

TFS Financial CORP  
Form 10-Q  
February 09, 2011  
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**UNITED STATES**  
**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 Quarterly Period ended December 31, 2010**

or

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

**For transition period from            to**

**Commission File Number 001-33390**

**TFS FINANCIAL CORPORATION**

**(Exact Name of Registrant as Specified in its Charter)**

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<b>United States of America</b> (State or Other Jurisdiction)	<b>52-2054948</b> (I.R.S. Employer
<b>of Incorporation or Organization)</b>	<b>Identification No.)</b>
<b>7007 Broadway Avenue</b>	
<b>Cleveland, Ohio</b> (Address of Principal Executive Offices)	<b>44105</b> (Zip Code)
<b>(216) 441-6000</b>	

Registrant's telephone number, including area code:

**Not Applicable**

(Former name or former address, if changed since last report)

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 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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (do not check if a smaller reporting company)	Smaller Reporting Company <input type="checkbox"/>

Indicate the number of shares outstanding of each of the Registrant's classes of common stock as of the latest practicable date.

As of February 2, 2011 there were 308,418,393 shares of the Registrant's common stock, par value \$0.01 per share, outstanding, of which 227,119,132 shares, or 73.65% of the Registrant's common stock, were held by Third Federal Savings and Loan Association of Cleveland, MHC, the Registrant's mutual holding company.

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



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**TFS Financial Corporation**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****TFS FINANCIAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CONDITION (unaudited)****(In thousands, except share data)**

	December 31, 2010	September 30, 2010
<b>ASSETS</b>		
Cash and due from banks	\$ 37,401	\$ 38,804
Other interest-bearing cash equivalents	305,091	704,936
Cash and cash equivalents	342,492	743,740
Investment securities:		
Available for sale (amortized cost \$18,104 and \$24,480, respectively)	18,095	24,619
Held to maturity (fair value \$557,147 and \$657,076, respectively)	551,255	646,940
	569,350	671,559
Mortgage loans held for sale (includes \$0 measured at fair value at September 30, 2010)	0	25,027
Loans held for investment, net:		
Mortgage loans	9,861,694	9,323,073
Other loans	7,237	7,199
Deferred loan fees, net	(16,241)	(15,283)
Allowance for loan losses	(148,246)	(133,240)
Loans, net	9,704,444	9,181,749
Mortgage loan servicing assets, net	33,532	38,658
Federal Home Loan Bank stock, at cost	35,620	35,620
Real estate owned	16,472	15,912
Premises, equipment, and software, net	62,142	62,685
Accrued interest receivable	36,697	36,282
Bank owned life insurance contracts	165,974	164,334
Other assets	97,949	100,461
<b>TOTAL ASSETS</b>	<b>\$ 11,064,672</b>	<b>\$ 11,076,027</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Deposits	\$ 8,793,314	\$ 8,851,941
Borrowed funds	64,155	70,158
Borrowers' advances for insurance and taxes	55,044	51,401
Principal, interest, and related escrow owed on loans serviced	292,452	284,425
Accrued expenses and other liabilities	112,131	65,205
Total liabilities	9,317,096	9,323,130
Commitments and contingent liabilities		
Preferred stock, \$0.01 par value, 100,000,000 shares authorized, none issued and outstanding	0	0

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Common stock, \$0.01 par value, 700,000,000 shares authorized; 332,318,750 shares issued; 308,395,893, and 308,395,000 outstanding at December 31, 2010 and September 30, 2010, respectively	3,323	3,323
Paid-in capital	1,687,535	1,686,062
Treasury stock, at cost; 23,922,857 and 23,923,750 shares at December 31, 2010 and September 30, 2010, respectively	(288,354)	(288,366)
Unallocated ESOP shares	(82,335)	(82,699)
Retained earnings substantially restricted	445,285	452,633
Accumulated other comprehensive loss	(17,878)	(18,056)
<b>Total shareholders equity</b>	<b>1,747,576</b>	<b>1,752,897</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 11,064,672</b>	<b>\$ 11,076,027</b>

See accompanying notes to unaudited interim consolidated financial statements.

**Table of Contents****TFS Financial Corporation and Subsidiaries****CONSOLIDATED STATEMENTS OF INCOME (unaudited)****(In thousands, except share and per share data)**

	<b>For the Three Months Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>INTEREST INCOME:</b>		
Loans, including fees	\$ 103,200	\$ 107,048
Investment securities available for sale	111	113
Investment securities held to maturity	3,337	5,073
Other interest and dividend earning assets	793	569
 Total interest and dividend income	 107,441	 112,803
<b>INTEREST EXPENSE:</b>		
Deposits	47,278	55,013
Borrowed funds	477	485
 Total interest expense	 47,755	 55,498
<b>NET INTEREST INCOME</b>	<b>59,686</b>	<b>57,305</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>34,500</b>	<b>16,000</b>
 <b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	 <b>25,186</b>	 <b>41,305</b>
<b>NON-INTEREST INCOME</b>		
Fees and service charges, net of amortization	2,904	5,470
Mortgage servicing assets impairment	(284)	(73)
Net gain on the sale of loans	0	3,041
Increase in and death benefits from bank owned life insurance contracts	1,640	1,608
Income on private equity investments	183	115
Other	2,376	1,472
 Total non-interest income	 6,819	 11,633
<b>NON-INTEREST EXPENSE</b>		
Salaries and employee benefits	17,485	21,171
Marketing services	2,101	2,025
Office property, equipment and software	5,110	5,253
Federal insurance premium	5,985	4,209
State franchise tax	939	1,042
Real estate owned expense, net	1,925	1,735
Other operating expenses	9,399	4,664
 Total non-interest expense	 42,944	 40,099
<b>(LOSS) INCOME BEFORE INCOME TAXES</b>	<b>(10,939)</b>	<b>12,839</b>
<b>INCOME TAX (BENEFIT) EXPENSE</b>	<b>(3,591)</b>	<b>3,913</b>
 <b>NET (LOSS) INCOME</b>	 <b>\$ (7,348)</b>	 <b>\$ 8,926</b>

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(Loss) earnings per share - basic and diluted	\$	(0.02)	\$	0.03
<b>Weighted average shares outstanding</b>				
Basic		300,140,571		299,658,526
Diluted		300,140,571		300,150,676

See accompanying notes to unaudited interim consolidated financial statements.



**Table of Contents****TFS FINANCIAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (unaudited)****Three Months Ended December 31, 2010 and 2009****(In thousands)**

	Common stock	Paid-in capital	Treasury stock	Unallocated common stock held by ESOP	Retained earnings	Unrealized gains/(losses) on securities	Accumulated other comprehensive income (loss) Pension obligation	Total shareholders equity
Balance at September 30, 2009	\$ 3,323	1,679,000	(287,514)	(87,896)	456,875	240	(18,163)	\$ 1,745,865
Comprehensive Income								
Net income					8,926			8,926
Change in unrealized losses on securities available for sale						(62)		(62)
Change in pension obligation							339	339