WSFS FINANCIAL CORP
Form 10-Q
November 09, 2006

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from _____ to _____

Commission File Number 0-16668

WSFS FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	22-2866913
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

838 Market Street, Wilmington, Delaware	19801
(Address of principal executive offices)	(Zip Code)

(302) 792-6000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ___ Accelerated filer X Non-accelerated filer ___

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of November 3, 2006:

Common Stock, par value $.01 per share	6,677,087
(Title of Class)	(Shares Outstanding)

WSFS FINANCIAL CORPORATION

FORM 10-Q

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WSFS FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS

	Three months ended September 30,	
	2006	2005
		(Unaudi
	(In Thousands, Exce	
Interest income:		
Interest and fees on loans	$ 37,577	$ 27,419
Interest on mortgage-backed securities	7,186	6,445
Interest and dividends on investment securities	616	921
Other interest income	752	351
	46,131	35,136
Interest expense:		
Interest on deposits	11,392	5,674
Interest on Federal Home Loan Bank advances	12,384	7,955
Interest on trust preferred borrowings	1,736	954
Interest on other borrowings	1,499	1,338
	27,011	15,921
Net interest income	19,120	19,215
Provision for loan losses	319	225
Net interest income after provision for loan losses	18,801	18,990
Noninterest income:		

Credit/debit card and ATM income	4,982	3,907
Deposit service charges	2,979	2,676
Bank owned life insurance income	2,401	499
Investment advisory income	573	651
Loan fee income	458	516
Mortgage banking activities, net	136	106
Securities losses	(1,940)	(609)
Other income	720	838
	10,309	8,584
Noninterest expense:		
Salaries, benefits and other compensation	10,189	9,061
Occupancy expense	1,387	1,290
Equipment expense	1,162	950
Data processing and operations expenses	886	761
Marketing expense	676	689
Professional fees	587	610
Other operating expense	2,700	2,789
	17,587	16,150
Income before minority interest and taxes	11,523	11,424
Less minority interest	9	48
Income before taxes	11,514	11,376
Income tax provision	3,511	3,969
Net Income	$ 8,003	$ 7,407
Earnings per share:		
Basic	$ 1.20	$ 1.12
Diluted	$ 1.16	$ 1.06

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

WSFS FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF CONDITION

	September 30, 2006
	(Unaudi
(In Thousands, Except	
Assets:	
Cash and due from banks	$ 67,616
Cash in non-owned ATMs	155,257
Federal funds sold and securities purchased under agreements to resell	15,000
Interest-bearing deposits in other banks	628
Total cash and cash equivalents	238,501
Investment securities held-to-maturity	4,383
Investment securities available-for-sale including reverse mortgages	50,216

Mortgage-backed securities available-for-sale	525,633
Mortgage-backed securities trading	12,279
Loans held-for-sale	621
Loans, net of allowance for loan losses of $26,747 at September 30, 2006 and $25,381 at December 31, 2005	1,986,982
Bank owned life insurance	57,604
Stock in Federal Home Loan Bank of Pittsburgh, at cost	48,156
Assets acquired through foreclosure	17
Premises and equipment	28,075
Accrued interest receivable and other assets	47,235
Total assets	$ 2,999,702
Liabilities and Stockholders' Equity	
Liabilities:	
Deposits:	
Noninterest-bearing demand	$ 263,363
Interest-bearing demand	127,861
Money market	235,210
Savings	238,978
Time	308,686
Jumbo certificates of deposit - customer	118,339
Total customer deposits	1,292,437
Other jumbo certificates of deposit	84,352
Brokered certificates of deposit	239,361
Total deposits	1,616,150
Federal funds purchased and securities sold under agreements to repurchase	63,400
Federal Home Loan Bank advances	956,755
Trust preferred borrowings	67,011
Other borrowed funds	58,549
Accrued interest payable and other liabilities	29,407
Total liabilities	2,791,272
Minority Interest	47
Stockholders' Equity:	
Serial preferred stock $.01 par value, 7,500,000 shares authorized; none issued and outstanding	-
Common stock $.01 par value, 20,000,000 shares authorized; issued 15,546,556 at September 30, 2006 and 15,435,630 at December 31, 2005	155
Capital in excess of par value	79,477
Accumulated other comprehensive loss	(7,749)
Retained earnings	340,386
Treasury stock at cost, 8,871,469 shares at September 30, 2006 and 8,839,569 shares at December 31, 2005	(203,886)
Total stockholders' equity	208,383
Total liabilities, minority interest and stockholders' equity	$ 2,999,702

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

WSFS FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS

	Nine months
	2006
	(
	(I
Operating activities:	
Net income	$ 22,8
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses	1,7
Depreciation, accretion and amortization	3,6
(Increase) decrease in accrued interest receivable and other assets	(11,7
Origination of loans held-for-sale	(17,1
Proceeds from sales of loans held-for-sale	15,2
Gain on mortgage banking activity	(2
Loss on sale of investments	1,9
Stock-based compensation expense (net of tax benefit recognized)	8
Excess tax benefits from share-based payment arrangements	(1,5
Minority interest net income	
Increase in accrued interest payable and other liabilities	7,6
Loss (gain) on sale of assets acquired through foreclosure	
Increase in value of bank-owned life insurance	(3,4
Increase in capitalized interest, net	(5
Net cash provided by operating activities	19,2
Investing activities:	
Maturities of investment securities	4
Sale of investment securities available-for-sale	23,9
Purchase of investments available-for-sale	(20,7
Repayments of mortgage-backed securities held-to-maturity	
Repayments of mortgage-backed securities available-for-sale	81,5
Sales of mortgage-backed securities available-for-sale	49,4
Purchases of mortgage-backed securities available-for-sale	(47,7
Repayments of reverse mortgages	5
Disbursements for reverse mortgages	(3
Purchase of Cypress Capital Management LLC	(4
Sale of loans	10,2
Purchase of loans	(9,1
Net increase in loans	(213,0
Net increase in stock of Federal Home Loan Bank of Pittsburgh	(1,8
Sales of assets acquired through foreclosure, net	
Purchase of land	
Sale of real estate held-for-investment	
Investment in partnership	
Investment in premises and equipment, net	(7,6
Net cash used for investing activities	(134,6
Financing activities:	
Net increase in demand and savings deposits	5,9
Net increase in time deposits	185,5
Net decrease in securities sold under agreement to repurchase	(9,7
Net decrease in federal funds purchased	(10,0

Receipts from FHLB advances	6,173,9
Repayments of FHLB advances	(6,225,8
Redemption of WSFS Capital Trust I Preferred Securities	
Issuance of Pooled Floating Rate Capital Securities	
Dividends paid on common stock	(1,5
Issuance of common stock and exercise of employee stock options	2,2
Excess tax benefit from share-based payment arrangements	1,5
Purchase of treasury stock, net of reissuance	(1,9
Decrease in minority interest	(1
Net cash provided by financing activities	119,9
Increase in cash and cash equivalents	4,5
Cash and cash equivalents at beginning of period	233,9
Cash and cash equivalents at end of period	$ 238,5

(Conti

WSFS FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

	Nine mont
	2006
	(I
Supplemental Disclosure of Cash Flow Information:	
Cash paid for interest during the year	$ 66,2
Cash paid for income taxes, net	10,3
Loans transferred to assets acquired through foreclosure	
Net change in other comprehensive income	(2,2
Transfer of loans held-for-sale to loans	1,8

