WSFS FINANCIAL CORP
Form 10-Q
August 10, 2009

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 **June 30, 2009**

OR

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

For the transition period from to

Commission File Number **0-16668**

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 Number)
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 markwhether 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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files), ____ Yes _____ No

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

Large accelerated filer o Accelerated filer x

Non-accelerated filer o Smaller reporting company [ ]

(Do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of August 3, 2009:

Common Stock, par value $.01 per share	**6,193,635**
(Title of Class)	(Shares Outstanding)

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WSFS FINANCIAL CORPORATION

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PART I. Financial Information

PART II. Other Information

WSFS FINANCIAL CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	**2009**	2008
	(Unaudited) (In Thousands, Except Per Share Data)			
Interest income:				
Interest and fees on loans	**$ 32,356**	$ 34,464	**$ 63,730**	$ 72,146
Interest on mortgage-backed securities	**6,948**	5,715	**14,284**	11,703
Interest and dividends on investment securities	**535**	202	**632**	540
Other interest income	**—**	414	**—**	966
	39,839	40,795	**78,646**	85,355
Interest expense:				
Interest on deposits	**7,523**	9,223	**15,852**	21,352
Interest on Federal Home Loan Bank advances	**4,804**	7,356	**10,145**	16,324
Interest on trust preferred borrowings	**465**	783	**1,060**	1,801
Interest on other borrowings	**667**	1,066	**1,318**	2,542
	13,459	18,428	**28,375**	42,019
Net interest income	**26,380**	22,367	**50,271**	43,336
Provision for loan losses	**11,997**	2,433	**19,650**	4,823
Net interest income after provision for loan losses	**14,383**	19,934	**30,621**	38,513
Noninterest income:				
Deposit service charges	**4,276**	4,174	**8,093**	7,972
Credit/debit card and ATM income	**4,049**	4,314	**7,751**	8,845
Loan fee income	**1,354**	1,004	**2,604**	1,647
Security gains	**887**	53	**1,310**	1,120
Investment advisory income	**516**	591	**1,047**	1,246
Mortgage banking activities, net	**406**	93	**608**	198
Bank owned life insurance income	**229**	456	**439**	1,030
Other income	**950**	986	**1,916**	2,119
	12,667	11,671	**23,768**	24,177
Noninterest expenses:				
Salaries, benefits and other compensation	**12,051**	11,297	**24,382**	22,784
Occupancy expense	**2,355**	2,063	**4,791**	4,170
Professional fees	**2,311**	723	**3,273**	1,572
Equipment expense	**1,725**	1,533	**3,304**	2,996
FDIC special assessment	**1,650**	—	**1,650**	—
Data processing and operations expenses	**1,157**	1,082	**2,278**	2,120
Marketing expense	**831**	1,161	**1,558**	2,068
Other operating expense	**8,875**	3,311	**14,983**	6,397
	30,955	21,170	**55,329**	42,107
(Loss) income before taxes	**(3,905)**	10,435	**(940)**	20,583

Income tax (benefit) provision	**(1,589)**	3,735	**(1,564)**	6,637
Net (loss) income	**(2,316)**	6,700	**624**	13,946
Dividends on preferred stock and accretion of discount	**751**	—	**1,264**	—
Net (loss) income available to common shareholders	**$ (3,067)**	$ 6,700	**$ (640)**	$ 13,946
(Loss) earnings per share:				
Basic	**$ (0.50)**	$ 1.09	**$ (0.10)**	$ 2.27
Diluted	**$ (0.50)**	$ 1.07	**$ (0.10)**	$ 2.22

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

WSFS FINANCIAL CORPORATION

CONSOLIDATED STATEMENT OF CONDITION

	June 30, 2009 (Unaudited)	December 31, 2008
	(In Thousands, Except Per Share Data)	
Assets		
Cash and due from banks	**$ 75,042**	$ 58,377
Cash in non-owned ATMs	**201,844**	189,965
Interest-bearing deposits in other banks	**242**	216
Total cash and cash equivalents	**277,128**	248,558
Investment securities held-to-maturity	**1,177**	1,181
Investment securities available-for-sale including reverse mortgages	**46,448**	48,507
Mortgage-backed securities available-for-sale	**538,564**	487,389
Mortgage-backed securities trading	**11,313**	10,816
Loans held-for-sale	**13,562**	2,275
Loans, net of allowance for loan losses of $41,415 at June 30, 2009 and $31,189 at December 31, 2008	**2,502,923**	2,441,560
Bank owned life insurance	**59,776**	59,337
Stock in Federal Home Loan Bank of Pittsburgh, at cost	**39,305**	39,305
Assets acquired through foreclosure	**8,073**	4,471
Premises and equipment	**35,626**	34,966
Accrued interest receivable and other assets	**54,021**	54,195
Total assets	**$ 3,587,916**	$ 3,432,560
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing demand	**$ 424,382**	$ 311,322
Interest-bearing demand	**245,556**	214,749
Money market	**413,764**	326,792
Savings	**223,829**	208,368
Time	**458,542**	450,056
Jumbo certificates of deposit – customer	**215,061**	195,846
Total customer deposits	**1,981,134**	1,707,133
Other jumbo certificates of deposit	**58,694**	103,825
Brokered deposits	**333,123**	311,394
Total deposits	**2,372,951**	2,122,352
Federal funds purchased and securities sold under agreements to repurchase	**100,000**	75,000
Federal Home Loan Bank advances	**636,773**	815,957
Trust preferred borrowings	**67,011**	67,011
Other borrowed funds	**103,420**	108,777

Accrued interest payable and other liabilities	**35,851**	26,828
Total liabilities	**3,316,006**	3,215,925
Stockholders' Equity:		
Serial preferred stock $.01 par value, 7,500,000 shares authorized;		
issued 52,625 at June 30, 2009 and -0- at December 31, 2008	**1**	—
Common stock $.01 par value, 20,000,000 shares authorized; issued		
15,771,556 at June 30, 2009 and 15,739,768 at December 31, 2008	**157**	157
Capital in excess of par value	**140,653**	87,033
Accumulated other comprehensive loss	**(8,869)**	(12,613)
Retained earnings	**388,248**	390,338
Treasury stock at cost, 9,580,569 shares at June 30, 2009 and December 31, 2008	**(248,280)**	(248,280)
Total stockholders' equity	**271,910**	216,635
Total liabilities and stockholders' equity	**$ 3,587,916**	$ 3,432,560

