

TFS Financial CORP
Form 11-K
June 12, 2018

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 11-K

ANNUAL REPORT
PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934. [NO FEE REQUIRED, EFFECTIVE OCTOBER 7, 1996].

For the fiscal year ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934. [NO FEE REQUIRED].

For the transition period from _____ to _____

Commission file number 001-33390

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

Third Federal 401(k) Savings Plan

B. Name of the issuer of the securities held pursuant to the plan and the address of its principal executive office:

TFS Financial Corporation
7007 Broadway Avenue
Cleveland, Ohio 44105

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Plan Administrator and Plan Participants, Board of Directors and Retirement Plan Committee
Third Federal 401(k) Savings Plan
Cleveland, Ohio

Opinion on the Financial Statements

We have audited the accompanying statement of net assets available for benefits of the Third Federal 401(k) Savings Plan (the "Plan") as of December 31, 2017 and 2016, and the related statements of changes in net assets available for benefits for the years then ended (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2017 and 2016, the changes in net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on the Plan's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Plan in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Supplemental Information

The supplemental Schedule of Assets Held for Investment Purposes at End of Year as of December 31, 2017 has been subjected to audit procedures performed in conjunction with the audit of the Plan's financial statements. The supplemental information is the responsibility of the Plan's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with Department of Labor's (DOL) Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

/s/ Meaden & Moore, Ltd.
MEADEN & MOORE, LTD.

We have served as the Plan's auditor since 2006.

Cleveland, Ohio
June 12, 2018

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STATEMENT OF NET ASSETS
AVAILABLE FOR BENEFITS

Third Federal
401(k) Savings Plan

	December 31,	
	2017	2016
ASSETS		
Investments, at fair value	\$ 128,369,833	\$ 116,831,621
Receivables:		
Employer contributions	1,537,181	1,462,610
Notes receivable from participants	2,727,440	2,568,911
Total Receivables	4,264,621	4,031,521
Total Assets	132,634,454	120,863,142
LIABILITIES	—	—
Net Assets Available for Benefits	\$ 132,634,454	\$ 120,863,142

See
accompanying
notes.

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Criteria	Peer Group Range	2011 Actual Company Results
Change in FFO Per Share, excluding impairment charges and acquisition costs	(28.9)% to 20.1%	3.8%
Same Property Change (Industrial Assets)	(2.9)% to 1.0%	1.2%
Total Stockholder Return	(18.2)% to 16.8%	8.1%
Year-End Occupancy	81.8 to 91.3%	93.9%

Based on the Compensation Committee's analysis of all of the foregoing criteria the Compensation Committee determined that actual Company results significantly exceeded target performance and awarded annual cash incentive compensation to each Named Officer equal to 132.5% of the target award as set forth in the Summary Compensation Table under the heading Non-Equity Incentive Plan Compensation. In March 2012, the Compensation Committee also awarded the following number of shares of restricted stock to the Named Officers as annual equity incentive compensation with respect to 2011 performance: Mr. Hoster 17,095 shares; Mr. McKey 8,532 shares; Mr. Coleman 5,511 shares; Mr. Petsas 5,323 shares; and Mr. Wood 5,323 shares. The award represented approximately 132.5% of the target amount set by the Compensation Committee for each executive officer. These performance-based shares vested 20% on the date of grant and generally will vest 20% on each of January 1, 2013, 2014, 2015 and 2016. Dividends on the annual equity incentive awards accumulate beginning January 1, 2011 and are paid if and when the restricted stock vests. Since these awards were discretionary and based on a review of the 2011 performance period, the Compensation Committee did not establish and approve the awards until March 2012. Accordingly, these performance-based equity awards are not reflected in the Summary Compensation Table and other compensation tables in this proxy statement, rather these awards will be reflected as 2012 compensation.

Long-Term Equity Incentive Compensation. Restricted stock awards are provided based on performance and the recipient also must remain employed by the Company for an additional period following the performance period in order for the restricted stock to vest.

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In May 2011, the Compensation Committee adopted a long-term equity incentive award that was based solely on a review by the Compensation Committee of the Company’s relative and absolute performance during 2011 as well as a comparison of the Company’s total return to the NAREIT Industrial Index, NAREIT Equity Index and the Russell 2000 Index over the five-year period ended December 31, 2011. The Compensation Committee chose to analyze the Company’s relative performance over this time period to take into account performance across various stages of the business cycle, including prior to the onset of the recent recession and extending through the economic recovery periods. Similar to the annual incentive compensation, the Compensation Committee reviewed and analyzed the Company’s long-term incentive performance on a subjective basis rather than applying any bright-line tests or formulas. The Company’s total stockholder return for 2011 was 8.1% compared to an internal goal of 10.0%. The annualized total return for the Company and the comparative indexes for the five-year period ended December 31, 2011 were:

Company/Index	Annualized Total Stockholder Return
EastGroup Properties, Inc.	1.06%
NAREIT Industrial Index	(16.21)%
NAREIT Equity Index	(1.42)%
Russell 2000 Index	0.15%

