

HANMI FINANCIAL CORP

Form 10-Q

May 09, 2008

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

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

For the Quarterly Period Ended March 31, 2008

or

**o 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: **000-30421**

HANMI FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware

95-4788120

*(State or Other Jurisdiction of Incorporation or
Organization)*

(I.R.S. Employer Identification No.)

**3660 Wilshire Boulevard, Penthouse Suite A
Los Angeles, California**

90010

(Address of Principal Executive Offices)

(Zip Code)

(213) 382-2200

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

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 definition of large accelerated filer, accelerated filer and smaller reporting company in Exchange Act Rule 12b-2.

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>	
Non-Accelerated Filer	<input type="checkbox"/> (Do Not Check if a Smaller Reporting Company)	Smaller Reporting Company	<input type="checkbox"/>	

Yes No

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Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).

As of May 1, 2008, there were 45,905,549 outstanding shares of the Registrant's Common Stock.

HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
THREE MONTHS ENDED MARCH 31, 2008 AND 2007
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	March 31, 2008	December 31, 2007
ASSETS		
Cash and Due From Banks	\$ 101,306	\$ 105,898
Federal Funds Sold	2,000	16,500
Cash and Cash Equivalents	103,306	122,398
Securities Held to Maturity, at Amortized Cost (Fair Value: 2008 \$932; 2007 \$941)	934	940
Securities Available for Sale, at Fair Value	322,702	349,517
Loans Receivable, Net of Allowance for Loan Losses of \$52,986 and \$43,611 at March 31, 2008 and December 31, 2007, Respectively	3,242,500	3,234,762
Loans Held for Sale, at the Lower of Cost or Fair Value	8,553	6,335
Customers' Liability on Acceptances	7,119	5,387
Premises and Equipment, Net	20,679	20,800
Accrued Interest Receivable	15,417	17,411
Other Real Estate Owned		287
Servicing Assets	4,220	4,336
Goodwill	107,393	107,100
Other Intangible Assets	6,384	6,908
Federal Reserve Bank Stock, at Cost	11,733	11,733
Federal Home Loan Bank Stock, at Cost	21,985	21,746
Bank-Owned Life Insurance	24,760	24,525
Other Assets	42,710	49,472
TOTAL ASSETS	\$ 3,940,395	\$ 3,983,657
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-Bearing	\$ 676,471	\$ 680,282
Interest-Bearing:		
Savings	92,189	93,099
Money Market Checking and NOW Accounts	696,552	445,806
Time Deposits of \$100,000 or More	1,248,853	1,441,683
Other Time Deposits	313,703	340,829
Total Deposits	3,027,768	3,001,699
Accrued Interest Payable	17,857	21,828
Acceptances Outstanding	7,119	5,387
FHLB Advances and Other Borrowings	415,553	487,164

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Junior Subordinated Debentures	82,406	82,406
Other Liabilities	19,328	14,617
Total Liabilities	3,570,031	3,613,101
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Common Stock, \$.001 Par Value; Authorized 200,000,000 Shares; Issued 50,538,049 Shares (45,905,549 Shares Outstanding) and 50,493,441 Shares (45,860,941 Shares Outstanding) at March 31, 2008 and December 31, 2007, Respectively	51	50
Additional Paid-In Capital	348,607	348,073
Unearned Compensation	(270)	(245)
Accumulated Other Comprehensive Income Unrealized Gain on Securities Available for Sale, Interest-Only Strips and Interest Rate Swaps, Net of Income Taxes of \$1,469 and \$527 at March 31, 2008 and December 31, 2007, Respectively	1,628	275
Retained Earnings	90,360	92,415
	440,376	440,568
Less Treasury Stock, at Cost; 4,632,500 Shares at March 31, 2008 and December 31, 2007	(70,012)	(70,012)
Total Stockholders Equity	370,364	370,556
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 3,940,395	\$ 3,983,657

See Accompanying Notes to Consolidated Financial Statements.

