WASHINGTON FEDERAL INC
Form 10-Q
August 08, 2007
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2007

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 0-25454

WASHINGTON FEDERAL, INC.

(Exact name of registrant as specified in its charter)

Washington	**91-1661606**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

425 Pike Street Seattle, Washington 98101

(Address of principal executive offices and zip code)

(206) 624-7930

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

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 x No ¨

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Title of class:	**at August 7, 2007**
Common stock, $1.00 par value	87,332,946

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(UNAUDITED)

	June 30, 2007	September 30, 2006
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	**$ 70,360**	$ 45,722
Available-for-sale securities, including encumbered securities of **$754,104** and $637,855, at fair value	**1,421,570**	1,451,038
Held-to-maturity securities, including encumbered securities of **$117,971** and $129,893, at amortized cost	**143,709**	184,928
Loans receivable, net	**7,970,312**	7,078,443
Interest receivable	**46,042**	42,304
Premises and equipment, net	**74,420**	62,159
Real estate held for sale	**6,200**	3,903
FHLB stock	**132,793**	129,453
Intangible assets, net	**107,834**	56,259
Other assets	**12,885**	14,811
	$ 9,986,125	$ 9,069,020
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Customer accounts		
Savings and demand accounts	**$ 5,937,080**	$ 5,285,708
Repurchase agreements with customers	**17,876**	26,018
	5,954,956	5,311,726
FHLB advances	**1,817,704**	1,500,000
Other borrowings	**800,163**	870,000
Advance payments by borrowers for taxes and insurance	**19,080**	29,505
Federal and state income taxes	**36,026**	39,667
Accrued expenses and other liabilities	**62,780**	55,402
	8,690,709	7,806,300
Stockholders equity		
Common stock, $1.00 par value, 300,000,000 shares authorized; **104,767,132** and 104,467,245 shares issued; **87,360,751** and 87,338,824 shares outstanding	**104,767**	104,467
Paid-in capital	**1,250,684**	1,246,025
Accumulated other comprehensive loss, net of taxes	**(18,222)**	(5,975)
Treasury stock, at cost; **17,406,381** and 17,128,421 shares	**(211,952)**	(204,930)
Retained earnings	**170,139**	123,133
	1,295,416	1,262,720
	$ 9,986,125	$ 9,069,020

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

-3-

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Quarter Ended June 30, 2007	Quarter Ended June 30, 2006	Nine Months Ended June 30, 2007	Nine Months Ended June 30, 2006
	(In thousands, except per share data)			
INTEREST INCOME				
Loans	**$ 135,458**	$ 112,325	**$ 387,929**	$ 321,004
Mortgage-backed securities	**18,677**	17,312	**56,216**	47,405
Investment securities and cash equivalents	**4,485**	5,245	**11,952**	19,694
	158,620	134,882	**456,097**	388,103
INTEREST EXPENSE				
Customer accounts	**63,712**	47,236	**178,697**	127,544
FHLB advances and other borrowings	**28,489**	24,040	**83,399**	67,415
	92,201	71,276	**262,096**	194,959
Net interest income	**66,419**	63,606	**194,001**	193,144
Provision for loan losses	**1,000**	100	**1,200**	185
Net interest income after provision for loan losses	**65,419**	63,506	**192,801**	192,959
OTHER INCOME				
Gain on securities, net			**11**	
Other	**5,230**	4,002	**11,644**	10,796
	5,230	4,002	**11,655**	10,796
OTHER EXPENSE				
Compensation and fringe benefits	**11,577**	9,841	**31,991**	27,115
Occupancy	**2,300**	2,030	**6,454**	5,959
Other	**3,340**	1,925	**8,779**	6,906
	17,217	13,796	**47,224**	39,980
Gain (loss) on real estate acquired through foreclosure, net	**(17)**	39	**139**	184
Income before income taxes	**53,415**	53,751	**157,371**	163,959
Income taxes	**19,150**	18,414	**56,239**	56,136
NET INCOME	**$ 34,265**	$ 35,337	**$ 101,132**	$ 107,823
PER SHARE DATA				
Basic earnings	**$ 0.39**	$ 0.41	**$ 1.16**	$ 1.25
Diluted earnings	**.39**	.40	**1.15**	1.24
Cash dividends	**.210**	.205	**.620**	.605
Weighted average number of shares outstanding, including dilutive stock options	**87,514,339**	87,502,860	**87,602,549**	87,428,766