Other factors considered by the Compensation Committee in connection with the long-term equity incentive compensation included an analysis of the Company’s annual cash dividends paid over the five-year period ended December 31, 2011, which increased from \$2.00 per share in 2007 to \$2.08 per share in 2011, while other REITs that faced capital challenges during the economic recession reduced the amount of their dividends and/or paid the dividends in stock. Additionally, the Compensation Committee considered the strength of the Company’s balance sheet over that five-year period which allowed the Company to carry out its business plans and manage its debt maturity schedule without resorting to dilutive stock issuances. Based on the foregoing, the Compensation Committee determined that actual Company results significantly exceeded target performance and the following number of shares of restricted stock were awarded in March, 2012 as long-term equity incentive compensation with respect to 2011 performance: Mr. Hoster 17,095 shares; Mr. McKey 8,782 shares; Mr. Coleman 5,479 shares; Mr. Petsas 5,276 shares; and Mr. Wood 5,276 shares. The award represented approximately 132.5% of the target amount set by the Compensation Committee for each executive officer. These shares vested 25% on the date of grant and will vest 25% on each of January 1, 2013, 2014 and 2015. Dividends on the awards accumulate beginning January 1, 2011 and are paid if and when the restricted stock vests. Since these awards were discretionary and based on a review of the five-year performance period ended December 31, 2011, the Compensation Committee did not establish and approve the awards until March 2012. Accordingly, these performance-based equity awards are not reflected in the Summary Compensation Table and other compensation tables in this proxy statement, rather these awards will be reflected as 2012 compensation.

Retention Grants. On March 4, 2010, the Compensation Committee awarded 20,000 shares of restricted stock as a retention bonus to each of Messrs. Coleman, Petsas and Wood. Each of these Senior Vice Presidents is a seasoned real estate executive whose departure would disrupt the operations of the Company in the region for which that person is responsible. The Compensation Committee discussed various ways in which to mitigate the risk that one or more of these individuals could be enticed away. The restricted stock awards vest as follows, provided that the applicable officer remains in the employ of the Company as of such date:

1,400 shares on January 10, 2016

2,600 shares on January 10, 2017

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4,000 shares on January 10, 2018

5,400 shares on January 10, 2019

6,600 shares on January 10, 2020

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In the event the officer's employment terminates for reasons other than death or permanent disability, the officer will forfeit all of his interest in shares that have not vested as of the date of termination. If employment terminates as a result of death or permanent disability, the officer or his estate will receive a pro rata number of restricted shares based on the number of full months elapsed since January 1, 2010 to the date of termination of employment compared to the full vesting period. The Compensation Committee believes these restricted stock awards, with the vesting schedule beginning five years out, will give the executive officers incentive to remain with the Company over the long term.

The grant date fair value of these retention awards is included in the Summary Compensation Table under the heading "Stock Awards" as part of 2010 compensation.

Retirement Plans. We have a 401(k) Plan pursuant to which the Company makes matching and discretionary contributions for eligible employees. When the Compensation Committee calculates targeted overall compensation for our senior management, it factors in the benefits expected to be received under the 401(k) Plan.

Perquisites and Other Benefits. The Compensation Committee annually reviews the perquisites that senior management receives. The primary perquisites for executive officers are the Company's contribution to a 401(k) Plan, life insurance of 2.5 times base salary up to a maximum of \$400,000, and long-term care insurance. Executive officers also participate in the Company's medical insurance plans on the same terms as other employees. We do not provide our executives automobiles or reimbursement for country clubs, financial planning or things of a similar nature.

Severance Benefits. In order to recruit executives and encourage retention of employees, we believe it is appropriate and necessary to provide assurance of certain severance payments if the Company terminates the individual's employment without cause. Pursuant to our Severance and Change in Control Agreements, in the event an executive officer is terminated involuntarily by the Company without cause, as defined in the agreement, and provided the employee executes a full release of claims, in a form satisfactory to the Company, promptly following termination, the employee will be entitled to receive certain severance benefits discussed below under the heading "Potential Payments upon Termination or Change in Control." We believe that the size of the severance package is consistent with severance offered by other companies of our size or in our industry.

Change in Control. Our senior management and other employees have built the Company into a successful real estate investment trust and the Board of Directors believes that it is important to protect them in the event of a change in control. Further, it is the Board's belief that the interests of stockholders will be best served if the interests of our senior management are aligned with them, and providing change in control benefits should eliminate, or at least reduce, the reluctance of senior management to pursue potential change in control transactions that may be in the best interests of shareholders. Relative to the overall value of the Company, these potential change in control benefits are relatively minor. See "Potential Payments upon Termination or Change in Control" for additional information.

