

TFS Financial CORP  
Form 424B3  
February 27, 2007  
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Registration No. 333-139295

Prospectus Supplement

Interests in

**THIRD FEDERAL 401(k) SAVINGS PLAN**

**Offering of Participation Interests in up to 4,919,960 Shares of**

**TFS FINANCIAL CORPORATION**

**Common Stock**

In connection with the adoption of a stock issuance plan by TFS Financial Corporation, participants in the Third Federal 401(k) Savings Plan are being permitted to invest all or a portion of their accounts in participation interests in the shares of common stock of TFS Financial Corporation. TFS Financial Corporation has registered a number of participation interests through the 401(k) Plan in order to enable the trustee of the 401(k) Plan to purchase up to 4,919,960 shares of the common stock, assuming a purchase price of \$10.00 per share. This prospectus supplement relates to the initial election of 401(k) Plan participants to direct the trustee of the 401(k) Plan to invest all or a portion of their 401(k) Plan accounts in the TFS Financial Corporation Stock Fund at the time of the stock offering.

TFS Financial Corporation's prospectus, dated February 12, 2007, accompanies this prospectus supplement. It contains detailed information regarding the stock offering and the stock issuance plan, TFS Financial Corporation common stock and the financial condition, results of operations and business of TFS Financial Corporation and Third Federal Savings and Loan. This prospectus supplement provides information regarding the 401(k) Plan. You should read this prospectus supplement together with the prospectus and keep both for future reference.

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For a discussion of risks that you should consider, see **Risk Factors** beginning on page 20 of the attached prospectus.

**The interests in the 401(k) Plan and the offering of the shares of common stock have not been approved or disapproved by the Office of Thrift Supervision, the Securities and Exchange Commission or any other federal or state agency. Any representation to the contrary is a criminal offense.**

**The securities offered in this prospectus supplement are not deposits or accounts and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.**

This prospectus supplement may be used only in connection with offers and sales by TFS Financial Corporation of participation interests in shares of common stock pursuant to the 401(k) Plan. No one may use this prospectus supplement to reoffer or resell interests or shares of common stock acquired through the 401(k) Plan.

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You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. TFS Financial Corporation, Third Federal Savings and Loan and the 401(k) Plan have not authorized anyone to provide you with information that is different.

This prospectus supplement does not constitute an offer to sell or solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make an offer or solicitation in that jurisdiction. Neither the delivery of this prospectus supplement and the prospectus nor any sale of shares of common stock shall under any circumstances imply that there has been no change in the affairs of TFS Financial Corporation, Third Federal Savings and Loan or the 401(k) Plan since the date of this prospectus supplement, or that the information contained in this prospectus supplement or incorporated by reference is correct as of any time after the date of this prospectus supplement.

The date of this prospectus supplement is February 12, 2007.

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**THE STOCK OFFERING**

**Securities Offered**

TFS Financial Corporation is offering participation interests in shares of common stock of TFS Financial Corporation acquired by the Third Federal 401(k) Savings Plan. The participation interests represent your indirect ownership of shares of TFS Financial Corporation's common stock through the 401(k) Plan. At the purchase price of \$10.00 per share, the 401(k) Plan may acquire up to 4,919,960 shares of TFS Financial Corporation common stock in the stock offering. Only employees of Third Federal Savings and Loan and Third Cap Associates, Inc. may become participants in the 401(k) Plan. Your investment in the shares of common stock of TFS Financial Corporation in the stock offering through the TFS Stock Offering Option available under the 401(k) Plan is subject to the purchase priorities contained in the stock issuance plan of TFS Financial Corporation.

Information with regard to the 401(k) Plan is contained in this prospectus supplement and information with regard to the financial condition, results of operations and business of TFS Financial Corporation and Third Federal Savings and Loan is contained in the prospectus. The address of the principal executive office of Third Federal Savings and Loan is 7007 Broadway Avenue, Cleveland, Ohio 44105.

