TIMBERLAND BANCORP INC
Form 8-K
January 23, 2008

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): January 22, 2008

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

On January 22, 2008, Timberland Bancorp, Inc. issued its earnings release for the quarter ended December 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 January 22, 2008

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: January 22, 2008

By: /s/Dean J. Brydon
Dean J. Brydon
Chief Financial Officer

Exhibit 99.1

Contact: Michael R. Sand
President & CEO
Dean J. Brydon, CFO
(360)533-4747
www.timberlandbank.com

Timberland Bancorp Earns $1.6 Million or $0.24 per Share in Fiscal First Quarter 2008

-- The Company Increases Quarterly Cash Dividend by 10%
-- The Bank Incurred No Charge-Offs in the Quarter

HOQUIAM, WA--January 22, 2008 -- Timberland Bancorp, Inc. (NasdaqGM:TSBK) ("Timberland"), the holding company for Timberland Bank ("Bank"), today reported solid fiscal first quarter profits of $1.6 million after a $1.2 million addition to its loan loss reserves as a result of continued loan growth and the reclassification of certain loans. In the first quarter of fiscal 2008, Timberland earned $1.6 million, or $0.24 per diluted share, compared to $2.0 million, or $0.27 per diluted share, in the first quarter one year ago. All per share data has been adjusted to reflect the 2-for-1 stock split in the form of a 100% stock dividend paid on June 5, 2007.

Fiscal First Quarter 2008 Highlights: (quarter ended December 31, 2007 compared to the quarter ended December 31, 2006)

-- The loan portfolio increased 19% to $537 million from $452 million.

-- Total assets increased 9% to $647 million from $594 million.

-- Revenue increased 8% due to solid loan growth and above average net interest margin.

-- Non-performing assets (NPA) are 0.60% of total assets.

-- There were no charge-offs in the quarter.

-- With the addition of $1.2 million, loan loss reserves grew to 1.11% of total loans and 153% of NPAs.

-- Michael Scott joined the Company in the position of Chief Credit Administrator.

-- Cash dividends per share increased 10% to $0.11 per share bringing the annualized yield at current prices to 3.48%.

"Headwinds in the financial markets along with windstorms and flooding in the Northwest dominated the regional headlines this past quarter," said Michael R. Sand, President and Chief Executive Officer. "While a few of our offices were impacted by December's flooding and power outages our banking operations were able to remain open with only minor interruptions. Our emergency response systems functioned well and our people continued to meet the needs of our customers during this difficult storm. Some of the sluggishness that has affected real estate markets outside the Northwest is beginning to be noted in our region. While we don't expect the Northwest to exhibit the price depreciation and market issues of the same magnitude realized in other parts of the country we believe it is prudent to add to reserves at this time in part because we are a company that has assets associated with the construction and development sector. This is a sector in which we have had significant and long-term management experience. As detailed below, our revenues continue to grow, our net interest margin is solid, our profitability is good, and our people continue to work diligently to build a prosperous and sound Northwest franchise."

Operating Results
Fiscal first quarter revenue (net interest income before provision for loan losses plus non-interest income) increased 8% to $8.4 million from $7.8 million in the like quarter one year ago. Net interest income before the provision for loan losses for the first quarter of fiscal 2008 increased 10% to $6.9 million compared to the like quarter one year ago with interest income increasing 18% and interest expense increasing 31%. Strong loan growth contributed to the increase in net interest income and offset increased funding costs. Timberland's net interest margin was 4.59% for the first quarter of fiscal 2008 compared to 4.60% for the fourth quarter of fiscal 2007 and 4.74% for the first quarter one year ago.

The increase in net interest income was offset by a $1.2 million increase in the provision for loan loss due to a slowdown in the real estate market, continued loan growth and an increase in the level of classified loans. "Although our non-performing assets are moderate at 60 basis points of the total portfolio, the ratio is higher than we have seen in the recent past," said Dean Brydon, Chief Financial Officer. "We added significantly to our reserves this quarter to increase our reserve levels and are continuing to proactively monitor economic conditions and our loan portfolio." A provision for loan losses of $1.2 million was made during the current quarter compared to no provision made during the first quarter of fiscal 2007. There were no charge-offs made during the quarter ended December 31, 2007.

