

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

WSFS FINANCIAL CORP  
Form 10-Q  
November 09, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly 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 0-16668

WSFS FINANCIAL CORPORATION

-----  
(Exact name of registrant as specified in its charter)

Delaware

22-2866913

-----  
(State or other jurisdiction of  
incorporation or organization)

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

500 Delaware Avenue, Wilmington, Delaware

19801

-----  
(Address of principal executive offices)

-----  
(Zip Code)

(302) 792-6000

-----  
(Registrant's telephone number, including area code)

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 X 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 X Non-accelerated filer

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

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of November 2, 2007:

Common Stock, par value \$.01 per share	6,215,066
-----	-----
(Title of Class)	(Shares Outstanding)

1

WSFS FINANCIAL CORPORATION

FORM 10-Q

INDEX

PART I. Financial Information

Item 1. Financial Statements (Unaudited)

-----

Consolidated Statement of Operations for the Three and Nine Months Ended September 30, 2007 and 2006.....

Consolidated Statement of Condition as of September 30, 2007 and December 31, 2006.....

Consolidated Statement of Cash Flows for the Nine Months Ended September 30, 2007 and 2006 .....

Notes to the Consolidated Financial Statements for the Three and Nine Months Ended September 30, 2007 and 2006 .....

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

-----

and Results of Operations.....

-----

Item 3. Quantitative and Qualitative Disclosures About Market Risk.....

Item 4. Controls and Procedures .....

PART II. Other Information

Item 1. Legal Proceedings.....

Item 1A. Risk Factors.....

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

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Item 3. Defaults upon Senior Securities.....  
-----

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

Item 5. Other Information .....  
-----

Item 6. Exhibits .....  
-----

Signatures .....

Exhibit 31 Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 .....

Exhibit 32 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 .....

WSFS FINANCIAL CORPORATION  
CONSOLIDATED STATEMENT OF OPERATIONS

	Three months ended September 30,		Nin
	2007	2006	
	----	----	
	(Unaudited)		
	(In Thousands, Except Per		
Interest income:			
Interest and fees on loans .....	\$ 40,747	\$ 37,577	\$
Interest on mortgage-backed securities .....	5,799	7,186	
Interest and dividends on investment securities.....	457	616	
Other interest income .....	576	752	
	-----	-----	
	47,579	46,131	
	-----	-----	
Interest expense:			
Interest on deposits .....	15,066	11,392	
Interest on Federal Home Loan Bank advances ....	9,280	12,384	
Interest on trust preferred borrowings .....	1,217	1,736	
Interest on other borrowings .....	1,917	1,499	
	-----	-----	
	27,480	27,011	
	-----	-----	
Net interest income .....	20,099	19,120	
Provision for loan losses .....	1,001	319	
	-----	-----	
Net interest income after provision for loan losses..	19,098	18,801	
	-----	-----	
Noninterest income:			
Credit/debit card and ATM income .....	5,205	4,982	
Deposit service charges .....	3,937	2,979	

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Investment advisory income .....	603	573	
Loan fee income .....	615	458	
Bank owned life insurance income .....	543	2,401	
Gain on sale of credit card loans .....	882	-	
Mortgage banking activities, net .....	68	136	
Securities losses .....	-	(1,940)	
Other income .....	956	720	
	-----	-----	
	12,809	10,309	
	-----	-----	
Noninterest expenses:			
Salaries, benefits and other compensation .....	11,347	10,189	
Occupancy expense .....	2,287	1,387	
Equipment expense .....	1,597	1,162	
Data processing and operations expenses .....	1,089	886	
Marketing expense .....	1,283	676	
Professional fees .....	646	587	
Other operating expense .....	3,084	2,700	
	-----	-----	
	21,333	17,587	
	-----	-----	
Income before minority interest and taxes .....	10,574	11,523	
Less minority interest .....	-	9	
	-----	-----	
Income before taxes .....	10,574	11,514	
Income tax provision .....	3,431	3,511	
	-----	-----	
Net income .....	\$ 7,143	\$ 8,003	\$
	=====	=====	=====
Earnings per share:			
Basic .....	\$ 1.14	\$ 1.20	\$
Diluted .....	\$ 1.11	\$ 1.16	\$

The accompanying notes are an integral part of these consolidated Financial Statements.

3

WSFS FINANCIAL CORPORATION  
CONSOLIDATED STATEMENT OF CONDITION

	September 30, 2007	Dec
	-----	-----
	(Unaudited)	(Unaudited)
	(In Thousand)	(In Thousand)
Assets		
Cash and due from banks .....	\$ 69,948	\$
Cash in non-owned ATMs .....	168,162	
Federal funds sold .....	3,000	
Interest-bearing deposits in other banks .....	361	
	-----	-----
Total cash and cash equivalents .....	241,471	
Investment securities held-to-maturity .....	2,896	

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Investment securities available-for-sale including reverse mortgages .....	24,634	
Mortgage-backed securities available-for-sale .....	473,313	
Mortgage-backed securities trading .....	12,364	
Loans held-for-sale .....	1,541	
Loans, net of allowance for loan losses of \$28,768 at September 30, 2007 and \$27,384 at December 31, 2006 .....	2,156,483	2
Bank owned life insurance .....	56,924	
Stock in Federal Home Loan Bank of Pittsburgh, at cost .....	39,156	
Assets acquired through foreclosure .....	703	
Premises and equipment .....	35,204	
Accrued interest receivable and other assets .....	39,089	
	-----	----
Total assets .....	\$ 3,083,778	\$ 2
	=====	=====

Liabilities and Stockholders' Equity

Liabilities:

Deposits:

Noninterest-bearing demand .....	\$ 272,678	\$
Interest-bearing demand .....	172,680	
Money market .....	311,132	
Savings .....	203,560	
Time .....	355,107	
Jumbo certificates of deposit - customer .....	133,628	
	-----	----
Total customer deposits .....	1,448,785	1
Other jumbo certificates of deposit .....	93,580	
Brokered deposits .....	268,724	
	-----	----
Total deposits .....	1,811,089	1
Federal funds purchased and securities sold under agreements to repurchase .	75,000	
Federal Home Loan Bank advances .....	798,560	
Trust preferred borrowings .....	67,011	
Other borrowed funds .....	94,109	
Accrued interest payable and other liabilities .....	34,901	
	-----	----
Total liabilities .....	2,880,670	2
	-----	----

Minority Interest ..... 34

Stockholders' Equity:

Serial preferred stock \$.01 par value, 7,500,000 shares authorized; none issued and outstanding .....	-	
Common stock \$.01 par value, 20,000,000 shares authorized; issued 15,671,635 at September 30, 2007 and 15,584,580 at December 31, 2006 ...	157	
Capital in excess of par value .....	82,428	
Accumulated other comprehensive loss .....	(7,285)	
Retained earnings .....	369,805	
Treasury stock at cost, 9,456,569 shares at September 30, 2007 and 8,942,969 shares at December 31, 2006 .....	(242,031)	
	-----	----
Total stockholders' equity .....	203,074	
	-----	----
Total liabilities, minority interest and stockholders' equity .....	\$ 3,083,778	\$ 2
	=====	=====

The accompanying notes are an integral part of these consolidated Financial Statements.

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

4

WSFS FINANCIAL CORPORATION  
CONSOLIDATED STATEMENT OF CASH FLOWS

	Nine months
	-----
	2007
	-----
	(Un
	(In T
Operating activities:	
Net income .....	\$ 22,153
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses .....	2,645
Depreciation, accretion and amortization .....	5,140
Decrease (increase) in accrued interest receivable and other assets .....	1,245
Origination of loans held-for-sale .....	(20,103)
Proceeds from sales of loans held-for-sale .....	19,143
Gain on mortgage banking activity .....	(218)
Loss on sale of investments .....	-
Gain on sale of credit card portfolio .....	(882)
Stock-based compensation expense .....	691
Excess tax liability (benefits) from share-based payment arrangements ..	2,437
Minority interest net income .....	-
Increase in accrued interest payable and other liabilities .....	4,937
(Gain) loss on sale of assets acquired through foreclosure .....	(20)
Increase in value of bank owned life insurance .....	(1,642)
Increase in capitalized interest, net .....	(1,860)
	-----
Net cash provided by operating activities .....	33,666
	-----
Investing activities:	
Maturities of investment securities .....	26,340
Sale of investment securities available-for-sale .....	10,170
Purchase of investments available-for-sale .....	(7,487)
Repayments of mortgage-backed securities available-for-sale .....	60,262
Sales of mortgage-backed securities available-for-sale .....	-
Purchases of mortgage-backed securities available-for-sale .....	(27,081)
Repayments of reverse mortgages .....	1,366
Disbursements for reverse mortgages .....	(1,391)
Purchase of Cypress Capital Management LLC .....	(240)
Purchase of Creative Strategic Solutions, Inc. ....	(440)
Sale of loans .....	869
Purchase of loans .....	(2,404)
Net increase in loans .....	(145,362)
Net decrease (increase) in stock of Federal Home Loan Bank of Pittsburgh .....	716
Sales of assets acquired through foreclosure, net .....	120
Investment in partnership .....	-
Sale of credit care portfolio .....	6,295
Deferred gain on sale of investment in partnership .....	1,282
Investment in premises and equipment, net .....	(7,965)
	-----
Net cash used for investing activities .....	(84,950)
	-----
Financing activities:	

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Net increase in demand and savings deposits .....	79,364
Net increase in time deposits .....	(9,444)
Net increase (decrease) in securities sold under agreement to repurchase .....	1,600
Net decrease in federal funds purchased .....	-
Receipts from FHLB advances .....	17,021,130
Repayments of FHLB advances .....	(17,006,598)
Dividends paid on common stock .....	(1,785)
Issuance of common stock and exercise of employee stock options .....	2,600
Excess tax (liability) benefit from share-based payment arrangements .....	(2,437)
Purchase of treasury stock, net of reissuance .....	(33,479)
Decrease in minority interest .....	(20)
	-----
Net cash provided by financing activities .....	50,931
	-----
(Decrease) increase in cash and cash equivalents .....	(353)
Cash and cash equivalents at beginning of period .....	241,824
	-----
Cash and cash equivalents at end of period .....	\$ 241,471
	=====

(Conti

5

WSFS FINANCIAL CORPORATION  
CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

	Nine months e
	-----
	2007
	----
	(Una
	(In Th
Supplemental Disclosure of Cash Flow Information:	
-----	
Cash paid for interest during the year .....	\$ 73,661
Cash paid for income taxes, net .....	11,133
Loans transferred to assets acquired through foreclosure .....	415
Net change in accumulated other comprehensive loss, net of taxes.....	1,288
Transfer of loans held-for-sale to loans .....	333

The accompanying notes are an integral part of these consolidated Financial Statements.