Board Process. The Compensation Committee of the Board of Directors approves all compensation and awards to our Chief Executive Officer and makes a recommendation to the Board of Directors for our other executive officers. Generally, on its own initiative, the Compensation Committee reviews the performance and compensation of our Chief Executive Officer and, following discussions with him and, where it deems appropriate, FPL or other appropriate advisors, establishes his compensation level. For the remaining executive officers, the Chief Executive Officer, with consultation from FPL, makes recommendations to the Compensation Committee that, sometimes with minor adjustments, are recommended to the Board of Directors for approval.

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Report of the Compensation Committee

The following Report of the Compensation Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other filing by the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934 except to the extent the Company specifically incorporates this Report by reference therein.

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Submitted by the Compensation Committee:

Hayden C. Eaves III, Chair

H.C. Bailey, Jr.

Fredric H. Gould

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The following table summarizes, for the fiscal years ended December 31, 2011, 2010 and 2009, the amount of compensation paid by the Company to its Chief Executive Officer, Chief Financial Officer and its three other most highly compensated executive officers (the Named Officers) as of December 31, 2011.

Name and Principal Position	Year	Salary	Bonus	Non-Equity Incentive Plan Compensation (1)	Stock Awards (2)(3)	All Other Compensation (4)	Total
David H. Hoster II President and Chief Executive Officer	2011	\$ 546,000	\$ 0	\$ 723,450	\$ 1,265,409	\$ 18,732	\$ 2,553,591
	2010	525,000	299,250	315,000	664,420	18,000	1,821,670
	2009	525,000	168,000	252,000	128,722	18,483	1,092,205
N. Keith McKey Executive Vice President, Chief Financial Officer and Secretary	2011	\$ 330,000	\$ 0	\$ 361,063	\$ 638,133	\$ 18,732	\$ 1,347,928
	2010	317,200	144,643	152,256	356,339	18,000	988,438
	2009	317,200	95,160	142,740	61,445	18,483	635,028
John F. Coleman Senior Vice President	2011	\$ 320,000	\$ 0	\$ 233,200	\$ 423,695	\$ 18,732	\$ 995,627
	2010	307,800	84,029	92,340	984,777	18,000	1,486,946
	2009	307,800	61,560	92,340	40,963	18,483	521,146
William D. Petsas Senior Vice President	2011	\$ 308,250	\$ 0	\$ 225,250	\$ 425,587	\$ 18,732	\$ 977,819
	2010	296,400	79,139	88,920	980,747	18,000	1,463,206
	2009	296,400	59,280	88,920	40,963	18,483	504,046
Brent W. Wood Senior Vice President	2011	\$ 308,250	\$ 0	\$ 225,250	\$ 415,226	\$ 15,982	\$ 964,708
	2010	284,400	83,614	85,320	969,837	15,250	1,438,421
	2009	269,400	53,880	80,820	40,963	15,733	460,796

(1) In 2011, the annual incentive compensation paid to each Named Officer was classified as non-equity incentive plan compensation, while in prior years, a portion of the incentive compensation that was based on individual performance goals for each Named Officer was classified as bonus.

(2) The amounts in this column reflect restricted stock awards granted to the Named Officers during 2009, 2010 and 2011 and are disclosed as the aggregate grant date fair value of the awards, computed in accordance with FASB ASC Topic 718 (formerly FAS 123R) assuming, in the case of performance-based awards, that the target performance is achieved, and excluding the impact of estimated forfeitures. The assumptions used in determining the grant date fair values of these awards are set forth in the notes to the Company's consolidated financial statements, which are included in our Annual Report on Form 10-K for the year ended December 31, 2011 as filed with the SEC.

(3) For 2011, the amounts in this column do not reflect the restricted shares awarded by the Compensation Committee with respect to 2011 performance since the awards were discretionary and were granted in March 2012. Under the SEC disclosure rules, these awards will be reflected

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as 2012 compensation. See the previous discussion in the Compensation Discussion and Analysis under the heading "Equity Compensation". For Messrs. Coleman, Petsas and Wood, the amounts for 2010 include \$739,600, which is the grant date fair value of the 20,000 shares of restricted stock awarded as a retention bonus on March 4, 2010 and discussed in further detail on page 17.

- (4) The amount shown in this column represents the Company's discretionary contribution and matching contribution to its 401(k) Plan for the Named Officer's benefit and the amount of premium paid by the Company for group term life insurance on the Named Officer's life. The value of perquisites and other personal benefits are not shown in the table because the aggregate amount of such compensation, if any, is less than \$10,000 for each Named Officer.

