TIMBERLAND BANCORP INC
Form 8-K
July 27, 2005

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): July 26, 2005

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 July 26, 2005, Timberland Bancorp, Inc. issued its earnings release for the quarter ended June 30, 2005. 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 July 26, 2005

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: July 26, 2005

By: /s/Dean J. Brydon

Dean J. Brydon
Chief Financial Officer

Exhibit 99.1

PRESS RELEASE: FOR IMMEDIATE PUBLICATION

For further information contact: Michael R. Sand, President & CEO
Dean J. Brydon, CFO
At (360) 533-4747

Timberland Bancorp, Inc. Announces Record Earnings

* Diluted Earnings Per Share Increases by 31%
* Return on Equity Increases by 26%
* Efficiency Ratio Improves by 12%

HOQUIAM, Wash. - July 26, 2005 - Timberland Bancorp, Inc. (Nasdaq: TSBK), ("Company") the holding company for Timberland Bank, ("Bank"), today reported net income of $1.84 million, or $0.51 per diluted share, for the quarter ended

June 30, 2005. This compares to net income of $1.45 million, or $0.39 per diluted share that the Company earned for the quarter ended June 30, 2004. The increased earnings per share was primarily a result of increased net interest income and increased non-interest income.

"We are pleased with the Company's financial performance during our third fiscal quarter," stated Timberland's President and CEO Michael Sand. "We realized significant increases in net income and earnings per share as we continued to grow our loan portfolio with funding obtained in our October 2004 branch acquisition. The transaction accounts gained in that acquisition have contributed to the increase in non-interest income." Sand also stated.

Net interest income and non-interest income rose 19.0% and 38.5% respectively from same quarter in the prior fiscal year primarily as a result of strong loan growth and increased core funding. During the quarter ended June 30, 2005 the Company also realized a significant improvement in its efficiency ratio to 60.7% from 69.0% for the quarter ended March 31, 2005. The Company intends to continue diligently managing its operating expenses.

During the quarter just ended the Company began testing procedures in accordance with Sarbanes-Oxley internal control requirements. During the next quarter such expenses may be in the $125,000 to $150,000 range as testing and independent audit procedures are performed in preparation for the Company's September 30, 2005 fiscal year end.

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 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.

TIMBERLAND BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
For the three and nine months ended June 30, 2005 and 2004
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2005	2004	2005	2004
Interest and Dividend Income				
Loans receivable	$7,170	$6,099	$20,271	$18,324

Securities available for sale and held to maturity	550	234	1,459	717
Dividends from investments	270	243	788	762
Interest bearing deposits in banks	47	16	252	97
Total interest and dividend income	8,037	6,592	22,770	19,900
Interest Expense				
Deposits	1,382	988	3,819	3,199
FHLB advances and other borrowings	846	723	2,347	2,383
Total interest expense	2,228	1,711	6,166	5,582
Net interest income	5,809	4,881	16,604	14,318
Provision for Loan Losses	96	14	116	94
Net interest income after provision for loan losses	5,713	4,867	16,488	14,224
Non-Interest Income				
Service charges on deposits	723	510	2,062	1,409
Gain on sale of loans, net	181	159	613	585
Loss on sale of securities	--	--	--	(6)
BOLI net earnings	111	111	320	338
Servicing income on loans sold	110	18	199	265
ATM transaction fees	223	166	632	462
Other	200	154	600	445
Total non-interest income	1,548	1,118	4,426	3,498
Non-Interest Expense				
Salaries and employee benefits	2,528	2,155	7,726	6,561
Premises and equipment	597	426	1,675	1,353
Advertising	187	207	565	559
Real estate owned expense (income)	19	48	(11)	(27)
ATM expenses	134	111	350	303
Postage and courier	80	85	381	272
Amortization of core deposit intangible	94	--	273	--
Other	826	862	2,937	2,542
Total non-interest expense	4,465	3,894	13,896	11,563
Income before federal income taxes	2,796	2,091	7,018	6,159
Federal Income Taxes	961	645	2,238	1,904
Net Income	$ 1,835	$ 1,446	$ 4,780	$ 4,255

Earnings Per Common Share:				
Basic	$0.54	$0.41	$1.37	$1.16
Diluted	$0.51	$0.39	$1.31	$1.10
Weighted average shares outstanding:				
Basic	3,415,644	3,492,286	3,486,589	3,681,059
Diluted	3,574,410	3,671,143	3,645,658	3,860,573

