TF FINANCIAL CORP
Form 10-Q
November 15, 2004

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, 2004

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 000-24168

TF FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	74-2705050
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
3 Penns Trail, Newtown, Pennsylvania	18940
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 215-579-4000

N/A
Former name, former address and former fiscal year, if changed since last report.

Indicate by check 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 an accelerated filer as defined in Exchange Act Rule 12b-2. YES ___ NO X

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: November 8, 2004

Class	Outstanding
$.10 par value common stock	2,944,009 shares

TF FINANCIAL CORPORATION AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2004

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TF FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands)

	Unaudited September 30 2004
Assets	
Cash and cash equivalents	$ 6,650
Certificates of deposit in other financial institutions	38
Investment securities available for sale - at fair value	17,630
Investment securities held to maturity (fair value of $7,277 and $10,815, respectively)	7,045
Mortgage-backed securities available for sale - at fair value	109,462
Mortgage-backed securities held to maturity (fair value of $17,179 and $24,774, respectively)	16,427
Loans receivable, net	435,174
Federal Home Loan Bank stock - at cost	7,573
Accrued interest receivable	2,469
Core deposit intangible, net of accumulated amortization of $2,577 and $2,456, respectively	247
Goodwill, net of accumulated amortization of $2,328	4,324
Premises and equipment, net	5,937
Other assets	16,481
Total assets	$629,457
Liabilities and stockholders' equity	
Liabilities	
Deposits	$457,892
Advances from the Federal Home Loan Bank	108,078
Advances from borrowers for taxes and insurance	1,179
Accrued interest payable	1,961
Other liabilities	2,172
Total liabilities	571,282
Commitments and contingencies	
Stockholders' equity	
Preferred stock, no par value; 2,000,000 shares authorized and none issued.	
Common stock, $0.10 par value; 10,000,000 shares authorized, 5,290,000 issued; 2,701,901 and 2,596,037 shares outstanding at September 30, 2004 and December 31, 2003, net of treasury shares of 2,381,768 and 2,474,366, respectively.	529
Retained earnings	56,301
Additional paid-in capital	50,394
Unearned ESOP shares	(2,063)
Treasury stock - at cost	(46,644)
Accumulated other comprehensive loss	(342)
Total stockholders' equity	58,175
Total liabilities and stockholders' equity	$629,457

See notes to consolidated financial statements

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TF FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	For Three Months Ended September 30, 2004	For Three Months Ended September 30, 2003
Interest income		
Loans	$6,095	$ 5,660
Mortgage-backed securities	1,490	1,621
Investment securities	279	505
Interest bearing deposits and other	4	49
Total interest income	7,868	7,835
Interest expense		
Deposits	1,456	1,638
Advances from the Federal Home Loan Bank	758	2,078
Total interest expense	2,214	3,716
Net interest income	5,654	4,119
Provision for loan losses	150	90
Net interest income after provision for loan losses	5,504	4,029
Non-interest income		
Service fees, charges and other operating income	463	435
Bank-owned life insurance	132	154
Gain (loss) on sale of investment and mortgage-backed securities available for sale	--	(377)
Gain on sale of real estate	--	110
Total non-interest income	595	322
Non-interest expense		
Compensation and benefits	2,160	1,996
Occupancy and equipment	613	675
Federal deposit insurance premium	17	18
Professional fees	121	110
Amortization of core deposit intangible	41	49
Advertising	164	138
Debt prepayment fee	--	13,765
Other operating	627	727
Total non-interest expense	3,743	17,478
Income (loss) before income taxes	2,356	(13,127)
Income tax expense (benefit)	642	(4,562)

Net income (loss)	$1,714	$(8,565)
	======	=======
Basic earnings (loss) per share	$ 0.64	$ (3.33)
Diluted earnings (loss) per share	$ 0.61	$ (3.33)
Dividends paid	$ 0.17	$ 0.15

See notes to consolidated financial statements

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TF FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For th
	200

Cash flows from operating activities	
Net income (loss)	$ 4,
Adjustments to reconcile net income to net cash provided by operating activities:	
Mortgage loan servicing rights	
Deferred loan origination fees	
Premiums and discounts on investment securities, net	
Premiums and discounts on mortgage-backed securities and loans, net	
Amortization of core deposit intangible	
Provision for loan losses and provision for losses on real estate	
Adjustments to the net realizable value of real estate owned	
Depreciation of premises and equipment	
Recognition of employee stock ownership plan expense	
Gain on sale of investment and mortgage-backed securities available for sale	
Gain on sale of real estate	
Increase in value of bank-owned life insurance	(
(Increase) decrease in:	
Accrued interest receivable	
Other assets	1,
Increase (decrease) in:	
Accrued interest payable	
Other liabilities	

