

HANMI FINANCIAL CORP

Form 10-Q

November 09, 2005

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**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, 2005

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: 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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

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 November 7, 2005, there were 48,633,544 outstanding shares of the issuer's Common Stock.

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HANMI FINANCIAL CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2005
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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****HANMI FINANCIAL CORPORATION AND SUBSIDIARY**
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)*(Dollars in Thousands)*

| | September 30, 2005 | December 31, 2004 |
|---|-----------------------------------|----------------------------------|
| ASSETS | | |
| Cash and Due from Banks | \$ 112,233 | \$ 55,164 |
| Federal Funds Sold and Securities Purchased Under Agreements to Resell | 62,000 | 72,000 |
| Cash and Cash Equivalents | 174,233 | 127,164 |
| Federal Reserve Bank Stock | 12,153 | 12,099 |
| Federal Home Loan Bank Stock | 12,098 | 9,862 |
| Securities Held to Maturity, at Amortized Cost (Fair Value: September 30, 2005 \$1,059; December 31, 2004 \$1,093) | 1,055 | 1,090 |
| Securities Available for Sale, at Fair Value | 397,219 | 417,883 |
| Loans Receivable, Net of Allowance for Loan Losses of \$24,523 and \$22,702 at September 30, 2005 and December 31, 2004, Respectively | 2,458,573 | 2,230,992 |
| Loans Held for Sale, at the Lower of Cost or Fair Value | 375 | 3,850 |
| Customers Liability on Acceptances | 9,360 | 4,579 |
| Premises and Equipment, Net | 20,426 | 19,691 |
| Accrued Interest Receivable | 12,157 | 10,029 |
| Deferred Income Taxes | 8,159 | 5,009 |
| Servicing Asset | 3,716 | 3,846 |
| Goodwill | 209,058 | 209,643 |
| Core Deposit Intangible | 9,336 | 11,476 |
| Bank-Owned Life Insurance Cash Surrender Value | 22,498 | 21,868 |
| Other Assets | 17,972 | 15,107 |
| TOTAL ASSETS | \$ 3,368,388 | \$ 3,104,188 |

LIABILITIES AND SHAREHOLDERS EQUITY**LIABILITIES:**

| | | |
|------------------------------------|------------|------------|
| Deposits: | | |
| Noninterest-Bearing | \$ 764,380 | \$ 729,583 |
| Interest-Bearing: | | |
| Money Market Checking | 506,843 | 613,662 |
| Savings | 127,349 | 153,862 |
| Time Deposits of \$100,000 or More | 1,089,917 | 756,580 |
| Other Time Deposits | 258,281 | 275,120 |
| Total Deposits | 2,746,770 | 2,528,807 |
| Accrued Interest Payable | 9,010 | 7,100 |
| Acceptances Outstanding | 9,360 | 4,579 |

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| | | |
|---|---------------------|---------------------|
| Other Borrowed Funds | 86,931 | 69,293 |
| Junior Subordinated Debentures | 82,406 | 82,406 |
| Other Liabilities | 17,905 | 12,093 |
| Total Liabilities | 2,952,382 | 2,704,278 |
| SHAREHOLDERS EQUITY: | | |
| Common Stock, \$.001 Par Value; Authorized 200,000,000 Shares; Issued and Outstanding, 49,769,245 Shares and 49,330,704 Shares at September 30, 2005 and December 31, 2004, Respectively | 50 | 49 |
| Additional Paid-In Capital | 339,492 | 334,932 |
| Unearned Compensation | (1,240) | |
| Accumulated Other Comprehensive Income (Loss) Unrealized Gain (Loss) on Securities Available for Sale and Interest Rate Swaps, Net of Income Taxes of (\$1,562) and \$744 at September 30, 2005 and December 31, 2004, Respectively | (2,094) | 1,035 |
| Retained Earnings | 99,839 | 63,894 |
| | 436,047 | 399,910 |
| Less Treasury Stock, at Cost; 1,163,000 Shares and 0 Shares at September 30, 2005 and December 31, 2004, Respectively | (20,041) | |
| Total Shareholders Equity | 416,006 | 399,910 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$ 3,368,388 | \$ 3,104,188 |

See Accompanying Notes to Consolidated Financial Statements

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HANMI FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in Thousands, Except Per Share Data)