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TIMBERLAND BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
June 30, 2005 and September 30, 2004
(Dollars in thousands)
(unaudited)

	June 30, 2005	September 30, 2004
ASSETS		
Cash and due from financial institutions	$ 17,391	$ 15,268
Interest bearing deposits in banks	7,321	3,385
Federal funds sold	4,090	1,180
Investment securities - held to maturity	127	174
Investment securities - available for sale	91,792	59,889
Federal Home Loan Bank stock	5,705	5,682
Loans receivable	388,236	347,975
Loans held for sale	2,673	610
Less: Allowance for loan losses	(4,103)	(3,991)
Total loans	386,806	344,594
Accrued interest receivable	2,144	1,828
Premises and equipment	15,759	13,913
Real estate owned and other repossessed items	372	421
Bank owned life insurance ("BOLI")	11,348	11,028
Goodwill	5,650	--
Core deposit intangible	1,927	--
Other assets	2,447	3,057
TOTAL ASSETS	$ 552,879	$ 460,419
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits	$408,163	$ 319,570
Federal Home Loan Bank advances	67,400	65,421
Other borrowings: repurchase agreements	1,091	--
Other liabilities and accrued expenses	3,236	2,611

TOTAL LIABILITIES	479,890	387,602
SHAREHOLDERS' EQUITY		
Common stock - $.01 par value; 50,000,000 shares authorized; June 30, 2005 - 3,738,737 shares issued and outstanding September 30,2004 - 3,882,070 shares issued and outstanding	38	39
Additional paid in capital	21,479	24,867
Unearned shares - Employee Stock Ownership Plan	(3,966)	(4,362)
Unearned shares - Management Recognition & Development Plan	(54)	(537)
Retained earnings	56,030	52,967
Accumulated other comprehensive loss	(538)	(157)
TOTAL SHAREHOLDERS' EQUITY	72,989	72,817
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 552,879	$ 460,419

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TIMBERLAND BANCORP, INC. AND SUBSIDIARIES
KEY FINANCIAL RATIOS AND DATA
(Dollars in thousands, except per share data)

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Nine Months Ended June 30, 2005	Nine Months Ended June 30, 2004
PERFORMANCE RATIOS:				
Return on average assets (1)	1.35%	1.31%	1.20%	1.26%
Return on average equity (1)	10.19%	8.11%	8.77%	7.51%
Net interest margin (1) (2)	4.74%	4.82%	4.62%	4.61%
Efficiency ratio	60.69%	64.91%	66.08%	64.90%

	June 30, 2005	September 30, 2004
ASSET QUALITY RATIOS:		
Non-performing loans	$ 2,976	$1,442
REO & other repossessed assets	372	421

Total non-performing assets	3,348	1,863
Non-performing assets to total assets	0.61%	0.40%
Allowance for loan losses to non-performing loans	137.87%	276.77%
Book Value Per Share (3)	$19.52	$18.76
Book Value Per Share (4)	$21.01	$20.28
Tangible Book Value Per Share (3) (5)	$17.50	$18.76
Tangible Book Value Per Share (4) (5)	$18.83	$20.28

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(1) Annualized
(2) Prior period figures have been modified due to an income statement reclassification between interest income and servicing income on loans sold
(3) Calculation includes ESOP shares not committed to be released
(4) Calculation excludes ESOP shares not committed to be released
(5) Calculation subtracts goodwill and core deposit intangible from the equity component

	Three Months Ended June 30, 2005	2004	Nine Months Ended June 30, 2005	2004
AVERAGE BALANCE SHEET:				
Average Total Loans	$385,592	$338,215	$372,183	$338,497
Average Total Interest Earning Assets	490,359	405,227	479,551	414,298
Average Total Assets	544,149	442,653	532,025	451,039
Average Total Interest Bearing Deposits	355,367	281,993	353,622	284,127
Average FHLB Advances & Other Borrowings	68,345	55,512	59,455	57,786
Average Shareholders' Equity	72,027	71,344	72,708	75,541

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Comparison of Financial Condition at June 30, 2005 and September 30, 2004

Total Assets: Total assets increased $92.46 million to $552.88 million at June 30, 2005 from $460.42 million at September 30, 2004 primarily due to a $42.21 million increase in net loans receivable, a $31.86 million increase in investment securities, a $7.58 million increase in goodwill and core deposit intangible, a $6.85 million increase in interest bearing deposits in banks and federal funds sold, and a $1.85 million increase in premises and equipment. This growth was primarily funded by the net cash received in connection with the acquisition of seven branch offices and related deposits in October 2004.

