TF FINANCIAL CORP
Form 10-Q
May 17, 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 March 31, 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: May 6, 2004

Class	Outstanding
$.10 par value common stock	2,885,502 shares

TF FINANCIAL CORPORATION AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2004

INDEX

	Page Number
PART I - CONSOLIDATED FINANCIAL INFORMATION	
Item 1. Consolidated Financial Statements	3
Item 2. Management's Discussion and Analysis of Financial Position and Results of Operations	11
Item 3. Quantitative and Qualitative Disclosures about Market Risk	16
Item 4. Controls and Procedures	16
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings	18
Item 2. Changes in Securities, Use of Proceeds, and Issuer Repurchases of Equity Securities	18
Item 3. Defaults Upon Senior Securities	18
Item 4. Submission of Matters to a Vote of Security Holders	
Item 5. Other Information	19
Item 6. Exhibits and Reports on Form 8-K	19
SIGNATURES	20
EXHIBITS	
31. Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	21
32. Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	23

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

Unaudited

	March 31, 2004
Assets	
Cash and cash equivalents	$ 6,717
Certificates of deposit in other financial institutions	38
Investment securities available for sale - at fair value	14,479
Investment securities held to maturity (fair value of $8,829 and $10,815, respectively)	8,370
Mortgage-backed securities available for sale - at fair value	106,647
Mortgage-backed securities held to maturity (fair value of $22,192 and $24,774, respectively)	21,112
Loans receivable, net	418,994
Federal Home Loan Bank stock - at cost	6,259
Accrued interest receivable	2,430
Core deposit intangible, net of accumulated amortization of $2,496 and $2,456, respectively	328
Goodwill	4,324
Premises and equipment, net	6,230
Other assets	17,284
Total assets	$613,212
Liabilities and stockholders' equity	
Liabilities	
Deposits	$470,918
Advances from the Federal Home Loan Bank	78,909
Advances from borrowers for taxes and insurance	1,797
Accrued interest payable	2,305
Other liabilities	1,616
Total liabilities	555,545
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; 2,670,327 and 2,596,037 shares outstanding at March 31, 2004 and December 31, 2003, net of treasury shares of 2,404,498 and 2,474,366, respectively.	529
Retained earnings	53,841
Additional paid-in capital	51,275
Unearned ESOP shares	(2,151)
Treasury stock - at cost	(46,208)
Accumulated other comprehensive income	381
Total stockholders' equity	57,667
Total liabilities and stockholders' equity	$613,212

See notes to consolidated financial statements

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

	For Three Months Ended March 31, 2004	For Three Months Ended March 31, 2003
Interest income		
Loans	$5,990	$6,051
Mortgage-backed securities	1,457	1,852
Investment securities	280	508
Interest bearing deposits and other	3	246
Total interest income	7,730	8,657
Interest expense		
Deposits	1,506	2,044
Advances from the Federal Home Loan Bank and other borrowings	646	2,778
Total interest expense	2,152	4,822
Net interest income	5,578	3,835
Provision for loan losses	150	90
Net interest income after provision for loan losses	5,428	3,745
Non-interest income		
Service fees, charges and other operating income	576	444
Bank-owned life insurance	133	134
Gain (loss) on sale of investment and mortgage-backed securities available for sale	--	506
Total non-interest income	709	1,084
Non-interest expense		
Compensation and benefits	2,274	2,023
Occupancy and equipment	595	628
Federal deposit insurance premium	18	19
Professional fees	206	160
Amortization of core deposit intangible	40	48
Advertising	163	138
Other operating	621	724
Total non-interest expense	3,917	3,740
Income before income taxes	2,220	1,089
Income tax expense	611	310
Net income	$1,609	$ 779
Basic earnings per share	$0.61	$0.31
Diluted earnings per share	$0.57	$0.29
Dividends paid	$0.15	$0.15

See notes to consolidated financial statements

4

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

	For the three mon March 3
	2004
Cash flows from operating activities	
Net income	$ 1,609
Adjustments to reconcile net income to net cash provided by operating activities:	
Mortgage loan servicing rights	--
Deferred loan origination fees	(8)
Premiums and discounts on investment securities, net	21
Premiums and discounts on mortgage-backed securities and loans, net	249
Amortization of core deposit intangible	40
Provision for loan losses	150
Depreciation of premises and equipment	234
Recognition of ESOP and MSBP expenses	144
Gain on sale of investment and mortgage-backed securities available for sale	--
Gain on sale of real estate	(1)
Increase in value of bank-owned life insurance	(132)
(Increase) decrease in:	
Accrued interest receivable	241
Other assets	839
Increase (decrease) in:	
Accrued interest payable	397
Other liabilities	(226)
Net cash provided (used) by operating activities	3,557
Cash flows from investing activities	
Loan originations	(29,335)
Purchases of loans	(3,428)
Loan principal payments	18,251
Proceeds from sale of mortgage-backed securities available for sale	--
Purchases of mortgage-backed securities available for sale	(6,129)
Purchase of investment securities available for sale	--
Proceeds from maturities of investment securities held to maturity	2,000
Proceeds from maturities of investment securities available for sale	--
Principal repayments from mortgage-backed securities held to maturity	2,517
Principal repayments from mortgage-backed securities available for sale	7,196
(Purchases) and maturities of certificates of deposit in other financial institutions,net	117
(Purchases) and redemptions of Federal Home Loan Bank stock, net	566
Proceeds from sales of real estate	32
Purchase of real estate held for investment	3
Purchase of premises and equipment	(196)
Net cash provided by (used in) investing activities	(8,406)