6

WSFS FINANCIAL CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006  
(UNAUDITED)

1. BASIS OF PRESENTATION

## Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Our consolidated Financial Statements include the accounts of WSFS Financial Corporation ("the Company", "our Company", "we", "our" or "us"), Wilmington Savings Fund Society, FSB ("WSFS Bank" or the "Bank") and Montchanin Capital Management, Inc. ("Montchanin") and its wholly owned subsidiary, Cypress Capital Management, LLC ("Cypress"). We also have one unconsolidated affiliate, WSFS Capital Trust III ("the Trust"). Founded in 1832, the Bank is one of the ten oldest banks continuously operating under the same name in the United States. We provide residential and commercial real estate, commercial and consumer lending services, as well as retail deposit and cash management services. In addition, we offer a variety of wealth management and personal trust services through the Bank's new division, Wilmington Advisors, which was formed during 2006. Lending activities are funded primarily with retail deposits and borrowings. The Federal Deposit Insurance Corporation ("FDIC") insures our customers' deposits to their legal maximum. We serve customers from our main office, twenty-nine retail banking offices, four loan production offices and operations centers located in Delaware and southeastern Pennsylvania. Montchanin was formed in 2003 to provide asset management products and services in the Bank's primary market area. The Trust was formed in 2005 to issue Pooled Floating Rate Capital Securities. Cypress is a Wilmington-based investment advisory firm servicing high net-worth individuals and institutions.

The Bank's fully-owned and consolidated subsidiaries include WSFS Investment Group, Inc. and WSFS Reit, Inc. WSFS Investment Group, Inc. markets various third-party insurance products and securities directly to the public and through the Bank's retail banking system. WSFS Reit, Inc. is a real estate investment trust formed to hold qualifying real estate assets and may be used to raise capital in the future.

Our accounting and reporting policies conform with U.S. generally accepted accounting principles and prevailing practices within the banking industry for interim financial information and Rule 10-01 of Regulation S-X. According to that rule, we are not required to include all information and notes for complete financial statements. Operating results for the three and nine month periods ended September 30, 2007 are not necessarily indicative of the results that may be expected for any future quarters or for the year ending December 31, 2007. For further information, refer to the Consolidated Financial Statements and notes thereto included in our Annual Report of Form 10-K for the year ended December 31, 2006 as filed with the Securities and Exchange Commission.

### Accounting for Stock-Based Compensation

The impact of expensing stock options for the three months ended September 30, 2007, was an increase of \$206,000 (pre-tax) or \$0.03 (after-tax) per share, to salaries, benefits and other compensation. This compares to \$301,000 (pre-tax) or \$0.04 (after-tax) per share for the three months ended September 30, 2006. The impact of expensing stock options for the nine months ended September 30, 2007, was an increase of \$687,000 (pre-tax) or \$0.09 (after-tax) per share, to salaries, benefits and other compensation. This compares to \$992,000 (pre-tax) or \$0.12 (after-tax) per share for the nine months ended September 30, 2006.

We have stock options outstanding under two plans (collectively, "Stock Incentive Plans") for officers, directors and Associates of the Corporation and its subsidiaries. After shareholder approval in 2005, the 1997 Stock Option Plan ("1997 Plan"), was replaced by the 2005 Incentive Plan ("2005 Plan"). No future awards may be granted under the 1997 Plan. The 2005 Plan will terminate on the tenth anniversary of its effective date, after which no awards may be granted. The number of shares reserved for issuance under the 2005 Plan is 862,000. At September 30, 2007, there were 494,536 available for future grants under the 2005 Plan.



## Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

The Stock Incentive Plans provide for the granting of incentive stock options as defined in Section 422 of the Internal Revenue Code as well as nonincentive stock options (collectively, "Stock Options"). Additionally, the 2005 Plan provides for the granting of stock appreciation rights, performance awards, restricted stock and restricted stock unit awards, deferred stock units, dividend equivalents, other stock-based awards and cash awards. All Stock Options are to be granted at not less than the market price of the Corporation's common stock on the date of the grant. All Stock Options granted during 2007 vest in 20% or 25% per annum increments, start to become exercisable one year from the grant date and expire between five and ten years from the grant date. Generally, all awards become immediately exercisable in the event of a change in control and termination without cause or constructive termination of the Associate.

During the second quarter of 2007, the Board of Directors adopted an administrative policy directing that future awards of stock options under the 2005 Plan will have a minimum vesting period of four years and maximum option life of five years from the date of grant.

7

Summarized below is the status of our Stock Incentive Plans and changes during the quarters shown.

	September 2007		Sept
	Shares	Weighted- Average Exercise Price	Shares
Stock Options:			
Outstanding at beginning of period	623,429	\$41.49	688,962
Granted	2,120	66.11	2,700
Exercised	(3,703)	52.52	(44,080)
Forfeited or canceled	(7,599)	60.39	(410)
	-----		-----
Outstanding at end of period	614,247	41.27	647,172
Exercisable at end of period	351,882	28.09	361,435
Weighted-average fair value of awards granted	\$ 14.12		16.54

On July 1, 2007, 352,775 stock options were exercisable with an intrinsic value of \$12.1 million. In addition, at July 1, 2007, there were 270,654 nonvested options with a weighted average grant date fair value of \$12.94. During the third quarter of 2007, 2,810 options vested with an intrinsic value of \$20,000, and a weighted average grant date fair value of \$13.40 per option. Also during the quarter, 3,703 options were exercised with an intrinsic value of \$42,000. There were 351,882 exercisable options remaining at September 30, 2007, with an intrinsic value of \$12.1 million and an average remaining contractual term of 4.3 years. At September 30, 2007 there were 614,247 stock options outstanding with an intrinsic value of \$13.4 million and an average remaining contractual term of 4.5 years. During the third quarter of 2006, 44,080 options were exercised with an intrinsic value of \$2.0 million and 9,795

## Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

options vested with a weighted average grant date fair value of \$10.85 per option.

Summarized below is the status of our Stock Incentive Plans and changes during the nine months shown.

	September 2007		Sept
	Shares	Weighted- Average Exercise Price	Shares
<b>Stock Options:</b>			
Outstanding at beginning of period	703,427	\$39.52	742,404
Granted	7,100	68.14	9,720
Exercised	(78,606)	24.04	(103,426)
Forfeited or canceled	(17,674)	59.03	(1,526)
	614,247	41.27	647,172
Outstanding at end of period			
Exercisable at end of period	351,882	28.09	361,435
Weighted-average fair value of awards granted	\$14.70		16.27

On January 1, 2007, 416,773 stock options were exercisable. During the nine months ended September 30, 2007, 14,480 options vested with an intrinsic value of \$307,000, and a weighted average grant date fair value of \$10.06 per option. Also, during the first nine months of 2007, 78,606 options were exercised with an intrinsic value of \$3.2 million. During the first nine months of 2006, 103,426 options were exercised with an intrinsic value of \$4.6 million and 29,927 options vested with a weighted average grant date fair value of \$8.71 per option.

The total amount of compensation cost related to nonvested stock options as of September 30, 2007 was \$1.4 million. This amount has not yet been recorded in our financial statements. The weighted-average period over which it is expected to be recognized is 1.4 years. We issue new shares upon the exercise of options.

During the third quarter of 2007, we granted 2,120 options with a five-year life and a four-year vesting period. The Black-Scholes option-pricing model was used to determine the grant date fair value of these options, which was \$14.12 per option. Significant assumptions used in the model included a weighted-average risk-free rate of return of 4.2% in 2007; an expected option life of three and three-quarter years; and an expected stock price volatility of 20.4% in 2007. For the purposes of this option-pricing model, an average dividend yield of 0.6% was assumed. During the first nine months of 2007, we granted 7,045 options with a five-

year life and a four-year vesting period. The Black-Scholes option-pricing model was used to determine the grant date fair value of these options, which was \$14.64 per option. Significant assumptions used in the model included a

## Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

weighted-average risk-free rate of return of 4.6% in 2007; an expected option life of three and three-quarter years; and an average expected stock price volatility of 19.2% in 2007. For the purposes of this option-pricing model, an average dividend yield of 0.5% was assumed.

Also during the first nine months of 2007, we granted 55 options with a ten-year life and a five-year vesting period. The Black-Scholes option-pricing model was used to determine the grant date fair value of these options, which was \$22.07 per option. Significant assumptions used in the model included a weighted-average risk-free rate of return of 4.7% in 2007; an expected option life of six and one-half years; and an expected stock price volatility of 21.1% in 2007. For the purposes of this option-pricing model, a dividend yield of 0.5% was assumed.