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

WSFS FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(UNAUDITED)

1. BASIS OF PRESENTATION

The consolidated Financial Statements include the accounts of the parent company (WSFS Financial Corporation), Wilmington Savings Fund Society, FSB (Bank or WSFS) and Montchanin Capital Management, Inc. (Montchanin) and its

non-wholly owned subsidiary, Cypress Capital Management, LLC (Cypress). WSFS Financial Corporation (Company or Corporation) also has one unconsolidated affiliate, WSFS Capital Trust III (the Trust). WSFS was founded in 1832 and is one of the oldest financial institutions in the country. WSFS provides residential and commercial real estate, commercial and consumer lending services, as well as deposit and cash management services. Lending activities are funded primarily with deposits and borrowings. Deposits are insured to their legal maximum by the Federal Deposit Insurance Corporation (FDIC). WSFS serves customers from its main office, 26 retail banking offices, loan production offices and operations centers located in Delaware and southeastern Pennsylvania. Montchanin was formed in 2003 to provide asset management products and services in the Bank's primary market area. In January 2005, Montchanin acquired a 80% interest in Cypress and in January 2006, it increased its ownership to 90%. Cypress is a Wilmington based investment advisory firm servicing high net-worth individuals and institutions. The Trust was formed in 2005 to issue Pooled Floating Rate Capital Securities. The Trust invested all of the proceeds from the issuance of the Pooled Floating Rate Capital Securities in Junior Subordinated Debentures of the Corporation.

Fully-owned and consolidated subsidiaries of WSFS include WSFS Credit Corporation (WCC), WSFS Investment Group, Inc. and WSFS Reit, Inc. WSFS Investment Group, Inc. markets various third-party investment and insurance products, such as single-premium annuities, whole life policies and securities in conjunction with WSFS. The investment activity is processed through the Bank while the insurance products are processed through WSFS Investment Group, Inc. WSFS Reit, Inc. is a real estate investment trust formed to hold qualifying real estate assets and may be used to raise capital in the future.

The accounting and reporting policies of the Corporation conform with U.S. generally accepted accounting principles and prevailing practices within the banking industry for interim financial information and Rule 10-01 of Regulation S-X. Per Rule 10-01 of Regulation S-X, the Corporation is not required to include all information and notes for complete financial statements and prevailing practices within the banking industry. Operating results for the three and nine month periods ended September 30, 2006 are not necessarily indicative of the results that may be expected for any future quarters or for the year ending December 31, 2006. For further information, refer to the consolidated financial statements and notes thereto included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005 as filed with the Securities and Exchange Commission.

Accounting for Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Base Payment (SFAS 123R). SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense in the consolidated financial statements based on their fair values. That expense will be recognized over the period during which an Associate is required to provide services in exchange for the award, known as the requisite service period (usually the vesting period). The Corporation adopted SFAS 123R beginning January 1, 2006 using the Modified Prospective Application Method. This method relates to current and future periods and does not require the restatement of prior periods. The impact of adopting SFAS 123R for the three months ended September 30, 2006, was $301,000 or $0.04 per share, to salaries, benefits and other compensation. The impact of adopting SFAS 123R for the nine months ended September 30, 2006, was $992,000 or $0.12 per share, to salaries, benefits and other compensation.

The Corporation has stock options outstanding under two plans (collectively, "Stock Incentive Plans") for officers, directors and Associates of the Corporation and its subsidiaries. After shareholder approval in 2005, the

1997 Stock Option Plan ("1997 Plan"), was replaced by the 2005 Incentive Plan ("2005 Plan"). No future awards may be granted under the 1997 Plan. The 2005 Plan will terminate on the tenth anniversary of its effective date, after which no awards may be granted. The number of shares reserved for issuance under the 2005 Plan is 400,000. At September 30, 2006, there were 168,997 shares available for future grants under the 2005 Plan.

The Stock Incentive Plans provide for the granting of incentive stock options as defined in Section 422 of the Internal Revenue Code as well as nonincentive stock options (collectively, "Stock Options"). Additionally, the 2005 Plan provides for the granting of stock appreciation rights, performance awards, restricted stock and restricted stock unit awards, deferred stock units, dividend equivalents, other stock-based awards and cash awards. All Stock Options are to be granted at not less than the market price of the Corporation's common stock on the date of the grant. All Stock Options granted during 2006 vest in 20% or 25% per annum increments, start to become exercisable one year from the grant date and expire between five and ten years from the grant date. Generally, all awards become immediately exercisable in the event of a change in control, as defined within the Stock Incentive Plans.

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

	At or for the three months ended September 30, 2006	
	Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	692,523	$ 33.02
Granted - stock options	1,200	61.32
Granted - restricted shares	15,228	-
Exercised - stock options	(44,080)	16.31
Forfeited - stock options	(410)	61.59
Outstanding at end of period	664,461	33.41
Exercisable at end of period	354,635	22.02
Weighted-average fair value of stock options granted	$ 20.81	
Weighted-average fair value of restricted shares granted	$ 63.60	

As of June 30, 2006, 394,930 stock options were exercisable with an intrinsic value of $16.3 million. During the third quarter of 2006, 4,195 options vested with an intrinsic value of $110,000, and a grant date fair value of $9.52 per option. Also during the quarter, 44,080 options were exercised with an intrinsic value of $2.0 million. In addition, 410 vested options were

forfeited with an intrinsic value of $433. There were 354,635 exercisable options remaining at September 30, 2006, with an intrinsic value of $14.4 million and a remaining contractual term of 4.9 years. At September 30, 2006 there were 664,461 stock options outstanding with an intrinsic value of $19.5 million and a remaining contractual term of 5.4 years. During the third quarter of 2005, 9,590 options were exercised with an intrinsic value of $408,000 and 2,880 options vested with a grant date fair value of $7.77 per option.

A summary of the status of the Corporation's Stock Incentive Plans and changes during the nine months then ended is presented below:

	At or for the nine months ended September 2006	
	Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	745,949	$ 31.60
Granted - stock options	8,220	62.29
Granted - restricted shares	15,244	-
Exercised - stock options	(103,426)	17.58
Forfeited - stock options	(1,526)	43.99
Outstanding at end of period	664,461	33.41
Exercisable at end of period	354,635	22.02
Weighted-average fair value of stock options granted	$ 16.84	
Weighted-average fair value of restricted shares granted	$ 63.59	

Beginning January 1, 2006, 434,144 stock options were exercisable. During the nine months ended September 30, 2006, 24,327 options vested with an intrinsic value of $778,000, and a grant date fair value of $7.99 per option. Also during the first nine months of 2006, 103,426 options were exercised with an intrinsic value of $4.6 million. In addition, 410 vested options were forfeited with an intrinsic value of $433. During the first nine months of 2005, 98,927 options were exercised with an intrinsic value of $4.0 million and 51,770 options vested with a grant date fair value of $5.36 per option.

The total amount of compensation cost related to nonvested stock options as of September 30, 2006 was $1.5 million. The weighted-average period over which it is expected to be recognized is 1.2 years. The Corporation issues new shares upon the exercise of options.