Net cash provided (used) by operating activities	9,

Cash flows from investing activities	
Loan originations	(108,
Purchases of loans	(3,
Loan principal payments	80,
Proceeds from sale of investment securities available for sale	
Proceeds from sale of mortgage-backed securities available for sale	
Purchases of mortgage-backed securities available for sale	(27,
Purchase of investment securities available for sale	(3,
Proceeds from maturities of investment securities held to maturity	3,
Proceeds from maturities of investment securities available for sale	
Principal repayments from mortgage-backed securities held to maturity	7,

Principal repayments from mortgage-backed securities available for sale	24,
Purchase of bank-owned insurance	
(Purchases) and maturities of certificates of deposit in other financial institutions,net	
(Purchases) and redemptions of Federal Home Loan Bank stock, net	(
Proceeds from sales of real estate	
Purchase of real estate held for investment	
Purchase of premises and equipment	(

Net cash provided by (used in) investing activities	(27,

See notes to consolidated financial statements

TF FINANCIAL CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(in thousands)

	For th
	20
	--
Cash flows from financing activities	
Net increase (decrease) in deposits	
Net increase (decrease) in advances from Federal Home Loan Bank	
Net increase (decrease) in advances from borrowers for taxes and insurance	
Exercise of stock options	
Purchase of treasury stock, net	
Common stock cash dividend	
	--
Net cash provided by (used in) financing activities	
	--
Net decrease in cash and cash equivalents	
Cash and cash equivalents at beginning of period	
	--
Cash and cash equivalents at end of period	$
	==
Supplemental disclosure of cash flow information	
Cash paid for	
Interest on deposits and advances from FHLB	$
Income taxes	$
Non-cash transactions	
Transfers from loans to real estate acquired through foreclosure	$

See notes to consolidated financial statements

TF FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - PRINCIPLES OF CONSOLIDATION

The consolidated financial statements as of September 30, 2004 (unaudited) and December 31, 2003 and for the nine-month periods ended September 30, 2004 and 2003 (unaudited) include the accounts of TF Financial Corporation (the "Company") and its wholly owned subsidiaries Third Federal Savings Bank (the "Bank"), TF Investments Corporation and Penns Trail Development Corporation. The Company's business is conducted principally through the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

NOTE 2 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all of the disclosures or footnotes required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for fair presentation of the consolidated financial statements have been included. The results of operations for the period ended September 30, 2004 are not necessarily indicative of the results which may be expected for the entire fiscal year or any other period. For further information, refer to consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

NOTE 3 - CONTINGENCIES

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

NOTE 4 - OTHER COMPREHENSIVE INCOME

The Company's other comprehensive income (loss) consists of net unrealized gains (losses) on investment securities and mortgage-backed securities available for sale. Total comprehensive income (loss) for the three-month periods ended September 30, 2004 and 2003 was $2,746,000 and $(9,578,000), net of applicable income tax expense (benefit) of $1,173,000 and $(5,084,000), respectively. Total comprehensive income (loss) for the nine-month periods ended September 30, 2004 and 2003 was $5,055,000 and $(8,971,000), net of applicable income tax expense (benefit) of $1,921,000 and $(4,933,000), respectively.

TF FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - EARNINGS PER SHARE

	Three months ended September 30, 2004		
	(000's) Income (numerator)	Weighted Average Shares (denominator)	Per shar Amount
Basic earnings per share			
Income available to common stockholders	$ 1,714	2,692,211	$ 0.64
Effect of dilutive securities			
Stock options	-	108,516	(0.03
Diluted earnings per share			
Income available to common stockholders plus effect of dilutive securities	$ 1,714	2,800,727	$ 0.61

	Nine months ended September 30, 2004		
	(000's) Income (numerator)	Weighted Average Shares (denominator)	Per shar Amount
Basic earnings per share			
Income available to common stockholders	$ 4,979	2,673,448	$ 1.86
Effect of dilutive securities			
Stock options	-	144,734	(0.09
Diluted earnings per share			
Income available to common stockholders plus effect of dilutive securities	$ 4,979	2,818,182	$ 1.77

There were options to purchase 31,816 shares of common stock at a price of $34.14 per share which were outstanding during the nine months ended September 30, 2004 that were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares.

