

TIMBERLAND BANCORP INC
Form DEF 14A
December 21, 2004

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

- Preliminary proxy statement
 Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))
 Definitive proxy statement
 Definitive additional materials
 Soliciting material pursuant to Rule 14a-12

TIMBERLAND BANCORP, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of filing fee (Check the appropriate box):

- No fee required.
 Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:
N/A

(2) Aggregate number of securities to which transactions applies:
N/A

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11
N/A

(4) Proposed maximum aggregate value of transaction:
N/A

(5) Total fee paid:
N/A

Fee paid previously with preliminary materials:
N/A

-
- [] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
- (1) Amount previously paid:
N/A
-
- (2) Form, Schedule or Registration Statement No.:
N/A
-
- (3) Filing party:
N/A
-
- (4) Date filed:
N/A
-

<PAGE>

December 20, 2004

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of Timberland Bancorp, Inc. ("Company"). The meeting will be held at the Hoquiam Timberland Library, 420 7th Street, Hoquiam, Washington, on Tuesday, January 25, 2005 at 1:00 p.m., local time.

The Notice of Annual Meeting of Shareholders and Proxy Statement appearing on the following pages describes the formal business to be transacted at the meeting. During the meeting, we will also report on the operations of the Company. Directors and officers of the Company, as well as a representative of McGladrey & Pullen, LLP, the Company's independent auditors, will be present to respond to appropriate questions of shareholders.

It is important that your shares are represented at this meeting, whether or not you attend the meeting in person and regardless of the number of shares you own. To make sure your shares are represented, we urge you to complete and mail the enclosed proxy card. If you attend the meeting, you may vote in person even if you have previously mailed a proxy card.

We look forward to seeing you at the meeting.

Sincerely,

/s/ Clarence E. Hamre
Clarence E. Hamre
Chairman of the Board

<PAGE>

**TIMBERLAND BANCORP, INC.
624 SIMPSON AVENUE
HOQUIAM, WASHINGTON 98550
(360) 533-4747**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON JANUARY 25, 2005**

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Timberland Bancorp, Inc. ("Company") will be held at the Hoquiam Timberland Library, 420 7th Street, Hoquiam, Washington, on Tuesday, January 25, 2005, at 1:00 p.m., local time, for the following purposes:

- (1) To elect three directors of the Company; and
- (2) To consider and act upon such other matters as may properly come before the meeting or any adjournments thereof.

NOTE: The Board of Directors is not aware of any other business to come before the meeting.

Any action may be taken on the foregoing proposals at the meeting on the date specified above or on any date or dates to which, by original or later adjournment, the meeting may be adjourned. Shareholders of record at the close of business on December 8, 2004 are entitled to notice of and to vote at the meeting and any adjournments or postponements thereof.

You are requested to complete and sign the enclosed form of proxy, which is solicited by the Board of Directors, and to mail it promptly in the enclosed envelope. The proxy will not be used if you attend the meeting and vote in person.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Dean J. Brydon
DEAN J. BRYDON
CORPORATE SECRETARY

Hoquiam, Washington
December 20, 2004

IMPORTANT: THE PROMPT RETURN OF PROXIES WILL SAVE THE COMPANY THE EXPENSE OF FURTHER REQUESTS FOR PROXIES IN ORDER TO ENSURE A QUORUM. A SELF-ADDRESSED ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.

<PAGE>

**PROXY STATEMENT
OF
TIMBERLAND BANCORP, INC.
624 SIMPSON AVENUE
HOQUIAM, WASHINGTON 98550
(360) 533-4747**

ANNUAL MEETING OF SHAREHOLDERS
JANUARY 25, 2005

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Timberland Bancorp, Inc. ("Company") to be used at the Annual Meeting of Shareholders of the Company ("Meeting"). The Company is the holding company for Timberland Bank ("Bank"). The Meeting will be held at the Hoquiam Timberland Library, 420 7th Street, Hoquiam, Washington, on Tuesday, January 25, 2005, at 1:00 p.m., local time. This Proxy Statement and the enclosed proxy card are being first mailed to shareholders on or about December 20, 2004.

VOTING AND PROXY PROCEDURE

Shareholders Entitled to Vote. Shareholders of record as of the close of business on December 8, 2004 ("Voting Record Date") are entitled to one vote for each share of common stock ("Common Stock") of the Company then held. At the close of the Voting Record Date the Company had 3,896,528 shares of Common Stock issued and outstanding.

As provided in the Company's Articles of Incorporation, record holders of the Company's Common Stock who beneficially own, either directly or indirectly, in excess of 10% of the Company's outstanding shares are not entitled to any vote in respect of the shares held in excess of the 10% limit.

If you are a beneficial owner of Company Common Stock held by a broker, bank or other nominee (*i.e.*, in "street name"), you will need proof of ownership to be admitted to the Meeting. A recent brokerage statement or letter from a bank or broker are examples of proof of ownership. If you want to vote your shares of Company Common Stock held in street name in person at the meeting, you will have to get a written proxy in your name from the broker, bank or other nominee who holds your shares.

Quorum. The presence, in person or by proxy, of at least a majority of the total number of outstanding shares of Common Stock entitled to vote is necessary to constitute a quorum at the Meeting. Abstentions and broker non-votes will be counted as shares present and entitled to vote at the Meeting for purposes of determining the existence of a quorum.

Proxies; Proxy Revocation Procedures. The Board of Directors solicits proxies so that each shareholder has the opportunity to vote on the proposal to be considered at the Meeting. When a proxy card is returned properly signed and dated, the shares represented thereby will be voted in accordance with the instructions on the proxy card. Where no instructions are indicated, proxies will be voted FOR the nominees for directors set forth below. If a shareholder of record attends the Meeting, he or she may vote by ballot.