The Black-Scholes option-pricing model was used to determine the grant-date fair-value of options. Significant assumptions used in the model included a weighted-average risk-free rate of return of between 4.6% and 5.2% in 2006; an expected option life of between three and three-quarter and six and one-half years for all awards; and an expected stock price volatility of between

21.7% and 22.3% in 2006. For the purposes of this option-pricing model, a dividend yield of between 0.4% and 0.5% was used as the expected dividend yield. Prior to adoption of SFAS 123R the Corporation used a graded-vesting schedule to calculate the expense related to stock options. Since the adoption of SFAS 123R the Corporation now uses a straight-line schedule to calculate the expense related to new stock options issued.

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

Prior to adoption of SFAS 123R, SFAS No. 123 Accounting for Stock-Based Compensation, encouraged, but did not require, the adoption of fair-value accounting for stock-based compensation. The Company, as permitted in 2005, had elected not to adopt the fair value accounting provisions of SFAS 123, and had instead continued to apply Accounting Principles Board (APB) Opinion 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for the Stock Incentive Plans and to provide the required pro forma disclosures of SFAS 123. Had the grant-date fair-value provisions of SFAS 123 been adopted, the Corporation would have recognized pretax compensation expense of $238,000 and $732,000 for the three and nine months ended September 30, 2005, respectively, related to its Stock Incentive Plans.

During the third quarter of 2005 and 2006 the Company issued 7 and 15,228 shares, respectively, of restricted stock. During the first nine months of 2005 and 2006 the Company issued 22 and 15,244 shares, respectively, of restricted stock. Restricted stock vests over five years: 0% in the first two years, 25% in the third and fourth years and 50% in the fifth year.

For comparative purposes, the following table illustrates the effect on net income and earnings per share, for the three and nine months ended September 30, 2005, had the Company applied the fair value recognition provision of the SFAS No. 123 to stock-based employee compensation.

	For the three months ended September 30,
	2005
	(In Thousands, Excep
Net income, as reported	$ 7,407
Less: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	201
Pro forma net income	$ 7,206
Earnings per share:	
Basic:	
Net income	$ 1.12
Less: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	0.03
Pro forma net income	$ 1.09

Diluted:	
Net income, as reported	$ 1.06
Less: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	0.03
Pro forma net income	$ 1.03

2. EARNINGS PER SHARE

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

	For the three month ended September 30	
	2006	2005
	(In Thousands,	
Numerator:		
Net income	$8,003	$7,407
Denominator:		
Denominator for basic earnings per share - weighted average shares	6,657	6,630
Effect of dilutive employee stock options	258	376
Denominator for diluted earnings per share - adjusted weighted average shares and assumed exercise	6,915	7,006
Basic earnings per share	$ 1.20	$ 1.12
Diluted earnings per share	$ 1.16	$ 1.06
Outstanding common stock equivalents having no dilutive effect	101	77

3. ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING

The Corporation has an interest-rate cap with a notional amount of $50.0 million which limits three-month London InterBank Offered Rate (LIBOR) to 6.00% for ten years ending December 1, 2008. The fair value of the cap is estimated using a standard option model. The fair value of the interest rate cap at September 30, 2006 was $35,000. The cap is considered a free standing derivative and all changes in the fair value of the cap are recorded in the Statement of Operations. During the first nine months of 2006, the Company recognized $555,000 of interest expense, of which $411,000 was the result of the reclassification of the residual amounts related to the hedge that were not reclassified at the time the Corporation refinanced its Trust Preferred Securities in 2005.

The following depicts the change in fair market value of the Company's derivative for the three and nine months ended:

	For the three months ended September			
	2006			
	At July 1,	Change	At September 30,	At July 1,
			(In Thousands)	
Interest Rate Cap	$ 188	$ (153)	$ 35	$ 97

	For the nine months ended September 3			
	2006			
	At January 1,	Change	At September 30,	At January 1,
			(In Thousands)	
Interest Rate Cap	$ 125	$ (90)	$ 35	$ 322

4. COMPREHENSIVE INCOME

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

	For the three months ended September 30,		For t ended
		(In Thousands)	
	2006	2005	200
Net income	$ 8,003	$ 7,407	$ 22,84
Other Comprehensive Income:			
Unrealized holding gains (losses) on securities available-for-sale arising during the period	16,057	(6,145)	5,07
Tax (expense) benefit	(6,101)	2,335	(1,92
Net of tax amount	9,956	(3,810)	3,14
Unrealized holding gains arising during the period on derivative used for cash flow hedge, including			

amounts reclassified into earnings	411	113	46
Tax expense	(144)	(39)	(16
Net of tax amount	267	74	30
Reclassification adjustment for losses included in net income	(1,940)	(609)	(1,98
Tax benefit	737	231	75
Net of tax amount	(1,203)	(378)	(1,22
Total comprehensive income	$ 17,023	$ 3,293	$ 25,06

5. TAXES ON INCOME

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

In November 2005, the FASB issued FASB Staff Position (FSP) No. FAS 123R-3, Transition Election for the Tax Effects of Share-Based Payment Awards. This FSP provides a simplified method to calculate the Company's hypothetical additional paid-in capital (APIC) pool for the beginning balance of excess benefits and the method of determining the subsequent pool of option awards that are outstanding and fully or partially vested upon adoption of SFAS 123R. This FSP allows companies up to one year from the later of the adoption date of SFAS 123R or November 10, 2006 to evaluate the available transition alternatives and make a one-time election. The Corporation has elected to use the simplified method of accounting for the tax effect of share-based payment awards.

6. SEGMENT INFORMATION

Under the definition of SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information, the Corporation has two operating segments at September 30, 2006: WSFS and CashConnect, the ATM division of WSFS.

The WSFS segment provides financial products through its banking offices to commercial and retail customers. The CashConnect segment provides turnkey ATM services through strategic partnerships with several of the largest networks, manufacturers, and service providers in the ATM industry. The balance sheet category "Cash in non-owned ATMs" includes cash in which fee income is earned through bailment arrangements with customers of CashConnect. Bailment arrangements are typically renewed annually.

Reportable segments are business units that are managed separately and offer different services to distinct customer bases. The Corporation evaluates performance based on pre-tax ordinary income relative to resources used, and allocates resources based on these results. Segment information for the three and nine months ended September 30, 2006 and 2005 follows:

	For the three months ended September			
	2006			
			(In Thousands)	
	WSFS	CashConnect	Total	WSFS
External customer revenues:				
Interest income	$ 46,131	$ -	$ 46,131	$ 35,136
Non-interest income	6,145	4,164	10,309	5,290
Total external customer revenues	52,276	4,164	56,440	40,426
Intersegment revenues:				
Interest income	2,174	-	2,174	1,208
Non-interest income	172	179	351	218
Total intersegment revenues	2,346	179	2,525	1,426
Total revenue	54,622	4,343	58,965	41,852
External customer expenses:				
Interest expense	27,011	-	27,011	15,921
Non-interest expenses	16,465	1,122	17,587	15,066
Provision for loan loss	319	-	319	225
Total external customer expenses	43,795	1,122	44,917	31,212
Intersegment expenses:				
Interest expense	-	2,174	2,174	-
Non-interest expenses	179	172	351	164
Total intersegment expenses	179	2,346	2,525	164
Total expenses	43,974	3,468	47,442	31,376
Income before taxes and extraordinary items	$ 10,648	$ 875	11,523	$ 10,476
Less minority interest			9	
Income tax provision			3,511	
Consolidated net income			$ 8,003	
Cash and cash equivalents	$ 83,244	$ 155,257	$ 238,501	$ 61,283
Other segment assets	2,748,279	12,922	2,761,201	2,500,099
Total segment assets	$2,831,523	$ 168,179	$2,999,702	$2,561,382
Capital expenditures	$ 2,389	$ 174	$ 2,563	$ 1,827