Prior to adoption of Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), Share-Based Payment ("SFAS 123R") we used a graded-vesting schedule to calculate the expense related to stock options. Since the adoption of SFAS 123R we have used a straight-line schedule to calculate the expense related to new stock options issued.

The Black-Scholes option-pricing model assumes that options are freely tradable and immediately vested. Since options are not transferable, have vesting provisions, and are subject to trading blackout periods imposed by us, the value calculated by the Black-Scholes model may significantly overstate the true economic value of the options.

During the third quarter of 2007 and 2006 we issued 35 and 15,228 shares, respectively, of restricted stock. During the first nine months of 2007 and 2006 we issued 94 and 15,244 shares, respectively, of restricted stock. These awards vest over five years: 0% during the first two years, 25% at the end of each of the third and fourth years and 50% at the end of the fifth year. The impact of expensing restricted stock for the three months ended September 30, 2007, was an increase of \$75,000 (pre-tax) or \$0.01 (after-tax) per share, to salaries, benefits and other compensation. This compares to \$41,000 (pre-tax) or less than \$0.01 (after-tax) per share impact for the three months ended September 30, 2006. The impact of expensing restricted stock for the nine months ended September 30, 2007, was an increase of \$238,000 (pre-tax) or \$0.02 (after-tax) per share, to salaries, benefits and other compensation. This compares to \$82,000 (pre-tax) or \$0.01 (after-tax) per share for the nine months ended September 30, 2006.

### 2. EARNINGS PER SHARE

The following table shows the computation of basic and diluted earnings per share:

	For the three months ended September 30,	
	2007	2006
	----	----
(In Thousands, Ex		
Numerator:		
-----		
Net income .....	\$ 7,143	\$ 8,003
	=====	=====
Denominator:		

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

-----		
Denominator for basic earnings per share - weighted average shares ...	6,248	6,657
Effect of dilutive employee stock options .....	179	258
	-----	-----
Denominator for diluted earnings per share - adjusted weighted average shares and assumed exercise .....	6,427	6,915
	=====	=====
Basic earnings per share .....	\$ 1.14	\$ 1.20
	=====	=====
Diluted earnings per share .....	\$ 1.11	\$ 1.16
	=====	=====
Outstanding common stock equivalents having no dilutive effect .....	200	101

3. ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING

We have an interest-rate cap with a notional amount of \$50.0 million, which limits three-month London InterBank Offered Rate ("LIBOR") to 6.00% for the ten years ending December 1, 2008. The fair value of the cap is estimated using a standard option model. The fair value of the interest rate cap at September 30, 2007 was \$2,000. The cap is considered a free standing derivative and all changes in the fair value of the cap are recorded in the Statement of Operations. During the first nine months of 2007, we recognized \$28,000 of related interest expense.

9

4. COMPREHENSIVE INCOME

The following schedule reconciles net income to total comprehensive income as required by SFAS No. 130, Reporting Comprehensive Income:

		For the three months ended September 30,
		-----
	2007	2006
	----	----
	(In Thousands, Ex	
Net income .....	\$ 7,143	\$ 8,003
Other Comprehensive Income:		
Unrealized holding gains on securities available-for-sale arising during the period .....	5,047	16,057
Tax expense .....	(1,918)	(6,101)
	-----	-----
Net of tax amount .....	3,129	9,956
Unrealized holding gains arising during the period on derivative used for cash flow hedge ..	-	411
Tax expense .....	-	(144)
	-----	-----

## Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Net of tax amount .....	-	267
Reclassification adjustment for losses included in net income.....	-	(1,940)
Tax benefit .....	-	737
	-----	-----
Net of tax amount .....	-	(1,203)
	-----	-----
 Total comprehensive income .....	 \$ 10,272	 \$ 17,023
	=====	=====

### 5. TAXES ON INCOME

We account for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes, which requires the recording of deferred income taxes that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We have assessed valuation allowances on the deferred income taxes due to, among other things, limitations imposed by Internal Revenue Code and uncertainties, including the timing of settlement and realization of these differences.

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109 ("FIN 48"). FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. Benefits from tax positions are recognized in the financial statements only when it is more-likely-than-not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than fifty-percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold are recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met. FIN 48 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties. FIN 48 became effective for us on January 1, 2007, and resulted in a \$2.0 million increase to our retained earnings during the quarter ended March 31, 2007.

The total amount of unrecognized tax benefits as of January 1, 2007 was \$2.2 million, all of which would affect our effective tax rate if recognized. The total amount of accrued interest and penalties associated with such unrecognized tax benefits were \$400,000 and \$0, respectively. Approximately \$600,000 of these tax benefits was recognized during the quarter ended September 30, 2007 as a result of our changes to estimates of future sustainability of our tax positions. We record interest and penalties on potential income tax deficiencies as income tax expense. Federal tax years 2004 through 2006 remain subject to examination as of September 30, 2007, while tax years 2004 through 2006 remain subject to examination by state taxing jurisdictions.

During the quarter ended September 30, 2007, an additional \$3.6 million tax reserve was established related primarily to the Internal Revenue Service ("IRS") disallowance of the deduction for certain compensation. This adjustment was the result of a routine IRS audit of our 2004 through 2006 tax years. Because the original tax benefit for this item was recorded as an increase to equity, \$3.4 million of the tax liability was recorded as a reduction to equity in the three months ended September 30, 2007. There was

\$200,000 reflected in the provision for income taxes during the quarter for interest expense related to the IRS audit. Even though this matter is not yet settled, standards under FIN 48 require this reserve to be established during the quarter ended September 30, 2007.

6. SEGMENT INFORMATION

Under the definition of SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information, we have three operating segments at September 30, 2007. There is one segment for WSFS and one for CashConnect, the ATM division of WSFS. The third segment, "All Others", represents the combined contributions of Montchanin, WSFS Investment Group, Inc., and our Wealth Management Services Division. Montchanin, WSFS Investment Group, Inc., and the Wealth Management Services Division each offer different products, to a separate customer base, through distinct distribution methods. All prior years' information has been updated to reflect this presentation.

The WSFS segment provides financial products through its banking offices to commercial and retail customers.

The CashConnect segment provides turnkey ATM services through strategic partnerships with several of the largest networks, manufacturers, and service providers in the ATM industry. The balance sheet category "Cash in non-owned ATMs" includes cash in which fee income is earned through bailment arrangements with customers of CashConnect.

Montchanin provides asset management products and services to customers in the Bank's primary market area. Montchanin has one wholly-owned subsidiary, Cypress. Cypress is a Wilmington-based investment advisory firm serving high net-worth individuals and institutions. WSFS Investment Group, Inc. markets various third-party insurance products and securities directly to the public and through WSFS' retail banking system. The Wealth Management Services Division provides wealth management and personal trust services to customers in the Bank's primary market area.

An operating segment is a component of an enterprise that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the enterprise's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. We evaluate performance based on pretax ordinary income relative to resources used, and allocate resources based on these results. Segment information for the three and nine months ended September 30, 2007 and 2006 follows:

For the Three Months Ended September						
-----						
2007						
-----						
WSFS	CashConnect	All Others	(1)	Total	WSFS	Cash
-----						

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

(in Thousands)

External customer revenues:						
Interest income	\$ 47,579	\$ -	\$ -	\$ 47,579	\$ 46,131	\$
Noninterest income	7,420	4,501	888	12,809	5,342	
	-----	-----	-----	-----	-----	-----
Total external customer revenues	54,999	4,501	888	60,388	51,473	
	-----	-----	-----	-----	-----	-----
Inter-segment revenues:						
Interest income	2,316	-	-	2,316	2,174	
Noninterest income	635	168	-	803	426	
	-----	-----	-----	-----	-----	-----
Total inter-segment revenues	2,951	168	-	3,119	2,600	
	-----	-----	-----	-----	-----	-----
Total revenue	57,950	4,669	888	63,507	54,073	
	-----	-----	-----	-----	-----	-----
External expenses:						
Interest expense	27,480	-	-	27,480	27,011	
Noninterest expenses	18,924	1,228	1,181	21,333	15,548	
Provision for loan loss	1,001	-	-	1,001	319	
	-----	-----	-----	-----	-----	-----
Total external customer expenses	47,405	1,228	1,181	49,814	42,878	
	-----	-----	-----	-----	-----	-----
Inter-segment expenses						
Interest expense	-	2,316	-	2,316	-	
Noninterest expenses	168	256	379	803	179	
	-----	-----	-----	-----	-----	-----
Total inter-segment expenses	168	2,572	379	3,119	179	
	-----	-----	-----	-----	-----	-----
Total expenses	47,573	3,800	1,560	52,933	43,057	
	-----	-----	-----	-----	-----	-----
Income before minority interest and taxes	\$ 10,377	\$ 869	\$ (672)	\$ 10,574	\$ 11,016	\$
Provision for income taxes				3,431		
Minority interest				-		
				-----		
Consolidated net income				\$ 7,143		
				=====		
Cash and cash equivalents	\$ 71,885	\$ 168,162	\$ 1,424	\$ 241,471	\$ 82,513	\$
Other segment assets	2,825,974	14,275	2,058	2,842,307	2,746,268	
	-----	-----	-----	-----	-----	-----
Total segment assets	\$2,897,859	\$ 182,437	\$ 3,482	\$3,083,778	\$2,828,781	\$
	=====	=====	=====	=====	=====	=====
Capital expenditures	\$ 2,352	\$ 53	\$ 1	\$ 2,406	\$ 2,386	\$

(1) Includes Montchanin Capital Management, Inc., WSFS Investment Group Inc. and the Wealth Management Services Division.