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

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WSFS FINANCIAL CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended June 30,	
	2009	2008
	(Unaudited)	
	(In Thousands)	
Operating activities:		
Net income	**$ 624**	$ 13,946
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**19,650**	4,823
Depreciation, accretion and amortization	**3,393**	3,221
(Increase) decrease in accrued interest receivable and other assets	**(4,538)**	3,533
Origination of loans held-for-sale	**(53,740)**	(13,631)
Proceeds from sales of loans held-for-sale	**43,104**	14,619
Gain on mortgage banking activity	**(608)**	(198)
(Income) loss on mark to market adjustment on trading securities	**(497)**	250
Securities gain from the sale of MasterCard, Inc. and Visa, Inc. common stock	**(119)**	(1,370)
Gain on sale of investments	**(694)**	—
Stock-based compensation expense, net of tax benefit recognized	**484**	377
Excess tax benefits from share-based payment arrangements	**—**	(37)
Increase in accrued interest payable and other liabilities	**8,995**	15,116
Loss on wind-down of 1st Reverse Financial Services, LLC	**1,589**	—
Loss on sale of assets acquired through foreclosure and valuation adjustments	**1,993**	37
Increase in value of bank-owned life insurance	**(439)**	(1,030)
Increase in capitalized interest, net	**106**	18
Net cash provided by operating activities	**19,303**	39,674
Investing activities:		
Maturities of investment securities	**18,025**	6,070
Purchases of investment securities available-for-sale	**(16,049)**	(12,015)
Sales of mortgage backed securities available-for-sale	**38,646**	—
Repayments of mortgage-backed securities available-for-sale	**75,605**	40,231
Purchases of mortgage-backed securities available-for-sale	**(158,473)**	(9,849)
Repayments of reverse mortgages	**50**	1,247
Disbursements for reverse mortgages	**(104)**	(116)
Purchase of 1st Reverse Financial Services, LLC	**—**	(2,307)
Purchases of loans	**—**	(2,620)
Net increase in loans	**(88,002)**	(62,173)
Net decrease in stock of Federal Home Loan Bank of Pittsburgh	**—**	5,365
Sales of assets acquired through foreclosure, net	**1,523**	1,010
Proceeds from the sale of MasterCard, Inc. and Visa, Inc. common stock	**119**	1,370
Investment in premises and equipment, net	**(3,526)**	(2,880)
Net cash used for investing activities	**(132,186)**	(36,667)
Financing activities:		
Net increase in demand and savings deposits	**210,943**	13,603
Net increase in time deposits	**3,917**	28,434

Receipts from federal funds purchased & securities sold under agreement to repurchase	**9,247,995**	6,350,000
Repayments of federal funds purchased & securities sold under agreement to repurchase	**(9,222,995)**	(6,350,000)
Receipts from FHLB advances	**17,615,421**	47,732,887
Repayments of FHLB advances	**(17,794,606)**	(47,798,037)
Proceeds from issuance of unsecured bank debt	**30,000**	—
Dividends paid	**(2,301)**	(1,355)
Proceeds from issuance of preferred stock	**52,625**	—
Issuance of common stock and exercise of common stock options	**454**	774
Excess tax benefits from share-based payment arrangements	**—**	37
Purchase of treasury stock, net of reissuance	**—**	(2,426)
Net cash provided by (used in) financing activities	**141,453**	(26,083)
Increase (decrease) in cash and cash equivalents	**28,570**	(23,076)
Cash and cash equivalents at beginning of period	**248,558**	267,537
Cash and cash equivalents at end of period	**$ 277,128**	$ 244,461
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest during the period	**$ 22,919**	$ 41,465
Cash paid for income taxes, net	**971**	1,789
Loans transferred to assets acquired through foreclosure	**6,683**	1,592
Net change in other comprehensive income	**3,744**	(5,772)
Net transfer of loans to loans held-for-sale	**—**	247

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

WSFS FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008

(UNAUDITED)

1. BASIS OF PRESENTATION

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"). WSFS Bank has a fully-owned subsidiary, WSFS Investment Group, Inc., which markets various third-party insurance products and securities products to Bank customers through WSFS' retail banking system. WSFS Bank also owns a majority interest in 1st Reverse Financial Services, LLC (1st Reverse), specializing in reverse mortgage lending. 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. Lending activities are funded primarily with retail deposits and borrowings. The Federal Deposit Insurance Corporation ("FDIC") insures our customers' deposits to their legal maximums. We serve customers from our main office, 37 retail banking offices, loan production offices and operations centers located in Delaware and southeastern Pennsylvania and Virginia and through our website at www.wsfsbank.com. The Wealth Management Services Division provides wealth management and personal trust services to customers in the Company's primary market area.

Although our current estimates contemplate current conditions and how we expect them to change in the future, it is reasonably possible that in 2009, actual conditions could be worse than anticipated in those estimates, which could materially affect our results of operations and financial condition. Amounts subject to significant estimates are items such as the allowance for loan losses and lending related commitments, goodwill and intangible assets, post-retirement obligations, the fair value of financial instruments and other-than-temporary impairments. Among other effects, such changes could result in future impairments of investment securities, goodwill and intangible assets and establishment of allowances for loan losses and lending related commitments as well as increased post-retirement expense.

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. Per Rule 10-01 of Regulation S-X, we are not required to include all information and notes for complete financial statements and prevailing practices within the banking industry. Operating results for the three and six months period ended June 30, 2009 are not necessarily indicative of the results that may be expected for any future quarters or for the year ending December 31, 2009. For further information, refer to the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K/A for the year ended December 31, 2008 as filed with the Securities and Exchange Commission.

Accounting for Stock-Based Compensation

Stock-based compensation is accounted for in accordance with SFAS 123R. We have stock options outstanding under two plans (collectively, "Stock Incentive Plans") for officers, directors and Associates of the Company 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 June 30, 2009, there were 82,846 shares available for future grants under the 2005 Plan.

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 our common stock on the date of the grant. All Stock Options granted during 2009 vest in 25% per annum increments, start to become exercisable one year from the grant date and expire five years from the grant date. Generally, all awards become immediately exercisable in the event of a change in control, as defined within the Stock Incentive Plans.

A summary of the status of our Stock Incentive Plans and changes during the quarter then ended is presented below:

	June 2009		June 2008	
		Weighted-Average		Weighted-Average
	Shares	**Exercise Price**	Shares	Exercise Price
Stock Options:				
Outstanding at beginning of period	**755,388**	**$42.56**	712,386	$43.29
Granted	**1,500**	**26.23**	—	—
Exercised	—	—	(2,460)	14.16
Forfeited	—	—	(4,929)	60.41
Outstanding at end of period	**756,888**	**42.52**	704,997	43.27
Exercisable at end of period	**476,469**	**39.95**	431,451	33.87
Weighted-average fair value				
of stock options granted	**$ 7.69**		$ —	

On April 1, 2009, 475,617 stock options were exercisable with an intrinsic value of $1.0 million. In addition, at April 1, 2009, there were 279,771 nonvested options with a grant date fair value of $10.10. During the second quarter of 2009, 852 options vested with no intrinsic value, and a grant date fair value of $12.44 per option. Also during the quarter, there were no options exercised. There were 476,469 exercisable options remaining at June 30, 2009, with an intrinsic value of $2.0 million and a remaining contractual term of 2.9 years. At June 30, 2009 there were 756,888 stock options outstanding with an intrinsic value of $2.4 million and a remaining contractual term of 3.2 years. During the second quarter of 2008, 2,460 options were exercised with an intrinsic value of $93,000 and 852 options vested with a grant date fair value of $12.44 per option.