Non-interest income increased 1% to $1.50 million for the first quarter from $1.48 million for the first quarter of fiscal 2007. Strong growth in ATM transaction fees more than offset lower gains from the sale of loans and a reduction in loan servicing income. "The early success of our Smart Money checking account program is generating increased usage of our banking services, particularly Debit card usage with our customers," Sand explained. "The Smart Money program provides an attractive rate of return to customers who actively use their ATM / Debit cards, sign on to internet banking and receive E-mailed checking statements each month. This combination of services is designed to build and deepen our relationship with customers, and to share with them through higher interest rates the rewards we earn from the program's fee income. It is truly a win-win program for both our customers and the Bank."

Timberland's total operating (non-interest) expenses decreased to $4.85 million for the first quarter from $4.90 million for the first quarter of fiscal 2007 due to a decrease in premises and equipment expenses and professional fee expenses. The decrease in premises and equipment expenses was primarily due to an insurance settlement for damage to the Bank's previous data center facility. This settlement reduced expenses by $172,000 ($112,000 net of income tax) during the current quarter. The lower premises and equipment expenses were partially offset by increased salaries and employee benefits expenses. As a result of the lower expenses and increased revenue, the efficiency ratio improved to 57.64% for the first quarter compared to 63.13% for the same quarter one year ago.

Asset Quality
The non-performing assets (NPAs) to total assets ratio was 0.60% at December 31, 2007, with no charge-offs during the quarter. The allowance for loan losses totaled $6.0 million at December 31, 2007, or 1.11% of loans receivable and 153% of non-performing loans (NPL). The allowance for loan losses was $4.8 million, or 0.92% of loans receivable at September 30, 2007 and $4.1 million, or 0.90% at December 31, 2006. NPLs totaled $3.9 million at December 31, 2007, and were comprised of 15 loans including eight single family speculative home loans totaling $3.2 million, two home equity consumer loans totaling $293,000, three land loans totaling $212,000, one commercial business loan for $119,000, and one commercial real estate loan for $90,000. "The majority of our non-performing loans are in Pierce County, which has been an area of strong franchise growth for the Bank in the past few years," Sand noted. "In January, we hired Michael Scott, a veteran banker with more than 34 years of industry experience, to fill the role of Chief Credit Administrator. His broad

experience at Bank of America included positions in branch management, personnel, special credits, and commercial banking. Most recently, he was involved with the marketing, structuring, underwriting and monitoring of credit products offered by that bank. With our growing commercial lending business and our expansion into the Puget Sound market, we believe Mike's expertise will provide another layer of experience and oversight as we continue to emphasize and maintain strong credit quality."

The majority (34 basis points) of the 37 basis point increase in the NPA ratio over the prior quarter was the result of loans to two builders becoming delinquent. One builder has six loans ($343,000 average per loan) that became 90 days delinquent while the other builder has one loan ($524,000) that became delinquent. "Timberland Bank has provided funding for builders and developers in Western Washington for well over 30 years. We have provided such funding during both good and challenging economic times. Our loss experience has been minimal. A basic strategy that we have employed to control risk has been to limit the number of loans we make to individual builders. The amount of credit extended is dependent on our judgment of the customer's capacity to repay. During the past quarter we heightened our review of economic forecasts, and sales activity for new homes in the markets we serve. It is clear that the market for new home sales has weakened and the portfolios of banks involved in construction and land development activities have therefore assumed a higher risk profile. Our methodology for evaluating an appropriate level of loan loss reserves depends in part on the risk classification of the loans in our portfolio. During the quarter we downgraded several loans including certain loans to borrowers that have had an excellent history with Timberland and have maintained the current status of their loans. The fact remains, however that we are operating in a more uncertain economic environment. Logically, a loan portfolio assuming a higher risk profile due to a more challenging economic environment deserves a higher level of reserves. We continue to monitor the economy and our portfolio. We will make adjustments to reserves as our ongoing analysis determines is appropriate. Future adjustments could include additions to reserves, or no additions to reserves if we see signs of an improving economic climate and determine that it is appropriate to upgrade the classification of certain loans in our portfolio," stated Sand.