	For the nine months ended September			
	2006			
			(In Thousands)	
	WSFS	CashConnect	Total	WSFS
External customer revenues:				
Interest income	$ 130,476	$ -	$ 130,476	$ 98,187
Non-interest income	17,598	11,629	29,227	16,203
Total external customer revenues	148,074	11,629	159,703	114,390
Intersegment revenues:				
Interest income	5,976	-	5,976	3,001
Non-interest income	508	519	1,027	592
Total intersegment revenues	6,484	519	7,003	3,593
Total revenue	154,558	12,148	166,706	117,983
External customer expenses:				
Interest expense	72,667	-	72,667	43,081
Non-interest expenses	47,750	3,011	50,761	43,943
Provision for loan loss	1,702	-	1,702	1,576
Total external customer expenses	122,119	3,011	125,130	88,600
Intersegment expenses:				
Interest expense	-	5,976	5,976	-
Non-interest expenses	519	508	1,027	498
Total intersegment expenses	519	6,484	7,003	498
Total expenses	122,638	9,495	132,133	89,098
Income before taxes and extraordinary items	$ 31,920	$ 2,653	34,573	$ 28,885
Less minority interest			40	
Income tax provision			11,691	
Consolidated net income			$ 22,842	
Cash and cash equivalents	$ 83,244	$ 155,257	$ 238,501	$ 61,283
Other segment assets	2,748,279	12,922	2,761,201	2,500,099
Total segment assets	$2,831,523	$ 168,179	$2,999,702	$2,561,382
Capital expenditures	$ 7,312	$ 369	$ 7,681	$ 2,926

7. INDEMNIFICATIONS AND GUARANTEES

Secondary Market Loan Sales. The Company generally does not sell loans with recourse except to the extent arising from standard loan sale contract provisions covering violations of representations and warranties and, under certain circumstances, first payment default by the borrower. These are customary repurchase provisions in the secondary market for conforming mortgage loan sales. The Company sells certain first mortgage loans to the Federal Home Loan Mortgage Corporation as part of its ongoing asset/liability management program. Loans held-for-sale are carried at the lower of cost or market. Gains and losses on sales of loans are recognized at the time of the sale.

As is customary in such sales, WSFS provides indemnifications to the buyers under certain circumstances. These indemnifications may include the repurchase of loans by WSFS. Repurchases and losses are rare, and no provision is made for losses at the time of sale. During the third quarter of 2006, the Company made no repurchases of any loans sold in the secondary market.

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

At September 30, 2006, there were nineteen variable-rate to fixed-rate swap transactions between the third party financial institution and customers of WSFS, compared to eighteen at December 31, 2005. The initial notional amount aggregated approximately $65.2 million at September 30, 2006 compared with $57.9 million at December 31, 2005, with maturities ranging from approximately one to ten years. The aggregate market value of these swaps to the customers was an asset of $225,000 at September 30, 2006 and $98,600 at December 31, 2005. The amount of liability recorded by the Company for these guarantees that were in a liability position at September 30, 2006 and December 31, 2005 was $6,000 and $8,000, respectively. This amount represented the fair market value of the guarantee to perform under the terms of the swap agreements.

8. ASSOCIATE (EMPLOYEE) BENEFIT PLANS

Postretirement Benefits

The Corporation shares certain costs of providing health and life insurance benefits to retired Associates (and their eligible dependents). Substantially all Associates may become eligible for these benefits if they reach normal retirement age while working for the Corporation.

The Corporation accounts for its obligations under the provisions of SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions (SFAS 106). SFAS 106 requires that the costs of these benefits be recognized over an Associate's active working career. Disclosures are in accordance with SFAS No. 132 (Revised), Employer's Disclosure About Pensions and Other Postretirement Benefits (SFAS 132R) that standardized the applicable

disclosure requirements.

In December 2003, President Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"). The act expanded Medicare to include, for the first time, coverage for prescription drugs beginning in 2006. The Corporation determined that its prescription drug benefits under its postretirement benefit plan is actuarially equivalent to Medicare Part D and thereby qualifies for subsidy under the Act.

Based on an actuarial analysis performed during the first quarter of 2006, the Corporation anticipates that its future benefit payments will be lower due to the subsidy. The reduction to the total accumulated postretirement benefit obligation (APBO) at January 1, 2006 was $559,000. Recognition of this subsidy is also expected to reduce 2006 net periodic benefit costs by approximately $74,000, or approximately $18,500 each quarter.

The following disclosures of the net periodic benefit cost components of post-retirement benefits are in accordance with SFAS 132R and were measured at January 1, 2006:

	Three months ended September 30,		Nin
	2006	2005	
Service cost	$ 27	$ 26	$
Interest cost	23	31	
Amortization of transition obligation	15	15	
Net loss recognition	-	4	
Net periodic benefit cost	$ 65	$ 76	$

Supplemental Pension Plan

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

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

	Three months ended September 30,		Nin
	2006	2005	
Interest cost	$ 11	$ 11	

Net loss recognition.....	15	6
Net periodic benefit cost.....	$ 26	$ 17

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

GENERAL

WSFS Financial Corporation (Company or Corporation) is a thrift holding company headquartered in Wilmington, Delaware. Substantially all of the Corporation's assets are held by its subsidiary, Wilmington Savings Fund Society, FSB (Bank or WSFS). Founded in 1832, WSFS is one of the oldest financial institutions in the country. As a federal savings bank, which was formerly chartered as a state mutual savings bank, WSFS enjoys broader investment powers than most other financial institutions. WSFS has served the residents of the Delaware Valley for 174 years. WSFS is the largest thrift institution headquartered in Delaware and the fourth largest financial institution in the state on the basis of total deposits traditionally garnered in-market. The Corporation's primary market area is the mid-Atlantic region of the United States, which is characterized by a diversified manufacturing and service economy. The long-term strategy of the Corporation is to improve its status as a high-performing financial services company by focusing on its core community banking business.

WSFS provides residential and commercial real estate, commercial and consumer lending services, as well as retail deposit, cash management and wealth management services. Lending activities are funded primarily with deposits and borrowings. The Federal Deposit Insurance Corporation (FDIC) insures deposits to their legal maximum. WSFS serves customers from its main office and 26 retail banking offices, loan production offices and operations centers located in Delaware and southeastern Pennsylvania. Wealth management services include: WSFS Investment Group, Inc., Montchanin Capital Management, Inc. (Montchanin) and an investment management and trust services group.

The Corporation has two consolidated subsidiaries, WSFS and Montchanin. The Corporation also has one unconsolidated affiliate, WSFS Capital Trust III. Fully-owned consolidated subsidiaries of WSFS include WSFS Investment Group, Inc. which markets various third-party insurance products and securities in conjunction with WSFS, and WSFS Reit, Inc., which holds qualifying real estate assets and may be used in the future to raise capital.

Montchanin has one consolidated non-wholly owned subsidiary, Cypress Capital Management, LLC (Cypress). Cypress, a 90% owned subsidiary, is a Wilmington-based investment advisory firm serving high net-worth individuals and institutions. Cypress has more than $429 million in assets under management at September 30, 2006.