Shareholders, who execute proxies retain the right to revoke them at any time. Proxies may be revoked by written notice delivered in person or mailed to the Secretary of the Company or by filing a later dated and signed proxy prior to a vote being taken on a particular proposal at the Meeting. Attendance at the Meeting will not automatically revoke a proxy, but a shareholder in attendance may request a ballot and vote in person, thereby revoking a prior granted proxy.

If your Company Common Stock is held in street name, you will receive instructions from your broker, bank or other nominee that you must follow in order to have your shares voted. Your broker or bank may allow you to deliver

<PAGE>

your voting instructions via the telephone or Internet. Please see the instruction form that accompanies this proxy statement. If you wish to change your voting instructions after you have returned your voting instruction form to your broker or bank, you must contact your broker or bank.

Participants in the Timberland Bank ESOP. If a shareholder is a participant in the Timberland Bank Employee Stock Ownership Plan ("ESOP"), the proxy card represents a voting instruction to the trustees of the ESOP as to the number of shares in the participant's plan account. Each participant in the ESOP may instruct the trustees as to the manner in which shares of Common Stock allocated to the participant's plan account are to be voted. The instructions are confidential and will not be disclosed to the Company. Unallocated shares of Common Stock held by the ESOP and allocated shares for which no voting instructions are received will be voted by the trustees in the same proportion as shares for which the trustees have received voting instructions.

Vote Required. The directors to be elected at the Meeting will be elected by a plurality of the votes cast by shareholders present in person or by proxy and entitled to vote. Votes may be cast for or withheld from each nominee. Votes that are withheld and broker non-votes will have no effect on the outcome of the election because directors will be elected by a plurality of the votes cast. The Company's Articles of Incorporation prohibits shareholders from cumulating their votes for the election of directors.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Persons and groups who beneficially own in excess of 5% of the Company's Common Stock are required to file certain reports with the Securities and Exchange Commission ("SEC"), and provide a copy to the Company, disclosing such ownership pursuant to the Securities Exchange Act of 1934, as amended ("Exchange Act"). Based on such reports, the following table sets forth, at the close of business on the Voting Record Date, certain information as to those persons who were beneficial owners of more than 5% of the outstanding shares of Common Stock. Based on such reports, management knows of no persons other than those set forth below who beneficially owned more than 5% of the outstanding shares of Common Stock at the close of business on the Voting Record Date. The table also sets forth, as of the close of business on the Voting Record Date, certain information as to shares of Common Stock beneficially owned by the Company's directors and "named executive officers" and all directors and executive officers as a group.

| Name | Number of Shares Beneficially Owned (1) | Percent of Shares Outstanding |
|---|--|----------------------------------|
| Beneficial Owners of More Than 5% | | |
| Timberland Bank (2) | | |
| Employee Stock Ownership Plan Trust | 508,108 | 12.4% |
| Westport Asset Management, Inc.(3) | 330,400 | 8.1 |
| 253 Riverside Avenue Westport, Connecticut 06880 | | |
| Directors (5) | | |
| Andrea M. Clinton | 36,123 | * |
| Clarence E. Hamre | 106,574 | 2.6 |
| James C. Mason | 10,334 | * |
| Richard R. Morris, Jr. | 57,003 | 1.4 |
| Jon C. Parker | 52,774 | 1.3 |

Edgar Filing: TIMBERLAND BANCORP INC - Form DEF 14A

| | | |
|------------------|--------|---|
| Ronald A. Robbel | 6,750 | * |
| David A. Smith | 25,838 | * |
| Harold L. Warren | 6,025 | * |

(table continued on following page)

2

<PAGE>

| Name | Number of Shares Beneficially Owned (1) | Percent of Shares Outstanding |
|---|--|----------------------------------|
| Named Executive Officers(4)(5) | | |
| Michael R. Sand | 91,441 | 2.2% |
| All Executive Officers and Directors as a Group (11 persons) | 440,393 | 10.8 |

* Less than one percent of shares outstanding.

- (1) In accordance with Rule 13d-3 under the Exchange Act, a person is deemed to be the beneficial owner, for purposes of this table, of any shares of Common Stock if he or she has voting and/or investment power with respect to such security. The table includes shares owned by spouses, other immediate family members in trust, shares held in retirement accounts or funds for the benefit of the named individuals, and other forms of ownership, over which shares the persons named in the table may possess voting and/or investment power. The amounts shown also include the following number of shares which the indicated individuals have the right to acquire within 60 days of the Voting Record Date through the exercise of stock options granted pursuant to the Company's 1999 and 2003 Stock Option Plans: Mr. Hamre, 33,063 shares; Mr. Sand, 40,350 shares; Ms. Clinton, 27,139 shares; Mr. Morris, 5,668 shares; Mr. Parker, 28,339 shares; Mr. Smith, 17,003 shares; Mr. Robbel, 4,250 shares; Mr. Warren, 4,250 shares; and all executive officers and directors as a group, 187,012 shares. Table assumes pro rata vesting of stock options over a ten year period with the next 10% installment vesting on January 29, 2005. The additional amount to be vested on January 29, 2005, however, is subject to an accelerated vesting schedule of up to 20% if the Company meets three of four established performance criteria. These four performance criteria are: (i) generating a return on assets which exceeds that of the median of all thrifts in the 12th Federal Home Loan Bank ("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 \$250 million of the Company; and (iv) increasing the Company's earnings per share over the prior fiscal year.
- (2) Under the terms of the ESOP, the trustees will vote unallocated shares and allocated shares for which no voting instructions are received in the same proportion as shares for which the trustees have received voting instructions from participants. As of the Voting Record Date, 217,159 shares have been allocated to participants' accounts. The trustees of the ESOP are Messrs. Smith, Parker and Mason.
- (3) Based on an amended SEC Schedule 13G dated February 12, 2004, that discloses shared voting power as to 217,400 shares and shared dispositive power as to 330,400 shares of the Company's Common Stock.
- (4) SEC regulations define the term "named executive officers" to include all individuals serving as chief executive officer during the most recently completed fiscal year, regardless of compensation level, and the four most highly compensated executive officers, other than the chief executive officer, whose total annual salary and bonus for the last completed fiscal year exceeded \$100,000. Mr. Sand was the Company's only "named executive officer" for the fiscal year ended September 30, 2004. Mr. Sand is also a director of the Company.
- (5) Includes unvested shares in the Company's Management Recognition and Development Plan ("MRDP"). Participants in the MRDP exercise all rights incidental to ownership, including voting rights. Includes an approximation of the number of shares in the participant's ESOP account. Includes initial purchase of shares of Common Stock held in the Timberland Bank 401(k) Profit Sharing Plan.

