

TFS Financial CORP
Form DEF 14A
January 11, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-12

TFS FINANCIAL CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To our Stockholders:

The 2010 annual meeting of stockholders of TFS Financial Corporation (the Company) will be held at the offices of Third Federal Savings and Loan, 7007 Broadway Avenue, Cleveland, Ohio 44105, on Thursday, February 25, 2010, at 9:00 a.m., local time, for the following purposes:

1. To elect four directors, each to hold office for a three-year term and until his successor has been duly elected and appointed;
2. To ratify the selection of Deloitte & Touche LLP as the Company's independent accountants for the Company's fiscal year ending September 30, 2010; and
3. To transact all other business that properly comes before the meeting.

Only stockholders of record at the close of business on December 28, 2009 will be entitled to notice of and to vote at the meeting or any adjournment thereof. You are invited to attend the annual meeting, and we request that you vote on the proposals described in this proxy statement. You do not need to attend the meeting to vote your shares. Instead, you may simply complete, date and sign the available proxy card and return it to the Company. Alternatively, you may vote via telephone or over the Internet.

All stockholders of record entitled to vote at the annual meeting should receive a Notice of Internet Availability of Proxy Materials (the Notice of Internet Availability). The Notice of Internet Availability will instruct you as to how you may access and review all of the important information contained in the proxy materials. If you received a Notice of Internet Availability by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting such materials included in the Notice of Internet Availability. The principal address of the Company is 7007 Broadway Avenue, Cleveland, Ohio 44105.

By order of the Board of Directors,

Bernard S. Kobak

Secretary

January 11, 2010

**YOUR VOTE IS IMPORTANT. PLEASE SIGN, DATE AND RETURN THE AVAILABLE
PROXY CARD OR VOTE VIA TELEPHONE OR OVER THE INTERNET.**

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TFS FINANCIAL CORPORATION

7007 Broadway Avenue

Cleveland, Ohio 44105

PROXY STATEMENT

Our Board of Directors is providing this proxy statement to ask for your vote as a stockholder of TFS Financial Corporation (the Company, we, us or our) on certain matters to be voted on at our upcoming annual meeting of stockholders, which will be held at the offices of Third Federal Savings and Loan, 7007 Broadway Avenue, Cleveland, Ohio 44105, on Thursday, February 25, 2010, at 9:00 a.m., local time. We are making these proxy materials electronically available to you, along with our 2009 Annual Report to Stockholders, on or about January 11, 2010.

ABOUT THE MEETING

What Is the Purpose of the Annual Meeting of Stockholders?

At our annual meeting of stockholders, stockholders will act upon the matters outlined in the accompanying notice of meeting, including the election of four directors and a proposal to ratify the selection of Deloitte & Touche LLP as the Company's independent accountants for the Company's fiscal year ending September 30, 2010. We are not aware of any other matter that will be presented for your vote at the meeting.

Why Did I Receive a Notice of Internet Availability in the Mail Regarding the Internet Availability of Proxy Materials this Year Instead of a Full Set of Proxy Materials?

Pursuant to rules adopted by the Securities and Exchange Commission (the SEC), we have elected to provide access to our proxy materials over the Internet. Accordingly, we are sending a Notice of Internet Availability to our stockholders of record and beneficial owners. All stockholders will have the ability to access the proxy materials on the website referred to in the Notice of Internet Availability or request to receive a printed set of the proxy materials. Instructions on how to access the proxy materials over the Internet or to request a printed copy may be found in the Notice of Internet Availability.

Who Is Entitled to Vote?

Only stockholders of record at the close of business on the record date, December 28, 2009, are entitled to receive notice of and to vote the shares of our common stock that they held on the record date at the meeting, or any postponement or adjournment of the meeting. Each outstanding share of common stock entitles its holder as of the record date to cast one vote on each matter acted upon at the meeting. As of the record date, the Company had outstanding 308,315,000 shares of common stock.

What if My Shares Are Held in the Third Federal Savings Associate Stock Ownership Plan or the Third Federal Savings 401(k) Savings Plan?