**Election to Purchase**

In connection with the stock offering, you may elect to transfer all or part of your account balances in the 401(k) Plan to the TFS Stock Offering Option, to be used to purchase shares of common stock issued in the stock offering. All Plan participants are eligible to direct a transfer of funds to the TFS Stock Offering Option. However, such directions are subject to the purchase priorities in the stock issuance plan as follows: (1) eligible account holders (depositors whose deposit account(s) totaled \$50.00 or more on April 30, 2005), (2) tax-qualified employee benefit plans of Third Federal Savings and Loan, including this 401(k) Plan and the employee stock ownership plan, (3) supplemental eligible account holders (depositors whose deposit account(s) totaled \$50.00 or more on December 31, 2006), and (4) other members (depositors whose deposit account(s) totaled \$50.00 or more on January 31, 2007, who are not eligible account holders or supplemental eligible account holders, and borrowers from Third Federal Savings and Loan as of January 17, 1996 who maintain such borrowings as of January 1, 2007, who are not eligible account holders or supplemental eligible account holders). If you fall into subscription offering categories (1), (3) or (4), you have subscription rights to purchase shares of

**Common Stock in the Stock Offering Priorities**

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TFS Financial Corporation common stock in the subscription offering and you may use funds in your account in the 401(k) Plan account to purchase the shares of TFS Financial Corporation common stock. You are also permitted to purchase shares of TFS Financial Corporation common stock in the subscription offering even though you are unable to purchase through subscription offering categories (1), (3) or (4) because TFS Financial Corporation has determined to allow the 401(k) Plan to purchase shares through subscription offering category (2), reserved for its tax-qualified employee plans. The trustee of the 401(k) Plan will purchase shares of common stock in accordance with your directions. Prior to the conclusion of the subscription offering period, the amount or percentage that you elect to transfer from your existing account balances for the purchase of shares of common stock in the stock offering will be removed from your existing accounts and transferred to the TFS Stock Offering Option and will be invested in an interest-bearing money market account in the 401(k) Plan, pending the closing of the stock offering. While that amount is held in the TFS Stock Offering Option and invested in the money market account, it will not be available for any other purpose under the 401(k) Plan, meaning that no liquidation for a hardship withdrawal, plan loan, or distribution will be possible from the TFS Stock Offering Option during the subscription offering period. At the close of the stock offering, and subject to a determination as to whether all or any portion of your order may be filled (based on your purchase priority and whether the stock offering is oversubscribed), all or a portion of the amount or percentage that you have transferred to purchase stock in the stock offering will be applied to the purchase of shares of common stock. The amount applied to the purchase of common stock will become part of the new TFS Financial Corporation Stock Fund.

In the event the stock offering is oversubscribed, i.e. there are more orders for shares of common stock than shares available for sale in the stock offering, and the trustee is unable to use the full amount allocated by you to purchase shares of common stock in the stock offering, the amount that cannot be invested in shares of common stock, and any interest earned, will be reinvested in the investment funds of the 401(k) Plan. The amount that cannot be applied to the purchase of shares of common stock in the stock offering and any interest your account earned, pending investment in shares of common stock, will be reinvested in accordance with your then existing investment election (in proportion to your investment direction for future contributions). If you fail to direct the investment of your account balances towards the purchase of any shares in connection with the stock offering, your account balances will remain in the investment funds of the 401(k) Plan as previously directed by you.

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**Value of Plan Assets**

As of December 31, 2006, the market value of the assets of the 401(k) Plan was approximately \$51,117,668, of which approximately \$49,199,559 is eligible to purchase shares of common stock. A participant in the 401(k) Plan can determine the current value of his or her account balance under the 401(k) Plan by contacting The Principal Retirement Service Center at [www.principal.com](http://www.principal.com) or by calling 1-800-547-7754.

**Minimum and Maximum Investment**

In connection with the stock offering, the 401(k) Plan will permit you to direct the trustee to transfer all or part of the funds that represent your current beneficial interest in the assets of the 401(k) Plan to the TFS Stock Offering Option, subject to the minimum and maximum purchase limitations. The trustee of the 401(k) Plan will subscribe for shares of TFS Financial Corporation common stock offered for sale in connection with the stock offering, in accordance with each participant's direction. In order to purchase shares in the stock offering through the 401(k) Plan, the minimum investment is \$250, which will purchase 25 shares. The maximum investment any individual can make through the 401(k) Plan is \$500,000, which will purchase 50,000 shares. These purchases, when aggregated with purchases made by you, your Associates or other persons Acting in Concert with you (as these terms are defined in the Prospectus) cannot exceed \$750,000 in the aggregate, or 75,000 shares. The trustee will pay \$10.00 per share, which will be the same price paid by all other persons who purchase shares in the stock offering.