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

-4-

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended June 30, 2007	June 30, 2006
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 101,132**	$ 107,823
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of fees, discounts, premiums and intangible assets, net	**445**	4,248
Depreciation	**2,345**	2,080
Stock option compensation expense	**831**	1,245
Provision for loan losses	**1,200**	185
Gain on investment securities and real estate held for sale, net	**(150)**	(184)
Increase in accrued interest receivable	**(1,751)**	(5,348)
Increase in income taxes payable	**2,886**	989
FHLB stock dividends	**(68)**	
Decrease (increase) in other assets	**2,423**	(6,115)
Increase (decrease) in accrued expenses and other liabilities	**599**	(4,828)
Net cash provided by operating activities	**109,892**	100,095
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans originated		
Single-family residential loans	**(854,421)**	(799,450)
Construction loans	**(423,595)**	(550,368)
Land loans	**(364,269)**	(333,321)
Multi-family loans	**(64,716)**	(106,222)
Commercial real estate loans	**(8,983)**	
Other loans	**(10,553)**	
	(1,726,537)	(1,789,361)
Savings account loans originated	**(3,757)**	(1,639)
Loan principal repayments	**1,303,605**	1,302,514
Increase (decrease) in undisbursed loans in process	**(59,199)**	27,819
Loans purchased	**(6,163)**	(348,856)
FHLB stock redeemed	**1,256**	
Available-for-sale securities purchased	**(202,714)**	(518,386)
Principal payments and maturities of available-for-sale securities	**213,198**	125,259
Available-for-sale securities sold	**44,041**	
Principal payments and maturities of held-to-maturity securities	**41,400**	22,382
Net cash paid out for acquistion	**(35,221)**	
Proceeds from sales of real estate held for sale	**2,000**	1,602
Premises and equipment purchased, net	**(1,146)**	(2,867)
Net cash used by investing activities	**(429,237)**	(1,181,533)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in customer accounts	**263,725**	252,454
Net increase in borrowings	**148,894**	315,000
Proceeds from exercise of common stock options	**3,434**	3,306
Dividends paid	**(54,126)**	(52,820)

Proceeds from Employee Stock Ownership Plan		**990**		1,344
Treasury stock purchased, net		**(7,542)**		
Decrease in advance payments by borrowers for taxes and insurance		**(11,392)**		(9,896)
Net cash provided by financing activities		**343,983**		509,388
Increase (decrease) in cash and cash equivalents		**24,638**		(572,050)
Cash and cash equivalents at beginning of period		**45,722**		637,791
Cash and cash equivalents at end of period	**$**	**70,360**	$	65,741
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Non-cash investing activities				
Real estate acquired through foreclosure	**$**	**4,066**	$	708
Cash paid during the period for				
Interest		**260,495**		194,564
Income taxes		**53,542**		55,859

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended June 30, 2007 (In thousands)	Nine Months Ended June 30, 2006 (In thousands)
The following summarizes the non-cash activities relating to the acquisition		
Fair value of assets and intangibles acquired, including goodwill	**$ (576,750)**	$
Fair value of liabilities assumed	**480,033**	
Cash paid out for acquisition	**(96,717)**	
Plus cash acquired	**61,496**	
Net cash paid out for acquisition	**$ (35,221)**	$

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

-6-

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

QUARTER AND NINE MONTHS ENDED JUNE 30, 2007 AND 2006

(UNAUDITED)

NOTE A Basis of Presentation

The consolidated unaudited interim financial statements included in this report have been prepared by Washington Federal, Inc. (Company). The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from these estimates. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation are reflected in the interim financial statements. The September 30, 2006 Consolidated Statement of Financial Condition was derived from audited financial statements.

The information included in this Form 10-Q should be read in conjunction with Company s 2006 Annual Report on Form 10-K (2006 Form 10-K) as filed with the SEC. Interim results are not necessarily indicative of results for a full year.

