

First Foundation Inc.  
Form 10-Q  
May 11, 2015

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, 2015

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)

California  
(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

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(Registrant's telephone number, including area code)

Not Applicable

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

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 "accelerated filer", "large 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

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.

7,886,513 shares of Common Stock, par value \$0.001 per share, as of May 8, 2015

FIRST FOUNDATION INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2015

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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, 2015	December 31, 2014
	(unaudited)	
<b>ASSETS</b>		
Cash and cash equivalents	\$35,318	\$29,692
Securities available-for-sale (“AFS”)	136,640	138,270
Loans, net of deferred fees	1,269,129	1,166,392
Allowance for loan and lease losses (“ALLL”)	(10,300 )	(10,150 )
Net loans	1,258,829	1,156,242
Premises and equipment, net	2,484	2,187
Investment in FHLB stock	17,061	12,361
Deferred taxes	9,413	9,748
Real estate owned (“REO”)	334	334
Other assets	6,522	6,590
Total Assets	\$1,466,601	\$1,355,424
<b>LIABILITIES AND SHAREHOLDERS’ EQUITY</b>		
Liabilities:		
Deposits	\$961,157	\$962,954
Borrowings	393,000	282,886
Accounts payable and other liabilities	8,922	10,088
Total Liabilities	1,363,079	1,255,928
Commitments and contingencies	-	-
Shareholders’ Equity	8	8

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Common Stock, par value \$.001: 20,000,000 shares authorized; 7,880,339 and 7,845,182 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively		
Additional paid-in-capital	78,859	78,204
Retained earnings	23,010	20,384
Accumulated other comprehensive income, net of tax	1,645	900
Total Shareholders' Equity	103,522	99,496
Total Liabilities and Shareholders' Equity	\$1,466,601	\$1,355,424

(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,	
	2015	2014
Interest income:		
Loans	\$12,101	\$10,104
Securities	815	392
FHLB stock, fed funds and deposits	242	179
Total interest income	13,158	10,675
Interest expense:		
Deposits	923	804
Borrowings	364	121
Total interest expense	1,287	925
Net interest income	11,871	9,750
Provision for loan losses	150	235
Net interest income after provision for loan losses	11,721	9,515
Noninterest income:		
Asset management, consulting and other fees	5,850	5,039
Other income	354	512
Total noninterest income	6,204	5,551
Noninterest expense:		
Compensation and benefits	9,180	8,480
Occupancy and depreciation	1,957	1,828
Professional services and marketing costs	1,058	1,249
Other expenses	1,163	989
Total noninterest expense	13,358	12,546
Income before taxes on income	4,567	2,520
Taxes on income	1,941	1,058
Net income	\$2,626	\$1,462
Net income per share:		
Basic	\$0.33	\$0.19
Diluted	\$0.32	\$0.18
Shares used in computation:		
Basic	7,855,457	7,733,514

Diluted

8,211,145 8,094,814

(See accompanying notes to the consolidated financial statements)

FIRST FOUNDATION INC.

CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME - UNAUDITED

(In thousands)

	For the Quarter Ended March 31,	
	2015	2014
Net income	\$2,626	\$1,462
Other comprehensive income:		
Unrealized holding gains (losses) on securities arising during the period	1,265	800
Other comprehensive income before tax	1,265	800
Income tax (expense) benefit related to items of other comprehensive income	(520 )	(329 )
Other comprehensive income	745	471
Total comprehensive income	\$3,371	\$1,933





(See accompanying notes to the consolidated financial statements)

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## FIRST FOUNDATION INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(In thousands)

	For the Quarter Ended March 31, 2015	2014
Cash Flows from Operating Activities:		
Net income	\$ 2,626	\$ 1,462
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	150	235
Stock-based compensation expense	152	146
Depreciation and amortization	326	328
Deferred tax expense (benefit)	(185 )	523
Amortization of premiums on purchased loans - net	(231 )	(1,041 )
Increase (decrease) in other assets	126	(277 )
Increase in accounts payable and other liabilities	(713 )	(1,550 )
Net cash provided by operating activities	2,251	(174 )
Cash Flows from Investing Activities:		
Net increase in loans	(102,506 )	(45,658 )
Purchase of AFS securities	-	(13,983 )
Maturities of AFS securities	2,837	605
Sale (purchase) of FHLB stock, net	(4,700 )	141
Purchase of premises and equipment	(623 )	(57 )
Net cash used in investing activities	(104,992 )	(59,993 )

