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TIMBERLAND BANCORP INC
Form 8-K
April 26, 2007

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): April 24, 2007

Timberland Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Washington	0-23333	91-1863696
-----	-----	-----
State or other jurisdiction Of incorporation	Commission File Number	(I.R.S. Employer Identification No.)

624 Simpson Avenue, Hoquiam, Washington	98550
-----	-----
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number (including area code) (360) 533-4747

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions.

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition

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On April 24, 2007, Timberland Bancorp, Inc. issued its earnings release for the quarter ended March 31, 2007. A copy of the earnings release is attached hereto as Exhibit 99.1, which is incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits

(c) Exhibits

99.1 Press Release of Timberland Bancorp, Inc. dated April 24, 2007

SIGNATURES

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

TIMBERLAND BANCORP, INC.

DATE: April 25, 2007

By: /s/Dean J. Brydon

Dean J. Brydon
Chief Financial Officer

Exhibit 99.1

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Operating Results

Fiscal second quarter revenue (net interest income before provision for loan losses plus non-interest income) increased 5% to \$7.9 million from \$7.6 million for the second fiscal quarter of 2006. Net interest income before the provision for loan losses increased 7% to \$6.5 million with interest income increasing 18% and interest expense increasing 42%. For the first half of fiscal 2007, revenues increased 3% to \$15.7 million from \$15.2 million in the first half of fiscal 2006. Net interest income before provision for loan losses increased 6% to \$12.8 million, with interest income increasing 17% and interest expenses increasing 43%. Loan growth contributed to the increase in net interest income and helped offset increased funding costs.

"Despite excellent asset quality, we made a \$156,000 provision for loan losses in the second quarter due to the growth in our loan portfolio. This is the first time in six quarters we have added to our allowance for loan loss reserves," said Dean Brydon, Chief Financial Officer. "We remain confident that our underwriting standards are strong."

Despite the challenging yield curve environment, Timberland's net interest margin increased to 4.75% for the second quarter from 4.74% in the first quarter of fiscal 2007 and decreased 9 basis points from the second quarter one year ago. Year-to-date, the net interest margin was 4.74% compared to 4.85% in the first half of fiscal 2006.

Non-interest income decreased 6% to \$1.4 million for the second quarter from \$1.5 million for the second fiscal quarter of 2006, primarily due to a reduction in service charges on deposits and a reduction in the gain on sale of loans. Non-interest income for the first six months of fiscal 2007 declined 5% to \$2.9 million from \$3.1 million for the same period of 2006.

Total operating (non-interest) expenses increased 5% to \$4.9 million for the current quarter from \$4.7 million for the second quarter of fiscal 2006. Operating expenses in the first half of fiscal 2007 increased 5% to \$9.8 million from \$9.4 million a year ago. "We continue to invest in our franchise and in technology to improve service and build customer relationships," said Sand. The efficiency ratio for the second quarter improved to 62.42% from 63.13% in the immediate prior quarter and increased 9 basis points from the same quarter one year ago. Year-to-date the efficiency ratio was 62.78% compared to 61.74% for the first half of fiscal 2006.

Return on equity ("ROE") was 9.91% for the second quarter of fiscal 2007, compared to 10.18% for the second quarter of fiscal 2006. Return on average assets ("ROA") was 1.28% for the second quarter compared to 1.41% for the same period one year ago. For the first half of fiscal 2007, ROE was 9.92% compared to 10.44 % one year ago and ROA was 1.32% compared to 1.44% in the first half of fiscal 2006.

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Balance Sheet Management

Total assets increased 16% on an annualized basis during the quarter and 11% year-over-year. Assets increased to \$618 million at March 31, 2007 compared to \$577 million at the end of fiscal 2006 and \$557 million one year ago due to strong loan portfolio growth. Total loans increased 25% on an annualized basis to \$480 million at March 31, 2007 from \$452 million at December 31, 2006, and

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increased 22% from the \$393 million reported one year ago.