**How to Order**

You can elect to transfer (in whole percentages or dollar amounts) all or a portion of your account balance in the 401(k) Plan to the TFS Stock Offering Option for the purchase of shares of common stock in the stock offering. This is done by following the procedures described below. Please note the following stipulations concerning this election:

You can direct all or a portion of your current account balance to the TFS Stock Offering Option.

Your election is subject to a minimum purchase of 25 shares which equates to \$250.00.

Your election is subject to a maximum purchase of 50,000 shares which equates to \$500,000.

The election period opens February 26, 2007 and closes March 19, 2007.

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After your election is accepted by Principal, it will be rounded down to the closest dollar amount divisible by \$10.00. The difference will remain in the TFS Stock Offering Option until the final transaction has been completed. At that time, the common shares purchased based on your election will be transferred to the TFS Financial Corporation Stock Fund and any remaining funds will be transferred out of the TFS Stock Offering Option for investment in other funds under the 401(k) Plan based on your election currently on file for future contributions.

You will continue to have the ability to transfer amounts not in the TFS Stock Offering Option among all the other investment funds on a daily basis.

The amount transferred to the TFS Stock Offering Option needs to be segregated and held until the offering closes. Therefore, this money is not available for distributions, loans or withdrawals until the transaction is completed which is after the closing of the stock offering.

You are allowed only one election to transfer funds to the TFS Stock Offering Option. Follow these steps to make your election to use all or part of your account balance in the 401(k) Plan to purchase shares in the stock offering:

Go to [www.principal.com](http://www.principal.com) and log into your 401k account

Click on the [Make Changes](#) tab or the [Transferring Existing Balances](#) link.

Stay on the first page of the election screen to make an election using percentages from your existing fund balances.

Find the [Additional Investment Transfers Options](#) link to make an election from a specific source of money (e.g. Tier I, Tier II, etc) or to make a dollar election.

Complete all the steps in the election process until you receive a request number (Note: your election is not complete until you have confirmed your request with your password and you receive a request number).

Once you have a request number, your election cannot be changed.

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After you have completed your election, you will also need to complete the Stock Information Form and return it in the self-addressed envelope provided by March 19, 2007. It is critical that this Stock Information Form be completed and returned.

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**Order Deadline**

You must make your election and return your Stock Information Form no later than March 19, 2007. You should return your Stock Information Form to TFS Financial Corporation, PO Box 94965, Cleveland, Ohio 44101-8619. You may return your Stock Information Form by US mail or inter-office mail; you may not return the form by fax.

**Irrevocability of Transfer Direction**

Once you have made your election as described above, you may not change your election to transfer amounts to (or remove amounts from) the TFS Stock Offering Option for the purchase of stock in the stock offering. Your election is irrevocable.

**Direction to Purchase or Sell Common Stock in the Future**

You will be able to purchase participation interests after the stock offering through your investment in the TFS Financial Corporation Stock Fund. You may direct that your future contributions or your account balance in the 401(k) Plan be transferred to the TFS Financial Corporation Stock Fund. After the stock offering, the trustee of the 401(k) Plan will acquire shares of common stock in open market transactions at the prevailing price which may be less or more than \$10.00 per share. After the stock offering, you will also have the ability to sell all or a portion of your interest in the TFS Financial Corporation Stock Fund.

Special restrictions may apply to transfers directed to and from the TFS Financial Corporation Stock Fund by the participants who are subject to the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended, relating to the purchase and sale of securities by officers, directors and principal shareholders of TFS Financial Corporation.

**Voting Rights With Respect to Shares of Common Stock**

You will, on a confidential basis, be able to instruct the Trustee concerning the exercise of voting rights with respect to shares of common stock of TFS Financial Corporation represented by your account.