See notes to consolidated financial statements

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

	For t
Cash flows from financing activities	
Net increase in deposits	
Net 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) increase 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	
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 March 31, 2004 (unaudited) and December 31, 2003 and for the three-month periods ended March 31, 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 March 31, 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 consists of net unrealized gains on investment securities and mortgage-backed securities available for sale. Total comprehensive income for the three-month periods ended March 31, 2004 and 2003 was $2,408,000 and $182,000, net of applicable income tax of $1,023,000 and $2,000, respectively.

TF FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - EARNINGS PER SHARE

	Three months ended March	
	(000's) Income (numerator)	Weighted Average Shares (denominator
Basic earnings per share		
Income available to common stockholders	$ 1,609	2,649,208
Effect of dilutive securities		
Stock options	-	171,464
Diluted earnings per share		
Income available to common stockholders plus effect of dilutive securities	$ 1,609	2,820,672

	Three months ended March	
	(000's) Income (numerator)	Weighted Average Shares (denominator
Basic earnings per share		
Income available to common stockholders	$779	2,488,406
Effect of dilutive securities		
Stock options	-	206,662
Diluted earnings per share		
Income available to common stockholders plus effect of dilutive securities	$779	2,695,068

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 three-month period ended March 31, 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.

8

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 March 31,	2004	2003
Net income		
As reported	$1,609	$ 779
Deduct: stock-based compensation expense determined using the fair value method, net of related tax effects	25	11

Pro forma	$1,584	$ 768
	======	======
Basic earnings per share		
As reported	$ 0.61	$ 0.31
Pro forma	$ 0.60	$ 0.31
Diluted earnings per share		
As reported	$ 0.57	$ 0.29
Pro forma	$ 0.57	$ 0.29

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 $121,000 and $96,000 for the three-month periods ended March 31, 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 March 31,	2004	2003
Service cost	$ 57,936	$ 47,686
Interest cost	44,429	46,257
Expected return on plan assets	(51,884)	(54,318)
Amortization of transition (asset)/obligation	1,002	1,337
Amortization of prior service costs	15,634	15,634
Amortization of unrecognized net actual loss	3,720	3,274
Net periodic benefit cost	$ 70,837	$ 59,870

Management expects to make no contribution 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 March 31, 2004 and December 31, 2003 were $613.2 million and $606.8 million, respectively, an increase of $6.4 million, or 1.1%, during the three-month period. Cash and cash equivalents decreased by $1.5 million. Investment securities available for sale increased by $0.05 million due to the increase in the market value of these securities. Investment securities held to maturity decreased by $2.0 million due to calls of such securities. Mortgage-backed securities available for sale decreased by $0.1 million as $7.2 million in principal pay-downs received was off-set by $6.1 million of security purchases as well as an increase in the market value of these securities totaling $1.2 million. Mortgage-backed securities held to maturity decreased by $2.5 million as a result of principal repayments. Loans receivable increased by $14.3 million for the three-month period. Consumer and single-family residential mortgage loans of $16.0 million and commercial loans of $13.3 million account for loan originations during the first quarter of 2004. Additionally, $3.4 million of newly originated, single-family residential mortgage loans were purchased during the three-month period. Offsetting these increases to loans receivable were $18.3 million of principal repayments.

Total liabilities increased by $4.3 million. Deposit growth during the first three months of 2004 was $11.6 million. Non-interest bearing demand deposits grew by $1.7 million while savings, money market, and interest-bearing checking accounts increased by a combined $2.3 million. Certificates of deposit decreased by $7.6 million. Advances from the Federal Home Loan Bank decreased by $7.9 million due to $3.0 million of scheduled loan amortization payments and repayments of $4.9 million of short-term advances, using funds generated by deposit growth, which replaced the Company's need for funding from the Federal Home Loan Bank.

