

WASHINGTON FEDERAL INC  
Form 10-Q  
May 07, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 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

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**WASHINGTON FEDERAL, INC.**

(Exact name of registrant as specified in its charter)

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Washington  
(State or other jurisdiction of

incorporation or organization)

425 Pike Street Seattle, Washington 98101

(Address of principal executive offices and zip code)

91-1661606  
(I.R.S. Employer

Identification No.)

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(206) 624-7930

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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  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

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:**  
Common stock, \$1.00 par value

**at May 2, 2007**  
**87,332,946**

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

**PART I**

Item 1. Financial Statements (Unaudited)

The Condensed Consolidated Financial Statements of Washington Federal, Inc. and Subsidiaries filed as a part of the report are as follows:

Consolidated Statements of Financial Condition as of March 31, 2007 and September 30, 2006 Page 3

Consolidated Statements of Operations for the quarter and six months ended March 31, 2007 and 2006 Page 4

Consolidated Statements of Cash Flows for the six months ended March 31, 2007 and 2006 Page 5

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**Table of Contents****WASHINGTON FEDERAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****(UNAUDITED)**

	March 31, 2007	September 30, 2006
	(In thousands, except share data)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 209,500	\$ 45,722
Available-for-sale securities, including encumbered securities of \$ 763,756 and \$637,855, at fair value	1,365,900	1,451,038
Held-to-maturity securities, including encumbered securities of \$ 121,528 and \$129,893, at amortized cost	147,921	184,928
Loans receivable, net	7,773,994	7,078,443
Interest receivable	44,462	42,304
Premises and equipment, net	75,208	62,159
Real estate held for sale	5,198	3,903
FHLB stock	133,981	129,453
Intangible assets, net	108,392	56,259
Other assets	13,239	14,811
	<b>\$ 9,877,795</b>	<b>\$ 9,069,020</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Liabilities</b>		
Customer accounts		
Savings and demand accounts	\$ 5,956,366	\$ 5,285,708
Repurchase agreements with customers	22,739	26,018
	5,979,105	5,311,726
FHLB advances	1,670,060	1,500,000
Other borrowings	800,167	870,000
Advance payments by borrowers for taxes and insurance	23,499	29,505
Federal and state income taxes	46,467	39,667
Accrued expenses and other liabilities	63,667	55,402
	<b>8,582,965</b>	<b>7,806,300</b>
<b>Stockholders equity</b>		
Common stock, \$1.00 par value, 300,000,000 shares authorized; 104,661,324 and 104,467,245 shares issued;		
87,326,643 and 87,338,824 shares outstanding	104,661	104,467
Paid-in capital	1,248,691	1,246,025
Accumulated other comprehensive loss, net of taxes	(2,433)	(5,975)
Treasury stock, at cost; 17,334,681 and 17,128,421 shares	(210,260)	(204,930)
Retained earnings	154,171	123,133
	<b>1,294,830</b>	<b>1,262,720</b>
	<b>\$ 9,877,795</b>	<b>\$ 9,069,020</b>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



**Table of Contents****WASHINGTON FEDERAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(UNAUDITED)**

	Quarter Ended March 31, 2007	2006	Six Months Ended March 31, 2007	2006
	(In thousands, except per share data)			
<b>INTEREST INCOME</b>				
Loans	\$ 129,297	\$ 106,274	\$ 252,472	\$ 208,679
Mortgage-backed securities	18,464	15,725	37,539	30,093
Investment securities and cash equivalents	4,241	6,660	7,467	14,449
	<b>152,002</b>	128,659	<b>297,478</b>	253,221
<b>INTEREST EXPENSE</b>				
Customer accounts	59,037	41,459	114,986	80,308
FHLB advances and other borrowings	27,772	21,724	54,910	43,374
	<b>86,809</b>	63,183	<b>169,896</b>	123,682
<b>Net interest income</b>	<b>65,193</b>	65,476	<b>127,582</b>	129,539
Provision for loan losses	150	85	200	85
<b>Net interest income after provision for loan losses</b>	<b>65,043</b>	65,391	<b>127,382</b>	129,454
<b>OTHER INCOME</b>				
Gain on securities, net	11		11	
Other	3,280	3,404	6,414	6,796
	<b>3,291</b>	3,404	<b>6,425</b>	6,796
<b>OTHER EXPENSE</b>				
Compensation and fringe benefits	10,879	9,040	20,414	17,275
Occupancy	2,194	2,017	4,153	3,930
Other	2,984	2,458	5,441	4,981
	<b>16,057</b>	13,515	<b>30,008</b>	26,186
Gain (loss) on real estate acquired through foreclosure, net	(79)	5	157	144
<b>Income before income taxes</b>	<b>52,198</b>	55,285	<b>103,956</b>	110,208
Income taxes	18,715	18,945	37,089	37,722
<b>NET INCOME</b>	<b>\$ 33,483</b>	\$ 36,340	<b>\$ 66,867</b>	\$ 72,486
<b>PER SHARE DATA</b>				
Basic earnings	\$ 0.38	\$ 0.42	\$ 0.77	\$ 0.83
Diluted earnings	.38	.42	.76	.83
Cash dividends	.205	.200	.410	.400
Weighted average number of shares outstanding, including dilutive stock options	87,571,131	87,363,894	87,608,059	87,378,631

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



**Table of Contents****WASHINGTON FEDERAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

	Six Months Ended	
	March 31, 2007	March 31, 2006
	(In thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 66,867	\$ 72,486
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization (accretion) of fees, discounts, premiums and intangible assets, net	(483)	2,509
Depreciation	1,490	1,345
Stock option compensation expense	527	808
Provision for loan losses	200	85
Gain on investment securities and real estate held for sale, net	(168)	(145)
Increase in accrued interest receivable	(171)	(2,927)
Increase in income taxes payable	4,153	729
Decrease (increase) in other assets	2,069	(5,523)
Increase (decrease) in accrued expenses and other liabilities	1,486	(6,283)
Net cash provided by operating activities	75,970	63,084
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loans originated		
Single-family residential loans	(498,026)	(519,328)
Construction loans	(282,961)	(369,680)
Land loans	(226,943)	(199,220)
Multi-family loans	(43,435)	(70,757)
Commercial real estate loans	(4,767)	
Other loans	(6,353)	
	(1,062,485)	(1,158,985)
Savings account loans originated	(2,100)	(648)
Loan principal repayments	817,842	869,970
Increase (decrease) in undisbursed loans in process	(45,793)	20,507
Loans purchased	(23)	(266,129)
Available-for-sale securities purchased	(77,854)	(188,504)
Principal payments and maturities of available-for-sale securities	169,221	82,919
Available-for-sale securities sold	44,041	
Principal payments and maturities of held-to-maturity securities	37,143	15,651
Net cash paid out for acquisition	(35,221)	
Proceeds from sales of real estate held for sale	936	1,589
Premises and equipment purchased, net	(1,079)	(1,556)
Net cash used by investing activities	(155,372)	(625,186)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in customer accounts	287,874	128,877
Net increase in borrowings	1,254	215,000
Proceeds from exercise of common stock options	1,714	2,412
Dividends paid	(35,829)	(34,882)
Proceeds from Employee Stock Ownership Plan	990	1,344
Treasury stock purchased, net	(5,850)	
Decrease in advance payments by borrowers for taxes and insurance	(6,973)	(5,123)



Net cash provided by financing activities	<b>243,180</b>	307,628
<b>Increase (decrease) in cash and cash equivalents</b>	<b>163,778</b>	(254,474)
<b>Cash and cash equivalents at beginning of period</b>	<b>45,722</b>	637,791
<b>Cash and cash equivalents at end of period</b>	<b>\$ 209,500</b>	\$ 383,317

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION****Non-cash investing activities**

Real estate acquired through foreclosure	<b>\$ 1,982</b>	\$ 201
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**Cash paid during the period for**

Interest	<b>168,607</b>	123,955
Income taxes	<b>33,125</b>	37,705

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Table of Contents****WASHINGTON FEDERAL, INC. AND SUBSIDIARIES*****CONSOLIDATED STATEMENTS OF CASH FLOWS******(UNAUDITED)***

The following summarizes the non-cash activities relating to the acquisition

	<b>Six Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2007</b>	<b>2006</b>
	<b>(In thousands)</b>	
Fair value of assets and intangibles acquired, including goodwill	<b>\$ (576,750)</b>	<b>\$</b>
Fair value of liabilities assumed	<b>480,033</b>	
Cash paid out for acquisition	<b>(96,717)</b>	
Plus cash acquired	<b>61,496</b>	
Net cash paid out for acquisition	<b>\$ (35,221)</b>	<b>\$</b>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Table of Contents****WASHINGTON FEDERAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****QUARTER AND SIX MONTHS ENDED MARCH 31, 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 Acquisition**

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 \$47,880,036 and a core deposit intangible of \$4,882,000.

