TIMBERLAND BANCORP INC
Form 8-K
January 25, 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): January 23, 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

On January 23, 2007, Timberland Bancorp, Inc. issued its earnings release for the quarter ended December 31, 2006. 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 23, 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: January 23, 2007

By:/s/Dean J. Brydon

Dean J. Brydon
Chief Financial Officer

Exhibit 99.1

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

Timberland Bancorp Reports Strong First Fiscal Quarter Earnings of $0.54 Per Share Led by Solid Loan Growth and Brisk Origination Activity

HOQUIAM, Wash. - January 23, 2007 - Timberland Bancorp, Inc. (NASDAQ: TSBK), the holding company for Timberland Bank, today reported that strong loan growth and excellent asset quality contributed to solid fiscal first quarter 2007 results. First quarter profits were near the record levels of its fiscal first quarter of 2006 with net income totaling $1.95 million, or $0.54 per diluted share, for the quarter ended December 31, 2006, compared to $2.01 million, or $0.55 per diluted share, for the quarter ended December 31, 2005.

Quarterly Highlights (1Q07 compared to 1Q06) -

* The loan portfolio increased 15% to $452 million from $392 million.
* Total deposits increased 6% to $434 million, with non-interest bearing deposits increasing 10%.
* Loan originations increased 23%, with continuing strength in construction and land development lending.
* Asset quality remains strong - NPA ratio of 0.04%.

"The investment we are making in expanding our team of business bankers is generating solid returns," said Michael Sand, President and CEO. "The addition of five exceptional business bankers in fast-growing Pierce and King Counties has produced a significant increase in loan originations and net loans outstanding during the past two quarters. We are particularly pleased with the increase in construction and commercial real estate originations that resulted from the successful efforts of each of our lending officers."

"The increase in net loans outstanding exceeded the increase in deposits during the quarter. As a result short term advances were obtained from the Federal Home Loan Bank of Seattle. These advances at an average rate of approximately 5.45% contributed to a slight margin compression during the quarter. Late in the quarter the Bank was able to take advantage of two special advance programs offered by the FHLB to significantly reduce its interest expense by obtaining $30 million in advances at an average rate of 4.11%. Going forward we will be focusing on the acquisition of core deposits to support our success in increasing net loans outstanding," Sand continued.

Led by aerospace, software and service industries Western Washington's economy continues to generate above average growth. Solid improvements in personal income and continued population growth are providing support for our lending initiatives. "Our lending and deposit gathering emphasis in Western Washington is directly linked to the strong regional economy," said Sand. The following highlights some of the economic data detailed in the recently published 2006 - 2007 Pierce County Economic Index ("PCEI") Report:

* For 2005 and 2006, the PCEI should increase by a cumulative 10.4% one of the best 2-year periods on record and is expected to remain solid through 2007.
* Per capita income from 2004 through 2007 is expected to increase at an average annual rate of 8%. By the end of 2007 per capita income is expected to increase to $39,800 - a 25% gain in three years.
* The single family housing index is expected to increase by 4% over 2005, setting another record for total activity. For 2007, the housing index is expected to decline by 1.2% compared to 2006. The multiple-family market is expected to be tight and condominium conversions should moderate in 2007.
* The office market segment should show some real gains and the market for industrial space should remain strong through 2007. The Port of Tacoma is forecasting a 51% increase in container business over the next five years.

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Operating Results
Revenue (net interest income before provision for loan losses plus non-interest income) for the quarter ended December 31, 2006 increased 2% to $7.8 million from $7.6 million for the quarter ended December 31, 2005. Net interest income before the provision for loan losses increased 4% to $6.3 million with interest income increasing 16% and interest expense increasing 44%. Loan growth contributed to the increase in net interest income, and partially offset rising funding costs.