TF FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - EARNINGS PER SHARE (continued)

	Three months ended September 30, 2003		
	(000's) Income (numerator)	Weighted Average Shares (denominator)	Per shar Amount
Basic earnings (loss) per share			
Income (loss) available to common stockholders	$ (8,565)	2,571,947	$ (3.33
Effect of dilutive securities			
Stock options	--	216,749	--
Diluted earnings (loss) per share			
Income (loss) available to common stockholders plus effect of dilutive securities	$ (8,565)	2,788,696	$ (3.33

	Nine months ended September 30, 2003		
	(000's) Income (numerator)	Weighted Average Shares (denominator)	Per shar Amount
Basic earnings (loss) per share			
Income (loss) available to common stockholders	$ (7,350)	2,525,970	$ (2.91
Effect of dilutive securities			
Stock options	-	210,595	--
Diluted earnings (loss) per share			
Income (loss) available to common stockholders plus effect of dilutive securities	(7,350)	2,736,565	$ (2.91

There were options to purchase 34,900 shares of common stock at a range of $25.33 to $28.00 per share which were outstanding during the nine months ended September 30, 2003 that were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares.

TF FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6- STOCK BASED COMPENSATION

The Company has several fixed stock option plans. The Company's employee stock option plans are accounted for using the intrinsic value method under APB Opinion No. 25, as permitted by SFAS No. 123. No stock-based compensation expense is reflected in net income, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of the grant.

Had compensation cost for the plans been determined based on the fair value of options at the grant dates consistent with the method of SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share data):

Three months ended September 30,	2004	2003
Net income (loss)		
As reported	$1,714	$(8,565)
Deduct: stock-based compensation expense determined using the fair value method, net of related tax effects	25	17
Pro forma	$1,689	$(8,582)
Basic earnings (loss) per share		
As reported	$0.64	$(3.33)
Pro forma	$0.63	$(3.34)
Diluted earnings (loss) per share		
As reported	$0.61	$(3.33)
Pro forma	$0.61	$(3.34)

Stock-based compensation expense included in net income is related to stock grants in lieu of salary and the Company's employee stock ownership plan. Such expense totaled $95,000 and $140,000 for the three-month periods ended September 30, 2004 and 2003, respectively.

TF FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6- STOCK BASED COMPENSATION (continued)

Nine months ended September 30,	2004	2003
Net income (loss)		
As reported	$4,979	$(7,350)
Deduct: stock-based compensation expense determined using the fair value method, net of related tax effects	76	39
Pro forma	$4,903	$(7,389)
Basic earnings (loss) per share		
As reported	$1.86	$(2.91)
Pro forma	$1.84	$(2.93)
Diluted earnings (loss) per share		
As reported	$1.77	$(2.91)
Pro forma	$1.76	$(2.93)

Stock-based compensation expense included in net income is related to stock grants in lieu of salary and the Company's employee stock ownership plan. Such expense totaled $322,000 and $368,000 for the nine-month periods ended September 30, 2004 and 2003, respectively.

TF FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7- EMPLOYEE BENEFIT PLANS

Net periodic defined benefit pension expense included the following components:

Three months ended September 30,	2004	2003

Service cost	$ 57,569	$ 47,686
Interest cost	47,413	46,256
Expected return on plan assets	(52,367)	(54,317)
Amortization of transition (asset)/obligation	1,002	1,337
Amortization of prior service costs	15,634	15,634
Amortization of unrecognized net actual loss	6,014	3,273
Net periodic benefit cost	$ 75,265	$ 59,869

Nine months ended September 30,	2004	2003
Service cost	$172,706	$143,057
Interest cost	142,240	138,770
Expected return on plan assets	(157,103)	(162,953)
Amortization of transition (asset)/obligation	3,005	4,011
Amortization of prior service costs	46,902	46,902
Amortization of unrecognized net actual loss	18,042	9,821
Net periodic benefit cost	$225,792	$179,608

As of September 30, 2004, $30,000 of contributions has been made to the pension plan. Management does not anticipate any additional contributions to the pension plan in 2004. The impact of the Pension Funding Equity Act which was enacted in April 2004 is currently being evaluated.

NOTE 8- RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the current period presentation.

