

WSFS FINANCIAL CORP
Form 10-Q
May 12, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

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
(State or other jurisdiction of
Incorporation or organization)

22-2866913
(I.R.S. Employer
Identification Number)

WSFS Bank Center, 500 Delaware Avenue,

Wilmington, Delaware
(Address of principal executive offices)
(302) 792-6000

19801
(Zip Code)

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 No

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of May 7, 2014

Common Stock, par value \$.01 per share
(Title of Class)

8,913,234
(Shares Outstanding)

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WSFS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
	2014	2013
	(Unaudited)	
	(In Thousands, Except Per Share Data)	
Interest income:		
Interest and fees on loans	\$ 32,202	\$ 31,452
Interest on mortgage-backed securities	3,278	3,729
Interest on reverse mortgage related assets	1,197	243
Interest and dividends on investment securities	792	142
Other interest income	316	25
	37,785	35,591
Interest expense:		
Interest on deposits	1,656	2,019
Interest on Federal Home Loan Bank advances	526	443
Interest on federal funds purchased and securities sold under agreements to repurchase	251	249
Interest on trust preferred borrowings	326	329
Interest on senior debt	942	943
Interest on bonds payable	15	
Interest on other borrowings	25	28
	3,741	4,011
Net interest income	34,044	31,580
Provision for loan losses	2,630	2,231
Net interest income after provision for loan losses	31,414	29,349
Noninterest income:		
Credit/debit card and ATM income	5,766	5,668
Deposit service charges	4,269	4,014
Investment management and fiduciary revenue	3,834	3,728
Mortgage banking activities, net	812	737
Security gains, net	578	1,644
Loan fee income	384	495
Bank owned life insurance income	139	40
Other income	2,582	1,748
	18,364	18,074
Noninterest expenses:		
Salaries, benefits and other compensation	18,474	17,983

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Occupancy expense	3,729	3,383
Equipment expense	1,687	1,829
Data processing and operations expenses	1,471	1,349
Professional fees	1,350	947
FDIC expenses	653	1,166
Loan workout and OREO expenses	539	170
Marketing expense	499	517
Other operating expense	5,776	5,026
	34,178	32,370
Income before taxes	15,600	15,053
Income tax (benefit) provision	(1,311)	5,313
Net income	16,911	9,740
Dividends on preferred stock and accretion of discount		692
Net income allocable to common stockholders	\$ 16,911	\$ 9,048
Earnings per share:		
Basic	\$ 1.90	\$ 1.03
Diluted	\$ 1.85	\$ 1.02

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

WSFS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31, 2014 2013 (Unaudited) (In Thousands)	
Net Income	\$ 16,911	\$ 9,740
Other comprehensive (loss) income:		
Unrealized (losses) gains on securities available-for-sale	14,749	(7,725)
Tax benefit (expense)	(5,604)	2,898
Net of tax amount	9,145	(4,827)
Reclassification adjustment for gains included in net income	(578)	(1,644)
Tax expense	220	625
Net of tax amount	(358)	(1,019)
Total other comprehensive (loss) income	8,787	(5,846)
Total comprehensive income	\$ 25,698	\$ 3,894

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

WSFS FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CONDITION

	March 31, 2014	December 31, 2013
	(Unaudited)	
	(In Thousands, Except Per Share Data)	
Assets		
Cash and due from banks	\$ 97,444	\$ 94,734
Cash in non-owned ATMs	342,034	389,360
Interest-bearing deposits in other banks	247	332
Total cash and cash equivalents	439,725	484,426
Investment securities, available-for-sale	859,251	817,115
Loans held-for-sale	17,131	31,491
Loans, net of allowance for loan losses of \$41,328 at March 31, 2014 and \$41,244 at December 31, 2013	2,956,769	2,904,976
Reverse mortgage related assets	36,266	37,328
Bank-owned life insurance	63,324	63,185
Stock in Federal Home Loan Bank of Pittsburgh, at cost	33,578	35,869
Assets acquired through foreclosure	3,684	4,532
Accrued interest receivable	10,715	10,798
Premises and equipment	34,205	35,178
Goodwill	32,100	32,235
Intangible assets	6,510	6,743
Other assets	52,704	51,887
Total assets	\$ 4,545,962	\$ 4,515,763
Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Noninterest-bearing demand	\$ 664,977	\$ 650,256
Interest-bearing demand	648,856	638,403
Money market	750,541	887,715
Savings	410,186	383,731
Time	235,936	236,965
Jumbo certificates of deposit customer	215,217	221,145
Total customer deposits	2,925,713	3,018,215
Brokered deposits	247,369	168,727
Total deposits	3,173,082	3,186,942
Federal funds purchased and securities sold under agreements to repurchase	125,625	97,000
Federal Home Loan Bank advances	654,824	638,091
Trust preferred borrowings	67,011	67,011
Senior debt	55,000	55,000