If you are a participant in the Third Federal Savings Associate Stock Ownership Plan (the ASOP) or the Third Federal Savings 401(k) Savings Plan (the 401(k) Plan) and you own shares of our common stock through those plans, you have been provided voting instruction forms with respect to shares you may vote under those plans. Although the trustee or administrator for each plan votes all shares of our common stock held by that plan, each participant may direct the trustee or administrator how to vote the shares of our common stock allocated to his or her plan account. Voting instructions must be provided to the trustee or administrator by February 20, 2010 to be effective. If you own shares of our common stock through either of these plans and do not provide voting instructions to the trustee or administrator by February 20, 2010, the respective trustee or administrator will vote the shares of common stock in accordance with the terms of the respective plans, which provide that the trustee

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or administrator will vote any shares of our common stock for which it has received no voting instructions in the same proportions as it votes the shares of our common stock for which it has received instructions from plan participants. You also may revoke previously given voting instructions prior to February 20, 2010 by filing with the trustee or administrator either written notice of revocation or a properly completed voting instruction form bearing a later date.

Who Can Attend the Meeting?

Only stockholders as of the record date, or their duly appointed proxies, may attend the meeting. Please note that if you hold your shares in street name (that is, through a broker or other nominee), your name does not appear in the Company's records, and you will need to bring to the annual meeting a copy of your brokerage statement reflecting your ownership of shares of our common stock as of the record date in order to be admitted.

When and Where Is the Meeting?

The meeting will be held at the offices of Third Federal Savings and Loan, 7007 Broadway Avenue, Cleveland, Ohio 44105, on Thursday, February 25, 2010, at 9:00 a.m., local time. Parking is available in our visitor parking lot, which you can enter from Aetna Avenue.

What Constitutes a Quorum?

The presence at the meeting, either in person or by proxy, of the holders of a majority of the shares of our common stock outstanding on the record date will represent a quorum, permitting the conduct of business at the meeting. Proxies received by the Company but marked as abstentions and broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting for purposes of establishing a quorum. A broker non-vote occurs if your shares are held in street name by a broker or nominee and the broker or nominee reports your shares as non-votes because you did not provide your broker or nominee with voting instructions for your shares.

What Vote Is Required to Approve Each Proposal, Assuming that a Quorum Is Present at the Annual Meeting of Stockholders?

Proposal One: Election of Directors. The four nominees for director who receive the greatest number of affirmative votes will be elected directors, and abstentions and broker non-votes will not count either for or against any nominee for director.

Proposal Two: Ratification of the Selection of Deloitte & Touche LLP as the Company's Independent Accountants. The Audit Committee of our Board of Directors plans to reappoint Deloitte & Touche LLP as the Company's independent accountants to audit our financial statements for the fiscal year ending September 30, 2010, subject to the ratification of the appointment by our stockholders as required by our bylaws. See page 30 under **Proposal Two: Ratification of the Selection of Deloitte & Touche LLP as the Company's Independent Accountants** for additional information. A majority of the votes cast is required for the adoption of this proposal. Abstentions will be treated as cast and will have the same effect as a vote against ratification. Broker non-votes are not considered votes cast either for or against ratification.

How Does Third Federal Savings and Loan Association of Cleveland, MHC Intend to Vote Its Shares?

All stockholder votes will include the vote of Third Federal Savings and Loan Association of Cleveland, MHC, which, as of December 28, 2009, owned 227,119,132 shares, or 73.66%, of our outstanding common stock. **As such, the vote of Third Federal Savings and Loan Association of Cleveland, MHC will be determinative of the outcome of any vote or election. Third Federal Savings and Loan Association of Cleveland, MHC intends to vote for the election of the four nominees for director and for ratification of the selection of Deloitte & Touche LLP, and in accordance with the recommendation of our Board of Directors on any other matter that properly comes before the meeting.**

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How Do I Vote?

You may cast your vote in person at the meeting or by any one of the following ways:

By Telephone: You may call the toll-free number printed on the accompanying proxy card. Follow the simple instructions and use the personalized control number printed on your Notice of Internet Availability in order to vote your shares. You will be able to confirm that your vote has been properly recorded. Telephone voting is available 24 hours a day. If you vote by telephone, you should not return a proxy card.

Over the Internet: You may visit the web site printed on the accompanying proxy card. Follow the simple instructions and use the personalized control number printed on your Notice of Internet Availability in order to vote your shares. You will be able to confirm that your vote has been properly recorded. Internet voting is available 24 hours a day. If you vote over the Internet, you should not return a proxy card.

By Mail: You may mark, sign and date the accompanying proxy card and return it to the address provided on the proxy card.

If you sign, date and return the accompanying proxy card or vote by telephone or via the Internet, the shares of common stock represented by your proxy will be voted as you specify. If you return a signed and dated proxy card, but do not indicate how your shares of common stock should be voted, the shares of common stock represented by your proxy will be voted to elect the directors set forth under the caption "Election of Directors" and for ratification of the selection of Deloitte & Touche LLP.