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Grants of Plan-Based Awards in 2011

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			All Other Stock Awards (#)	Grant Date Fair Value of Stock Awards (3)
		Threshold	Target	Maximum		
David H. Hoster II	05/25/2011 (1) 03/03/2011 (2)	\$ 273,000	\$ 546,000	\$ 819,000	28,089	\$ 1,265,409
N. Keith McKey	05/25/2011 (1) 03/03/2011 (2)	\$ 136,250	\$ 272,500	\$ 408,750	14,165	\$ 638,133
John F. Coleman	05/25/2010 (1) 03/03/2011 (2)	\$ 88,000	\$ 176,000	\$ 264,000	9,405	\$ 423,695
William D. Petsas	05/25/2011 (1) 03/03/2011 (2)	\$ 85,000	\$ 170,000	\$ 255,000	9,447	\$ 425,587
Brent W. Wood	05/25/2011 (1) 03/03/2011 (2)	\$ 85,000	\$ 170,000	\$ 255,000	9,217	\$ 415,226

(1) Represents the possible payouts under the Company's 2011 non-equity incentive plan discussed in further detail beginning on page 15. The actual amount earned by each Named Officer in 2011 is reported under the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table.

(2) Represents actual restricted stock awarded on March 3, 2011 in connection with the Compensation Committee's discretionary review of the 2010 annual long-term incentive compensation and supplemental annual long-term incentive compensation as discussed under the heading "Equity Compensation" beginning on page 16 of the Company's proxy statement for the 2011 Annual Meeting of Stockholders.

(3) Represents the grant date fair value of the award determined in accordance with FASB ASC Topic 718 disregarding for this purpose the estimate of forfeitures related to service-based vesting conditions. The grant date fair value is calculated by multiplying the number of restricted shares granted by the closing price of the Company's Common Stock on the date of grant.

Outstanding Equity Awards at 2011 Fiscal Year-End

Name	Stock Awards	
	Number of Shares of Restricted Stock That Have Not Vested (1) (#)	Market Value of Shares of Restricted Stock That Have Not Vested (1) (\$)
David H. Hoster II	58,676 (2)	\$ 2,551,232
N. Keith McKey	30,160 (3)	\$ 1,311,357
John F. Coleman	40,315 (4)	\$ 1,752,896

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William D. Petsas	40,248 (5)	\$	1,749,983
Brent W. Wood	39,723 (6)	\$	1,727,156

(1) Determined based on the closing price of the Company's Common Stock (\$43.48) on December 31, 2011.

(2) Mr. Hoster's restricted stock holdings as of December 31, 2011 vest as follows provided that he remains employed by the Company on such dates: 16,290 shares on January 1, 2012; 15,663 shares on January 1,

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2013; 10,871 shares on January 1, 2014 and 15,852 shares on January 1, 2015. On March 7, 2012, the Compensation Committee, with the consent of Mr. Hoster, amended the special vesting provision for restricted stock awards to Mr. Hoster based on a projected January 1, 2015 retirement date.

(3) Mr. McKey's restricted stock holdings as of December 31, 2011 vest as follows provided that he remains employed by the Company on such dates: 8,083 shares on January 1, 2012; 7,991 shares on January 1, 2013; 5,626 on January 1, 2014; 4,296 shares on January 1, 2015; 2,664 shares on January 1, 2016 and 1,500 shares on January 1, 2017.

(4) Mr. Coleman's restricted stock holdings as of December 31, 2011 vest as follows provided that he remains employed by the Company on such dates: 5,343 shares on January 1, 2012; 5,335 shares on January 1, 2013; 3,803 on January 1, 2014; 2,917 shares on January 1, 2015; 1,872 shares on January 1, 2016; 1,400 shares on January 10, 2016; 1,045 shares on January 1, 2017; 2,600 shares on January 10, 2017; 4,000 shares on January 10, 2018; 5,400 shares on January 10, 2019 and 6,600 shares on January 10, 2020.

(5) Mr. Petsas' restricted stock holdings as of December 31, 2011 vest as follows provided that he remains employed by the Company on such dates: 5,343 shares on January 1, 2012; 5,308 shares on January 1, 2013; 3,786 on January 1, 2014; 2,901 shares on January 1, 2015; 1,855 shares on January 1, 2016; 1,400 shares on January 10, 2016; 1,055 shares on January 1, 2017; 2,600 shares on January 10, 2017; 4,000 shares on January 10, 2018; 5,400 shares on January 10, 2019 and 6,600 shares on January 10, 2020.

(6) Mr. Wood's restricted stock holdings as of December 31, 2011 vest as follows provided that he remains employed by the Company on such dates: 5,343 shares on January 1, 2012; 5,234 shares on January 1, 2013; 3,655 on January 1, 2014; 2,769 shares on January 1, 2015; 1,724 shares on January 1, 2016; 1,400 shares on January 10, 2016; 998 shares on January 1, 2017; 2,600 shares on January 10, 2017; 4,000 shares on January 10, 2018; 5,400 shares on January 10, 2019 and 6,600 shares on January 10, 2020.

Option Exercises and Stock Vested in 2011

The following table provides information regarding restricted stock awards that vested during 2011 for each of the Named Officers. No options were exercised by the Named Officers in 2011.