NOTE B Acquisitions

On February 13, 2007, the Company acquired 100% of the outstanding shares of First Federal Banc of the Southwest, Inc. (First Federal). The merger agreement provided for the merger of First Federal with and into the Company, followed by the merger of First Federal Bank, a federal savings bank and wholly owned subsidiary of First Federal, into the Company s wholly owned subsidiary, Washington Federal Savings and Loan Association. As a result of the acquisition, Washington Federal added 180 employees and 13 branches; 11 in New Mexico and 2 in El Paso, Texas. The acquisition was accounted for as a purchase transaction with the total cash consideration funded through internal sources. The all-cash purchase price was $96,717,000. The purchase price has been allocated to the underlying assets and liabilities based on estimated fair values at the date of acquisition. Results of operations are included from the date of acquisition. The Company acquired assets with an estimated fair value of $576,750,000 and assumed liabilities with an estimated fair value of $480,033,000. The acquisition produced goodwill of $47,923,000 and a core deposit intangible of $4,882,000.

The balance of the Company s intangible assets was as follows:

	Goodwill	Core Deposit Intangible	Non-Compete Agreements	Total
		(In thousands)		
Balance at September 30, 2005	$ 54,484	$ 2,440	$ 335	$ 57,259
Amortization		(885)	(115)	(1,000)
Balance at September 30, 2006	54,484	1,555	220	56,259
First Federal acquisition	47,923	4,882		52,805
Amortization		(1,144)	(86)	(1,230)
Balance at June 30, 2007	$ 102,407	$ 5,293	$ 134	$ 107,834

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

QUARTER AND NINE MONTHS ENDED JUNE 30, 2007 AND 2006

(UNAUDITED)

The table below presents the estimated intangible asset amortization expense for the next four years (at which time all current intangible assets will be fully amortized):

Year ended September 30,	Amortization expense (In thousands)
2007	$ 589
2008	2,220
2009	1,916
2010	702

On July 2, 2007, the Company announced the signing of a definitive merger agreement to acquire First Mutual Bancshares (First Mutual). The merger agreement calls for the merger of First Mutual with and into the Company, followed by the merger of First Mutual Bank into the Company s wholly owned subsidiary, Washington Federal Savings, in a stock and cash transaction valued at approximately $189.8 million. First Mutual, headquartered in Bellevue, Washington with 12 branches in the greater Bellevue area, had total assets of $1.06 billion, total deposits of $771.6 million and total stockholders equity of $72.3 million as of March 31, 2007. The transaction is expected to close in the fourth calendar quarter of 2007, pending the receipt of all requisite regulatory approvals and the approval of First Mutual s shareholders.

NOTE C Dividends

On July 20, 2007 the Company paid its 98th consecutive quarterly cash dividend. Dividends per share amounted to 21.0 cents for the quarter ended June 30, 2007 compared with 20.5 cents for the same period one year ago.

NOTE D Comprehensive Income

The Company s comprehensive income includes all items which comprise net income plus the unrealized gains (losses) on available-for-sale securities. Total comprehensive income for the quarters ended June 30, 2007 and 2006 totaled $18,476,000 and $20,328,000, respectively. Total comprehensive income for the nine months ended June 30, 2007 and 2006 totaled $88,885,000 and $78,650,000, respectively. The difference between the Company s net income and total comprehensive income for the nine months ended June 30, 2007 equals the change in the net unrealized gain or loss on available-for-sale securities of $19,362,000. Net of tax of $7,115,000, the change was $12,247,000.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

QUARTER AND NINE MONTHS ENDED JUNE 30, 2007 AND 2006

(UNAUDITED)

NOTE E Allowance for Losses on Loans

The following table summarizes the activity in the allowance for loan losses for the quarter and nine months ended June 30, 2007 and 2006:

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
	(In thousands)			
Balance at beginning of period	$ 27,997	$ 24,810	$ 24,993	$ 24,756
Provision for (reversal of) loan losses	1,000	100	1,200	185
Charge-offs	(190)		(509)	(31)
Recoveries	3		3	
Acquired reserves			3,123	
Balance at end of period	$ 28,810	$ 24,910	$ 28,810	$ 24,910