Will My Shares Be Voted if I Do Not Provide Instructions to My Broker?

If you are the beneficial owner of shares held in "street name" by a broker or other nominee, the broker or other nominee, as the record holder of the shares, is required to vote those shares in accordance with your instructions. If you do not provide your broker or other nominee instructions as to how your shares are to be voted, your broker or other nominee will not be able to vote your shares in the election of directors or with respect to the ratification of the Company's independent accountants, and your shares will not be voted with respect to either matter. We urge you to provide instructions to your broker or nominee so that your vote may be counted on these important matters. You should vote your shares by following the instructions provided on the accompanying proxy card and return the proxy card to your broker or other nominee in a timely manner to ensure that your shares are voted on your behalf.

May I Revoke My Proxy or Change My Vote?

You may revoke or change your vote at any time before your proxy has been exercised by filing a written notice of revocation or a duly executed proxy bearing a later date with the Company at the Company's principal address indicated on the attached Notice of Annual Meeting of Stockholders, by submitting another timely, later-dated vote by telephone or Internet or by giving notice of revocation to the Company in open meeting. However, your presence at the annual meeting alone will not be sufficient to revoke your previously granted proxy or vote.

How Will the Proxy Solicitation Be Conducted?

This solicitation of proxies is made by and on behalf of our Board of Directors. The cost of the solicitation of your proxy will be borne by the Company. In addition to solicitation of proxies by mail and electronically, officers and regular associates of the Company may solicit proxies in person, by telephone or by facsimile. These officers and associates will not receive any additional compensation for their participation in the solicitation process.

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Our bylaws provide that the Board of Directors will consist of eleven directors and will be divided into three classes as nearly equal in number as possible. As such, you will be voting on the election of four directors, each of whom would serve a three-year term expiring in 2013 and until his successor is elected and appointed.

At the annual meeting of stockholders, unless you specify otherwise, the shares of common stock represented by your proxy will be voted to re-elect Marc A. Stefanski, Martin J. Cohen and Robert A. Fiala and to elect Ben S. Stefanski III. James S. Gascoigne, a current director of the Company, will not stand for re-election and will cease to be a director upon expiration of his current term.

If for any reason any of the nominees is unable to serve as a director at the time of the election (which is not expected), the shares of common stock represented by your proxy will be voted for the election of a substitute nominee recommended by our Board of Directors, acting as our nominating committee.

The following table sets forth information regarding our directors (other than Mr. Gascoigne) and our nominee for director:

| Name | Age | Position(s) Held in | | Director Since | Term of Office Expires |
|---------------------------------------|-----|--|--|----------------|------------------------|
| | | TFS Financial Corporation | | | |
| Nominees for Director | | | | | |
| Marc A. Stefanski | 55 | Chairman of the Board, President, Chief Executive Officer and Director | | 1987 | 2010 |
| Martin J. Cohen | 56 | Director | | 2006 | 2010 |
| Robert A. Fiala | 56 | Director | | 2005 | 2010 |
| Ben S. Stefanski III(1) | 37 | | | | |
| Directors Continuing in Office | | | | | |
| Anthony J. Asher | 71 | Director | | 2008 | 2012 |
| Thomas J. Baird | 54 | Director | | 2005 | 2011 |
| John J. Fitzpatrick | 69 | Director | | 2006 | 2011 |
| Bernard S. Kobak | 81 | Secretary and Director | | 1993 | 2012 |
| William C. Mulligan | 56 | Director | | 2007 | 2011 |
| Marianne Piterans | 55 | Director of Human Resources and Director | | 2006 | 2012 |
| Paul W. Stefanik | 85 | Director | | 1993 | 2011 |

(1) Ben S. Stefanski III is the nephew of Marc A. Stefanski.

Our Board of Directors recommends that stockholders vote FOR the nominees for election set forth above.

Business Experience of Each Nominee for Director

Marc A. Stefanski joined Third Federal Savings and Loan in 1982 and was elected Chairman of the Board and Chief Executive Officer in 1988, succeeding his father in these positions. He was elected President of Third Federal Savings and Loan and the Company in 2000. Mr. Stefanski's parents, Ben and Gerome Stefanski, founded Third Federal Savings and Loan in 1938.

Martin J. Cohen has been a managing partner of H & M Management Company, a real estate management company, since 1975 and is manager and part owner of nine apartment complexes.

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Robert A. Fiala is president of the architecture firm ThenDesign, which he founded in 1989. He is also a member of the Willoughby, Ohio, City Council.