Name	Stock Awards	
	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
David H. Hoster II	3,266	\$ 147,133
N. Keith McKey	1,633	\$ 73,567
John F. Coleman	1,045	\$ 47,077
William D. Petsas	1,045	\$ 47,077
Brent W. Wood	1,045	\$ 47,077

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The Company has entered into Severance and Change in Control Agreements and maintains certain plans that will require the Company to provide compensation to executive officers of the Company in the event of a termination of employment or a change in control of the Company. The following table shows potential payouts assuming that the employment of the Named Officer was terminated in each situation listed in the table and that termination occurred on the last business day of 2011.

	Lump Sum Cash Severance Payment	Healthcare and Other Insurance Benefits	Value of Unvested Restricted Shares	Total
<u>David H. Hoster II</u>				
Voluntary Resignation or Involuntary Termination with Cause				
Involuntary Termination without Cause	\$ 2,142,700		\$ 2,951,245	\$ 5,093,945
Voluntary Resignation with Good Reason following a Change in Control	\$ 3,214,050	\$ 50,000	\$ 2,951,245	\$ 6,215,295
Involuntary Termination without Breach of Duty following a Change in Control	\$ 3,214,050	\$ 50,000	\$ 2,951,245	\$ 6,215,295
Death	\$ 1,071,350		\$ 2,951,245	\$ 4,022,595
<u>N. Keith McKey</u>				
Voluntary Resignation or Involuntary Termination with Cause				
Involuntary Termination without Cause	\$ 1,219,920		\$ 1,516,304	\$ 2,736,224
Voluntary Resignation with Good Reason following a Change in Control	\$ 1,829,880	\$ 50,000	\$ 1,516,304	\$ 3,396,184
Involuntary Termination without Breach of Duty following a Change in Control	\$ 1,829,880	\$ 50,000	\$ 1,516,304	\$ 3,396,184
Death	\$ 609,960		\$ 1,516,304	\$ 2,126,264
<u>John F. Coleman</u>				
Voluntary Resignation or Involuntary Termination with Cause				
Involuntary Termination without Cause	\$ 739,896		\$ 1,907,505	\$ 2,647,401
Voluntary Resignation with Good Reason following a Change in Control	\$ 739,896	\$ 37,500	\$ 1,907,505	\$ 2,684,901
Involuntary Termination without Breach of Duty following a Change in Control	\$ 739,896	\$ 37,500	\$ 1,907,505	\$ 2,684,901
Death	\$ 493,264		\$ 1,178,545	\$ 1,671,809
<u>William D. Petsas</u>				
Voluntary Resignation or Involuntary Termination with Cause				

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Involuntary Termination without Cause	\$ 711,654		\$ 1,904,313	\$ 2,615,967
Voluntary Resignation with Good Reason following a Change in Control	\$ 711,654	\$ 37,500	\$ 1,904,313	\$ 2,653,467
Involuntary Termination without Breach of Duty following a Change in Control	\$ 711,654	\$ 37,500	\$ 1,904,313	\$ 2,653,467
Death	\$ 474,436		\$ 1,175,353	\$ 1,649,789

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	Lump Sum Cash Severance Payment	Healthcare and Other Insurance Benefits	Value of Unvested Restricted Shares	Total
<u>Brent W. Wood</u>				
Voluntary Resignation or Involuntary Termination with Cause				
Involuntary Termination without Cause	\$ 676,458		\$ 1,879,302	\$ 2,555,760
Voluntary Resignation with Good Reason following a Change in Control	\$ 676,458	\$ 37,500	\$ 1,879,302	\$ 2,593,260
Involuntary Termination without Breach of Duty following a Change in Control	\$ 676,458	\$ 37,500	\$ 1,879,302	\$ 2,593,260
Death	\$ 450,972		\$ 1,150,342	\$ 1,601,314

Below is a description of the definitions and assumptions that were used in creating the table above.

Definitions. A change of control means any of the following: (i) any change in control of a nature that would be required to be reported under the Exchange Act proxy rules; (ii) the acquisition by a person or group of beneficial ownership of 30% of the Company's outstanding voting securities; (iii) a change in the composition of the Board of Directors such that the incumbent directors cease to constitute at least a majority of the Board (including, for purposes of computing a majority, those persons nominated for election by a two-thirds majority of the then incumbent directors who had been similarly nominated); (iv) the security holders of the Company approve a merger or consolidation of the Company, with certain exceptions; or (v) approval by the Company's stockholders of a complete liquidation of the Company or disposition of all or substantially all of the Company's assets.

Average annual compensation means an amount equal to the annual average of the sum of (i) the executive's annual base salary from the Company plus (ii) the amount of cash bonus paid by the Company to the executive, in each case for the average of the three calendar years that ended immediately before (or, if applicable, coincident with) a specified date.

A termination is for cause if it is for any of the following reasons: (i) the continued failure by the executive to perform his material responsibilities and duties toward the Company (other than any such failure resulting from the executive's incapacity due to physical or mental illness); (ii) the executive engaging in willful or reckless conduct that is demonstrably injurious to the Company monetarily or otherwise; (iii) the executive's conviction, entry of a plea of no contest, or admission of guilt, for any felony or any lesser crime if such lesser crime involves fraud or dishonesty, moral turpitude, or any conduct that adversely affects the business or reputation of the Company; (iv) the commission or omission of any act by the executive that constitutes on the part of the executive fraud, dishonesty, or malfeasance, misfeasance, or nonfeasance of duty toward the Company; or (v) any other action or conduct by the executive that is injurious to the Company, its business, or its reputation.