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Cash Flows from Financing Activities:			
Increase (decrease) in deposits	(1,797	)	52,647
Net increase in FHLB advances	100,000		(15,000 )
Term note - borrowings	10,114		15,000
Term note - payments	-		(188 )
Proceeds from sale of stock, net	50		-
Net cash provided by financing activities	108,367		52,459
Increase (decrease) in cash and cash equivalents	5,626		(6,667 )
Cash and cash equivalents at beginning of year	29,692		56,954
Cash and cash equivalents at end of period	\$ 35,318		\$ 50,287
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$ 1,180		\$ 855
Income taxes	\$ 750		\$ 100
Noncash transactions:			
Transfer of foreclosed loan to REO	\$ -		\$ 1,500

(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, 2015 – 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 2015 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. The financial information provided herein is written with the presumption that the users of the interim financial statements have read, or have access to, the most recent Annual Report which contains the latest available audited consolidated financial statements and notes thereto, as of December 31, 2014.

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the 2015 presentation.

Accounting pronouncements: In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers (Topic 660): Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs-Contracts with Customers (Subtopic 340-40).” The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2016. The Company is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect the guidance 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, 2015 – UNAUDITED

## NOTE 2: FAIR VALUE

## Assets Measured at Fair Value on a Recurring Basis

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

	Total	Fair Value Measurement Level		
		Level 1	Level 2	Level 3
(dollars in thousands)				
March 31, 2015:				
Investment securities available for sale				
US Treasury securities	\$ 300	\$ 300	\$ —	\$ —
FNMA and FHLB Agency notes	10,444	—	10,444	—
Agency mortgage-backed securities	125,896	—	125,896	—
Total assets at fair value on a recurring basis	\$ 136,640	\$ 300	\$ 136,340	\$ —
December 31, 2014:				
Investment securities available for sale				
US Treasury securities	\$ 300	\$ 300	\$ —	\$ —
FNMA and FHLB Agency notes	10,277	—	10,277	—
Agency mortgage-backed securities	127,693	—	127,693	—
Total assets at fair value on a recurring basis	\$ 138,270	\$ 300	\$ 137,970	\$ —

## Fair Value of Financial Instruments

We have elected to use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available for sale are measured at fair value on a recurring basis. Additionally, from time to time, we may be required to measure at fair value other assets on a nonrecurring basis, such as loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Fair value estimates are made at a discrete point in time based on relevant market information and other information about the financial instruments. Because no active market exists for a significant portion of our financial instruments, fair value estimates are based in large part on judgments we make primarily regarding current economic conditions, risk characteristics of various financial instruments, prepayment rates, and future expected loss experience. These estimates are subjective in nature and invariably involve some inherent uncertainties. Additionally, unexpected changes in events or circumstances can occur that could require us to make changes to our assumptions and which, in turn, could significantly affect and require us to make changes to our previous estimates of fair value.

In addition, the fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of existing and anticipated future customer relationships and the value of assets and

liabilities that are not considered financial instruments, such as premises and equipment and other real estate owned.

The following methods and assumptions were used to estimate the fair value of financial instruments.

Cash and Cash Equivalents. The fair value of cash and cash equivalents approximates its carrying value.

Interest-Bearing Deposits with Financial Institutions. The fair values of interest-bearing deposits maturing within ninety days approximate their carrying values.



FIRST FOUNDATION INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2015 – UNAUDITED

**Investment Securities Available for Sale.** Investment securities available-for-sale are measured at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as level 3 include asset-backed securities in less liquid markets.

**Federal Home Loan Bank and Federal Reserve Bank Stock.** The Bank is a member of the Federal Home Loan Bank (the "FHLB") and the Federal Reserve Bank of San Francisco (the "FRB"). As members, we are required to own stock of the FHLB and the FRB, the amount of which is based primarily on the level of our borrowings from those institutions. We also have the right to acquire additional shares of stock in either or both of the FHLB and the FRB; however, to date, we have not done so. The fair values of that stock are equal to their respective carrying amounts, are classified as restricted securities and are periodically evaluated for impairment based on our assessment of the ultimate recoverability of our investments in that stock. Any cash or stock dividends paid to us on such stock are reported as income.