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Other borrowed funds	21,858	24,739
Reverse mortgage trust bonds payable		21,990
Accrued interest payable	1,570	838
Other liabilities	38,132	41,102
Total liabilities	4,137,102	4,132,713
Stockholders Equity:		
Common stock \$0.01 par value, 20,000,000 shares authorized; issued 18,490,681 at March 31, 2014 and 18,476,003 at December 31, 2013	185	185
Capital in excess of par value	179,652	178,477
Accumulated other comprehensive loss	(12,507)	(21,294)
Retained earnings	489,810	473,962
Treasury stock at cost, 9,580,569 shares at March 31, 2014 and December 31, 2013	(248,280)	(248,280)
Total stockholders equity	408,860	383,050
Total liabilities and stockholders equity	\$ 4,545,962	\$ 4,515,763

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

WSFS FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months ended March 31,	
	2014	2013
	(Unaudited)	
	(In Thousands)	
Operating activities:		
Net Income	\$ 16,911	\$ 9,740
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,630	2,231
Depreciation of premises and equipment	1,516	1,370
Amortization, net	2,539	3,571
Decrease (increase) in accrued interest receivable	83	(376)
(Increase) decrease in other assets	(634)	(4,569)
Origination of loans held-for-sale	(42,631)	(53,177)
Proceeds from sales of loans held-for-sale	55,883	49,802
Gain on mortgage banking activities, net	(812)	(737)
Gain on sale of securities, net	(578)	(1,644)
Stock-based compensation expense	715	877
Excess tax benefits from share-based payment arrangements	(164)	(83)
Increase (decrease) in accrued interest payable	732	775
Increase (decrease) in other liabilities	(3,155)	(7,359)
Loss on sale of assets acquired through foreclosure and valuation adjustments, net	11	9
Deferred income tax (benefit) expense	(5,324)	1,344
Increase in value of bank-owned life insurance	(139)	(40)
(Increase) decrease in capitalized interest, net	(1,417)	(253)
Net cash provided by operating activities	\$ 26,166	\$ 1,481
Investing activities:		
Maturities and Calls of investment securities	2,230	
Sale of investment securities available for sale	38,621	139,249
Purchase of investment securities available-for-sale	(82,222)	(91,368)
Repayments of investment securities available-for-sale	12,269	21,008
Repayments on reverse mortgages	2,760	
Disbursements for reverse mortgages	(281)	(32)
Net (increase) in loans	(54,047)	(21,047)
Net decrease (increase) in stock of Federal Home Loan Bank of Pittsburgh	2,291	(362)
Sales of assets acquired through foreclosure, net	1,864	364
Investment in premises and equipment, net	(537)	(956)
Net cash (used for) provided by investing activities	\$ (77,052)	\$ 46,856

Financing activities:

Net increase (decrease) in demand and saving deposits	(88,447)	(50,178)
Increase (decrease) in time deposits	(6,957)	(48,934)
Increase (decrease) in brokered deposits	78,642	18,025
Increase (decrease) in loan payable	21	
Repayment of reverse mortgage trust bonds payable	(21,990)	
Receipts from FHLB advances	26,939,076	15,642,397
Repayments of FHLB advances	(26,922,343)	(15,563,445)
Receipts from federal funds purchased and securities sold under agreement to repurchase	5,798,325	5,865,000
Repayments of federal funds purchased and securities sold under agreement to repurchase	(5,769,700)	(5,880,000)
Dividends paid	(1,067)	(1,711)
Issuance of common stock and exercise of common stock options	461	151
Excess tax benefits from share-based payment arrangements	164	83