A breach of duty means (i) the executive's willful misconduct in the performance of his duties toward the Company; or (ii) the commission or omission of any act by the executive that constitutes on the part of the executive fraud or dishonesty toward the Company.

A termination is for good reason if it is for any of the following reasons: (i) a material diminution in the executive's duties, responsibilities or authority; (ii) a material reduction in the executive's base salary; (iii) a material reduction in the executive's annual or long-term bonus and equity incentive opportunities; (iv) the Company's material relocation of the executive without the executive's consent; and (v) the failure by the Company to obtain the assumption of the obligations contained in the Severance and Change in Control Agreement by any successor entity.

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Cash Severance Payment. Cash severance payments following a change in control are paid upon an involuntary termination without breach of duty and upon a voluntary termination by the executive for good reason. Additionally, cash severance payments not in connection with a change in control are paid upon an involuntary termination without cause. In each case, the cash severance payments are paid lump-sum and are based upon average annual compensation as follows:

	Involuntary Termination Without Cause	Involuntary Termination Without Breach of Duty or Voluntary Resignation With Good Reason, Each Following a Change in Control
Chief Executive and Chief Financial Officers	2 times	3 times
Senior Vice Presidents	1.5 times	1.5 times

As a condition of the receipt of the cash severance payment not in connection with a change in control, the executive must execute a waiver and release agreement, in a form satisfactory to the Company, that releases the Company and all affiliates from any and all claims of any nature whatsoever, including, without limit, any and all statutory claims, and may not revoke the waiver and release within any revocation period required by law or permitted by the Company.

Benefits. Upon an involuntary termination without breach of duty or a voluntary termination by the executive for good reason, each following a change in control, the Company will provide each executive officer with life insurance coverage and health plan coverage substantially comparable to the coverage the executive was receiving from the Company immediately before termination of employment. In each case, these benefits will continue for a period of 24 months (18 months for the Company's Senior Vice Presidents) following the date of termination.

The value of the benefits set forth in the above table is based on an estimate of the Company's cost to provide such benefits to an executive officer upon termination following a change in control equal to \$25,000 per year.

Equity Acceleration. The Incentive Restricted Share Agreements issued to executive officers in connection with equity awards granted pursuant to the Company's 2004 Equity Incentive Plan generally provide that an executive's interest in all of the incentive restricted shares shall become vested as of the date of his death or termination by reason of his permanent disability, provided, however, the agreements for the restricted stock awarded as a retention bonus to certain executive officers in 2010 provide that the number of shares to vest will be prorated upon such officer's death or permanent disability. Pursuant to an amendment to the Company's 2004 Equity Incentive Plan that became effective January 1, 2007, a restricted share agreement may also provide that the incentive restricted shares covered by the agreement shall vest upon involuntary termination by the Company without cause.

The Company's 2004 Equity Incentive Plan also provides that upon the occurrence of a change in control, whether or not the executive's employment is terminated, the executive's interest in all of the restricted shares that are no longer subject to performance criteria shall become vested and the vesting of restricted shares subject to performance criteria shall be accelerated and the executive shall receive a pro rata number of shares based upon (i) an assumed achievement of all relevant performance objectives at target levels and (ii) the length of time within the performance period elapsed before the effective date of the change in control.

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The Company accrues dividends on all incentive restricted shares beginning with the first day of the applicable performance period. The accrued dividends are delivered to the executive officer when the incentive restricted shares vest. The value of the unvested restricted stock in the above table includes the actual value of the dividends accrued with respect to each restricted share award that is no longer subject to performance criteria.

Excise Tax Gross-Up. Upon a change in control of the Company, the executive may be subject to certain excise taxes pursuant to Section 4999 of the Internal Revenue Code. The Company has agreed to reimburse the executive for all excise taxes that are imposed on the executive under Section 4999 and any income and excise taxes that are payable by the executive as a result of any reimbursements for Section 4999 excise taxes. The Company determined that no excise taxes would have been imposed upon the Named Officers assuming that the termination occurred on the last business day of 2011.

CERTAIN TRANSACTIONS AND RELATIONSHIPS

Change in Control Agreement

The Company has entered into a change in control agreement with each of the Company's executive officers. See "Potential Payments Upon Change in Control" above.

Related-Party Transactions Policies and Procedures.

In March 2007, the Board of Directors adopted the written "Statement of Policy with respect to Related Party Transactions" that states that the Company's Audit Committee is responsible for the review, approval and ratification of transactions between the Company or any of its subsidiaries and a senior officer or director of the Company, members of their immediate family, a shareholder owning in excess of five percent of the Company or an entity which is owned or controlled by one of the foregoing.

