

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

TIMBERLAND BANCORP INC
Form 10-Q
May 07, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From _____ to _____.

Commission file number 0-23333

TIMBERLAND BANCORP, INC.
(Exact name of registrant as specified in its charter)

Washington 91-1863696
(State of Incorporation) (IRS Employer Identification No.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer _____ Accelerated Filer _____
Non-accelerated filer _____ Smaller reporting company _____

Indicate by check mark whether the registrant is a shell company (in Rule 12b-2 of the Exchange Act).
Yes _____ No _____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS SHARES OUTSTANDING AT APRIL 30, 2008

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

Common stock, \$.01 par value

6,880,553

INDEX

	Page

PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (unaudited)	
Condensed Consolidated Balance Sheets	3
Condensed Consolidated Statements of Income	4
Condensed Consolidated Statements of Shareholders' Equity	5
Condensed Consolidated Statements of Cash Flows	6-7
Condensed Consolidated Statements of Comprehensive Income	8
Notes to Condensed Consolidated Financial Statements	9-14
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	14-29
Item 3. Quantitative and Qualitative Disclosures about Market Risk	30
Item 4. Controls and Procedures	30
Item 4T. Controls and Procedures	30
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	30
Item 1A - Risk Factors	31
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	31
Item 3. Defaults Upon Senior Securities	31
Item 4. Submission of Matters to a Vote of Security Holders	31-32
Item 5. Other Information	32
Item 6. Exhibits	32
SIGNATURES	33

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 March 31, 2008 and September 30, 2007
 Dollars in thousands, except share amounts

	March 31, 2008	September 30, 2007

Assets	(Unaudited)	
Cash equivalents:		
Non-interest bearing	\$ 12,165	\$ 10,813
Interest bearing deposits in banks	883	2,082
Federal funds sold	1,220	3,775
	-----	-----
	14,268	16,670
	-----	-----
Investments and mortgage-backed securities: held to maturity	60	71
Investments and mortgage-backed securities: available for sale	42,868	63,898
Federal Home Loan Bank ("FHLB") stock	5,705	5,705
Loans receivable	549,593	519,381
Loans held for sale	4,949	757
Less: Allowance for loan losses	(6,697)	(4,797)
	-----	-----
Net loans receivable	547,845	515,341
	-----	-----
Accrued interest receivable	3,055	3,424
Premises and equipment	16,470	16,575
Other real estate owned ("OREO") and other repossessed items	--	--
Bank owned life insurance ("BOLI")	12,654	12,415
Goodwill	5,650	5,650
Core deposit intangible ("CDI")	1,096	1,221
Mortgage servicing rights	1,145	1,051
Other assets	3,697	2,827
	-----	-----
Total assets	\$654,513	\$644,848
	=====	=====
Liabilities and shareholders' equity		
Deposits	\$469,837	\$466,735
FHLB advances	105,663	99,697
Other borrowings: repurchase agreements	815	595
Other liabilities and accrued expenses	3,356	3,274
	-----	-----
Total liabilities	579,671	570,301
	-----	-----
Commitments and contingencies	--	--
Shareholders' equity		
Preferred stock, \$.01 par value; 1,000,000 shares authorized; none issued	--	--
Common stock, \$.01 par value; 50,000,000 shares	--	--

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

authorized;		
March 31, 2008 - 6,876,653 shares issued and outstanding		
September 30, 2007 - 6,953,360 shares issued and outstanding	69	70
Additional paid in capital	8,527	9,923
Unearned shares - Employee Stock Ownership Plan ("ESOP")	(2,908)	(3,040)
Retained earnings	70,125	68,378
Accumulated other comprehensive loss	(971)	(784)
	-----	-----
Total shareholders' equity	74,842	74,547
	-----	-----
Total liabilities and shareholders' equity	\$654,513	\$644,848
	=====	=====

See notes to unaudited condensed consolidated financial statements

3

TIMBERLAND BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
For the three and six months ended March 31, 2008 and 2007
Dollars in thousands, except per share amounts
(unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
	-----	-----	-----	-----
Interest and dividend income				
Loans receivable	\$10,358	\$9,283	\$21,121	\$18,070
Investments and mortgage-backed securities	142	381	391	835
Dividends from mutual funds and FHLB stock	395	413	818	833
Federal funds sold	27	77	58	142
Interest bearing deposits in banks	4	14	14	53
	-----	-----	-----	-----
Total interest and dividend income	10,926	10,168	22,402	19,933
	-----	-----	-----	-----
Interest expense				
Deposits	3,117	2,657	6,450	5,247
FHLB advances - short term	66	288	534	647
FHLB advances - long term	1,066	725	1,814	1,248
Other borrowings	6	10	14	27
	-----	-----	-----	-----
Total interest expense	4,255	3,680	8,812	7,169
	-----	-----	-----	-----
Net interest income	6,671	6,488	13,590	12,764
Provision for loan losses	700	156	1,900	156
	-----	-----	-----	-----
Net interest income after provision for loan losses	5,971	6,332	11,690	12,608
	-----	-----	-----	-----
Non-interest income				
Service charges on deposits	648	663	1,344	1,369

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

Gain on sale of loans, net	144	64	237	171
BOLI net earnings	119	114	239	227
Servicing income on loans sold	179	115	297	246
ATM transaction fees	302	272	601	535
Fee income from non-deposit investment sales	17	41	56	61
Other	145	155	278	295
	-----		-----	
Total non-interest income	1,554	1,424	3,052	2,904
	-----		-----	
Non-interest expense				
Salaries and employee benefits	2,986	2,766	5,906	5,551
Premises and equipment	650	660	1,114	1,283
Advertising	268	201	450	379
Loss (gain) from real estate operations	- -	(11)	- -	(29)
ATM expenses	142	107	291	226
Postage and courier	130	130	247	235
Amortization of CDI	62	71	124	143
State and local taxes	147	133	298	272
Professional fees	145	172	292	349
Other	676	710	1,335	1,426
	-----		-----	
Total non-interest expense	5,206	4,939	10,057	9,835
	-----		-----	
Income before federal income taxes	2,319	2,817	4,685	5,677
Federal income taxes	734	901	1,484	1,807
	-----		-----	
Net income	\$ 1,585	\$ 1,916	\$ 3,201	\$ 3,870
	=====		=====	
Earnings per common share:				
Basic	\$ 0.25	\$ 0.28	\$ 0.49	\$ 0.56
Diluted	\$ 0.24	\$ 0.27	\$ 0.48	\$ 0.54
Weighted average shares outstanding:				
Basic	6,441,367	6,866,664	6,478,600	6,937,990
Diluted	6,560,806	7,083,420	6,618,101	7,165,712
Dividends paid per share:	\$ 0.11	\$ 0.09	\$ 0.21	\$ 0.18

See notes to unaudited condensed consolidated financial statements

4

TIMBERLAND BANCORP, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
 For the year ended September 30, 2007 and the six months ended March 31, 2008
 Dollars in thousands, except per share amounts and common stock shares

	Common Stock Shares Outstanding	Common Stock Amount	Additional Paid-In Capital	Unearned Shares Issued to ESOP	Retained Earnings	Accumulated Other Comprehensive Loss
	-----	-----	-----	-----	-----	-----
Balance, Sept. 30, 2006	7,515,352	\$38	\$20,700	(\$3,305)	\$62,933	(\$1,001)
Net income	- -	- -	- -	- -	8,163	- -

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

Stock split	- -	36	- -	- -	(36)	- -
Issuance of MRDP (1) shares	15,080	- -	- -	- -	- -	- -
Repurchase of common stock	(687,542)	(4)	(12,427)	- -	- -	- -
Exercise of stock options	110,470	- -	1,207	- -	- -	- -
Cash dividends (\$0.37 per share)	- -	- -	- -	- -	(2,682)	- -
Earned ESOP shares	- -	- -	354	265	- -	- -
MRDP compensation expense	- -	- -	64	- -	- -	- -
Stock option compensation exp.	- -	- -	25	- -	- -	- -
Unrealized holding gain on securities available for sale, net of tax	- -	- -	- -	- -	- -	217
Balance, Sept. 30, 2007	6,953,360	\$70	\$9,923	(\$3,040)	\$68,378	(\$784)
(Unaudited)						
Net income	- -	- -	- -	- -	3,201	- -
Stock split	- -	- -	- -	- -	- -	- -
Issuance of MRDP shares	14,315	- -	- -	- -	- -	- -
Repurchase of common stock	(144,950)	(2)	(1,920)	- -	- -	- -
Exercise of stock options	53,928	1	346	- -	- -	- -
Cash dividends (\$0.21 per share)	- -	- -	- -	- -	(1,454)	- -
Earned ESOP shares	- -	- -	105	132	- -	- -
MRDP compensation expense	- -	- -	71	- -	- -	- -
Stock option compensation exp.	- -	- -	2	- -	- -	- -
Unrealized holding loss on securities available for sale, net of tax	- -	- -	- -	- -	- -	(187)
Balance, March 31, 2008	6,876,653	\$69	\$8,527	(\$2,908)	\$70,125	(\$971)

(1) 1998 Management Recognition and Development Plan.

See notes to unaudited condensed consolidated financial statements

5

TIMBERLAND BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six months ended March 31, 2008 and 2007
In thousands (unaudited)

Cash flow from operating activities	Six Months Ended March 31,	
	2008	2007
Net income	\$ 3,201	\$ 3,870
Non-cash revenues, expenses, gains and losses included in income:		
Provision for loan losses	1,900	156
Depreciation	565	505
Deferred federal income taxes	(399)	(178)
Amortization of CDI	124	143
Earned ESOP shares	132	133
MRDP compensation expense	63	24

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

Stock option compensation expense	2	14
Stock option tax effect less excess tax benefit	4	79
Gain on sale of OREO, net	- -	(18)
Gain on the disposition of premises and equipment	(171)	(5)
BOLI cash surrender value increase	(239)	(227)
Gain on sale of loans	(237)	(171)
Increase (decrease) in deferred loan origination fees	(186)	205
Loans originated for sale	(23,241)	(13,191)
Proceeds from sale of loans	19,286	13,877
Decrease in other assets, net	(71)	(430)
Decrease in other liabilities and accrued expenses, net	82	95
Net cash provided by operating activities	815	4,881
Cash flow from investing activities		
Decrease in certificates of deposit held for investment	- -	100
Proceeds from maturities of securities available for sale	20,720	14,575
Proceeds from maturities of securities held to maturity	10	2
Increase in loans receivable, net	(30,026)	(56,191)
Additions to premises and equipment	(464)	(511)
Proceeds from the disposition of premises and equipment	175	5
Proceeds from sale of OREO	- -	33
Net cash used in investing activities	(9,585)	(41,987)
Cash flow from financing activities		
Increase in deposits, net	3,102	13,061
Proceeds from FHLB advances - long term	50,000	30,000
Repayment of FHLB advances - long term	(15,034)	(5,031)
Decrease in FHLB advances - short term	(29,000)	4,500
Increase (decrease) in repurchase agreements	220	(359)
Proceeds from exercise of stock options	332	585
ESOP tax effect	105	190
MRDP compensation tax effect	8	2
Stock option excess tax benefit	11	268
Repurchase of common stock	(1,922)	(5,643)
Payment of dividends	(1,454)	(1,338)
Net cash provided by financing activities	6,368	36,235
Net decrease in cash equivalents	(2,402)	(871)
Cash equivalents		
Beginning of period	16,670	22,789
End of period	\$ 14,268	\$ 21,918

See notes to unaudited condensed consolidated financial statements
(continued)

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

For the six months ended March 31, 2008 and 2007

In thousands
(unaudited)

	Six Months Ended March 31,	
	2008	2007
Supplemental disclosure of cash flow information		
Income taxes paid	\$ 2,361	\$ 1,714
Interest paid	8,743	7,053
Supplemental disclosure of non-cash investing activities		
Change in unrealized holding gain (loss) on securities held for sale, net of tax	(\$187)	\$ 266
Loans transferred to OREO and other repossessed assets	- -	71
Supplemental disclosure of non-cash financing activities		
Shares issued to MRDP	\$ 210	\$ 56

See notes to unaudited condensed consolidated financial statements

7

TIMBERLAND BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three and six months ended March 31, 2008 and 2007
In thousands
(unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Comprehensive income:				
Net income	\$1,585	\$1,916	\$3,201	\$3,870
Unrealized holding gain (loss) on securities available for sale, net of tax	(251)	139	(187)	266
Total comprehensive income	\$1,334	\$2,055	\$3,014	\$4,136

See notes to unaudited condensed consolidated financial statements

8

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

Timberland Bancorp, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) **Basis of Presentation:** The accompanying unaudited condensed consolidated financial statements for Timberland Bancorp, Inc. ("Company") were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with instructions for Form 10-Q and therefore, do not include all disclosures necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. However, all adjustments which are in the opinion of management, necessary for a fair presentation of the interim condensed consolidated financial statements have been included. All such adjustments are of a normal recurring nature. The unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2007 ("2007 Form 10-K"). The results of operations for the six months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the entire fiscal year.

(b) **Stock Split:** On June 5, 2007 the Company's common stock was split two-for-one in the form of a 100% stock dividend. Each shareholder of record as of May 22, 2007 received one additional share for every share owned. All share and per share amounts (including stock options) in the condensed consolidated financial statements and accompanying notes were restated to reflect the split, except as otherwise noted.

(c) **Principles of Consolidation:** The interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Timberland Bank ("Bank"), and the Bank's wholly-owned subsidiary, Timberland Service Corp. All significant inter-company balances have been eliminated in consolidation.

(d) **Operating Segment:** The Company provides a broad range of financial services to individuals and companies located primarily in western Washington. These services include demand, time and savings deposits; real estate, business and consumer lending; and investment advisory services. While the Company's chief decision maker monitors the revenue streams from the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the Company's operations are considered by management to be one reportable operating segment.

(e) The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(f) Certain prior period amounts have been reclassified to conform to the March 31, 2008 presentation with no change to net income or shareholders' equity previously reported.

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

(2) EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income by the weighted average number of common shares outstanding during the period, without considering any dilutive items. Diluted EPS is computed by dividing net income by the weighted average number of common shares and common stock equivalents for items that are dilutive, net of shares assumed to be repurchased using the treasury stock method at the average share price for the Company's common stock during the period. Common stock equivalents arise from assumed conversion of outstanding stock options and awarded but not released MRDP shares. In accordance with Statement of Position ("SOP") 93-6, Employers' Accounting for Employee Stock Ownership Plans, issued by

9

the American Institute of Certified Public Accountants, shares owned by the Bank's ESOP that have not been allocated are not considered to be outstanding for the purpose of computing earnings per share. At March 31, 2008 and 2007, there were 405,562 and 440,830 ESOP shares, respectively, that had not been allocated.

The following table is in thousands, except for share and per share data:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Basic EPS computation				
Numerator - net income	\$1,585	\$1,916	\$3,201	\$3,870
Denominator - weighted average common shares outstanding	6,441,367	6,866,664	6,478,600	6,937,990
Basic EPS	\$ 0.25	\$ 0.28	\$ 0.49	\$ 0.56
Diluted EPS computation				
Numerator - net income	\$1,585	\$1,916	\$3,201	\$3,870
Denominator - weighted average common shares outstanding	6,441,367	6,866,664	6,478,600	6,937,990
Effect of dilutive stock options	119,439	214,626	139,501	225,934
Effect of dilutive MRDP shares	-	2,130	-	1,788
Weighted average common shares and common stock equivalents	6,560,806	7,083,420	6,618,101	7,165,712
Diluted EPS	\$ 0.24	\$ 0.27	\$ 0.48	\$ 0.54

(3) STOCK BASED COMPENSATION

The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards ("SFAS" or "Statement") No. 123(R), Share Based Payment, which requires measurement of the compensation cost for all stock-based awards based on the grant-date fair value and recognition of compensation cost over the service period of stock-based awards. The fair value of stock options is determined using the Black-Scholes valuation model, which is consistent with the Company's valuation methodology previously utilized for options in footnote disclosures required under SFAS No. 123. The

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

Company has adopted SFAS No. 123(R) using the modified prospective method, which provides for no restatement of prior periods and no cumulative adjustment to equity accounts. It also provides for expense recognition, for both new and existing stock-based awards.

(4) STOCK COMPENSATION PLANS

Stock Option Plans

Under the Company's stock option plans (i.e., the 1999 Stock Option Plan and the 2003 Stock Option Plan), the Company may grant options for up to a combined total of 1,622,500 shares of common stock to employees, officers and directors. Shares issued may be purchased in the open market or may be issued from authorized and unissued shares. The exercise price of each option equals the fair market value of the Company's common stock on the date of grant. The options generally vest over a ten-year period, which may be accelerated if the Company meets certain performance criteria. Generally, options vest in annual installments 10% on each of the ten anniversaries from the date of the grant and if the Company meets three of four established performance criteria the vesting is accelerated to 20% for that year. These four performance criteria are: (i) generating a return on assets which exceeds that of the median of all thrifts in the 12th FHLB District having assets within \$250 million of the Company; (ii) generating an efficiency ratio which is less than that of the median of all thrifts in the 12th FHLB District having assets within \$250 million of the Company; (iii) generating a net interest margin which exceeds the median of all thrifts in the 12th FHLB District having assets within

10

\$250 million of the Company; and (iv) increasing the Company's earnings per share over the prior fiscal year. The Company performs the accelerated vesting analysis in February of each year based on the results of the most recently completed fiscal year. At March 31, 2008, options for 279,416 shares are available for future grant under these plans.