WSFS Credit Corporation (WCC), a consolidated subsidiary of the Bank, which was engaged primarily in indirect motor vehicle leasing, discontinued operations in 2000. WCC no longer accepts new applications but continues to service an immaterial amount of existing loans until their maturities.

FORWARD-LOOKING STATEMENTS

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

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of the financial condition and results of operations are based on the consolidated Financial Statements, which are prepared in conformity with U.S. generally accepted accounting principles. The preparation of these Financial Statements requires management to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenue and expenses. Management evaluates these estimates and assumptions on an ongoing basis, including those related to the allowance for

loan losses, contingencies (including indemnifications), and deferred taxes. Management bases its estimates on historical experience and various other factors and assumptions that are believed to be reasonable under the circumstances. These form the basis for making judgments on the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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

Allowance for Loan Losses

The Corporation maintains allowances for credit losses and charges losses to these allowances when realized. The determination of the allowance for loan losses requires significant judgment reflecting management's best estimate of probable loan losses related to specifically identified loans as well as those in the remaining loan portfolio. Management's evaluation is based upon a continuing review of these portfolios, with consideration given to evaluations resulting from examinations performed by regulatory authorities.

Contingencies (Including Indemnifications)

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

The Corporation maintains a loss contingency for standby letters of credit and charges losses to this reserve when such losses are realized. The determination of the loss contingency for standby letters of credit requires significant judgement reflecting management's best estimate of probable losses. The balance in this reserve at September 30, 2006 was $715,000.

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

Deferred Taxes

The Corporation accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes (SFAS 109), which requires the recording of deferred income taxes that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Management has assessed the Company's valuation allowances on deferred income taxes resulting from, among other things, limitations imposed by Internal Revenue Code and uncertainties, including the timing of settlement and realization of these differences.

FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY

Financial Condition

Total assets increased $153.0 million during the nine months ended September 30, 2006. During the first nine months of 2006, net loans grew $212.1 million, or 12%, to $2.0 billion, reflecting the continued strong growth in commercial and commercial real estate loans, which amounted to $169.3 million. Residential and consumer loans grew by $24.4 million and $19.7 million respectively. Cash and cash equivalents increased by $5.0 million. Mortgage-backed securities (MBS) decreased by $82.4 million. This decrease was due to a $51.4 million sale of mortgage-backed securities and repayments.

During the third quarter of 2006 the Company transferred $3.0 million of mortgage loans to a third party through a securitization transaction in order to transform these mortgage loans into investment securities, receiving MBS with an equivalent notional amount in exchange. Those MBS are collateralized by the same mortgage loans that the Company transferred to the third party. The Federal Home Loan Mortgage Corporation backs the MBS.

Total liabilities increased $126.7 million between December 31, 2005 and September 30, 2006, to $2.8 billion, mainly due to a $169.9 million, or 12%, increase in deposits. This included increases of $98.5 million in customer deposits, $43.8 million in other jumbo certificates of deposit (primarily municipal deposits), and $27.6 million in brokered certificates of deposits. The incremental increases in other jumbo certificates of deposit and brokered certificates of deposit were used to fund the strong loan growth during the first nine months of 2006. Federal Home Loan Bank (FHLB) advances decreased

$52.0 million. This decrease in FHLB advances was mainly due to using excess funds from the sale of mortgage-backed securities to repay advances.

Capital Resources

Stockholders' equity increased $26.4 million between December 31, 2005 and September 30, 2006. This increase was mainly due to net income of $22.8 million and an increase of $4.8 million from the issuance of common stock and exercise of employee stock options. Other comprehensive loss decreased by $2.2 million during the first nine months of 2006 due in part to an increase in the fair value of securities available-for-sale. In addition, the Corporation purchased 31,900 shares of its common stock for $1.9 million ($60.72 per share average). Finally, the Corporation declared cash dividends totaling $1.5 million during the nine months ended September 30, 2006.

Below is a table comparing the Bank's consolidated capital position to the minimum regulatory requirements as of September 30, 2006 (dollars in thousands):

	Consolidated Bank Capital		For Capital Adequacy Purposes	
	Amount	% of Assets	Amount	% of Assets
Total Capital (to Risk-Weighted Assets)	$293,604	13.32%	$176,360	8.00%
Core Capital (to Adjusted Total Assets)	269,194	8.96	120,145	4.00
Tangible Capital (to Tangible Assets)	269,194	8.96	45,054	1.50
Tier 1 Capital (to Risk-Weighted (Assets)	269,194	12.21	88,180	4.00

Under Office of Thrift Supervision (OTS) capital regulations, savings institutions such as the Bank must maintain "tangible" capital equal to 1.5% of adjusted total assets, "core" capital equal to 4.0% of adjusted total assets, "Tier 1" capital equal to 4.0% of risk weighted assets and "total" or "risk-based" capital (a combination of core and "supplementary" capital) equal to 8.0% of risk-weighted assets. Failure to meet minimum capital requirements can initiate certain mandatory actions and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. At September 30, 2006 the Bank was in compliance with regulatory capital requirements and is considered a "well-capitalized" institution.

Liquidity

The Company manages its liquidity risk and funding needs through its treasury function and its Asset/Liability Committee. The Company has a policy that separately addresses liquidity and management monitors the Company's adherence to policy limits. One measure of the Company's liquidity is the ratio

of cash and qualified assets to net withdrawable deposits and borrowings due within one year, which was 8.5% at September 30, 2006, compared with 6.4% at June 30, 2006. Both of these ratios were in excess of the policy minimum. Also, liquidity risk management is a primary area of examination by the OTS. The Company complies with guidance promulgated under Thrift Bulletin 77 that requires thrift institutions to maintain adequate liquidity to assure safe and sound operations.

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

During the nine months ended September 30, 2006, net loan growth resulted in the use of $211.9 million in cash. The loan growth was primarily the result of the successful implementation of specific strategies designed to increase corporate and small business lending. While the Company's loan to deposit ratio has been well above 100% for many years, management has significant experience managing its funding needs through borrowings, primarily through the Federal Home Loan Bank of Pittsburgh.

During the nine months ended September 30, 2006, $19.3 million in cash was provided by operating activities, while $6.0 million in cash was provided through the net increase in demand and savings deposits and $185.6 million in cash through the net increase in time deposits. During this period, cash and cash equivalents increased $4.6 million to $238.5 million.

NONPERFORMING ASSETS

The following table sets forth the Corporation's nonperforming assets and past due loans at the dates indicated. Nonperforming assets include nonaccruing loans, nonperforming real estate investments and assets acquired through foreclosure. Nonaccruing loans are those on which the accrual of interest has ceased. Loans are placed on nonaccrual status immediately if, in the opinion of management, collection is doubtful, or when principal or interest is past due 90 days or more and the value of the collateral is insufficient to cover principal and interest. Interest accrued but not collected at the date a loan is placed on nonaccrual status is reversed and charged against interest income. In addition, the amortization of net deferred loan fees is suspended when a loan is placed on nonaccrual status. Subsequent cash receipts are applied either to the outstanding principal balance or recorded as interest income, depending on management's assessment of the ultimate collectibility of principal and interest. Past due loans are loans contractually past due 90 days or more as to principal or interest payments but which remain on accrual status because they are considered well secured and in the process of collection.