Loan originations increased 96% to \$86.2 million for the second quarter of fiscal 2007 from \$44.0 million for the same period one year ago. In the first half of fiscal 2007, loan originations increased 52% to \$167.0 million from \$109.8 million in the first half of fiscal 2006. Timberland also continued to sell fixed rate one-to-four family mortgage loans into the secondary market for asset-liability management purposes. Fixed rate one-to-four family mortgage loan sales totaled \$6.6 million for the second quarter of fiscal 2007 compared to \$5.5 million for the same period one year ago.

LOAN PORTFOLIO (\$ in thousands)

	March 31, 2007		December 31, 2006		March 31, 2006	
	Amount	Percent	Amount	Percent	Amount	Percent
	-----	-----	-----	-----	-----	-----
Mortgage Loans:						
One-to-four family (1)	\$104,697	19%	\$100,204	19%	\$ 96,300	21%
Multi family	17,156	3	18,391	4	22,058	5
Commercial	137,474	25	139,700	27	123,480	27
Construction and land development	179,350	32	170,788	32	128,951	29
Land	48,331	9	34,986	7	28,314	6
	-----	-	-----	-	-----	--
Total mortgage loans	487,008	88	464,069	89	399,103	88
Consumer Loans:						
Home equity and second mortgage	41,357	7	38,434	7	34,704	8
Other	11,543	2	11,051	2	9,669	2
	-----	-	-----	-	-----	--
	52,900	9	49,485	9	44,373	10
Commercial business loans	15,289	3	12,136	2	9,436	2
	-----	-	-----	-	-----	--
Total loans	\$555,197	100%	\$525,690	100%	\$452,912	100%
Less:						
Undisbursed portion of construction loans in process	(68,034)		(66,810)		(52,869)	
Unearned income	(3,003)		(2,889)		(2,687)	
Allowance for loan losses	(4,272)		(4,121)		(4,119)	
	-----		-----		-----	
Total loans receivable, net	\$479,888		\$451,870		\$393,237	
	=====		=====		=====	

(1) Includes loans held for sale

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CONSTRUCTION LOAN COMPOSITION
(\$ in thousands)

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	March 31, 2007		December 31, 2006		March 31, 2006	
	Amount	Percent	Amount	Percent	Amount	Percent
Custom and owner/builder	\$ 46,723	26%	\$ 47,556	28%	\$ 43,725	34%
Speculative	36,753	20	37,178	22	36,936	29
Commercial real estate	57,191	32	55,536	32	35,135	27
Multi-family	17,756	10	13,822	8	2,419	2
Land development	20,927	12	16,696	10	10,736	8
	-----	-	-----	--	-----	---
Total construction loans	\$179,350	100%	\$170,788	100%	\$128,951	100%

Total deposits increased \$10 million to \$444 million at March 31, 2007, compared to \$434 million at December 31, 2006, and increased \$30 million or 7% from one year ago. Core deposits (which exclude jumbo certificate of deposit accounts) comprised 84% of Timberland's total deposits at March 31, 2007.

DEPOSIT BREAKDOWN

(\$ in thousands)

	March 31, 2007		December 31, 2006		March 31, 2006	
	Amount	Percent	Amount	Percent	Amount	Percent
Non-interest bearing	\$ 53,321	12%	\$ 55,121	13%	\$ 50,677	12%
N.O.W. checking	83,945	19	88,428	21	93,470	23
Savings	62,169	14	61,324	14	62,890	15
Money market accounts	45,950	10	44,660	10	41,961	10
Certificates of deposit under \$100	129,986	29	126,819	29	120,668	29
Certificates of deposit \$100 and over	68,751	16	57,897	13	44,369	11
	-----	-	-----	--	-----	---
Total deposits	\$444,122	100%	\$434,249	100%	\$414,035	100%
	=====	===	=====	===	=====	===

Total shareholders' equity was \$77.8 million at March 31, 2007, compared to \$77.3 million at December 31, 2006, as Timberland continued to manage its capital through asset growth, stock buybacks and dividends. During the quarter Timberland repurchased 40,000 shares for \$1.5 million (an average price of \$36.69 per share). There are 85,266 shares remaining to repurchase in the current stock buyback plan. Cumulatively, Timberland has repurchased 3.6 million shares or 55% of the 6.6 million shares that were issued in its initial public offering in January 1998 at an average price of \$16.86 per share. The Company also paid an \$0.18 per share dividend during the quarter, which represents the 36th consecutive quarter a cash dividend has been paid to shareholders.