Following the industry trend, the net interest margin compressed to 4.74% for the quarter ended December 31, 2006. In the first fiscal quarter one year ago, Timberland's net interest margin of 4.87% was increased by 11 basis points as a result of the collection of $131,000 ($86,000 net of tax) of non-accrual interest and prepayment penalties. This added $0.02 per diluted share to last year's first fiscal quarter earnings. Net interest margin also decreased from the immediate prior quarter's net interest margin of 4.91% (or 4.80% net of $138,000 in non-accrual interest). The margin compression was primarily due to increased funding costs, which outpaced the increased yield on interest earning assets. The funding cost increases were primarily a result of increased reliance on FHLB advances to fund loan growth and increased market rates being paid for deposit accounts. "The flat yield curve is a challenge for the banking industry, which is seeing the lowest net interest margin level in seventeen years," said Dean Brydon, CFO.

Non-interest income decreased 5% to $1.48 million for the current quarter from $1.56 million for the quarter ended December 31, 2005 primarily due a reduction in fee income from the sale of non-deposit investments.

Total operating (non-interest) expenses increased 6% to $4.9 million for the current quarter from $4.6 million for the quarter ended December 31, 2005. "Increased employee and advertising expenses in addition to the expenses associated with growing our business banking team were the primary reasons for the increase. We are also investing in new technologies that will improve customer service and reduce costs. These new programs will be introduced in 2007 and should start contributing to our productivity in the second half of the year," said Sand. The efficiency ratio for the first quarter of fiscal 2007 increased to 63.13% from 60.03% in the immediate prior quarter and 61.16% a year ago.

Return on equity (ROE) was 9.94% for the quarter ended December 31, 2006, compared to 10.70% for the quarter ended December 31, 2005. Return on average assets (ROA) was 1.35% for the quarter ended December 31, 2006 compared to 1.46% for the same period a year ago.

Balance Sheet Management

Total assets increased 12% on an annualized basis during the quarter and 8% year-over-year. Assets increased to $594 million compared to $577 million at the end of fiscal 2006 and $548 million a year ago due to strong loan portfolio growth. Total loans increased by $27 million in the first fiscal quarter and grew $60 million during the past year. Total loans increased by 6% to $452 million at December 31, 2006 from $425 million at September 30, 2006, and were up 15% from the $392 million reported one year ago. Loan originations increased 23% to $81 million for the quarter ended December 31, 2006 from $66 million for the same period one year ago. The Bank 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 $7.2 million for the quarter ended December 31, 2006 compared to $7.5 million for the same period a year ago.

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LOAN PORTFOLIO
($ in thousands)

	Dec. 31, 2006 Amount	Dec. 31, 2006 Percent	Sept. 30, 2006 Amount	Sept. 30, 2006 Percent	Dec. 31, 2005 Amount	Dec. 31, 2005 Percent
Mortgage Loans:						
One-to-four family(1)	$100,204	19.1%	$ 98,709	20.1%	$ 97,544	21.5%
Multi-family	18,391	3.5%	17,689	3.6%	20,909	4.6%
Commercial	139,700	26.6%	137,609	28.1%	128,216	28.2%
Construction and land development	170,788	32.5%	146,855	29.9%	128,210	28.2%
Land	34,986	6.6%	29,598	6.0%	26,921	5.9%
Total mortgage loans	464,069	88.3%	430,460	87.7%	401,800	88.4%
Consumer Loans:						
Home equity and second mortgage	38,434	7.3%	37,435	7.6%	33,669	7.4%
Other	11,051	2.1%	11,127	2.3%	9,199	2.0%
	49,485	9.4%	48,562	9.9%	42,868	9.4%

Commercial business loans	12,136	2.3%	11,803	2.4%	9,855	2.2%
Total loans	$525,690	100.0%	$490,825	100.0%	$454,523	100.0%
Less:						
Undisbursed portion of construction loans in process	(66,810)		(59,260)		(56,049)	
Unearned income	(2,889)		(2,798)		(2,813)	
Allowance for loan losses	(4,121)		(4,122)		(4,117)	
Total loans receivable, net	$451,870		$424,645		$391,544	

(1) Includes loans held-for-sale

Total deposits increased $3 million to $434 million at December 31, 2006, compared to $431 million at September 30, 2006, and grew 6% or $24 million from one year ago. Core deposits comprised 87% of Timberland's total deposits at December 31, 2006. "Increasing core deposits is a key component of our long-term strategy and our bankers are doing a great job of building our presence and sustaining client relationships in our home markets," Sand commented.