Total consolidated stockholders' equity of the Company was $57.7 million or 9.40% of total assets at March 31, 2004. During the first quarter of 2004 the Company repurchased 38,000 shares of its common stock and issued 107,868 shares pursuant to the exercise of stock options. As of March 31, 2004, there were approximately 114,000 shares available for repurchase under the previously announced share repurchase plan.

Asset Quality

During the first quarter of 2004, the Company's provision for loan and lease loss was $150,000 compared to $90,000 during the first quarter of 2003. The increase in the provision is consistent with the corresponding increase in balance of loans receivable. During the first quarter of 2003 the Company completed foreclosure proceedings on two related parcels of commercial real estate with a combined loan balance of $1.7 million. As of March 31, 2004 the Company continued to own one of the parcels. 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 March 31, 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):

	March 31, 2004	December 31, 2003	March 3 2003
Non-performing loans	$2,710	$2,282	$3,27
Ratio of non-performing loans to gross loans	0.64%	0.56%	0.9
Ratio of non-performing loans to total assets	0.44%	0.38%	0.4
Foreclosed property	$837	$868	$8
Foreclosed property to total assets	0.14%	0.14%	0.0
Ratio of total non-performing assets to total assets	0.58%	0.52%	0.4

Management maintains an allowance for loan and lease 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 and lease portfolios will not exceed the allowance. The following table sets forth the activity in the allowance for loan and lease losses during the periods indicated (in thousands):

	2004	2003
Beginning balance, January 1,	$2,111	$2,047
Provision	150	90
Less: charge-off's (recoveries), net	39	79

Ending balance, March 31,	$2,222	$2,058

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003

Net Income. The Company recorded a net income of $1,609,000, or $0.57 per diluted share, for the three months ended March 31, 2004 as compared to net income of $779,000, or $0.29 per diluted share, for the three months ended March 31, 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 March			
	2004			
	Average Balance	Interest	Average Yld/Cost	Average Balance
			(dollars in thousands	
Assets:				
Interest-earning assets:				
Loans receivable (1)......................	$410,976	$5,990	5.85%	$366,5
Mortgage-backed securities................	130,658	1,457	4.47%	163,6
Investment securities.....................	30,453	280	3.69%	56,6
Other interest-earning assets(2)..........	1,570	3	0.77%	94,3
Total interest-earning assets...........	573,657	7,730	5.42%	681,2
Non interest-earning assets...................	35,513			34,9
Total assets............................	$609,170			$716,1
Liabilities and stockholders' equity:				
Interest-bearing liabilities				
Deposits.................................	$464,744	1,506	1.30%	$442,6
Advances from the FHLB and other Borrowings....................	83,314	646	3.11%	204,0
Total interest-bearing liabilities.......	548,058	2,152	1.58%	646,7
Non interest-bearing liabilities..............	5,233			6,4
Total liabilities.......................	553,291			653,1
Stockholders' equity..........................	55,879			63,0
Total liabilities and stockholders' equity..	$609,170			$716,1

Net interest income..........................	$5,578	
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) Includes interest-bearing deposits in other banks.
(3) Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
(4) 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 March 31, 2004 vs. 2003		
	Increase (decrease) due to		
	Volume	Rate	Net
Interest income:			
Loans receivable, net	$ 3,011	$(3,072)	(61)
Mortgage-backed securities	(351)	(44)	(395)
Investment securities	(276)	48	(228)
Other interest-earning assets	(190)	(53)	(243)
Total interest-earning assets	2,194	(3,121)	(927)
Interest expense:			
Deposits	635	(1,173)	(538)
Advances from the FHLB and other borrowings	(1,227)	(905)	(2,132)
Total interest-bearing liabilities	(592)	(2,078)	(2,670)
Net change in net interest income	$ 2,786	$(1,043)	$ 1,743

Total Interest Income. Total interest income decreased by $0.9 million or 10.7% to $7.7 million for the quarter ended March 31, 2004 compared with the first quarter of 2003 primarily because of low market interest rates which resulted in a significant amount of loan prepayments during the intervening period. Increased loan originations at the Bank contributed to loan income in a manner that largely offset the impact caused by the low market interest rates. Interest income from mortgage-backed securities, investment securities and other interest-earning assets was lower in the first three months of 2004 in comparison to the same period of 2003. This decrease is consistent with the reduction in the balances maintained in these types of interest-earning assets.

Total Interest Expense. Total interest expense decreased by $2.7 million to $2.1 million during the three-month period ended March 31, 2004 as compared with the first quarter of 2003. The increase in the average balance of deposits was more than offset by lower market interest rates during the period and the lower rates paid on the Bank's renewing certificates of deposit that had been originated when market interest rates were higher. In addition, the Bank lowered the interest rates paid on several of its other deposit products in order to keep them in line with short-term market interest rates and the Bank's competitors. The repayment and refinancing of the Federal Home Loan Bank Advances that occurred at the end of the third quarter of 2003 also contributed to the overall reduction of interest expense.