TF FINANCIAL CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL POSITION AND RESULTS OF OPERATIONS

GENERAL

The Company may from time to time make written or oral "forward-looking statements", including statements contained in the Company's filings with the Securities and Exchange Commission (including this Quarterly Report on Form 10-Q and the exhibits thereto), in its reports to stockholders and in other communications by the Company, which are made in good faith by the Company pursuant to the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations, estimates and intentions that are subject to change based on various important factors (some of which are beyond the Company's control). The following factors, among others, could cause the Company's financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rate, market and monetary fluctuations; the timely development of and acceptance of new products and services of the Company and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services; the willingness of users to substitute competitors' products and services for the Company's products and services; the success of the Company in gaining regulatory approval of its products and services, when required; the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance); technological changes, acquisitions; changes in consumer spending and saving habits; and the success of the Company at managing the risks involved in the foregoing.

The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

Financial Position

The Company's total assets at September 30, 2004 and December 31, 2003 were $629.5 million and $606.8 million, respectively, an increase of $22.7 million, or 3.7%, during the nine-month period. Cash and cash equivalents decreased by $1.6 million. Investment securities available for sale increased by $3.2 million, the net effect of the purchases of $3.0 million and a $0.2 million increase in the market value of these securities. Investment securities held to maturity decreased by $3.3 million due to the maturities of such securities. Mortgage-backed securities available for sale increased by $2.7 million as $27.7 million in security purchases was off-set by $24.5 million of principal payments and premium amortization of $0.5 million. Mortgage-backed securities held to maturity decreased by $7.2 million as a result of principal repayments. Loans receivable increased by $30.5 million for the nine-month period. Consumer and single-family residential mortgage loans of $66.7 million and commercial loans of $41.4 million comprised loan originations during the first nine months of 2004. Additionally, $3.7 million of newly originated, single-family residential mortgage loans were purchased during the nine-month period. Offsetting these increases to loans receivable were $81.0 million of principal repayments.

Total liabilities increased by $20.0 million. Deposit growth during the first nine months of 2004 was $1.5 million. Non-interest bearing demand deposits increased by $5.7 million while savings, money market, and interest-bearing checking accounts decreased by a combined $6.6 million. Certificates of deposit decreased by $0.6 million. Advances from the Federal Home Loan Bank increased by $21.2 million due to a $25.0 million increase in long-term fixed rate advances and $5.6 million of short-term advances, less scheduled amortization payments of $9.4 million.

Total consolidated stockholders' equity of the Company was $58.2 million or 9.24% of total assets at September 30, 2004. During the first three quarters of

2004 the Company repurchased 149,608 shares of its common stock and issued 242,206 shares pursuant to the exercise of stock options. As of September 30, 2004, there were 101,123 shares available for repurchase under the previously announced share repurchase plan.

Asset Quality

During the first nine months of 2004, the Company's provision for loan losses was $450,000 compared to $270,000 during the same period in 2003. The resulting increase in the allowance for loan losses is consistent with the corresponding increase in balance of loans receivable. As of September 30, 2004, the Company owned one parcel of foreclosed real estate. This parcel has been recorded as real estate owned at the lower of the recorded investment in the loan or estimated fair value in the amount of $0.8 million and is included in other assets in the statement of financial position at September 30, 2004. Management of the Company believes that there has not been any significant deterioration in its asset quality during such period.

The following table sets forth information regarding the Company's asset quality (dollars in thousands):

	September 30, 2004	December 31, 2003	September 2003
Non-performing loans	$1,813	$2,282	$2,905
Ratio of non-performing loans to gross loans	0.41%	0.56%	0.72%
Ratio of non-performing loans to total assets	0.29%	0.38%	0.48%
Foreclosed property	$ 807	$ 868	$1,763
Foreclosed property to total assets	0.13%	0.14%	0.29%
Ratio of total non-performing assets to total assets	0.42%	0.52%	0.77%

Management maintains an allowance for loan losses at levels that are believed to be adequate; however, there can be no assurances that further additions will not be necessary or that losses inherent in the existing loan portfolios will not exceed the allowance. The following table sets forth the activity in the allowance for loan losses during the periods indicated (in thousands):

	2004	2003
Beginning balance, January 1,	$2,111	$2,047
Provision	450	270
Less: charge-off's (recoveries), net	376	345
Ending balance, September 30,	$2,185	$1,972

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

Net Income. The Company recorded net income of $1,714,000, or $0.61 per diluted share, for the three months ended September 30, 2004 as compared to a net loss of $8,565,000, or $3.33 per diluted share, for the three months ended September 30, 2003.

Average Balance Sheet

The following table sets forth information relating to the Company's average balance sheet and reflects the average yield on assets and average cost of liabilities for the periods indicated. Yield and cost are computed by dividing income or expense by the average daily balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods indicated.