A summary of the status of our Stock Incentive Plans and changes during the six months then ended is presented below:

	June 2009		June 2008	
		Weighted-Average		Weighted-Average
	Shares	**Exercise Price**	Shares	Exercise Price
Stock Options:				
Outstanding at beginning of period	**675,887**	**$44.98**	722,582	$43.14
Granted	**83,921**	**23.33**	3,150	48.95
Exercised	—	—	(13,750)	29.10
Forfeited	**(2,920)**	**59.26**	(6,985)	59.92
Outstanding at end of period	**756,888**	**42.52**	704,997	43.27
Exercisable at end of period	**476,469**	**39.95**	431,451	33.87

Weighted-average fair value		
of stock options granted	**$ 5.42**	$ 9.58

Beginning January 1, 2009, 473,445 stock options were exercisable. During the six months ended June 30, 2009, 4,476 options vested with no intrinsic value, and a grant date fair value of $13.61 per option. Also during the first six months of 2009, there were no options exercised. During the first six months of 2008, 13,750 options were exercised with an intrinsic value of $275,000 and 4,485 options vested with a grant date fair value of $13.10 per option.

The total amount of compensation cost related to nonvested stock options as of June 30, 2009 was $1.5 million. The weighted-average period over which it is expected to be recognized is 2.4 years. We issue new shares upon the exercise of options.

During the second quarter of 2009, we granted 1,500 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 options. Significant assumptions used in the model included a weighted-average risk-free rate of return of 2.1% in 2009; an expected option life of three and three-quarter years; and an expected stock price volatility of 41.3% in 2009. For the purposes of this option-pricing model, a dividend yield of 1.8% was assumed. During the first six months of 2009, we granted 83,921 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 options. Significant assumptions used in the model included a weighted-average risk-free rate of return of 1.7% in 2009; an expected option life of three and three-quarter years; and an expected stock price volatility of 34.5% in 2009. For the purposes of this option-pricing model, a dividend yield of 2.1% was assumed.

During the second quarter of 2009 and 2008 we issued 78 and 48 shares, respectively, of restricted stock units. During the first two quarters of 2009 and 2008 we issued 174 and 92 shares, respectively, of restricted stock units. 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. In addition, during the second quarter of 2009 we issued 37 shares of restricted stock units and during the first six months of 2009 we issued 8,309 shares of restricted stock units, which awards vest over four years, 25% on each anniversary date.

Additionally, we issued 25,248 shares of restricted stock during the first six months of 2009. These awards vest on the later of four years (25% per year on the first four anniversaries of the awards), or the first date on which the Company has no remaining outstanding obligation under the Emergency Economic Stabilization Act of 2008 ("EESA") or such other date as may be provided by the U.S. Department of the Treasury regulations under EESA applicable to the Company; provided, however, that if the date specified has not occurred by the tenth anniversary of the grant date, the grantee shall forfeit all of the final 25% of the restricted shares. Finally, we issued 640 shares of restricted stock during the first six months of 2009 that vest over four years, 25% on each anniversary date.

During the first six months of 2009 we awarded 5,900 shares of Common Stock from this plan to our Board of Directors as part of their semi-annual retainer. These shares are not subject to a vesting period.

During 2008 we created a new performance-based incentive program under the terms of the 2005 Plan. Under this program shares of WSFS stock may be awarded to certain members of management.

The Long-Term Performance-Based Restricted Stock Unit Program ("Long-Term Program") will award up to an aggregate of 109,200 shares of WSFS stock to seventeen participants, only after the achievement of targeted levels of return on assets ("ROA"). Under the terms of the plan, if an annual ROA performance level of 1.20% is achieved, up to 54,900 shares will be awarded. If an annual ROA performance level of 1.35% is achieved, an additional 21,200 shares, or up to 76,100 shares will be awarded. If an annual ROA performance level of 1.50% or greater is achieved, an additional 33,100 shares, or up to 109,200 shares will be awarded. If these targets are achieved in any year up until 2011, the awarded stock will vest in 25% increments over four years.

We did not recognize any compensation expense related to this program in the first six months of 2009. Compensation expense for the Long-Term Program was based on the closing stock price as of May 28, 2008 and will begin to be recognized once the achievement of target performance is considered probable.

At June 30, 2009 we had 82,846 shares available for issuance under the 2005 Plan. Full share awards, such as restricted stock, have the equivalence of four option grants for the purpose of calculating shares available for issuance. Under the provisions of the Long -Term Program, if a performance level is achieved and there are insufficient shares available for grant, then we would have the option of granting the available shares with the remainder being paid in cash.

The impact of stock-based compensation (stock options, restricted stock units and restricted stock) for the three months ended June 30, 2009 was $356,000 pre-tax ($273,000 after tax) or $0.04 per share, to salaries, benefits and other compensation. This compares to $286,000 pre-tax ($229,000 after tax) or $0.04 per share for the three months ended June 30, 2008. The impact of stock-based compensation for the six months ended June 30, 2009 was $801,000 pre-tax ($639,000 after tax) or $0.10 per share, to salaries, benefits and other compensation. This compares to $585,000 pre-tax ($472,000 after tax) or $0.07 per share for the six months ended June 30, 2008. The increase in the first six months of 2009 over 2008 includes $170,000 of expense related to restricted stock and restricted stock units. In prior years, stock options have been granted to

Associates during the fourth quarter. The stock options that would have been awarded in the fourth quarter of 2008 were delayed until the first quarter of 2009. This delay and the effect of immediately expensing stock-based compensation to retirement eligible Associates accounted for the increase in compensation expense related to stock options.

2. EARNINGS PER SHARE

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

	For the three months ended June 30,		For the six months ended June 30,	
	2009	2008	**2009**	2008
	(Unaudited) (In Thousands, Except per Share Data)			
Numerator:				
Net income (loss) available to common stockholders	**$ (3,067)**	$ 6,700	**$ (640)**	$ 13,946
Denominator:				
Denominator for basic earnings per share — weighted average shares	**6,191**	6,140	**6,182**	6,155
Effect of dilutive employee stock options	—	139	—	140
Denominator for diluted earnings per share — adjusted weighted average shares and assumed exercise	**6,191**	6,279	**6,182**	6,295
Basic (loss) earnings per share	**$ (0.50)**	$ 1.09	**$ (0.10)**	$ 2.27
Diluted (loss) earnings per share	**$ (0.50)**	$ 1.07	**$ (0.10)**	$ 2.22
Outstanding common stock equivalents having no dilutive effect	**763**	381	**761**	379

For the three and six months ended June 30, 2009, 68,000 and 67,000 employee stock options were excluded from the computation of diluted net loss per common share because the effect would have been antidilutive due to the net loss reported in these periods.

3. INVESTMENT SECURITIES

The following tables detail the amortized cost and the estimated fair value of the Company's investment securities:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale securities:				
June 30, 2009:				
Reverse mortgages	**$ (113)**	**$ —**	**$ —**	**$ (113)**
U.S. Government and agencies	**41,756**	**755**	**5**	**42,506**
State and political subdivisions	**4,005**	**50**	**—**	**4,055**

	$ 45,648	**$ 805**	**$ 5**	**$ 46,448**
December 31, 2008				
Reverse mortgages	$ (61)	$ —	$ —	$ (61)
U.S. Government and agencies	43,778	857	1	44,634
State and political subdivisions	4,020	—	86	3,934
	$ 47,737	$ 857	$ 87	$ 48,507

Held-to-maturity:

June 30, 2009:				
State and political subdivisions	**$ 1,177**	**$ —**	**$ 66**	**$ 1,111**
	$ 1,177	**$ —**	**$ 66**	**$ 1,111**
December 31, 2008:				
State and political subdivisions	$ 1,181	$ —	$ 110	$ 1,071
	$ 1,181	$ —	$ 110	$ 1,071

Securities with book values aggregating $41.5 million at June 30, 2009 were specifically pledged as collateral for WSFS' Treasury Tax and Loan account with the Federal Reserve Bank; Federal Reserve Credit Discount; securities sold under agreement to repurchase; and certain letters of credit and municipal deposits which require collateral. Accrued interest receivable relating to investment securities was $368,000 and $409,000 at June 30, 2009 and December 31, 2008, respectively.