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

For the Nine Months Ended September

	2007			Total	WSFS	Cash
	WSFS	CashConnect	All Others (1)			
	(in Thousands)					
External customer revenues:						
Interest income	\$ 141,334	\$ -	\$ -	\$ 141,334	\$ 130,476	\$ -
Noninterest income	20,115	12,387	2,656	35,158	15,179	-
Total external customer revenues	161,449	12,387	2,656	176,492	145,655	-
Inter-segment revenues:						
Interest income	6,391	-	-	6,391	5,976	-
Noninterest income	1,817	498	-	2,315	1,254	-
Total inter-segment revenues	8,208	498	-	8,706	7,230	-
Total revenue	169,657	12,885	2,656	185,198	152,885	-
External expenses:						
Interest expense	80,035	-	-	80,035	72,667	-
Noninterest expenses	52,812	3,526	3,380	59,718	45,104	-
Provision for loan loss	2,645	-	-	2,645	1,702	-
Total external customer expenses	135,492	3,526	3,380	142,398	119,473	-
Inter-segment expenses						
Interest expense	-	6,391	-	6,391	-	-
Noninterest expenses	498	787	1,030	2,315	519	-
Total inter-segment expenses	498	7,178	1,030	8,706	519	-
Total expenses	135,990	10,704	4,410	151,104	119,992	-
Income before minority interest and taxes	\$ 33,667	\$ 2,181	\$ (1,754)	\$ 34,094	\$ 32,893	\$ -
Provision for income taxes				11,941		
Minority interest				-		
Consolidated net income				\$ 22,153		
Cash and cash equivalents	\$ 71,885	\$ 168,162	\$ 1,424	\$ 241,471	\$ 82,513	\$ -
Other segment assets	2,825,974	14,275	2,058	2,842,307	2,746,268	-



Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Total segment assets	\$2,897,859	\$ 182,437	\$ 3,482	\$3,083,778	\$2,828,781	\$
	=====	=====	=====	=====	=====	=====
Capital expenditures	\$ 7,532	\$ 58	\$ 5	\$ 7,595	\$ 7,275	\$

(1) Includes Montchanin Capital Management, Inc., WSFS Investment Group Inc. and the Wealth Management Services Division.

13

7. INDEMNIFICATIONS AND GUARANTEES

Secondary Market Loan Sales. Generally, we do not sell loans with recourse except to the extent arising from standard loan sale contract provisions covering violations of representations and warranties and, under certain circumstances, first payment default by borrowers. These are customary repurchase provisions in the secondary market for conforming mortgage loan sales. We sell fixed-rate, conforming first mortgage loans to Freddie Mac as part of our ongoing asset/liability management program. Loans held-for-sale are carried at the lower of cost or market of the aggregate or, in some cases, individual loans. Gains and losses on sales of loans are recognized at the time of the sale.

As is customary in such sales, we provide indemnifications to the buyers under certain circumstances. These indemnifications may include our repurchase of the loans. Repurchases and losses have been rare, and no provision is made for losses at the time of sale. From January 2005 through the third quarter of 2007, we have had no repurchases under these indemnifications.

During the third quarter of 2007 we sold our entire credit card loan portfolio. As part of this sale we were required to make certain standard industry representations. These included, but were not limited to, representations relating to fraud, delinquency, and bankruptcy.

Swap Guarantees. We entered into agreements with two unrelated financial institutions, whereby those financial institutions entered into interest rate derivative contracts (interest rate swap transactions) with customers referred to them by us. By the terms of the agreements, those financial institutions have recourse to us for any exposure created under each swap transaction in the event the customer defaults on the swap agreement and the agreement is in a paying position to the third-party financial institution. This is a customary arrangement that allows financial institutions, such as ours, to provide access to interest rate swap transactions for its customers without creating the swap itself.

At September 30, 2007, there were twenty-three variable-rate to fixed-rate swap transactions between the third party financial institutions and customers of ours, compared to twenty-two at December 31, 2006. The initial notional amount aggregated approximately \$85.9 million at September 30, 2007 compared with \$77.4 million at December 31, 2006, with maturities ranging from approximately one to fifteen years. The aggregate fair value of these swaps to the customers was a liability of \$1.8 million at September 30, 2007 compared to a liability of \$291,000 at December 31, 2006. The amount of liability recorded by us for these guarantees that were in a liability position at September 30, 2007 and December 31, 2006 was \$19,000 and \$7,000, respectively. This amount represented the fair value of the guarantee to perform under the terms of the swap agreements.

## Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

ATM Cash Management. We entered into an agreement with a financial institution, whereby they provide cash for distribution/cash management by Cash Connect, our ATM division. Under this agreement we accept the operational risk associated with this cash and are legally bound to reimburse the financial institution for any related operational losses. We have taken steps to mitigate the risk of loss to us by purchasing a multi-layer insurance policy and instituting strong operational controls. Additionally, Cash Connect has the ability to recover losses from its vault cash customers based on the strength of our ATM cash bailment agreements, which hold the ATM vault cash customers responsible for any loss of cash, which is not a result of our gross negligence.

### 8. ASSOCIATE (EMPLOYEE) BENEFIT PLANS

#### Postretirement Benefits

We share certain costs of providing health and life insurance benefits to retired Associates (and their eligible dependents). Associates may become eligible for these benefits if they reach normal retirement age while working for us.

We account for our obligations under the provisions of SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions ("SFAS 106"). SFAS 106 requires that the costs of these benefits be recognized over an Associate's active working career. Disclosures for 2007 are in accordance with SFAS No. 158, Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans ("SFAS 158") while disclosures for previous years are in accordance with SFAS No. 132 (Revised), Employers' Disclosure About Pensions and Other Postretirement Benefits.

14

The following disclosures of the net periodic benefit cost components of post-retirement benefits were measured at January 1, 2007 and 2006:

	Three months ended September 30,		Nine months ended
	2007	2006	2007
	----	----	----
Service cost .....	\$ 34	\$ 27	\$103
Interest cost .....	32	23	94
Amortization of transition obligation ....	15	15	45
Net loss recognition .....	5	--	15
	----	----	----
Net periodic benefit cost.....	\$ 86	\$ 65	\$257
	====	====	====

#### Supplemental Pension Plan

We provide a nonqualified supplemental pension plan that gives credit for 25 years of service based on the qualified plan formula. This plan is provided to two of our retired executives. The plan is no longer being provided to our Associates. Unrecognized net gains or losses resulting from experience different from that assumed and from changes in assumptions is recognized immediately as a component of net periodic benefit cost.

## Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

The following disclosures of the net periodic benefit cost components of the supplemental pension plan are in accordance with SFAS 132 (Revised) and were measured at January 1, 2007 and 2006:

	Three months ended September 30,		Nine months ended
	2007	2006	2007
	----	----	----
Interest cost .....	\$ 10	\$ 11	\$ 30
Net loss recognition.....	6	15	20
	----	----	----
Net periodic benefit cost .....	\$ 16	\$ 26	\$ 50
	====	====	====

15

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
 ----- FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

WSFS Financial Corporation ("the Company", "our Company", "we", "our" or "us") is a thrift holding company headquartered in Wilmington, Delaware. Substantially all of our assets are held by our subsidiary, Wilmington Savings Fund Society, FSB ("WSFS Bank" or the "Bank"). Founded in 1832, we are one of the ten oldest banks continuously operating under the same name in the United States. As a federal savings bank, which was formerly chartered as a state mutual savings bank, the Bank enjoys broader investment powers than most other financial institutions. We have served the residents of the Delaware Valley for 175 years. We are the largest thrift institution headquartered in Delaware and the third largest financial institution in the state on the basis of total deposits traditionally garnered in-market. Our primary market area is the mid-Atlantic region of the United States, which is characterized by a diversified manufacturing and service economy. Our long-term business strategy is to serve small and mid-size businesses through loans, deposits, investments, and related financial services, and to gather retail core deposits. Our strategic focus is to exceed customer expectations, deliver stellar service and build customer advocacy through highly trained, relationship oriented, friendly, knowledgeable, and empowered Associates.

We provide residential and commercial real estate, commercial and consumer lending services, as well as cash management and retail deposit services. In addition, we offer a variety of wealth management and personal trust services through the Bank's new division, Wilmington Advisors, which was formed during 2006. Lending activities are funded primarily with retail deposits and borrowings. The Federal Deposit Insurance Corporation ("FDIC") insures our customers' deposits to their legal maximum. We serve customers from our main office and twenty-nine retail banking offices, four loan production offices and operations centers located in Delaware and southeastern Pennsylvania.

We have two consolidated subsidiaries, WSFS Bank and Montchanin Capital Management, Inc. ("Montchanin"). We also have one unconsolidated affiliate, WSFS Capital Trust III. Fully-owned consolidated subsidiaries of the Bank include WSFS Investment Group, Inc. which markets various third-party insurance products

## Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

and securities directly to the public and through the Bank's retail banking system, and WSFS Reit, Inc., which holds qualifying real estate assets and may be used in the future to raise capital.

Montchanin has one consolidated wholly-owned subsidiary, Cypress Capital Management, LLC ("Cypress"). Cypress is a Wilmington-based investment advisory firm serving high net-worth individuals and institutions. Cypress has more than \$511 million in assets under management at September 30, 2007.