	Three months ended Septemb			
	2004			
	Average Balance	Interest	Average Yld/Cost	Avera Balan
	(dollars in thousan			
Assets:				
Interest-earning assets:				
Loans receivable (1)......................	$426,686	$6,095	5.68%	$381
Mortgage-backed securities................	129,715	1,490	4.57%	155
Investment securities(2)..................	31,117	340	4.35%	85
Other interest-earning assets(3)..........	685	4	2.32%	21
Total interest-earning assets...........	588,203	7,929	5.36%	643
Non interest-earning assets...................	36,358	------		33
Total assets............................	$624,561			$677
Liabilities and stockholders' equity:				
Interest-bearing liabilities				
Deposits..................................	$465,782	1,456	1.24%	$452
Advances from the FHLB....................	96,090	758	3.14%	158
Total interest-bearing liabilities.......	561,872	2,214	1.56%	610
Non interest-bearing liabilities..............	5,327	------		3
Total liabilities.......................	567,199			614
Stockholders' equity..........................	57,362			63
Total liabilities and stockholders' equity	$624,561			$677
Net interest income...........................		$5,715		
Interest rate spread (4)......................			3.80%	
Net yield on interest-earning assets (5).......			3.87%	
Ratio of average interest-earning assets to average interest-bearing liabilities...........			105%	

(1) Nonaccrual loans have been included in the appropriate average loan balance category, but interest on nonaccrual loans has not been included for purposes of determining interest income.

(2) Tax equivalent adjustments to interest on investment securities for the quarter ended September 30, 2004 and 2003 were $61,000 and $47,000 respectively. Tax equivalent interest income is based upon a marginal effective tax rate of 34%.

(3) Includes interest-bearing deposits in other banks.

(4) Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(5) Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.

Rate/Volume Analysis

The following table presents, for the periods indicated, the change in interest income and interest expense (in thousands) attributed to (i) changes in volume (changes in the weighted average balance of the total interest earning asset and interest bearing liability portfolios multiplied by the prior year rate), and (ii) changes in rate (changes in rate multiplied by prior year volume). Changes attributable to the combined impact of volume and rate have been allocated proportionately based on the absolute value of changes due to volume and changes due to rate.

	Three months ended September 30, 2004 vs. 2003		
	Increase (decrease) due to		
	Volume	Rate	
Interest income:			
Loans receivable, net	$1,573	$(1,138)	$
Mortgage-backed securities	(896)	765	
Investment securities	(1,566)	1,354	
Other interest-earning assets	(251)	206	
Total interest-earning assets	(1,140)	1,187	
Interest expense:			
Deposits	287	(469)	
Advances from the FHLB and other borrowings	(657)	(663)	(1
Total interest-bearing liabilities	(370)	(1,132)	(1

Net change in net interest income	$ (770)	$ 2,319	$ 1

Total Interest Income. Total interest income, on a taxable equivalent basis, increased by $47,000 or 0.6% to $7.9 million for the quarter ended September 30, 2004, compared with the same quarter of 2003. Low market interest rates on loans resulted in a significant amount of loan prepayments during the intervening period, lowering the yield on the remaining portfolio. However, increased loan originations at the Bank and resulting loan portfolio growth contributed to loan interest income in a manner that largely offset the impact caused by the lower market interest rates. Interest income from mortgage-backed securities, investment securities and other interest-earning assets was lower in the third quarter of 2004 in comparison to the same period of 2003. This decrease was largely caused by the reduction in the lower yielding balances maintained in these types of interest-earning assets as a result of the debt refinancing transaction executed during the third quarter of 2003.

Total Interest Expense. Total interest expense decreased by $1.5 million to $2.2 million during the three-month period ended September 30, 2004 as compared with the related quarter of 2003. The decrease in the market interest rates and the lower rates paid on the Bank's renewing certificates of deposit that had been originated when market interest rates were higher was more than offset by the increase in the average balance of deposits during the period. However, the repayment and refinancing of the Federal Home Loan Bank Advances that occurred at the end of the third quarter of 2003 was the primary factor in the overall reduction of interest expense.

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Non-interest income. Total non-interest income was $595,000 for the three-month period ended September 30, 2004 compared with $322,000 for the same period in 2003. Net losses on sales of mortgage-backed securities and investments available for sale during the third quarter of 2003 totaled $377,000 while, conversely, there were no such sales during the same period in 2004. In addition, the Company recorded a gain of $110,000 during the third quarter of 2003 on the sale of real estate while there was no such gain during the third quarter of 2004.