The scheduled maturities of investment securities held-to-maturity and securities available-for-sale at June 30, 2009 were as follows:

	Held-to-Maturity		Available-for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Within one year (1)	$ —	$ —	$ 6,161	$ 6,257
After one year but within five years	630	630	38,452	39,144
After five years but within ten years	—	—	1,035	1,047
After ten years	547	481	—	—
	$ 1,177	$ 1,111	$ 45,648	$ 46,448

(1) Reverse mortgages do not have contractual maturities. We have included reverse mortgages in maturities within one year.

There were no sales of investment securities classified as available-for-sale or held-to-maturity for the quarters ended June 30, 2009 or June 30, 2008. The cost basis for all investment security sales was based on the specific identification method. Investment securities totaling $18.0 million were called by the issuers during the first six months of 2009.

At June 30, 2009, we owned investment securities totaling $2.5 million where the amortized cost basis exceeded fair value. Total unrealized losses on those securities were $71,000 at June 30, 2009. This temporary impairment is the result of changes in market interest rates since the purchase of the securities. Securities amounting to $299,000 have been impaired for 12 months or longer. We have determined that these securities are not other than temporarily impaired. The following table includes unrealized losses aggregated by category:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In Thousands)					
Held-to-maturity						
State and political subdivisions	$ —	$ —	$ 299	$ 66	$ 299	$ 66
Available-for-sale						
State and political subdivisions	182	—	—	—	182	—
U.S Government and agencies	2,016	5	—	—	2,016	5

Total temporarily impaired investments	$ 2,198	$ 5	$ 299	$ 66	$ 2,497	$ 71

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4. MORTGAGE-BACKED SECURITIES

The following tables detail the amortized cost and the estimated fair value of the Company's mortgage-backed securities:

	Amortized Cost (In Thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
June 30, 2009:				
Collateralized mortgage obligations	**$ 394,673**	**$ 3,161**	**$ 19,866**	**$ 377,968**
FNMA	**89,550**	**1,136**	**470**	**90,216**
FHLMC	**36,225**	**648**	**9**	**36,864**
GNMA	**32,485**	**1,052**	**21**	**33,516**
	$ 552,933	**$ 5,997**	**$ 20,366**	**$ 538,564**
Weighted average yield	**4.86%**			
December 31, 2008:				
Collateralized mortgage obligations	$ 419,177	$ 2,595	$ 25,728	$ 396,044
FNMA	35,578	932	—	36,510
FHLMC	30,477	830	—	31,307
GNMA	22,536	992	—	23,528
	$ 507,768	$ 5,349	$ 25,728	$ 487,389
Weighted average yield	5.30%			
Trading securities:				
June 30, 2009:				
Collateralized mortgage obligations	**$ 11,313**	**$ —**	**$ —**	**$ 11,313**
	$ 11,313	**$ —**	**$ —**	**$ 11,313**
Weighted average yield	**3.31** %			
December 31, 2008:				
Collateralized mortgage obligations	$ 10,816	$ —	$ —	$ 10,816
	$ 10,816	$ —	$ —	$ 10,816
Weighted average yield	3.47%			

The portfolio of available-for-sale mortgage-backed securities consists primarily of AAA-rated, currently cash flowing securities, backed by conventional 10 to 30-year mortgages. The weighted average duration of the mortgage-backed securities was 2.5 years at June 30, 2009.

At June 30, 2009, mortgage-backed securities with par values aggregating $259.4 million were pledged as collateral for retail customer repurchase agreements and municipal deposits. Accrued interest receivable relating to mortgage-backed securities was $2.2 million and $2.1 million at June 30, 2009 and December 31, 2008, respectively. From time to time, mortgage-backed securities are pledged as collateral for Federal Home Loan Bank (FHLB) borrowings. The fair value of these pledged mortgage-backed securities at June 30, 2009 and December 31, 2008 was $2.1 million and $16.0 million, respectively.

During the first six months of 2009, proceeds from the sale of mortgage-backed securities available-for-sale were $38.6 million, resulting in a gain of $688,000. The cost basis of all mortgage-backed sales is based on the specific identification method. There were no sales of mortgage-backed securities available-for-sale during the first six months of 2008.

We own $12.4 million par value of SASCO RM-1 2002 securities which are classified as trading. $10.0 million was originally received as partial consideration for the sale of a previously owned reverse mortgage portfolio, an additional $1.0 million was purchased at par at the time of the securitization of these assets by a third party, and $1.4 million of accrued interest was paid in kind. We expect to recover all principal and interest, because of seasoning and the fact that these securities are well over-collateralized.

Based on SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ("SFAS 115"), when these securities were acquired they were classified as trading. It was our intention to sell them in the near term. An active market for these securities has not developed since the issuance. Since there is no active market for these securities, we have used the guidance under SFAS 157 to provide a reasonable estimate of fair value in 2009. We estimated the value of these securities as of June 30, 2009 based on the pricing of BBB+ securities that have an active market through a technique which estimates the fair value of this asset using the income approach.

At June 30, 2009, we owned mortgage-backed securities totaling $315.1 million where the amortized cost basis exceeded fair value. Total unrealized losses on those securities were $20.4 million at June 30, 2009. This temporary impairment is the result of changes in market interest rates since the purchase of the securities and a lack of liquidity in the mortgage-backed securities market, depressing prices. Most of these securities have been impaired for twelve months or longer. We have determined that these securities are not other than temporarily impaired. We evaluate the current characteristics of each of our mortgage-backed securities such as delinquency and foreclosure levels, credit enhancement, projected losses and coverage, on a quarterly basis. In addition, we do not have the intent to sell, nor is it more likely-than not we will be required to sell these securities before we are able to recover the amortized cost basis. The following table lists the unrealized losses aggregated by category:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In Thousands)					
Available-for-sale						
CMO	$ 46,767	$ 1,727	$ 222,808	$ 18,139	$ 269,575	$ 19,866
FNMA	42,061	470	—	—	42,061	470
FHLMC	2,273	9	—	—	2,273	9
GNMA	1,224	21	—	—	1,224	21
Total temporarily impaired MBS	$ 92,325	$ 2,227	$ 222,808	$ 18,139	$ 315,133	$ 20,366

5. IMPAIRED LOANS

Loans for which it is probable that we will not collect all principal and interest due according to contractual terms are measured for impairment in accordance with the provisions of SFAS No. 114 *Accounting by Creditors for Impairment of a Loan* ("SFAS 114").

We had impaired loans of approximately $65.2 million at June 30, 2009 compared to $23.8 million at December 31, 2008. The average recorded balance of impaired loans was $41.3 million for the six months ended June 30, 2009 and $29.5 million for the year-ended December 31, 2008. The allowance for losses on these impaired loans was $5.5 million at June 30, 2009 compared to $395,000 at December 31, 2008.