<PAGE>

PROPOSAL I -- ELECTION OF DIRECTORS

The Company's Board of Directors consists of nine members and is divided into three classes with three-year staggered terms, with approximately one-third of the directors elected each year. In February 2004, Director Robert Backstrom retired and the Board of Directors voted to decrease the size of the Board from ten to nine members. Each member of the Board of Directors is "independent," in accordance with the requirements for companies quoted on The Nasdaq Stock Market, except Directors Hamre and Sand.

The Nominating Committee of the Board of Directors has nominated for election as directors Richard R. Morris, Jon C. Parker and James C. Mason, each to serve for a three-year term, or until their respective successors have been elected and qualified. Each of the nominees for election as director are current members of the Board of Directors of the Company.

It is intended that the proxies solicited by the Board of Directors will be voted for the election of the nominees named in the following table. If any nominee is unable to serve, the shares represented by all valid proxies will be voted for the election of such substitute as the Board of Directors may recommend or the Board of Directors may adopt a resolution to amend the Bylaws and reduce the size of the Board. At this time the Board of Directors knows of no reason why any nominee might be unavailable to serve.

The Board of Directors recommends a vote "FOR" the election of Messrs. Morris, Parker and Mason each for a three year term.

| Name | Age(1) | Year First Elected or Appointed Director(2) | Term to Expire |
|------------------------|--------|---|----------------|
| BOARD NOMINEES | | | |
| Richard R. Morris, Jr. | 67 | 1992 | 2007(3) |
| Jon C. Parker | 55 | 1992 | 2007(3) |
| James C. Mason | 49 | 1993 | 2007(3) |

DIRECTORS CONTINUING IN OFFICE

| | | | |
|-------------------|----|------|------|
| Clarence E. Hamre | 70 | 1969 | 2005 |
| Andrea M. Clinton | 47 | 1996 | 2005 |
| Ronald A. Robbel | 63 | 2002 | 2005 |
| Michael R. Sand | 50 | 1993 | 2006 |
| David A. Smith | 49 | 2000 | 2006 |
| Harold L. Warren | 70 | 2002 | 2006 |

- (1) As of September 30, 2004.
- (2) Includes prior service on the Board of Directors of the Bank. Each member of the Board of Directors of the Company is also a member of the Board of Directors of the Bank.
- (3) Assuming the individual is elected.

The present principal occupation and other business experience during the last five years of each nominee for election and each director continuing in office is set forth below:

Richard R. Morris, Jr. is the former owner of Dick's Food Centers, Inc., retail grocery stores located in Ocean Shores and Raymond, Washington.

Jon C. Parker is a member of the law firm of Parker, Johnson & Parker P.S., Hoquiam, Washington, which serves as general counsel to the Bank and the Company.

4

<PAGE>

James C. Mason is the President and owner of Mason Timber Co., Aberdeen, Washington. Mr. Mason also is the owner of Mason Trucking, Mason Properties, MASCO Petroleum and Mason Aviation, all of which are located in Aberdeen, Washington.

Clarence E. Hamre is Chairman of the Board of the Company and the Bank. He has been affiliated with the Bank since 1969 and served as President and Chief Executive Officer of the Bank since 1969 and as President and Chief Executive Officer of the Company since 1997. In January 2003, Mr. Hamre retired as President of the Bank and the Company and on September 30, 2003, he retired as Chief Executive Officer of the Bank and the Company.

Andrea M. Clinton, an interior designer, is the owner of AMC Interiors, Olympia, Washington.

Ronald A. Robbel is a Certified Public Accountant and retired from Knight, Vale & Gregory, the Company's former auditors in June 2000.

Michael R. Sand has been affiliated with the Bank since 1977 and has served as President of the Bank and the Company since January 23, 2003. On September 30, 2003, he was appointed as Chief Executive Officer of the Bank and Company. Prior to appointment as President and Chief Executive Officer, Mr. Sand had served as Executive Vice President and Secretary of the Bank since 1993 and as Executive Vice President and Secretary of the Company since its formation in 1997.

David A. Smith is a pharmacist and the owner of Harbor Drug, Inc., a retail pharmacy located in Hoquiam, Washington.

Harold L. Warren is a Certified Public Accountant and is an employee of the accounting firm of Aiken and Sanders, Inc. P.S.

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

The Boards of Directors of the Company and the Bank conduct their business through meetings of the Boards and through their committees. During the fiscal year ended September 30, 2004, the Board of Directors of the Company held 13 meetings, and the Board of Directors of the Bank held 15 meetings. No director of the Company or

the Bank attended fewer than 75% of the total meetings of the Boards and committees on which such person served during this period.

Committees of the Company's Board

The Company's Board of Directors has established Audit, Nominating and Compensation Committees.

The Audit Committee, consisting of Directors Warren, Robbel and Smith, receives and reviews all reports prepared by the Company's external and internal auditor. The Audit Committee has a Charter which specifies its obligations and the Committee believes it has fulfilled its responsibilities under the Charter. Each member of the Audit Committee is "independent," in accordance with the requirements for companies quoted on The Nasdaq Stock Market. In addition, the Board of Directors has determined that Directors Warren and Robbel meet the definition of "audit committee financial expert," as defined by the SEC. Each member of the Audit Committee is "independent," in accordance with the requirements for companies quoted on The Nasdaq Stock Market. The Audit Committee met seven times during the fiscal year ended September 30, 2004.

The Board of Directors has a Nominating Committee, currently consisting of Directors Clinton, Morris and Parker, which is responsible for the annual selection of management's nominees for election as directors of the Company. The Committee has a Charter which specifies its obligations, a copy of which is available on the Company's website at www.timberlandbank.com. Each member of the Committee is "independent," in accordance with the requirements for

5

<PAGE>

companies quoted on The Nasdaq Stock Market. The Nominating Committee met once during the fiscal year ended September 30, 2004.

Only those nominations made by the Committee or properly presented by shareholders will be voted upon at the Meeting. In its deliberations for selecting candidates for nominees as director, the Nominating Committee considers the candidate's knowledge of the banking business and involvement in community, business and civic affairs, and also considers whether the candidate would provide for adequate representation of its market area. Any nominee for director made by the Committee must be highly qualified with regard to some or all these attributes. In searching for qualified director candidates to fill vacancies on the Board, the Committee solicits its current Board of Directors for names of potentially qualified candidates. Additionally, the Committee may request that members of the Board of Directors pursue their own business contacts for the names of potentially qualified candidates. The Committee would then consider the potential pool of director candidates, select the candidate the Committee believes best meets the then-current needs of the Board, and conduct a thorough investigation of the proposed candidate's background to ensure there is no past history that would cause the candidate not to be qualified to serve as a director of the Company. Although the Company's Nominating Committee Charter does not specifically provide for the consideration of shareholder nominees for directors, the Committee will consider director candidates recommended by the Company's shareholders in accordance with the Company's Articles of Incorporation. Because the Company's Articles of Incorporation provide a process for shareholder nominations, the Committee did not feel it was necessary to provide for shareholder nominations of directors in its charter. If a shareholder submits a proposed nominee, the Committee would consider the proposed nominee, along with any other proposed nominees recommended by members of the Company's Board of Directors, in the same manner in which the Committee would evaluate its nominees for director. For a description of the proper procedure for shareholder nominations, see "Shareholder Proposals" in this proxy statement.

The Compensation Committee, consisting of Directors Parker, Mason and Clinton, makes recommendations to the full Board of Directors concerning employee compensation. Directors Mason and Clinton were appointed to the Committee in January 2004, replacing Director Warren who along with Director Parker were on the Compensation Committee when salaries for the year ended September 30, 2004 were established. The Compensation Committee meets as needed and met once during the fiscal year ended September 30, 2004.

Committees of the Bank's Board

The Bank's Board of Directors has established Audit, Compensation and Nominating Committees, among others.

The Audit Committee, consisting of Directors Warren, Robbel and Smith, is responsible for meeting with the Bank's internal and external auditors to discuss the results of the annual audit and any related matters. The Audit Committee is also responsible for the Bank's employee compliance issues. The Board also receives and reviews the reports and findings and other information presented to them by the Bank's outside auditor. The Audit Committee meets as needed and met seven times during the fiscal year ended September 30, 2004.

The Compensation Committee, consisting of Directors Parker, Mason and Clinton, makes recommendations to the full Board of Directors concerning employee compensation. Directors Mason and Clinton were appointed to the Committee in January 2004, replacing Director Warren who along with Director Parker were on the Compensation Committee when salaries for the year ended September 30, 2004 were established. The Compensation Committee meets as needed and met once during the fiscal year ended September 30, 2004.

The full Board of Directors acts as a Nominating Committee for the annual selection of management's nominees for election as directors of the Bank. The full Board of Directors met once in its capacity as Nominating Committee during the year ended September 30, 2004.

<PAGE>

Board Policies Regarding Communications with the Board of Directors and Attendance at Annual Meetings

The Board of Directors maintains a process for shareholders to communicate with the Board of Directors. Shareholders wishing to communicate with the Board of Directors may do so by mailing a letter marked "Confidential" to the Board of Directors, Timberland Bancorp, Inc., P.O. Box 697, Hoquiam, Washington 98550. Any communication must state the number of shares beneficially owned by the shareholder making the communication. The Company does not have a policy regarding Board member attendance at annual meetings of shareholders. All of the members of the Board of Directors attended the 2003 Annual Meeting of Shareholders, except for Director Backstrom who retired in February 2004.

Corporate Governance

The Company and the Bank are committed to establishing and maintaining high standards of corporate governance. The Company's and the Bank's executive officers and the Board of Directors have worked together to establish a comprehensive set of corporate governance initiatives that they believe will serve the long-term interests of the Company's shareholders and employees. These initiatives are intended to comply with the provisions contained in the Sarbanes-Oxley Act of 2002, the rules and regulations of the SEC adopted thereunder, and the Nasdaq Stock Market. The Board will continue to evaluate, and improve the Company's and the Bank's corporate governance principles and policies as necessary and as required.

Code of Ethics. On September 23, 2003, the Board of Directors adopted Codes of Ethics for each of the Company's (i) principal executive officer and senior financial officers; (ii) directors; and (iii) officers and other employees. The Codes of Ethics require individuals to maintain the highest standards of professional conduct. A copy of the Code of Ethics for the Company's principal executive officer and senior financial officers is available on the Company's website at www.timberlandbank.com.

DIRECTORS' COMPENSATION

Fees

Except for Director Sand, each director receives \$1,125 per month, \$375 for each regular Board meeting attended and \$200 for each special Board meeting attended. Except for Director Sand, each director also receives \$400 for each Audit Committee meeting attended and \$200 for all other committee meetings attended. Director fees totalled \$154,000 for the year ended September 30, 2004.

Deferred Compensation Plan

The Company adopted the "Timberland Bancorp, Inc. Directors Deferred Compensation Plan" on March 13, 2003. In connection with the adoption of this plan, the Timberland Bank Directors Deferred Compensation Plan was terminated. Under the plan directors may elect to defer receipt of all or a portion of their fees until retirement or termination of service. At the director's election, benefits are distributed in a lump sum or installment payments. At September 30, 2004, two of the Company's directors had elected to participate in the plan.

Other

Stock Option Grants. Pursuant to the Company's 1999 Stock Option Plan, 28,339 stock options were granted to each of Messrs. Mason, Morris, Parker and Ms. Clinton, on January 29, 1999. In addition, Mr. Hamre, the former President and Chief Executive Officer of the Company and the Bank, received 99,188 stock options, which included 66,125 incentive stock options. The options were granted at an exercise price of \$12.00 and vest pro rata over a ten year period following the January 29, 1999 grant date with the next 10% installment vesting on January 29, 2005. On June 14, 2001, 28,339 options were granted to Director Smith at an exercise price of \$14.895, which vest pro rata over a ten

<PAGE>

year period following the June 14, 2001 grant date with the next 10% installment vesting on June 14, 2005. On March 13, 2003, 14,170 options were granted to each of Directors Warren and Robbel at an exercise price of \$19.05, which vest pro rata over a ten year period following the March 13, 2003 grant date. In connection with the approval by shareholders of the 2003 Stock Option Plan, 14,169 options were granted on January 27, 2004 to each of Directors Warren and Robbel at an exercise price of \$23.06, which vest pro rata over a ten year period following the January 27, 2004 grant date.

The options that vest each year are subject to an accelerated vesting schedule of up to 20% if the Company meets three of four established performance criteria. 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 \$250 million of the Company; and (iv) increasing the Company's earnings per share over the prior fiscal year.

For information concerning the stock options granted to Mr. Sand, see "Executive Compensation -- Summary Compensation Table" below.

Restricted Stock Awards. The Company awarded restricted shares of its Common Stock to directors on July 26, 2001 under the Company's MRDP. The MRDP was approved by shareholders at the 1999 Annual Meeting of Shareholders and provides for the award of Common Stock in the form of restricted stock awards to directors, officers and key employees. Dividends are paid on such awards if and when declared and paid by the Company on the Common Stock.

Each director of the Company, with the exception of Messrs. Hamre, Sand, Warren and Robbel, received 11,335 restricted shares of the Company's Common Stock under the MRDP, which shares had a value on the award date of \$178,300. Mr. Hamre received 39,675 shares of restricted Common Stock under the MRDP, which shares had a value on the award date of \$624,088. The restricted shares vest pro rata over a five year period following the July 26, 2001 award date, with the fourth 20% installment having vested on August 1, 2004. As of the date of this proxy statement, Messrs. Warren and Robbel had not received any restricted shares under the MRDP. For information concerning the restricted shares received by Mr. Sand, see "Executive Compensation -- Summary Compensation Table" below.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table shows the compensation paid to the Company's Chief Executive Officer, who was the only "named executive officer," during the fiscal year ended September 30, 2004.

| <i>Name and Position</i> | <i>Year</i> | <i>Annual Compensation(1)</i> | | <i>Long-term Compensation Awards</i> | | |
|--|-------------|-------------------------------|--------------|---|----------------------------------|--|
| | | <i>Salary</i> | <i>Bonus</i> | <i>Restricted Stock Awards(2)</i> | <i>Number of Options</i> | <i>All Other Compensation(3)</i> |
| Michael R. Sand | 2004 | \$150,000 | \$31,782 | -- | -- | \$50,118 |
| President and Chief Executive | 2003 | 130,000 | 32,557 | -- | -- | 48,421 |
| Officer of the Company and the Bank | 2002 | 120,000 | 23,920 | -- | -- | 39,536 |

(footnotes on following page)

<PAGE>

-
- (1) Does not include certain benefits, the aggregate amounts of which do not exceed the lesser of \$50,000 or 10% of total annual salary and bonus.
- (2) Pursuant to the MRDP, 31,740 shares of restricted Common Stock were awarded to Mr. Sand on July 26, 2001, the award date, which had a value of \$499,270. Dividends are paid on such awards if and when declared and paid by the Company on the Common Stock.

Edgar Filing: TIMBERLAND BANCORP INC - Form DEF 14A

The awards vest pro rata over a five-year period with four 20% installments having vested as of August 1, 2004. At September 30, 2004, the value of the unvested restricted stock awards was \$148,988 (6,348 shares at \$23.47 per share).

- (3) In 2004, includes employer profit sharing contribution (\$18,435) and ESOP contribution (\$31,683), based on the fair market value of the shares).

Option Grants

No stock options were granted to the named executive officer during the fiscal year ended September 30, 2004.