The policy requires that any related party transaction, other than transactions available to all employees generally or transactions involving less than \$5,000 when aggregated with all similar transactions, shall be consummated or shall continue only if (i) the Audit Committee pre-approves or ratifies such transaction, (ii) the transaction is approved by the disinterested members of the Board of Directors, or (iii) the transaction involves compensation approved by the Compensation Committee.

Table of Contents**OWNERSHIP OF COMPANY STOCK****Security Ownership of Certain Beneficial Owners**

To the best of the Company's knowledge, no person or group (as those terms are used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) beneficially owned, as of April 4, 2012, more than five percent of the shares of Common Stock outstanding, except as set forth in the following table.

Name and Address of Beneficial Owner	Amount of Common Stock Beneficially Owned	Percent of Common Stock (1)
The Vanguard Group, Inc. 100 Vanguard Boulevard Malvern, Pennsylvania 19355	2,878,858 (2)	10.2%
T. Rowe Price Associates, Inc. 100 East Pratt Street Baltimore, Maryland 21202	2,553,250 (3)	9.0%
BlackRock, Inc. 40 East 52 nd Street New York, New York 10022	2,529,886 (4)	9.0%

(1) Based on the number of shares of Common Stock outstanding as of April 4, 2012 which was 28,232,270 shares of Common Stock.

(2) Based upon an amended Statement on Schedule 13G filed with the SEC that indicated that The Vanguard Group, Inc. has sole dispositive power with respect to 2,839,386 shares of Common Stock and Vanguard Fiduciary Trust Company, a wholly-owned subsidiary of The Vanguard Group, Inc., is the beneficial owner of and directs the voting of 39,472 shares of the Company as a result of its serving as investment manager of collective trust accounts.

(3) Based upon an amended Statement on Schedule 13G filed with the SEC by T. Rowe Price Associates, Inc. ("Price Associates"). These shares of Common Stock are owned by various individual and institutional investors which Price Associates serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Exchange Act, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.

(4) Based upon an amended Statement on Schedule 13G filed with the SEC that indicated that BlackRock, Inc. has sole voting and sole dispositive power with respect to all of these shares of Common Stock.

Table of Contents**Security Ownership of Management and Directors**

The following table sets forth certain information available to the Company with respect to shares of Common Stock owned by each director, each nominee for director, each executive officer and all directors, nominees and executive officers as a group, as of April 4, 2012:

Name	Amount and Nature of Beneficial Ownership			Total Beneficial Ownership	Percent of Common Stock (1)
	Common Stock	Unvested Restricted Stock	Exercisable Options		
D. Pike Aloian	15,051 (2)		4,500	19,551	*
H.C. Bailey, Jr.	8,566			8,566	*
Hayden C. Eaves III	20,797 (3)			20,797	*
Fredric H. Gould	11,301			11,301	*
Mary E. McCormick	7,239			7,239	*
David M. Osnos	39,451		4,500	43,951	*
Leland R. Speed	211,206 (4)			211,206	*
David H. Hoster II	239,831 (5)	68,883		308,714	1.1%
N. Keith McKey	102,419	35,489		137,908	*
John F. Coleman	62,878	43,489		106,367	*
Bruce Corkern	30,353 (6)	18,223		48,576	*
William D. Petsas	65,995 (7)	43,120		109,115	*
Brent W. Wood	41,078	42,595		83,673	*
All directors, nominees and executive officers as a group	856,165	251,799	9,000	1,116,964	4.0%

* Less than 1.0%.

(1) Based on the number of shares of Common Stock outstanding as of April 4, 2012 which was 28,232,270 shares of Common Stock.

(2) Does not include 2,500 shares of Common Stock beneficially owned by Mr. Aloian's spouse, as to which he disclaims beneficial ownership.

(3) Includes (i) 3,504 shares of Common Stock owned by Mr. Eaves and his spouse as co-trustees for the Eaves Living Trust; (ii) 1,000 shares of Common Stock owned by a family foundation of which Mr. Eaves is President; and (iii) 500 shares of Common Stock owned by Mr. Eaves as trustee.

(4) Does not include 27,288 shares of Common Stock beneficially owned by Mr. Speed's spouse, as to which he disclaims beneficial ownership.

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- (5) Does not include 2,430 shares of Common Stock beneficially owned by Mr. Hoster's spouse, as to which he disclaims beneficial ownership. Mr. Hoster has pledged 75,575 shares of Common Stock as security for a line of credit. As of April 14, 2012, there was no balance outstanding on the line of credit.

- (6) Mr. Corkern has pledged 3,726 shares of Common Stock as security for a line of credit. As of April 14, 2012, there was no balance outstanding on the line of credit.

- (7) Includes 65,995 shares of Common Stock owned by Mr. Petsas and his spouse as co-trustees for the Petsas Revocable Trust.