Balance Sheet Management
Total assets increased 9% year over year, growing to $647 million at December 31, 2007, from $645 million at September 30, 2007 and $594 million one year ago primarily due to strong loan portfolio growth. "During the quarter we were able to replace

nearly $19 million in securities with higher yielding loans following the call or maturity of these investments," Brydon explained.

LOAN PORTFOLIO

($ in thousands)	Dec. 31, 2007		Sept. 30, 2007		Dec. 31, 2006	
	Amount	Percent	Amount	Percent	Amount	Percent
Mortgage Loans:						
One-to-four family (1)	$ 102,133	17%	$ 102,434	17%	$ 100,204	19%
Multi family	38,828	6	35,157	6	18,391	3
Commercial	124,634	20	127,866	22	139,700	27
Construction and						

land development	205,943	34	186,261	32	170,788	33
Land	58,402	10	60,706	10	34,986	7
Total mortgage loans	529,940	87	512,424	87	464,069	89
Consumer Loans:						
Home equity and second mortgage	47,071	8	47,269	8	38,434	7
Other	10,627	2	10,922	2	11,051	2
	57,698	10	58,191	10	49,485	9
Commercial business loans	18,642	3	18,164	3	12,136	2
Total loans	$ 606,280	100%	$ 588,779	100%	$ 525,690	100%
Less:						
Undisbursed portion of construction loans in process	(60,708)		(65,673)		(66,810)	
Unearned income	(2,928)		(2,968)		(2,889)	
Allowance for loan losses	(5,997)		(4,797)		(4,121)	
Total loans receivable, net	$ 536,647		$ 515,341		$ 451,870	

(1) Includes loans held for sale

CONTRUCTION LOAN COMPOSITION

($ in thousands)	Dec. 31, 2007 Amount	Dec. 31, 2007 Percent	Sept. 30, 2007 Amount	Sept. 30, 2007 Percent	Dec. 31, 2006 Amount	Dec. 31, 2006 Percent
Custom and owner/builder	$ 50,586	25%	$ 52,375	28%	$ 47,556	28%
Speculative	41,251	20	43,012	23	37,178	22
Commercial real estate	66,949	32	50,518	27	55,536	32
Multi-family	22,060	11	18,064	10	13,822	8
Land development	25,097	12	22,292	12	16,696	10
Total construction loans	$ 205,943	100%	$ 186,261	100%	$ 170,788	100%

"Loan demand continues to be strong in our primary markets, although construction and land development lending is expected to moderate, at least in the early part of the year," said Sand. Net loans receivable increased 17% on an annualized basis during the quarter to $537 million at December 31, 2007, and increased 19% from $452 million one year ago. During the past 12 months the portfolio has increased by $85 million as construction and land development loans (net of the undisbursed portion) increased $41 million, land loans increased $23 million, multi-family loans increased $20 million, consumer loans increased $8 million, and commercial business loans increased $7 million. These increases were partially offset by a $15 million decrease in commercial real estate loans.

"Demand for new and refinance residential loans has diminished this year, from the very strong demand we've seen in the past few years," said Sand. "We continue to originate and service mortgage loans in our market, which we believe provides another very strong avenue for building deep relationships with our customers. Particularly in the small markets in which we operate, we believe our customers appreciate being able to confer with local bankers about our mortgage products and that our retention of servicing on mortgages is a competitive advantage. While we sell mortgage instruments into the secondary market, we retain servicing on our loan originations. We are not, however, lending in the subprime market and Timberland did not participate in the aggressive marketing of alternative mortgage products to sub-prime borrowers that has caused financial difficulties for many financial institutions in our industry."

Loan originations decreased to $65.5 million for the quarter ended December 31, 2007 from $66.3 million for the quarter ended September 30, 2007 and from $80.8 million for the quarter ended December 31, 2006. The Bank also continues 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 $7.4 million for the first quarter of fiscal 2008 compared to $7.2 million for the same period one year ago.

Total deposits decreased $5.5 million to $461.2 million at December 31, 2007 from $466.7 million at September 30, 2007. The Bank had a $4.4 million decrease in non-interest bearing accounts, a $1.7 million decrease in savings accounts and a $1.7 million decrease in certificate of deposit accounts, which were partially offset by a $3.2 million increase in N.O.W. checking account balances.

DEPOSIT BREAKDOWN

($ in thousands)	Dec. 31, 2007		Sept. 30, 2007		Dec. 31, 2006	
	Amount	Percent	Amount	Percent	Amount	Percent
Non-interest bearing	$ 50,590	11%	$ 54,962	12%	$ 55,121	13%
N.O.W. checking	83,594	18	80,372	17	88,428	21
Savings	54,738	12	56,412	12	61,324	14
Money market	47,102	10	48,068	10	44,660	10
Certificates of deposit under $100	133,676	29	135,528	29	126,819	29
Certificates of deposit $100 and over	68,527	15	67,316	15	57,897	13
Certificates of deposit - brokered	23,020	5	24,077	5	--	--
Total deposits	$ 461,247	100%	$ 466,735	100%	$ 434,249	100%

Total shareholders' equity increased $442,000 to $75.0 million at December 31, 2007 from $74.5 million at September 30, 2007. Timberland continued to manage its capital ratio through asset growth, stock repurchases and dividends. During the quarter Timberland repurchased 50,000 shares for $703,000 (an average price of $14.06 per share). There are 94,950 shares remaining to be repurchased in the current stock repurchase plan. Cumulatively, Timberland has repurchased 7.7 million shares at an average price of $8.93 per share. The share repurchases equal approximately 58% of the 13.2 million shares that were issued in Timberland's initial public offering in January 1998. A cash dividend of $0.10 per share was paid during the quarter, which represented the

39th consecutive quarter a cash dividend was paid to shareholders. The Board of Directors raised the cash dividend 10% to $0.11 per share to be paid February 22, 2008 to shareholders of record as of February 8, 2008.

About Timberland Bancorp, Inc.
Timberland Bancorp operates 21 branches in the state of Washington in 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		
	Dec. 31, 2007	Sept. 30, 2007	Dec. 31, 2006
Interest and dividend income			
Loans receivable	$ 10,764	$ 10,335	$ 8,786
Investments and mortgage-backed securities	249	344	454
Dividends from mutual funds and FHLB stock	423	433	420
Federal funds sold	31	69	65
Interest bearing deposits in banks	10	16	39
Total interest and dividend income	11,477	11,197	9,764
Interest expense			
Deposits	3,334	3,180	2,589
FHLB advances	1,216	1,262	882
Other borrowings	8	11	17
Total interest expense	4,558	4,453	3,488
Net interest income	6,919	6,744	6,276
Provision for loan losses	1,200	270	--
Net interest income after provision for loan losses	5,719	6,474	6,276
Non-interest income			
Service charges on deposits	696	715	706
Gain on sale of loans, net	92	106	107
Bank owned life insurance ("BOLI") net earnings	120	120	114
Servicing income on loans sold	118	133	132
ATM transaction fees	299	307	263
Other	172	176	159
Total non-interest income	1,497	1,557	1,481
Non-interest expense			
Salaries and employee benefits	2,920	2,624	2,785
Premises and equipment	464	625	624
Advertising	182	274	177
Loss (gain) from other real			

estate operations	--	1	(17)
ATM expenses	148	143	119
Postage and courier	118	131	105
Amortization of core deposit intangible	62	71	72
State and local taxes	151	152	139
Professional fees	147	125	177
Other	659	708	716
Total non-interest expense	4,851	4,854	4,897
Income before federal income taxes	2,365	3,177	2,860
Federal income taxes	750	1,022	906
Net income	$ 1,615	$ 2,155	$ 1,954
Earnings per common share:			
Basic	$ 0.25	$ 0.33	$ 0.28
Diluted	$ 0.24	$ 0.32	$ 0.27
Weighted average shares outstanding:			
Basic	6,515,428	6,516,381	7,007,766
Diluted	6,674,773	6,690,048	7,246,216