Option Exercise/Value Table

The following information with respect to options exercised during the fiscal year ended September 30, 2004, and remaining unexercised at the end of the fiscal year, is presented for the named executive officer.

| <i>Name</i> | <i>Shares Acquired on Exercise (#)</i> | <i>Value Realized(\$)</i> | <i>Number of Securities Underlying Unexercised Options at Fiscal Year End(#)</i> | | <i>Value of Unexercised In-the-Money Options at Fiscal Year End(\$)(1)</i> | |
|-----------------|--|-------------------------------|--|----------------------|--|----------------------|
| | | | <i>Exercisable</i> | <i>Unexercisable</i> | <i>Exercisable</i> | <i>Unexercisable</i> |
| Michael R. Sand | 20,000 | \$213,730 | 40,350 | -- | \$462,815 | -- |

- (1) Value of unexercised in-the-money options equals market value of shares covered by in-the-money options on September 30, 2004, less the option exercise price. Options are in-the-money if the market value of the shares covered by the options is greater than the option exercise price.

AUDIT COMMITTEE MATTERS

Audit Committee Charter

The Audit Committee operates pursuant to a Charter approved by the Company's Board of Directors. The Audit Committee reports to the Board of Directors and is responsible for overseeing and monitoring financial accounting and reporting, the system of internal controls established by management, the audit process of the Company, and the selection and supervision of the independent auditors. The Audit Committee Charter sets out the responsibilities, authority and specific duties of the Audit Committee. The Charter specifies, among other things, the structure and membership requirements of the Committee, as well as the relationship of the Audit committee to the independent accountants, the internal audit department, and management of the Company.

Report of the Audit Committee

In connection with the specific activities performed by the Committee in its oversight role, it has issued the following report as of November 30, 2004:

- (1) The Audit Committee has reviewed and discussed the audited financial statements as of and for the year ended September 30, 2004 with management of the

Company.

- (2) The Audit Committee has discussed with the independent auditor, McGladrey & Pullen, LLP, the matters required to be discussed by Statement on Auditing Standards Board Standard ("SAS") No. 61, *Communication with Audit Committees*, as amended by SAS No. 90, *Audit Committee*

9

<PAGE>

Communications, including matters related to the conduct of the audit of the Company's financial statements.

- (3) The Audit Committee has received from the independent accountants, as required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, (i) a written disclosure, indicating all relationships, if any, between the independent auditor and its related entities and the Company and its related entities which, in the auditor's professional judgment, reasonably may be thought to bear on the auditor's independence, and (ii) a letter from the independent auditor confirming that, in its professional judgment, it is independent of the Company; and the Audit Committee has discussed with the auditor the auditor's independence from the Company.

Based on the review and discussions referred to in paragraphs (1) through (3) above, the Audit Committee recommended to the Board of Directors that the audited financial statements should be included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2004, for filing with the SEC.

The Audit Committee:

Ronald A. Robbel
David A. Smith
Harold L. Warren (Chairman)

Independence and Other Matters

Each member of the Audit Committee is "independent," as defined under the Nasdaq Stock Market Rules. The Audit Committee members do not have any relationship to the Company that may interfere with the exercise of their independence from management and the Company. None of the Audit Committee members are current officers or employees of the Company or its affiliates.

COMPENSATION COMMITTEE MATTERS

Notwithstanding anything to the contrary set forth in any of the Company's previous filings under the Securities Act of 1933, as amended, or the Exchange Act that might incorporate future filings, including this Proxy Statement, in whole or in part, the following Report of the Compensation Committee and Performance Graph shall not be incorporated by reference into any such filings.

Report of the Compensation Committee. The Compensation Committee of the Company and the Compensation Committee of the Bank ("Committees") administer all policies that govern executive compensation for the Company and the Bank. Because the Company has no employees other than Bank employees who perform

services on behalf of the Company without additional compensation, the Bank's Compensation Committee evaluates individual executive performance, compensation policies and salaries. The Bank's Compensation Committee is responsible for evaluating the performance of the Chief Executive Officer of the Bank, while the Chief Executive Officer of the Bank evaluates the performance of other senior officers of the Bank and makes recommendations to the Committee regarding their compensation levels. The Company's executive compensation policies are intended to retain and attract key executives who are vital to the success of the Company and Bank by providing a compensation package that is competitive in the financial industry and motivational to each individual executive.

In making its recommendations, the Committees consider numerous factors, including the past service of such employee, the present and potential contributions of such employee to the success of the Company and the Bank, and such other factors as the Committees shall deem relevant, including the employee's years of service, position with the Company and the Bank, and other factors. In addition the Committees, in their discretion, may review compensation reports prepared by third parties of companies and banks that are of a similar size and in a similar location in order to

10

<PAGE>

make its recommendations. The Committees do not apply a formula assigning specific weights to any of these factors when making their determination.

Currently, the compensation for executive officers consists principally of a base salary and bonus. In addition, the Bank maintains a 401(k) profit sharing pension plan for all qualifying employees and provides opportunities for employee ownership of Timberland Bancorp, Inc. stock through participation in an employee stock ownership plan. The Bank also maintains a deferred compensation agreement with the former Chief Executive Officer, Clarence E. Hamre.

Base Salary. The Bank's Board of Directors approves an annual base salary for all senior officers and executive officers, based upon recommendations from the Bank's Compensation Committee. Annual base salaries are generally effective October 1st of each year. Factors considered in setting base salaries include the executive's performance, the Company's and the Bank's overall performance and compensation levels in the financial industry, among other factors.

Annual Incentive Bonus. The Bank maintains a discretionary bonus plan, which is based on the Bank's net income for each fiscal year. Under the plan and for the year ended September 30, 2004, Chief Executive Officer Michael R. Sand received 0.5% of the Bank's net income, and the remaining employees received 2.84% of the Bank's net income, distributed based upon each employee's salary to total employees' salaries.

401(k) Profit Sharing Pension Plan. The Bank maintains a tax-qualified 401(k) profit-sharing plan for the benefit of employees with one year of service who have attained age 21. The Bank's annual discretionary contribution historically has been 10% of a qualifying employee's compensation.

Executive Officer Compensation. During the fiscal year ended September 30, 2004, the base salary of the Company's Chief Executive Officer, Michael R. Sand, was \$150,000. In addition, he received an incentive bonus of \$31,782 and was credited with \$50,118 in other compensation as set forth in the preceding Summary Compensation Table. This resulted in total compensation of \$231,900, which represents a 9.9% increase from the previous year. The Board of Directors believes that Mr. Sand's compensation is appropriate based on the Bank's compensation policy, consideration of salaries for similar positions in the financial industry and the Bank's performance during the fiscal year.

Compensation Committee of the Company and the Bank consisting of:

/s/ Jon C. Parker

/s/ Harold L. Warren

Compensation Committee Interlocks and Insider Participation. No members of the Compensation Committee were officers or employees of the Company or any of its subsidiaries during the year ended September 30, 2004, were formerly Company officers or had any relationships otherwise requiring disclosure.

11

<PAGE>

Performance Graph. The following graph compares the cumulative total shareholder return on the Company's Common Stock with the cumulative total return on the Nasdaq U.S. Companies Index and with the SNL \$250 to \$500 Million Asset Thrift Index, a peer group index. Total return assumes the reinvestment of all dividends. The base amount for the Company's Common Stock is \$11.44 per share, which was the closing price on September 30, 1999.

| | Period Ending | | | | | |
|-------|---------------|----------|----------|----------|----------|----------|
| Index | 09-30-99 | 09-30-00 | 09-30-01 | 09-30-02 | 09-30-03 | 09-30-04 |

Edgar Filing: TIMBERLAND BANCORP INC - Form DEF 14A

| | | | | | | |
|---------------------------------|--------|--------|--------|--------|--------|--------|
| Timberland Bancorp, Inc. | 100.00 | 108.40 | 137.70 | 160.30 | 234.75 | 236.24 |
| NASDAQ - Total U.S.* | 100.00 | 133.99 | 54.83 | 43.04 | 65.92 | 70.35 |
| SNL \$250m-\$500 M Thrift Index | 100.00 | 106.09 | 145.88 | 193.94 | 267.84 | 301.51 |

* Source: CRSP, Center for Research in Security Prices, Graduate School of Business, The University of Chicago, 2002. Used with permission. All rights reserved. crsp.com.

12

<PAGE>

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's executive officers and directors, and persons who own more than 10% of any registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the SEC. Executive officers, directors and greater than 10% shareholders are required by regulation to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of such forms it has received and written representations provided to the Company by the above referenced persons, the Company believes that during the fiscal year ended September 30, 2004 all filing requirements applicable to its reporting officers, directors and greater than 10% shareholders were properly and timely complied with.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Current law requires that all loans or extensions of credit to executive officers and directors must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons (unless the loan or extension of credit is made under a benefit program generally available to all other employees and does not give preference to any insider over any other employee) and does not involve more than the normal risk of repayment or present other unfavorable features. The aggregate amount of loans by the Bank to its executive officers and directors was approximately \$1,467,000 at September 30, 2004. Such loans (i) were made in the ordinary course of business, (ii) were made on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the time for comparable transactions with the Bank's other customers, or were available to all other employees under the Bank's employee loan program; and (iii) did not involve more than the normal risk of collectibility or present other unfavorable features when made.

Director Parker is a member of the law firm of Parker, Johnson & Parker, P.S., which serves as general counsel to the Bank and the Company. The Bank paid legal fees of approximately \$54,344 to the firm during the fiscal year ended September 30, 2004 for services rendered to the Bank.

INDEPENDENT AUDITORS

McGladrey & Pullen, LLP, independent public accountants, served as the Company's independent auditors for the fiscal year ended September 30, 2004. The Audit Committee of the Board of Directors has appointed McGladrey & Pullen, LLP as independent auditors for the fiscal year ending September 30, 2005. A representative of McGladrey & Pullen, LLP will be present at the Meeting to respond to appropriate questions from shareholders and will have the opportunity to make a statement if he or she so desires.

Edgar Filing: TIMBERLAND BANCORP INC - Form DEF 14A

The following table sets forth the aggregate fees billed to the Company by McGladrey & Pullen, LLP for professional services rendered for the fiscal years ended September 30, 2004 and 2003.

| | September 30, | |
|--------------------|---------------|----------|
| | 2004 | 2003 |
| Audit Fees | \$130,041 | \$92,037 |
| Audit-Related Fees | 18,500 | 19,523 |
| Tax Fees | 8,550 | 16,024 |
| All Other Fees | 2,927 | 17,194 |
| | 13 | |

<PAGE>

The Audit Committee has established general guidelines for the permissible scope and nature of any permitted non-audit services to be provided by the independent auditors in connection with its annual review of its Charter. Pre-approval may be granted by action of the full Audit Committee or by delegated authority to one or more members of the Audit Committee. If this authority is delegated, all approved non-audit services will be presented to the Audit Committee at its next meeting. In considering non-audit services, the Audit Committee or its delegate will consider various factors, including but not limited to, whether it would be beneficial to have the service provided by the independent auditors and whether the service could compromise the independence of the independent auditors.