**Loans.** The fair value for loans with variable interest rates is the carrying amount. The fair value of fixed rate loans is derived by calculating the discounted value of future cash flows expected to be received by the various homogeneous categories of loans. All loans have been adjusted to reflect changes in credit risk.

**Impaired Loans.** ASC 820-10 applies to loans measured for impairment in accordance with ASC 310-10, "Accounting by Creditors for Impairment of a Loan", including impaired loans measured at an observable market price (if available), and at the fair value of the loan's collateral (if the loan is collateral dependent) less selling cost. The fair value of an impaired loan is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. When the fair value of the collateral is based on an observable market price or a current appraised value, we measure the impaired loan at nonrecurring Level 2. When an appraised value is not available, or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price or a discounted cash flow has been used to determine the fair value, we measure the impaired loan at nonrecurring Level 3.

**Deposits.** The fair value of demand deposits, savings deposits, and money market deposits is defined as the amounts payable on demand at quarter-end. The fair value of fixed maturity certificates of deposit is estimated based on the discounted value of the future cash flows expected to be paid on the deposits.

**Borrowings.** The fair value of \$363 million in borrowings is the carrying value of overnight FHLB advances that approximate fair value because of the short-term maturity of this instrument, resulting in a Level 2 classification. The fair value of term borrowings is derived by calculating the discounted value of future cash flows expected to be paid out by the Company. The \$30.0 million term loan is a variable rate loan for which the rate adjusts quarterly, and as such, its fair value is based on its carrying value resulting in a Level 3 classification. The carrying amounts and estimated fair values of financial instruments are as follows as of:



## FIRST FOUNDATION INC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended March 31, 2015 – UNAUDITED

(dollars in thousands)	Carrying Value	Fair Value Measurement Level			Total
		1	2	3	
March 31, 2015:					
Assets:					
Cash and cash equivalents	\$35,318	\$35,318	\$—	\$—	\$35,318
Securities AFS	136,640	300	136,340	—	136,640
Loans	1,258,829	—	—	1,289,060	1,289,060
Investment in FHLB stock	17,061	17,061	—	—	17,061
Liabilities:					
Deposits	961,157	720,651	240,413	—	961,064
Borrowings	393,000	—	363,000	30,000	393,000
December 31, 2014:					
Assets:					
Cash and cash equivalents	\$29,692	\$29,692	\$—	\$—	\$29,692
Securities AFS	138,270	300	137,970	—	138,270
Loans	1,156,242	—	—	1,186,408	1,186,408
Investment in FHLB stock	12,361	12,361	—	—	12,361
Liabilities:					
Deposits	962,954	709,604	253,244	—	962,848
Borrowings	282,886	—	263,000	19,886	282,886

## NOTE 3: SECURITIES

The following table provides a summary of the Company's securities AFS portfolio as of:

(dollars in thousands)	Amortized Cost	Gross Unrealized		Estimated Fair Value
		Gains	Losses	
March 31, 2015:				
US Treasury securities	\$ 300	\$—	\$—	\$ 300
FNMA and FHLB Agency notes	10,496	11	(63 )	10,444
Agency mortgage-backed securities	123,049	2,847	—	125,896

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Total	\$ 133,845	\$ 2,858	\$(63 )	\$ 136,640
December 31, 2014:				
US Treasury securities	\$ 300	\$—	\$—	\$ 300
FNMA and FHLB Agency notes	10,496	—	(219 )	10,277
Agency mortgage-backed securities	125,944	1,881	(132 )	127,693
Total	\$ 136,740	\$ 1,881	\$(351 )	\$ 138,270

The US Treasury securities are pledged as collateral to the State of California to meet regulatory requirements related to the Bank's trust operations.

The table below indicates, as of March 31, 2015, the gross unrealized losses and fair values of our investments, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position.

(dollars in thousands)	Securities with Unrealized Loss at March 31, 2015					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
FNMA and FHLB Agency notes	\$4,964	\$ (36 )	\$2,722	\$ (27 )	\$7,686	