Ben S. Stefanski III is currently Director of Direct Sales at Patagonia, Inc., a \$320 million outdoor retail company. Mr. Stefanski III has been employed by Patagonia, Inc. since 2001 and has led a number of teams including Patagonia, Inc.'s call centers and inventory groups.

Business Experience of Each Continuing Director

Anthony J. Asher is the Chairman of Weston, Inc., a real estate ownership firm that is one of the largest industrial property owners in the Cleveland, Ohio area, and which Mr. Asher founded in 1971.

Thomas J. Baird is the President of Thomas J. Baird, P.A. and the managing partner of Baird & Roselli, a law firm in North Palm Beach, Florida, which he founded in 1990. His practice areas include city, county and local government law; environmental land use law, including eminent domain; real estate; constitutional law; and litigation.

John J. Fitzpatrick, Ph.D. is the founder and a partner of Fitzpatrick Associates dba The Family Business Resource Center and The Business Leadership Center, which he founded in 1989. The company offers a variety of consultation services for executives, organizations and family businesses.

Bernard S. Kobak is the Corporate Secretary of Third Federal Savings and Loan, a position he has held since 1960. Mr. Kobak joined Third Federal Savings and Loan in 1958 and has served as Executive Vice President since 1963.

William C. Mulligan has served as a managing director of Primus Capital Funds, a private equity firm, since 1987. Mr. Mulligan joined Primus Capital Funds in 1985 from McKinsey & Company, Inc., an international management consulting firm. Mr. Mulligan serves as a director of several private companies and two public companies, Universal Electronics, Inc. and Athersys, Inc.

Marianne Piterans is Director of Human Resources, Training, Security and Administrative Services for Third Federal Savings and Loan. Prior to joining Third Federal Savings and Loan in 1992, Ms. Piterans served as Senior Vice President of Society National Bank, where she worked for 20 years.

Paul W. Stefanik worked for Third Federal Savings and Loan for 30 years prior to his retirement in 1993. In 1987, Mr. Stefanik was appointed Executive Vice President of Branch Administration, a position he held until his retirement.

CORPORATE GOVERNANCE

Meetings of the Board of Directors

During the fiscal year ended September 30, 2009, our Board of Directors met 10 times and the board of directors of Third Federal Savings and Loan, which consists of the same directors as our Board of Directors, met 12 times. During the fiscal year ended September 30, 2009 or such period during the fiscal year as an individual may have served as a director, no director attended fewer than 75% of the total number of meetings of our Boards of Directors and the total number of meetings held by all committees on which the director served. The Company anticipates that its directors will attend the annual meeting of stockholders. All directors attended last year's annual meeting of stockholders. Our Board of Directors has established various standing committees, including an Audit Committee, Compensation Committee and Executive Committee. The full Board of Directors acts as the nominating committee.

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Independent Directors

A majority of our Board of Directors and all members of the Audit Committee and Compensation Committee are independent, as affirmatively determined by our Board of Directors consistent with the criteria established by the NASDAQ Stock Market.

Our Board of Directors conducts an annual review of director independence for all current nominees for election as directors and all continuing directors. In connection with this review, our Board of Directors considers all relevant facts and circumstances relating to relationships that each director, his or her immediate family members and their related interests had with the Company and its subsidiaries.

As a result of this review, our Board of Directors affirmatively determined that nominees Messrs. Cohen, Fiala and Stefanski III and continuing directors Messrs. Asher, Baird, Fitzpatrick, Mulligan and Stefanik are independent. Our Board of Directors determined that nominee Mr. Stefanski and continuing directors Ms. Piterans and Mr. Kobak are not independent because they are associates of the Company.

Our Board of Directors also determined that current director Mr. Gascoigne is not independent because of his business relationship with Third Capital, Inc., a wholly owned subsidiary of the Company. Mr. Gascoigne, in addition to his duties as a director of Third Federal Savings and Loan, the Company and Third Federal Savings and Loan Association of Cleveland, MHC, controls Baywater Capital Partners LTD, Baywater Realty Company LTD, Baywater Management Company and Fairfax Investment Company. These entities provide real estate and management services to Hazelmere Investment Group I LTD and Hazelmere of California LP, which are 70% owned by Third Capital, Inc., or have participating economic interests in the cash flows and capital proceeds of the Hazelmere entities. Fairfax Investment Company was the general partner of Hazelmere of California LP, which was dissolved on September 30, 2009. During the fiscal year ended September 30, 2009, the Baywater entities collectively received management fees of \$693,219 from the Hazelmere entities. Third Capital, Inc. received distributions from the Hazelmere entities, including cash flows and capital proceeds, totaling \$1,275,728 during the year.