Following is activity under the plans:

	Six Months Ended March 31, 2008 Total Options Outstanding -----		
	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
	-----	-----	-----
Options outstanding, beginning of period	412,674	\$7.39	\$1.87
Exercised	53,928	6.15	1.66
Forfeited	--	--	--
Granted	--	--	--
Options outstanding, end of period	358,746	\$7.58	\$1.90
Options exercisable, end of period	351,078	\$7.55	\$1.89

Six Months Ended

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

March 31, 2007
Total Options Outstanding

	Shares	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
	-----	-----	-----
Options outstanding, beginning of period	524,144	\$7.26	\$1.85
Exercised	(84,958)	6.88	1.79
Forfeited	(1,000)	7.61	1.99
Granted	--	--	--
Options outstanding, end of period	438,186	\$7.33	\$1.86
Options exercisable, end of period	408,514	\$7.23	\$1.84

The aggregate intrinsic value of all options outstanding at March 31, 2008 was \$1.46 million. The aggregate intrinsic value of all options that were exercisable at March 31, 2008 was \$1.44 million. The aggregate intrinsic value of all options outstanding at March 31, 2007 was \$4.51 million. The aggregate intrinsic value of all options that were exercisable at March 31, 2007 was \$4.25 million.

11

At March 31, 2008 there were 7,668 unvested options, all of which are assumed to vest, with an aggregate intrinsic value of \$20,000. There were 11,336 options that vested during the six months ended March 31, 2008 with an aggregate grant date fair value of \$26,000. There were 14,336 options that vested during the six months ended March 31, 2007 with an aggregate grant date fair value of \$31,000.

Proceeds, related tax benefits realized from options exercised and intrinsic value of options exercised were as follows:

	Six Months Ended March 31, ----- (In thousands)	
	2008	2007
	----	----
Proceeds from options exercised	\$332	\$585
Related tax benefit recognized	15	347
Intrinsic value of options exercised	351	938

Options outstanding at March 31, 2008 were as follows:

	Outstanding			Exercisable		
	-----	-----	-----	-----	-----	-----
Range	Weighted	Weighted		Weighted	Weighted	
Exercise	Average	Average		Average	Average	
Prices	Exercise	Remaining	Contractual	Exercise	Remaining	Contractual
	Price	Life (Years)	Life (Years)	Price	Life (Years)	Life (Years)
	-----	-----	-----	-----	-----	-----
	Shares	Price	Life (Years)	Shares	Price	Life (Years)

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

\$ 6.00-6.19	189,882	\$ 6.00	0.8	189,882	\$ 6.00	0.8
6.80-7.45	56,638	7.45	3.2	56,638	7.45	3.2
7.60-7.98	6,000	7.91	4.1	4,000	7.91	4.1
9.53	56,680	9.52	4.9	51,012	9.52	4.9
11.46-11.63	49,546	11.51	5.8	49,546	11.51	5.8
	358,746	\$ 7.58	2.6	351,078	\$ 7.30	2.5

There were no options granted during the six months ended March 31, 2008 and March 31, 2007.

Stock Grant Plans

The Company adopted the MRDP in 1998, which was subsequently approved by shareholders in 1999 for the benefit of employees, officers and directors of the Company. The objective of the MRDP is to retain and attract personnel of experience and ability in key positions by providing them with a proprietary interest in the Company.

The MRDP allows for the issuance to participants of up to 529,000 shares of the Company's common stock. Shares may be purchased in the open market or may be issued from authorized and unissued shares. Awards under the MRDP are made in the form of restricted shares of common stock that are subject to restrictions on the transfer of ownership. Compensation expense in the amount of the fair value of the common stock at the date of the grant to the plan participants is recognized over a five-year vesting period, with 20% vesting on each of the five anniversaries from the date of the grant. During the six months ended March 31, 2008, the Company awarded 14,315 MRDP shares to officers and directors. These shares had a weighted average grant date fair value of \$14.69 per share. During the six months ended March 31, 2007 the Company awarded 3,080 shares to directors. These shares had a weighted average grant date fair value of \$18.24 per share.

12

At March 31, 2008, there were a total of 38,379 unvested MRDP shares with an aggregated grant date fair value of \$618,000. There were 616 MRDP shares that vested during the six months ended March 31, 2008 with an aggregated grant date fair value of \$11,000. There were no MRDP shares that vested during the six months ended March 31, 2007. At March 31, 2008, there were 77,751 shares available for future award under the MRDP.

Expenses for Stock Compensation Plans

Compensation expenses for all stock-based plans were as follows:

	Six Months Ended March 31,			
	2008	2007		
	(In thousands)			
	Stock Options	Stock Grants	Stock Options	Stock Grants
Compensation expense recognized in income	\$2	\$71	\$13	\$27
Related tax benefit recognized	1	24	5	9

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

The compensation expense yet to be recognized for stock based awards that have been awarded but not vested for the years ending September 30 is as follows (in thousands):

	Stock Options -----	Stock Grants -----	Total Awards -----
Remainder of 2008	\$ 3	\$ 67	\$ 70
2009	2	134	136
2010	1	134	135
2011	--	127	127
2012	--	74	74
2013	--	3	3
	----	----	----
Total	\$ 6	\$539	\$545

(5) INCOME TAXES

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement 109, Accounting for Income Taxes. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted the provisions of FIN 48 on October 1, 2007, which did not have a material impact on the Company's consolidated financial statements. As of March 31, 2008, the Company had an insignificant amount of unrecognized tax benefits.

The Company and its subsidiary file income tax returns in the U.S. federal jurisdiction. The Company is no longer subject to U.S. federal examination by tax authorities for tax years before 2003. The Company's policy is to recognize interest and penalties accrued related to unrecognized tax benefits in income tax expense. The amount of interest and penalties accrued for the six months ended March 31, 2008 was immaterial.

(6) DIVIDEND / SUBSEQUENT EVENT

13

On April 24, 2008, the Company announced a quarterly cash dividend of \$0.11 per common share, payable May 22, 2008, to shareholders of record as of the close of business on May 8, 2008.

(7) RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value under Generally Accepted Accounting Principles ("GAAP"), and expands disclosures about fair value measurements. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. This Statement is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of adoption of SFAS 157 on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. This Statement permits companies to elect to follow fair value accounting for certain financial assets and liabilities in an effort to mitigate volatility in earnings without having to apply complex hedge accounting provisions. The standard also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of this Statement is not expected to have a material impact on the Company's consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and ----- Results of Operations -----

The following analysis discusses the material changes in the financial condition and results of operations of the Company at and for the three and six months ended March 31, 2008. This analysis as well as other sections of 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. 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. The Company's actual results, performance, or achievements may differ materially from those suggested, expressed, or implied by forward looking statements as a result of a wide variety or range of factors including, but not limited to: interest rate fluctuations; economic conditions in the Company's primary market areas; deposit flows; demand for residential, commercial real estate, consumer, and other types of loans; real estate values; success of new products and services; technological factors affecting operations; and other risks detailed in the Company's reports filed with the SEC, including its 2007 Form 10-K. Accordingly, these factors should be considered in evaluating forward-looking statements, and undue reliance should not be placed on such statements. The Company undertakes no responsibility to update or revise any forward-looking statements.

Overview

Timberland Bancorp, Inc., a Washington corporation, was organized on September 8, 1997 for the purpose of becoming the holding company for Timberland Savings Bank, SSB upon the Bank's conversion from a Washington-chartered mutual savings bank to a Washington-chartered stock savings bank ("Conversion"). The Conversion was completed on January 12, 1998 through the sale and issuance of 13,225,000 shares of common stock by the Company. At March 31, 2008, the Company had total assets of \$654.51 million and total shareholders' equity of \$74.84 million. The Company's business activities generally are limited to passive

investment activities and oversight of its investment in the Bank.

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

Accordingly, the information set forth in this report relates primarily to the Bank.

The Bank was established in 1915 as "Southwest Washington Savings and Loan Association." In 1935, the Bank converted from a state-chartered mutual savings and loan association to a federally-chartered mutual savings and loan association, and in 1972 changed its name to "Timberland Federal Savings and Loan Association." In 1990, the Bank converted to a federally chartered mutual savings bank under the name "Timberland Savings Bank, FSB." In 1991, the Bank converted to a Washington-chartered mutual savings bank and changed its name to "Timberland Savings Bank, SSB." In 2000, the Bank changed its name to "Timberland Bank." The Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to applicable legal limits. The Bank has been a member of the Federal Home Loan Bank System since 1937. The Bank is regulated by the Washington State Department of Financial Institutions, Division of Banks and the FDIC.

The Bank is a community-oriented bank which offers a variety of deposit and loan products to its customers. The Bank operates 21 branches (including its main office in Hoquiam) and a loan production office in the following market areas:

- * Grays Harbor County
- * Thurston County
- * Pierce County
- * King County
- * Kitsap County
- * Lewis County

Historically, the principal lending activity of the Bank has consisted of the origination of loans secured by first mortgages on owner-occupied, one- to four-family residences and loans for the construction of one- to four-family residences. The Bank does not participate in the subprime mortgage market. Since 1998, the Bank has emphasized its origination of construction and land development loans and commercial real estate loans and has increased its portfolio of commercial business loans.

In recent years, national real estate and home values have increased substantially, as a result of the generally strong national economy, speculative investing, and aggressive lending practices that provided loans to marginal borrowers (generally termed as "subprime" loans). The strong economy also resulted in strong increases in residential and commercial real estate valued and commercial and residential construction. The national residential lending market has experienced a noted slowdown in recent months, as loan delinquencies and foreclosure rates have increased. Nationally, foreclosures and delinquencies are also being driven by investor speculation in the states of Arizona, California, Florida and Nevada, while job losses and depressed economic conditions in Indiana, Michigan and Ohio have resulted in the highest level of seriously delinquent loans. Louisiana and Mississippi also have high residential loan delinquencies as a result of Katrina-related economic factors.

To date, Grays Harbor, Thurston, Pierce, King, Kitsap and Lewis counties have not experienced the same level of residential or commercial loan delinquencies, as the states previously mentioned.

Critical Accounting Policies and Estimates

The Company has identified two accounting policies that as a result of judgments, estimates and assumptions inherent in those policies, are critical to an understanding of the Company's Consolidated Financial Statements.

Allowance for Loan Losses. The allowance for loan losses is maintained at a level sufficient to provide for probable loan losses based on evaluating known and inherent risks in the portfolio. The allowance is based upon management's comprehensive analysis of the pertinent factors underlying the quality of the loan portfolio. These factors include changes in the amount and composition of the loan portfolio, actual loss experience, current economic conditions, and detailed analysis of individual loans for which the full collectibility may not be assured. The appropriate allowance for loan loss level is estimated based upon factors and trends identified by management at the time consolidated financial statements are prepared.

While the Company believes it has established its existing allowance for loan losses in accordance with accounting principles generally accepted in the United States, there can be no assurance that regulators, in reviewing the Company's loan portfolio, will not request the Company to significantly increase or decrease its allowance for loan losses. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that substantial increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed elsewhere in this document. Although management believes the levels of the allowance as of both March 31, 2008 and September 30, 2007 were adequate to absorb probable losses inherent in the loan portfolio, a decline in local economic conditions, or other factors, could result in a material increase in the allowance for loan losses and may adversely affect the Company's financial condition and results of operations.

Mortgage Servicing Rights. Mortgage servicing rights ("MSRs") are capitalized when acquired through the origination of loans that are subsequently sold with servicing rights retained and are amortized to servicing income on loans sold in proportion to and over the period of estimated net servicing income. The value of MSRs at the date of the sale of loans is determined based on the discounted present value of expected future cash flows using key assumptions for servicing income and costs and prepayment rates on the underlying loans. The estimated fair value is periodically evaluated for impairment by comparing actual cash flows and estimated cash flows from the servicing assets to those estimated at the time servicing assets were originated. The effect of changes in market interest rates on estimated rates of loan prepayments represents the predominant risk characteristic underlying the MSR portfolio. The Company's methodology for estimating the fair value of MSRs is highly sensitive to changes in assumptions. For example, the determination of fair value uses anticipated prepayment speeds. Actual prepayment experience may differ and any difference may have a material effect on the fair value. Thus, any measurement of MSRs' fair value is limited by the conditions existing and assumptions as of the date made. Those assumptions may not be appropriate if they are applied at different times.

Comparison of Financial Condition at March 31, 2008 and September 30, 2007

The Company's total assets increased by \$9.66 million, or 1.5%, to \$654.51 million at March 31, 2008 from \$644.85 million at September 30, 2007, primarily attributable to a \$32.50 million, or 6.3%, increase in net loans receivable. This increase was partially offset by a \$21.04 million decrease in investment and mortgage-backed securities.

Total deposits increased by \$3.10 million, or 0.7%, to \$469.84 million at

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

March 31, 2008 from \$466.74 million at September 30, 2007 primarily attributable to an increase in N.O.W. checking account balances and savings account balances. These increases were partially offset by a decrease in non-interest bearing account balances and money market account balances.

Shareholders' equity increased by \$295,000, or 0.4%, to \$74.84 million at March 31, 2008 from \$74.55 million at September 30, 2007. The increase in shareholders' equity was primarily a result of retained net income, which was partially offset by share repurchases and cash dividends.

16

A more detailed explanation of the changes in significant balance sheet categories follows:

Cash Equivalents: Cash equivalents decreased by \$2.40 million, or 14.4%, to \$14.27 million at March 31, 2008 from \$16.67 million at September 30, 2007. The decrease was primarily a result of decreases in federal funds sold and interest bearing deposits in banks, which were partially offset by an increase in non-interest bearing balances.

Investment Securities and Mortgage-backed Securities: Investment and mortgage-backed securities decreased by \$21.04 million, or 32.9%, to \$42.93 million at March 31, 2008 from \$63.97 million at September 30, 2007, as a result of the maturity or call of U.S. agency securities and regular amortization and prepayments on mortgage-backed securities. At March 31, 2008, the Company's securities' portfolio was comprised of mutual funds of \$31.39 million and mortgage-backed securities of \$11.54 million. At March 31, 2008 the mutual funds had gross unrealized losses of \$1.55 million as the market value of the funds was below the amortized cost. These mutual funds invest primarily in highly rated mortgage-backed products and U.S. agency securities and their net asset values have been negatively impacted by the unusually large spreads in the market for mortgage-related products. The credit ratings of the underlying securities in the funds remain stable and the Company believes that the risk of principal loss is low. The two largest mutual fund holdings (ASARX and AULTX) in the portfolio comprise over 83% of the total mutual fund balance and currently have three star ratings from Morningstar, Inc. The Company believes that the market value of the underlying securities will recover as spreads narrow on mortgage-related securities. However, if the wide pricing spreads on mortgage-related products continues to persist or if the Company determines that the narrowing spreads do not positively affect the market value of these funds in the manner anticipated, the mutual funds may be deemed to be other than temporarily impaired and a non-cash charge to income may occur. For additional information, see the "Investment Securities" table included herein.

Loans: Net loans receivable increased by \$32.50 million, or 6.3%, to \$547.85 million at March 31, 2008 from \$515.34 million at September 30, 2007. The increase in the portfolio was primarily a result of a \$21.35 million increase in construction loans (net of undisbursed portion of construction loans in process), an \$8.25 million increase in commercial real estate loans, a \$5.68 million increase in one- to four-family loans (including an increase of \$4.19 million in one- to four-family loans held for sale), a \$2.78 million increase in multi-family loans, and a \$2.01 million increase in commercial business loans. These increases were partially offset by a \$5.55 million decrease in land loans and a \$300,000 decrease in consumer loans.

Loan originations decreased to \$124.47 million for the six months ended March

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

31, 2008 compared to \$166.96 million for the six months ended March 31, 2007. The reduction in loan volume was primarily attributable to a slowdown in the northwest economy. The Bank also continued to sell longer-term fixed rate loans for asset liability management purposes. The Bank sold fixed rate one-to four-family mortgage loans totaling \$19.29 million for the six months ended March 31, 2008 compared to \$13.88 million for the six months ended March 31, 2007.

For additional information, see the sections entitled "Loan Portfolio Composition" and "Construction and Land Development Loan Portfolio Composition" included herein.

Premises and Equipment: Premises and equipment decreased to \$16.47 million at March 31, 2008 from \$16.58 million at September 30, 2007, primarily as a result of depreciation recorded on depreciable assets.

Goodwill and Core Deposit Intangible: The value of goodwill remained unchanged. The amortized value of core deposit intangible decreased to \$1.10 million at March 31, 2008 from \$1.22 million at September 30, 2007. The decrease is attributable to scheduled amortization of the core deposit intangible.

17

Deposits: Deposits increased by \$3.10 million, or 0.7%, to \$469.84 million at March 31, 2008 from \$466.74 million at September 30, 2007. The increase was primarily a result of a \$9.06 million increase in non-brokered certificate of deposit account balances, a \$7.98 million increase in N.O.W. checking account balances, and an \$800,000 increase in savings account balances. These increases were partially offset by \$9.02 million decrease in brokered certificate of deposit account balances, a \$4.89 million decrease in non-interest bearing account balances and an \$824,000 decrease in money market account balances. For additional information, see the section entitled "Deposit Breakdown" included herein.

FHLB Advances and Other Borrowings: FHLB advances and other borrowings increased by \$6.19 million to \$106.48 million at March 31, 2008 from \$100.29 million at September 30, 2007 as the Bank used additional advances to fund loan portfolio growth. For additional information, see "FHLB Advance Maturity Schedule" included herein.

Shareholders' Equity: Total shareholders' equity increased by \$295,000 to \$74.84 million at March 31, 2008 from \$74.55 million at September 30, 2007, primarily as a result of net income of \$3.20 million and proceeds from stock option exercises of \$347,000. The increase from these items was partially offset by share repurchases of \$1.92 million and cash dividends to shareholders of \$1.45 million.

During the six months ended March 31, 2008 the Company repurchased 144,950 shares of its common stock for \$1.92 million, an average price of \$13.26 per share. Cumulatively, the Company has repurchased 7,783,934 shares (58.9%) of the 13,225,000 shares that were issued in its 1998 initial public offering, at an average price of \$8.98 per share. For additional information, see Item 2 of Part II of this Form 10-Q.

Non-performing Assets: Non-performing assets to total assets increased to 0.98% at March 31, 2008 from 0.23% at September 30, 2007, as total non-performing assets increased to \$6.39 million at March 31, 2008 from \$1.49

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

million at September 30, 2007.

Total non-performing assets of \$6.39 million at March 31, 2008 were comprised of 17 loans including 11 single family speculative home loans (ten of which were located in Pierce County) totaling \$4.05 million, a \$1.87 million participation interest in a land development loan located in Clark County, two home equity consumer loans totaling \$183,000, one commercial real estate loan for \$152,000, one commercial business loan for \$119,000 and one land loan for \$22,000. These non-performing loans represent eight credit relationships. The Company had no charge-offs during the six months ended March 31, 2008, but the reserve for principal impairments on non-accrual loans was increased by \$548,000 to \$623,000 during this period. For additional information, see the section entitled "Non-performing Assets" and "Activity in the Allowance for Loan Losses" included herein.

Investment Securities

The following table sets forth the composition of the Company's investment securities portfolio.

	At March 31, 2008		At September 30, 2007	
	Amount	Percent	Amount	Percent

(Dollars in thousands)				
Held-to-maturity:				
Mortgage-backed securities	\$ 60	0.1%	\$ 71	0.1%
Available-for-sale (at fair value)				
U.S. agency securities	-	-	18,975	29.7
Mortgage-backed securities	11,476	26.7	13,048	20.4
Mutual funds	31,392	73.2	31,875	49.8
	-----	-----	-----	-----
		18		
Total portfolio	\$42,928	100.0%	\$63,969	100.0%
	=====	=====	=====	=====

Loan Portfolio Composition

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

	At March 31, 2008		At September 30, 2007	
	Amount	Percent	Amount	Percent

(Dollars in thousands)				
Mortgage loans:				
One- to four-family (1)	\$108,117	17.6%	\$102,434	17.4%
Multi-family	37,932	6.2	35,157	6.0
Commercial	136,112	22.2	127,866	21.7
Construction and land development	197,384	32.2	186,261	31.6
Land	55,158	9.0	60,706	10.3

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

Total mortgage loans	534,703	87.2	512,424	87.0
Consumer loans:				
Home equity and second mortgage	47,003	7.7	47,269	8.0
Other	10,888	1.8	10,922	1.9
	57,891	9.5	58,191	9.9
Commercial business loans	20,177	3.3	18,164	3.1
Total loans	612,771	100.0%	588,779	100.0%
		=====		=====
Less:				
Undisbursed portion of construction loans in process	(55,447)		(65,673)	
Deferred loan origination fees	(2,782)		(2,968)	
Allowance for loan losses	(6,697)		(4,797)	
Total loans receivable, net	\$547,845		\$515,341	
	=====		=====	

(1) Includes loans held-for-sale.

Construction and Land Development Loan Portfolio Composition

The following table sets forth the composition of the Company's construction and land development loan portfolio.

	At March 31, 2008		At September 30, 2007	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Custom and owner/builder const.	\$ 46,311	23.4%	\$ 52,375	28.1%
Speculative construction	42,582	21.6	43,012	23.1

19

Commercial real estate	56,964	28.9	50,518	27.1
Multi-family	21,941	11.1	18,064	9.7
Land development	29,586	15.0	22,292	12.0
Total construction loans	\$197,384	100.0%	\$186,261	100.0%
	=====	=====	=====	=====

Activity in the Allowance for Loan Losses

The following table sets forth information regarding activity in the allowance for loan losses.

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

	Three Months Ended March 31,	
	2008	2007

	(In thousands)	
Balance at beginning of period	\$5,997	\$4,121
Provision for loan losses	700	156
Loans charged off	- -	(6)
Recoveries on loans previously charged off	- -	1
	-----	-----
Net charge-off	- -	(5)
	-----	-----
Balance at end of period	\$6,697	\$4,272
	=====	=====

	Six Months Ended March 31,	
	2008	2007

	(In thousands)	
Balance at beginning of period	\$4,797	\$4,122
Provision for loan losses	1,900	156
Loans charged off	- -	(7)
Recoveries on loans previously charged off	- -	1
	-----	-----
Net charge-off	- -	(6)
	-----	-----
Balance at end of period	\$6,697	\$4,272
	=====	=====

Non-performing Assets

The following table sets forth information with respect to the Company's non-performing assets.

	At March 31, 2008	At September 30, 2007
	-----	-----
	(In thousands)	
Loans accounted for on a non-accrual basis:		
Mortgage loans:		
One- to four-family	\$ - -	\$ 252
Commercial real estate	152	90
Construction and land development	5,912	1,000
Land	22	28
Consumer loans	183	- -
Commercial business loans	119	120
	-----	-----

Total	6,388	1,490
-------	-------	-------

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

Accruing loans which are contractually past due 90 days or more:	- -	- -
	-----	-----
Total	- -	- -
Total of non-accrual and 90 days past due loans	6,388	1,490
OREO and other repossessed items	- -	- -
	-----	-----
Total non-performing assets	\$ 6,388	\$ 1,490
	=====	=====
Restructured loans	\$ 2,491	\$ - -
Non-accrual and 90 days or more past due loans as a percentage of loans receivable (1)	1.15%	0.29%
Non-accrual and 90 days or more past due loans as a percentage of total assets	0.98%	0.23%
Non-performing assets as a percentage of total assets	0.98%	0.23%
Loans receivable (1)	\$554,542	\$520,138
	=====	=====
Total assets	\$654,513	\$644,848
	=====	=====

(1) Includes loans held-for-sale and is before the allowance for loan losses.

Deposit Breakdown

The following table sets forth the composition of the Company's deposit balances.

	At March 31, 2008	At September 30, 2007
	-----	-----
	(In thousands)	
Non-interest bearing	\$ 50,068	\$ 54,962
N.O.W. checking	88,350	80,372
Savings	57,212	56,412
Money market accounts	47,244	48,068
Certificates of deposit under \$100	137,529	135,528
Certificates of deposit \$100 and over	74,376	67,316
Certificates of deposit - brokered	15,058	24,077
	-----	-----
Total deposits	\$469,837	\$466,735
	=====	=====

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

FHLB Advance Maturity Schedule

The Bank has short- and long-term borrowing lines with the FHLB of Seattle with total credit on the lines equal to 30% of the Bank's total assets, limited by available collateral. Borrowings are considered short-term when the original maturity is less than one year. FHLB advances consisted of the following:

	At March 31, 2008		At September 30, 2007	
	Amount	Percent	Amount	Percent

	(Dollars in thousands)			
Short-term	\$ 1,000	0.9%	\$30,000	30.1%
Long-term	104,663	99.1	69,697	69.9
	-----		-----	
Total FHLB advances	\$105,663	100.0%	\$99,697	100.0%
	=====		=====	

The Bank's FHLB borrowings mature at various dates through September 2017 and bear interest at rates ranging from 3.35% to 5.54%. The weighted average interest rate on FHLB borrowings at March 31, 2008 was 4.21%. Principal reduction amounts due for future years ending September 30 are as follows (in thousands):

Remainder of 2008	\$ 1,036
2009	4,627
2010	20,000
2011	20,000
2012	10,000
Thereafter	50,000

Total	\$105,663
	=====

A portion of these advances have a puttable feature and may be called by the FHLB earlier than the above schedule indicates.

Comparison of Operating Results for the Three and Six Months Ended March 31, 2008 and 2007

The Company's net income decreased by \$331,000, or 17.3%, to \$1.59 million for the quarter ended March 31, 2008 from \$1.92 million for the quarter ended March 31, 2007. Diluted earnings per share decreased 11.1% to \$0.24 for the quarter ended March 31, 2008 from \$0.27 for the quarter ended March 31, 2007

The Company's net income decreased by \$669,000, or 17.3%, to \$3.20 million for the six months ended March 31, 2008 from \$3.87 million for the six months ended March 31, 2007. Diluted earnings per share decreased 11.1% to \$0.48 for the six months ended March 31, 2008 from \$0.54 for the six months ended March 31, 2007.

The decreases in diluted earnings per share were primarily a result of increases in the provision for loan losses during the three and six months

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

ended March 31, 2008. The increased provisions were primarily a result of an increase in the level of non-performing loans, the reclassification of certain loans, continued loan portfolio growth, and a weakening in the housing market in certain market areas. The decreases in earnings per share attributable to the increased provisions for loan losses were partially offset by increased net interest income and a decrease in the weighted average number of shares outstanding as a result of share repurchases.

A more detailed explanation of the income statement categories is presented below.

22

Net Income: Net income for the quarter ended March 31, 2008 decreased by \$331,000, or 17.3%, to \$1.59 million from \$1.92 million for the quarter ended March 31, 2007. Earnings per diluted share for the quarter ended March 31, 2008 decreased to \$0.24 from \$0.27 for the quarter ended March 31, 2007. The \$0.03 decrease in diluted earnings per share for the quarter ended March 31, 2008 was primarily a result of a \$544,000 (\$359,000 net of income tax - \$0.05 per diluted share) increase in the provision for loan losses and a \$267,000 (\$176,000 net of income tax - \$0.03 per diluted share) increase in non-interest expense. These decreases to earnings per share were partially offset by a \$183,000 (\$121,000 net of income tax - \$0.02 per diluted share) increase in net interest income, a \$130,000 (\$86,000 net of income tax - \$0.01 per diluted share) increase in non-interest income and a decrease in the number of weighted average shares outstanding (\$0.02 per diluted share) primarily as a result of share repurchases.

Net income for the six months ended March 31, 2008 decreased by \$669,000, or 17.3%, to \$3.20 million from \$3.87 million for the six months ended March 31, 2007. Earnings per diluted share for the six months ended March 31, 2008 decreased to \$0.48 from \$0.54 for the six months ended March 31, 2007. The \$0.06 decrease in diluted earnings per share for the six months ended March 31, 2008 was primarily a result of a \$1.74 million (\$1.15 million net of income tax - \$0.16 per diluted share) increase in the provision for loan losses and a \$222,000 (\$147,000 net of income tax - \$0.02 per diluted share) increase in non-interest expense. These decreases to earnings per share were partially offset by an \$826,000 (\$545,000 net of income tax - \$0.08 per diluted share) increase in net interest income, a \$148,000 (\$98,000 net of income tax - \$0.01 per diluted share) increase in non-interest income and a decrease in the number of weighted average shares outstanding (\$0.03 per diluted share) primarily as a result of share repurchases.

Net Interest Income: Net interest income increased by \$183,000, or 2.8%, to \$6.67 million for the quarter ended March 31, 2008 from \$6.49 million for the quarter ended March 31, 2007. The increase in net interest income was primarily attributable to a larger interest earning asset base, which was partially offset by margin compression. Total interest and dividend income increased by \$758,000, or 7.5%, to \$10.93 million for the quarter ended March 31, 2008 from \$10.17 million for the quarter ended March 31, 2007 as average total interest earning assets increased by \$54.00 million. The yield on interest earning assets decreased to 7.27% for the quarter ended March 31, 2008 from 7.44% for the quarter ended March 31, 2007. Total interest expense increased by \$575,000, or 15.6%, to \$4.26 million for the quarter ended March 31, 2008 from \$3.68 million for the quarter ended March 31, 2007 as average total interest bearing liabilities increased by \$56.54 million. The average rate paid on interest bearing liabilities increased to 3.30% for the quarter ended March 31, 2008 from 3.23% for the quarter ended March 31, 2007. The net

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

interest margin decreased to 4.44% for the quarter ended March 31, 2008 from 4.75% for the quarter ended March 31, 2007. The margin compression was primarily attributable to increased funding costs and a decreased yield on interest earning assets. Increased funding costs resulted primarily from an increased reliance on wholesale sources (FHLB advances and brokered deposits) to fund loan growth. The decreased yield in interest earning assets was primarily attributable to the significant interest rate decreases by the Federal Reserve during the quarter and a reversal of interest on loans placed in non-accrual status (which reduced the margin by approximately eight basis points). For additional information, see the section below entitled "Rate Volume Analysis."

Net interest income increased by \$826,000, or 6.5%, to \$13.59 million for the six months ended March 31, 2008 from \$12.76 million for the six months ended March 31, 2007. The increase in net interest income was primarily attributable to a larger interest earning asset base, which was partially offset by margin compression. Total interest and dividend income increased by \$2.47 million, or 12.4%, to \$22.40 million for the six months ended March 31, 2008 from \$19.93 million for the six months ended March 31, 2007 as average total interest earning assets increased by \$63.64 million. The yield on interest earning assets increased to 7.45% for the six months ended March 31, 2008 from 7.41% for the six months ended March 31, 2007. Total interest expense increased by \$1.64 million, or 22.9%, to \$8.81 million for the six months ended March 31, 2008 from \$7.17 million for the six months ended March 31, 2007 as average total interest bearing liabilities increased by \$65.49 million. The average rate paid on interest bearing liabilities increased to 3.40% for the six months ended March

23

31, 2008 from 3.18% for the six months ended March 31, 2007. The net interest margin decreased to 4.52% for the six months ended March 31, 2008 from 4.74% for the six months ended March 31, 2007. The margin compression was primarily attributable to increased funding costs which were greater than the increased yield on interest earning assets. Increased funding costs resulted from an increase in interest rates on deposits and an increased reliance on wholesale sources (FHLB advances and brokered deposits) to fund loan growth. For additional information, see the section below entitled "Rate Volume Analysis."

Rate Volume Analysis

The following table sets forth the effects of changing rates and volumes on the net interest income on the Company. Information is provided with respect to the (i) effects on interest income attributable to change in volume (changes in volume multiplied by prior rate), and (ii) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume), and (iii) the net change (sum of the prior columns). Changes in rate/volume have been allocated to rate and volume variances based on the absolute values of each.

Three months ended
 March 31, 2008
 compared to three months
 ended March 31, 2007
 increase (decrease)
 due to

Six months ended
 March 31, 2008
 compared to six months
 ended March 31,
 increase (decrease)
 due to

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

	Rate	Volume	Net Change	Rate	Volume	Net
	----	-----	-----	----	-----	-----
	(In thousands)					
Interest-earning assets:						
Loans receivable (1)	(\$476)	\$1,552	\$1,076	(\$62)	\$3,112	\$
Investments and mortgage-backed securities	28	(267)	(239)	3	(447)	
FHLB stock and equity securities	(20)	2	(18)	(12)	(3)	
Federal funds sold	(26)	(25)	(51)	(33)	(50)	
Interest-bearing deposits	(5)	(5)	(10)	(11)	(28)	
	----	-----	-----	----	-----	
Total net increase in income on interest-earning assets	(499)	1,257	758	(115)	2,584	
Interest-bearing liabilities:						
Savings accounts	(1)	(9)	(10)	- -	(20)	
NOW accounts	(2)	15	13	67	44	
Money market Accounts	30	2	32	42	- -	
Certificate accounts	37	387	424	255	815	
Short-term borrowings	(60)	(165)	(225)	(87)	(40)	
Long-term borrowings	(106)	447	341	(57)	624	
Total net increase in expense on interest bearing liabilities	(102)	677	575	220	1,423	
Net increase (decrease) in						
		24				
net interest income	(\$397)	\$ 580	\$ 183	(\$335)	\$1,161	\$

(1) Excludes interest on loans 90 days or more past due. Includes loans originated for sale.

Provision for Loan Losses: Provisions for loan losses of \$700,000 and \$1.90 million were made during the three and six months ended March 31, 2008 compared to a provision of \$156,000 made during the three and six months ended March 31, 2007. The increased provisions were made primarily as a result of an increase in non-performing loans, an increase in the level of loans classified as substandard under the Bank's loan grading system, loan portfolio growth, and uncertainties in the housing market in certain market areas of the northwest.

The Bank has established a comprehensive methodology for determining the provision for loan losses. On a quarterly basis the Bank performs an analysis that considers pertinent factors underlying the quality of the loan portfolio. The factors include changes in the amount and composition of the loan portfolio, historic loss experience for various loan segments, changes in economic conditions, delinquency rates, a detailed analysis of loans on

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

non-accrual status, and other factors to determine an appropriate level of allowance for loan losses. Management's analysis, however, for the six months ended March 31, 2008, placed greater emphasis on the Bank's construction and land development loan portfolio and the effect of various factors such as geographic and loan type concentrations. The Bank also reviewed the national trend of declining home sales with potential housing market value depreciation. Based on its comprehensive analysis, management deemed the allowance for loan losses of \$6.70 million at March 31, 2008 (1.21% of loans receivable and 105% 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 \$4.27 million (0.88% of loans receivable and 1,327% of non-performing loans) at March 31, 2007. The Company had no charge-offs during the three and six months ended March 31, 2008 and net recoveries of \$5,000 and \$6,000 for the three and six months ended March 31, 2007, respectively. While there were no charge-offs during the six months ended March 31, 2008, the reserve for principal impairments on non-accrual loans was increased by \$548,000 to \$623,000. Impairments may result in actual charge-offs in the future.

Non-performing loans increased by \$4.90 million to \$6.39 million during the six months ended March 31, 2008 primarily as a result of three speculative construction builders becoming delinquent on their loans (which totaled \$2.98 million) from the Bank and a one-eighth participation interest of \$1.87 million in a residential land development loan being placed on non-accrual status.