When there is little prospect of collecting either principal or interest, loans, or portions of loans, may be charged-off to the allowance for loan losses. Losses are recognized in the period an obligation becomes uncollectible. Any charge-offs recognized during the period are not included in the allowance for losses on impaired loans as of June 30, 2009 or December 31, 2008.

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6. COMPREHENSIVE INCOME

The following schedule reconciles net income to total comprehensive income:

	For the three months Ended June 30,		For the six months Ended June 30,	
	2009	2008	**2009**	2008
	(In Thousands)			
Net (loss) income	**$ (2,316)**	$ 6,700	**$ 624**	$ 13,946
Other Comprehensive Income:				
Unrealized holding gains (losses) on securities available-for-sale arising during the period	**158**	(8,479)	**6,727**	(9,310)
Tax (expense) benefit	**(60)**	3,222	**(2,556)**	3,538
Net of tax amount	**98**	(5,257)	**4,171**	(5,772)
Reclassification adjustment for gains included in net income	**(141)**	—	**(688)**	—
Tax expense	**54**	—	**261**	—
Net of tax amount	**(87)**	—	**(427)**	—
Total comprehensive (loss) income	**$ (2,305)**	$ 1,443	**$ 4,368**	$ 8,174

7. TAXES ON INCOME

We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes* (“SFAS 109”) and Financial Accounting Standards Board (“FASB”) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109* (“FIN 48”). SFAS 109 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. We exercise significant judgment in the evaluation of the amount and timing of the recognition of the resulting tax assets and liabilities. The judgments and estimates required for the evaluation are updated based upon changes in business factors and the tax laws. If actual results differ from the assumptions and other considerations used in estimating the amount and timing of tax recognized, there can be no assurance that additional expenses will not be required in future periods. FIN 48 prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. We recognize, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the financial statements. Assessment of uncertain tax positions under FIN 48 requires careful consideration of the technical merits of a position based on our analysis of tax regulations and interpretations. Significant judgment may be involved in applying the requirements of FIN 48.

The total amount of unrecognized tax benefits as of June 30, 2009 and December 31, 2008 were $1.8 million and $2.6 million, respectively, of which $1.3 million would affect our effective tax rate if recognized. As of June 30, 2009 and December 31, 2008, the total amount of accrued interest included in such unrecognized tax benefits was $312,000 and $572,000, respectively. No penalties are included in such unrecognized tax benefits. We record interest and penalties on potential income tax deficiencies as income tax expense. The decrease in the unrecognized tax benefits was primarily due to the expiration of a statute of limitations.

While our Federal and State tax years 2005 through 2008 remain subject to examination as of June 30, 2009, the Internal Revenue Service (“IRS”) completed its examination of our 2004 through 2006 Federal tax returns during the quarter ended June 30, 2008. During 2008 we successfully completed the IRS appeal process and during the quarter ended March 31, 2009 we recovered $863,000 of taxes plus $275,000 of interest that were previously assessed during the audit phase. The financial statement impact of the recovery was recorded during 2008, however we received $130,000 more interest than originally expected. This amount, net of federal tax expense, was recorded as a reduction of income tax expense during the quarter ended March 31, 2009.

During the fourth quarter of 2007, we donated a N.C. Wyeth mural which was previously displayed in our former headquarters. The estimated fair value of the mural was $6.0 million, which was recorded as a charitable contribution expense. We recognized a related offsetting gain on the transfer of the asset during 2007. The expense and offsetting gain was shown net in our Consolidated Financial Statements in 2007. As the gain on the transfer of the asset is permanently excludible from taxation, the charitable contribution transaction results in a permanent deduction for income tax purposes. The amount of the deduction represents an income tax uncertainty because it is subject to evaluation by the IRS. The IRS is still in the process of evaluating this tax deduction and we anticipate this evaluation to be completed during 2009.

8. SEGMENT INFORMATION

Under the definition of SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information* ("SFAS 131"), we discuss our business in three segments. There is one segment for WSFS Bank and one for Cash Connect, the ATM division of WSFS. The third segment, "All Others", represents the combined contributions of Montchanin, WSFS Investment Group, Inc., our Wealth Management Services Division, and 1st Reverse. Montchanin, WSFS Investment Group, Inc., Wealth Management Services Division, and 1st Reverse each offer different products, to a separate customer base, through distinct distribution methods. Therefore, we have combined these entities to form the operating segment "All Others".

The WSFS Bank segment provides financial products to commercial and retail customers through its main office, 37 retail banking and loan production offices and operations center. Retail and Commercial Banking, Commercial Real Estate Lending, Private Banking and other banking business units are operating departments of WSFS. These departments share the same regulator, the same market, many of the same customers and provide similar products and services through the general infrastructure of the Company. Because of these and other reasons, these departments are not considered discrete segments and are appropriately aggregated within the WSFS Bank segment of the Company in accordance with SFAS 131.

Cash Connect 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 from which fee income is earned through bailment arrangements with customers of Cash Connect.

The "All Others" column, for the three and six months ended June 30, 2009, includes a $1.6 million pre-tax charge related to 1st Reverse, which includes the write-off of all related goodwill and intangibles, uncollectable receivables and our remaining investment in this subsidiary.

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. The accounting policies applicable to our segments are those that apply to our preparation of the accompanying Consolidated Financial Statements. Segment information for the three and six months ended June 30, 2009 and 2008 follows:

	For the Three Months Ended June 30,							
	2009				2008			
	WSFS	Cash Connect	All Others	Total	WSFS	Cash Connect	All Others	Total
	(in Thousands)							
External customer revenues:								
Interest income	$ 39,839	$ —	$ —	$39,839	$ 40,795	$ —	$ —	$ 40,795
Noninterest income	8,298	2,855	1,514	12,667	7,087	3,382	1,202	11,671
Total external customer revenues	48,137	2,855	1,514	52,506	47,882	3,382	1,202	52,466
Inter-segment revenues:								
Interest income	162	—	—	162	879	—	—	879
Noninterest income	1,071	98	—	1,169	948	170	—	1,118
Total inter-segment revenues	1,233	98	—	1,331	1,827	170	—	1,997
Total revenue	49,370	2,953	1,514	53,837	49,709	3,552	1,202	54,463
External expenses:								
Interest expense	13,459	—	—	13,459	18,428	—	—	18,428
Noninterest expenses	26,235	1,272	3,448	30,955	18,366	1,354	1,450	21,170
Provision for loan loss	11,997	—	—	11,997	2,433	—	—	2,433
Total external expenses	51,691	1,272	3,448	56,411	39,277	1,354	1,450	42,031
Inter-segment expenses								
Interest expense	—	162	—	162	—	879	—	879
Noninterest expenses	98	253	818	1,169	170	242	706	1,118
Total inter-segment expenses	98	415	818	1,331	170	1,121	706	1,997
Total expenses	51,789	1,687	4,266	57,742	39,397	2,475	2,156	44,028
(Loss) Income before minority interest and taxes	$ (2,419)	$ 1,266	$ (2,752)	$(3,905)	$ 10,312	$ 1,077	$ (954)	$ 10,435
Income tax (benefit) provision				(1,589)				3,735
Consolidated net (loss) income				$(2,316)				$ 6,700
Cash and cash equivalents	$ 72,148	$ 201,844	$ 3,136	$277,128	$ 74,389	$ 167,693	$ 2,379	$ 244,461
Other segment assets	3,292,427	15,967	2,394	3,310,788	2,936,222	14,713	2,647	2,953,582
Total segment assets	$ 3,364,575	$ 217,811	$ 5,530	$3,587,916	$ 3,010,611	$ 182,406	$ 5,026	$ 3,198,043
Capital expenditures	$ 2,524	$ 138	$ 2	$2,664	$ 936	$ 26	$ 136	$ 1,098