### FORWARD-LOOKING STATEMENTS

Within this report and financial statements, management has included certain "forward-looking statements" concerning our future operations. It is management's desire to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. This statement is for the express purpose of availing the Company of the protections of such safe harbor with respect to all "forward-looking statements". Management has used "forward-looking statements" to describe the future plans and strategies including expectations of our future financial results. Management's ability to predict results or the effect of future plans and strategy is inherently uncertain. Factors that could affect results include interest rate trends, competition, the general economic climate in Delaware, the mid-Atlantic region and the country as a whole, asset quality, loan growth, loan delinquency rates, operating risk, uncertainty of estimates in general and changes in federal and state regulations, among other factors. These factors should be considered in evaluating the "forward-looking statements," and undue reliance should not be placed on such statements. Actual results may differ materially from management expectations. We do not undertake, and specifically disclaim any obligation to publicly release the result of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

### CRITICAL ACCOUNTING POLICIES

The discussion and analysis of the financial condition and results of operations are based on the Consolidated Financial Statements, which are prepared in conformity with U.S. generally accepted accounting principles. The preparation of these Financial Statements requires management to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenue and expenses. Management evaluates these estimates and assumptions on an ongoing basis, including those related to the allowance for loan losses, contingencies (including indemnifications), and deferred taxes. Management bases its estimates on historical experience and various other factors and assumptions that are believed to be reasonable under the circumstances. These form the basis for making judgments on the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

16

The following are critical accounting policies that involve more significant judgments and estimates:

#### Allowance for Loan Losses

We maintain allowances for credit losses and charge losses to these allowances when realized. The determination of the allowance for loan losses requires significant judgment reflecting management's best estimate of probable loan losses related to specifically identified loans as well as those in the

## Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

remaining loan portfolio. Management's evaluation is based upon a continuing review of these portfolios.

### Contingencies (Including Indemnifications)

In the ordinary course of business we are subject to legal actions which involve claims for monetary relief. Based upon information presently available to us and our counsel, it is our opinion that any legal and financial responsibility arising from such claims will not have a material adverse effect on our results of operations.

We maintain a loss contingency for standby letters of credit and charge losses to this reserve when such losses are realized. The determination of the loss contingency for standby letters of credit requires significant judgment reflecting management's best estimate of probable losses. The balance in this reserve at September 30, 2007 was \$387,000.

The Bank, as successor to originators of reverse mortgages is, from time to time, involved in arbitration or litigation with various parties including borrowers or the heirs of borrowers. There can be no assurances about how the courts or arbitrators may apply existing legal principles to the interpretation and enforcement of the terms and conditions of the Bank's reverse mortgage obligations.

### Income Taxes

We account for income taxes in accordance with Statement of Financial Account Standards ("SFAS") No. 109, Accounting for Income Taxes ("SFAS 109"), which requires the recording of deferred income taxes that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Management has assessed the Company's valuation allowances on deferred income taxes resulting from, among other things, limitations imposed by Internal Revenue Code and uncertainties, including the timing of settlement and realization of these differences. We adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109 ("FIN 48") on January 1, 2007. The impact of the adoption of this interpretation is more fully discussed in Note 5 to the consolidated financial statements.

## FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY

### Financial Condition

Our total assets increased \$86.4 million or 3% during the nine months ended September 30, 2007. Net loans increased \$138.3 million or 7% mainly attributable to a \$163.0 million or 12% increase in commercial and commercial real estate loans offset by a decrease in residential mortgage loans of \$27.5 million or 6%. Mortgage-backed securities decreased \$31.0 million or 6% due to scheduled repayments and prepayments. Investment securities decreased \$27.0 million or 49% primarily due to \$25.0 million in agency notes maturing during the first quarter of 2007.

Total liabilities increased \$95.4 million or 3% between December 31, 2006 and September 30, 2007 to \$2.9 billion. This increase was due to an increase in customer deposits of \$105.1 million or 8%. The increase included \$64.5 million in money market accounts and \$41.6 million in customer time deposits. Decreases in brokered deposits of \$32.5 million and other jumbo certificates of deposits of \$17.8 million offset these increases. There were also increases in other borrowed funds of \$15.9 million and \$14.5 million in Federal Home Loan Bank ("FHLB") advances.

## Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

### Capital Resources

Stockholders' equity decreased \$9.0 million between December 31, 2006 and September 30, 2007. This decrease was mainly due to our purchase of 513,600 shares of our common stock for \$33.5 million (\$65.18 per share average). In addition, equity was reduced by \$3.4 million related to income taxes, which is more fully discussed in Note 5 to the consolidated financial statements. We also declared cash dividends totaling \$1.8 million during the nine months ended September 30, 2007. These decreases were partially offset by net income of \$22.2 million and an increase of \$4.2 million from the issuance of common stock and exercise of employee stock options. In addition, stockholders' equity increased \$2.0 million as a result of the implementation of the FIN 48. The impact of the adoption of this interpretation is more fully discussed in Note 5 to the Consolidated Financial Statements. Finally, accumulated

17

other comprehensive loss decreased \$1.3 million during the first nine months of 2007 due to an increase in the fair value of securities available-for-sale.

Below is a table comparing the Bank's consolidated capital position to the minimum regulatory requirements as of September 30, 2007 (dollars in thousands):

	Consolidated Bank Capital		For Capital Adequacy Purposes	
	Amount	% of Assets	Amount	% of Assets
Total Capital				
(to Risk-Weighted Assets) .....	\$295,059	12.22%	\$193,142	8.00%
Core Capital (to Adjusted				
Total Assets).....	268,070	8.68	123,591	4.00
Tangible Capital (to Tangible				
Assets) .....	268,070	8.68	46,347	1.50
Tier 1 Capital (to Risk-Weighted				
Assets).....	268,070	11.10	96,571	4.00

Under Office of Thrift Supervision ("OTS") capital regulations, savings institutions such as our bank must maintain "tangible" capital equal to 1.5% of adjusted total assets, "core" capital equal to 4.0% of adjusted total assets, "Tier 1" capital equal to 4.0% of risk weighted assets and "total" or "risk-based" capital (a combination of core and "supplementary" capital) equal to 8.0% of risk-weighted assets. Failure to meet minimum capital requirements can initiate certain mandatory actions and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our bank's financial statements. At September 30, 2007 the Bank was in compliance with regulatory capital requirements and is considered a "well-capitalized" institution.

### Liquidity

We manage our liquidity risk and funding needs through our treasury

## Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

function and our Asset/Liability Committee. We have a policy that separately addresses liquidity, and management monitors our adherence to policy limits. Also, liquidity risk management is a primary area of examination by the OTS. We comply with guidance promulgated under Thrift Bulletin 77 that requires thrift institutions to maintain adequate liquidity to assure safe and sound operations.

As a financial institution, the Bank has ready access to several sources to fund growth and meet its liquidity needs. Among these are: net income, deposit programs, loan repayments, borrowing from the FHLB, repurchase agreements and the brokered deposit market. The Bank's branch expansion is intended to enter us into new, but contiguous, markets, attract new customers and provide funding for its business loan growth. In addition, we have a large portfolio of high-quality, liquid investments, primarily short-duration, AAA-rated, mortgage-backed securities and Agency notes that are positioned to provide a near-continuous source of cash flow to meet current cash needs, or can be sold to meet larger discrete needs for cash. Management believes these sources are sufficient to maintain the required and prudent levels of liquidity.

During the nine months ended September 30, 2007, net loan growth resulted in the use of \$146.9 million in cash. The loan growth was primarily the result of the successful implementation of specific strategies designed to increase corporate and small business lending. While our loan to deposit ratio has been well above 100% for many years, management has significant experience managing the Bank's funding needs through borrowings, primarily through the FHLB.

During the nine months ended September 30, 2007, \$33.7 million in cash was provided by operating activities, while \$79.4 million in cash was provided through the net increase in demand and savings deposits and \$9.4 million in cash was provided by the net increase in time deposits. During this period, cash and cash equivalents decreased \$353,000 to \$241.5 million.

### NONPERFORMING ASSETS

The following table shows our nonperforming assets and past due loans at the dates indicated. Nonperforming assets include nonaccruing loans, nonperforming real estate investments and assets acquired through foreclosure. Nonaccruing loans are those on which the accrual of interest has ceased. Loans are placed on nonaccrual status immediately if, in the opinion of management, collection is doubtful, or when principal or interest is past due 90 days or more and the value of the collateral is insufficient to cover principal and interest. Interest accrued but not collected at the date a loan is placed on nonaccrual status is reversed and charged against interest income. In addition, the amortization of net deferred loan fees is suspended when a loan is placed on nonaccrual status. Subsequent cash

18

receipts are applied either to the outstanding principal balance or recorded as interest income, depending on management's assessment of the ultimate collectibility of principal and interest. Past due loans are loans contractually past due 90 days or more as to principal or interest payments but which remain on accrual status because they are considered well secured and in the process of collection.

September 30,  
2007

December 31,  
2006

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

	-----	-----
	(In Thousands)	
Nonaccruing loans:		
Commercial .....	\$ 1,872	\$ 1,282
Consumer .....	617	557
Commercial mortgage .....	3,328	500
Residential mortgage .....	1,914	1,493
Construction .....	7,996	-
	-----	-----
Total nonaccruing loans .....	15,727	3,832
Assets acquired through foreclosure .....	703	388
	-----	-----
Total nonperforming assets .....	\$16,430	\$ 4,220
	=====	=====
Past due loans:		
Residential mortgages .....	\$ 333	\$ 219
Commercial and commercial mortgages .....	389	3
Consumer .....	11	29
	-----	-----
Total past due loans .....	\$ 733	\$ 251
	=====	=====
Ratios:		
Nonaccruing loans to total loans (1) .....	0.72%	0.19%
Allowance for loan losses to gross loans (1).....	1.32%	1.34%
Nonperforming assets to total assets .....	0.53%	0.14%
Loan loss allowance to nonaccruing loans (2).....	172%	705%
Loan and foreclosed asset allowance to total nonperforming assets (2) .....	164%	640%

(1) Total loans exclude loans held for sale.

(2) The applicable allowance represents general valuation allowances only.