The \$6.39 million in non-performing loans at March 31, 2008 were comprised of 17 loans including 11 single family speculative home loans totaling \$4.05 million (which included one \$1.00 million loan located in Pierce County, one \$522,000 loan located in Pierce County, and eight loans located in Pierce County with balances ranging from \$245,000 to \$344,000, and one loan located in Grays Harbor County with an outstanding balance of \$63,000), a \$1.87 million participation interest in a land development loan located in Clark County, two home equity consumer loans totaling \$183,000, one commercial real estate loan for \$152,000, one commercial business loan for \$119,000, and one land loan for \$22,000. These non-performing loans represent eight credit relationships.

Management also downgraded additional loans to its substandard loan grade classifications during the six months ended March 31, 2008. Under the Bank's Classification of Assets Policy, substandard loans have one or more defined weaknesses and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Under the Bank's allowance for loan loss methodology loans classified as substandard are assumed to have more risk and therefore have higher loss factors associated with them. A majority of the loans downgraded during the six months ended March 31, 2008 were to borrowers involved in construction and land development activities. As a result of a slowdown in the sales of one- to four-family

25

homes and other uncertain economic conditions, management believes that certain speculative construction and land development loans have assumed a higher risk profile and were therefore downgraded during the period. During the six months ended March 31, 2008 the Bank also restructured \$2.49 million in loans to a speculative construction borrower by reducing the interest rates on the loans for a 90 day period.

Management believes that the allowance for loan losses as of March 31, 2008 was adequate to absorb the known and inherent risks of loss in the loan

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

portfolio at that date. While management believes the estimates and assumptions used in its determination of the adequacy of the allowance are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, or that the actual amount of future provisions will not exceed the amount of past provisions or that any increased provisions that may be required will not adversely impact the Company's financial condition and results of operations. In addition, the determination of the amount of the Bank's allowance for loan losses is subject to review by bank regulators as part of the routine examination process, which may result in the establishment of additional reserves based upon their judgment of information available to them at the time of their examination. For additional information, see the section entitled "Activity in the Allowance for Loan Losses" included herein.

Non-interest Income: Total non-interest income increased by \$130,000, or 9.1%, to \$1.55 million for the quarter ended March 31, 2008 from \$1.42 million for the quarter ended March 31, 2007, primarily as a result of increased income from loan sales (gain on sale of loans and servicing income on loans sold). The sale of fixed rate one-to four-family mortgage loans totaled \$11.87 million for the quarter ended March 31, 2008 compared to \$6.63 million for the quarter ended March 31, 2007. The increase in loan sales was primarily attributable to lower interest rates for 30-year fixed rates loans which increased refinancing activity.

Total non-interest income increased by \$148,000, or 5.1%, to \$3.05 million for the six months ended March 31, 2008 from \$2.90 million for the six months ended March 31, 2007, primarily as a result of increased income from loan sales (gain on sale of loans and servicing income on loans sold) and increased ATM transaction fees. The sale of fixed rate one-to four-family mortgage loans totaled \$19.29 million for the six months ended March 31, 2008 compared to \$13.88 million for the six months ended March 31, 2007. The increase in loan sales was primarily attributable to lower interest rates for 30-year fixed rate loans which increased refinancing activity.

Non-interest Expense: Total non-interest expense increased by \$267,000, or 5.4%, to \$5.21 million for the quarter ended March 31, 2008 from \$4.94 million for the quarter ended March 31, 2007. The increase was primarily attributable to a \$220,000 increase in salaries and employee benefits expense and a \$67,000 increase in advertising expense. The increased salary and benefit expense was primarily attributable to annual salary adjustments (effective October 1, 2007) and the addition of several employees. The increased advertising expense was primarily attributable to marketing efforts associated with deposit gathering initiatives. The Company's efficiency ratio increased to 63.29% for the quarter ended March 31, 2008 from 62.42% for the quarter ended March 31, 2007.

Total non-interest expense increased by \$222,000, or 2.3%, to \$10.06 million for the six months ended March 31, 2008 from \$9.84 million for the six months ended March 31, 2008. The increase was primarily attributable to a \$355,000 increase in salaries and employee benefits expense and smaller increases in advertising expense and ATM expense. The increased salary and benefit expense was primarily attributable to annual salary adjustments (effective October 1, 2007) and the addition of several employees. The increased expenses were partially offset by a \$169,000 decrease in premises and equipment expense. The decrease in premises and equipment expense was primarily attributable to an insurance settlement for damage to the Bank's previous data center facility that reduced expenses \$172,000. The Company's efficiency ratio improved to 60.43% for the six months ended March 31, 2008 from 62.78% for the six months ended March 31, 2007.

Provision for Income Taxes: The provision for income taxes decreased to \$734,000 for the quarter ended March 31, 2008 from \$901,000 for the quarter

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

ended March 31, 2007 primarily as a result of lower income

26

before taxes. The Company's effective tax rate was 31.65% for the quarter ended March 31, 2008 and 31.98% for the quarter ended March 31, 2007.

The provision for income taxes decreased to \$1.48 million for the six months ended March 31, 2008 from \$1.81 million for the six months ended March 31, 2007 primarily as a result of lower income before taxes. The Company's effective tax rate was 31.68% for the six months ended March 31, 2008 and 31.83% for the six months ended March 31, 2007.

Liquidity and Capital Resources

The Company's primary sources of funds are customer deposits, brokered deposits, proceeds from principal and interest payments on loans and mortgage-backed securities, proceeds from the sale of loans, proceeds from maturing securities, FHLB advances, and other borrowings. While maturities and the scheduled amortization of loans are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

An analysis of liquidity should include a review of the Condensed Consolidated Statement of Cash Flows for the six months ended March 31, 2008. The statement of cash flows includes operating, investing and financing categories. Operating activities include net income, which is adjusted for non-cash items, and increases or decreases in cash due to changes in assets and liabilities. Investing activities consist primarily of proceeds from maturities and sales of securities, purchases of securities, and the net change in loans. Financing activities present the cash flows associated with the Company's deposit accounts, other borrowings and stock related transactions.

The Company's total cash equivalents decreased by 14.4% to \$14.27 million at March 31, 2008 from \$16.67 million at September 30, 2007. The decrease in liquid assets was primarily reflected in a decrease in federal funds sold and a decrease in interest bearing deposits in banks and was partially offset by an increase in non-interest bearing cash equivalents.

The Bank must maintain an adequate level of liquidity to ensure the availability of sufficient funds for loan originations and deposit withdrawals, to satisfy other financial commitments and to take advantage of investment opportunities. The Bank generally maintains sufficient cash and short-term investments to meet short-term liquidity needs. At March 31, 2008, the Bank's regulatory liquidity ratio (net cash, and short-term and marketable assets, as a percentage of net deposits and short-term liabilities) was 9.24%. The Bank maintained an uncommitted credit facility with the FHLB of Seattle that provided for immediately available advances up to an aggregate amount equal to 30% of total assets, limited by available collateral, under which \$105.66 million was outstanding at March 31, 2008. The Bank also has a \$10.00 million overnight credit line with Pacific Coast Banker's Bank ("PCBB"). At March 31, 2008, the Bank did not have any outstanding advances on this credit line.

Liquidity management is both a short and long-term responsibility of the Bank's management. The Bank adjusts its investments in liquid assets based

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

upon management's assessment of (i) expected loan demand, (ii) projected loan sales, (iii) expected deposit flows, and (iv) yields available on interest-bearing deposits. Excess liquidity is invested generally in interest-bearing overnight deposits, federal funds sold, and other short-term investments. If the Bank requires funds that exceed its ability to generate them internally, it has additional borrowing capacity with the FHLB of Seattle and PCBB.

The Bank's primary investing activity is the origination of one- to four-family mortgage loans, commercial mortgage loans, construction and land development loans, land loans, consumer loans, and commercial business loans. At March 31, 2008, the Bank had loan commitments totaling \$51.14 million and undisbursed loans in process totaling \$55.45 million. The Bank anticipates that it will have sufficient funds available to meet current

27

loan commitments. Certificates of deposit that are scheduled to mature in less than one year from March 31, 2008 totaled \$206.73 million. Historically, the Bank has been able to retain a significant amount of its non-brokered certificates of deposit as they mature. At March 31, 2008, the Bank had \$15.06 million in brokered certificate of deposit accounts, all of which are scheduled to mature in less than one year. As these brokered certificate of deposit accounts approach maturity, the Bank will evaluate its liquidity needs and the cost of other alternative funding sources before determining if additional brokered deposits will be acquired to replace the maturing brokered deposits.

Federally-insured state-chartered banks are required to maintain minimum levels of regulatory capital. Under current FDIC regulations, insured state-chartered banks generally must maintain (i) a ratio of Tier 1 leverage capital to total assets of at least 3.0% (4.0% to 5.0% for all but the most highly rated banks), (ii) a ratio of Tier 1 capital to risk weighted assets of at least 4.0% and (iii) a ratio of total capital to risk weighted assets of at least 8.0%. At March 31, 2008, the Bank was in compliance with all applicable capital requirements. For additional details see the section below entitled "Regulatory Capital."