Investments: Investment securities increased by $31.86 million to $91.92

million at June 30, 2005 from $60.06 million at September 30, 2004, as a portion of the deposits received in connection with the branch acquisition was placed into investment securities.

Loans: Net loans receivable increased by $42.21 million to $386.81 million at June 30, 2005 from $344.59 million at September 30, 2004. The increase in the portfolio was primarily a result of a $17.67 million increase in commercial real estate loans, a $7.61 million increase in consumer loans, a $7.33 million increase in construction loans (net of undisbursed portion), a $4.94 million increase in one-to-four family mortgage loans, a $2.40 million increase in land loans, a $1.70 million increase in multi-family loans, and a $493,000 increase in commercial business loans.

Loan originations totaled $58.25 million and $168.63 million for the three and nine months ended June 30, 2005 compared to $46.91 million and $133.63 million for the same periods a year earlier. The Bank sold loans totaling $8.30 million and $17.78 million ($16.26 million in fixed rate one-to-four family mortgage loans and $1.52 million in credit card loans) during the three and nine months ended June 30, 2005, compared to $10.41 million and $33.28 million in fixed rate one-to-four family mortgage loans sold for the same periods a year earlier.

Deposits: Deposits increased by $88.59 million to $408.16 million at June 30, 2005 from $319.57 million at September 30, 2004, primarily due to the acquisition of $86.30 million in deposits in October 2004. The $88.59 million deposit increase is comprised of a $43.83 million increase in certificate of deposit accounts, a $15.80 million increase in N.O.W. checking accounts, a $13.55 million increase in savings accounts, a $6.53 million increase in money market accounts, and an $8.89 million increase in non-interest bearing accounts.

Shareholders' Equity: Total shareholders' equity increased by $172,000 to $72.99 million at June 30, 2005 from $72.82 million at September 30, 2004, primarily due to net income of $4.78 million and a $675,000 increase to additional paid in capital from the exercise of stock options and the vesting associated with the Bank's benefit plans. Also increasing shareholders' equity were decreases of $483,000 and $396,000 in the equity components related to unearned shares issued to the Management Recognition and Development Plan and the Employee Stock Ownership Plan, respectively. Partially offsetting these increases to shareholders' equity were the repurchase of 174,434 shares of the Company's stock for $4.06 million, the payment of $1.72 million in dividends to shareholders, and a $381,000 increase in accumulated other comprehensive loss.

On April 7, 2005, the Company announced a plan to repurchase up to 5% of the Company's outstanding shares, or 187,955 shares. This represents the Company's 13th stock repurchase plan. As of June 30, 2005, the Company had repurchased 27,850 of these shares at an average price of $23.16. Cumulatively the Company has repurchased 3,367,121 (50.9%) of the 6,612,500 shares that were issued when the Company went public in January 1998. These 3,367,121 shares have been repurchased at an average price of $15.39 per share.

Comparison of Operating Results for the Three and Nine Months Ended June 30, 2005 and 2004

Net Income: Net income for the quarter ended June 30, 2005 increased to $1.84 million, or $0.51 per diluted share ($0.54 per basic share) from $1.45 million, or $0.39 per diluted share ($0.41 per basic share) for the quarter ended June 30, 2004. The $0.12 increase in diluted earnings per share for the quarter ended June 30, 2005 was primarily a result of an $846,000 ($558,000 net of income tax - $0.15 per diluted share) increase in net interest income after provision for loan losses, and a $430,000 ($284,000 net of income tax - $0.08 per diluted share) increase in non-interest income. These items were partially offset by a $571,000 ($377,000 net of income tax - $0.11 per diluted share) increase in non-interest expense.

Net income for the nine months ended June 30, 2005 increased to $4.78 million, or $1.31 per diluted share ($1.37 per basic share) from $4.26 million, or $1.10 per diluted share ($1.16 per basic share) for the nine months ended June 30, 2004. The $0.21 increase in diluted earnings per share for the nine months ended June 30, 2005 was primarily the result of a $2.26 million ($1.49 million net of income tax - $0.38 per diluted share) increase in net interest income after provision for loan losses, a $928,000 ($612,000 net of income tax - $0.15 per diluted share) increase in non-interest income, and a lower number of weighted average shares outstanding which increased diluted earnings per share by approximately $0.07. These items were partially offset by a $2.33 million ($1.54 million net of income tax - $0.40 per diluted share) increase in non-interest expense.