Executive Session

The non-management directors of our Board of Directors meet periodically in executive session without management.

Nominating Committee

Our Board of Directors has determined that the Company is a Controlled company, as defined by the NASDAQ Stock Market, because Third Federal Savings and Loan Association of Cleveland, MHC currently owns more than 50% of our common stock. Therefore, the full Board of Directors acts as our nominating committee and met once in this capacity during the fiscal year ended September 30, 2009. In that capacity, our Board of Directors recommended a slate of nominees for election by stockholders at the Company's 2009 annual meeting of stockholders.

As set forth in our Policy and Procedures for Stockholder Recommendations for Director Candidates (the Policy), our Board of Directors will consider suggestions forwarded by stockholders to the Secretary of the Company concerning qualified candidates for election as directors. To recommend a prospective nominee for our Board of Directors' consideration, a stockholder may submit the candidate's name, qualifications and other pertinent information required by the Policy to the Company's Secretary at the following address: 7007 Broadway Avenue, Cleveland, Ohio 44105. Our Board of Directors has not established specific minimum qualifications that a candidate must have in order to be recommended for election to our Board of Directors. However, in determining qualifications for new directors, our Board of Directors will consider a potential member's qualification as independent under the NASDAQ Stock Market listing standards, as well as his or her age, skill and experience in the context of the needs of the Board of Directors.

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Under our bylaws, no nomination for director, except one made by the Board of Directors, will be voted upon unless the nomination is made in writing and delivered to the Company's Secretary at least 30 days prior to the date of the annual meeting. Upon delivery, a nomination will be posted in a conspicuous place in each office of the Company. Ballots bearing the names of all persons nominated by the Board of Directors and by stockholders will be provided for use at the annual meeting. If the Board of Directors fails or refuses to act in regard to nominations for directors at least 20 days prior to the annual meeting, nominations for directors may be made at the annual meeting by any holders of shares of common stock entitled to vote, and will be voted upon.

Our Board of Directors has recommended for election each of the nominees identified in Proposal One: Election of Directors on page 3.

A current copy of the Policy and Procedures for Stockholder Recommendations for Director Candidates is available to stockholders on the Company's web site, www.thirdfederal.com, under Investor Relations and a written copy is available to stockholders upon written request to the Company, to the attention of Investor Relations at 7007 Broadway Avenue, Cleveland, Ohio 44105.

Audit Committee

The Audit Committee consists of Messrs. Mulligan (Chairman), Asher, Cohen and Stefanik. The Audit Committee is responsible for providing oversight relating to our financial statements and financial reporting process, systems of internal accounting and financial controls, internal audit function, annual independent audit and the compliance and ethics programs established by management and our Board of Directors. The Audit Committee also serves as our Qualified Legal Compliance Committee. Each member of the Audit Committee is independent in accordance with the listing standards of the NASDAQ Stock Market and under Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended. Our Board of Directors has determined that Mr. Mulligan is an audit committee financial expert as that term is defined by the rules and regulations of the Securities and Exchange Commission. The Audit Committee met five times during the fiscal year ended September 30, 2009.

A current copy of the Audit Committee's charter is available to stockholders on the Company's web site, www.thirdfederal.com, under Investor Relations and a written copy is available to stockholders upon written request to the Company, to the attention of Investor Relations at 7007 Broadway Avenue, Cleveland, Ohio 44105.

Compensation Committee

The members of the Compensation Committee of the Board of Directors (the Committee) are Messrs. Fiala (Chairman), Asher and Mulligan. Mr. Mulligan was appointed to the Committee on February 26, 2009, and Messrs. Baird and Fitzpatrick served on the Committee prior to that date. The Committee held seven meetings during the fiscal year ended September 30, 2009.

The Committee is responsible for assisting our Board of Directors in overseeing the following primary areas:

Reviewing and approving the goals and objectives relevant to the compensation of the Chief Executive Officer and the Company's other executive officers and ensuring those goals are aligned with the Company's short- and long-term objectives;

Reviewing, at least annually, the structure and compensation opportunities available under the Company's executive and associate compensation plans in light of the Company's goals and objectives;

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Reviewing and approving salary, annual and long-term incentive compensation targets, performance objectives and payments for the executive officers of the Company;

Evaluating, at least annually, the performance of the executive officers in light of the Company's strategic plan and the goals and objectives of the Company's executive compensation plans and establishing future compensation levels based upon this evaluation;

Reviewing and approving grants and awards to the executive officers and other participants under equity-based compensation plans, based on achievement of pre-determined goals and objectives;

Reviewing and approving compensation for members of our Board of Directors and any of its committees; and

Reviewing and approving any employment agreement or severance agreement to be made with any existing or prospective executive officer of the Company.

