

First Foundation Inc.
Form 10-Q
May 10, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(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, 2016

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 001-36461

FIRST FOUNDATION INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

20-8639702
(I.R.S. Employer
Identification Number)

18101 Von Karman Avenue, Suite 700 Irvine, CA 92612
(Address of principal executive offices)

92612
(Zip Code)

(949) 202-4160

(Registrant's telephone number, including area code)

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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 has submitted electronically and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

As of May 5, 2016, there were 16,087,941 shares of registrant's common stock outstanding.

FIRST FOUNDATION INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
FIRST FOUNDATION INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	March 31, 2016 (unaudited)	December 31, 2015
ASSETS		
Cash and cash equivalents	\$52,817	\$215,748
Securities available-for-sale (“AFS”)	548,295	565,135
Loans held for sale	260,075	—
Loans, net of deferred fees	1,793,002	1,765,483
Allowance for loan and lease losses (“ALLL”)	(11,000)	(10,600)
Net loans	1,782,002	1,754,883
Investment in FHLB stock	17,091	21,492
Premises and equipment, net	4,450	2,653
Deferred taxes	11,072	15,392
Real estate owned (“REO”)	334	4,036
Goodwill and intangibles	2,351	2,416
Other assets	11,686	10,824
Total Assets	\$2,690,173	\$2,592,579
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Liabilities:		
Deposits	\$1,773,106	\$1,522,176
Borrowings	633,000	796,000
Accounts payable and other liabilities	13,887	14,667
Total Liabilities	2,419,993	2,332,843
Commitments and contingencies	—	—
Shareholders’ Equity		16

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Common Stock, par value \$.001: 70,000,000 shares authorized; 16,049,131 and 15,980,526 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	16	
Additional paid-in-capital	228,506	227,262
Retained earnings	37,549	33,762
Accumulated other comprehensive income (loss), net of tax	4,109	(1,304)
Total Shareholders' Equity	270,180	259,736
Total Liabilities and Shareholders' Equity	\$2,690,173	\$2,592,579

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED INCOME STATEMENTS - UNAUDITED

(In thousands, except share and per share amounts)

	For the Quarter Ended March 31,	
	2016	2015
Interest income:		
Loans	\$ 18,170	\$ 12,101
Securities	3,121	815
FHLB stock, fed funds and deposits	407	242
Total interest income	21,698	13,158
Interest expense:		
Deposits	1,795	923
Borrowings	542	364
Total interest expense	2,337	1,287
Net interest income	19,361	11,871
Provision for loan losses	400	150
Net interest income after provision for loan losses	18,961	11,721
Noninterest income:		
Asset management, consulting and other fees	6,001	5,850
Other income	984	354
Total noninterest income	6,985	6,204
Noninterest expense:		
Compensation and benefits	12,724	9,180
Occupancy and depreciation	2,815	1,957
Professional services and marketing costs	1,723	1,058
Other expenses	2,155	1,163
Total noninterest expense	19,417	13,358
Income before taxes on income	6,529	4,567
Taxes on income	2,742	1,941
Net income	\$ 3,787	\$ 2,626
Net income per share:		
Basic	\$ 0.24	\$ 0.33
Diluted	\$ 0.23	\$ 0.32
Shares used in computation:		
Basic	16,003,088	7,855,457

Diluted

16,467,732 8,211,145

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENT OF CHANGES

IN SHAREHOLDERS' EQUITY - Unaudited

(In thousands, except share amounts)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)		Total
	Number of Shares	Amount					
Balance: December 31, 2015	15,980,526	\$ 16	\$ 227,262	\$ 33,762	\$ (1,304)	\$ 259,736
Net income	—	—	—	3,787	—		3,787
Other comprehensive income	—	—	—	—	5,413		5,413
Stock based compensation	—	—	317	—	—		317
Issuance of common stock:							
Exercise of options	66,305	—	927	—	—		927
Stock grants	2,300	—	—	—	—		—
Balance: March 31, 2016	16,049,131	\$ 16	\$ 228,506	\$ 37,549	\$ 4,109		\$ 270,180

(See accompanying notes to the consolidated financial statements)

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FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME - UNAUDITED

(In thousands)

	For the Quarter Ended March 31,	
	2016	2015
Net income	\$3,787	\$2,626
Other comprehensive income:		
Unrealized holding gains (losses) on securities arising during the period	9,199	1,265
Other comprehensive income before tax	9,199	1,265
Income tax (expense) benefit related to items of other comprehensive income	(3,786)	(520)
Other comprehensive income	5,413	745
Reclassification adjustment for (gains) losses included in net earnings (1)	(310)	—
Income tax (expense) benefit related to reclassification adjustment	130	—
Reclassification adjustment for (gains) losses included in net earnings, net of tax	(180)	—
Other comprehensive income (loss), net of tax	5,233	745
Total comprehensive income	\$9,020	\$3,371

(1) Entire amounts are recognized in "Other Income" in the Consolidated Income Statements.