Non-interest expense. Total non-interest expense decreased by $13.7 million to $3.7 million for the three months ended September 30, 2004 compared to the same period in 2003. The decrease in non-interest expense was associated with the debt prepayment fee of $13.8 million paid during the third quarter of 2003 as a result the repayment and refinancing of Federal Home Loan Bank borrowings. Without this fee, non-interest expenses increased by $30,000 during the third quarter of 2004 compared with the third quarter of 2003. Compensation and benefit expenses were higher by $164,000 due largely to additional mortgage origination and commercial lending personnel added during the fourth quarter of 2003 and the first nine months of 2004. Occupancy and equipment costs dropped due to a one time $62,000 expense booked during the third quarter of 2003 associated with revisions in the useful lives of certain depreciable and amortizable assets. Additionally, other operating expenses decreased $100,000 between the two quarters primarily due to $80,000 of various deposit items, reconciling and other losses, which were expensed during the third quarter of 2003.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

Net Income. The Company recorded net income of $4,979,000, or $1.86 per diluted share, for the nine months ended September 30, 2004 as compared to a net loss of $7,350,000, or $2.91 per diluted share, for the nine months ended September 30, 2003.

Average Balance Sheet

The following table sets forth information relating to the Company's average balance sheet and reflects the average yield on assets and average cost of liabilities for the periods indicated. Yield and cost are computed by dividing income or expense by the average daily balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods indicated.

	Nine months ended Septemb			
	2004			
	Average Balance	Interest	Average Yld/Cost	Average Balance
			(dollars in thousands	
Assets:				
Interest-earning assets:				
Loans receivable (1)......................	$418,765	$18,045	5.76%	$370,5
Mortgage-backed securities................	130,835	4,478	4.57%	163,6
Investment securities.....................	30,563	1,001	4.37%	73,1
Other interest-earning assets(2)..........	1,299	11	1.13%	59,8
Total interest-earning assets...........	581,462	23,535	5.41%	667,2
Non interest-earning assets...................	34,841	-------		34,7
Total assets...........................	$616,303			$702,0
Liabilities and stockholders' equity:				
Interest-bearing liabilities				
Deposits.................................	$467,304	4,440	1.27%	$447,0
Advances from the FHLB...................	87,494	2,077	3.17%	186,3
Total interest-bearing liabilities............	554,798	6,517	1.57%	633,4
Non interest-bearing liabilities..............	5,453	-------		5,4
Total liabilities......................	560,251			638,8
Stockholders' equity..........................	56,052			63,1
Total liabilities and stockholders' equity	$616,303			$702,0

Net interest income	$17,018	
Interest rate spread (3)		3.84%
Net yield on interest-earning assets (4)		3.91%
Ratio of average interest-earning assets to average interest-bearing liabilities		105%

(1) Nonaccrual loans have been included in the appropriate average loan balance category, but interest on nonaccrual loans has not been included for purposes of determining interest income.

(2) Tax equivalent adjustments to interest on investment securities for the nine months ended September 30, 2004 and 2003 were $162,000 and $113,000 respectively. Tax equivalent interest income is based upon a marginal effective tax rate of 34%.

(3) Includes interest-bearing deposits in other banks.

(4) Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(5) Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.

Rate/Volume Analysis

The following table presents, for the periods indicated, the change in interest income and interest expense (in thousands) attributed to (i) changes in volume (changes in the weighted average balance of the total interest earning asset and interest bearing liability portfolios multiplied by the prior year rate), and (ii) changes in rate (changes in rate multiplied by prior year volume). Changes attributable to the combined impact of volume and rate have been allocated proportionately based on the absolute value of changes due to volume and changes due to rate.

	Nine months ended September 30, 2004 vs. 2003	
	Increase (decrease) Due to	
	Volume	Rate
Interest income:		
Loans receivable, net	$ 2,733	$(2,024)
Mortgage-backed securities	(1,258)	418

Investment securities	(1,484)	841	
Other interest-earning assets	(519)	67	
Total interest-earning assets	(528)	(698)	
Interest expense:			
Deposits	381	(1,447)	
Advances from the FHLB and other borrowings	(3,075)	(2,406)	
Total interest-bearing liabilities	(2,694)	(3,853)	
Net change in net interest income	$ 2,166	$ 3,155	$

Total Interest Income. Total interest income, on a taxable equivalent basis, decreased by $1.2 million or 5.0% to $23.5 million for the nine months ended September 30, 2004 as compared with the first nine months of 2003. Low market interest rates on loans resulted in a significant amount of loan prepayments during the intervening period, lowering the yield on the remaining portfolio. However, increased loan originations at the Bank and the resulting loan portfolio growth contributed to loan income in a manner that largely offset the impact caused by the lower market interest rates. Interest income from mortgage-backed securities, investment securities and other interest-earning assets was lower during the first nine months of 2004 in comparison to the same period of 2003. This decrease was largely caused by the reduction in the lower yielding balances maintained in these types of interest-earning assets as a result of the debt refinancing transaction executed during the third quarter of 2003.