DEPOSIT BREAKDOWN
($ in thousands)

	Dec. 31, 2006		Sept. 30, 2006		Dec.31, 2005	
	Amount	Percent	Amount	Percent	Amount	Percent
Non-interest bearing	$ 55,121	13%	$ 57,905	13%	$ 50,070	12%
N.O.W. checking	88,428	21%	89,509	21%	91,741	23%
Savings	61,324	14%	60,235	14%	62,895	15%
Money market accounts	44,660	10%	42,378	10%	46,309	11%
Certificates of deposit under $100,000	126,819	29%	128,183	30%	121,737	30%
Total Core Deposits	376,352	87%	378,210	88%	372,752	91%
Certificates of deposit $100,000 and over	57,897	13%	52,851	12%	37,924	9%
Total Deposits	$434,249	100%	$431,061	100%	$410,676	100%

Total shareholders' equity was $77.3 million at December 31, 2006, compared to $79.4 million at September 30, 2006, as the Company continued to manage its capital through stock buybacks and dividends. During the quarter Timberland repurchased 112,505 shares for $4.2 million as it completed its current share repurchase program and announced another 5% share repurchase

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program. The 112,505 shares were repurchased at an average price of $37.12 per share. Cumulatively, Timberland has repurchased 3.6 million shares or 54.3% of the 6.6 million shares that were issued in its initial public offering in

January 1998. The average price of the 3.6 million repurchased shares was $16.64 per share. The Company also paid an $0.18 per share dividend during the quarter, which represents the 35th consecutive quarter a cash dividend has been paid.

Asset Quality

Asset quality remained solid as the non-performing assets to total asset ratio was 0.04% at December 31, 2006 with only $1,000 in net charge-offs during the quarter. The allowance for loan losses totaled $4.1 million at December 31, 2006, or 0.91% of loans receivable and 1,724% of non-performing loans. The allowance for loan losses was $4.1 million, or 0.97% of loans receivable and 5,152% of non-performing loans at September 30, 2006, and at December 31, 2005 the allowance for loan losses was $4.1 million, or 1.05% of loans receivable and 152% of non-performing loans. The Company's non-performing loans totaled only $239,000 at December 31, 2006, and consisted of three single family mortgage loans and two consumer loans.

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 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, 2006	Sept. 30, 2006	Dec. 31, 2005
Interest and dividend income			
Loans receivable	$ 8,786	$ 8,252	$ 7,485
Investments and mortgage-backed securities	454	510	536
Dividends	420	401	323
Federal funds sold	65	97	77
Interest bearing deposits in banks	39	23	24
Total interest and dividend income	9,764	9,283	8,445
Interest expense			
Deposits	2,589	2,351	1,688
Federal Home Loan Bank ("FHLB") advances	882	659	720
Other borrowings	17	13	10
Total interest expense	3,488	3,023	2,418

Net interest income	6,276	6,260	6,027
Provision for loan losses	-	-	-
Net interest income after provision for loan losses	6,276	6,260	6,027
Non-interest income			
Service charges on deposits	706	755	720
Gain on sale of loans, net	107	122	116
BOLI net earnings	114	116	111
Escrow fees	31	33	32
Servicing income on loans sold	132	160	108
ATM transaction fees	263	284	235
Other	128	183	233
Total non-interest income	1,481	1,653	1,555
Non-interest expense			
Salaries and employee benefits	2,785	2,650	2,630
Premises and equipment	624	598	609
Advertising	177	187	136
Loss (gain) from real estate operations	(17)	(85)	(53)
ATM expenses	119	129	98
Postage and courier	105	116	115
Amortization of core deposit intangible	71	82	82
State and local taxes	139	138	160
Professional fees	177	243	187
Other	717	692	673
Total non-interest expense	4,897	4,750	4,637
Income before federal income taxes	2,860	3,163	2,945
Federal income taxes	906	1,019	939
Net income	$ 1,954	$ 2,144	$ 2,006
Earnings per common share:			
Basic	$ 0.56	$ 0.61	$ 0.57
Diluted	$ 0.54	$ 0.59	$ 0.55
Weighted average shares outstanding:			
Basic	3,503,883	3,517,377	3,504,526
Diluted	3,623,108	3,645,477	3,625,620