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(In thousands)

	For the Three Months	
	Ended March 31, 2016	2015
Cash Flows from Operating Activities:		
Net income	\$ 3,787	\$ 2,626
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	400	150
Stock-based compensation expense	317	152
Depreciation and amortization	396	326
Deferred tax expense (benefit)	534	(185)
Accretion of discounts on purchased loans, net	(95)	(231)
Gain on sale of securities	(310)	—
(Increase) decrease in other assets	(503)	126
Decrease in accounts payable and other liabilities	(780)	(713)
Net cash provided by operating activities	3,746	2,251
Cash Flows from Investing Activities:		
Net increase in loans (including changes in loans held for sale)	(287,499)	(102,506)
Proceeds from sale of REO	3,702	—
Purchases of premises and equipment	(2,193)	(623)

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Purchase of securities AFS	(27,278)	—
Proceeds from sale of securities AFS	39,456		—
Principal payments – securities AFS	13,877		2,837
Net (purchases) redemptions of FHLB stock	4,401		(4,700
Net cash used in investing activities	(255,534)	(104,992
Cash Flows from Financing Activities:			
Increase (decrease) in deposits	250,930		(1,797
FHLB Advances – net increase (decrease)	(163,000)	100,000
Proceeds – term note	—		10,114
Proceeds from sale of stock, net	927		50
Net cash provided by financing activities	88,857		108,367
Increase (decrease) in cash and cash equivalents	(162,931)	5,626
Cash and cash equivalents at beginning of year	215,748		29,692
Cash and cash equivalents at end of period	52,817		\$ 35,318
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$ 2,201		\$ 1,180
Income taxes	\$ 2,150		\$ 750
Noncash transactions:			
Transfer of loans to loans held for sale	\$ 260,075		\$ —

(See accompanying notes to the consolidated financial statements)

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FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2016 - UNAUDITED

NOTE 1: BASIS OF PRESENTATION

The consolidated financial statements include First Foundation Inc. (“FFI”) and its wholly owned subsidiaries: First Foundation Advisors (“FFA”), First Foundation Bank (“FFB” or the “Bank”) and First Foundation Insurance Services (“FFIS”), a wholly owned subsidiary of FFB (collectively referred to as the “Company”). All inter-company balances and transactions have been eliminated in consolidation. The results of operations reflect any interim adjustments, all of which are of a normal recurring nature and which, in the opinion of management, are necessary for a fair presentation of the results for the interim period presented. The results for the 2016 interim periods are not necessarily indicative of the results expected for the full year.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

The accompanying unaudited consolidated financial statements include all information and footnotes required for interim financial statement presentation. Those financial statements assume that readers of this Report have read the most recent Annual Report on Form 10-K which contains the latest available audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2015.

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the 2016 presentation.

In March 2016, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09 “Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” as part of the Simplification Initiative to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. Areas of simplification as it relates to share-based compensation address, among other items, the tax effects of exercised or vested awards, classification of excess tax benefits on the Statement of Cash Flows, forfeitures, minimum statutory tax withholding requirements, expected term and intrinsic value. The amendments in this Update are effective for the Company for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is currently evaluating the effects of ASU 2016-09 on its financial statements and disclosures.

On February 25, 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases, which is generally defined as a lease term of less than 12 months. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as

operating leases under current lease accounting guidance. The amendments in this Update are effective for interim and annual periods beginning after December 15, 2018. The Company is currently evaluating the effects of ASU 2016-02 on its financial statements and disclosures.

On January 5, 2016, the FASB issued ASU 2016-01, Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10). Changes made to the current measurement model primarily affect the accounting for equity securities with readily determinable fair values, where changes in fair value will impact earnings instead of other comprehensive income. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The Update also changes the presentation and disclosure requirements for financial instruments including a requirement that public business entities use exit price when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes. This Update is generally effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the effects of ASU 2016-01 on its financial statements and disclosures.

In September, 2015, the FASB issued ASU 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments”. The amendments in this update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. For public companies, this update is effective for interim and annual periods beginning after December 15, 2015, including interim periods within those fiscal periods. The adoption of ASU No. 2015-16 is not expected to have a material impact on the Company’s Consolidated Financial Statements.

FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2016 – UNAUDITED

NOTE 2: FAIR VALUE MEASUREMENTS

Assets Measured at Fair Value on a Recurring Basis

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Current accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The following tables show the recorded amounts of assets and liabilities measured at fair value on a recurring basis as of:

	Fair Value Measurement Level		
Total	Level 1	Level 2	Level 3
(dollars in thousands)			
March 31, 2016:			

Investment securities available for sale: