

TIMBERLAND BANCORP INC
Form 10-Q
February 08, 2013

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 December 31, 2012

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
(State or other jurisdiction of incorporation or
organization) 91-1863696
(IRS Employer Identification No.)

624 Simpson Avenue, Hoquiam, Washington 98550
(Address of principal executive offices) (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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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 JANUARY 31, 2013
Common stock, \$.01 par value	7,045,036

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

December 31, 2012 and September 30, 2012

(Dollars in thousands, except per share amounts)

(Unaudited)

	December 31, 2012	September 30, 2012
Assets		
Cash and cash equivalents:		
Cash and due from financial institutions	\$12,082	\$11,008
Interest-bearing deposits in banks	73,766	85,660
Total cash and cash equivalents	85,848	96,668
Certificates of deposit ("CDs") held for investment (at cost which approximates fair value)	26,752	23,490
Mortgage-backed securities ("MBS") and other investments - held to maturity, at amortized cost (estimated fair value \$3,501 and \$3,632)	3,197	3,339
MBS and other investments - available for sale	4,682	4,945
Federal Home Loan Bank of Seattle ("FHLB") stock	5,604	5,655
Loans receivable	554,659	548,878
Loans held for sale	2,036	1,427
Less: Allowance for loan losses	(11,769)	(11,825)
Net loans receivable	544,926	538,480
Premises and equipment, net	18,027	17,886
Other real estate owned ("OREO") and other repossessed assets, net	13,230	13,302
Accrued interest receivable	2,080	2,183
Bank owned life insurance ("BOLI")	16,668	16,524
Goodwill	5,650	5,650
Core deposit intangible ("CDI")	217	249
Mortgage servicing rights ("MSRs"), net	2,213	2,011
Prepaid Federal Deposit Insurance Corporation ("FDIC") insurance assessment	957	1,186
Other assets	4,570	5,386
Total assets	\$734,621	\$736,954
Liabilities and shareholders' equity		
Liabilities:		
Deposits: Non-interest-bearing demand	\$78,425	\$75,296
Deposits: Interest-bearing	515,974	522,630
Total deposits	594,399	597,926

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FHLB advances	45,000	45,000
Repurchase agreements	625	855
Other liabilities and accrued expenses	2,694	2,854
Total liabilities	642,718	646,635
Shareholders' equity		
Preferred stock, \$.01 par value; 1,000,000 shares authorized; 16,641 shares, Series A, issued and outstanding; redeemable at \$1,000 per share	16,292	16,229
Common stock, \$.01 par value; 50,000,000 shares authorized; 7,045,036 shares issued and outstanding	10,500	10,484
Unearned shares issued to Employee Stock Ownership Plan ("ESOP")	(1,653)	(1,719)
Retained earnings	67,232	65,788
Accumulated other comprehensive loss	(468)	(463)
Total shareholders' equity	91,903	90,319
Total liabilities and shareholders' equity	\$734,621	\$736,954

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the three months ended December 31, 2012 and 2011

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended December 31,	
	2012	2011
Interest and dividend income		
Loans receivable	\$7,414	\$7,805
MBS and other investments	77	125
Dividends from mutual funds	12	13
Interest-bearing deposits in banks	86	89
Total interest and dividend income	7,589	8,032
Interest expense		
Deposits	728	1,169
FHLB advances	472	562
Total interest expense	1,200	1,731
Net interest income	6,389	6,301
Provision for loan losses	200	650
Net interest income after provision for loan losses	6,189	5,651
Non-interest income		
Other than temporary impairment ("OTTI") on MBS and other investments	(7)	(90)
Adjustment for portion recorded as (transferred from) other comprehensive income (loss) before taxes	(3)	30
Net OTTI on MBS and other investments	(10)	(60)
Service charges on deposits	947	970
ATM and debit card interchange transaction fees	515	517
BOLI net earnings	143	157
Gain on sales of loans, net	642	560
Escrow fees	35	27
Valuation recovery on MSR's	254	84
Fee income from non-deposit investment sales	25	12
Other	164	177
Total non-interest income, net	2,715	2,444

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (continued)
For the three months ended December 31, 2012 and 2011
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended December 31,	
	2012	2011
Non-interest expense		
Salaries and employee benefits	\$3,114	\$ 2,929
Premises and equipment	690	650
Advertising	177	208
OREO and other repossessed assets, net	288	502
ATM	221	194
Postage and courier	113	118
Amortization of CDI	33	37
State and local taxes	139	149
Professional fees	242	178
FDIC insurance	241	225
Other insurance	52	56
Loan administration and foreclosure	138	161
Data processing and telecommunications	287	300
Deposit operations	164	223
Other	478	291
Total non-interest expense	6,377	6,221
Income before federal and state income taxes	2,527	1,874
Provision for federal and state income taxes	819	591
Net income	1,708	1,283
Preferred stock dividends	(201)	(208)
Preferred stock discount accretion	(63)	(59)
Net income to common shareholders	\$1,444	\$ 1,016
Net income per common share		
Basic	\$0.21	\$ 0.15
Diluted	\$0.21	\$ 0.15
Weighted average common shares outstanding		
Basic	6,815,782	6,780,516
Diluted	6,821,006	6,780,516

See notes to unaudited condensed consolidated financial statements

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TIMBERLAND BANCORP, INC. AND SUBSIDIARY
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 For the three months ended December 31, 2012 and 2011
 (In thousands)
 (Unaudited)

	Three Months Ended December 31,	
	2012	2011
Comprehensive income:		
Net income	\$ 1,708	\$ 1,283
Unrealized holding loss on securities available for sale, net of tax	(19)	(14)
Change in OTTI on securities held to maturity, net of tax:		
Additions	--	(14)
Additional amount recognized related to credit loss for which OTTI was previously recognized	--	(13)
Amount reclassified to credit loss for previously recorded market loss	2	7
Accretion of OTTI securities held to maturity, net of tax	12	11
Total comprehensive income	\$ 1,703	\$ 1,260

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the three months ended December 31, 2012 and the year ended September 30, 2012

(Dollars in thousands)

(Unaudited)

	Number of Shares		Amount		Unearned	Retained	Accumulated	Total
	Preferred Stock	Common Stock	Preferred Stock	Common Stock	Shares Issued to ESOP		Other Comprehensive Loss	
Balance, September 30, 2011	16,641	7,045,036	\$15,989	\$10,457	\$(1,983)	\$62,270	\$ (528)	\$86,205
Net income	--	--	--	--	--	4,590	--	4,590
Accretion of preferred stock discount	--	--	240	--	--	(240)	--	--
5% preferred stock dividend	--	--	--	--	--	(832)	--	(832)
Earned ESOP shares	--	--	--	(65)	264	--	--	199
MRDP (1) compensation expense	--	--	--	77	--	--	--	77
Stock option compensation expense	--	--	--	15	--	--	--	15
Unrealized holding gain on securities available for sale, net of tax	--	--	--	--	--	--	14	14
Change in OTTI on securities held to maturity, net of tax	--	--	--	--	--	--	5	5
Accretion of OTTI on securities held to maturity, net of tax	--	--	--	--	--	--	46	46
Balance, September 30, 2012	16,641	7,045,036	16,229	10,484	(1,719)	65,788	(463)	90,319
Net income	--	--	--	--	--	1,708	--	1,708
Accretion of preferred stock discount	--	--	63	--	--	(63)	--	--
5% preferred stock dividend	--	--	--	--	--	(201)	--	(201)
Earned ESOP shares	--	--	--	(8)	66	--	--	58
MRDP compensation expense	--	--	--	13	--	--	--	13

Stock option compensation expense	--	--	--	11	--	--	--	11
Unrealized holding loss on securities available for sale, net of tax	--	--	--	--	--	--	(19)	(19)
Change in OTTI on securities held to maturity, net of tax	--	--	--	--	--	--	2	2
Accretion of OTTI on securities held to maturity, net of tax	--	--	--	--	--	--	12	12
Balance, December 31, 2012	16,641	7,045,036	\$16,292	\$10,500	\$(1,653)	\$67,232	\$ (468)	\$91,903

(1) 1998 Management Recognition and Development Plan (“MRDP”).

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended December 31, 2012 and 2011

(Dollars in thousands)

(Unaudited)

	Three Months Ended December 31,	
	2012	2011
Cash flows from operating activities		
Net income	\$1,708	\$1,283
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	200	650
Depreciation	252	234
Deferred federal income taxes	--	(12)
Amortization of CDI	33	37
Earned ESOP shares	66	66
MRDP compensation expense	13	25
Stock option compensation expense	11	2
(Gain) loss on sales of OREO and other repossessed assets, net	(211)	271
Provision for OREO losses	244	57
Gain on sale of premises and equipment	(8)	--
BOLI net earnings	(143)	(157)
Gain on sales of loans, net	(642)	(560)
Decrease in deferred loan origination fees	(175)	(58)
Net OTTI on MBS and other investments	10	60
Valuation recovery on MSRs	(254)	(84)
Loans originated for sale	(24,063)	(22,203)
Proceeds from sales of loans	24,096	23,697
Decrease in other assets, net	1,195	463
Decrease in other liabilities and accrued expenses, net	(160)	(14)
Net cash provided by operating activities	2,172	3,757
Cash flows from investing activities		
Net increase in CDs held for investment	(3,262)	(1,151)
Proceeds from maturities and prepayments of MBS and other investments available for sale	234	378
Proceeds from maturities and prepayments of MBS and other investments held to maturity	159	184
Sale of FHLB stock	51	--
Increase in loans receivable, net	(6,629)	(9)
Additions to premises and equipment	(393)	(197)
Proceeds from sale of premises and equipment	8	--
Proceeds from sales of OREO and other repossessed assets	806	234
Net cash used in investing activities	(9,026)	(561)
Cash flows from financing activities		
Decrease in deposits, net	(3,527)	(3,503)
Decrease in repurchase agreements, net	(230)	(191)
ESOP tax effect	(8)	(20)

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Dividends paid	(201)	--
Net cash used in financing activities	(3,966)	(3,714)

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
 For the three months ended December, 2012 and 2011
 (Dollars in thousands)
 (Unaudited)

	Three Months Ended December 31,	
	2012	2011
Net decrease in cash and cash equivalents	\$(10,820)	\$(518)
Cash and cash equivalents		
Beginning of period	96,668	112,065
End of period	\$85,848	\$111,547
Supplemental disclosure of cash flow information		
Interest paid	\$1,220	\$1,752
Supplemental disclosure of non-cash investing activities		
Loans transferred to OREO and other repossessed assets	\$1,341	\$669
Loans originated to facilitate the sale of OREO	574	3,204

See notes to unaudited condensed consolidated financial statements

Timberland Bancorp, Inc. and Subsidiary
Notes to Unaudited Condensed Consolidated Financial Statements

(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 (“GAAP”) 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 GAAP. 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 consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended September 30, 2012 (“2012 Form 10-K”). The unaudited condensed consolidated results of operations for the three months ended December 31, 2012 are not necessarily indicative of the results that may be expected for the entire fiscal year ending September 30, 2013.

(b) Principles of Consolidation: The unaudited 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 transactions and balances have been eliminated in consolidation.

(c) Operating Segment: The Company has one reportable operating segment which is defined as community banking in western Washington under the operating name, “Timberland Bank.”

(d) The preparation of condensed consolidated financial statements in conformity with GAAP 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 condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(e) Certain prior period amounts have been reclassified to conform to the December 31, 2012 presentation with no change to net income or total shareholders’ equity previously reported.

(2) REGULATORY MATTERS

In December 2009, the FDIC and the Washington State Department of Financial Institutions, Division of Banks (“DFI”) determined that the Bank required supervisory attention and agreed to terms on a Memorandum of Understanding (the “Bank MOU”) with the Bank. The terms of the Bank MOU restricted the Bank from certain activities, and required that the Bank obtain prior written approval, or non-objection from the FDIC and/or the DFI to engage in certain activities. On December 12, 2012, the FDIC and the DFI notified the Bank that the Bank MOU had been rescinded.

In addition, in February 2010, the Federal Reserve Bank of San Francisco (“FRB”) determined that the Company required additional supervisory attention and entered into a Memorandum of Understanding with the Company (the “Company MOU”). Under the Company MOU, the Company was required, among other things, to obtain prior written approval or non-objection from the FRB to declare or pay any dividends, or make any other capital distributions; issue any trust preferred securities; or purchase or redeem any of its stock. On January 15, 2013, the FRB notified the Company that the Company MOU had been rescinded.

(3) PREFERRED STOCK RECEIVED IN TROUBLED ASSET RELIEF PROGRAM (“TARP”) CAPITAL PURCHASE PROGRAM (“CPP”)

On December 23, 2008, the Company received \$16.64 million from the U.S. Treasury Department (“Treasury”) as a part of the Treasury’s CPP, which was established as part of the TARP. The Company sold 16,641 shares of Fixed Rate

Cumulative Perpetual Preferred Stock, Series A, (“Series A Preferred Stock”) with a liquidation value of \$1,000 per share and a related warrant to purchase 370,899 shares of the Company’s common stock at an exercise price of \$6.73 per share (subject to anti-dilution adjustments) at any time through December 23, 2018. The Series A Preferred Stock pays a 5.0% dividend for the first five years, after which the rate increases to 9.0% if the preferred shares are not redeemed by the Company.

The Series A Preferred Stock is initially recorded at the amount of proceeds received. Any discount from the liquidation value is accreted to the expected call date and charged to retained earnings. This accretion is recorded using the level-yield method. Preferred dividends paid (or accrued) and any accretion is deducted from (or added to) net income (loss) for computing net income (loss) to common shareholders and net income (loss) per share computations.

On November 13, 2012, the Company's outstanding 16,641 shares of Series A Preferred Stock were sold by the Treasury as part of its efforts to manage and recover its investments under the TARP. While the sale of these preferred shares to new owners did not result in any proceeds to the Company and did not change the Company's capital position or accounting for these securities, it did eliminate restrictions put in place by the Treasury on TARP recipients. The Treasury retained its related warrant to purchase up to 370,899 shares of the Company's common stock.

(4) MBS AND OTHER INVESTMENTS

MBS and other investments have been classified according to management's intent and are as follows as of December 31, 2012 and September 30, 2012 (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2012				
Held to Maturity				
MBS:				
U.S. government agencies	\$1,413	\$44	\$(3)	\$1,454
Private label residential	1,757	317	(57)	2,017
U.S. agency securities	27	3	--	30
Total	\$3,197	\$364	\$(60)	\$3,501
Available for Sale				
MBS:				
U.S. government agencies	\$2,645	\$139	\$--	\$2,784
Private label residential	951	60	(115)	896
Mutual funds	1,000	2	--	1,002
Total	\$4,596	\$201	\$(115)	\$4,682
September 30, 2012				
Held to Maturity				
MBS:				
U.S. government agencies	\$1,493	\$44	\$(3)	\$1,534
Private label residential	1,819	309	(60)	2,068
U.S. agency securities	27	3	--	30
Total	\$3,339	\$356	\$(63)	\$3,632
Available for Sale				
MBS:				
U.S. government agencies	\$2,828	\$147	\$--	\$2,975
Private label residential	1,001	65	(109)	957
Mutual funds	1,000	13	--	1,013
Total	\$4,829	\$225	\$(109)	\$4,945