Non-interest income. Total non-interest income was $709,000 for the three-month period ended March 31, 2004 compared with $1,084,000 for the same period in 2003. The decrease was primarily due to $506,000 in net gains on sales of mortgage-backed securities available for sale during the first quarter of 2003 while, conversely, there were no such sales during the same period in 2004. Retail banking fees were $131,000 greater over the period as a result of a $76,000 increase in overdraft and uncollected fees. Also, the collection of mortgage brokered fees and a growth in other loan fees contributed to the increase during the period.

Non-interest expense. Total non-interest expense increased by $177,000 to $3.9 million for the three months ended March 31, 2004 compared to the same time in 2003. Compensation and benefit expenses were higher by $251,000 due to increases in salary and compensation costs of the Company. Professional expenses of the Company were $46,000 higher mainly because of compliance and audit work that was outsourced. In contrast, other operating expenses decreased $103,000 between the two quarters mostly due to a $55,000 decline in loan expenses related to single-family residential mortgage loans.

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 three-month period ended March 31, 2004 in the ability of the Company and its subsidiaries to fund their operations.

At March 31, 2004, the Company had commitments outstanding under letters of credit of $1 million, commitments to originate loans of $21.9 million, and commitments to fund undisbursed balances of closed loans and unused lines of credit of $51.5 million. There has been no material change during the three months ended March 31, 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 March 31, 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 three months ended March 31, 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.

16

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 $2,222,000 at March 31, 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 transaction 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." The Company is currently evaluating 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. Companies will be required to adopt SAB 105 effective for commitments entered into after March 31, 2004. The requirements of SAB 105 will apply to the Company's mortgage interest rate lock commitments related to loans held for sale. At March 31, 2004, the Company did not have such commitments subject to the provisions of SAB 105. The Company anticipates that the implementation of SAB 105 will not have a material impact on the effect on the Company's financial position or results of operations.

TF FINANCIAL CORPORATION AND SUBSIDIARIES

PART II

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

The following table provides information on repurchases by the Company of its common stock in each month of the quarter ended March 31, 2004:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan of Program	Maxim Shares be Pur th

January 1, 2004 through January 31, 2004	--	--	--
February 1, 2004 through February 29, 2004	--	--	--
March 1 Through March 31, 2004	38,000	$32.00	--

The total number of shares repurchased during the quarter was directly related to the exercise of 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.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

18

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Stockholders (the "Meeting") of the Company was held on April 28, 2004. There were outstanding and entitled to vote at the Meeting 2,885,502 shares of Common Stock of the Company. There were present at the meeting or by proxy the holders of 2,611,478 shares of Common Stock representing 90.51% of the total eligible votes to be cast. Proposal 1 was to elect two directors of the Company. Proposal 2 was to ratify the appointment of the independent auditor for the December 31, 2004 fiscal year. Proposal 3, a shareholder submitted proposal, was to take the necessary steps to remove any provisions in the Company's Certificate of Incorporation and Bylaws that segregate the Board of Directors into separate classes with staggered terms of office. The result of the voting at the Meeting is as follows (percentages in terms of votes cast):

Proposal 1			
George A. Olsen	FOR:	2,314,744	PERCENT FOR:
	WITHHELD:	296,734	PERCENT WITHH
Dennis L. McCartney	FOR:	2,316,547	PERCENT FOR:
	WITHHELD:	294,931	PERCENT WITHH
Proposal 2			
Ratification of the appointment of Grant Thornton, LLP as independent auditor for the Company for the December 31, 2004 fiscal year.	FOR:	2,550,903	PERCENT FOR:
	AGAINST:	21,005	PERCENT AGAIN
	ABSTAIN:	39,570	PERCENT ABSTA

Proposal 3

To remove provisions from the Company's Certificate of Incorporation and Bylaws that segregate the Board of Directors into separate classed with staggered terms of office.

FOR:	850,328	PERCENT FOR:
AGAINST:	1,228,798	PERCENT AGAIN
ABSTAIN:	11,860	PERCENT ABSTA

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

31. Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2003.
32. Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2003.

(b) Reports on Form 8-K

On April 22, 2004 the Company filed a Form 8-K wherein the Company included the press release announcing the Company's earnings for the first quarter of 2004.

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.

TF FINANCIAL CORPORATION

/s/ Kent C. Lufkin

Date: May 14, 2004

Kent C. Lufkin
President and CEO
(Principal Executive Officer)

/s/ Dennis R. Stewart

Date: May 14, 2004

Dennis R. Stewart
Executive Vice President and
Chief Financial Officer
(Principal Financial & Accounting Officer)