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HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars in Thousands, Except Per Share Data)

	Three Months Ended	
	March 31,	
	2008	2007
INTEREST AND DIVIDEND INCOME:		
Interest and Fees on Loans	\$ 60,598	\$ 62,561
Taxable Interest on Investments	3,116	3,531
Tax-Exempt Interest on Investments	759	764
Dividends on FHLB and FRB Stock	414	369
Interest on Federal Funds Sold	83	726
Interest on Term Federal Funds Sold		5
Total Interest and Dividend Income	64,970	67,956
INTEREST EXPENSE:		
Interest on Deposits	24,847	26,189
Interest on FHLB Advances and Other Borrowings	4,477	2,171
Interest on Junior Subordinated Debentures	1,449	1,639
Total Interest Expense	30,773	29,999
NET INTEREST INCOME BEFORE PROVISION FOR CREDIT LOSSES	34,197	37,957
Provision for Credit Losses	17,821	6,132
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	16,376	31,825
NON-INTEREST INCOME:		
Service Charges on Deposit Accounts	4,717	4,488
Insurance Commissions	1,315	1,125
Trade Finance Fees	865	1,290
Remittance Fees	505	471
Other Service Charges and Fees	716	616
Bank-Owned Life Insurance Income	240	230
Increase in Fair Value of Derivatives	239	92
Other Income	337	275
Gain on Sales of Loans	213	1,400
Gain on Sales of Securities Available for Sale	618	
Total Non-Interest Income	9,765	9,987
NON-INTEREST EXPENSES:		
Salaries and Employee Benefits	11,280	11,761
Occupancy and Equipment	2,782	2,512
Data Processing	1,534	1,563
Professional Fees	985	474
Advertising and Promotion	812	661

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Supplies and Communication	704	588
Amortization of Other Intangible Assets	524	614
Other Operating Expenses	2,967	2,796
Total Non-Interest Expenses	21,588	20,969
INCOME BEFORE PROVISION FOR INCOME TAXES	4,553	20,843
Provision for Income Taxes	1,632	7,851
NET INCOME	\$ 2,921	\$ 12,992
EARNINGS PER SHARE:		
Basic	\$ 0.06	\$ 0.27
Diluted	\$ 0.06	\$ 0.26
WEIGHTED-AVERAGE SHARES OUTSTANDING:		
Basic	45,842,376	48,962,089
Diluted	45,918,143	49,500,312
DIVIDENDS DECLARED PER SHARE	\$ 0.06	\$ 0.06

See Accompanying Notes to Consolidated Financial Statements.

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HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND
COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in Thousands)

	Common Stock - Number of Shares			Stockholders' Equity			Treasury Stock, at Cost	Total Stockholders' Equity	
	Issued	Treasury Stock	Outstanding Stock	Additional Paid-in Capital	Unearned Compensation (Loss)	Accumulated Other Comprehensive Income			Retained Earnings
BALANCE DECEMBER 31, 2006	50,239,613	(1,163,000)	49,076,613	\$ 50	\$ 344,810	\$ (3,200)	\$ 164,751	\$ (20,041)	\$ 486,370
Shares Issued for Business Acquisitions	102,181		102,181		2,198				2,198
Exercises of Stock Options	43,943		43,943		389				389
Share-Based Compensation Expense					480				480
Cash Dividends							(2,950)		(2,950)
Shares Repurchased		(397,200)	(397,200)					(8,057)	(8,057)
Comprehensive Income:									
Net Income							12,992		12,992
Change in Unrealized Loss on Securities Available for Sale, Interest-Only Strips and Interest Rate Swaps, Net of Tax						822			822
Total Comprehensive Income									13,814
BALANCE MARCH 31, 2007	50,385,737	(1,560,200)	48,825,537	\$ 50	\$ 347,877	\$ (2,378)	\$ 174,793	\$ (28,098)	\$ 492,244
BALANCE DECEMBER 31,	50,493,441	(4,632,500)	45,860,941	\$ 50	\$ 348,073	\$ (245)	\$ 92,415	\$ (70,012)	\$ 370,556

2007Cumulative-Effect
Adjustment from
the Adoption of
EITF Issue

No. 06-4 Shares Issued for Business								(2,223)	(2,223)
Acquisitions	39,608		39,608	1	292				293
Repurchase of Stock Options					(70)				(70)
Share-Based Compensation Expense					271	16			287
Restricted Stock Awards	5,000		5,000		41	(41)			
Cash Dividends								(2,753)	(2,753)
Comprehensive Income:									
Net Income								2,921	2,921
Change in Unrealized Loss on Securities Available for Sale, Interest-Only Strips and Interest Rate Swaps, Net of Tax								1,353	1,353
Total Comprehensive Income									4,274

BALANCE
MARCH 31,
2008

50,538,049	(4,632,500)	45,905,549	\$ 51	\$ 348,607	\$(270)	\$ 1,628	\$ 90,360	\$(70,012)	\$ 370,364
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See Accompanying Notes to Consolidated Financial Statements.

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HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In Thousands)

	Three Months Ended	
	March 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 2,921	\$ 12,992
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Depreciation and Amortization of Premises and Equipment	749	703
Amortization of Premiums and Accretion of Discounts on Investments, Net	(353)	48
Amortization of Other Intangible Assets	524	614
Amortization of Servicing Assets	(413)	(529)
Share-Based Compensation Expense	287	480
Provision for Credit Losses	17,821	6,132
Federal Home Loan Bank Stock Dividends	(239)	(193)
Gain on Sales of Securities Available for Sale	(618)	
Increase in Fair Value of Derivatives	(239)	(92)
Gain on Sales of Loans	(213)	(1,400)
Loss on Sales of Premises and Equipment	1	10
Origination of Loans Held for Sale	(8,356)	(24,698)
Proceeds from Sales of Loans Held for Sale	6,351	35,771
Decrease in Accrued Interest Receivable	1,994	180
Decrease in Servicing Asset	529	580
Increase in Cash Surrender Value of Bank-Owned Life Insurance	(235)	(230)
Decrease (Increase) in Other Assets	6,470	(3,471)
Decrease in Accrued Interest Payable	(3,971)	(203)
Increase in Other Liabilities	1,339	5,295
Other, Net	132	783
Net Cash Provided By Operating Activities	24,481	32,772
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Matured Term Federal Funds Sold		5,000
Proceeds from Matured or Called Securities Available for Sale	30,256	11,334
Proceeds from Sales of Securities Available for Sale	24,001	
Proceeds from Sales of Other Real Estate Owned	155	
Net Increase in Loans Receivable	(24,410)	(64,317)
Purchases of Securities Available for Sale	(24,581)	
Purchases of Premises and Equipment	(629)	(944)
Business Acquisitions, Net of Cash Acquired		(4,121)
Net Cash Provided By (Used In) Investing Activities	4,792	(53,048)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in Deposits	26,069	39,292

Proceeds from Exercises of Stock Options		389
Stock Issued for Business Acquisitions		2,198
Cash Paid to Acquire Treasury Stock		(8,057)
Cash Paid to Repurchase Stock Options	(70)	
Cash Dividends Paid	(2,753)	(2,950)
Repayment of Long-Term FHLB Advances and Other Borrowings	(115)	(109)
Net Change in Short-Term FHLB Advances and Other Borrowings	(71,496)	(814)
Net Cash (Used In) Provided By Financing Activities	(48,365)	29,949
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(19,092)	9,673
Cash and Cash Equivalents at Beginning of Period	122,398	138,501
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 103,306	\$ 148,174
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash Paid During the Period for:		
Interest	\$ 38,459	\$ 29,688
Income Tax Payments, Net of Refunds	\$ 163	\$ 711
Non-Cash Activities:		
Stock Issued for Business Acquisition Contingent Consideration	\$ 293	\$

See Accompanying Notes to Consolidated Financial Statements.