Net cash provided by (used for) financing activities	\$ 6,185	\$ (18,612)
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Increase (decrease) in cash and cash equivalents	(44,701)	29,725
Cash and cash equivalents at beginning of period	484,426	500,887

Cash and cash equivalents at end of period	\$ 439,725	\$ 530,612
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Supplemental Disclosure of Cash Flow Information:

Cash paid for interest during the period	\$ 2,995	\$ 3,236
Cash paid for income taxes, net	5,184	5,416
Loans transferred to assets acquired through foreclosure	1,027	2,273
Loans transferred to portfolio from HFS	2,169	
Other comprehensive income (loss)	8,787	(5,846)
Non-Cash Goodwill Adjustment, Net	135	

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

WSFS FINANCIAL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2014

(UNAUDITED)

1. BASIS OF PRESENTATION

Our Consolidated Financial Statements include the accounts of WSFS Financial Corporation (the Company , our Company , we , our or us), Wilmington Savings Fund Society, FSB (WSFS Bank or the Bank) and Montchanin Management, Inc. (Montchanin). We also have one unconsolidated affiliate, WSFS Capital Trust III (the Trust). WSFS Bank has two fully-owned subsidiaries, WSFS Investment Group, Inc. (WIG) and Monarch Entity Services LLC (Monarch) and Montchanin has one wholly owned subsidiary, Cypress Capital Management, LLC (Cypress).

Founded in 1832, the Bank is one of the ten oldest banks continuously operating under the same name in the United States. We provide residential and commercial real estate, commercial and consumer lending services, as well as retail deposit and cash management services. In addition, we offer a variety of wealth management and trust services to personal and corporate customers through our Wealth Management division. Lending activities are funded primarily with customer deposits and borrowings. The Federal Deposit Insurance Corporation (FDIC) insures our customers deposits to their legal maximums. We serve our customers primarily from our 52 offices located in Delaware (42), Pennsylvania (8), Virginia (1) and Nevada (1) and through our website at www.wsfsbank.com. Information on our website is not incorporated by reference into this quarterly report.

Amounts subject to significant estimates are items such as the allowance for loan losses and reserves for lending related commitments, goodwill, intangible assets, post-retirement benefit obligations, the fair value of financial instruments, investment in reverse mortgages, income taxes and other-than-temporary impairments (OTTI). Among other effects, changes to such estimates could result in future impairments of investment securities, goodwill and intangible assets and establishment of allowances for loan losses and lending related commitments as well as increased post-retirement benefits expense.

Our accounting and reporting policies conform with U.S. generally accepted accounting principles and prevailing practices within the banking industry for interim financial information and Rule 10-01 of the Securities and Exchange Commission (SEC) Regulation S-X. Rule 10-01 of Regulation S-X does not require us to include all information and notes for complete financial statements and prevailing practices within the banking industry. Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for any future quarters or for the year ending December 31, 2014. For further information, refer to the consolidated financial statements and the accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2013 as filed with the SEC.

Whenever necessary, reclassifications have been made to prior period Consolidated Financial Statements to conform to the current period s presentation. All significant intercompany transactions were eliminated in consolidation.

Accounting for Stock-Based Compensation

Stock-based compensation is accounted for in accordance with FASB ASC 718, *Stock Compensation*. After stockholder approval in 2005, the 1997 Stock Option Plan (1997 Plan) was replaced by the 2005 Incentive Plan (2005 Plan). Upon stockholder approval in 2013, the 2005 Incentive Plan was amended and replaced by the 2013 Incentive Plan (2013 Plan). No future awards may be granted under the 2005 Plan; however, we still have options outstanding

under the 1997 Plan and 2005 Plan for our officers, directors and employees of us and our subsidiaries (Associates). The 2013 Plan will terminate on the tenth anniversary of its effective date, after which no awards may be granted. Collectively, the 1997 Plan, 2005 Plan and 2013 Plan are referred to as Stock Incentive Plans. The number of shares reserved for issuance under the 2013 Plan is 698,845. At March 31, 2014, there were 366,412 shares available for future grants under the 2013 Plan.