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|---------------|--------------------------|---------------|
| | September 30, | | September 30, | |
| | 2005 | 2004 | 2005 | 2004 |
| INTEREST INCOME: | | | | |
| Interest and Fees on Loans | \$ 47,175 | \$ 34,389 | \$ 127,900 | \$ 79,553 |
| Interest on Investments | 4,277 | 4,674 | 13,659 | 12,894 |
| Interest on Federal Funds Sold | 221 | 28 | 679 | 100 |
| Total Interest Income | 51,673 | 39,091 | 142,238 | 92,547 |
| INTEREST EXPENSE: | | | | |
| Interest on Deposits | 14,515 | 7,334 | 35,811 | 17,525 |
| Interest on Borrowings | 2,316 | 1,942 | 5,829 | 4,405 |
| Total Interest Expense | 16,831 | 9,276 | 41,640 | 21,930 |
| NET INTEREST INCOME BEFORE PROVISION FOR CREDIT LOSSES | | | | |
| Provision for Credit Losses | 34,842 | 29,815 | 100,598 | 70,617 |
| | 3,157 | | 3,743 | 1,750 |
| NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES | 31,685 | 29,815 | 96,855 | 68,867 |
| NON-INTEREST INCOME: | | | | |
| Service Charges on Deposit Accounts | 4,059 | 4,197 | 11,657 | 10,388 |
| Trade Finance Fees | 1,162 | 1,253 | 3,143 | 3,088 |
| Other Service Charges and Fees | 959 | 383 | 2,478 | 1,204 |
| Remittance Fees | 527 | 456 | 1,545 | 1,149 |
| Bank-Owned Life Insurance Income | 215 | 216 | 630 | 513 |
| Change in Fair Value of Derivatives | 176 | (4) | 965 | 19 |
| Other Income | 648 | 364 | 1,823 | 1,105 |
| Gain on Sales of Loans Held for Sale | 1,712 | 352 | 2,076 | 1,654 |
| Gain on Sales of Securities Available for Sale | 21 | 115 | 117 | 124 |
| Total Non-Interest Income | 9,479 | 7,332 | 24,434 | 19,244 |
| NON-INTEREST EXPENSES: | | | | |
| Salaries and Employee Benefits | 9,155 | 9,505 | 26,867 | 23,079 |
| Occupancy and Equipment | 2,179 | 2,299 | 6,581 | 5,816 |
| Data Processing | 1,253 | 1,442 | 3,663 | 3,326 |
| Advertising and Promotion | 726 | 630 | 1,983 | 2,053 |
| Amortization of Core Deposit Intangible | 694 | 686 | 2,140 | 1,185 |
| Supplies and Communications | 559 | 981 | 1,867 | 1,959 |
| Professional Fees | 393 | 600 | 1,432 | 1,483 |
| Decrease in Fair Value of Embedded Option | 173 | | 748 | |

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| | | | | |
|--|------------------|------------------|------------------|------------------|
| Merger-Related Expenses | | 325 | (509) | 2,053 |
| Other Operating Expenses | 1,859 | 2,521 | 5,836 | 6,161 |
| Total Non-Interest Expenses | 16,991 | 18,989 | 50,608 | 47,115 |
| INCOME BEFORE PROVISION FOR | | | | |
| INCOME TAXES | 24,173 | 18,158 | 70,681 | 40,996 |
| Provision for Income Taxes | 9,204 | 7,089 | 27,342 | 15,996 |
| NET INCOME | \$ 14,969 | \$ 11,069 | \$ 43,339 | \$ 25,000 |
| EARNINGS PER SHARE: | | | | |
| Basic | \$ 0.30 | \$ 0.23 | \$ 0.88 | \$ 0.63 |
| Diluted | \$ 0.30 | \$ 0.22 | \$ 0.86 | \$ 0.62 |
| WEIGHTED-AVERAGE SHARES | | | | |
| OUTSTANDING: | | | | |
| Basic | 49,144,508 | 48,971,194 | 49,386,112 | 39,877,288 |
| Diluted | 49,914,432 | 49,803,814 | 50,157,206 | 40,560,294 |
| DIVIDENDS DECLARED PER SHARE | \$ 0.05 | \$ 0.05 | \$ 0.15 | \$ 0.15 |
| COMPREHENSIVE INCOME: | | | | |
| Net Income | \$ 14,969 | \$ 11,069 | \$ 43,339 | \$ 25,000 |
| Other Comprehensive Income (Loss), Net of | | | | |
| Tax: | | | | |
| Unrealized Gain (Loss) Arising During the | | | | |
| Period | (1,822) | 5,866 | (2,141) | 1,319 |
| Less Reclassification Adjustment for Realized | | | | |
| Gain on Securities Available for Sale Included | | (70) | (114) | (76) |
| in Net Income | | | | |
| Unrealized Gain (Loss) on Cash Flow Hedge | (546) | 794 | (874) | 71 |
| Total Other Comprehensive Income (Loss), | | | | |
| Net of Tax | (2,368) | 6,590 | (3,129) | 1,314 |
| Total Comprehensive Income | \$ 12,601 | \$ 17,659 | \$ 40,210 | \$ 26,314 |