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HANMI FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2008 AND 2007

NOTE 1 BASIS OF PRESENTATION

Hanmi Financial Corporation (Hanmi Financial, we or us) is a Delaware corporation and is subject to the Bank Holding Company Act of 1956, as amended. Our primary subsidiary is Hanmi Bank (the Bank). Our other subsidiaries are Chun-Ha Insurance Services, Inc. (Chun-Ha) and All World Insurance Services, Inc. (All World) linked to the Underlying on a regular basis as part of our general broker-dealer and other businesses, for proprietary accounts, for other accounts under management or to facilitate transactions for customers, including block transactions. We or our affiliates may also issue or underwrite other securities or financial or derivative instruments with returns linked or related to the Underlying. By introducing competing products into the marketplace in this manner, we or our affiliates could adversely affect the value of the BUyS. Any of the foregoing activities described in this paragraph may reflect trading strategies that differ from, or are in direct

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opposition to, investors' trading and investment strategies related to the BUyS. Furthermore, because Deutsche Bank Securities Inc. ("DBSI") or its affiliates expects to conduct trading and hedging activities for us in connection with the BUyS, DBSI or its affiliates will likely profit in connection with such trading and hedging activities. You should be aware that the potential to earn a profit in connection with hedging activities may create an incentive for DBSI to sell the BUyS to you.

WE, OUR AFFILIATES OR OUR AGENTS MAY PUBLISH RESEARCH, EXPRESS OPINIONS OR PROVIDE RECOMMENDATIONS THAT ARE INCONSISTENT WITH INVESTING IN OR HOLDING THE BUYS. ANY SUCH RESEARCH, OPINIONS OR RECOMMENDATIONS COULD ADVERSELY AFFECT THE LEVEL OF THE UNDERLYING TO WHICH THE BUYS ARE LINKED OR THE VALUE OF THE BUYS — We, our affiliates or our agents may publish research from time to time on financial markets and other matters that could adversely affect the value of the BUyS, or express opinions or provide recommendations that are inconsistent with purchasing or holding the BUyS. Any research, opinions or recommendations expressed by us, our affiliates or our agents may not be consistent with each other and may be modified from time to time without notice. You should make your own independent investigation of the merits of investing in the BUyS and the Underlying to which the BUyS are linked.

POTENTIAL CONFLICTS OF INTEREST — We and our affiliates play a variety of roles in connection with the issuance of the BUyS, including acting as calculation agent, hedging our obligations under the BUyS and determining the Issuer's estimated value of the BUyS on the Trade Date and the price, if any, at which we or our affiliates would be willing to purchase the BUyS from you in secondary market transactions. In performing these roles, our economic interests and those of our affiliates are potentially adverse to your interests as an investor in the BUyS. The calculation agent will determine, among other things, all values, prices and levels required to be determined for the purposes of the BUyS on any relevant date or time. The calculation agent will also be responsible for determining whether a market disruption event has occurred. Any determination by the calculation agent could adversely affect the return on the BUyS.

THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF AN INVESTMENT IN THE BUYS ARE UNCERTAIN — There is no direct legal authority regarding the proper U.S. federal income tax treatment of the BUyS, and we do not plan to request a ruling from the IRS. Consequently, significant aspects of the tax treatment of the BUyS are uncertain, and the IRS or a court might not agree with the treatment of the BUyS as prepaid financial contracts that are not debt. If the IRS were successful in asserting an alternative treatment for the BUyS, the tax consequences of ownership and disposition of the BUyS could be materially and adversely affected. In addition, as described above under "Tax Consequences," in 2007 the U.S. Treasury Department and the IRS released a notice requesting comments on various issues regarding the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments. Any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the BUyS, possibly with retroactive effect. You should review carefully the section of the accompanying product supplement entitled "U.S. Federal Income Tax Consequences," and consult your tax adviser regarding the U.S. federal tax consequences of an investment in the BUyS (including possible alternative treatments and the issues presented by the 2007 notice), as well as tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

The BUyS may be suitable for you if:

- You seek an investment with a return linked to the performance of the Underlying as described herein;
- You are willing to invest in the BUyS based on the Upside Leverage Factor, the Downside Participation Factor and the Buffer Amount;
 - You are willing to lose up to 100.00% of your initial investment;
 - You are willing and able to hold the BUyS to maturity;
 - You are willing to accept our credit risk;
 - You do not seek current income from this investment; and
- You do not seek an investment for which there will be an active secondary market.