With the exception of certain Performance Stock Awards, 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 non-incentive stock options (collectively, Stock Options). Additionally, the 2013 Plan provides for the granting of stock appreciation rights, performance awards, restricted stock and restricted stock unit awards, deferred stock units, dividend equivalents, other stock-based awards and cash awards. All Stock Options are to be granted at not less than the market price of our common stock on the date of the grant. With the exception of certain Non-Plan Stock Options, all Stock Options granted during 2014 vest in 25% per annum increments, start to become exercisable one year from the grant date and expire between five and seven years from the grant date. Generally, all awards become exercisable immediately in the event of a change in control, as defined within the Stock Incentive Plans. In addition, the Black-Scholes option-pricing model is used to determine the grant date fair value of Stock Options.

Stock Options

The following table provides information about our stock options outstanding for the three months ended March 31, 2014 and 2013:

	March 31, 2014		March 31, 2013	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Stock Options:				
Outstanding at beginning of period	712,578	\$ 47.42	335,730	\$ 42.14
Granted	43,686	71.47	122,357	47.50
Exercised	(20,366)	33.80	(22,283)	31.36
Outstanding at end of period	735,898	49.23	435,804	44.19
Exercisable at end of period	137,005	\$ 47.08	197,943	\$ 44.52
Weighted-average fair value of awards granted	\$ 17.35		\$ 10.32	

The following table provides vesting information about our stock options outstanding for the three months ended March 31, 2014 and 2013:

	March 31, 2014		March 31, 2013	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Stock Options:				
Unvested at beginning of period	609,029	\$ 47.66	157,298	\$ 38.57
Granted	43,686	71.47	122,357	47.50
Vested	(53,822)	44.11	(41,794)	34.30
Unvested at end of period	598,893	\$ 49.72	237,861	\$ 43.92

The total amount of compensation cost to be recognized relating to non-vested stock options as of March 31, 2014 was \$6.3 million. The weighted-average period over which it is expected to be recognized is 3.7 years. We issue new shares upon the exercise of options.

Restricted Stock

We issued 46,249 restricted stock units during the first quarter of 2014. These awards vest over a four year period. The total amount of compensation cost to be recognized relating to non-vested restricted stock as of March 31, 2014, was \$1.7 million. The weighted-average period over which it is expected to be recognized is 2.5 years.

Performance Stock Awards

The Long-Term Performance-Based Stock Unit program (Long-Term Program) provided for awards up to an aggregate of 77,800 shares of our stock to the remaining 14 participants, only after the achievement of targeted levels

of return on assets (ROA) in any year through 2013. During 2013, the company achieved the 1.00% performance level of return on assets. In accordance with the Long-Term Program, we issued 36,152 RSUs to the plan s participants. The awarded stock will vest in 25% increments over four years. During 2014 we recognized \$88,000 of compensation expense related to this program. Compensation expense related to the Long-Term Program was based on the closing stock price as of May 28, 2008.

The Board approved a plan in which Marvin N. Schoenhals, Chairman of the Board, was granted 22,250 shares of restricted stock effective January 3, 2011, with a five-year performance vesting schedule starting at the end of the second year. These awards are based on acquiring new business relationships in which Mr. Schoenhals has played a meaningful role in helping us establish the new business. These shares are subject to vesting in whole or in part based on the role Mr. Schoenhals plays in establishing new business relationships that, over a two year period of time, achieve at least a 50% return on the investment of restricted stock cost. We recognized compensation expense of \$69,000 related to this award during the first quarter of 2014 compared to \$69,000 during the first quarter of 2013. Based on Mr. Schoenhals performance during 2013; 5,563 shares of restricted stock vested during the first quarter of 2014.

For the three months ended March 31, 2014, the effect of stock-based compensation, including stock options, restricted stock, and performance stock, on salaries, benefits and other compensation was \$802,000 pre-tax (\$577,000 after tax) or \$0.06 per share. This compares to \$946,000 pre-tax (\$804,000 after tax) or \$0.09 per share during the three months ended March 31, 2013.

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2014, the FASB issued ASU No. 2014-01, *Investments Equity Method and Joint Ventures (Topic 323) Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force)*. The ASU permits an entity to make an accounting policy election to account for its investment in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportionate amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The decision to apply the proportionate amortization method of accounting should be applied consistently to all qualifying affordable housing project investments. A reporting entity that uses the effective yield or other method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply such method to those preexisting investments. The amendments are effective for annual and interim periods beginning after January 1, 2015. The Company does not expect the application of this guidance to have a material impact on the Company's financial statements.