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TIMBERLAND BANCORP, INC.
CONSOLIDATED BALANCE SHEET

($ in thousands) (unaudited) Assets	Dec. 31, 2007	Sept. 30, 2007	Dec. 31, 2006
Cash and due from financial institutions:			
Non-interest bearing	$ 15,301	$ 10,813	$ 17,764
Interest-bearing deposits in banks	502	2,082	2,747
Federal funds sold	1,015	3,775	4,655
	16,818	16,670	25,166
Certificate of deposits ("CDs") held for investment	--	--	100
Investments and mortgage-backed securities:			
Held to maturity	67	71	73
Available for sale	45,037	63,898	69,772
FHLB stock	5,705	5,705	5,705
	50,809	69,674	75,550
Loans receivable	542,644	519,381	454,736
Loans held for sale	--	757	1,255
Less: Allowance for loan losses	(5,997)	(4,797)	(4,121)
Net loans receivable	536,647	515,341	451,870
Accrued interest receivable	3,407	3,424	2,884

Premises and equipment	16,512	16,575	16,756
Other real estate owned ("OREO") and other repossessed items	--	--	2
BOLI	12,535	12,415	12,065
Goodwill	5,650	5,650	5,650
Core deposit intangible	1,158	1,221	1,434
Mortgage servicing rights	1,071	1,051	964
Other assets	1,987	2,827	1,737
Total Assets	$ 646,594	$ 644,848	$ 594,178
Liabilities and Shareholders' Equity			
Non-interest-bearing deposits	$ 50,590	$ 54,962	$ 55,121
Interest-bearing deposits	410,657	411,773	379,128
Total deposits	461,247	466,735	434,249
FHLB advances	106,380	99,697	78,446
Other borrowings: repurchase agreements	611	595	1,322
Other liabilities and accrued expenses	3,367	3,274	2,881
Total Liabilities	571,605	570,301	516,898
Shareholders' Equity			
Common stock- $.01 par value; 50,000,000 shares authorized; December 31, 2007 - 6,917,675 shares issued and outstanding September 30, 2007 - 6,953,360 shares issued and outstanding December 31, 2006 - 3,670,861 shares issued and outstanding on a pre-split basis	69	70	37
Additional paid in capital	9,314	9,923	17,147
Unearned shares- Employee Stock Ownership Plan	(2,974)	(3,040)	(3,239)
Retained earnings	69,300	68,378	64,209
Accumulated other comprehensive loss	(720)	(784)	(874)
Total Shareholders' Equity	74,989	74,547	77,280
Total Liabilities and Shareholders' Equity	$ 646,594	$ 644,848	$ 594,178

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KEY FINANCIAL RATIOS AND DATA
($ in thousands, except per share)
(unaudited)

	Three Months Ended		
	Dec. 31, 2007	Sept. 30, 2007	Dec. 31, 2006

PERFORMANCE RATIOS:			
Return on average assets (a)	0.99%	1.36%	1.35%
Return on average equity (a)	8.61%	11.66%	9.94%
Net interest margin (a)	4.59%	4.60%	4.74%
Efficiency ratio	57.64%	58.47%	63.13%

	Dec. 31, 2007	Sept. 30, 2007	Dec. 31, 2006
ASSET QUALITY RATIOS:			
Non-performing loans	$ 3,908	$ 1,490	$ 239
OREO and other repossessed assets	--	--	2
Total non-performing assets	$ 3,908	$ 1,490	$ 241
Non-performing assets to total assets	0.60%	0.23%	0.04%
Allowance for loan losses to non-performing loans	153%	322%	1,724%
Restructured loans	$ 2,462	$ --	$ --
Book value per share (b)	$ 10.84	$ 10.72	$ 10.53
Book value per share (c)	$ 11.50	$ 11.39	$ 11.19
Tangible book value per share(b)(d)	$ 9.86	$ 9.73	$ 9.56
Tangible book value per share(c)(d)	$ 10.46	$ 10.34	$ 10.16

(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		
	Dec. 31, 2007	Sept. 30, 2007	Dec. 31, 2006
Average total loans	$ 538,284	$ 509,166	$ 439,294
Average total interest earning assets	602,628	586,056	529,572
Average total assets	650,893	634,762	580,114
Average total interest bearing deposits	411,766	405,078	376,365
Average FHLB advances and other borrowings	106,937	96,442	65,970
Average shareholders' equity	75,002	73,916	78,646

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.