	For the Six Months Ended June 30,							
	2009				2008			
	WSFS	Cash Connect	All Others	Total	WSFS	Cash Connect	All Others	Total
	(in Thousands)							
External customer revenues:								
Interest income	$ 78,646	$ —	$ —	$ 78,646	$ 85,355	$ —	$ —	$ 85,355
Noninterest income	15,195	5,632	2,941	23,768	14,724	7,168	2,285	24,177
Total external customer revenues	93,841	5,632	2,941	102,414	100,079	7,168	2,285	109,532
Inter-segment revenues:								
Interest income	327	—	—	327	2,314	—	—	2,314
Noninterest income	1,796	169	—	1,965	1,744	336	—	2,080
Total inter-segment revenues	2,123	169	—	2,292	4,058	336	—	4,394
Total revenue	95,964	5,801	2,941	104,706	104,137	7,504	2,285	113,926
External expenses:								
Interest expense	28,375	—	—	28,375	42,019	—	—	42,019
Noninterest expenses	47,366	2,346	5,617	55,329	36,658	2,720	2,729	42,107
Provision for loan loss	19,650	—	—	19,650	4,823	—	—	4,823
Total external expenses	95,391	2,346	5,617	103,354	83,500	2,720	2,729	88,949
Inter-segment expenses								
Interest expense	—	318	9	327	—	2,314	—	2,314
Noninterest expenses	169	440	1,356	1,965	336	461	1,283	2,080
Total inter-segment expenses	169	758	1,365	2,292	336	2,775	1,283	4,394
Total expenses	95,560	3,104	6,982	105,646	83,836	5,495	4,012	93,343
(Loss) Income before minority interest and taxes	$ 404	$ 2,697	$ (4,041)	$ (940)	$ 20,301	$ 2,009	$ (1,727)	$ 20,583
Income tax (benefits) provision				(1,564)				6,637
Consolidated net income				$ 624				$ 13,946
Cash and cash equivalents	$ 72,148	$ 201,844	$ 3,136	$ 277,128	$ 74,389	$ 167,693	$ 2,379	$ 244,461
Other segment assets	3,292,427	15,967	2,394	3,310,788	2,936,222	14,713	2,647	2,953,582
Total segment assets	$ 3,364,575	$ 217,811	$ 5,530	$ 3,587,916	$ 3,010,611	$ 182,406	$ 5,026	$ 3,198,043
Capital expenditures	$ 4,401	$ 138	$ 13	$ 4,552	$ 2,591	$ 59	$ 137	$ 2,787

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The reported fair values of financial instruments are based on a variety of factors. In certain cases, fair values represent quoted market prices for identical or comparable instruments. In other cases, fair values have been estimated based on assumptions regarding the amount and timing of estimated future cash flows that are discounted to reflect current market rates and varying degrees of risk. Accordingly, the fair values may not represent actual values of the financial instruments that could have been realized as of quarter-end or that will be realized in the future.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Short-Term Investments: For cash and short-term investments, including due from banks, federal funds sold, securities purchased under agreements to resell and interest-bearing deposits with other banks, the carrying amount is a reasonable estimate of fair value.

Investments and Mortgage-Backed Securities: Fair value of investment and mortgage-backed securities is based on quoted market prices, where available. If a quoted market price is not available, fair value is estimated using quoted prices for similar securities. The fair value of our investment in reverse mortgages is based on the net present value of estimated cash flows, which have been updated to reflect recent external appraisals of the underlying collateral. For additional discussion of our mortgage-backed securities-trading, see Note 11, Fair Value of Financial Assets, to the Consolidated Financial Statements.

Loans: Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type: commercial, commercial mortgages, construction, residential mortgages and consumer. For loans that reprice frequently, the book value approximates fair value. The fair values of other types of loans are estimated by discounting expected cash flows using the current rates at which similar loans would be made to borrowers with comparable credit ratings and for similar remaining maturities. The fair value of nonperforming loans is based on recent external appraisals of the underlying collateral. Estimated cash flows, discounted using a rate commensurate with current rates and the risk associated with the estimated cash flows, are utilized if appraisals are not available.

Bank-Owned Life Insurance: The estimated fair value approximates the book value for this investment.

Stock in the Federal Home Loan Bank of Pittsburgh: The fair value of FHLB stock is assumed to be essentially equal to its cost basis, since the stock is non-marketable but redeemable at its par value.

Deposit Liabilities: The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, money market and interest-bearing demand deposits and savings deposits, is assumed to be equal to the amount payable on demand. The carrying value of variable rate time deposits and time deposits that reprice frequently also approximates fair value. The fair value of the remaining time deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits with comparable remaining maturities.

Borrowed Funds: Rates currently available to us for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

Off-Balance Sheet Instruments: The fair value of off-balance sheet instruments, including commitments to extend credit and standby letters of credit, is estimated using the fees currently charged to enter into similar agreements with comparable remaining terms and reflects the present creditworthiness of the counterparties.

The book value and estimated fair value of our financial instruments are as follows:

	June 30, 2009		December 31, 2008	
	Book Value	**Fair Value**	Book Value	Fair Value
(In Thousands)				
Financial assets:				
Cash and cash equivalents	**$ 277,128**	**$ 277,128**	$ 248,558	$ 248,558
Investment securities	**47,625**	**47,559**	49,688	49,578
Mortgage-backed securities	**549,877**	**549,877**	498,205	498,205
Loans, net	**2,516,485**	**2,518,850**	2,443,835	2,435,135
Bank-owned life insurance	**59,776**	**59,776**	59,337	59,337
Stock in Federal Home Loan Bank of Pittsburgh	**39,305**	**39,290**	39,305	39,290
Accrued interest receivable	**11,284**	**11,284**	11,609	11,609
Financial liabilities:				
Deposits	**2,372,951**	**2,384,223**	2,122,352	2,101,881
Borrowed funds	**907,204**	**895,747**	1,066,745	1,035,401
Accrued interest payable	**12,249**	**12,249**	6,794	6,794

The estimated fair value of our off-balance sheet financial instruments is as follows:

	June 30, 2009	Dec. 31, 2008
(In Thousands)		
Off-balance sheet instruments:		
Commitments to extend credit	**$ 5,325**	$ 5,926
Standby letters of credit	**611**	597

10. FAIR VALUE OF FINANCIAL ASSETS

Effective January 1, 2008, we adopted the provisions of SFAS No. 157, *Fair Value Measurements* (“SFAS 157”), for financial assets and financial liabilities. In addition we adopted Financial Accounting Standards Board Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157*, on January 1, 2009. This adoption did not have a material impact on our financial statements.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

Level 1:

Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of our financial assets carried at fair value effective January 1, 2008. The table below presents the balances of assets measured at fair value as of June 30, 2009 (there are no material liabilities measured at fair value):