Asset Quality

Asset quality remained excellent as the non-performing assets to total assets ratio was 0.06% at March 31, 2007, with only \$6,000 in net charge-offs during the quarter. The allowance for loan losses totaled \$4.3 million at March 31, 2007, or 0.89% of loans receivable and 1,327% of non-performing loans. The allowance for loan losses was \$4.1 million, or 0.91% of loans receivable and 1,724% of non-performing loans at December 31, 2006, and at March 31, 2006 the allowance for loan losses was \$4.1 million, or 1.04% of loans receivable and 202% of non-performing loans. The Company's non-performing loans totaled only \$322,000 at March 31, 2007, and consisted of a \$200,000 commercial business loan, a \$34,000 single-family mortgage loan, two land loans totaling \$86,000 and a \$2,000 consumer loan.

About Timberland Bancorp, Inc.

Timberland Bancorp, Inc. stock trades on the NASDAQ global market under the symbol "TSBK." The Bank operates 21 branches in the state of Washington in

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Hoquiam, Aberdeen, Ocean Shores, Montesano, Elma, Olympia, Lacey, Tumwater, Yelm, Puyallup, Edgewood, Tacoma, Spanaway (Bethel Station), Gig Harbor, Poulsbo, Silverdale, Auburn, Winlock, and Toledo.

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TIMBERLAND BANCORP INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT

(\$ in thousands, except per share)
 (unaudited)

Three Months Ended
 March 31, 2007 December 31, 2006 March 31, 2006

	2007 ----	2006 ----	2006 ----
Interest and dividend income			
Loans receivable	\$ 9,283	\$ 8,786	\$ 7,624
Investments and mortgage-backed securities	381	454	576
Dividends	413	420	342
Federal funds sold	77	65	95
Interest bearing deposits in banks	14	39	12
	-----	-----	-----
Total interest and dividend income	10,168	9,764	8,649
Interest expense			
Deposits	2,657	2,589	1,809
Federal Home Loan Bank ("FHLB") advances	1,013	882	762
Other borrowings	10	17	16
	-----	-----	-----
Total interest expense	3,680	3,488	2,587
Net interest income	6,488	6,276	6,062
Provision for loan losses	156	--	--
Net interest income after provision for loan losses	6,332	6,276	6,062
Non-interest income			
Service charges on deposits	663	706	737
Gain on sale of loans, net	64	107	88
BOLI net earnings	114	114	111
Escrow fees	24	31	24
Servicing income on loans sold	115	132	78
ATM transaction fees	272	263	240
Other	172	128	231
	-----	-----	-----
Total non-interest income	1,424	1,481	1,509
Non-interest expense			
Salaries and employee benefits	2,766	2,785	2,737
Premises and equipment	660	624	631
Advertising	201	177	179
Loss (gain) from real estate operations	(11)	(17)	(39)
ATM expenses	107	119	97
Postage and courier	130	105	132
Amortization of core deposit intangible	71	72	82
State and local taxes	133	139	128
Professional fees	172	177	181
Other	710	716	591
	-----	-----	-----
Total non-interest expense	4,939	4,897	4,719

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Income before federal income taxes	2,817	2,860	2,852
Federal income taxes	901	906	906
	-----	-----	-----
Net income	\$ 1,916	\$ 1,954	\$ 1,946
	=====	=====	=====
Earnings per common share:			
Basic	\$ 0.56	\$ 0.56	\$ 0.55
Diluted	\$ 0.54	\$ 0.54	\$ 0.53
Weighted average shares outstanding:			
Basic	3,433,332	3,503,883	3,511,880
Diluted	3,541,710	3,623,108	3,640,612