The Committee engages a compensation consultant to assist in the design of the Company's compensation program and the review of its effectiveness.

A copy of the Committee's charter is available to stockholders on the Company's web site, www.thirdfederal.com, under Investor Relations and a written copy is available to stockholders upon written request to the Company, to the attention of Investor Relations at 7007 Broadway Avenue, Cleveland, Ohio 44105.

Executive Committee

The Executive Committee, which currently consists of Messrs. Stefanski (Chairman), Kobak, Gascoigne and Mulligan, possesses the power of our Board of Directors during intervals between meetings of our Board of Directors in order to address various items, including rate changes and approval of agreements and contracts. The Executive Committee does not possess the power to fill vacancies on our Board of Directors or any Board of Directors committees. The Executive Committee held 13 meetings during the fiscal year ended September 30, 2009.

Code of Conduct and Code of Ethics

The Company has adopted policies governing the activities of both the Company and Third Federal Savings and Loan, including a code of conduct and a code of ethics for senior financial officers. The code of conduct applies to all associates and directors, and addresses conflicts of interest, the treatment of confidential information, general associate conduct and compliance with applicable laws, rules and regulations. The code of ethics for senior financial officers applies to the Chief Executive Officer, the Chief Financial Officer and the Chief Accounting Officer, and addresses adherence to standards of integrity and professionalism when conducting and reporting the Company's financial affairs. In addition, the codes are designed to deter wrongdoing and to promote honest and ethical conduct, full and accurate disclosure and compliance with all applicable laws, rules and regulations. The codes are posted on the Company's web site, www.thirdfederal.com, under Investor Relations. Any waiver of any provision of either code granted to an executive officer or director may be made only by our Board of Directors. There were no waivers granted during fiscal year 2009.

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REPORT OF THE AUDIT COMMITTEE

The Audit Committee reviews the Company's financial reporting practices on behalf of our Board of Directors. Management is responsible for the financial statements and the reporting process, including the system of internal controls. The Company's independent accountants are responsible for expressing an opinion on the conformity of those audited financial statements with accounting principles generally accepted in the United States of America.

The Audit Committee has:

Reviewed and discussed with management the audited financial statements of the Company contained in its Annual Report on Form 10-K for the fiscal year ended September 30, 2009;

Discussed with the Company's independent accountants the matters required to be discussed pursuant to Statement of Auditing Standards No. 114, as amended (AICPA, Professional Standards, Vol. 1, AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T; and

Received the written disclosures and the letter from the Company's independent accountants required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountants' communications with the Audit Committee concerning independence, and has discussed with the independent accountants the independent accountants' independence.

Based on the reviews and discussions described above, the Audit Committee recommended to our Board of Directors that the audited financial statements for the fiscal year ended September 30, 2009 be included in the Company's Annual Report on Form 10-K, filed with the SEC.

Audit Committee

William C. Mulligan, Chairman

Anthony J. Asher

Martin J. Cohen

Paul W. Stefanik

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview

The following discussion and analysis should be read in conjunction with the information presented in the compensation and award tables, the footnotes to those tables and the related disclosures appearing later in this proxy statement. The tables and related disclosures contain specific information about the compensation earned or paid during the fiscal year ended September 30, 2009. The Committee engages a compensation consultant, Exequity, LLP (the "Compensation Consultant"), to advise it on the Company's compensation programs.

The tables and related disclosures that follow cover the following individuals, whom we refer to as our named executive officers:

Marc A. Stefanski, Chairman of the Board, President and Chief Executive Officer;

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Ralph M. Betters, Chief Information Officer, Third Federal Savings and Loan;

David S. Huffman, Chief Financial Officer;

Marianne Piterans, Director of Human Resources, Third Federal Savings and Loan; and

John P. Ringenbach, Chief Operating Officer, Third Federal Savings and Loan.

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Each of the named executive officers is an officer of the Company and employed by Third Federal Savings and Loan. Of the total compensation paid to each named executive officer, a portion of such compensation is allocated as being paid by the Company while the remainder is allocated as being paid by Third Federal Savings and Loan. All discussion of compensation paid to the named executive officers refers to the combined amount of compensation paid by the Company and Third Federal Savings and Loan.