Description	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
	(in Thousands)			
Assets Measured at Fair Value on a Recurring Basis				
Available for sale securities	$ -	$ 585,012	$ -	$ 585,012
Trading Securities	-	-	11,313	11,313
Total assets measured at fair value on a recurring basis	**$ -**	**$ 585,012**	**$ 11,313**	**$ 596,325**
Assets Measured at Fair Value on a Nonrecurring Basis				
Impaired Loans	$ -	$ 52,461	$ -	$ 52,461
Total assets measured at fair value on a nonrecurring basis	**$ -**	**$ 52,461**	**$ -**	**$ 52,461**

Fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models or obtained from third parties that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include unobservable parameters. Our valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While we believe our valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Available for sale securities. Securities classified as available for sale are reported at fair value using Level 2 inputs. Included in the Level 2 total are approximately $42.5 million in Federal Agency debentures, $259.8 million in Federal Agency mortgage-backed securities, $278.8 million of Private Label mortgage-backed securities, and $4.1 million in municipal bonds. Agency and mortgage-backed securities were predominately AAA-rated. We believe that this Level 2 designation is appropriate for these securities under SFAS 157 as, with almost all fixed income securities, none are exchange traded, and are priced by correlation to observed market data. For these securities we obtain fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, U.S. government and agency yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security's terms and conditions, among other factors.

Trading securities. The amount included in the trading securities category represents the fair value of a BBB-rated traunche of a reverse mortgage security. There has never been an active market for these securities. As such, we classify these trading securities as Level 3 under FAS 157. As prescribed by FAS 157 management used various observable and unobservable inputs to develop a range of likely fair value prices where this security would be exchanged in an orderly transaction between market participants at the measurement date. The unobservable inputs reflect management's assumptions about the assumptions that market participants would use in pricing this asset. Included in these inputs were the median of a selection of other BBB-rated securities as well as quoted market prices from higher rated traunches of this asset class. As a result, the value assigned to this security is determined primarily through a discounted cash flow analysis. All of these assumptions require a significant degree of management judgment.

The changes in Level 3 assets measured at fair value are summarized as follows:

	Trading Securities
	(In Thousands)

Balance at January 1, 2009	$ 10,816
Total net gains for the period included in net income	497
Purchases, sales, issuances, and settlements, net	—
Balance at June 30, 2009	$ 11,313

Impaired loans. Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $57.3 million at June 30, 2009. The valuation allowance on impaired loans was $4.8 million as of June 30, 2009.

11. INDEMNIFICATIONS AND GUARANTEES

Secondary Market Loan Sales. We generally 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 defaults by borrowers. These are customary repurchase provisions in the secondary market for conforming mortgage loan sales. We typically sell fixed-rate, conforming first mortgage loans (including reverse mortgages) in the secondary market 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 the repurchase of loans by us. Repurchases and losses are rare, and no provision is made for losses at the time of sale. During 2008 through the second quarter of 2009, we had no repurchases under these indemnifications.

Swap Guarantees. We entered into agreements with three 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 smaller financial institutions like us to provide access to interest rate swap transactions for our customers without creating the swap ourselves.

At June 30, 2009 there were forty-two variable-rate to fixed-rate swap transactions between the third party financial institutions and our customers, compared to thirty-nine at December 31, 2008. The initial notional amount aggregated approximately $202.2 million at June 30, 2009 compared with $176.6 million at December 31, 2008. At June 30, 2009 maturities ranged from approximately three months to thirteen years. The aggregate market value of these swaps to the customers was a liability of $13.6 million at June 30, 2009 and $20.9 million at December 31, 2008. At June 30, 2009 almost all of the swap transactions were in a paying position to third-party financial institutions.

12. ASSOCIATE (EMPLOYEE) BENEFIT PLANS

Postretirement Benefits

We share certain costs of providing health and life insurance benefits to retired Associates (and their eligible dependents). Substantially all 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 are in accordance with SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS 158").

The following disclosures of the net periodic benefit cost components of post-retirement benefits were measured at January 1, 2009 and 2008:

(In Thousands)	Three months ended June 30, **2009**	2008	Six months ended June 30, **2009**	2008
Service cost	**$ 40**	$ 35	**$ 80**	$ 71
Interest cost	**35**	35	**70**	69
Amortization of transition obligation	**15**	15	**30**	30
Net loss recognition	**5**	4	**9**	8
Net periodic benefit cost	**$ 95**	$ 89	**$ 189**	$ 178

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13. NONINTEREST EXPENSES

During the three months ended June 30, 2009, we incurred $5.7 million of charges we consider to be non-routine. These charges are included in Noninterest expenses in the Consolidated Statement of Operations and include the following:

- A $1.6 million charge resulting from management's decision to conduct an orderly wind-down of 1st Reverse. The charge represents the write-off of all related goodwill and intangibles, uncollectible receivables and our remaining investment in that subsidiary (reflected in Other operating expenses).

- A $1.7 million insurance premium charged by the FDIC representing our share of the special assessment levied on the banking industry at June 30, 2009 (reflected in FDIC special assessment).

- A $1.5 million charge related to the previously disclosed fraudulent wire transfer activity affecting the accounts of two customers ($1.3 million reflected in Other operating expense and $0.2 million reflected in Professional fees).

- A $953,000 expense related to due diligence on an acquisition prospect in which discussions have terminated (reflected in Professional fees).

There were no material non-routine charges recorded during the three month period ended March 31, 2009, or the three and six month periods ended June 30, 2008.

14. PREFERRED STOCK AND COMMON STOCK WARRANTS

The Company entered into a purchase agreement with the U.S. Treasury on January 23, 2009, pursuant to which the Company issued and sold 52,625 shares of the Company's fixed-rate cumulative perpetual preferred stock for a total purchase price of $52.6 million, and a 10-year warrant to purchase 175,105 shares of the Company's common stock at an exercise price of $45.08 per share. The Company will pay the Treasury Department a five percent dividend annually for each of the first five years of the investment and a nine percent dividend thereafter until the shares are redeemed. The cumulative dividend for the preferred stock is accrued for and payable on February 15, May 15, August 15 and November 15 of each year. The Company has declared and paid $819,000 in preferred stock dividends during the first six months of 2009.

The Company allocated total proceeds of $52.6 million, based on the relative fair value of preferred stock and common stock warrants, to preferred stock for $51.9 million and common stock warrants for $693,000, respectively, on January 23, 2009. The preferred stock discount will be accreted, on an effective yield method, to preferred stock over 5 years. The Company has accreted a total of $58,000 during the first six months of 2009 relating to the discount on preferred stock.

15. SUBSEQUENT EVENT

The Company has evaluated all subsequent events through August 7, 2009, the last business day before the filing date of this Form 10-Q with the Securities and Exchange Commission, and identified one non-recognized subsequent event.

In July 2009, the Company entered into a Stock Purchase Agreement to sell 862,069 shares of common stock and to issue a warrant to purchase 129,310 shares to Peninsula Investment Partners, L.P. (Peninsula) for $25 million in cash ($29.00 per share excluding the value of the warrant). The warrant has an exercise price of $29 per share and a term of 10 years. Peninsula currently owns 610,000 shares or 9.85% of WSFS' outstanding common stock. After the sale, Peninsula will own 1,472,069 shares or 20.87% of WSFS' outstanding common stock (not including the warrant shares). Following the completion of the stock sale, WSFS will appoint Mr. R. Ted Weschler, managing partner of Peninsula, to the Board of Directors of WSFS. The stock sale is contingent on, among other things, regulatory approval by the Office of Thrift Supervision.