OTHER MATTERS

The Board of Directors is not aware of any business to come before the Meeting other than those matters described above in this Proxy Statement. However, if any other matters should properly come before the Meeting, it is intended that proxies in the accompanying form will be voted in respect thereof in accordance with the judgment of the person or persons voting the proxies.

MISCELLANEOUS

The cost of solicitation of proxies will be borne by the Company. The Company will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy material to the beneficial owners of the Company's Common Stock. In addition to solicitations by mail, directors, officers and regular employees of the Company may solicit proxies personally or by telephone without additional compensation.

The Company's Annual Report to Shareholders, which includes the Company's Annual Report on Form 10-K as filed with the SEC, will be mailed on or about December 20, 2004 to shareholders as of the close of business on the Voting Record Date. Any shareholder who has not received a copy of such Annual Report may obtain a copy by writing to the Secretary of the Company. The Annual Report is not to be treated as part of the proxy solicitation material or as having been incorporated herein by reference.

SHAREHOLDER PROPOSALS

Proposals of shareholders intended to be presented at the Company's Meeting to be held in January 2006 must be received by the Company no later than August 23, 2005 to be considered for inclusion in the proxy materials and form of proxy relating to such Meeting. Any such proposals shall be subject to the requirements of the proxy rules adopted under the Exchange Act.

The Company's Articles of Incorporation provide that in order for a shareholder to make nominations for the election of directors or proposals for business to be brought before the Meeting, a shareholder must deliver notice of such nominations and/or proposals to the Secretary not less than 30 nor more than 60 days prior to the date of the Meeting; provided that if less than 31 days' notice of the Meeting is given to shareholders, such written notice must be delivered not later than the close of the tenth day following the day on which notice of the Meeting was mailed to shareholders. The Company anticipates that, in order to be timely, shareholder nominations or proposals intended to be made at the 2005 Meeting must be made by December 24, 2004. As specified in the Articles of Incorporation, the notice with respect to nominations for election of directors must set forth certain information regarding each nominee for election as a director, including such person's name, age, business address and number of shares of Common Stock held, a written consent to being named in the proxy statement as a nominee and to serving as a director, if elected, and certain other information regarding the shareholder giving such notice. The notice with respect to business proposals to be brought

14

<PAGE>

before the Meeting must state the shareholder's name, address and number of shares of Common Stock held, a brief discussion of the business to be brought before the Meeting, the reasons for conducting such business at the Meeting, and any interest of the shareholder in the proposal.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Dean J. Brydon
DEAN J. BRYDON
CORPORATE SECRETARY

Hoquiam, Washington
December 20, 2004

15

<PAGE>

**REVOCABLE PROXY
TIMBERLAND BANCORP, INC.**

**ANNUAL MEETING OF SHAREHOLDERS
JANUARY 25, 2005**

The undersigned hereby appoints the official Proxy Committee of the Board of Directors of Timberland Bancorp, Inc. with full powers of substitution, as attorneys and proxies for the undersigned, to vote all shares of common stock of Timberland Bancorp, Inc. ("Company") which the undersigned is entitled to vote at the Annual Meeting of Shareholders ("Meeting"), to be held at the Hoquiam Timberland Library, 420 7th Street, Hoquiam, Washington, on

Edgar Filing: TIMBERLAND BANCORP INC - Form DEF 14A

Tuesday, January 25, 2005, at 1:00 p.m., local time, and at any and all adjournments thereof, as indicated.

| | | FOR | VOTE WITHHELD |
|----|---|-----|------------------|
| 1. | The election as director of the nominees listed below (except as marked to the contrary below). | [] | [] |
| | Richard R. Morris, Jr. Jon C. Parker James C. Mason | | |

INSTRUCTIONS: To withhold your vote for any individual nominee, write the nominee's name on the line below.

- 2. In their discretion, upon such other matters as may properly come before the meeting

The Board of Directors recommends a vote "FOR" the above proposal.

THIS PROXY WILL BE VOTED AS DIRECTED, BUT IF NO INSTRUCTIONS ARE SPECIFIED, THIS PROXY WILL BE VOTED FOR THE PROPOSITION STATED. IF ANY OTHER BUSINESS IS PRESENTED AT SUCH MEETING, THIS PROXY WILL BE VOTED BY THOSE NAMED IN THIS PROXY IN THEIR BEST JUDGMENT. AT THE PRESENT TIME, THE BOARD OF DIRECTORS KNOWS OF NO OTHER BUSINESS TO BE PRESENTED AT THE MEETING.

<PAGE>

THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS

Should the undersigned be present and elect to vote at the Meeting or at any adjournment thereof and after notification to the Secretary of the Company at the Meeting of the shareholder's decision to terminate this proxy, then the power of said attorneys and proxies shall be deemed terminated and of no further force and effect.

The undersigned acknowledges receipt from the Company prior to the execution of this proxy of the Notice of Annual Meeting of Shareholders, a Proxy Statement for the Annual Meeting of Shareholders, and the 2004 Annual Report to Shareholders.

Dated: _____, _____

PRINT NAME OF SHAREHOLDER

PRINT NAME OF SHAREHOLDER

SIGNATURE OF SHAREHOLDER

SIGNATURE OF SHAREHOLDER

Please sign exactly as your name appears on this proxy card. When signing as attorney, executor, administrator, trustee or guardian, please give your full title. If shares are held jointly, each holder should sign.

PLEASE COMPLETE, DATE, SIGN AND MAIL THIS PROXY PROMPTLY IN THE ENCLOSED POSTAGE-PREPAID ENVELOPE.

<PAGE>