The compensation and benefits payable to the Company's directors and executive officers are established by or under the supervision of the Committee. The Committee currently consists of three members, Robert A. Fiala (Chairman), Anthony J. Asher and William C. Mulligan, each of whom is an independent director within the meaning of the listing standards of the NASDAQ Stock Market, a disinterested director within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, and a non-employee director within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code).

The purposes of the Committee, among others, are to discharge our Board of Directors' responsibilities relating to compensation of the Company's directors and executive officers and to approve and evaluate the director and executive officer compensation plans, policies and programs of the Company. The Committee's charter provides that the Committee will generally meet quarterly or as needed. During fiscal year 2009, the Committee held seven meetings. The agenda for each meeting is established by the Chairman of the Committee. The Committee generally invites the Company's Director of Human Resources, and frequently invites other members of senior management and outside advisors, as necessary, to report on matters of interest to the Committee and to participate in its deliberations. In addition, the Committee meets in executive session without management at each meeting.

Compensation Philosophy and Objectives

In making decisions with respect to compensation for our named executive officers and other executives, the Committee is guided by the following philosophies and objectives:

We must attract, retain and motivate superior associates, including executives, for our flat business structure to be effective. Our flat business structure is intended to provide a framework for effective and prompt decision making, associate job satisfaction, the sharing of resources and the ability to respond quickly to changes in the marketplace.

Our compensation program should be competitive and comprehensive, consist of base salary, annual incentives, long-term incentives and benefits, and support our operating strategy of emphasizing teamwork and personal and professional enhancement through cross-training and efficiency.

Our compensation program should motivate and reward our executives for sustained performance through the use of performance-based cash and equity compensation tied to short, intermediate and long-term goals designed to facilitate the achievement of the Company's business objectives and the enhancement of stockholder value.

Our compensation program should be designed to eliminate any incentive for our executive officers to cause the Company to take undue risk.

Table of Contents***Elements of Our 2009 Compensation Program for Named Executive Officers***

The following elements were included in our compensation program for named executive officers during fiscal year 2009:

| Element of Compensation | Associates Covered | Description | Key Objectives Promoted |
|--|------------------------------|--|---|
| Annual Compensation Base Salary | All salaried associates | Fixed annual compensation paid in accordance with our regular payroll procedures during the year. | Designed to be market competitive and enable the Company to attract and retain talented associates. |
| Semi-Annual Performance Based Cash Bonuses for Named Executive Officers | 5 executives | Variable cash bonuses. Bonuses for the named executive officers are based on the net income of the Company and subject to reductions if certain pre-established performance goals are not achieved over the two semi-annual periods of the fiscal year. | Designed to motivate and reward achievement of short-term financial, operational and strategic business goals. |
| Long-Term Compensation Stock Options | 5 executives and 1 associate | Right to purchase common stock at a set price for a period of time after the right vests. | Designed to be market competitive, motivate and reward achievement of stock price growth, and align associates' interests with those of the Company's stockholders. Also designed to retain executives. |
| Restricted Stock Units | 5 executives and 1 associate | Units representing a right to receive shares of common stock that vest as a result of continued employment for a stated period of time. | Designed to retain executives, motivate and reward achievement of stock price growth and align associates' interests with those of the Company's stockholders. |
| Other Compensation Elements | | | |
| Third Federal Savings Retirement Plan | Approximately 720 associates | Company funded defined benefit retirement plan provided to associates; the amount of the benefit depends on an associate's years of service with the Company and average annual compensation. The plan was closed to new associates as of December 31, 2002. | Designed to be market competitive and enable the Company to retain talented associates who are eligible to participate. |

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| Element of | Associates | Description | Key Objectives Promoted |
|---|----------------------------------|---|--|
| Compensation Third Federal Savings 401(k) Plan | Covered All associates | A 401(k) retirement savings plan that enables associates to defer up to 75% of their compensation with a Company matching contribution of up to 4% of an associate's contributions. The Plan also provides profit sharing contributions as determined by the Board. The Company also makes contributions to the Plan on behalf of associates not participating in the Third Federal Savings Retirement Plan as determined by the Board. | Designed to be market competitive and enable the Company to attract and retain talented associates. |
| Benefit Equalization Plan | 5 executives | A retirement savings plan that enables executives to defer a portion of their cash compensation and provides Company matches and profit sharing contributions that would have been payable under the 401(k) plan, but for certain limits established by law. | Designed to enable the Company to attract and retain talented executives. |
| Associate Stock Ownership Plan | All associates | A plan that enables our associates to acquire shares of common stock of the Company. | Designed to help align associates' interests with those of the Company's stockholders. |
| Other Benefits | All associates | Health, life and disability insurance benefits. | Designed to be market competitive and enable the Company to attract and retain talented associates. |
| Perquisites | 5 executives and 2 associates | Personal benefits provided to executives, such as financial, retirement and estate planning programs, a personal health management program, and a company car program. | Designed to be market competitive and to facilitate associates' attention to the Company's business. |

Compensation Setting Process

On an annual basis, the Committee reviews and recommends compensation levels for executive officers based on the Company's performance, the performance of the executive officers as a group, individual performance and experience and market comparisons.