In January 2014, the FASB issued ASU No. 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of ASU No. 2014-04 is not expected to have a material impact on the Company's Consolidated Financial Statements.

2. BUSINESS COMBINATIONS

First Wyoming Financial Corporation

On November 25, 2013, WSFS Bank announced an Agreement and Plan of Reorganization, with First Wyoming Financial Corporation, the parent company of The First National Bank of Wyoming (First Wyoming), in a cash and stock transaction valued at approximately \$64 million. As of September 30, 2013, First Wyoming operated 6 banking offices in Kent County, Delaware with \$307.7 million in total assets and \$249.7 million in total deposits. The transaction is expected to be completed in the third quarter of 2014, subject to the satisfaction of customary closing conditions, including regulatory approvals and the approval of the shareholders of First Wyoming Financial Corporation.

Array Financial Group, Inc. and Arrow Land Transfer Company Acquisition

On July 31, 2013, WSFS Bank completed the purchase of Array Financial Group, Inc. (Array), a Delaware Valley mortgage banking company, specializing in a variety of residential mortgage and refinancing solutions, and Arrow Land Transfer Company (Arrow), an abstract and title company that is a related entity to Array. All Array and Arrow employees are now WSFS Associates.

These companies were acquired through an asset purchase transaction for the purchase price of \$8.0 million (including a \$1.4 million payment for the working capital of the two companies), \$4.0 million of which can be earned through a five-year earn out based on achieved earnings contribution targets, the fair value of which is \$2.6 million at March 31, 2014. Operating results of Array and Arrow are included in the consolidated financial statements since the date of acquisition.

The transaction was accounted for as a business combination using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration paid were recorded at their estimated fair values as of the acquisition date. The excess of consideration paid over the fair value of net assets acquired was recorded as goodwill, which will not be amortizable for book purposes, however will be deductible for tax purposes. We allocated the total balance of goodwill to our WSFS Bank segment. We also recognized \$2.4 million in intangible assets which will be amortized over 7 years utilizing the straight-line method.

The following table details the effect on goodwill from the changes in the derivative assets and liabilities relating to the loan commitment pipeline at acquisition from the amounts originally reported on the Form 10-K for the year ended December 31, 2013: The adjustments above represent the change.

(In Thousands)

Goodwill resulting from acquisition of Array and Arrow reported on Form 10-K for the year ended December 31, 2013	\$ 4,089
Effect of adjustments to:	
Other assets	(338)
Other liabilities	203
 Adjusted goodwill resulting from acquisition of Array & Arrow as of March 31, 2014	 \$ 3,954

The fair values listed above are estimates and are subject to adjustment. However, while they are not expected to be materially different than those shown, any material adjustments to the estimates will be reflected retroactively, as of the date of the transaction.

3. EARNINGS PER SHARE

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

	For the three months ended March 31,	
	2014	2013
	(In Thousands, Except Per Share Data)	
<u>Numerator:</u>		
Net income allocable to common stockholders	\$ 16,911	\$ 9,048
<u>Denominator:</u>		
Denominator for basic earnings per share weighted average shares	8,904	8,781
Effect of dilutive employee stock options and warrants	224	92
Denominator for diluted earnings per share adjusted weighted average shares and assumed exercise	9,128	8,873
Earnings per share:		
Basic:		
Net income allocable to common stockholders	\$ 1.90	\$ 1.03
Diluted:		
Net income allocable to common stockholders	\$ 1.85	\$ 1.02

Outstanding common stock equivalents having no dilutive effect	44	265
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4. INVESTMENT SECURITIES

