

SECURITIES AND EXCHANGE COMMISSION

FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **1999-07-27** | Period of Report: **1999-06-30**
SEC Accession No. **0000875270-99-000005**

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FILER

TIMBERLINE BANCSHARES INC

CIK: **875270** | IRS No.: **680269988** | State of Incorpor.: **CA** | Fiscal Year End: **1231**
Type: **10QSB** | Act: **34** | File No.: **000-29680** | Film No.: **99670713**
SIC: **6022** State commercial banks

Mailing Address
PO BOX 1087
YREKA CA 96097

Business Address
123 NORTH MAIN ST
PO BOX 1087
YREKA CA 96097
9168426191

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

Form 10-QSB

X QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended JUNE 30, 1999

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from to

Commission file number 33-40799

TIMBERLINE BANCSHARES, INC.

(Exact name of small business issuer as specified in its charter)

California 68-0269988
(State or other jurisdiction of (IRS Employer Identification No.)
of incorporation or organization)

123 N. Main Street P. O. Box 1087, Yreka, Ca 96097
(Address of principal executive offices)

(530) 842-6191
(Issuer's telephone number)

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

Check whether the issuer (1) filed all reports required to be filed by Section
13 or 15(d) of the Exchange Act during the past 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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and report required to be filed
by Section 12, 13 or 15(d) of the Exchange Act after the distribution of
securities under a plan confirmed by a court. Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 1,006,810

PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

TIMBERLINE BANCSHARES, INC.
CONSOLIDATED INCOME STATEMENT

Periods Indicated

	QUARTER 6/30/99	YTD 6/30/99	QUARTER 6/30/98	YTD 6/30/98
INTEREST AND FEES ON LOANS	1,206	2,447	1,240	2,453
INTEREST AND DIVIDENDS ON INVESTMENT SECURITIES				
HELD FOR SALE	226	406	197	368
HELD TO MATURITY	56	122	100	219
TRADING ACCOUNT INTEREST	-	-	-	-
OTHER INTEREST	106	244	159	323
TOTAL INTEREST INCOME	1,594	3,219	1,696	3,363
INTEREST ON DEPOSITS	556	1,126	609	1,189
INTEREST ON SHORT TERM BORROWING	-	-	-	-
INTEREST ON LONG TERM DEBT	-	-	-	-
TOTAL INTEREST EXPENSE	556	1,126	609	1,189
NET INTEREST INCOME	1,038	2,093	1,087	2,174
PROVISION FOR LOAN LOSSES	(12)	18	18	38
NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN LOSSES	1,050	2,075	1,069	2,136
OTHER INCOME	103	208	106	214
OTHER EXPENSES	903	1,826	872	1,797
INCOME BEFORE TAX	250	457	303	553
INCOME TAX EXPENSE	51	114	68	128
INCOME BEFORE EXTRAORDINARY ITEMS	199	343	235	425
EXTRAORDINARY ITEM NET OF TAX				
CUMULATIVE EFFECT OF ACCOUNTING CHANGES				
NET INCOME	199	343	235	425
EARNINGS PER SHARE	0.20	0.34	0.23	0.42

Note 1: The financial statements in this report are unaudited but, in the opinion of management of the Corporation reflect all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of financial position, results of operations, and changes in financial position for the periods presented.

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Item 2. Management's Discussion

(a) Plan of Operation

Timberline Bancshares management is an ?overlay? of its wholly-owned subsidiary, Timberline Community Bank, and therefore shares the same concepts regarding growth of the institution, protection and preservation of assets, shareholder enhancement, and fulfilling the joint mission statement to assist the communities which we serve.

For further enhancement of shareholders value, management is pursuing the possibility of opening, de novo, a bank in Southern Oregon in the early part of 2000. The Bank currently serves customers in Southern Oregon in the lending capacity through the Loan Production Office. This would make Timberline Bancshares, inc., a multi-bank multi-state entity.

(b) Management's Discussion and Analysis of Financial condition and Results of Operations

Net interest income has declined in the first half of 1999 as the Bank, and community banks across the nation, has been caught in the interest crunch created by the low prime rate. To maintain market share, the bank must pay it?s depositors at a comparable rate of other community banks. Conversely, the rates charged on loans must also be competitive with other financial institutions. Consequently, the net interest spread suffers and income is reduced.

While economic indicators report the nation?s unemployment rate at 4.7% Siskiyou County has a current unemployment rate of 11.6%. The county has been in an economic downturn for years as it?s main economy was based on timber products and services.

In view of those economic conditions , the Bank has accelerated its program of buying participations from other financial institutions outside its normal lending area. Through this program, the bank has increased the loan to deposit ratio somewhat and expects an increase in income from lending in the second half of the year. In addition, the bank?s loan delinquency has remained well below .06 percent so the bank reclaimed a portion of the excessive loan loss reserve in the second quarter.

As a relatively small bank in a sparsely populated county, the bank does not offer mutual funds or insurance as an avenue of enhancing income. Nor has the bank greatly increased service fees to its customers, but has relied on the traditional banking revenue sources; i.e. income from lending.

The bank has also been addressing the Y2K situation diligently, being on schedule with the guidelines established by the regulatory authorities including necessary upgrading of equipment and application testing. The bank is also offering seminars on the Y2K to all business located in Siskiyou County. The cost of these programs and the increased personnel to handle same are reflected in the nominal increase in other operating expenses.

In addition, the Bank has continued its dividend program paying a \$.25 per share cash dividend to shareholders of record in the second quarter of the year

TIMBERLINE BANCSHARES, INC.
CONSOLIDATED BALANCE SHEET
6/30/99

ASSETS	
CASH & DUE FROM BANKS	\$ 7,243
INTEREST BEARING DEPOSITS IN OTHER	100
FED FUNDS & RESALE SECURITY AGREE	1,600
TRADING ACCOUNT ASSETS	-
OTHER SHORT TERM	2,030
INVESTMENT SECURITIES	
HELD FOR SALE	17,509
MATURITY	4,285
LOANS TOTAL	53,693
ALLOWANCE FOR LOAN LOSSES	(397)
UNEARNED INCOME	(122)
PREMISES & EQUIPMENT	1,940
DUE FROM CUSTOMERS, ACCEPTANCES	-
OTHER ASSETS	2,803
TOTAL	\$ 90,684

LIABILITIES	
DEPOSITS, NON-INTREST BEARING	\$ 16,667
INTEREST BEARING	65,629
SHORT TERM BORROWING	-
BANK ACCEPTANCES	-
OTHER LIABILITIES	680
LONG TERM DEBT	-
COMMITMENTS & CONTINGENT LIAB	-
MINORITY INTERESTS	-

SHAREHOLDER EQUITY	
PERFERED STOCK	-
COMMON STOCK	2,993
OTHER S/H EQUITY	4,715
TOTAL	\$ 90,684

Note: Held for Sell amount includes unrealized gain of \$(427)

TIMBERLINE BANCSHARES, INC.
CONSOLIDATED CASH FLOWS

CASH FLOW FROM OPERATING ACT	YTD 6/30/99	YTD 6/30/98
NET INCOME	343	425
NON-CASH	-	-
DEPRECIATION	107	153
NET CHANGE BAD DEBTS PROV	18	-14
CUMU EFFECT ACCTG CH	-	-
(INCREASE) DECREASE IN OTHER ASSETS	-1072	370
INCREASE (DECREASE) IN ACCRUED EXPENSES	27	36
CASH PROVIDED BY OPS	-577	970
CASH FROM INVESTING		
INCREASE (DECREASE) IN DEPOSITS	297	2187
(INCREASE) DECREASE IN SHORT TERM INVESTMENTS	-669	-27
SECURITIES: FOR SALE	-4468	-992
HOLD	1253	723
FED FUNDS	8200	-2100
LOANS	-1289	-551
(PURCHASE) SALE OF F.A.	-38	-577
CASH (USED) PROVIDED	3286	-1337
CASH FROM FINANCING	-	-
DIVIDENDS PAID	-252	-252
ADDITIONAL PD IN CAP	-	-

CASH (APPLIED) PROVIDED	-252	-252
NET CHANGE	2457	-619
OPEN	4886	5224
CLOSE	7343	4605

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PART 11 - OTHER INFORMATION

Item 1. Legal Proceedings

There are no legal proceedings pending other than those in the normal course of doing business that may have a material impact on the bank.

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

None

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TIMBERLINE BANCSHARES, INC.

Date 7/27/99

ss/Robert J. Youngs
Robert J. Youngs, President & CEO

Date 7/27/99

ss/Helen L. Gualden
Helen L. Gualden, Sr. V. P. & Treasurer

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