TIMBERLAND BANCORP INC
Form 8-K
November 09, 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): November 8, 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 November 8, 2005, Timberland Bancorp, Inc. issued its earnings release for the quarter ended September 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 November 8, 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: November 8, 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 Increased Earnings

* Quarterly Diluted Earnings Per Share Increases by 42%
* Annual Diluted Earnings Per Share Increases by 25%
* Quarterly Return on Equity Increases by 36%
* Annual Return on Equity Increases by 21%
* Total Assets Increase by 20% During Year
* Total Loans Increase by 13% During Year
* Total Deposits Increase by 29% During Year

HOQUIAM, Wash. - November 8, 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 September 30, 2005. This compares to net income of $1.33 million, or $0.36 per diluted share that the Company earned for the quarter ended September 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 growth and financial operating results that were achieved during the recently concluded fiscal year," stated Timberland's President and CEO Michael Sand. "The diligent efforts of our staff resulted in a 25% increase in diluted earnings per share and a 21% increase in return on equity compared to the prior fiscal year in spite of a challenging interest rate environment. Increased loan demand contributed to the successful deployment of core deposits obtained in the branch acquisition this past year. Both net interest income and noninterest income were significantly increased over the prior fiscal year," Sand also stated.

Net interest income, non-interest income, and net income increased by 16%, 33%, and 18% respectively from the prior fiscal year. Loans and deposits grew by 13% and 29% respectively during the same period. Deposit growth was due primarily to the acquisition of core deposits in October 2004.

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.

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

	Three Months Ended September 30,		Year Ended September 30,	
	2005	2004	2005	2004
Interest and Dividend Income				
Loans receivable	$7,243	$6,177	$27,514	$24,501
Securities available for sale and held to maturity	503	217	1,962	934

Dividends from investments	305	259	1,093	1,021
Deposits in banks and federal funds sold	115	18	367	115
Total interest and dividend income	8,166	6,671	30,936	26,571
Interest Expense				
Deposits	1,603	969	5,422	4,168
FHLB advances and other borrowings	840	774	3,187	3,157
Total interest expense	2,443	1,743	8,609	7,325
Net interest income	5,723	4,928	22,327	19,246
Provision for Loan Losses	25	73	141	167
Net interest income after provision for loan losses	5,698	4,855	22,186	19,079
Non-Interest Income				
Service charges on deposits	760	518	2,822	1,927
Gain on sale of loans, net	115	57	728	642
Loss on sale of securities	--	--	--	(6)
BOLI net earnings	110	124	430	462
Escrow Fees	44	35	141	140
Servicing income on loans sold	180	45	379	310
ATM transaction fees	239	174	871	636
Other	199	125	702	465
Total non-interest income	1,647	1,078	6,073	4,576
Non-Interest Expense				
Salaries and employee benefits	2,470	2,233	10,196	8,794
Premises and equipment	554	526	2,229	1,879
Advertising	232	170	797	729
Loss (gain) from real estate operations	15	24	4	(3)
ATM expenses	115	93	465	396
Postage and courier	148	71	529	343
Amortization of core deposit intangible	94	--	367	--
Other	1,012	895	3,949	3,437
Total non-interest expense	4,640	4,012	18,536	15,575
Income before federal income taxes	2,705	1,921	9,723	8,080
Federal Income Taxes	867	588	3,105	2,492
Net Income	$1,838	$1,333	$ 6,618	$ 5,588
Earnings Per Common Share:				
Basic	$ 0.53	$ 0.38	$ 1.90	$ 1.54
Diluted	$ 0.51	$ 0.36	$ 1.82	$ 1.46
Weighted average shares outstanding:				
Basic	3,442,198	3,507,811	3,475,400	3,637,510
Diluted	3,575,560	3,668,134	3,627,989	3,827,997

TIMBERLAND BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
For three months and years ended September 30, 2005 and 2004
(Dollars in thousands)
(unaudited)

