | 4,591 | 4,776 | 9,183 | 9,200 |
| INCOME BEFORE INCOME TAXES | 1,294 | 1,652 | 2,189 | 3,017 |

Edgar Filing: TF FINANCIAL CORP - Form 10-Q

| | | | | | | | | |
|----------------------------|----|------|----|-------|----|-------|----|-------|
| Income taxes | | 327 | | 430 | | 505 | | 775 |
| NET INCOME | \$ | 967 | \$ | 1,222 | \$ | 1,684 | \$ | 2,242 |
| Earnings per share basic | \$ | 0.38 | \$ | 0.48 | \$ | 0.66 | \$ | 0.89 |
| Earnings per share diluted | \$ | 0.38 | \$ | 0.48 | \$ | 0.66 | \$ | 0.89 |
| Dividends paid per share | \$ | 0.20 | \$ | 0.20 | \$ | 0.40 | \$ | 0.40 |

The accompanying notes are an integral part of these statements

Table of Contents**TF Financial Corporation and Subsidiaries****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

| | For the six months ended June 30, | |
|--|--|---------------|
| | 2010 | 2009 |
| | (in thousands) | |
| OPERATING ACTIVITIES | | |
| Net income | \$ 1,684 | \$ 2,242 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Amortization and impairment adjustment of mortgage loan servicing rights | 200 | 94 |
| Deferred loan origination fees | 50 | 54 |
| Premiums and discounts on investment securities, net | 39 | 43 |
| Premiums and discounts on mortgage-backed securities, net | 19 | (180) |
| Premiums and discounts on loans, net | 85 | 91 |
| Provision for loan losses | 1,561 | 1,255 |
| Depreciation of premises and equipment | 421 | 448 |
| Increase in value of bank-owned life insurance | (339) | (330) |
| Stock grant expense | 8 | 8 |
| Stock option expense | 26 | 28 |
| Stock-based benefit programs: ESOP | 117 | 108 |
| Proceeds from sale of loans originated for sale | 11,518 | 29,468 |
| Origination of loans held for sale | (11,314) | (28,622) |
| Loss (gain) on foreclosed real estate | 137 | (303) |
| Gain on sale of: | | |
| Investments | (7) | (306) |
| Loans held for sale | (112) | (401) |
| (Increase) decrease in: | | |
| Accrued interest receivable | (116) | 130 |
| Other assets | 495 | 362 |
| (Decrease) increase in: | | |
| Accrued interest payable | (240) | 451 |
| Other liabilities | (1,326) | 3,547 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 2,906 | 8,187 |
| INVESTING ACTIVITIES | | |
| Loan originations | (33,311) | (47,635) |
| Loan principal payments | 40,900 | 46,688 |
| Proceeds from sale of foreclosed real estate | 799 | 1,367 |
| Principal repayments on mortgage-backed securities held to maturity | 220 | 662 |
| Principal repayments on mortgage-backed securities available for sale | 13,610 | 16,035 |
| Proceeds from sale of investment securities available for sale | 60 | 5,514 |
| Proceeds from redemption of investment securities available for sale | 755 | 755 |
| Purchase of investment securities available for sale | (8,507) | (6,761) |
| Purchase of mortgage-backed securities available for sale | (13,995) | (4,556) |
| Purchase of premises and equipment | (1,240) | (210) |
| NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES | (1,464) | 11,859 |

Table of Contents

| | For the six months ended June 30, | |
|--|--------------------------------------|-----------------|
| | 2010 | 2009 |
| | (in thousands) | |
| FINANCING ACTIVITIES | | |
| Net increase in customer deposits | 6,674 | 41,240 |
| Net increase in short-term borrowings from the Federal Home Loan Bank and other borrowings | | (22,416) |
| Proceeds of long-term Federal Home Loan Bank borrowings | 12,884 | |
| Repayment of long-term Federal Home Loan Bank borrowings | (13,196) | (34,600) |
| Net increase in advances from borrowers for taxes and insurance | 182 | 270 |
| Treasury stock acquired | | (101) |
| Exercise of stock options | 177 | 105 |
| Tax benefit arising from stock compensation | 17 | 5 |
| Common stock dividends paid | (1,016) | (1,006) |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | 5,722 | (16,503) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 7,164 | 3,543 |
| Cash and cash equivalents at beginning of period | 12,801 | 2,719 |
| Cash and cash equivalents at end of period | \$ 19,965 | \$ 6,262 |
| Supplemental disclosure of cash flow information | | |
| Cash paid for | | |
| Interest on deposits and borrowings | \$ 5,717 | \$ 6,996 |
| Income taxes | \$ 382 | \$ 825 |
| Non-cash transactions | | |
| Capitalization of mortgage servicing rights | \$ 92 | \$ 253 |
| Transfers from loans to foreclosed real estate | \$ 1,088 | \$ 2,164 |
| Securities available for sale purchased not settled | \$ | \$ 3,325 |

The accompanying notes are an integral part of these statements

Table of Contents

TF FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - PRINCIPLES OF CONSOLIDATION

The consolidated financial statements as of June 30, 2010 (unaudited) and December 31, 2009 and for the six month periods ended June 30, 2010 and 2009 (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 accompanying consolidated balance sheet at December 31, 2009, has been derived from the audited consolidated balance sheet but does not included all of the information and notes required by U. S. GAAP for complete financial statements. 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 (US GAAP). 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 June 30, 2010 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 the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

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 (LOSS)

Comprehensive income (loss) 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 (loss) are as follows for the three months ended:

June 30, 2010

Edgar Filing: TF FINANCIAL CORP - Form 10-Q

| | Before tax amount | Tax (expense) benefit (in thousands) | Net of tax amount |
|--|----------------------|---|----------------------|
| Unrealized gains on securities | | | |
| Unrealized holding gains arising during period | \$ 337 | \$ (117) | \$ 220 |
| Reclassification adjustment for gains realized in net income | (7) | 2 | (5) |
| Pension plan benefit adjustment related to actuarial losses | 42 | (14) | 28 |
| Other comprehensive income, net | \$ 372 | \$ (129) | \$ 243 |

| | Before tax amount | June 30, 2009 Tax (expense) benefit (in thousands) | Net of tax amount |
|---|----------------------|--|----------------------|
| Unrealized gains on securities | | | |
| Unrealized holding gains arising during period | \$ 38 | \$ (16) | \$ 22 |
| Reclassification adjustment for gains realized in net income | (116) | 39 | (77) |
| Pension plan benefit adjustment related to prior service costs and actuarial losses | 46 | (16) | 30 |