September 30,

	2006
	(In Th
Nonaccruing loans:	
Commercial	$ 2,203
Consumer	279
Commercial mortgage	770
Residential mortgage	2,244
Construction	-
Total nonaccruing loans	5,496
Assets acquired through foreclosure	17
Total nonperforming assets	$ 5,513
Past due loans:	
Residential mortgages	$ 276
Commercial and commercial mortgages	-
Consumer	13
Total past due loans	$ 289
Ratios:	
Nonaccruing loans to total loans (1)	0.27%
Allowance for loan losses to gross loans (1)	1.33%
Nonperforming assets to total assets	0.18%
Loan loss allowance to nonaccruing loans (2)	477%
Loan and foreclosed asset allowance to total nonperforming assets (2)	476%

(1) Total loans exclude loans held for sale.
(2) The applicable allowance represents general valuation allowances only.

Nonperforming assets increased $2.0 million between December 31, 2005 and September 30, 2006. Nonaccruing commercial loans increased primarily from the third quarter transfer of a $1.3 million loan into this category. Nonaccruing residential mortgage loans increased $677,000 primarily from the third quarter addition of two large residential mortgages, partially offset by charge-offs and accrual transfers. Assets acquired through foreclosure decreased $42,000 as a result of a residential property sale. An analysis of the change in the balance of nonperforming assets is presented on the following page.

	For the nine months ended September 30, 2006	For the year December 31,
	(In Thousands)	
Beginning balance	$ 3,469	$ 4,613
Additions	4,388	5,062

Collections	(1,935)	(4,467)
Transfers to accrual/restructured status	(247)	(398)
Charge-offs / write-downs, net	(162)	(1,341)
Ending balance	$ 5,513	$ 3,469

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

INTEREST SENSITIVITY

The matching of maturities or repricing periods of interest rate-sensitive assets and liabilities to promote a favorable interest rate spread and mitigate exposure to fluctuations in interest rates is the Corporation's primary tool for achieving its asset/liability management strategies. Management regularly reviews the interest-rate sensitivity of the Corporation and adjusts the sensitivity within acceptable tolerance ranges established by management. At September 30, 2006, interest-bearing liabilities exceeded interest-earning assets that mature or reprice within one year (interest-sensitive gap) by $35.3 million. The Corporation's interest-sensitive assets as a percentage of interest-sensitive liabilities within the one-year window increased to 98% at September 30, 2006 compared to 97% at June 30, 2006. Likewise, the one-year interest-sensitive gap as a percentage of total assets changed to -1.18% at September 30, 2006 from -1.92% at June 30, 2006. The change in sensitivity since June 30, 2006 is the result of the current interest rate environment and the Corporation's continuing effort to effectively manage interest rate risk. Interest rate-sensitive assets of the Corporation excluded cash flows of discontinued operations as well as the interest rate-sensitive funding for these assets.

Market risk is the risk of loss from adverse changes in market prices and rates. The Company's market risk arises primarily from interest rate risk inherent in its lending, investing, and funding activities. To that end, management actively monitors and manages its interest rate risk exposure. One measure, required to be performed by OTS-regulated institutions, is the test specified by OTS Thrift Bulletin No. 13a "Management of Interest Rate Risk, Investment Securities and Derivative Activities." This test measures the impact of an immediate change in interest rates in 100 basis point increments on the net portfolio value ratio. The net portfolio value ratio is defined as the net present value of the estimated cash flows from assets and liabilities as a percentage of net present value of cash flows from total assets (or the net present value of equity). The table below is the estimated impact of immediate changes in interest rates on the Company's net interest margin and net portfolio value ratio at the specified levels at September 30, 2006 and 2005, calculated in compliance with Thrift Bulletin No. 13a:

	At September 30,	
	2006	2005

Change in Interest Rate (Basis Points)	% Change in Net Interest Margin (1)	Net Portfolio Value Ratio (2)	% Change in Net Interest Margin (1)	Net Portfolio Value Ratio (2)
+300	3%	8.55%	2%	7.77%
+200	2%	9.15%	1%	8.21%
+100	1%	9.82%	1%	8.56%
0	0%	9.97%	0%	8.82%
-100	-2%	10.24%	-2%	8.91%
-200	-6%	10.66%	-6%	8.65%
-300	-10%	10.72%	-11%	8.29%

(1) The percentage difference between net interest margin in a stable interest rate environment and net interest margin as projected under the various rate change environments.

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

COMPARISON OF THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

Results of Operations

The Corporation recorded net income of $8.0 million or $1.16 per diluted share for the third quarter of 2006. This compares to $7.4 million or $1.06 per diluted share for the same quarter last year. Significant items impacting the third quarter of 2006 were $1.8 million in unanticipated non-taxable income related to the Bank's investment in bank-owned life insurance (BOLI), or $0.26 per share and a $1.9 million loss on the sale of MBS, or $0.18 per share.

Net income for the nine months ended September 30, 2006 was $22.8 million or $3.31 per diluted share. This compares to $20.8 million or $2.85 per diluted share for the comparable period last year. Earnings for the nine months ended June 30, 2006 were also impacted by the income related to the Bank's investment in BOLI and the loss on the sale of MBS, discussed above. Significant items impacting the nine months ended September 30, 2005 include the refinancing of $51.5 million of Trust Preferred Securities, resulting in a non-cash charge, of $1.1 million, or $0.10 per share.

Net Interest Income

The following tables provide information concerning the balances, yields and rates on interest-earning assets and interest-bearing liabilities during the periods indicated.

Three months ended Se

	2006		
	Average Balance	Interest & Dividends	Yield/ Rate (1)
			(Dollars in
Assets:			
Interest-earning assets:			
Loans (2) (3):			
Commercial real estate loans	$ 639,307	$13,537	8.47%
Residential real estate loans	491,223	6,798	5.54
Commercial loans	601,763	12,294	8.18
Consumer loans	262,600	4,938	7.46
Total loans	1,994,893	37,567	7.59
Mortgage-backed securities (4)	593,589	7,186	4.84
Loans held-for-sale (3)	1,185	10	3.38
Investment securities (4) (5)	52,935	616	4.65
Other interest-earning assets	55,668	752	5.36
Total interest-earning assets	2,698,270	46,131	6.88
Allowance for loan losses	(26,938)		
Cash and due from banks	57,372		
Cash in non-owned ATMs	158,396		
Bank owned life insurance	55,414		
Other noninterest-earning assets	63,607		
Total assets	$3,006,121		
Liabilities and Stockholders' Equity:			
Interest-bearing liabilities:			
Interest-bearing deposits:			
Interest-bearing demand	$ 121,160	229	0.75%
Money market	227,285	2,080	3.63
Savings	241,823	667	1.09
Customer time deposits	415,792	4,183	3.99
Total interest-bearing customer deposits	1,006,060	7,159	2.82
Other jumbo certificates of deposits	77,255	1,039	5.34
Brokered certificates of deposit	238,983	3,194	5.30
Total interest-bearing deposits	1,322,298	11,392	3.42
FHLB of Pittsburgh advances	1,002,001	12,384	4.84
Trust preferred borrowings	67,011	1,736	10.14
Other borrowed funds	123,377	1,499	4.86
Total interest-bearing liabilities	2,514,687	27,011	4.30
Noninterest-bearing demand deposits	265,594		
Other noninterest-bearing liabilities	25,970		
Minority interest	68		
Stockholders' equity	199,802		
Total liabilities and stockholders' equity	$3,006,121		
Excess of interest-earning over interest bearing liabilities	$ 183,583		
Net interest and dividend income		$19,120	
Interest rate spread			2.58%