See Accompanying Notes to Consolidated Financial Statements

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HANMI FINANCIAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in Thousands)

| | Nine Months Ended | |
|--|--------------------------|-----------------|
| | September 30, | |
| | 2005 | 2004 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income | \$ 43,339 | \$ 25,000 |
| Adjustments to Reconcile Net Income to Net Cash and Cash Equivalents Provided By (Used In) Operating Activities: | | |
| Depreciation and Amortization of Premises and Equipment | 1,985 | 1,725 |
| Amortization of Premiums and Discounts on Investments | 245 | 3,026 |
| Amortization of Core Deposit Intangible | 2,140 | 1,185 |
| Amortization of Unearned Compensation | 575 | |
| Provision for Credit Losses | 3,743 | 1,750 |
| Federal Reserve Bank Stock and Federal Home Loan Bank Stock Dividends | (224) | (296) |
| Gain on Sales of Securities Available for Sale | (117) | (124) |
| Change in Fair Value of Derivatives | (217) | (19) |
| Gain on Sales of Loans Held for Sale | (2,076) | (1,654) |
| Loss on Sales of Premises and Equipment | 13 | 9 |
| Tax Benefit from Exercise of Stock Options | 546 | |
| Deferred Tax (Benefit) Provision | (6,279) | 2,311 |
| Origination of Loans Held for Sale | (34,563) | (58,266) |
| Proceeds from Sales of Loans Held for Sale | 40,114 | 26,725 |
| Change In: | | |
| (Increase) Decrease in Accrued Interest Receivable | (2,128) | 470 |
| Increase in Cash Surrender Value of Bank-Owned Life Insurance | (630) | (513) |
| (Increase) Decrease in Other Assets | (6,931) | 3,366 |
| Increase (Decrease) in Accrued Interest Payable | 1,910 | (1,270) |
| Increase (Decrease) in Other Liabilities | 10,586 | (13,975) |
| Net Cash and Cash Equivalents Provided By (Used In) Operating Activities | 52,031 | (10,550) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from Matured or Called Securities Available for Sale | 72,449 | 93,111 |
| Proceeds from Matured or Called Securities Held to Maturity | | 196 |
| Proceeds from Sale of Securities Available for Sale | 11,360 | 52,634 |
| Net Increase in Loans Receivable | (231,100) | (105,716) |
| Purchases of Federal Reserve Bank Stock and Federal Home Loan Bank Stock | (2,066) | (414) |
| Purchases of Securities Available for Sale | (63,238) | (15,660) |
| Purchases of Bank-Owned Life Insurance | | (10,000) |
| Purchases of Premises and Equipment, Net | (2,733) | (815) |
| Acquisition of Pacific Union Bank, Net of Cash Acquired | | (64,000) |
| Net Cash and Cash Equivalents Used In Investing Activities | (215,328) | (50,664) |

CASH FLOWS FROM FINANCING ACTIVITIES:

| | | |
|---|----------|----------|
| Increase in Deposits | 217,963 | 22,185 |
| Issuance of Junior Subordinated Debentures | | 82,406 |
| Stock Issued Through Private Placement | | 71,710 |
| Cash Paid to Acquire Treasury Stock | (20,041) | |
| Proceeds from Exercise of Stock Options | 2,192 | 2,223 |
| Cash Dividends Paid | (7,386) | (5,286) |
| Decrease (Increase) in Other Borrowed Funds | 17,638 | (96,655) |

| | | |
|---|----------------|---------------|
| Net Cash and Cash Equivalents Provided By Financing Activities | 210,366 | 76,583 |
|---|----------------|---------------|

| | | |
|--|---------------|---------------|
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 47,069 | 15,369 |
| Cash and Cash Equivalents, Beginning of Period | 127,164 | 62,595 |

| | | |
|---|-------------------|------------------|
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 174,233 | \$ 77,964 |
|---|-------------------|------------------|

Supplemental Disclosures of Cash Flow Information:

| | | |
|-------------------|-----------|-----------|
| Interest Paid | \$ 43,550 | \$ 20,059 |
| Income Taxes Paid | \$ 26,150 | \$ 22,401 |

Reconciliation of Acquisition of Pacific Union Bank, Net of Cash Acquired:

| | |
|---|--------------|
| Fair Value of Assets Acquired | \$ 1,383,881 |
| Cash and Cash Equivalents Acquired | (104,427) |
| Non-Cash Financing of Purchase Price and Liabilities Assumed: | |
| Issuance of Common Stock | (156,751) |
| Liabilities Assumed | (1,058,703) |

| | |
|--|------------------|
| Acquisition of Pacific Union Bank, Net of Cash Acquired | \$ 64,000 |
|--|------------------|

See Accompanying Notes to Consolidated Financial Statements

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HANMI FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004

NOTE 1 HANMI FINANCIAL CORPORATION

Hanmi Financial Corporation (Hanmi Financial, we or our) is a Delaware corporation that is the holding company for Hanmi Bank (the Bank) and is subject to the Bank Holding Company Act of 1956, as amended.