Total Interest Expense. Total interest expense decreased by $6.5 million to $6.5 million during the nine-month period ended September 30, 2004 as compared with the same period in 2003. The decrease in the market interest rates during the period and the lower rates paid on the Bank's renewing certificates of deposit which had been originated when market interest rates were higher contributed to this reduction. Yet, the repayment of $120 million of Federal Home Loan Bank Advances and the refinancing of the remaining debt at significantly lower rates is the foremost reason for the overall reduction of interest expense.

Non-interest income. Total non-interest income was $1,985,000 for the nine-month period ended September 30, 2004 in contrast with $2,054,000 for the same period in 2003. The decrease was primarily due to $208,000 in net gains on sales of mortgage-backed securities available for sale and a gain of $110,000 on the sale of real estate during 2003 while, conversely, there were no such sales of either securities or real estate during the same period in 2004. Retail banking fees were $264,000 greater over the period as a result of a $188,000 increase in overdraft and uncollected fees. Also, the collection of mortgage brokerage fees and a growth in other loan fees contributed to the increase during the period.

Non-interest expense. Total non-interest expense decreased by $13.3 million to $11.5 million for the nine months ended September 30, 2004 compared to the same time in 2003. The decrease in non-interest expense was mainly associated with the debt prepayment fee of $13.8 million paid as a consequence of the repayment and refinancing of Federal Home Loan Bank borrowings in 2003. Excluding the debt prepayment fee, non-interest expense increased by $478,000. During 2004, compensation and benefit expenses increased by $625,000 over the same period of 2003. The increase in salary and compensation costs of the Company resulted from the hiring of additional mortgage origination and commercial lending personnel, and increased anticipated incentive compensation expense because this expense is related to the net income of the Company. Occupancy and equipment costs dropped due to a one time $62,000 expense booked during 2003 associated with revisions in the useful lives of certain depreciable and amortizable assets. Other operating expenses decreased $176,000 between the two periods mostly as a result of various deposit items and reconciling losses of $170,000 that were expensed during 2003.

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LIQUIDITY AND CAPITAL RESOURCES

Liquidity

The Company's liquidity is a measure of its ability to fund loans, pay withdrawals of deposits, and other cash outflows in an efficient, cost-effective manner. The Company's short-term sources of liquidity include maturity, repayment and sales of assets, excess cash and cash equivalents, new deposits, broker deposits, other borrowings, and new advances from the Federal Home Loan Bank. There has been no material adverse change during the nine-month period ended September 30, 2004 in the ability of the Company and its subsidiaries to fund their operations.

At September 30, 2004, the Company had commitments outstanding under letters of credit of $1.2 million, commitments to originate loans of $30.4 million, and commitments to fund undisbursed balances of closed loans and unused lines of credit of $59.5 million. There has been no material change during the nine months ended September 30, 2004 in any of the Company's other contractual obligations or commitments to make future payments.

Capital Requirements

The Bank was in compliance with all of its capital requirements as of September 30, 2004.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Asset and Liability Management

The Company's market risk exposure is predominately caused by interest rate risk, which is defined as the sensitivity of the Company's current and future earnings, the values of its assets and liabilities, and the value of its capital to changes in the level of market interest rates. Management of the Company believes that there has not been a material adverse change in market risk during the nine months ended September 30, 2004.

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Based on their evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")), the Company's principal executive officer and 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 the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in Internal Controls over Financial Reporting

During the quarter under report, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

CRITICAL ACCOUNTING POLICIES

Certain critical accounting policies of the Company require the use of significant judgment and accounting estimates in the preparation of the consolidated financial statements and related data of the Company. These accounting estimates require management to make assumptions about matters that are highly uncertain at the time the accounting estimate is made. Management believes that the most critical accounting policy requiring the use of accounting estimates and judgment is the determination of the allowance for loan losses. If the financial position of a significant amount of debtors should deteriorate more than the Company has estimated, present reserves for loan losses may be insufficient and additional provisions for loan losses may be required. The allowance for loan losses was $2,185,000 at September 30, 2004.