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 in the United States continuously-operating under the same name. As a federal savings bank, which was formerly chartered as a state mutual savings bank, we enjoy broader investment powers than

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most other financial institutions. We have served the residents of the Delaware Valley for over 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 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 have two consolidated subsidiaries, WSFS Bank and Montchanin Capital management, Inc. (“Montchanin”). We also have one unconsolidated affiliate, WSFS Capital Trust III (“the Trust”). WSFS Bank has a fully-owned subsidiary, WSFS Investment Group, Inc., and also owns a majority interest in 1st Reverse Financial Services, LLC (“1st Reverse") Montchanin has one consolidated subsidiary, Cypress Capital Management, LLC (“Cypress”). For additional information on the Company or any of our subsidiaries, see Note 1, Basis of presentation, to the Consolidated Financial Statements.

FORWARD-LOOKING STATEMENTS

The following discussion may contain statements which are not historical facts and are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements, which are based on various assumptions, some of which may be beyond the company’s control, are subject to risks and uncertainties and other factors which could cause actual results to differ materially from those currently anticipated. Such risks and uncertainties include, but are not limited to, those related to the economic environment, particularly in the market areas in which the company operates, the volatility of the financial securities markets, including changes with respect to the market value of our financial assets, changes in government regulations affecting financial institutions, and potential expenses associated therewith, changes resulting from our participation in the CPP, including additional conditions that may be imposed in the future on participating companies, and the costs associated with resolving any problem loans and other risks and uncertainties discussed in documents filed by WSFS Financial Corporation with the Securities and Exchange Commission from time to time. The Corporation does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on behalf of the Corporation.

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 Consolidated Financial Statements requires management to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenue and expenses. We regularly evaluate these estimates and assumptions including those related to the allowance for loan losses, contingencies (including indemnifications), and deferred taxes. We base our 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.

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 our best estimate of probable loan losses related to specifically identified loans as well as those in the remaining loan portfolio. Our evaluation is based upon a continuing review of these portfolios, with consideration given to evaluations resulting from examinations performed by regulatory authorities.

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 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. Because reverse mortgages are a relatively new and uncommon product, 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.

Deferred 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. We continually assess the need for valuation allowances on deferred income tax assets that may result from, among other things, limitations imposed by Internal Revenue Code and uncertainties, including the timing of settlement and realization of these differences.

Fair Value Measurements

On January 1, 2008, we adopted SFAS No. 157, Fair Value Measurements ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. See Note 9, Fair Value of Financial Assets.

FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY

Financial Condition

Our total assets increased $155.4 million, or 5%, during the six months ended June 30, 2009. Total loans increased $72.7 million, or 3%, primarily attributable to a $97.1 million, or 6%, increase in commercial and commercial real estate loans offset by a decrease in residential loans of $19.4 million, or 5%. The decrease in residential mortgages is mainly due to pay-downs in the portfolio and our decision to sell more of our new originated loans and record a gain on sale. Mortgage-backed securities increased $51.7 million, or 10%. Finally, cash and cash equivalents increased $28.6 million, or 11%. This included a $16.7 million, or 29%, increase in cash and due from banks, and an $11.9 million, or 6%, increase in cash in non-owned ATMs.

Total liabilities increased $100.1 million, or 3%, between December 31, 2008 and June 30, 2009 to $3.3 billion. This increase was mainly due to an increase in deposits of $250.6 million, or 12%. This included increases of $274.0 million, or 16%, in customer deposits and $21.7 million, or 7%, in brokered certificates of deposit. These increases in customer deposits improved our funding mix as deposit growth reduced more-costly wholesale funding needs. As a result, both Federal Home Loan Bank (FHLB) advances and other jumbo certificates of deposit decreased $179.2 million, or 22%, and $45.1 million, or 43%, respectively.

Capital Resources

Stockholders' equity increased $55.3 million between December 31, 2008 and June 30, 2009. This increase was mainly due to the sale of senior preferred stock to the U.S. Department of the Treasury under its Capital Purchase Program (CPP) totaling $52.6 million. In addition, accumulated other comprehensive loss decreased $3.7 million during the first six months of 2009 mainly due to an increase of the fair value of securities available for sale. Also contributing to the increase was $939,000 from the issuance of common stock and employee stock option activity and net income of $624,000. Partially offsetting these increases was the declaration of common and preferred dividends totaling $1.5 million and $819,000, respectively, during the six months ended June 30, 2009.

Below is a table comparing the Bank's consolidated capital position to the minimum regulatory requirements as of June 30, 2009 (dollars in thousands):

	Consolidated Bank Capital		**For Capital Adequacy Purposes**		**To be Well-Capitalized Under Prompt Corrective Action Provisions**	
	Amount	**% of Assets**	**Amount**	**% of Assets**	**Amount**	**% of Assets**
Total Capital (to Risk-Weighted Assets)	$ 324,412	11.15 %	$ 232,689	8.00 %	$ 290,861	10.00 %
Core Capital (to Adjusted Total Assets)	289,514	8.08	143,296	4.00	179,120	5.00
Tangible Capital (to Tangible Assets)	289,514	8.08	53,736	1.50	N/A	N/A
Tier 1 Capital (to Risk-Weighted Assets)	289,514	9.95	116,344	4.00	174,516	6.00

Under Office of Thrift Supervision (“OTS”) capital regulations, savings institutions such as the 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 June 30, 2009 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 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 six months ended June 30, 2009, cash and cash equivalents increased $28.6 million to $277.1 million. There was a $214.9 million increase in cash provided through increases in demand, savings and time deposits. In addition, we sold 52,625 shares of senior preferred stock to the U.S Treasury, resulting in an increase in cash of $52.6 million. Further, we had an increase in cash of $19.3 million provided by operating activities. Partially offsetting these increases was net borrowings from the FHLB, which decreased $179.2 million during the six months ended June 30, 2009, resulting in a decrease in cash. Also, our mortgage-backed security portfolio decreased cash by $44.2 million as a result of purchases in order to minimize earnings dilution related to the additional capital raised offset in part by repayments and sales. Finally, net loan growth resulted in the use of $88.0 million in cash, which was primarily the result of the successful implementation of specific strategies designed to increase corporate and small business lending.

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, assets acquired through foreclosure and restructured mortgage and home equity consumer debt. 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 receipts are applied either to the outstanding principal balance or recorded as interest income, depending on management’s assessment of the ultimate collectability 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.

	June 30, 2009	December 31, 2008
	(In Thousands)	
Nonaccruing loans:		
Commercial	**$ 5,430**	$ 986
Consumer	**1,023**	352
Commercial mortgage	**2,033**	5,748
Residential mortgage	**6,202**	4,753
Construction	**49,822**	16,595
Total nonaccruing loans	**64,510**	28,434
Assets acquired through foreclosure	**8,073**	4,471
Troubled debt restructuring	**7,312**	2,855
Total nonperforming assets	**$ 79,895**	$ 35,760
Past due loans:(1)		
Residential mortgages		