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**DESCRIPTION OF THE 401(k) PLAN**

**Introduction**

Third Federal Savings and Loan originally adopted the 401(k) Savings Plan effective as of July 1, 1989, and restated it most recently effective as of January 1, 2007. The 401(k) Plan is a tax-qualified plan with a cash or deferred compensation feature established in accordance with the requirements under Section 401(a) and Section 401(k) of the Internal Revenue Code of 1986, as amended (the Code), and contains and employee stock ownership feature.

Third Federal Savings and Loan intends that the 401(k) Plan, in operation, will comply with the requirements under Section 401(a) and Section 401(k) of the Code. Third Federal Savings and Loan will adopt any amendments to the 401(k) Plan that may be necessary to ensure the continuing qualified status of the 401(k) Plan under the Code and applicable Treasury Regulations.

*Employee Retirement Income Security Act of 1974 (ERISA).* The 401(k) Plan is an individual account plan other than a money purchase pension plan within the meaning of ERISA. As such, the 401(k) Plan is subject to all of the provisions of Title I (Protection of Employee Benefit Rights) and Title II (Amendments to the Code Relating to Retirement Plans) of ERISA, except to the funding requirements contained in Part 3 of Title I of ERISA which by their terms do not apply to an individual account plan (other than a money purchase plan). The 401(k) Plan is not subject to Title IV (Plan Termination Insurance) of ERISA. The funding requirements contained in Title IV of ERISA are not applicable to participants or beneficiaries under the 401(k) Plan.

*Reference to Full Text of Plan.* The following portions of this prospectus supplement summarize certain provisions of the 401(k) Plan. They are not complete and are qualified in their entirety by the full text of the 401(k) Plan. Copies of the 401(k) Plan are available to all employees by filing a request with the 401(k) Plan administrator c/o Third Federal Savings and Loan, 7007 Broadway Avenue, Cleveland, Ohio 44105. You are urged to read carefully the full text of the 401(k) Plan.

**Eligibility and Participation**

Each employee is eligible to participate in the 401(k) Plan upon reaching age 18 and completing one year of Eligibility Service. Participation begins on the next entry day, which is the first day of any calendar quarter. Notwithstanding the foregoing, however, employees are not eligible to become Tier III participants until reaching age 21, and then only if they are not earning benefits under the Third Federal Savings Retirement Plan.

For purposes of the 401(k) Plan, an employee is credited with a year of Eligibility Service if the employee completes at least 1,000 hours of service by the anniversary of date of hire. If an employee does not complete at least 1,000 hours of service during that period, the employee will be credited with a year of Eligibility Service for the first calendar year beginning after the employee's date of hire in which 1,000 hours of service is completed. For purposes of making Tax-Deferred Contributions and receiving Matching Contributions, however, an employee is considered to meet the above eligibility requirement when the employee first completes 1,000

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hours of service in the most recent 12 months of employment (which may occur before the anniversary of the employee's hire date).

As of December 31, 2006, there were 986 employees, former employees and beneficiaries eligible to participate in the Plan and 800 employees participating by making elective deferral contributions.

### **Contributions Under the 401(k) Plan**

The 401(k) Plan provides for several kinds of contributions, including Tax-Deferred Contributions as elected by employees, Employer Matching Contributions made on behalf of employees electing Tax-Deferred Contributions (also referred to as Tier I), discretionary Profit-Sharing Contributions (also referred to as Tier II), and discretionary Tier III Contributions. Each type is summarized below. In determining contribution amounts under the 401(k) Plan, an employee's annual compensation in excess of \$225,000 is disregarded, as are certain other amounts of executive compensation.

#### **Tax-Deferred Contributions.**

As an eligible employee you may elect to make Tax-Deferred Contributions by authorizing a reduction in the compensation you would otherwise receive by a specified amount. This amount is then deposited in your 401(k) Plan account. You may elect to contribute between 1% and 75% of your eligible compensation. If you will be at least age 50 by the end of any calendar year, you may elect to contribute up to an additional \$5,000 annually in this manner. You may change the amount of your Tax-Deferred Contributions, including discontinuing or resuming them, by filing a form or by telephone or other electronic medium.