The BUyS may not be suitable for you if:

- You do not seek an investment with a return linked to the performance of the Underlying as described herein;
- You are unwilling to invest in the BUyS based on the Upside Leverage Factor, the Downside Participation Factor and the Buffer Amount;
 - You seek an investment that is protected against the loss of your initial investment;
 - You are unwilling or unable to hold the BUyS to maturity;
 - You are unwilling to be exposed to our credit risk;
 - You seek current income from your investments; or
 - You seek an investment for which there will be an active secondary market.

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Historical Information

The following graph sets forth the historical performance of the Underlying based on the daily closing levels of the Underlying from September 30, 2009 through September 30, 2014. The closing level of the EURO STOXX 50® Index on September 30, 2014 was 3,225.93. The graph below shows the closing level that would result in a percentage decline from the Initial Level that is equal to the Buffer Amount of 10.00%. We obtained the historical closing levels of the Underlying below from Bloomberg, and we have not participated in the preparation of, or verified, such information. The historical closing levels of the Underlying should not be taken as an indication of future performance, and no assurance can be given as to the closing level of the Underlying on the Final Valuation Date. We cannot give you assurance that the performance of the Underlying will result in the return of any of your initial investment.

Supplemental Underwriting Information (Conflicts of Interest)

DBSI, acting as agent for Deutsche Bank AG, will not receive a selling concession in connection with the sale of the BUyS. DBSI will pay custodial fees to other broker-dealers of 1.00% or \$10.00 per \$1,000 Face Amount of BUyS. Deutsche Bank AG will reimburse DBSI for such fees.

DBSI, the agent for this offering, is our affiliate. Because DBSI is both our affiliate and a member of the Financial Industry Regulatory Authority, Inc. (“FINRA”), the underwriting arrangement for this offering must comply with the requirements of FINRA Rule 5121 regarding a FINRA member firm’s distribution of the securities of an affiliate and related conflicts of interest. In accordance with FINRA Rule 5121, DBSI may not make sales in offerings of the BUyS to any of its discretionary accounts without the prior written approval of the customer. See “Underwriting (Conflicts of Interest)” in the accompanying product supplement.

Settlement

We expect to deliver the BUyS against payment for the BUyS on the Settlement Date indicated above, which will be the third business day following the Trade Date. Under Rule 15c6-1 of the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in three business days, unless the parties to a trade expressly agree otherwise. Accordingly, if the Settlement Date is more than three business days after the Trade Date, purchasers who wish to transact in the BUyS more than three business days prior to the Settlement Date will be required to specify alternative settlement arrangements to prevent a failed settlement.

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Validity of the BUyS

In the opinion of Davis Polk & Wardwell LLP, as special United States products counsel to the Issuer, when the BUyS offered by this pricing supplement have been executed and issued by the Issuer and authenticated by the authenticating agent, acting on behalf of the trustee, pursuant to the senior indenture, and delivered against payment as contemplated herein, such BUyS will be valid and binding obligations of the Issuer, enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, concepts of reasonableness and equitable principles of general applicability (including, without limitation, concepts of good faith, fair dealing and the lack of bad faith), provided that such counsel expresses no opinion as to the effect of fraudulent conveyance, fraudulent transfer or similar provision of applicable law on the conclusions expressed above. This opinion is given as of the date hereof and is limited to the laws of the State of New York. Insofar as this opinion involves matters governed by German law, Davis Polk & Wardwell LLP has relied, without independent investigation, on the opinion of Group Legal Services of Deutsche Bank AG, dated as of September 28, 2012, filed as an exhibit to the letter of Davis Polk & Wardwell LLP, and this opinion is subject to the same assumptions, qualifications and limitations with respect to such matters as are contained in such opinion of Group Legal Services of Deutsche Bank AG. In addition, this opinion is subject to customary assumptions about the trustee's authorization, execution and delivery of the senior indenture and the authentication of the BUyS by the authenticating agent and the validity, binding nature and enforceability of the senior indenture with respect to the trustee, all as stated in the letter of Davis Polk & Wardwell LLP dated September 28, 2012, which has been filed as an exhibit to the registration statement referred to above.

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