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

Assets	Dec. 31, 2006	Sept 30, 2006	Dec. 31, 2005
Cash and due from financial institutions			
Non-interest bearing	$ 17,764	$ 14,870	$ 17,557
Interest-bearing deposits in banks	2,847	2,619	1,104
Federal funds sold	4,655	5,400	3,875
	25,266	22,889	22,536
Investments and mortgage-backed securities:			
Held-to-maturity	73	75	90

Available-for-sale	69,772	81,408	87,814
FHLB Stock	5,705	5,705	5,705
	75,550	87,188	93,609
Loans receivable	454,736	426,318	394,414
Loans held-for-sale	1,255	2,449	1,247
Less: Allowance for loan losses	(4,121)	(4,122)	(4,117)
Net loans receivable	451,870	424,645	391,544
Accrued interest receivable	2,884	2,806	2,319
Premises and equipment	16,756	16,730	16,050
Other real estate owned and other repossessed items	2	15	144
Bank owned life insurance	12,065	11,951	11,612
Goodwill	5,650	5,650	5,650
Core deposit intangible	1,434	1,506	1,752
Mortgage servicing rights	964	932	929
Other assets	1,737	2,775	1,602
Total Assets	$594,178	$577,087	$547,747
Liabilities and Shareholders' Equity			
Non-interest-bearing deposits	55,121	57,905	50,070
Interest-bearing deposits	379,128	373,156	360,606
Total deposits	434,249	431,061	410,676
FHLB advances	78,446	62,761	56,805
Other borrowings: repurchase agreements	1,322	947	1,305
Other liabilities and accrued expenses	2,881	2,953	3,006
Total Liabilities	516,898	497,722	471,792
Shareholders' Equity			
Common stock- $.01 par value; 50,000,000 shares authorized; December 31, 2006 3,670,861 shares issued and outstanding September 30, 2006 3,757,676 shares issued and outstanding December 31, 2005 3,757,037 shares issued and outstanding	37	38	38
Additional paid-in-capital	17,380	20,888	22,013
Unearned shares- Employee Stock Ownership Plan	(3,239)	(3,305)	(3,701)
Unearned shares- Management Recognition and Development Plan	(233)	(188)	-
Retained earnings	64,209	62,933	58,672
Accumulated other comprehensive loss	(874)	(1,001)	(1,067)
Total Shareholders' Equity	77,280	79,365	75,955
Total Liabilities and Shareholders' Equity	$594,178	$577,087	$547,747

KEY FINANCIAL RATIOS AND DATA ($ in thousands, except per share)(unaudited)	Three Months Ended Dec. 31, 2006	Sept. 30, 2006	Dec. 31, 2005

PERFORMANCE RATIOS:			
Return on average assets (a)	1.35%	1.53%	1.46%
Return on average equity (a)	9.94%	10.89%	10.70%
Net interest margin (a)	4.74%	4.91%	4.87%
Efficiency ratio	63.13%	60.03%	61.16%

	Dec. 31, 2006	Sept. 30, 2006	Dec. 31, 2005
ASSET QUALITY RATIOS:			
Non-performing loans	$ 239	$ 80	$ 2,707
OREO & other repossessed assets	2	15	144
Total non-performing assets	$ 241	$ 95	$ 2,851
Non-performing assets to total assets	0.04%	0.02%	0.52%
Allowance for loan losses to non-performing loans	1,724%	5,152%	152%
Book value per share (b)	$21.05	$21.12	$ 20.22
Book value per share (c)	$22.37	$22.44	$ 21.64
Tangible book value per share (b) (d)	$19.12	$19.22	$ 18.25
Tangible book value per share (c) (d)	$20.32	$20.41	$ 19.53

(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

	Three Months Ended		
AVERAGE BALANCE SHEET:	Dec. 31, 2006	Sept. 30, 2006	Dec. 31, 2005
Average total loans	$439,294	$411,012	$390,776
Average total interest earning assets	529,572	510,180	495,290
Average total assets	580,114	560,941	549,361
Average total interest bearing deposits	376,365	372,371	361,620
Average FHLB advances & other borrowings	65,970	48,518	56,939
Average shareholders' equity	78,646	78,724	74,996

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.