-9-

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I Financial Information

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
FORWARD LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q includes certain forward-looking statements, as defined in the Securities Act of 1933 and the Securities Exchange Act of 1934, based on current management expectations. Actual results could differ materially from those management expectations. Such forward-looking statements include statements regarding the Company s intentions, beliefs or current expectations as well as the assumptions on which such statements are based. Stockholders and potential stockholders are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Factors that could cause future results to vary from current management expectations include, but are not limited to: general economic conditions; legislative and regulatory changes; monetary fiscal policies of the federal government; changes in tax policies; rates and regulations of federal, state and local tax authorities; changes in interest rates; deposit flows; cost of funds; demand for loan products; demand for financial services; competition; changes in the quality or composition of the Company s loan and investment portfolios; changes in accounting principles; policies or guidelines and other economic, competitive, governmental and technological factors affecting the Company s operations, markets, products, services and fees. The Company undertakes no obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

GENERAL

Washington Federal, Inc. (Company) is a savings and loan holding company. The Company s primary operating subsidiary is Washington Federal Savings.

INTEREST RATE RISK

The Company assumes a high level of interest rate risk as a result of its policy to originate and hold for investment fixed-rate single-family home loans, which are longer-term in nature than the short-term characteristics of its liabilities of customer accounts and borrowed money. At June 30, 2007, the Company had a negative one-year maturity gap of approximately 33% of total assets, compared to a 34% negative one-year maturity gap as of September 30, 2006.

The interest rate spread decreased to 2.12% at June 30, 2007 from 2.18% at September 30, 2006. The spread decreased primarily because weighted average rates on customer accounts increased by 27 basis points since September 30, 2006, however this was partially offset by an increase in the weighted average rates on earning assets of 11 basis points over the same period. As of June 30, 2007, the Company had grown total assets by $917,105,000, or 10.1%, from $9,069,020,000 at September 30, 2006, which included $576,750,000 of assets acquired through the merger with First Federal (see Note B). Cash and cash equivalents increased $24,638,000, or 53.9%, during the nine months ended June 30, 2007. Loans and mortgage-backed securities increased $1,077,832,000, or 12.7%, to $9,535,591,000 during the nine months ended June 30, 2007 as the Company grew long-term assets to mitigate the impact of increasing deposit costs. Included in the

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I Financial Information

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

aforementioned $1,077,832,000 increase in loans and mortgage-backed securities was $403,000,000 of loans acquired from First Federal. The remaining $674,832,000 of loan growth was funded primarily through organic deposit growth of $263,725,000 and a net increase in borrowings of $148,894,000. Cash and cash equivalents of $70,360,000 and stockholders equity of $1,295,416,000 provides management with flexibility in managing interest rate risk.

LIQUIDITY AND CAPITAL RESOURCES

The Company s net worth at June 30, 2007 was $1,295,416,000, or 12.97% of total assets. This was an increase of $32,696,000 from September 30, 2006 when net worth was $1,262,720,000, or 13.92% of total assets. The increase in the Company s net worth included $101,132,000 from net income. Net worth was reduced by $54,126,000 of cash dividend payments, a $12,247,000 increase in accumulated other comprehensive loss as a result of a decrease in market value of the Company s available-for-sale investments and $7,542,000 used to repurchase stock.

The Company s percentage of net worth to total assets is among the highest in the industry and is over three times the minimum required under Office of Thrift Supervision regulations. Management believes this strong net worth position will help the Company manage its interest rate risk and enable it to compete more effectively for controlled growth through acquisitions, de novo expansion and increased customer deposits.

CHANGES IN FINANCIAL CONDITION

Available-for-sale and held-to-maturity securities: Available-for-sale securities decreased $29,468,000, or 2.0%, during the nine months ended June 30, 2007. For the nine months ended June 30, 2007 the Company purchased $247,971,000 of available-for-sale investment securities, which included $45,257,000 of securities acquired from First Federal. During the same period $44,041,000 of available-for-sale securities that were acquired in the purchase of First Federal were sold resulting in an $11,000 gain. There were no purchases or sales of held-to-maturity securities during the current period. As of June 30, 2007, the Company had net unrealized losses on available-for-sale securities of $18,222,000, net of tax, which were recorded as part of stockholders equity.