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

	<b>Goodwill</b>	<b>Core Deposit Intangible</b>	<b>Non-Compete Agreements</b>	<b>Total</b>
	<b>(In thousands)</b>			
Balance at September 30, 2005	\$ 54,484	\$ 2,440	\$ 335	\$ 57,259
Accumulated amortization		(885)	(115)	(1,000)
Balance at September 30, 2006	54,484	1,555	220	56,259
First Federal acquisition	47,880	4,882		52,762
Accumulated amortization		(572)	(57)	(629)
Balance at March 31, 2007	\$ 102,364	\$ 5,865	\$ 163	\$ 108,392

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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):

<b>Year ended September 30,</b>	<b>Amortization expense (In thousands)</b>
2007	\$ 1,190
2008	2,220
2009	1,916
2010	702

**NOTE C Dividends**

On April 20, 2007 the Company paid its 97<sup>th</sup> consecutive quarterly cash dividend. Dividends per share amounted to 20.5 cents for the quarter ended March 31, 2007 compared with 20 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 March 31, 2007 and 2006 totaled \$36,746,000 and \$30,972,000, respectively. Total comprehensive income for the six months ended March 31, 2007 and 2006 totaled \$70,409,000 and \$58,322,000, respectively. The difference between the Company's net income and total comprehensive income for the six months ended March 31, 2007 equals the change in the net unrealized gain or loss on available-for-sale securities of \$5,601,000. Net of tax of \$2,059,000, the change was \$3,542,000.

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The following table summarizes the activity in the allowance for loan losses for the quarter and six months ended March 31, 2007 and 2006:

	<b>Quarter</b>		<b>Six Months</b>	
	<b>Ended March 31, 2007</b>	<b>2006</b>	<b>Ended March 31, 2007</b>	<b>2006</b>
	<b>(In thousands)</b>			
Balance at beginning of period	\$ 25,021	\$ 24,736	\$ 24,993	\$ 24,756
Provision for (reversal of) loan losses	150	85	200	85
Charge-offs	(297)	(11)	(319)	(31)
Recoveries				
Acquired reserves	3,123		3,123	
Balance at end of period	\$ 27,997	\$ 24,810	\$ 27,997	\$ 24,810

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**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 March 31, 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 2.13% at March 31, 2007 from 2.18% at September 30, 2006. The spread decreased primarily because weighted average rates on customer accounts increased by 19 basis points since September 30, 2006, however this was partially offset by an increase in the weighted average rates on earning assets of 6 basis points over the same period. As of March 31, 2007, the Company had grown total assets by \$808,775,000, or 8.9%, 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 \$163,778,000, or 358%, during the six months ended March 31, 2007. Loans and mortgage-backed securities increased \$610,389,000, or 7.2%, to \$9,068,148,000 during the six months ended March 31, 2007 as the Company grew long-term assets to mitigate the impact of increasing deposit costs. Included in the

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

**PART I Financial Information**

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

aforementioned \$610,389,000 increase in loans and mortgage-backed securities was \$403,000,000 of loans acquired from First Federal. The remaining \$207,389,000 of loan growth was funded primarily through organic deposit growth of \$287,874,000. Cash and cash equivalents of \$209,500,000 and stockholders' equity of \$1,294,830,000 provides management with flexibility in managing interest rate risk.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company's net worth at March 31, 2007 was \$1,294,830,000, or 13.11% of total assets. This was an increase of \$32,110,000 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 \$66,867,000 from net income and a \$3,542,000 decrease in accumulated other comprehensive loss as a result of an increase in market value of the Company's available-for-sale investments. Net worth was reduced by \$35,829,000 of cash dividend payments and \$5,850,000 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 \$85,138,000, or 5.9%, during the six months ended March 31, 2007. For the six months ended March 31, 2007 the Company purchased \$123,111,000 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 March 31, 2007, the Company had net unrealized losses on available-for-sale securities of \$2,433,000, net of tax, which were recorded as part of stockholders' equity.

Loans receivable: During the six months ended March 31, 2007, the balance of loans receivable increased 9.8% to \$7,773,994,000 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 \$292,551,000 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 69.3% at March 31, 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 decreased to 22.6% at March 31, 2007 compared to 22.8% at September 30, 2006. Included in the period end gross loans balance was \$138,906,000 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 1.7% of the total loan balance.

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**Non-performing assets:** Non-performing assets increased 20.2% during the six months ended March 31, 2007 to \$9,204,000 from \$7,660,000 at September 30, 2006. Despite the percentage increase of 20.2% for the period, non-performing assets as a percentage of total assets was .09% at March 31, 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.

	March 31, 2007	September 30, 2006
	(In thousands)	
Restructured loans (1)	\$ 263	\$
Nonaccrual loans:		
Single-family residential	6,029	5,700
Construction	517	1,002
Land	438	126
Multi-family	152	353
Commercial real estate	269	
Other	41	
Total nonaccrual loans (2)	7,446	7,181
Total REO (3)	1,758	479
Total non-performing assets	\$ 9,204	\$ 7,660
Total non-performing assets and restructured loans	\$ 9,467	\$ 7,660
Total non-performing assets and restructured loans as a percentage of total assets	0.10%	0.08%

(1) Performing in accordance with restructured terms.

(2) The Company recognized interest income on nonaccrual loans of approximately \$343,000 in the quarter ended March 31, 2007. Had these loans performed according to their original contract terms, the Company would have recognized interest income of approximately \$468,000 for the quarter ended March 31, 2007.

In addition to the nonaccrual loans reflected in the above table, at March 31, 2007, the Company had \$5,792,000 of loans that were less than 90 days delinquent but which it had classified as substandard



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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 .15% at March 31, 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.

	March 31, 2007		September 30, 2006	
	Amount	Loans to Total Loans <sup>1</sup>	Amount	Loans to Total Loans <sup>1</sup>
	(In thousands)			
Real estate:				
Single-family residential	\$ 9,925	69.3%	\$ 8,397	70.3%
Multi-family	5,113	6.5	5,061	6.9
Land	4,836	9.3	4,829	8.0
Construction	5,792	13.3	6,706	14.8
Commercial real estate	1,891	1.2		
Other	440	0.4		
	\$ 27,997	100.0%	\$ 24,993	100.0%

<sup>1</sup> 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 \$667,379,000, or 12.6%, to \$5,979,105,000 at March 31, 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 \$287,874,000.

FHLB advances and other borrowings: Total borrowings increased \$100,227,000, or 4.2%, to \$2,470,227,000 at March 31, 2007 compared with \$2,370,000,000 at September 30, 2006. The increase included \$98,973,000 of total borrowings acquired through the merger with First Federal (see Note B). See Interest Rate Risk on page 10.

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**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 March 31, 2007 produced net income of \$33,483,000 compared to \$36,340,000 for the same quarter one year ago, a 7.9% decrease. Net income for the six months ended March 31, 2007 was \$66,867,000 compared to \$72,486,000 for the six months ended March 31, 2006, a 7.8% decrease. The decrease for the quarter ended March 31, 2007 resulted primarily from a 42.4% increase in interest expense on customer accounts, which was partially offset by an 18.1% increase in total interest income. The decrease for the six months ended March 31, 2007 resulted primarily from a 43.2% increase in interest expense on customer accounts, which was partially offset by a 17.5% increase in total interest income.

**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			Comparison of Six Months Ended		
	3/31/07 and 3/31/06			3/31/07 and 3/31/06		
	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)					
Interest income:						
Loan portfolio	\$ 19,932	\$ 3,091	\$ 23,023	\$ 37,082	\$ 6,711	\$ 43,793
Mortgaged-backed securities	2,231	508	2,739	6,156	1,290	7,446
Investments(1)	(2,878)	459	(2,419)	(7,642)	660	(6,982)
All interest-earning assets	19,285	4,058	23,343	35,596	8,661	44,257
Interest expense:						
Customer accounts	4,749	12,829	17,578	7,387	27,291	34,678
FHLB advances and other borrowings	5,657	391	6,048	8,847	2,689	11,536
All interest-bearing liabilities	10,406	13,220	23,626	16,234	29,980	46,214
Change in net interest income	\$ 8,879	\$ (9,162)	\$ (283)	\$ 19,362	\$ (21,319)	\$ (1,957)

(1) Includes interest on cash equivalents

**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 \$150,000 provision for loan losses during the quarter ended March 31, 2007, while an \$85,000 provision was recorded for the same quarter one year ago. Nonperforming assets amounted to \$9,204,000 or .09% of total assets at March 31, 2007 compared to \$6,957,000 or .08% of total assets one year ago. Total delinquencies over 30 days were \$16,116,000, or .16% of total assets at March 31, 2007 compared to \$12,984,000, or .15% of total assets at March 31, 2006. The Company had net charge-offs of \$297,000 for the quarter ended March 31, 2007 compared with \$11,000 of net charge-offs for the quarter ended March 31, 2006.

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

	Quarter Ended		Six Months	
	March 31, 2007	March 31, 2006	Ended March 31, 2007	Ended March 31, 2006
	(In thousands)			
Beginning balance	\$ 25,021	\$ 24,736	\$ 24,993	\$ 24,756
Charge-offs:				
Real Estate:				
Single-family residential		11		31
Multi-family	34		34	
Land	23		23	
Construction	240		262	
Commercial real estate				
Other				
	297	11	319	31
Recoveries:				
Real Estate:				
Single-family residential				
Multi-family				
Land				
Construction				
Commercial real estate				
Other				
Net charge-offs (recoveries)	297	11	319	31
Provision (reversal of reserve) for loan losses	150	85	200	85
Acquired reserves	3,123		3,123	
Ending balance	\$ 27,997	\$ 24,810	\$ 27,997	\$ 24,810
Ratio of net charge-offs to average loans outstanding	0.00%	0.00%	0.00%	0.00%

**Other Income:** The quarter ended March 31, 2007 produced total other income of \$3,291,000 compared to \$3,404,000 for the same quarter one year ago, a 3.3% decrease. Total other income for the six months ended March 31, 2007 was \$6,425,000 compared to \$6,796,000 for the six

months ended March 31, 2006, a 5.5%

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

**PART I Financial Information**

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

decrease. Total other income for the quarter and six months ended March 31, 2007 included a \$121,000 and \$695,000 gain on the sale of real estate held for investment, respectively, while total other income for the quarter and six months ended March 31, 2006 included a \$577,000 and \$1,073,000 gain on the sale of real estate held for investment, respectively.

Other Expense: The quarter ended March 31, 2007 produced total other expense of \$16,057,000 compared to \$13,515,000 for the same quarter one year ago, an 18.8% increase. Total other expense for the six months ended March 31, 2007 was \$30,008,000 compared to \$26,186,000 for the six months ended March 31, 2006, a 14.6% 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 180 employees brought on through the acquisition with First Federal, as well as higher organic payroll expenses. Additionally, general occupancy expenses increased due to the 13 branches acquired from First Federal. Total other expense for the quarter and six months ended March 31, 2007 equaled .67% and .64%, 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 911 at March 31, 2007 and 751 at March 31, 2006; the increase primarily due to the acquisition of First Federal (see Note B).

Taxes: Income taxes decreased \$230,000, or 1.2%, and \$633,000, or 1.7%, for the quarter and six months ended March 31, 2007 when compared to the same periods one year ago. While the taxable income base for the quarter and six months ended March 31, 2007 was \$3,087,000, or 5.6%, and \$6,252,000, or 5.7%, respectively, lower than the comparable periods one year ago, the Company settled a claim with the Internal Revenue Service during the six months ended March 31, 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 six months ended March 31, 2007 increased to 35.85% and 35.68%, 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.

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**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.

**Table of Contents****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 March 31, 2007.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan <sup>(1)</sup>	Maximum Number of Shares That May Yet Be Purchased Under the Plan at the End of the Period
January 1, 2007 to January 31, 2007		\$		3,310,014
February 1, 2007 to February 28, 2007	50,500	22.85	50,500	3,259,514
March 1, 2007 to March 31, 2007	199,500	23.54	199,500	3,060,014
<b>Total</b>	<b>250,000</b>	<b>\$ 23.40</b>	<b>250,000</b>	<b>3,060,014</b>

<sup>(1)</sup> 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**

The Annual Meeting of Stockholders of Washington Federal, Inc. was held on January 25, 2007. The two items voted upon by shareholders included the election of three directors, each for a three-year term, and the ratification of the appointment of Deloitte & Touche LLP as the independent registered public accountants for fiscal year 2007. The results of the voting were as follows:

	Votes Cast		Votes	Total
	For	Against	Withheld	Votes Cast
Election of Directors				
Derek L. Chinn - 3-year term	81,598,504		361,053	81,959,557
Thomas J. Kelley - 3-year term	81,651,919		307,638	81,959,557
Barbara L. Smith - 3-year term	81,615,459		344,098	81,959,557
Ratify appointment of Deloitte & Touche LLP 81,579,187	139,333	241,037	81,959,557	

**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

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**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.

May 4, 2007

/s/ Roy M. Whitehead  
ROY M. WHITEHEAD  
Chairman, President and Chief Executive Officer

May 4, 2007

/s/ Brent J. Beardall  
BRENT J. BEARDALL  
Senior Vice President and Chief Financial Officer

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