#### **Employer Matching Contributions.**

Employer Matching Contributions are provided at the rate of 100% to match your Tax-Deferred Contributions under the 401(k) Plan, up to the first four percent of your compensation contributed as a Tax-Deferred Contribution for each payroll period.

#### **Profit-Sharing Contributions**

Third Federal Savings and Loan may, in its discretion, make a Profit-Sharing Contribution for a particular year. If a Profit-Sharing Contribution is made, it is allocated among eligible employees who have completed 1,000 hours of service during the year and have not terminated employment as of the last day of the year. Allocations are in proportion to compensation for the year.

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### **Tier III Contributions**

Third Federal Savings and Loan may, in its discretion, make a Tier III contribution for each Tier III eligible employee. You must complete 1,000 hours of service and remain employed on the last day of the year in order to be eligible to receive a Tier III contribution, unless you qualify for LTD benefits, retire after reaching age 65, or die during the year. For 2007, Tier III Contributions are being made at the rate of 2.5% of the eligible employee's compensation.

### **Rollover Contributions.**

You may elect to roll over qualified distributions from another plan or a rollover IRA into the 401(k) Plan. IRS rules govern whether a distribution from another plan or an IRA qualifies for rollover into the 401(k) Plan, and you may be required to provide information to show that the distribution you wish to roll over qualifies under IRS rules. Any rollover contribution is held in a separate account.

### **Limitations on Contributions**

*Limitations on Tax-Deferred Contributions.* For the plan year beginning January 1, 2007, the amount of your Tax-Deferred Contributions may not exceed \$15,500 per calendar year. This amount may be adjusted periodically by law, based on changes in the cost of living. Contributions in excess of this limit are known as excess deferrals. If you defer amounts in excess of this limitation, your gross income for federal income tax purposes will include the excess in the year of the deferral. In addition, unless the excess deferral is distributed before April 15 of the following year, it will be taxed again in the year distributed. Income on the excess deferral distributed by April 15 of the immediately succeeding year will be treated, for federal income tax purposes, as earned and received by you in the tax year in which the contribution is made.

*Catch-up Contributions.* If you have made the maximum amount of regular Tax-Deferred Contributions allowed by the 401(k) Plan or other legal limits and you have attained at least age 50 (or will reach age 50 prior to the end of the plan year), you are also eligible to make an additional catch-up contribution. You may authorize your employer to withhold a specified dollar amount of your compensation for this purposes. For 2007, the maximum catch-up contribution is \$5,000.

### **Benefits Under the 401(k) Plan**

Your vested account balance determines the amount of your benefit under the 401(k) Plan. Your account balance is subject to changes in value on a daily basis, depending on the investments selected, as further described below.

Vested benefits are distributed following retirement, death, or termination of employment. Generally you must request a distribution and indicate whether you wish to direct a rollover into an individual retirement account or other eligible retirement plan. Benefits are distributed in the form of cash, except that if you so elect any amount invested in the TFS

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Financial Corporation Stock Fund can be distributed in the form of shares of common stock TFS Financial Corporation (with any fractional share distributable in cash).

If you continue in employment with Third Federal Savings and Loan after reaching age 70-1/2, you may elect to begin receiving periodic installment payments from your account or a single sum payment. Distribution is also available if you become disabled within the meaning of the 401(k) Plan before you terminate from employment.

If your vested account balance is \$5,000 or less, distribution will be made without your consent. However, if the distribution amount exceeds \$1,000 and you have not given your consent, your account will be automatically rolled over into an individual retirement account established for your benefit.

In the event of your death, your vested account balance will be payable to your beneficiary in accordance with the terms of the 401(k) Plan. Your beneficiary may also choose to roll over the benefit.