For fiscal year 2009, the Company retained the Compensation Consultant to assist the Committee in its process of reviewing its comparator group of companies, reviewing the compensation programs of the members of the comparator group and making recommendations and providing advice with respect to the compensation of the Company's executive officers.

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In fiscal year 2009, due to the financial crisis and its impact on the financial industry, the Committee reviewed pay information for two comparator groups. The first group was similar to the 21 company peer group utilized in fiscal year 2008. However, at the time the analysis was performed, only 14 of the original 21 companies remained as separate publicly traded companies with seven of the companies having been acquired, closed by regulators, or filed for bankruptcy. As a result, in order to obtain more robust competitive information, the Committee reviewed pay information for a second peer group of 20 higher performing publicly traded thrifts and mortgage financing companies to facilitate sufficient comparisons with higher performing companies. The companies selected were the 20 highest ranked publicly traded thrifts and mortgage financing companies with assets ranging from \$1 billion to \$60 billion based upon one-year total shareholder return for calendar year 2008. The companies included in the first comparator group for fiscal year 2009 were as follows:

| | |
|-------------------------------------|------------------------------------|
| BankAtlantic Bancorp. | Flagstar Bancorp |
| Capitol Federal Financial (MHC) | MGIC Investment Corp. |
| Centerline Holding Co. | NewAlliance Bancshares, Inc. |
| Corus Bankshares, Inc. | Northwest Bancorp, Inc. (MHC) |
| Doral Financial Corp. | People's United Financial |
| FirstFed Financial Corp. | Provident Financial Services, Inc. |
| First Niagara Financial Group, Inc. | Washington Federal, Inc. |

The companies included in the second comparator group for fiscal year 2009 were as follows:

| | |
|-------------------------------------|------------------------------------|
| Bank Mutual Corporation | Hudson City Bancorp Inc. |
| Beneficial Mutual Bancorp Inc. | Kearny Financial Corp. |
| Berkshire Hills Bancorp Inc. | NewAlliance Bancshares, Inc. |
| Brookline Bancorp Inc. | Northwest Bancorp, Inc. (MHC) |
| Capitol Federal Financial (MHC) | Ocwen Financial Corp. |
| Dime Community Bancshares Inc. | People's United Financial |
| Federal Agriculture Mortgage Corp. | Provident Financial Services, Inc. |
| First Financial Holdings Inc. | Provident New York Bancorp |
| First Niagara Financial Group, Inc. | Trustco Bank Corp. NY |
| Flushing Financial Corp. | WSFS Financial Corp. |

Because fiscal year 2009 base salaries and bonuses were established at the end of fiscal year 2008, the comparator groups were used exclusively for purposes of evaluating fiscal year 2009 long-term incentive grants.

The Committee does not benchmark the named executive officers' compensation against these comparator groups. For example, the Committee does not set compensation for our executives at a pre-determined level in relation to these groups, such as the median level of compensation reported by these groups, or by applying a formula to the compensation reported by these groups. Instead, as the first step in the compensation setting process, the Committee reviews the compensation data for the comparator groups to assess the competitiveness of the Company's compensation programs and its ability to achieve the philosophies and objectives of its compensation programs.

In making determinations on the mix and amount of executive compensation, the Committee reviews all components of executive compensation, including base salary, semi-annual performance-based cash bonuses, long-term incentives, associate benefits, costs of perquisites and any other form of compensation received from the Company. The Committee believes that the total compensation opportunity available to executive officers should consist of base salary, performance-based cash bonuses, long-term incentives, retirement and other associate benefits and perquisites, each of which is a common compensation component for executive officers at companies in the comparator group. The Committee has no mandatory policy for the allocation between base salary, semi-annual performance-based cash bonuses, and long-term incentives. For fiscal year 2009, the mix of pay continued to include significant long-term incentives in order to create a strong link between executive pay

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and long-term stockholder value creation and encourage lo