Net Interest Income: Net interest income increased $928,000 to $5.81 million for the quarter ended June 30, 2005 from $4.88 million for the quarter ended June 30, 2004, primarily due to increased interest income from a larger interest earning asset base. Total interest income increased $1.45 million to $8.04 million for the quarter ended June 30, 2005 from $6.59 million for the quarter ended June 30, 2004 as average total interest earning assets increased by $85.13 million. The increased interest earning asset balances were primarily a result of investing the funds received in connection with the October 2004 acquisition of deposits into loans and investment securities. Also contributing to the increased interest income for the current quarter was an increase in the overall yield on interest-earning assets. The yield on earning assets for the quarter ended June 30, 2005 increased to 6.56% from 6.51% for the quarter ended June 30, 2004, primarily as a result of the Bank receiving and recognizing $128,000 in delinquent interest on a large loan that had been on non-accrual status. Partially offsetting the increased interest income was an increase in interest expense as average interest bearing deposits and borrowings increased. Total interest expense increased by $517,000 to $2.23 million for the quarter ended June 30, 2005 from $1.71 million for the quarter ended June 30, 2004 as average interest bearing liabilities increased $86.21 million. The increased interest bearing liabilities were primarily a result of the deposit acquisition in October 2004. Also contributing to increased interest expense was an increase in the average rate paid for these funding sources to 2.10% for the quarter ended June 30, 2005 from 2.03% for the quarter ended June 30, 2004. As a result of these changes, the net interest margin decreased to 4.74% for the quarter ended June 30, 2005 from 4.82% for the quarter ended June 30, 2004.

Net interest income increased $2.28 million to $16.60 million for the nine months ended June 30, 2005 from $14.32 million for the nine months ended June 30, 2004, primarily due to increased interest income from a larger interest earning asset base. Total interest income increased $2.87 million to $22.77 million for the nine months ended June 30, 2005 from $19.90 million for the nine months ended June 30, 2004 as average total interest earning assets increased by $65.25 million. The increased interest earning asset balances were a result of investing the funds received in connection with the October 2004 acquisition of deposits. The increased interest earning balances were partially offset by a reduction in the yield on assets. The yield on earning assets decreased to 6.33% for the nine months ended June 30, 2005 from 6.40% for the nine months ended June 30, 2004. Also partially offsetting the increased interest income was an increase in interest expense as average interest bearing deposits and borrowings increased. Total interest expense increased by $584,000 to $6.17 million for the nine months ended June 30, 2005 from $5.58 million for the nine months ended June 30, 2004 as average interest bearing liabilities increased $71.16 million. As a result of these changes the net interest margin increased to 4.62% for the nine months ended June 30, 2005 from 4.61% for the nine months ended June 30, 2004.

Provision for Loan Losses: The provision for loan losses increased to $96,000 for the quarter ended June 30, 2005 from $14,000 for the quarter ended June 30, 2004. The provision for the nine months ended June 30, 2005 increased to $116,000 from $94,000 for the nine months ended June 30, 2004. Based on its analysis, management deemed the allowance for loan losses of $4.10 million at June 30, 2005 (1.05% of loans receivable and 137.87% of non-performing loans) adequate to provide for probable losses based on an evaluation of known and inherent risks in the loan portfolio at

that date. The allowance for loan losses was $3.93 million (1.16% of loans receivable and 186.25% of non-performing loans) at June 30, 2004. The Company did not have any net charge-offs during the current quarter compared to a net charge-off of $14,000 in the same quarter of 2004. For the nine months ended June 30, 2005 and 2004, net charge-offs were $4,000 and $57,000, respectively.

The Company's non-performing assets to total assets ratio increased to 0.61% at June 30, 2005 from 0.59% at June 30, 2004. The non-performing loan total of $2.98 million at June 30, 2005 consisted of $2.05 million in one-to-four family loans, $598,000 in commercial real estate loans, $257,000 in commercial business loans, and $69,000 in land loans.

Non-interest Income: Total non-interest income increased $430,000 to $1.55 million for the quarter ended June 30, 2005 from $1.12 million for the quarter ended June 30, 2004, primarily due to a $213,000 increase in service charges on deposits, a $114,000 increase in income from loan sales (gain on sale of loans and servicing income on loans sold), and a $57,000 increase in ATM transaction fees. The increased service charges on deposits and the increased ATM transaction fees were primarily a result of the increased transaction account base acquired through the branch acquisition.