Hanmi Bank, our primary subsidiary, is a commercial bank licensed by the California Department of Financial Institutions. The Bank s deposit accounts are insured under the Federal Deposit Insurance Act, up to the applicable limits thereof. The Bank is a member of the Federal Reserve System.

Our primary operations are related to traditional banking activities, including the acceptance of deposits and the lending and investing of money through operation of the Bank. Hanmi Bank is a community bank conducting general business banking with its primary market encompassing the multi-ethnic populations of Los Angeles, Orange, San Diego, San Francisco and Santa Clara counties. Hanmi Bank s offices are located in business areas where many of the businesses are run by immigrants and other minority groups. Hanmi Bank s client base reflects the multi-ethnic composition of these communities.

On April 30, 2004, we completed the acquisition of Pacific Union Bank (PUB), a \$1.2 billion (assets) commercial bank headquartered in Los Angeles that also served primarily the Korean-American community. As of September 30, 2005, the Bank maintained a branch network of 22 full-service locations, serving individuals and small- to medium-sized businesses in California, and three loan production offices in Chicago, Illinois; the San Jose, California metropolitan area; and the Seattle, Washington metropolitan area.

NOTE 2 BASIS OF PRESENTATION

In the opinion of management, the consolidated financial statements of Hanmi Financial Corporation and subsidiary reflect all adjustments of a normal recurring nature that are necessary for a fair presentation of the results for the interim periods ended September 30, 2005, but are not necessarily indicative of the results that will be reported for the entire year. In the opinion of management, the aforementioned consolidated financial statements are in conformity with accounting principles generally accepted in the United States of America. The interim information should be read in conjunction with our 2004 Annual Report on Form 10-K.

Descriptions of our significant accounting policies are included in Note 1 Summary of Significant Accounting Policies in our 2004 Annual Report on Form 10-K. Certain reclassifications were made to the prior period s presentation to conform to the current period s presentation.

On January 20, 2005, our Board of Directors declared a two-for-one stock split, to be effected in the form of a 100 percent common stock dividend. The new shares were distributed on February 15, 2005 to shareholders of record on the close of business on January 31, 2005. All share and per share amounts for the prior periods have been restated to reflect the stock dividend.

On August 25, 2005, we repurchased 1,163,000 shares of our common stock from Korea Exchange Bank for an aggregate purchase price of \$20.0 million as part of our ongoing capital management program. Repurchased shares are held in treasury pending use for general corporate purposes, including issuances under our employee stock option plan.

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HANMI FINANCIAL CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004 *(Continued)*

NOTE 3 EMPLOYEE STOCK-BASED COMPENSATION

Our employee stock-based compensation arrangements are measured under the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. Accordingly, compensation cost for stock options and restricted stock awards is measured as the excess, if any, of the quoted market price of our stock at the date of grant over the exercise price an employee must pay to acquire the stock. No compensation expense has been recognized for the stock option plan, as stock options were granted at fair value at the date of grant. Had compensation expense for the stock option plan been determined based on the fair values estimated using the Black-Scholes model at the grant dates for previous awards, our net income and earnings per share would have been reduced to the pro forma amounts indicated below:

| | Three Months Ended | | Nine Months Ended | |
|--|--|------------------|--------------------------|------------------|
| | September 30, | | September 30, | |
| | 2005 | 2004 | 2005 | 2004 |
| | <i>(Dollars in Thousands, Except Per Share Data)</i> | | | |
| Net Income As Reported | \$ 14,969 | \$ 11,069 | \$ 43,339 | \$ 25,000 |
| Add Stock-Based Employee Compensation Expense Included in Reported Net Income, Net of Related Tax Effects (Restricted Stock Grant) | | 56 | | 353 |
| Deduct Total Stock-Based Employee Compensation Expense Determined Under Fair Value-Based Method for All Awards Subject to SFAS No. 123, Net of Related Tax Effects | | (507) | | (1,384) |
| Net Income Pro Forma | \$ 14,518 | \$ 10,873 | \$ 42,308 | \$ 24,594 |
| Earnings Per Share As Reported: | | | | |
| Basic | \$ 0.30 | \$ 0.23 | \$ 0.88 | \$ 0.63 |
| Diluted | \$ 0.30 | \$ 0.22 | \$ 0.86 | \$ 0.62 |