	September 30, 2005	September 30, 2004
ASSETS		
Cash and due from financial institutions	$ 20,015	$ 15,268
Interest bearing deposits in banks	3,068	3,385
Federal funds sold	5,635	1,180
Investment securities - held to maturity	104	174
Investment securities - available for sale	89,595	59,889
Federal Home Loan Bank stock	5,705	5,682
Loans receivable	389,853	347,975
Loans held for sale	2,355	610
Less: Allowance for loan losses	(4,099)	(3,991)
Total loans	388,109	344,594
Accrued interest receivable	2,294	1,828
Premises and equipment	15,862	13,913
Real estate owned and other repossessed items	509	421
Bank owned life insurance ("BOLI")	11,458	11,028
Goodwill	5,650	--
Core deposit intangible	1,834	--
Mortgage servicing rights	928	930
Other assets	1,999	2,127
TOTAL ASSETS	$ 552,765	$ 460,419
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits	$ 411,665	$ 319,570
Federal Home Loan Bank advances	62,353	65,421
Other borrowings: repurchase agreements	781	--
Other liabilities and accrued expenses	3,324	2,611
TOTAL LIABILITIES	478,123	387,602
SHAREHOLDERS' EQUITY		
Common stock - $.01 par value; 50,000,000 shares authorized; September 30, 2005 3,759,937 shares issued and outstanding September 30, 2004 3,882,070 shares issued and outstanding	38	39
Additional paid in capital	22,040	24,867
Unearned shares - Employee Stock Ownership Plan	(3,833)	(4,362)
Unearned shares - Management Recognition & Development Plan	--	(537)
Retained earnings	57,268	52,967
Accumulated other comprehensive loss	(871)	(157)
TOTAL SHAREHOLDERS' EQUITY	74,642	72,817

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 552,765	$ 460,419

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

	Three Months Ended September 30,		Year Ended September 30,	
	2005	2004	2005	2004
PERFORMANCE RATIOS:				
Return on average assets (1)	1.33%	1.19%	1.23%	1.24%
Return on average equity (1)	10.03%	7.40%	9.08%	7.52%
Net interest margin (1) (2)	4.56%	4.81%	4.60%	4.67%
Efficiency ratio	62.96%	66.80%	65.27%	65.38%

	September 30, 2005	September 30, 2004
ASSET QUALITY RATIOS:		
Non-performing loans	$ 2,926	$ 1,442
REO & other repossessed assets	509	421
Total non-performing assets	3,435	1,863
Non-performing assets to total assets	0.62%	0.40%
Allowance for loan losses to non-performing loans	140.09%	276.77%
Book value per share (3)	$ 19.85	$ 18.76
Book value per share (4)	$ 21.30	$ 20.28
Tangible book value per share (3) (5)	$ 17.86	$ 18.76
Tangible book value per share (4) (5)	$ 19.16	$ 20.28

(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 September 30,		Year Ended September 30,	
2005	2004	2005	2004

AVERAGE BALANCE SHEET:				
Average total loans	$392,596	$342,150	$378,113	$338,752
Average total interest earning assets	502,453	409,504	485,616	411,858
Average total assets	554,750	447,160	538,402	449,703
Average total interest bearing deposits	363,150	281,701	356,089	283,517
Average FHLB advances & other borrowings	63,745	57,770	60,537	57,778
Average shareholders' equity	73,310	72,070	72,860	74,293

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

Total Assets: Total assets increased $92.35 million to $552.77 million at September 30, 2005 from $460.42 million at September 30, 2004 primarily due to a $43.52 million increase in net loans receivable, a $29.64 million increase in investment securities, a $9.20 million increase in cash and due from financial institutions and federal funds sold, and a $7.48 million increase in goodwill and core deposit intangible. 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 $29.64 million to $89.70 million at September 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 $43.52 million to $388.11 million at September 30, 2005 from $344.59 million at September 30, 2004. The increase in the portfolio was primarily a result of a $16.57 million increase in commercial real estate loans, an $8.81 million increase in consumer loans, a $7.02 million increase in construction loans (net of undisbursed portion), a $5.09 million increase in land loans, a $3.01 million increase in multi-family loans, a $1.93 million increase in one-to-four family mortgage loans, and a $915,000 increase in commercial business loans.

Loan originations totaled $61.58 million and $230.21 million for the three months and year ended September 30, 2005 compared to $67.51 million and $201.14 million for the same periods a year earlier. The Bank sold loans totaling $9.11 million and $26.89 million ($25.37 million in fixed rate one-to-four family mortgage loans and $1.52 million in credit card loans) during the three months and year ended September 30, 2005, compared to $2.46 million and $35.74 million in fixed rate one-to-four family mortgage loans sold for the same periods one year earlier.

Deposits: Deposits increased by $92.10 million to $411.67 million at September 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 $92.10 million deposit increase is comprised of a $37.50 million increase in certificate of deposit accounts, a $16.24 million increase in N.O.W. checking accounts, a $16.07 million increase in savings accounts, a $14.64 million increase in non-interest bearing accounts, and a $7.64 million increase in money market accounts.