Loans receivable: During the nine months ended June 30, 2007, the balance of loans receivable increased 12.6% to $7,970,312,000 compared to $7,078,443,000 at September 30, 2006. Included in this growth was $403,000,000 of loans acquired from First Federal (see Note B). Those loans, in conjunction with the $488,869,000 of organic growth, was consistent with Management s strategy to grow the loan portfolio to mitigate rising deposit costs. Permanent single-family residential loans as a percentage of total loans decreased to 69.1% at June 30, 2007 compared to 70.3% at September 30, 2006. The aggregate of construction and land loans (gross of loans in process) as a percentage of total loans increased to 22.9% at June 30, 2007 compared to 22.8% at September 30, 2006. Included in the period end gross loans balance was $139,820,000 of commercial real estate loans and other loans (non-real estate commercial loans and consumer loans) acquired through the merger with First Federal, which represented 1.6% of the total loan balance.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I Financial Information

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

Non-performing assets: Non-performing assets increased 57.6% during the nine months ended June 30, 2007 to $12,074,000 from $7,660,000 at September 30, 2006. Non-performing assets as a percentage of total assets was .12% at June 30, 2007 compared to .08% at September 30, 2006. During the last ten years the Company s average ratio of non-performing assets to total assets was .35%.

The following table sets forth information regarding restructured and nonaccrual loans and REO held by the Company at the dates indicated.

	June 30, 2007	September 30, 2006
	(In thousands)	
Restructured loans (1)	$ 256	$
Nonaccrual loans:		
Single-family residential	8,056	5,700
Construction	682	1,002
Land	132	126
Multi-family	149	353
Commercial real estate	286	
Other	29	
Total nonaccrual loans (2)	9,334	7,181
Total REO (3)	2,740	479
Total non-performing assets	$ 12,074	$ 7,660
Total non-performing assets and restructured loans	$ 12,330	$ 7,660
Total non-performing assets and restructured loans as a percentage of total assets	0.12%	0.08%

(1) Performing in accordance with restructured terms.

(2) The Company recognized interest income on nonaccrual loans of approximately $406,000 in the quarter ended June 30, 2007. Had these loans performed according to their original contract terms, the Company would have recognized interest income of approximately $526,000 for the quarter ended June 30, 2007.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I Financial Information

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

In addition to the nonaccrual loans reflected in the above table, at June 30, 2007, the Company had $15,952,000 of loans that were less than 90 days delinquent but which it had classified as substandard for one or more reasons. If these loans were deemed nonperforming, the Company s ratio of total nonperforming assets and restructured loans as a percent of total assets would have increased to .28% at June 30, 2007.

(3) Total REO (included in real estate held for sale on the Statement of Financial Condition) includes real estate held for sale acquired in settlement of loans or acquired from purchased institutions in settlement of loans.

Allocation of the allowance for loan losses: The following table shows the allocation of the Company s allowance for loan losses at the dates indicated.

	June 30, 2007		September 30, 2006	
	Amount	Loans to Total Loans[1]	Amount	Loans to Total Loans[1]
	(In thousands)			
Real estate:				
Single-family residential	$ 10,510	69.1%	$ 8,397	70.3%
Multi-family	5,109	6.4	5,061	6.9
Land	5,270	9.9	4,829	8.0
Construction	6,158	13.0	6,706	14.8
Commercial real estate	1,338	1.2		
Other	425	0.4		
	$ 28,810	100.0%	$ 24,993	100.0%

1 The percentage is based on gross loans before allowance for loan losses, loans in process and deferred loan origination costs.

Customer accounts: Customer accounts increased $643,230,000, or 12.1%, to $5,954,956,000 at June 30, 2007 compared with $5,311,726,000 at September 30, 2006. The increase included $379,505,000 of deposits acquired through the merger with First Federal (see Note B) and organic growth of $263,725,000.

FHLB advances and other borrowings: Total borrowings increased $247,867,000, or 10.5%, to $2,617,867,000 at June 30, 2007 compared with $2,370,000,000 at September 30, 2006. The increase included $150,000,000 of short-term borrowings (due within 30 days) and $98,973,000 of total borrowings acquired through the merger with First Federal (see Note B). See Interest Rate Risk on page 10.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I Financial Information

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

RESULTS OF OPERATIONS

Net Income: The quarter ended June 30, 2007 produced net income of $34,265,000 compared to $35,337,000 for the same quarter one year ago, a 3.0% decrease. Net income for the nine months ended June 30, 2007 was $101,132,000 compared to $107,823,000 for the nine months ended June 30, 2006, a 6.2% decrease. The decrease for the quarter and nine months ended June 30, 2007 resulted primarily from higher operating expenses and taxes resulting from the acquisition of First Federal (See Note B).

Net Interest Income: The largest component of the Company s earnings is net interest income, which is the difference between the interest and dividends earned on loans and other investments and the interest paid on customer deposits and borrowings. Net interest income is impacted primarily by two factors; first, the volume of earning assets and liabilities and second, the rate earned on those assets or the rate paid on those liabilities.

The following table sets forth certain information explaining changes in interest income and interest expense for the periods indicated compared to the same periods one year ago. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to (1) changes in volume (changes in volume multiplied by old rate) and (2) changes in rate (changes in rate multiplied by old volume). The change in interest income and interest expense attributable to changes in both volume and rate has been allocated proportionately to the change due to volume and the change due to rate.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I Financial Information

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

Rate / Volume Analysis:

	Comparison of Quarters Ended 6/30/07 and 6/30/06			Comparison of Nine Months Ended 6/30/07 and 6/30/06		
	Volume	Rate	Total	Volume	Rate	Total
			(In thousands)			
Interest income:						
Loan portfolio	$ 20,417	$ 2,716	$ 23,133	$ 57,615	$ 9,310	$ 66,925
Mortgaged-backed securities	1,015	350	1,365	7,175	1,636	8,811
Investments(1)	(1,369)	609	(760)	(9,156)	1,414	(7,742)
All interest-earning assets	20,063	3,675	23,738	55,634	12,360	67,994
Interest expense:						
Customer accounts	7,208	9,268	16,476	14,301	36,852	51,153
FHLB advances and other borrowings	4,343	106	4,449	15,232	752	15,984
All interest-bearing liabilities	11,551	9,374	20,925	29,533	37,604	67,137
Change in net interest income	$ 8,512	$ (5,699)	$ 2,813	$ 26,101	$ (25,244)	$ 857

(1) Includes interest on cash equivalents and dividends on FHLB stock

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I Financial Information

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

Provision for Loan Losses: The Company recorded a $1,000,000 provision for loan losses during the quarter ended June 30, 2007, while a $100,000 provision was recorded for the same quarter one year ago. Non-performing assets amounted to $12,074,000 or .12% of total assets at June 30, 2007 compared to $6,243,000 or .07% of total assets one year ago. Total delinquencies over 30 days were $18,061,000, or .18% of total assets at June 30, 2007 compared to $13,594,000, or .14% of total assets at June 30, 2006. The increased provision was the result of increased loan balances as well as higher non-performing asset balances. The Company had net charge-offs of $187,000 for the quarter ended June 30, 2007 compared with no net charge-offs for the quarter ended June 30, 2006.

The following table analyzes the Company s allowance for loan losses at the dates indicated.

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
	(In thousands)			
Beginning balance	$ 27,997	$ 24,810	$ 24,993	$ 24,756
Charge-offs:				
Real Estate:				
Single-family residential				31
Multi-family			34	
Land			23	
Construction	190		452	
Commercial real estate				
Other				
	190		509	31
Recoveries:				
Real Estate:				
Single-family residential				
Multi-family				
Land				
Construction				
Commercial real estate				
Other	3		3	
	3		3	
Net charge-offs (recoveries)	187		506	31
Provision (reversal of reserve) for loan losses	1,000	100	1,200	185
Acquired reserves			3,123	
Ending balance	$ 28,810	$ 24,910	$ 28,810	$ 24,910
Ratio of net charge-offs to average loans outstanding	0.00%	0.00%	0.01%	0.00%

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I Financial Information

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

Other Income: The quarter ended June 30, 2007 produced total other income of $5,230,000 compared to $4,002,000 for the same quarter one year ago, a 30.7% increase. Total other income for the nine months ended June 30, 2007 was $11,655,000 compared to $10,796,000 for the nine months ended June 30, 2006, an 8.0% increase. Total other income for the quarter and nine months ended June 30, 2007 included a $1,756,000 and $2,481,000 gain on the sale of real estate held for investment, respectively, while total other income for the quarter and nine months ended June 30, 2006 included a $461,000 and $1,210,000 gain on the sale of real estate held for investment, respectively.

Other Expense: The quarter ended June 30, 2007 produced total other expense of $17,217,000 compared to $13,796,000 for the same quarter one year ago, a 24.8% increase. Total other expense for the nine months ended June 30, 2007 was $47,224,000 compared to $39,980,000 for the nine months ended June 30, 2006, an 18.1% increase. The increase in total other expense over the same comparable periods one year ago was primarily the result of compensation costs related to the additional employees brought on through the acquisition with First Federal, as well as higher organic payroll expenses. Additionally, general occupancy expenses and data processing costs increased due to the First Federal acquisition. Total other expense for the quarter and nine months ended June 30, 2007 equaled .70% and .66%, respectively, of average assets, compared to .64% and .63%, respectively, for the same periods one year ago. The number of staff, including part-time employees on a full-time equivalent basis, was 898 at June 30, 2007 and 761 at June 30, 2006; the increase primarily due to the acquisition of First Federal (see Note B).

Taxes: Income taxes increased $736,000, or 4.0%, and $103,000, or 0.2%, for the quarter and nine months ended June 30, 2007, respectively, when compared to the same periods one year ago. While the taxable income base for the quarter and nine months ended June 30, 2007 was $336,000, or 0.6%, and $6,588,000, or 4.0%, respectively, lower than the comparable periods one year ago, the Company settled a claim with the Internal Revenue Service during the nine months ended June 30, 2006 over the deductibility of supervisory goodwill that resulted in a reduction of income tax expense for that period. As a result, the effective tax rate for the quarter and nine months ended June 30, 2007 increased to 35.85% and 35.74%, respectively, from 34.20% for the same periods one year ago. The Company expects a 35.85% effective tax rate going forward for the remainder of the fiscal year.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Management believes that there have been no material changes in the Company s quantitative and qualitative information about market risk since September 30, 2006. For a complete discussion of the Company s quantitative and qualitative market risk, see Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s 2006 Form 10-K.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I Financial Information

Item 4. Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s President and Chief Executive Officer along with the Company s Senior Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 (Exchange Act) Rule 13a-15. Based upon that evaluation, the Company s President and Chief Executive Officer, along with the Company s Senior Vice President and Chief Financial Officer, concluded that the Company s disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company s periodic SEC filings. There have been no significant changes in the Company s internal controls or in other factors that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Disclosure controls and procedures are Company controls and other procedures that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files under the Exchange Act is accumulated and communicated to the Company s management, including its President and Chief Executive Officer and Senior Vice President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART II Other Information

Item 1. Legal Proceedings

From time to time the Company or its subsidiaries are engaged in legal proceedings in the ordinary course of business, none of which are considered to have a material impact on the Company s financial position or results of operations.

Item 1A. Risk Factors

Not applicable

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

The following table provides information with respect to purchases made by or on behalf of the Company of the Company s common stock during the three months ended June 30, 2007.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (1)	Maximum Number of Shares That May Yet Be Purchased Under the Plan at the End of the Period
April 1, 2007 to April 30, 2007	71,700	$ 23.59	71,700	2,988,314
May 1, 2007 to May 31, 2007				2,988,314
June 1, 2007 to June 30, 2007				2,988,314
Total	71,700	$	71,700	2,988,314

(1) The Company s only stock repurchase program was publicly announced by the Board of Directors on February 3, 1995 and has no expiration date. Under this ongoing program, a total of 21,956,264 shares have been authorized for repurchase.

Item 3. Defaults Upon Senior Securities

Not applicable

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART II Other Information

Item 4. Submission of Matters to a Vote of Security Holders
Not applicable

Item 5. Other Information
Not applicable

Item 6. Exhibits

(a) Exhibits

31.1 Section 302 Certification by the Chief Executive Officer

31.2 Section 302 Certification by the Chief Financial Officer

32 Section 906 Certification by the Chief Executive Officer and the Chief Financial Officer

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

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.

August 8, 2007	/s/ Roy M. Whitehead ROY M. WHITEHEAD Chairman, President and Chief Executive Officer
August 8, 2007	/s/ Brent J. Beardall BRENT J. BEARDALL Senior Vice President and Chief Financial Officer

-21-