NEW ACCOUNTING PRONOUNCEMENTS

On March 31, 2004, the Financial Accounting Standards Board (FASB) issued a proposed Statement, "Share-Based Payment an Amendment of FASB Statements No. 123 and APB No. 95", that addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. Under the FASB's proposal, all forms of share-based payments to employees, including stock options, would be treated the same as other forms of compensation by recognizing the related cost in the income statement. The expense of the award would generally be measured at fair value at the grant date. Current accounting guidance requires that the expense relating to so-called fixed plan employee stock options only be disclosed in the footnotes to the financial statements. The proposed Statement would eliminate the ability to account for share-based compensation transactions using APB Opinion No. 25, "Accounting for Stock Issued to Employees." On October 13, 2004, FASB voted to delay the adoption of this proposed standard by public companies until their first fiscal quarter beginning after June 15, 2005. The Company continues to evaluate this proposed statement and its effects on its results of operations.

In March 2004 the Securities and Exchange Commission staff released Staff Accounting Bulletin (SAB) 105, "Loan Commitments Accounted for as Derivative Instruments." SAB 105 requires that a lender should not consider the expected cash flows related to loan servicing or include any internally developed intangible assets in determining the fair value of loan commitments accounted for as derivatives. The Company adopted SAB 105 effective for commitments entered into after June 30, 2004. The requirements of SAB 105 apply to the Company's mortgage interest rate lock commitments related to loans held for sale. At September 30, 2004, the Company did not have such commitments subject to the provisions of SAB 105. The Company's application of SAB 105 did not have a material impact on the effect on the Company's financial position or results of operations.

On September 30, 2004, the FASB issued a staff position EITF Issue 03-1-1 which delayed the effective date for the measurement and recognition guidance contained in paragraphs 10-20 of EITF Issue 03-1 from reporting periods beginning after June 15,2004, until implementation guidance is issued. The Bank adopted EITF 03-1, The Meaning of Other than Temporary Impairment and Its Application to Certain Investments, as of December 31, 2003. EITF 03-1 includes certain disclosures regarding quantitative and qualitative disclosures for investment securities accounted for under FAS 115, "Accounting for Certain Investments in Debt and Equity Securities," that are impaired at the balance sheet date, but an other-than-temporary impairment has not been recognized. Paragraphs 10-20 of EITF Issue No.03-1 give guidance on how to evaluate and recognize an impairment loss that is other than temporary. On September 15, 2004 the FASB issued a proposed staff position EITF Issue 03-1-a to address the implementation guidance to evaluate and recognize other than temporary impairment. The Company is in the process of determining the impact that this EITF will have on its financial statements.

TF FINANCIAL CORPORATION AND SUBSIDIARIES

PART II

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information on repurchases by the Company of its common stock in each month for the nine months ended September 30, 2004:

Month Ended	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan of Program
January 31, 2004	--	--	--
February 29, 2004	--	--	--
March 31, 2004	38,000	$32.00	--
April 30, 2004	--	--	--
May 31, 2004	--	--	--
June 30, 2004	359	$28.63	359
July 31, 2004	36,115	$26.99	2,800

August 31, 2004	47,432	$26.93	800
September 30, 2004	27,702	$28.01	9,000

The total number of shares repurchased during the quarter includes 45,334 shares repurchased in conjunction with the exercise of 132,333 stock options. The repurchase poses no modification to the rights of stockholders. Furthermore, there has been no change in the ability of the Company to pay dividends or any material change in the working capital of the Company. The stock repurchase did not alter the previously approved stock repurchase plan of the Company.

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TF FINANCIAL CORPORATION AND SUBSIDIARIES

PART II

ITEM 3. DEFAULTS UPON SENIOR SECURITIES Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS None

ITEM 5. OTHER INFORMATION None

ITEM 6. EXHIBITS

(a) Exhibits

10. TF Financial Corporation Incentive Compensation Plan

31. Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

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TF FINANCIAL CORPORATION

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.

Date: November 12, 2004	/s/ Kent C. Lufkin
	Kent C. Lufkin President and CEO (Principal Executive Officer)
Date: November 12, 2004	/s/ Dennis R. Stewart
	Dennis R. Stewart Executive Vice President and Chief Financial Officer (Principal Financial & Accounting Officer)