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Ownership Guidelines for Directors and Officers

In order to enhance the alignment of the interests of the directors and management with stockholders, the Company has instituted ownership guidelines for directors and officers. Each director who has served for at least five years should own shares of Common Stock with a market value of a minimum of three times the annual cash retainer fee payable to a director. Within five years of their election, officers of the Company are required to own shares of Common Stock having a market value equal to or greater than the following multiples of their base salary: (1) President and Chief Executive Officer: five times annual base salary; (2) Executive Vice President: three times annual base salary; and (3) Senior Vice Presidents: two times annual base salary. Each director and executive officer is currently in compliance with the applicable ownership guideline.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires that directors, officers and more than 10 percent stockholders of the Company file reports with the SEC to report a change in ownership within two business days following the day on which the transaction occurs. During 2011 no officer or director of the Company was late in filing a report under Section 16(a).

AUDIT COMMITTEE MATTERS

Report of the Audit Committee

The following Report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other filing by the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934 except to the extent the Company specifically incorporates this Report by reference therein.

The Audit Committee of the Company is composed of three directors, each of whom meets the current independence and experience requirements of the NYSE and the SEC. The Audit Committee operates under a written charter which was amended and restated on March 8, 2007. A complete copy of the Audit Committee charter is available on the Company's website at www.eastgroup.net. The Board has determined that D. Pike Aloian and Mary E. McCormick are Audit Committee financial experts as defined in the current rules of the SEC.

Management is primarily responsible for the Company's financial statements and reporting process. The Company's independent registered public accounting firm, KPMG LLP, is responsible for performing an independent audit of the Company's financial statements in accordance with U.S. generally accepted accounting principles (GAAP) and for issuing a report on those statements. The Audit Committee's responsibilities include oversight of the Company's independent registered public accounting firm and internal audit department, as well as oversight of the Company's financial reporting process on behalf of the full Board of Directors. It is not the duty or the responsibility of the Audit Committee to conduct auditing or accounting reviews or related procedures.

The Audit Committee meets at least quarterly and at such other times as it deems necessary or appropriate to carry out its responsibilities. Those meetings include, whenever appropriate, executive sessions with KPMG without management being present. The Committee met six times during 2011, including four executive sessions with KPMG. In the course of fulfilling its oversight responsibilities, the Audit Committee met with management, internal audit personnel and KPMG to review and discuss all annual financial statements and quarterly operating

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results prior to their issuance. Management advised the Audit Committee that the financial statements in the Company’s Annual Report on Form 10-K were prepared in accordance with GAAP. The Audit Committee also discussed with KPMG matters required to be discussed, pursuant to Statement on Auditing Standards No. 61, *Communication with Audit Committees*, including the reasonableness of judgments and the clarity and completeness of financial disclosures. In addition, the Audit Committee discussed with KPMG matters relating to its independence and has received from KPMG the written disclosures and letter required by the Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*.

On the basis of the reviews and discussions the Audit Committee has had with KPMG and management, the Audit Committee recommended to the Board of Directors that the Board approve the inclusion of the Company’s audited financial statements in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011, for filing with the SEC.

Submitted by the Audit Committee:

David M. Osnos, Chair

D. Pike Aloian

Mary E. McCormick

Policy For Pre-Approval of Audit and Permitted Non-Audit Services

The Audit Committee of the Board has adopted policies and procedures providing for the pre-approval of audit and non-audit services performed by the Company’s independent registered public accounting firm. Pre-approval may be given as part of the Audit Committee’s approval on the engagement of the independent auditor or on an individual case-by-case basis before the independent auditor is engaged to provide each service. The pre-approval of services may be delegated to the Audit Committee chairman, but the decision is subsequently reported to the full Audit Committee.

Auditor Fees and Services

In connection with the audit of the 2011 financial statements, the Company entered into an engagement agreement with KPMG LLP which set forth the terms by which KPMG LLP will perform audit services for the Company.

The following table shows the fees paid or accrued by the Company for the audit and other services provided by KPMG LLP for fiscal years 2011 and 2010.

	2011	2010
Audit Fees (1)	\$ 527,500	\$ 524,500
Audit-Related Fees		
Tax Fees		
All Other Fees		
Total	\$ 527,500	\$ 524,500

(1)

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Audit fees include amounts related to professional services rendered in connection with the audits of our annual financial statements and reviews of our quarterly financial statements, the audit of internal control over financial reporting and other services that are normally provided by the auditor in connection with statutory and regulatory filings or engagements. For 2011 and 2010, this includes \$88,500 and \$66,000, respectively, for comfort letter procedures in connection with the issuance of Common Stock.

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OTHER MATTERS

The management of the Company does not know of any other matters to come before the Annual Meeting. However, if any other matters come before the Annual Meeting, it is the intention of the persons designated as proxies to vote in accordance with their judgment on such matters.

BY ORDER OF THE BOARD OF DIRECTORS

N. KEITH McKEY

Executive Vice President, Chief Financial Officer,

Treasurer and Secretary

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