Net interest margin	2.88%

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

	Nine months ended Se		
	2006		
	Average Balance	Interest & Dividends	Yield/ Rate (1)
			(Dollars in
Assets:			
Interest-earning assets:			
Loans (2) (3):			
Commercial real estate loans	$ 627,838	$ 38,157	8.10%
Residential real estate loans	480,609	19,698	5.46
Commercial loans	567,265	33,085	7.89
Consumer loans	257,172	14,031	7.29
Total loans	1,932,884	104,971	7.30
Mortgage-backed securities (4)	611,454	21,989	4.79
Loans held-for-sale (3)	1,023	34	4.43
Investment securities (4) (5)	55,102	1,639	3.97
Other interest-earning assets	52,279	1,843	4.71
Total interest-earning assets	2,652,742	130,476	6.60
Allowance for loan losses	(26,288)		
Cash and due from banks	54,767		
Cash in non-owned ATMs	153,522		
Bank owned life insurance	54,884		
Other noninterest-earning assets	61,928		
Total assets	$2,951,555		
Liabilities and Stockholders' Equity:			
Interest-bearing liabilities:			
Interest-bearing deposits:			
Interest-bearing demand	$ 122,618	531	0.58%
Money market	227,340	5,772	3.39
Savings	242,797	1,622	0.89
Customer time deposits	367,891	10,367	3.77
Total interest-bearing customer deposits	960,646	18,292	2.55
Other jumbo certificates of deposits	73,959	2,736	4.95
Brokered certificates of deposit	236,787	8,654	4.89

Total interest-bearing deposits	1,271,392	29,682	3.12
FHLB of Pittsburgh advances	1,014,156	35,131	4.57
Trust preferred borrowings	67,011	3,859	7.59
Other borrowed funds	119,468	3,995	4.46
Total interest-bearing liabilities	2,472,027	72,667	3.92
Noninterest-bearing demand deposits	264,233		
Other noninterest-bearing liabilities	23,205		
Minority interest	95		
Stockholders' equity	191,995		
Total liabilities and stockholders' equity.	$2,951,555		
Excess of interest-earning over Interest bearing liabilities	$ 180,715		
Net interest and dividend income		$57,809	
Interest rate spread			2.68%
Net interest margin			2.95%

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

Net interest income for the third quarter of 2006 was $19.1 million compared to $19.2 million for the same quarter in 2005. Higher loan and higher MBS volumes were offset by higher volumes and yields on liabilities. The yield on earning assets was higher in the third quarter of 2006 compared to the third quarter of 2005. The yield on loans increased 1.06% from 6.53% in the third quarter of 2005 to 7.59% in the third quarter of 2006, while the yield on MBS increased 0.37% for the same period. The increases in the yields were due to the higher overall level of market interest rates as the Federal Reserve continued raising short-term interest rates through 2005 and into 2006. The net interest margin for the third quarter of 2006 was 2.88%, a decrease from the third quarter 2005 which was 3.22%. Rates on interest-bearing liabilities rose 1.45% during the third quarter versus 2005.

The net interest margin for the third quarter of 2006 was negatively affected by 6 basis points due to a non-cash charge related to trust preferred borrowings ($411,000). This amount is related to hedge accounting at the time the Company refinanced its trust preferred securities in 2005 and is in addition to the non-cash charge related to the unamortized issuance costs recorded at that time. Without this charge the margin would have been 2.94%.

Net interest income for the nine-month period ending September 30, 2006 was $57.8 million compared with $55.1 million for the same period in 2005. The increase in net interest income was driven by higher loan and MBS volumes. The yield on loans increased 1.08% and the yield on MBS increased 0.39%. The net interest margin for the first nine months of 2006 was 2.95%, compared with 3.16% for the same period in 2005.

The net interest margin for the nine months ended September 30, 2006 was negatively affected by 2 basis points due to the charge related to trust preferred hedge accounting referenced above. Without this charge the margin would have been 2.97% for the nine months ended September 30, 2006.

The net interest margin for the nine months ended September 30, 2005 was negatively affected by 6 basis points due to the redemption of $51.5 million of WSFS Capital Trust I Securities, which carried an interest rate of the London InterBank Offered Rate (LIBOR) plus 250 basis points. In conjunction with this redemption, the Company issued $67.0 million aggregate principal amount of Pooled Floating Rate Capital Securities, which carry an interest rate of LIBOR plus 177 basis points. In connection with the refinancing, the Company recognized a $1.1 million non-cash charge to interest expense from the write-down of the unamortized debt issuance costs of the called securities. Without this charge the margin would have been 3.22 % for the nine months ended September 30, 2005.

Allowance for Loan Losses

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

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

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

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

Pooled loans are loans that are usually smaller, not-individually-graded and homogenous in nature, such as consumer installment loans and residential mortgages. Pooled loan loss allowances are based on historical net charge-offs over the past ten years. The average loss allowance per homogenous pool is based on the product of average annual historical loss rate and the average estimated duration of the pool multiplied by the pool balances. These separate risk pools are then assigned a reserve for losses based upon this historical loss information and historical loss adjustment factors. Historical loss adjustment factors are based upon management's evaluation of various current conditions, including those listed below.

- General economic and business conditions affecting WSFS' key lending areas,
- Credit quality trends (including trends in nonperforming loans expected to

result from existing conditions),
- Recent loss experience in particular segments of the portfolio,
- Collateral values and loan-to-value ratios,
- Loan volumes and concentrations, including changes in mix,
- Seasoning of the loan portfolio,
- Specific industry conditions within portfolio segments,
- Bank regulatory examination results, and
- Other factors, including changes in quality of the loan origination, servicing and risk management processes.

WSFS' loan officers and risk managers meet at least quarterly to discuss and review these conditions and risks associated with individual problem loans. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for such losses. The provision for loan losses increased from $1.6 million for the first nine months of 2005 to $1.7 million for the first nine months of 2006, primarily the result of continued loan growth, despite continued positive trends in asset quality.

During the third quarter the provision for loan losses was also affected by a change in estimates used in the calculation. The change is the result of continued analysis of the Corporation's loss experience on commercial loans and the Corporation's consideration of proposed regulatory guidance and professional studies on the classification of commercial credits to change its estimates. This change combines an estimate of the probability of default for each of the Corporation's classified loan grades with an estimate of loss should an event of default occur. The estimate of loss further segments classified loan grades into sub-grades with unique factors. Management believes this analysis better estimates losses currently in its loan portfolio. These changes resulted in a reduction to the provision for loan losses of $1.8 million or $0.17 per share.

The Corporation maintains allowances for credit losses and charges losses to these allowances when such losses are realized. The allowances for losses are maintained at a level which management considers adequate to provide for losses based upon an evaluation of known and inherent risks in the portfolios. Management's evaluation is based upon a continuing review of the portfolios.

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

	Nine months ended September 30, 2006	Nine months ende September 30, 20
	(Dollars in Thousands)	
Beginning balance	$ 25,381	$ 24,222
Provision for loan losses	1,702	1,576
Charge-offs:		
Residential real estate	70	38
Commercial real estate (1)	-	-
Commercial	145	746
Overdrafts (2)	257	-
Consumer	365	434

Total charge-offs	837	1,218
Recoveries:		
Residential real estate	14	58
Commercial real estate (1)	166	42
Commercial	189	155
Consumer	132	98
Total recoveries	501	353
Net charge-offs	336	865
Ending balance	$ 26,747	$ 24,933
Net charge-offs to average gross loans outstanding, net of unearned income (3)	0.02%	0.07%

(1) Includes commercial mortgage and construction loans.
(2) Prior to April 2006 overdraft charge-offs were recognized in other operating expense.
(3) Ratio for nine months ended September 30, 2006 and September 30, 2005 are annualized.