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TIMBERLAND BANCORP INC. AND SUBSIDIARIES
 CONSOLIDATED INCOME STATEMENT

(\$ in thousands, except per share)
 (unaudited)

	Six Months Ended	
	March 31, 2007	March 31, 2006
	-----	-----
Interest and dividend income		
Loans receivable	\$ 18,070	\$ 15,108
Investments and mortgage-backed securities	835	1,113
Dividends	833	665
Federal funds sold	142	172
Interest bearing deposits in banks	53	36
	-----	-----
Total interest and dividend income	19,933	17,094
Interest expense		
Deposits	5,247	3,497
Federal Home Loan Bank ("FHLB") advances	1,895	1,482
Other borrowings	27	26
	-----	-----
Total interest expense	7,169	5,005
	-----	-----
Net interest income	12,764	12,089
Provision for loan losses	156	--
	-----	-----
Net interest income after provision for loan losses	12,608	12,089
Non-interest income		
Service charges on deposits	1,369	1,457
Gain on sale of loans, net	171	204
BOLI net earnings	227	221
Escrow fees	55	55
Servicing income on loans sold	246	186
ATM transaction fees	535	476
Other	301	465
	-----	-----
Total non-interest income	2,904	3,064
Non-interest expense		
Salaries and employee benefits	5,551	5,367
Premises and equipment	1,283	1,239
Advertising	379	315

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Loss (gain) from real estate operations	(29)	(91)
ATM expenses	226	194
Postage and courier	235	247
Amortization of core deposit intangible	143	164
State and local taxes	272	288
Professional fees	349	389
Other	1,426	1,243
	-----	-----
Total non-interest expense	9,835	9,355
Income before federal income taxes	5,677	5,798
Federal income taxes	1,807	1,846
	-----	-----
Net income	\$ 3,870	\$ 3,952
	=====	=====
Earnings per common share:		
Basic	\$ 1.12	\$ 1.13
Diluted	\$ 1.08	\$ 1.09
Weighted average shares outstanding:		
Basic	3,468,995	3,508,163
Diluted	3,582,849	3,633,034

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TIMBERLAND BANCORP, INC.
CONSOLIDATED BALANCE SHEET
(\$ in thousands) (unaudited)

	March 31, 2007	December 31, 2006	September 30, 2006
Assets	-----	-----	-----
Cash and due from financial institutions			
Non-interest bearing	\$ 14,604	\$ 17,764	\$ 14,870
Interest-bearing deposits in banks	659	2,847	2,619
Federal funds sold	6,655	4,655	5,400
	-----	-----	-----
	21,918	25,266	22,889
Investments and mortgage-backed securities:			
Held to maturity	72	73	75
Available for sale	67,221	69,772	81,408
FHLB Stock	5,705	5,705	5,705
	-----	-----	-----
	72,998	75,550	87,188
Loans receivable	482,226	454,736	426,318
Loans held for sale	1,934	1,255	2,449
Less: Allowance for loan losses	(4,272)	(4,121)	(4,122)
	-----	-----	-----
Net loans receivable	479,888	451,870	424,645
Accrued interest receivable	3,177	2,884	2,806
Premises and equipment	16,736	16,756	16,730
Other Real estate owned ("OREO") and other repossessed items	71	2	15
Bank owned life insurance ("BOLI")	12,178	12,065	11,951
Goodwill	5,650	5,650	5,650