**Vesting**

Your vested interest in your Tax-Deferred Contributions and Rollover Contributions is always 100%. Your vested interest in any Profit-Sharing and Matching Contributions credited to your account after 2002 is also 100%. Profit-Sharing and Matching Contributions made for periods prior to 2003 become vested according to the following schedule:

| <b>Years of Vesting Service</b> | <b>Vested Interest</b> |
|---------------------------------|------------------------|
| Less than 2                     | 0%                     |
| 2, but less than 3              | 25%                    |
| 3, but less than 4              | 50%                    |
| 4, but less than 5              | 75%                    |
| 5 or more                       | 100%                   |

If you are a Tier III eligible employee, your vested interest in Tier III Contributions is 0% until you complete 5 years of Vesting Service, when it becomes 100%. Tier III Contributions made for 2007 and beyond, however, become vested according to the following schedule:

| <b>Years of Vesting Service</b> | <b>Vested Interest</b> |
|---------------------------------|------------------------|
| Less than 2                     | 0%                     |
| 2, but less than 3              | 25%                    |
| 3, but less than 4              | 50%                    |
| 4, but less than 5              | 75%                    |
| 5 or more                       | 100%                   |

If you are employed by an employer under the 401(k) Plan when you reach age 65, become disabled, or die, your vested interest in all accounts will be 100%

You are credited with a year of Vesting Service for each calendar year in which you complete 1,000 hours of service. Special rules apply to determine years of Vesting Service if

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you are rehired by Third Federal Savings and Loan and were not vested prior to your first termination of employment.

**Withdrawals and Distributions from the 401(k) Plan**

Applicable federal law requires the 401(k) Plan to impose substantial restrictions on the right of a Plan participant to withdraw amounts held for his or her benefit under the 401(k) Plan prior to the participant's termination of employment with Third Federal Savings and Loan. A substantial federal tax penalty may also be imposed on withdrawals made prior to the participant's attainment of age 59½, regardless of whether such a withdrawal occurs during his or her employment with Third Federal Savings and Loan or after termination of employment.

**Withdrawals from your Plan Account Prior to Termination of Employment.**

Hardship Distributions. In certain circumstances, you may make a cash withdrawal from your Tax-Deferred Contribution account (not including earnings credited after December 31, 1988) while you are still employed by an employer under the 401(k) Plan. In particular, if you incur an immediate and heavy financial need you may apply for a hardship withdrawal. You may only make a hardship withdrawal if it is determined that the withdrawal is necessary to meet your financial need. Your hardship withdrawal may include amount necessary to pay any federal, state, or local income taxes or penalties expected to result from the withdrawal. The financial needs for which you can receive a hardship withdrawal are:

medical expenses of you, your spouse, or your dependents for the diagnosis, cure, mitigation, treatment, or prevention of disease

purchase of your principal residence (not including mortgage payments)

tuition payments, related educational fees, and room and board expenses of post-secondary education for you, your spouse, or your dependents,

prevention of eviction from your principal residence or foreclosure on the mortgage of your principal residence

payment of funeral expenses for your parent, spouse, child, or dependent

expenses for the repair of damage to your principal residence that would qualify for a casualty loss deduction under the Internal Revenue Code.

You must represent that you cannot meet the financial need through insurance, liquidation of your assets, ceasing your Tax-Deferred Contributions under the Plan, or obtaining other distributions or a loan from the 401(k) Plan. Alternatively, you must show that the amount does not exceed the amount you need to meet your financial need, you must have obtained all other distributions and non-taxable loans available to you under any employer plan, and you must suspend your Tax-Deferred Contributions for at least six months.

*Dividend Withdrawals.* If any portion of your account is invested in the TFS Financial Corporation Stock Fund and dividends are paid on that fund, you will have the opportunity to withdraw the dividend payment applicable to your account. If not withdrawn, the dividend will remain invested in the 401(k) Plan on a fully vested basis.

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### **Withdrawal upon Death**

You may name a beneficiary for your account under the 401(k) Plan. If you are married at the time of your death, your spouse will be your beneficiary unless prior to your death your spouse has consented to the naming of another beneficiary. If you have not named a beneficiary and you are not married at the time of your death, your estate will be your beneficiary. Your vested account balance will be distributed to your beneficiary as soon as practicable after an application for distribution has been made, and generally not more than five years following your death.

### **Loans under the 401(k) Plan**

You may apply for a loan under the 401(k) Plan, subject to the rules and limitations imposed by the Internal Revenue Code and the 401(k) Plan document. The amount of any loan is limited to the lesser of \$50,000 or 50 percent of the employee's vested account balance, not including Profit-Sharing and Tier III Contribution amounts. Loans bear a reasonable rate of interest and cannot be for a term greater than five years (ten years, when used to acquire the employee's principal residence) and are repaid on a level amortization basis through the payroll system. The minimum amount of any loan is \$1,000, and not more than one loan is permitted at any time. If a loan is not repaid in accordance with its terms it may go into default, resulting in certain potential adverse tax consequences.

### **Investment of Contributions and Account Balances**

All amounts credited to your accounts under the 401(k) Plan are held in the 401(k) Plan trust (the Trust), which is administered by the trustee appointed by Third Federal Savings and Loan's Board of Directors.

Prior to the effective date of the stock offering, you were provided the opportunity to direct the investment of your account into one of the following funds:

Third Federal CD Portfolio

Bond and Mortgage Separate Account

American Funds American Balanced R4 Fund

Principal LifeTime Strategic Income Separate Account

Principal LifeTime 2010 Separate Account

Principal LifeTime 2020 Separate Account

Principal LifeTime 2030 Separate Account

Principal LifeTime 2040 Separate Account

Principal LifeTime 2050 Separate Account

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LargeCap Value Separate Account

American Century Equity Income Adv Fund

American Funds Fundamental Investors R4 Fund

Victory Stock Index A Fund

American Funds Growth Fund of America R4 Fund

LargeCap Growth I Separate Account



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Medium Company Blend Separate Account

MidCap Growth Separate Account

Small Company Value Separate Account Small Company Blend Separate Account

SmallCap Growth II Separate Account

American Funds EuroPacific Growth R3 Fund

Putnam International Equity A Fund

You may change your investment directions once each business day. This may be done either by filing a form or by telephone or other electronic medium. You may also redirect the investment of your investment accounts such that a percentage or dollar amount of any one or more investment accounts may be transferred to any one or more other investment accounts either by filing a form or by telephone or other electronic medium.

In connection with the stock offering, the 401(k) Plan now provides that in addition to the funds specified above, you may direct the trustee, or its representative, to invest all or a portion of your account in the TFS Financial Corporation Stock Fund.

Pending investment in shares of common stock, amounts allocated towards the purchase of shares in the stock offering will be held in the Money Market Separate Account-Standard. In the event of an oversubscription that prevents you from purchasing all of the shares of common stock that you ordered in the stock offering, the amounts that you elected to invest but were unable to invest, plus any earnings on those amounts, will be reinvested among the other funds of the 401(k) Plan in accordance with your then existing investment election (in proportion to your investment direction for future contributions).

Following the stock offering, you may elect to have both past contributions and earnings, as well as future contributions to your account invested among the funds listed above and the TFS Financial Corporation Stock Fund.

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The following table provides performance data with respect to the investment funds available under the 401(k) Plan through December 31, 2006:

**AVERAGE ANNUALIZED RETURNS AS OF DECEMBER 31, 2006**

| <i>Investment Funds</i>   | <i>Year to</i> |               |               |               |                |
|---|----------------|---------------|---------------|---------------|----------------|
|   | <i>Date</i>    | <i>1-Year</i> | <i>3-Year</i> | <i>5-Year</i> | <i>10-Year</i> |
| Third Federal CD Portfolio  | 3.93%          | 3.93%         | 2.59%         | 2.53%         | 3.87%          |
| Bond and Mortgage Separate Account <sup>1</sup>                   | 4.62%          | 4.62%         | 4.01%         | 5.29%         | 6.31%          |
| American Funds American Balanced R4 Fund <sup>2</sup>             | 11.78%         | 11.78%        | 7.84%         | 7.60%         | 9.67%          |
| Principal LifeTime Strategic Income Separate Account <sup>3</sup> | 8.96%          | 8.96%         | 7.90%         | 7.23%         |                |
| Principal LifeTime 2010 Separate Account <sup>3,12,13</sup>       | 11.86%         | 11.86%        | 9.58%         | 8.27%         |                |
| Principal LifeTime 2020 Separate Account <sup>3,12,13</sup>       | 14.04%         | 14.04%        | 11.20%        | 9.15%         |                |
| Principal LifeTime 2030 Separate Account <sup>3,12,13</sup>       | 15.14%         | 15.14%        | 11.96%        | 9.19%         |                |
| Principal LifeTime 2040 Separate Account <sup>3,12,13</sup>       | 15.44%         | 15.44%        | 12.28%        | 8.95%         |                |
| Principal LifeTime 2050 Separate Account <sup>3,12,13</sup>       | 15.97%         | 15.97%        | 12.72%        | 8.72%         |                |
| LargeCap Value Separate Account <sup>1,4,5</sup>                  | 21.79%         | 21.79%        | 13.21%        | 9.79%         |                |
| American Century Equity Income Adv Fund <sup>2</sup>              | 19.30%         | 19.30%        | 11.03%        | 9.95%         | 12.05%         |
| American Funds Fundamental Investors R4 Fund <sup>2</sup>         | 19.12%         | 19.12%        | 14.82%        | 10.53%        | 11.10%         |
| Victory Stock Index A Fund <sup>6</sup>                           | 15.76%         | 15.76%        | 9.97%         | 5.63%         | 7.74%          |
| American Funds Growth Fund of America R4 Fund <sup>2</sup>        | 10.91%         | 10.91%        | 12.35%        | 8.00%         | 12.93%         |
| LargeCap Growth I Separate Account <sup>1,4,7</sup>               | 5.99%          | 5.99%         | 7.54%         | 2.14%         |                |
| Medium Company Blend Separate Account <sup>1</sup>                | 14.04%         | 14.04%        | 13.52%        | 12.08%        | 11.27%         |
| MidCap Growth Separate Account <sup>1,8</sup>                     | 6.33%          | 6.33%         | 9.78%         | 5.85%         |                |
| Small Company Value Separate Account <sup>1,9</sup>               | 19.62%         | 19.62%        | 16.77%        | 17.79%        | 11.86%         |
| Small Company Blend Separate Account <sup>1,9</sup>               | 14.79%         | 14.79%        | 14.21%        | 11.90%        | 10.00%         |
| SmallCap Growth II Separate Account <sup>1,4,9,10</sup>           | 8.86%          | 8.86%         | 8.93%         | 7.13%         |                |
| American Funds EuroPacific Growth R3 Fund <sup>2,11</sup>         | 21.43%         | 21.43%        | 20.46%        | 14.77%        | 10.89%         |
| Putnam International Equity A Fund <sup>11</sup>                  | 28.24%         | 28.24%        | 18.83%        | 12.27%        | 11.35%         |

<sup>1</sup> For more information about this investment option, including its full name, please visit The Principal Retirement Service Center at [www.principal.com](http://www.principal.com) or call 1-800-547-7754 for assistance from a retirement specialist.

<sup>2</sup> These calculated returns reflect the historical performance of the oldest share class of the fund, adjusted to reflect the fees and expenses of this share class. Please see the fund's prospectus for more information on specific expenses, and the fund's most recent shareholder report for actual date of first sale. Expenses are deducted from income earned by the fund. As a result, dividends and investment results will differ for each share class.

<sup>3</sup> This Separate Account invests directly in the institutional class shares of a Principal Investors LifeTime Fund. The mutual fund operating expenses for each Principal Investors LifeTime Fund are reflected in the Total Investment Expense of the Separate Account as well as the operating expenses of the underlying funds in which the Principal Investors LifeTime Fund invests. Based on the asset allocation of the Principal Investors LifeTime Funds as in the

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prospectus dated March 1, 2006, the weighted average operating expenses of the underling funds are: Principal LifeTime Strategic Income, 0.67%; Principal LifeTime 2010, 0.70%; Principal LifeTime 2020, 0.75%; Principal LifeTime 2030, 0.74%; Principal LifeTime 2040, 0.73%; Principal LifeTime 2050, 0.73%. For further information on all mutual fund expenses, see the prospectus of the underlying Principal Investors LifeTime Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account.

<sup>4</sup> This Separate Account invests solely in the Institutional class shares of the Principal Investors Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.

<sup>5</sup> Effective March 1, 2006, Bank of New