Noninterest Income

Noninterest income for the quarter ended September 30, 2006 was $10.3 million compared to $8.6 million for the third quarter of 2006, an increase of $1.7 million or 20%. Noninterest income for the quarter was impacted by a gain of $1.9 million in unanticipated income related to the Bank's investment in BOLI. In addition, there was an increase of $1.1 million in card and ATM income due to increased volumes of cash in non-owned ATMs and higher rates earned on this cash during the quarter. Deposit service charges also increased $303,000 mainly due to an increase in deposit accounts resulting from the continued success of the Company's personal and business checking initiatives begun during the third quarter of 2004. Partially offsetting these increases was a loss of

$1.9 million on the sale of $51.4 million of below-market yielding MBS as part of the Company's efforts to improve its earning asset mix and return on assets.

For the nine months ended September 30, 2006, noninterest income was $29.2 million, an increase of $4.0 million over the same period in 2005. Consistent with the year over year trend, this increase was mainly due to increases in card and ATM income at CashConnect and deposit service charges. The nine-months ended September 30, 2006 also included the gain related to BOLI and the loss on the sale of MBS mentioned above.

Noninterest Expense

For the quarter ended September 30, 2006, noninterest expense was $17.6 million compared to $16.2 million for the same period in 2005, an increase of $1.4 million or 9%. Increases in salaries, benefits and other compensation as well as data processing expense contributed to the additional expense. Both were the result of the Bank's continued growth efforts as the number of full-time

Associates increased from 512 at September 30, 2005 to 592 at September 30, 2006. The increase in salaries, benefits and other compensation also includes $301,000 of expense related to stock options. As of January 1, 2006 the Corporation implemented SFAS No. 123 (revised 2004), Share-Base Payment (SFAS 123R), which requires that share-based payments to participants, including grants of stock options, be recognized as compensation expense in the income statement based on their fair values.

Noninterest expense for the nine months ended September 30, 2006 was $50.8 million, an increase of $4.0 million over the $46.7 million reported for the same period in 2005. This increase was mainly due to salaries, benefits and other compensation. These expenses increased primarily due to the Company's continued growth efforts including branch expansion, renovation initiatives, and the recently formed Wealth Management division. In addition, and consistent with the discussion above, the increase in salaries, benefits and other compensation was impacted by expense related to stock options which resulted from the implementation of SFAS 123R.

The Corporation's stock option plans contain provisions which accelerate vesting of stock options upon retirement. SFAS 123R requires accelerated expensing of option awards to participants who are or will become eligible for retirement under those plans. There are a number of participants who qualify for this accelerated vesting. Had the Corporation been subject to SFAS 123R at the time of the Corporation's award in December 2005, it would have expensed $309,000, or $0.03 per share related to awards granted to retirement-eligible participants. Historically, the Corporation awards options in the fourth quarter of each year and expects this practice to continue.

Income Taxes

The Corporation and its subsidiaries, with the exception of WSFS Reit, Inc., file a consolidated Federal income tax return and separate state income tax returns. WSFS Reit, Inc. files a separate Federal and state income tax return. Income taxes are accounted for in accordance with SFAS 109, which requires the recording of deferred income taxes for tax consequences of "temporary differences." The Corporation recorded a provision for income taxes during the three and nine months ended September 30, 2006 of $3.5 million and $11.7 million, respectively, compared to an income tax provision of $4.0 million and $11.1 million for the same periods in 2005. The effective tax rates for the three and nine month periods ended September 30, 2006 were 31% and 34%, respectively, compared to 35% for the comparable periods in 2005. This decreased effective tax rate was primarily due to the receipt of $1.9 million tax-free death benefit pursuant to the BOLI plan in September 2006, partially offset by the non-deductibility of stock option expense related to incentive stock options in accordance with SFAS 123R.

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

The Corporation analyzes its projections of taxable income on an ongoing basis and makes adjustments to its provision for income taxes accordingly.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments - An Amendment of Statements No. 133 and 140. This Statement permits fair value

remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. It also clarifies which interest-only strips are not subject to the requirements of SFAS 133. In addition, it establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. SFAS 155 becomes effective in fiscal years beginning after September 15, 2006. The adoption of this Statement is not expected to have a material impact on the Corporation's Consolidated Financial Statements.

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

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). This interpretation of SFAS No. 109 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The interpretation is effective for fiscal years beginning after December 15, 2006. The Corporation has reserves related to certain of its tax positions which would be subject to analysis under FIN 48. The Corporation has not yet determined the impact on its Consolidated Financial Statements, if any, that would result as a consequence of adopting this interpretation in 2007.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principals and expands disclosures about fair value measurements. Additionally, it establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Corporation has not yet determined the impact on its Consolidated Financial Statements, if any, that would result as a consequence of adopting this Statement in 2008.

Also in September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statement No. 87, 88, 106, and 132(R). This Statement requires recognition of the funded status of a benefit plan and other postretirement plans in the statement of financial position. The Statement also requires recognition in other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. Additionally, SFAS 158 requires employers to measure the funded status of a plan as of the date of its year-end statement of financial position. SFAS 158 provides recognition and disclosure elements to be effective as of the end of the fiscal years ending after December 15, 2006 and measurement elements to be effective for fiscal years ending after December 15, 2008. The Corporation has not yet determined the impact on its Consolidated Financial Statements, if any, that would result as a

consequence of adopting this Statement in 2006.

In addition, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements in September 2006. This Statement provides SEC staff views on diversity in practice in quantifying financial statement misstatements and the potential under current practice for the build up of improper amounts on the balance sheet. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. These prior year misstatements should be considered in quantifying misstatements in current year financial statements. SAB 108 is effective for fiscal years ending after November 15, 2006. The Corporation has not yet determined the impact on its Consolidated Financial Statements, if any, that would result as a consequence of adopting this Statement in 2006.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

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

(b) Changes in internal control 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.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not engaged in any legal proceedings of a material nature at September 30, 2006. From time to time, the Company is party to legal proceedings in the ordinary course of business wherein it enforces its security interest in loans.

Item 1A. Risk Factors

Management of the Company does not believe there have been any material changes to the risk factors previously disclosed under Item 1A. of the Company's Form 10-K for the year ended December 31, 2005, previously filed with the Securities and Exchange Commission.

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

The following table lists purchases of the Company's Common Stock during the third quarter of 2006.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total N Shares As Part o Announc
July 1, to July 31, 2006	0	$0.00	
August 1, to August 31, 2006	19,400	$60.39	
September 1, to September 30, 2006	0	$0.00	
Total for the quarter ended September 30, 2006	19,400	$60.39	

There is no expiration date under either Plan.

Item 3. Defaults upon Senior Securities

Not applicable

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

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

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

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WSFS FINANCIAL CORPORATION

Date: November 7, 2006

/s/ Marvin N. Schoenhals

Marvin N. Schoenhals
President and Chief Executive Officer

Date: November 7, 2006

/s/ Stephen A. Fowle

Stephen A. Fowle
Executive Vice President and
Chief Financial Officer

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