

First Financial Northwest, Inc.
Form 10-Q
November 13, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2008

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: 001-33652

FIRST FINANCIAL NORTHWEST, INC.
(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of incorporation
or organization) 26-0610707
(I.R.S. Employer
I.D. Number)

201 Wells Avenue South, Renton, Washington 98057
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (425) 255-4400

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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of November 7, 2008, 22,852,800 shares of the issuer's common stock, \$0.01 par value per share, were outstanding.

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Item 1. Financial Statements

FIRST FINANCIAL NORTHWEST, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(Dollars in thousands, except share data)
(Unaudited)

Assets	September 30, 2008	December 31, 2007
Cash on hand and in banks	\$ 4,045	\$ 3,675
Interest-bearing deposits	2,736	787
Federal funds sold	3,965	7,115
Investments available for sale	162,877	119,837
Investments held to maturity (fair value of \$0 and \$81,545)	—	80,410
Loans receivable, net of allowance of \$11,837 and \$7,971	1,002,562	880,664
Premises and equipment, net	12,992	13,339
Federal Home Loan Bank stock, at cost	6,425	4,671
Accrued interest receivable	5,457	5,194
Deferred tax assets, net	8,627	7,093
Goodwill	14,206	14,206
Prepaid expenses and other assets	3,489	3,897
Total assets	\$ 1,227,381	\$ 1,140,888
Liabilities and Stockholders' Equity		
Deposits	\$ 777,569	\$ 729,494
Advances from the Federal Home Loan Bank	135,000	96,000
Advance payments from borrowers for taxes and insurance	4,161	2,092
Accrued interest payable	117	132
Federal income tax payable	865	726
Other liabilities	3,653	3,158
Total liabilities	921,365	831,602
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, \$0.01 par value; authorized 10,000,000 shares, no shares issued or outstanding	—	—
Common stock, \$0.01 par value; authorized 90,000,000 shares; issued and outstanding 22,852,800 at September 30, 2008 and December 31, 2007	229	229

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Additional paid-in capital	215,329	224,181
Retained earnings, substantially restricted	107,133	102,769
Accumulated other comprehensive loss, net	(875)	(1,180)
Unearned Employee Stock Ownership Plan (ESOP) shares	(15,800)	(16,713)
Total stockholders' equity	306,016	309,286
Total liabilities and stockholders' equity	\$ 1,227,381	\$ 1,140,888

See accompanying notes to consolidated financial statements.

FIRST FINANCIAL NORTHWEST, INC. AND SUBSIDIARIES
Consolidated Statements of Income
(Dollars in thousands, except share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Interest income				
Loans, including fees	\$ 15,220	\$ 14,728	\$ 45,217	\$ 40,872
Investments available for sale	1,883	1,439	5,006	4,559
Tax-exempt investments available for sale	132	—	580	—
Investments held to maturity	—	74	—	220
Tax-exempt investments held to maturity	—	863	—	2,626
Federal funds sold and interest bearing deposits with banks	43	147	799	536
Dividends on Federal Home Loan Bank stock	17	7	64	19
		17,258		48,832
Total interest income	\$ 17,295	\$	\$ 51,666	\$
Interest expense				
Deposits	7,827	8,865	23,922	26,419
Federal Home Loan Bank advances	1,137	2,462	3,187	6,851
		11,327		33,270
Total interest expense	\$ 8,964	\$	\$ 27,109	\$
Net interest income	8,331	5,931	24,557	15,562
Provision for loan losses	3,498	225	3,943	1,200
Net interest income after provision for loan losses	\$ 4,833	\$ 5,706	\$ 20,614	\$ 14,362
Noninterest income (loss)				
Net gain on sale of investments	274	—	1,657	—
Other-than-temporary impairment loss on investments	—	—	(623)	—
Other	69	48	179	136

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Total noninterest income	\$	343	\$	48	\$	1,213	\$	136
Noninterest expense								
Salaries and employee benefits		2,459		1,236		6,412		3,481
Occupancy and equipment		303		236		887		761
Professional fees		264		43		1,111		209
Data processing		125		116		351		339
Other general and administrative		627		396		1,689		1,075
Total noninterest expense	\$	3,778	\$	2,027	\$	10,450	\$	5,865
Income before provision for federal income taxes		1,398		3,727		11,377		8,633
Provision for federal income taxes		443		1,030		3,728		2,216
Net income	\$	955	\$	2,697	\$	7,649	\$	6,417
Basic earnings per share (1)	\$	0.04	\$	N/A	\$	0.36	\$	N/A
Diluted earnings per share (1)	\$	0.04	\$	N/A	\$	0.36	\$	N/A

(1) The Company completed its mutual to stock conversion on October 9, 2007.

See accompanying notes to unaudited consolidated financial statements.

FIRST FINANCIAL NORTHWEST, INC.
AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity and Comprehensive Income
For the Nine Months Ended September 30, 2008
(Dollars in thousands, except share data)
(Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings 102,769	Accumulated Other Comprehensive Income (Loss)	Unearned ESOP Shares	Total Stockholders' Equity
Balances at December 31, 2007	\$ 229	\$ 224,181	\$	\$ (1,180)	\$(16,713)	\$ 309,286
Comprehensive income:						
Net income	—	—	7,649	—	—	7,649
Change in fair value of investments available for sale, net of tax of \$157	—	—	—	305	—	305
Total comprehensive income						7,954
Cash dividend declared (\$0.155 per share)	—	—	(3,285)	—	—	(3,285)
Repurchase of stock for equity incentive plan	—	(9,071)	—	—	—	(9,071)
Compensation related to stock options and restricted stock	—	226	—	—	—	226
Allocation of 84,636 ESOP shares	—	(7)	—	—	913	906
Balances at September 30, 2008	\$ 229	\$ 215,329	\$ 107,133	\$ (875)	\$(15,800)	\$ 306,016

See accompanying notes to consolidated financial statements.

FIRST FINANCIAL NORTHWEST, INC.
AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 7,649	\$ 6,417
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,943	1,200
Depreciation and amortization of premises and equipment	552	544
Net amortization of premiums and discounts on investments	543	804
ESOP expense	906	—
Stock options and restricted stock expense	226	—
Net realized gain on investments available for sale	(1,657)	—
Other-than-temporary impairment loss on investments	623	—
Mutual funds dividends	(132)	(225)
Loss from disposal of premises and equipment	36	—
Deferred federal income taxes	(1,692)	(687)
Cash provided by (used in) changes in operating assets and liabilities:		
Other assets	408	(1,362)
Accrued interest receivable	(263)	(1,284)
Accrued interest payable	(15)	(10)
Other liabilities	495	1,404
Federal income taxes	139	1,300
Net cash provided by operating activities	\$ 11,761	\$ 8,101
Cash flows from investing activities:		
Proceeds from sale of investments	71,228	—
Proceeds from maturity or call on investments held to maturity	—	1,530
Principal repayments on investments available for sale	26,883	23,953
Principal repayments on investments held to maturity	—	166
Purchases of investments available for sale	(59,655)	—
Purchases of investments held to maturity	—	(509)
Net increase in loans receivable	(125,841)	(153,322)
Purchases of Federal Home Loan Bank stock	(1,754)	—

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Purchases of premises and equipment	(241)	(308)
Net cash used in investing activities	\$ (89,380)	\$ (128,490)
Balance, carried forward		