Nonperforming assets increased \$12.2 million between December 31, 2006 and September 30, 2007. This increase resulted primarily from a \$10.3 million lending relationship that was placed on nonaccrual status. The relationship consists of \$7.0 million in construction loans and \$3.3 million in commercial mortgages. The analysis of the change in nonperforming assets is presented on the following table:

	For the nine months ended September 30, 2007	For the year ended December 31, 2006
	-----	-----
	(In Thousands)	
Beginning balance.....	\$ 4,220	\$ 3,469
Additions .....	14,945	5,697
Collections.....	(1,642)	(3,916)
Transfers to accrual/restructured status.....	(634)	(453)
Charge-offs / write-downs, net.....	(459)	(577)
	-----	-----
Ending balance.....	\$ 16,430	\$ 4,220
	=====	=====



## Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

The timely identification of problem loans is a key element in our strategy to manage our loan portfolio. Timely identification enables us to take appropriate action and, accordingly, minimize losses. An asset review system established to monitor the asset quality of our loans and investments in real estate portfolios facilitates the identification of problem assets. In general, this system utilizes guidelines established by federal regulation. However, there can be no assurance that the levels or the categories of problem loans and assets established by the Bank are the same as those which would result from a regulatory examination.

19

### INTEREST SENSITIVITY

The matching of maturities or repricing periods of interest rate-sensitive assets and liabilities to promote a favorable interest rate spread and mitigate exposure to fluctuations in interest rates is our primary tool for achieving our asset/liability management strategies. Management regularly reviews our interest-rate sensitivity and adjusts the sensitivity within acceptable tolerance ranges established by management. At September 30, 2007, interest-bearing liabilities exceeded interest-earning assets that mature or reprice within one year (interest-sensitive gap) by \$34.4 million. Our interest-sensitive assets as a percentage of interest-sensitive liabilities within the one-year window decreased to 98% at September 30, 2007 from 99% at June 30, 2007. Likewise, the one-year interest-sensitive gap as a percentage of total assets changed to -1.12% at September 30, 2007 from -0.67% at June 30, 2007. The change in sensitivity since June 30, 2007 is the result of the current interest rate environment and our continuing effort to effectively manage interest rate risk.

Market risk is the risk of loss from adverse changes in market prices and rates. During the past several months, market risk has been evident in the repricing of risk in sub-prime mortgage-backed securities and collateralized loan obligations. We have not been impacted by this market event because our mortgage-backed securities portfolio is short in duration and comprised almost exclusively of securities collateralized by prime credit mortgages. Our market risk arises primarily from interest rate risk inherent in its lending, investing, and funding activities. To that end, management actively monitors and manages its interest rate risk exposure. One measure, required to be performed by OTS-regulated institutions, is the test specified by OTS Thrift Bulletin No. 13a "Management of Interest Rate Risk, Investment Securities and Derivative Activities." This test measures the impact of an immediate change in interest rates in 100 basis point increments on the net portfolio value ratio. The net portfolio value ratio is defined as the net present value of the estimated cash flows from assets and liabilities as a percentage of net present value of cash flows from total assets (or the net present value of equity). The table below shows the estimated impact of immediate changes in interest rates on our net interest margin and net portfolio value ratio at the specified levels at September 30, 2007 and 2006, calculated in compliance with Thrift Bulletin No. 13a:

At September 30,		
	2007	2006
	Change in	% Change in
Change in	% Change in	% Change in

## Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Interest Rate (Basis Points)	Net Interest Margin (1)	Net Portfolio Value Ratio (2)	Net Interest Margin (1)	Net Portfolio Value Ratio (2)
-----	-----	-----	-----	-----
+300	-3%	8.93%	3%	8.55%
+200	-1%	9.56%	2%	9.15%
+100	0%	10.06%	1%	9.82%
0	0%	10.33%	0%	9.97%
-100	1%	10.40%	-2%	10.24%
-200	3%	10.55%	-6%	10.66%
-300	3%	10.61%	-10%	10.72%

- (1) The percentage difference between net interest margin in a stable interest rate environment and net interest margin as projected under the various rate change environments.
- (2) The net portfolio value ratio of the Company in a stable interest rate environment and the net portfolio value ratio as projected under the various rate change environments.

### COMPARISON OF THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

#### Results of Operations

We recorded net income of \$7.1 million or \$1.11 per diluted share for the third quarter of 2007. This compares to \$8.0 million or \$1.16 per diluted share for the same quarter last year. Results for the third quarter of 2007 were impacted by an \$882,000 gain (\$0.09 per share) on the sale of our credit card portfolio and a related \$518,000 reduction (\$0.05 per share) to the allowance for loan losses. Additionally, one commercial lending relationship totaling \$10.3 million was placed on nonaccrual status. This resulted in a \$618,000 increase (\$0.06 per share) in our provision for loan losses and a \$256,000 reversal (\$0.03 per share) of interest income.

Net income for the nine months ended September 30, 2007 was \$22.2 million or \$3.38 per diluted share. This compares to \$22.8 million or \$3.31 per diluted share for the same period last year.

20

#### Net Interest Income

The net interest margin for the third quarter of 2007 was 3.04%, up 0.16% from the third quarter of 2006. Net interest income for the third quarter of 2007 was \$20.1 million compared to \$19.1 million for the same quarter in 2006. During the third quarter of 2007, one commercial lending relationship totaling \$10.3 million, secured by real estate, was placed on nonaccrual status. This resulted in a \$256,000 reversal of interest income. This negatively affected the net interest margin by 4 basis points, 0.04%. The third quarter of 2006 included a \$411,000 (6 basis points, 0.06%) non-cash charge related to the refinancing of our trust preferred securities. The overall improvement in the net interest margin over last year reflects growth, and our continued efforts to refocus the mix of our balance sheet. Loans, with a yield of 7.65%, increased \$149.8 million while mortgage-backed securities, with a yield of 4.96%, declined \$125.6 million mostly due to scheduled repayments. In addition, interest-bearing deposits, with a rate of 3.83%, increased \$238.8 million while FHLB advances, with a rate of 5.05%, decreased \$282.8 million. The yield on earning assets increased 0.26% in comparison to the third quarter of 2006 while the rate on

## Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

interest-bearing liabilities increased by 0.08%.

The net interest margin for the first nine months of 2007 was 3.13%, up 0.18% from the same period of 2006. Net interest income for the nine-month period ending September 30, 2007 was \$61.3 million compared to \$57.8 million for the same period in 2006. Consistent with the quarterly trend discussed above, the increase in net interest income was mostly due to improved balance sheet mix of earning assets and interest-bearing liabilities. The yield on earning assets increased 0.56% in comparison to the first nine months of 2006 while the rate on interest-bearing liabilities increased by 0.41%. Additionally, income from reverse mortgages increased \$1.6 million in comparison to the first nine months of 2006.

21

### AVERAGE BALANCE SHEET

	Three months ended September 30,			
	2007			
	Average Balance	Interest	Yield/ Rate (1)	
(Dollars in Thousands)				
<b>Assets:</b>				
Interest-earning assets:				
Loans (2) (3):				
Commercial real estate loans .....	\$ 697,945	\$14,286	8.19%	\$ 6
Residential real estate loans.....	454,010	6,551	5.77	4
Commercial loans .....	721,080	14,707	8.13	6
Consumer loans.....	272,881	5,203	7.56	2
	-----	-----		-----
Total loans.....	2,145,916	40,747	7.65	1,9
Mortgage-backed securities (4).....	467,998	5,799	4.96	5
Investment securities (4) (5).....	27,704	457	6.60	
Other interest-earning assets .....	38,030	576	6.01	
	-----	-----		-----
Total interest-earning assets.....	2,679,648	47,579	7.14	2,6
	-----	-----		-----
Allowance for loan losses.....	(28,503)			(
Cash and due from banks.....	64,834			
Cash in non-owned ATMs.....	169,775			1
Bank owned life insurance.....	56,571			
Other noninterest-earning assets.....	70,447			
	-----			-----
Total assets.....	\$3,012,772			\$3,0
	=====			=====
<b>Liabilities and Stockholders' Equity:</b>				
Interest-bearing liabilities:				
Interest-bearing deposits:				
Interest-bearing demand.....	\$ 154,474	\$ 401	1.03%	\$ 1
Money market.....	313,825	3,057	3.86	2
Savings.....	208,811	437	0.83	2
Retail time deposits .....	490,133	5,848	4.73	4
	-----	-----		-----
Total interest-bearing retail deposits.	1,167,243	9,743	3.31	1,0

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Jumbo certificates of deposits .....	94,535	1,268	5.32	
Brokered deposits.....	299,337	4,055	5.38	2
	-----	-----		-----
Total interest-bearing deposits.....	1,561,115	15,066	3.83	1,3
FHLB of Pittsburgh advances.....	719,175	9,280	5.05	1,0
Trust preferred borrowings.....	67,011	1,217	7.11	
Other borrowed funds.....	160,752	1,917	4.77	1
	-----	-----		-----
Total interest-bearing liabilities.....	2,508,053	27,480	4.38	2,5
		-----		
Noninterest-bearing demand deposits.....	273,990			2
Other noninterest-bearing liabilities.....	26,884			
Minority interest .....	34			
Stockholders' equity.....	203,811			1
	-----			-----
Total liabilities and stockholders' equity....	\$3,012,772			\$3,0
	=====			=====
Excess of interest-earning over interest-bearing liabilities.....	\$ 171,595			\$
	=====			=====
Net interest and dividend income.....		\$20,099		
		=====		
Interest rate spread.....			2.76%	
			=====	
Net interest margin.....			3.04%	
			=====	

- (1) Weighted average yields have been computed on a tax-equivalent basis.
- (2) Nonperforming loans are included in average balance computations.
- (3) Balances are reflected net of unearned income.
- (4) Includes securities available-for-sale.
- (5) Includes reverse mortgages.

22

AVERAGE BALANCE SHEET

	Nine months ended September			
	2007			
	Average Balance	Interest	Yield/ Rate (1)	A B
	-----	-----	-----	-----
	(Dollars in Thousands)			
<b>Assets:</b>				
<b>Interest-earning assets:</b>				
<b>Loans (2) (3):</b>				
Commercial real estate loans .....	\$ 672,630	\$ 41,784	8.28%	\$ 6
Residential real estate loans .....	462,366	19,818	5.71	4
Commercial loans .....	686,950	41,771	8.18	5
Consumer loans.....	269,264	15,228	7.56	2
	-----	-----		-----
Total loans.....	2,091,210	118,601	7.61	1,9
Mortgage-backed securities (4).....	488,696	18,037	4.92	6
Investment securities (4) (5).....	29,549	2,894	13.06	

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Other interest-earning assets .....	38,333	1,802	6.29	
	-----	-----		
Total interest-earning assets.....	2,647,788	141,334	7.16	2,6
		-----		
Allowance for loan losses.....	(28,003)			(
Cash and due from banks.....	67,616			
Cash in non-owned ATMs.....	156,523			1
Bank-owned life insurance.....	56,030			
Other noninterest-earning assets.....	67,857			
	-----			-----
Total assets.....	\$2,967,811			\$2,9
	=====			=====
Liabilities and Stockholders' Equity:				
Interest-bearing liabilities:				
Interest-bearing deposits:				
Interest bearing demand.....	\$ 145,900	\$ 993	0.91%	\$ 1
Money market.....	312,995	9,146	3.91	2
Savings.....	215,239	1,321	0.82	2
Retail time deposits .....	468,440	16,418	4.69	3
	-----	-----		-----
Total interest-bearing retail deposits.	1,142,574	27,878	3.26	9
Jumbo certificates of deposits .....	98,793	3,935	5.33	
Brokered deposits.....	294,874	11,940	5.41	2
	-----	-----		-----
Total interest-bearing deposits.....	1,536,241	43,753	3.81	1,2
FHLB of Pittsburgh advances.....	719,255	27,740	5.09	1,0
Trust preferred borrowings.....	67,011	3,555	7.00	
Other borrowed funds.....	140,072	4,987	4.75	1
	-----	-----		-----
Total interest-bearing liabilities.....	2,462,579	80,035	4.33	2,4
		-----		
Noninterest-bearing demand deposits.....	273,259			2
Other noninterest-bearing liabilities.....	25,887			
Minority interest .....	40			
Stockholders' equity.....	206,046			1
	-----			-----
Total liabilities and stockholders' equity....	\$2,967,811			\$2,9
	=====			=====
Excess of interest-earning assets over interest-bearing liabilities.....	\$ 185,209			\$ 1
	=====			=====
Net interest and dividend income.....		\$ 61,299		
		=====		
Interest rate spread.....			2.83%	
			=====	
Net interest margin.....			3.13%	
			=====	

- (1) Weighted average yields have been computed on a tax-equivalent basis.
- (2) Nonperforming loans are included in average balance computations.
- (3) Balances are reflected net of unearned income.
- (4) Includes securities available-for-sale.
- (5) Includes reverse mortgages.

## Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

### Allowance for Loan Losses

We maintain allowances for credit losses and charge losses to these allowances when such losses are realized. The determination of the allowance for loan losses requires significant judgment reflecting management's best estimate of probable loan losses related to specifically identified loans as well as probable loan losses in the remaining loan portfolio. Management's evaluation is based upon a continuing review of these portfolios.

Management establishes the loan loss allowance in accordance with guidance provided in the Securities and Exchange Commission's Staff Accounting Bulletin 102 ("SAB 102"). Its methodology for assessing the appropriateness of the allowance consists of several key elements which include: specific allowances for identified problem loans; formula allowances for commercial and commercial real estate loans; and allowances for pooled homogenous loans.

Specific reserves are established for certain loans in cases where management has identified significant conditions or circumstances related to a specific credit that indicate the probability that a loss has been incurred.

The allowance formula for commercial and commercial real estate loans is calculated in each case by applying loss factors to outstanding loans based on the internal risk grade of loans. Based on this internal risk grade the loss factor may include an analysis of both the probability of default and the probability of loss should default occur. As a result, changes in risk grades of both performing and nonperforming loans affect the amount of the formula allowance. Loss factors by risk grade have a basis in our historical default experience for such loans and an assessment of the probability of default. Loss adjustment factors are applied based on criteria discussed below.

Pooled loans are loans that are usually smaller, not-individually-graded and homogenous in nature, such as consumer installment loans and residential mortgages. Loan loss allowances for pooled loans are based on a ten-year net charge-off history. The average loss allowance per homogenous pool is based on the product of average annual historical loss rate and the average estimated duration of the pool multiplied by the pool balances. These separate risk pools are then assigned a reserve for losses based upon this historical loss information and historical loss adjustment factors.

Historical loss adjustment factors are based upon management's evaluation of various current conditions, including those listed below.

- o General economic and business conditions affecting the Bank's key lending areas,
- o Credit quality trends,
- o Recent loss experience in particular segments of the portfolio,
- o Collateral values and loan-to-value ratios,
- o Loan volumes and concentrations, including changes in mix,
- o Seasoning of the loan portfolio,
- o Specific industry conditions within portfolio segments,
- o Bank regulatory examination results, and
- o Other factors, including changes in quality of the loan origination, servicing and risk management processes.

Our loan officers and risk managers meet at least quarterly to discuss and review these conditions and risks associated with individual problem loans. The provision for loan losses was \$2.6 million for the first nine months of 2007, an increase from \$1.7 million during the first nine months of 2006. During the quarter, one commercial lending relationship totaling \$10.3 million, secured by real estate, was placed on nonaccrual status. This resulted in a \$618,000 increase in our provision for loan losses. In addition, growth in our commercial

## Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

loan portfolio, an increase in net charge-offs, and a migration of a small amount of loans to lower quality credit grades contributed to the increased provision. Partially offsetting these increases was the third quarter sale of essentially our entire credit card portfolio. This resulted in a \$518,000 decrease to the provision for loan losses. During the second quarter of 2007, we extended our "loss given default" methodology to include "eight rated" loans (one grade above classified). Additionally, we began applying adjustment factors against all loan balances. Deposit overdraft charge-offs have been included in net charge-offs since the second quarter of 2006.

We maintain allowances for credit losses and charge losses to these allowances when such losses are realized. The allowances for losses are maintained at a level which management considers adequate to provide for losses based upon an evaluation of known and inherent risks in the portfolios.

24

The table below represents a summary of changes in the allowance for loan losses during the periods indicated.

	Nine months ended September 30, 2007	Nine months ended September 30, 2006
	-----	-----
	(Dollars in Thousands)	
Beginning balance .....	\$27,384	\$25,381
Provision for loan losses .....	2,645	1,702
Charge-offs:		
Residential real estate .....	41	70
Commercial real estate (1) .....	-	-
Commercial .....	347	145
Overdrafts (2) .....	1,078	257
Consumer .....	509	365
	-----	-----
Total charge-offs .....	1,975	837
	-----	-----
Recoveries:		
Residential real estate .....	8	14
Commercial real estate (1) .....	125	166
Commercial .....	144	189
Overdrafts (2) .....	355	-
Consumer .....	82	132
	-----	-----
Total recoveries .....	714	501
	-----	-----
Net charge-offs .....	1,261	336
	-----	-----
Ending balance .....	\$28,768	\$26,747
	=====	=====
Net charge-offs to average gross loans outstanding, net of unearned income (3).....	0.08%	0.02%
	=====	=====

## Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

- (1) Includes commercial mortgage and construction loans.
- (2) Overdraft charge-offs and recoveries have been included in the allowance for loan losses since April 2006.
- (3) Ratio for nine months ended September 30, 2007 and September 30, 2006 are annualized.

### Noninterest Income

Noninterest income for the quarter ended September 30, 2007 was \$12.8 million compared to \$10.3 million for the third quarter of 2006 an increase of \$2.5 million or 24%. The increase over the third quarter 2006 was mainly attributable to a \$958,000 increase in deposit service charges and an \$882,000 gain on the sale of the credit card portfolio. Deposit service charges continue to benefit from an increase in deposit accounts and additional fee-based services offered by WSFS. Included in the third quarter of 2006 was \$1.8 million in unanticipated income related to the Bank's investment in bank-owned life insurance (BOLI). This was offset by a \$1.9 million loss on the sale of \$51.4 million in below-market yielding mortgage-backed securities as part of the Company's efforts to improve its earning asset mix and return on assets.

For the nine months ended September 30, 2007, noninterest income was \$35.2 million, an increase of \$5.9 million or 20% over the same period in 2006. Consistent with the quarter over quarter trend, the increase was mainly due to a \$3.0 million increase in deposit service charges as a result of our continued success in personal and business checking initiatives. Adding to the increase over the nine months ended September 30, 2006 was the gain on the sale of the credit card portfolio and a seasonal increase in credit/debit card and ATM income.

### Noninterest Expense

Noninterest expense for the quarter ended September 30, 2007 was \$21.3 million for an increase of \$3.7 million over the \$17.6 million reported for the same period in 2006. The 21% increase over the third quarter of 2006 was primarily a result of our continued growth efforts. Since September 2006, we have opened four branch offices, renovated/relocated two branch offices, began originating reverse mortgages, continued expansion of the commercial division, and continued growth efforts in the Wealth Management Division (the Wealth Management Division acquired its initial accounts during the first quarter of 2007). Additionally, the Company moved into its new corporate headquarters in the WSFS Bank Center in March 2007. This corporate expansion is reflected in all areas of expenses, but primarily in higher compensation, occupancy and equipment expense. The number of full-time equivalent Associates increased from 592 in the third quarter of 2006 to 612 in the third quarter of 2007. In addition, marketing expenses increased \$607,000 over the third quarter of 2006. In the third quarter of 2007 we introduced a new multi-year brand campaign, which accounted for the majority of the increased spending. "We Stand For Service" is the external representation of our

business model and service value presentation. We also conducted significant core marketing initiatives to support key growth objectives. Also during the third quarter of 2007, the Company had a one-time charge of \$228,000 relating to a branch closure. This franchise growth is the main reason for our increased levels of operating expenses.

Noninterest expense for the nine months ended September 30, 2007 was \$59.7 million, an increase of \$9.0 million or 18% over the \$50.8 million reported for the same period in 2006. The increase was mainly due to our growth



## Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

efforts mentioned above. As a result of our continued investment in the franchise, increases can be found mainly in salaries, benefits and other compensation as well as occupancy expense. These increases were offset during the second quarter of 2007 by a reduction in expenses relating to a reserve for standby letters of credit.

### Income Taxes

The Company and its subsidiaries, with the exception of WSFS Reit, Inc., file a consolidated federal income tax return and separate state income tax returns. WSFS Reit, Inc. files separate federal and state income tax returns. Income taxes are accounted for in accordance with SFAS 109, which requires the recording of deferred income taxes for tax consequences of "temporary differences." We recorded a provision for income taxes during the three and nine months ended September 30, 2007 of \$3.4 million and \$11.9 million, respectively, compared to an income tax provision of \$3.5 million and \$11.7 million for the same periods in 2006. The effective tax rate for the three and nine month periods ended September 30, 2007 was 32% and 35%, respectively, compared to 31% and 34%, respectively, for the comparable periods in 2006. This increased effective tax rate was primarily due to the receipt of \$1.8 million tax-free death benefit pursuant to the Bank-Owned Life Insurance ("BOLI") plan in September 2006 combined with the effects of new tax accounting guidance under FIN 48. While the impact of FIN 48 adds volatility to our quarterly effective tax rate, we believe it will have a minimal impact to the rate over the full year.

The effective tax rate reflects the recognition of certain tax benefits in the financial statements including those benefits from tax-exempt interest income, BOLI income and fifty-percent interest income exclusion on a loan to an Employee Stock Ownership Plan. These tax benefits are offset by the tax effect of stock-based compensation expense related to incentive stock options and a provision for state income tax expense.

We frequently analyze our projections of taxable income and make adjustments to our provision for income taxes accordingly.

### RECENT ACCOUNTING PRONOUNCEMENTS

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments - An Amendment of Statements No. 133 and 140 ("SFAS 155"). This Statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. It also clarifies which interest-only strips are not subject to the requirements of SFAS 133. In addition, it establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. SFAS 155 becomes effective in fiscal years beginning after September 15, 2006. The adoption of this Statement did not have a material impact on our Consolidated Financial Statements.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets - An Amendment of Statement No. 140 ("SFAS 156"). This Statement will modify the accounting for servicing assets and liabilities, such as those common with mortgage securitization activities. The new Standard addresses the recognition and measurement of separately recognized servicing assets and liabilities and provides an approach to lessen the efforts to obtain hedge-like (offset) accounting. SFAS 156 becomes effective in fiscal years beginning after September 15, 2006. The adoption of this Statement did not have a material impact on our Consolidated Financial Statements.

In September 2006, the Emerging Issues Task Force ("EITF") reached a final consensus on Issue 06-04, Accounting for Deferred Compensation and

## Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements. In accordance with the EITF consensus, an agreement by an employer to share a portion of the proceeds of a life insurance policy with an employee during the postretirement period is a postretirement benefit arrangement required to be accounted for in accordance with SFAS No. 106 Employers' Accounting for Postretirement Benefits Other Than Pensions ("SFAS 106") or Accounting Principles Board Opinion ("APB") No. 12, Omnibus Opinion -- 1967. Furthermore, the purchase of a split dollar life insurance policy does not constitute a settlement under SFAS 106 and, therefore, a liability for the postretirement obligation must be recognized under SFAS 106 if the benefit is offered under an arrangement that constitutes a plan or under Accounting Principles Board No. 12 if it is not part of a plan. The provisions of EITF Issue 06-04 are to be applied through either a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or retrospective application. We are required to adopt this statement in the fiscal year beginning after December 15, 2007, with early adoption permitted. We plan to adopt this statement on January 1, 2008 and are currently assessing the impact the adoption will have on our Consolidated Financial Statements.

26

In September 2006, the FASB ratified the consensus reached by the EITF in Issue No. 06-5, Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance," ("EITF 06-5"). EITF 06-5 concluded that companies purchasing a life insurance policy should record the amount that could be realized, considering any additional amounts beyond cash surrender value included in the contractual terms of the policy. The amount that could be realized should be based on assumed surrender at the individual policy or certificate level, unless all policies or certificates are required to be surrendered as a group. When it is probable that contractual restrictions would limit the amount that could be realized, such contractual limitations should be considered and any amounts recoverable at the insurance company's discretion should be excluded from the amount that could be realized. Companies are permitted to recognize the effects of applying the consensus through either (1) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets as of the beginning of the year of adoption or (2) a change in accounting principle through retrospective application to all prior periods. EITF 06-5 was effective for fiscal years beginning after December 15, 2006. We adopted EITF 06-5 at the beginning of 2007, and the adoption had no impact on our Consolidated Financial Statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115 ("SFAS 159"). SFAS 159 permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected are to be reported in earnings at each subsequent reporting date. The fair value option (i) may be applied instrument by instrument, with certain exceptions, (ii) is irrevocable (unless a new election date occurs) and (iii) is applied only to entire instruments and not to portions of instruments. SFAS 159 is effective for us on January 1, 2008. We are currently evaluating the impact the adoption of SFAS 159 will have on our Consolidated Financial Statements.

In March 2007, the EITF reached a final consensus on Issue No. 06-10 ("EITF 06-10"), "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements." EITF 06-10 requires employers to recognize a liability for the post-retirement benefit related to collateral assignment split-dollar life insurance

## Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

arrangements in accordance with SFAS No. 106 or APB Opinion No. 12. EITF 06-10 also requires employers to recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The provisions of EITF 06-10 are effective for us on January 1, 2008, with earlier application permitted, and are to be applied as a change in accounting principle either through a cumulative-effect adjustment to retained earnings or other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption; or as a change in accounting principle through retrospective application to all prior periods. We are currently assessing the impact the adoption of EITF 06-10 will have on our Consolidated Financial Statements.

In May 2007, the FASB issued a Staff Position on FIN No. 48-1 "Definition of Settlement in FASB Interpretation No. 48" (FSP FIN 48-1), FSP FIN 48-1 provides three conditions a tax position will have to meet to be considered "effectively settled": (a) the taxing authority has completed all required examination procedures; (b) the company does not intend to appeal any aspect of the tax position; and (c) the chance that the taxing authority would reexamine any aspect of its position is remote. FSP FIN 48-1 is effective for us upon the initial adoption of FIN 48 (January 1, 2007) and should be applied retrospectively if a company did not apply FIN 48 in a manner consistent with FSP FIN 48-1. We have adopted the provisions of FSP FIN 48-1 and the initial adoption had no effect on our Consolidated Financial Statements.

In June 2007, the Emerging Issues Task Force ("EITF") reached a final consensus on Issue No. 06-11 ("EITF 06-11"), "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards." EITF 06-11 requires realized income tax benefits from dividends paid to employees for equity classified nonvested equity shares to be recognized as an increase in additional paid in capital and be included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. The provisions of EITF 06-11 are to be applied prospectively to the income tax benefits resulting from dividends declared in fiscal years beginning after December 15, 2007. We are currently assessing the impact the adoption of EITF 06-11 will have on our Consolidated Financial Statements.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

-----  
Incorporated herein by reference from Item 2, of this quarterly report on Form 10-Q.

### Item 4. Controls and Procedures

- 
- (a) Evaluation of disclosure controls and procedures. Based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")), our principal executive officer and the principal financial officer have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q such disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities and Exchange Commission's rules and forms and is accumulated and communicated to our management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

## Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

- (b) Changes in internal control over financial reporting. During the quarter under report, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

-----

We are not engaged in any legal proceedings of a material nature at September 30, 2007. From time to time, we are party to legal proceedings in the ordinary course of business wherein we enforce our security interest in loans.

Item 1A. Risk Factors

-----

Our management does not believe there have been any material changes to the risk factors previously disclosed under Item 1A. of the Company's Form 10-K for the year ended December 31, 2006, previously filed with the Securities and Exchange Commission.

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

-----

The following table lists purchases of our Common Stock during the third quarter of 2007.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Nu Shares Pu As Part of Announce
	-----	-----	-----
July 1, to July 31, 2007	10,500	\$55.42	10,
August 1, to August 31, 2007	75,600	\$56.51	75,
September 1, to September 30, 2007	-	-	
Total for the quarter ended September 30, 2007	86,100	\$56.38	

In September 2007, the Board of Directors approved an authorization to repurchase up to an additional 10% of its outstanding shares of common stock, or 630,000 shares.

There is no expiration date under the Plan.

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

Edgar Filing: WSFS FINANCIAL CORP - Form 10-Q

-----  
Not applicable

Item 6. Exhibits  
-----

- (a) Exhibit 31 - Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- (b) Exhibit 32 - Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

28

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.

WSFS FINANCIAL CORPORATION

Date: November 8, 2007

/s/ MARK A. TURNER

-----  
Mark A. Turner  
President and Chief Executive Officer

Date: November 8, 2007

/s/ STEPHEN A. FOWLE

-----  
Stephen A. Fowle  
Executive Vice President and  
Chief Financial Officer

29