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Core deposit intangible	1,363	1,434	1,506
Mortgage servicing rights	986	964	932
Other assets	2,836	1,737	2,775
	-----	-----	-----
Total Assets	\$617,801	\$594,178	\$577,087
	=====	=====	=====
Liabilities and Shareholders' Equity			
Non-interest-bearing deposits	\$ 53,321	\$ 55,121	\$ 57,905
Interest-bearing deposits	390,801	379,128	373,156
	-----	-----	-----
Total deposits	444,122	434,249	431,061
FHLB advances	92,230	78,446	62,761
Other borrowings: repurchase agreements	588	1,322	947
Other liabilities and accrued expenses	3,048	2,881	2,953
	-----	-----	-----
Total Liabilities	539,988	516,898	497,722
	-----	-----	-----
Shareholders' Equity			
Common stock- \$.01 par value; 50,000,000 shares authorized;			
March 31, 2007 - 3,649,190 shares issued and outstanding			
December 31, 2006 - 3,670,871 shares issued and outstanding			
September 30, 2006 - 3,757,676 shares issued and outstanding			
	36	37	38
Additional paid in capital	16,439	17,380	20,888
Unearned shares-Employee Stock Ownership Plan	(3,172)	(3,239)	(3,305)
Unearned shares-Management Recognition and Development Plan	(220)	(233)	(188)
Retained earnings	65,465	64,209	62,933
Accumulated other comprehensive loss	(735)	(874)	(1,001)
	-----	-----	-----
Total Shareholders' Equity	77,813	77,280	79,365
	-----	-----	-----
Total Liabilities and Shareholders' Equity	\$617,801	\$594,178	\$577,087
	=====	=====	=====

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KEY FINANCIAL RATIOS AND DATA

Three Months Ended

(\$ in thousands, except per share) (unaudited)	March 31, 2007	December 31, 2006	March 31, 2006
PERFORMANCE RATIOS:			
Return on average assets (a)	1.28%	1.35%	1.41%
Return on average equity (a)	9.91%	9.94%	10.18%
Net interest margin (a)	4.75%	4.74%	4.84%
Efficiency ratio	62.42%	63.13%	62.33%
	March 31, 2007	December 31, 2006	March 31, 2006
ASSET QUALITY RATIOS:			
	-----	-----	-----

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Non-performing loans	\$ 322	\$ 239	\$ 2,040
OREO & other repossessed assets	71	2	110
	---	---	---
Total non-performing assets	\$ 393	\$ 241	\$ 2,150
Non-performing assets to total assets	0.06%	0.04%	0.39%
Allowance for loan losses to non-performing loans	1,327%	1,724%	202%
Book value per share (b)	\$ 21.32	\$ 21.05	\$ 20.59
Book value per share (c)	\$ 22.64	\$ 22.37	\$ 21.98
Tangible book value per share (b) (d)	\$ 19.40	\$ 19.12	\$ 18.65
Tangible book value per share (c) (d)	\$ 20.60	\$ 20.32	\$ 19.91

(a) Annualized

(b) Calculation includes ESOP shares not committed to be released

(c) Calculation excludes ESOP shares not committed to be released

(d) Calculation subtracts goodwill and core deposit intangible from the equity component

AVERAGE BALANCE SHEET:

	Three Months Ended		
	March 31, 2007	December 31, 2006	March 31, 2006
	-----	-----	-----
Average total loans	\$465,460	\$439,294	\$397,880
Average total interest earning assets	546,870	529,572	500,835
Average total assets	597,015	580,114	553,210
Average total interest bearing deposits	380,916	376,365	361,893
Average FHLB advances & other borrowings	81,578	65,970	62,176
Average shareholders' equity	77,340	78,646	76,470

Disclaimer

This report contains certain "forward-looking statements." The Company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 and is including this statement for the express purpose of availing itself of the protection of such safe harbor with forward looking statements. These forward-looking statements may describe future plans or strategies and include the Company's expectations of future financial results. Forward-looking statements are subject to a number of risks and uncertainties that might cause actual results to differ materially from stated objectives. These risk factors include but are not limited to the effect of interest rate changes, competition in the financial services market for both deposits and loans as well as regional and general economic conditions. The words "believe," "expect," "anticipate," "estimate," "project," and similar expressions identify forward-looking statements. The Company's ability to predict results or the effect of future plans or strategies is inherently uncertain and undue reliance should not be placed on such statements.