Total non-interest income increased by $928,000 to $4.43 million for the nine months ended June 30, 2005 from $3.50 million for the nine months ended June 30, 2004, primarily due to a $653,000 increase in service charges on deposits, a $170,000 increase in ATM transaction fees, and an $81,000 distribution from one of the Bank's ATM network associations. The ATM network association distribution was cash consideration paid to network association members in connection with the association's recent merger.

Non-interest Expense: Total non-interest expense increased by $571,000 to $4.47 million for the quarter ended June 30, 2005 from $3.89 million for the quarter ended June 30, 2004, as the Company operated with a larger branch network due to the acquisition of seven branch offices and the associated employees in October 2004. The increase was primarily a result of a $373,000 increase in salaries and employee benefits, a $171,000 increase in premises and equipment expenses, and a $94,000 core deposit intangible amortization expense. The increased employee expenses were primarily due to the larger employee base resulting from the branch acquisition, annual salary adjustments, and increased medical insurance costs.

The Company's efficiency ratio decreased to 60.69% for the quarter ended June 30, 2005 from 64.91% for the quarter ended June 30, 2004. Effective August 1, 2005 expenses will be reduced by $55,000 per month ($660,000 per year pre-tax) due to the elimination of the expense associated with the Management Recognition and Development Plan. The last expense associated with existing stock grants under the Plan will be recognized on July 31, 2005.

Total non-interest expense increased by $2.33 million to $13.90 million for the nine months ended June 30, 2005 from $11.56 million for the nine months ended June 30, 2004. The increase was primarily a result of a $1.17 million increase in salaries and employee benefits, a $322,000 increase in premises and equipment expenses, a $273,000 core deposit intangible expense, $142,000 in expenses associated with the branch acquisition, a $109,000 increase in postage and courier expense, and a $47,000 increase in ATM operating fees.

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TIMBERLAND BANCORP, INC. AND SUBSIDIARIES
LOANS RECEIVABLE BREAKDOWN
(Dollars in thousands)

The following table sets forth the composition of the Company's loan portfolio by type of loan.

	At June 30, 2005		At September 30, 2004	
	Amount	Percent	Amount	Percent
Mortgage Loans:				
One-to-four family (1)	$104,771	24.23%	$99,835	25.25%
Multi family	18,858	4.36	17,160	4.34
Commercial	125,943	29.12	108,276	27.39
Construction and land development	108,567	25.11	106,241	26.88
Land	22,291	5.16	19,895	5.03
Total mortgage loans	380,430	87.98	351,407	88.89
Consumer Loans:				
Home equity and second mortgage	30,936	7.15	23,549	5.96
Other	9,494	2.19	9,270	2.34
	40,430	9.34	32,819	8.30
Commercial business loans	11,591	2.68	11,098	2.81
Total loans	432,451	100.00%	395,324	100.00%

Less:		
Undisbursed portion of construction loans in process	(38,563)	(43,563)
Unearned income	(2,979)	(3,176)
Allowance for loan losses	(4,103)	(3,991)
Total loans receivable, net	$386,806	$344,594

(1) Includes loans held-for-sale.

TIMBERLAND BANCORP, INC. AND SUBSIDIARIES
DEPOSIT BREAKDOWN
(Dollars in thousands)

	June 30, 2005	September 30, 2004
Non-interest bearing	$ 46,035	$ 37,150
N.O.W checking	93,042	77,242
Savings	61,754	48,200
Money market accounts	48,178	41,652
Certificates of deposit under $100,000	116,047	93,750
Certificates of deposit $100,000 and over	43,107	21,576
Total deposits	$408,163	$319,570

Timberland Bancorp, Inc. stock trades on the NASDAQ national market under the symbol "TSBK." The Bank owns and operates branches in the state of Washington in Hoquiam, Aberdeen, Ocean Shores, Montesano, Elma, Olympia, Lacey, Panorama City, Tumwater, Yelm, Puyallup, Edgewood, Tacoma, Spanaway (Bethel Station), Gig Harbor, Poulsbo, Silverdale, Auburn, Winlock, and Toledo.

CONTACT:
Timberland Bancorp, Inc.
Michael Sand, President & CEO or Dean Brydon, CFO 360/533-4747