Shareholders' Equity: Total shareholders' equity increased by $1.82 million to

$74.64 million at September 30, 2005 from $72.82 million at September 30, 2004, primarily due to net income of $6.62 million and a $1.24 million 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 $537,000 and $529,000 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 $2.32 million in dividends to shareholders, and a $714,000 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 September 30, 2005, the Company had repurchased 27,850 of these shares at an average price of $23.16. No shares were repurchased during the quarter ended September 30, 2005. 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.

5

Comparison of Operating Results for the Three Months and Years Ended September 30, 2005 and 2004

Net Income: Net income for the quarter ended September 30, 2005 increased to $1.84 million, or $0.51 per diluted share ($0.53 per basic share) from $1.33 million, or $0.36 per diluted share ($0.38 per basic share) for the quarter ended September 30, 2004. The $0.15 increase in diluted earnings per share for the quarter ended September 30, 2005 was primarily a result of an $843,000 ($556,000 net of income tax - $0.15 per diluted share) increase in net interest income after provision for loan losses, and a $569,000 ($376,000 net of income tax - $0.11 per diluted share) increase in non-interest income. These items were partially offset by a $628,000 ($414,000 net of income tax - $0.11 per diluted share) increase in non-interest expense.

Net income for the year ended September 30, 2005 increased $1.03 million to $6.62 million, or $1.82 per diluted share ($1.90 per basic share) from $5.59 million, or $1.46 per diluted share ($1.54 per basic share) for the year ended September 30, 2004. The $0.36 increase in diluted earnings per share for the year ended September 30, 2005 was primarily the result of a $3.11 million ($2.05 million net of income tax - $0.53 per diluted share) increase in net interest income after provision for loan losses, a $1.50 million ($988,000 net of income tax - $0.26 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 $0.08. These items were partially offset by a $2.96 million ($1.95 million net of income tax - $0.51 per diluted share) increase in non-interest expense.

Net Interest Income: Net interest income increased $795,000 to $5.72 million for the quarter ended September 30, 2005 from $4.93 million for the quarter ended September 30, 2004, primarily due to increased interest income from a larger interest earning asset base. Total interest income increased $1.50 million to $8.17 million for the quarter ended September 30, 2005 from $6.67

million for the quarter ended September 30, 2004 as average total interest earning assets increased by $92.95 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. The increased interest earning balances were partially offset by a reduction in the yield on assets. The yield on interest earning assets decreased to 6.50% for the quarter ending September 30, 2005 from 6.52% for the quarter ending September 30, 2004. The decrease in yield was partially due to a change in the composition of interest earning assets as investment securities comprised a higher percentage of the total interest earning asset base during the current quarter. 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 $700,000 to $2.44 million for the quarter ended September 30, 2005 from $1.74 million for the quarter ended September 30, 2004 as average interest bearing liabilities increased $87.42 million. The increased interest bearing liabilities were primarily a result of the October 2004 deposit acquisition. Also contributing to increased interest expense was an increase in the average rate paid for these funding sources to 2.29% for the quarter ended September 30, 2005 from 2.05% for the quarter ended September 30, 2004. As a result of these changes, the net interest margin decreased to 4.56% for the quarter ended September 30, 2005 from 4.81% for the quarter ended September 30, 2004.

Net interest income increased $3.08 million to $22.33 million for the year ended September 30, 2005 from $19.25 million for the year ended September 30, 2004, primarily due to increased interest income from a larger interest earning asset base. Total interest income increased $4.37 million to $30.94 million for the year ended September 30, 2005 from $26.57 million for the year ended September 30, 2004 as average total interest earning assets increased by $73.76 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 6.37% for the year ended September 30, 2005 from 6.45% for the year ended September 30, 2004. The decrease in yield was partially due to a change in the composition of interest earning assets as investment securities comprised a higher percentage of the total interest earning asset base during 2005. 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 $1.28 million to $8.61 million for the year ended September 30, 2005 from $7.33 million for the year ended September 30, 2004 as average interest bearing liabilities increased $75.33 million. As a result of these changes the net interest margin decreased to 4.60% for the year ended September 30, 2005 from 4.67% for the year ended September 30, 2004.