Regulatory Capital

The following table compares the Bank's regulatory capital at March 31, 2008 to its minimum regulatory capital requirements at that date (Dollars in thousands):

	Amount	Percent of Adjusted Total Assets (1)
	-----	-----
Tier 1 (leverage) capital	\$59,759	9.34%
Tier 1 (leverage) capital requirement	25,584	4.00
	-----	-----
Excess	\$34,175	5.34%
	=====	=====
Tier 1 risk adjusted capital	\$59,759	10.75%
Tier 1 risk adjusted capital requirement	22,243	4.00
	-----	-----
Excess	\$37,516	6.75%

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

	=====	=====
Total risk based capital	\$66,448	11.95%
Total risk based capital requirement	44,486	8.00
	-----	-----
Excess	\$21,962	3.95%
	=====	=====

(1) For the Tier 1 (leverage) capital, percent of total average assets calculation, total average of assets were \$639.59 million. For the Tier 1 risk-based capital and total risk-based capital calculations, total risk-weighted assets were \$556.08 million.

28

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

	Three Months		Six Months	
	Ended March 31,		Ended March 31,	
	2008	2007	2008	2007
	-----		-----	
PERFORMANCE RATIOS:				
Return on average assets (1)	0.98%	1.28%	0.99%	1.32%
Return on average equity (1)	8.48%	9.91%	8.55%	9.92%
Net interest margin (1)	4.44%	4.75%	4.52%	4.74%
Efficiency ratio	63.29%	62.42%	60.43%	62.78%

	At	At
	March 31,	September 30,
	2008	2007

ASSET QUALITY RATIOS:		
Non-performing loans	\$ 6,388	\$ 1,490
OREO and other repossessed assets	- -	- -
	-----	-----
Total non-performing assets	\$ 6,388	\$ 1,490
Non-performing assets to total assets	0.98%	0.23%
Allowance for loan losses to		
non-performing loans	105%	322%
Restructured loans	\$ 2,491	- -
Book value per share (2)	\$ 10.88	\$ 10.72
Book value per share (3)	\$ 11.53	\$ 11.39
Tangible book value per share (2) (4)	\$ 9.90	\$ 9.73
Tangible book value per share (3) (4)	\$ 10.49	\$ 10.34

- (1) Annualized
(2) Calculation includes ESOP shares not committed to be released
(3) Calculation excludes ESOP shares not committed to be released
(4) Calculation subtracts goodwill and core deposit intangible from the equity component

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

	Three Months		Six Months	
	Ended March 31, 2008	2007	Ended March 31, 2008	2007
AVERAGE BALANCE SHEET:				
Average total loans	\$546,349	\$465,460	\$ 542,295	\$ 452,232
Average total interest earning assets	600,872	546,870	601,754	538,115
Average total assets	647,851	597,015	649,225	588,470
Average total interest bearing deposits	411,465	380,916	410,542	378,614
Average FHLB advances & other borrowings	107,572	81,578	107,253	73,688
Average shareholders' equity	74,741	77,340	74,873	78,002

29

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes in information concerning market risk from the information provided in the Company's Form 10-K for the fiscal year ended September 30, 2007.

Item 4. Controls and Procedures

- (a) Evaluation of Disclosure Controls and Procedures: An evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and several other members of the Company's senior management as of the end of the period covered by this report. The Company's Chief Executive Officer and Chief Financial Officer concluded that as of March 31, 2008 the Company's disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.
- (b) Changes in Internal Controls: There have been no changes in our internal control over financial reporting (as defined in 13a-15(f) of the Exchange Act) that occurred during the quarter ended March 31, 2008, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. The Company continued, however, to implement suggestions from its internal auditor and independent auditors to strengthen existing controls. The Company does not expect that its disclosure controls and procedures and internal controls over financial reporting will prevent all errors and fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns in controls or procedures can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; as over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

Item 4T. Controls and Procedures

Not Applicable.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Neither the Company nor the Bank is a party to any material legal proceedings at this time. Further, neither the Company nor the Bank is aware of the threat of any such proceedings. From time to time, the Bank is involved in various claims and legal actions arising in the ordinary course of business.

30

Item 1A. Risk Factors

There have been no material changes in the Risk Factors previously disclosed in Item 1A of the Company's 2007 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable

Stock Repurchases

The following table sets forth the shares repurchased by the Company during the quarter ended March 31, 2008:

Period	Total No. of Shares Purchased	Average Price Paid per Share	Total No. of Shares Purchased as Part of Publicly Announced Plan (1)	Maximum No. of Shares that May Yet Be Purchased Under the Plan(1) (2)
01/01/2008 - 01/31/2008	77,000	12.83	77,000	62,950

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

02/01/2008 - 02/29/2008	17,950	12.84	17,950	361,418
03/01/2008 - 03/01/2008	- -	- -	- -	343,468
Total	94,950	\$12.83	94,950	343,468

(1) On February 22, 2008, the Company completed its previously announced share repurchase program. The Company repurchased 5% of its outstanding common shares or 356,950 shares, at an average price of \$15.82 per share. All shares were repurchased through open market broker transactions and no shares were directly repurchased from directors or officers of the Company.

(2) On February 25, 2008, the Company announced a share repurchase plan authorizing the repurchase of up to 5% of its outstanding shares, or 343,468 shares. As of March 31, 2008 no shares under this plan had been repurchased.

Item 3. Defaults Upon Senior Securities

None to be reported.

Item 4. Submission of Matters to a Vote of Security Holders

The Company's 2007 Annual Meeting of Shareholders was held on January 22, 2008 at the Hoquiam Timberland Library, 420 7th Street, Hoquiam, Washington. The results of the vote on the election of directors for a three-year term, the only item presented at the meeting, were as follows:

	For		Withheld	
	No. of Votes	Percentage	No. of Votes	Percentage

31

Jon C. Parker	3,864,432	76.96%	1,157,058	23.04%
James C. Mason	4,723,546	94.07%	297,944	5.93%

The following directors, who were not up for re-election at the Annual Meeting of Shareholders, will continue to serve as directors: Clarence E. Hamre, Andrea M. Clinton, Michael R. Sand, David A Smith, Harold L. Warren and Ronald A. Robbel.

Item 5. Other Information

None to be reported.

Item 6. Exhibits

- (a) Exhibits
 - 3.1 Articles of Incorporation of the Registrant (1)
 - 3.2 Bylaws of the Registrant (1)
 - 3.3 Amendment to Bylaws (2)

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

- 10.1 Employee Severance Compensation Plan, as revised (3)
- 10.2 Employee Stock Ownership Plan (3)
- 10.3 1999 Stock Option Plan (4)
- 10.4 Management Recognition and Development Plan (4)
- 10.5 2003 Stock Option Plan (5)
- 10.6 Form of Incentive Stock Option Agreement (6)
- 10.7 Form of Non-qualified Stock Option Agreement (6)
- 10.8 Form of Management Recognition and Development Award Agreement (6)
- 10.9 Employment Agreement between the Company and the Bank and Michael R. Sand (7)
- 10.10 Employment Agreement between the Company and the Bank and Dean J. Brydon (7)
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act
- 32 Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes Oxley Act

-
- (1) Incorporated by reference to the Registrant's Registration Statement of Form S-1 (333- 35817).
 - (2) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended September 30, 2002.
 - (3) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1997; and to the Registrant's Current Report on Form 8-K dated April 13, 2007, and to the Registrant's Current Report on Form 8-K dated December 18, 2007.
 - (4) Incorporated by reference to the Registrant's 1999 Annual Meeting Proxy Statement dated December 15, 1998.
 - (5) Incorporated by reference to the Registrant's 2004 Annual Meeting Proxy Statement dated December 24, 2003.
 - (6) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended September 30, 2005.
 - (7) Incorporated by reference to the Registrant's Current Report on Form 8-K dated April 13, 2007.

32

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 thereunto duly authorized.

Timberland Bancorp, Inc.

Date: May 5, 2008

By:/s/ Michael R. Sand

Michael R. Sand
Chief Executive Officer
(Principal Executive Officer)

Date: May 5, 2008

By:/s/ Dean J. Brydon

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

Dean J. Brydon
Chief Financial Officer
(Principal Financial Officer)

33

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act

34

Exhibit 31.1
Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act

I, Michael R. Sand, certify that:

1. I have reviewed this Form 10-Q of Timberland Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2008

/s/ Michael R. Sand

Michael R. Sand
Chief Executive Officer

35

Exhibit 31.2
Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act

I, Dean J. Brydon, certify that:

1. I have reviewed this Form 10-Q of Timberland Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2008

/s/ Dean J. Brydon

Dean J. Brydon
Chief Financial Officer

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
OF TIMBERLAND BANCORP, INC.
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), each of the undersigned hereby certifies in his capacity as an officer of Timberland Bancorp, Inc. (the "Company") and in connection with the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2008 ("Report"), that:

- * the Report fully complies with the requirements of Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, and
- * the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented in the financial statements included in the Report.

/s/ Michael R. Sand

Michael R. Sand
Chief Executive Officer

/s/ Dean J. Brydon

Dean J. Brydon
Chief Financial Officer

Date: May 5, 2008