The following tables detail the amortized cost and the estimated fair value of our available-for-sale investment securities. None of our investment securities is classified as trading or held-to-maturity.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Available-for-sale securities:				
March 31, 2014:				
State and political subdivisions	\$ 111,583	\$ 1,475	\$ (2,483)	\$ 110,575
U.S. Government and government sponsored enterprises (GSE)	32,022	73	(12)	32,083
Collateralized Mortgage Obligation (CMO)	114,037	30	(3,984)	110,083
Federal National Mortgage Association (FNMA) Mortgage-Backed Securities (MBS)	380,387	87	(10,004)	370,470
Federal Home Loan Mortgage Corporation MBS (FHLMC)	136,274	26	(3,401)	132,899
Government National Mortgage Association MBS (GNMA)	104,361	367	(1,587)	103,141
	\$ 878,664	\$ 2,058	\$ (21,471)	\$ 859,251
December 31, 2013				
State and political subdivisions	105,354	257	(5,426)	100,185
GSE	32,082	93	(17)	32,158
CMO	103,064	28	(5,535)	97,557
FNMA MBS	382,909	20	(15,801)	367,128
FHLMC MBS	129,460	29	(4,994)	124,495
GNMA MBS	97,830	743	(2,981)	95,592
	\$ 850,699	\$ 1,170	\$ (34,754)	\$ 817,115

The scheduled maturities of investment securities available-for-sale at March 31, 2014 and December 31, 2013 were as follows:

	Available-for-Sale Amortized Cost	Fair Value
	(In Thousands)	
March 31, 2014		
Within one year	\$ 16,194	\$ 16,233
After one year but within five years	40,883	41,046
After five years but within ten years	294,552	286,670
After ten years	527,035	515,302

	\$ 878,664	\$ 859,251
December 31, 2013		
Within one year	\$ 16,319	\$ 16,378
After one year but within five years	19,761	19,986
After five years but within ten years	229,033	217,911
After ten years	585,586	562,840
	\$ 850,699	\$ 817,115

All securities were AAA-rated at the time of purchase and remained at investment grade at March 31, 2014. All securities were re-evaluated for OTTI at March 31, 2014. The result of this evaluation showed no OTTI during the first quarter of 2014. The weighted average duration of MBS was 5.4 years at March 31, 2014.

MBS have expected maturities that differ from their contractual maturities. These differences arise because borrowers may have the right to call or prepay obligations with or without a prepayment penalty.

At March 31, 2014, investment securities with market values aggregating \$517.4 million were pledged as collateral for retail customer repurchase agreements, municipal deposits, and other obligations. From time to time, investment securities are also pledged as collateral for FHLB borrowings. There were no FHLB pledged investment securities at March 31, 2014.

During the first three months of 2014, we sold \$37.8 million of investment securities during the period categorized as available-for-sale for net gains of \$578,000 (no losses were incurred). In the first quarter of 2013, proceeds from the sale of investment securities available-for-sale were \$139.2 million and resulted in net gains of \$1.6 million.

As of March 31, 2014, our investment securities portfolio had remaining unamortized premiums of \$25.4 million and \$207,000 of unaccreted discounts.

At March 31, 2014, we owned investment securities totaling \$740.8 million in which the amortized cost basis exceeded fair value. Total unrealized losses on those securities were \$21.5 million at March 31, 2014. The temporary impairment is the result of changes in market interest rates subsequent to the purchase of the securities. Our investment portfolio is reviewed each quarter for indications of impairment. This review includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in the market. We evaluate our intent and ability to hold securities based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy and interest rate risk position. In addition, we do not have the intent to sell, nor is it more likely-than-not we will be required to sell these securities before we are able to recover the amortized cost basis.

For these investment securities with unrealized losses, the table below shows our gross unrealized losses and fair value by investment category and length of time that individual securities were in a continuous unrealized loss position at March 31, 2014.

The tables below show our investment securities gross unrealized losses and fair value by investment category and length of time that individual securities were in a continuous unrealized loss position at March 31, 2014 and December 31, 2013.

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
(In Thousands)						
Available-for-sale						
State and political subdivisions	\$ 42,003	\$ 1,722	\$ 13,374	\$ 761	\$ 55,377	\$ 2,483
GSE	5,982	12			5,982	12
CMO	82,229	2,719	25,974	1,265	108,203	3,984
FNMA MBS	341,483	8,989	17,955	1,015	359,438	10,004
FHLMC MBS	116,004	2,700	11,593	701	127,597	3,401
GNMA MBS	65,773	966	18,433	621	84,206	1,587
Total temporarily impaired investments	\$ 653,474	\$ 17,108	\$ 87,329	\$ 4,363	\$ 740,803	\$ 21,471

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
(In Thousands)						
Available-for-sale						