Provision for Loan Losses: The provision for loan losses decreased to $25,000 and $141,000 for the three months and year ended September 30, 2005 from $73,000 and $167,000 for the three months and year ended September 30, 2004. Based on its comprehensive analysis, management deemed the allowance for loan losses of $4.10 million at September 30, 2005 (1.05% of loans receivable and 140.09% 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 $3.99 million (1.15% of loans receivable and 276.77% of non-performing loans) at September 30, 2004. The

Company's net charge-offs were $29,000 and $33,000 for the three months and year ended September 30, 2005 compared to $9,000 and $67,000 for the three months and year ended September 30, 2004. The net charge-offs to average outstanding loans ratio was a minimal 0.01% for the year ended September 30, 2005 and during the last ten fiscal years has averaged less than 0.08%.

The Company's non-performing assets to total assets ratio increased to 0.62% at September 30, 2005 from 0.61% at June 30, 2005 and 0.40% at September 30, 2004. The non-performing loan total of $2.93 million at September 30, 2005 consisted of $2.34 million in one-to-four family loans, $261,000 in commercial real estate loans, $300,000 in commercial business loans, and $24,000 in land loans.

Non-interest Income: Total non-interest income increased $569,000 to $1.65 million for the quarter ended September 30, 2005 from $1.08 million for the quarter ended September 30, 2004, primarily due to a $242,000 increase in service charges on deposits, a $193,000 increase in income from loan sales (gain on sale of loans and servicing income on loans sold), and a $65,000 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. The increased income from loan sales was primarily due to an increased volume of loans sold during the quarter and a decrease in the amortization expense on existing mortgage servicing rights.

Total non-interest income increased by $1.49 million to $6.07 million for the year ended September 30, 2005 from $4.58 million for the year ended September 30, 2004, primarily due to an $895,000 increase in service charges on deposits, a $235,000 increase in ATM transaction fees, a $155,000 increase in income from loan sales (gain on sale of loans and servicing income on loans sold) 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 merger.

Non-interest Expense: Total non-interest expense increased by $628,000 to $4.64 million for the quarter ended September 30, 2005 from $4.01 million for the quarter ended September 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 increased expense was primarily a result of a $237,000 increase in salaries and employee benefits, a $94,000 core deposit intangible amortization expense, a $77,000 increase in postage and courier expenses, and a $62,000 increase in advertising expenses. 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 also spent approximately $162,000 in Sarbanes-Oxley Section 404 related costs during the quarter ended September 30, 2005. The Company's efficiency ratio decreased to 62.96% for the quarter ended September 30, 2005 from 66.80% for the quarter ended September 30, 2004.

Total non-interest expense increased by $2.96 million to $18.54 million for the year ended September 30, 2005 from $15.58 million for the year ended September 30, 2004. The increase was primarily a result of a $1.40 million increase in salaries and employee benefits, a $367,000 core deposit intangible expense, a $350,000 increase in premises and equipment expenses, a $186,000 increase in postage and courier expense, a $69,000 increase in ATM operating fees and $142,000 in expenses associated with the branch acquisition in October 2004. Timberland also spent approximately $253,000 in Sarbanes-Oxley Section 404 related costs during the year ended September 30, 2005.

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 September 30, 2005		At September 30, 2004	
	Amount	Percent	Amount	Percent
Mortgage Loans:				
One-to-four family (1)	$101,763	23.24%	$99,835	25.25%
Multi family	20,170	4.61	17,160	4.34
Commercial	124,849	28.51	108,276	27.39
Construction and land development	112,470	25.68	106,241	26.88
Land	24,981	5.71	19,895	5.03
Total mortgage loans	384,233	87.75	351,407	88.89
Consumer Loans:				
Home equity and second mortgage	32,298	7.38	23,549	5.96
Other	9,330	2.13	9,270	2.34
	41,628	9.51	32,819	8.30
Commercial business loans	12,013	2.74	11,098	2.81
Total loans	437,874	100.00%	395,324	100.00%
Less:				
Undisbursed portion of construction loans in process	(42,771)		(43,563)	
Unearned income	(2,895)		(3,176)	
Allowance for loan losses	(4,099)		(3,991)	
Total loans receivable, net	$388,109		$344,594	

(1) Includes loans held-for-sale.

TIMBERLAND BANCORP, INC. AND SUBSIDIARIES
DEPOSIT BREAKDOWN

(Dollars in thousands)

	September 30, 2005	September 30, 2004
Non-interest bearing	$ 51,792	$ 37,150
N.O.W checking	93,477	77,242
Savings	64,274	48,200
Money market accounts	49,295	41,652
Certificates of deposit under $100,000	117,618	93,750
Certificates of deposit $100,000 and over	35,209	21,576
Total deposits	$411,665	$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