

CENTRAL PACIFIC FINANCIAL CORP  
Form 10-Q  
August 08, 2006

**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 June 30, 2006

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 0-10777

**CENTRAL PACIFIC FINANCIAL CORP.**

(Exact name of registrant as specified in its charter)

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**Hawaii**

(State or other jurisdiction of  
incorporation or organization)

**99-0212597**

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

**220 South King Street, Honolulu, Hawaii**

(Address of principal executive offices)

**96813**

(Zip Code)

**(808)544-0500**

(Registrant's telephone number, including area code)

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 July 31, 2006, the number of shares of common stock outstanding of the registrant was 30,487,077 shares.

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CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

Table of Contents

**Part I - Financial Information**

<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u> <u>Consolidated Balance Sheets - June 30, 2006 and 2005, and December 31, 2005</u> <u>Consolidated Statements of Income - Three and six months ended June 30, 2006 and 2005</u> <u>Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income - Six months ended June 30, 2006 and 2005</u> <u>Consolidated Statements of Cash Flows - Six months ended June 30, 2006 and 2005</u> <u>Notes to Consolidated Financial Statements - June 30, 2006 and 2005</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>

**Part II - Other Information**

<u>Item 1.</u>	<u>Legal Proceedings</u>
<u>Item 1A.</u>	<u>Risk Factors</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity and Use of Proceeds</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>
<u>Item 5.</u>	<u>Other Information</u>
<u>Item 6.</u>	<u>Exhibits</u>

Signatures

Exhibit Index

PART I. FINANCIAL INFORMATION

Forward-Looking Statements

This document may contain forward-looking statements concerning projections of revenues, income, earnings per share, capital expenditures, dividends, capital structure, or other financial items, concerning plans and objectives of management for future operations, concerning future economic performance, or concerning any of the assumptions underlying or relating to any of the foregoing. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts, and generally include the words "believes", "plans", "intends", "expects", "anticipates" or words of similar meaning. While we believe that our forward-looking statements and the assumptions underlying them are reasonably based, such statements and assumptions are by their nature subject to risks and uncertainties, and thus could later prove to be inaccurate or incorrect. Accordingly, actual results could materially differ from projections for a variety of reasons, to include, but not be limited to: the impact of local, national, and international economies and events on the company's business and operations and on tourism, the military, and other major industries operating within our markets; the impact of legislation affecting the banking industry; the impact of competitive products, services, pricing, and other competitive forces; movements in interest rates; loan delinquency rates; and trading of the company's stock. For further information on factors that could cause actual results to materially differ from projections, please see our publicly available Securities and Exchange Commission filings, including our Form 10-K for the last fiscal year. Forward-looking statements speak only as of the date on which such statements are made. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events.

Item 1. Financial Statements

## CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands)	June 30, 2006	December 31, 2005	June 30, 2005
<b>Assets</b>			
Cash and due from banks	\$ 101,569	\$ 154,927	\$ 118,082
Interest-bearing deposits in other banks	1,177	9,813	1,312
Investment securities:			
Held to maturity, at amortized cost (fair value of \$66,903 at June 30, 2006, \$70,651 at December 31, 2005, and \$78,652 at June 30, 2005)	68,641	71,843	78,983
Available for sale, at fair value	825,682	853,442	969,800
Total investment securities	894,323	925,285	1,048,783
Loans held for sale	24,763	60,538	22,400
Loans	3,689,287	3,552,749	3,205,124
Less allowance for loan losses	52,914	52,936	51,657
Net loans	3,636,373	3,499,813	3,153,467
Premises and equipment	76,368	72,568	77,525
Accrued interest receivable	23,474	22,006	19,813
Investment in unconsolidated subsidiaries	11,362	12,417	12,369
Due from customers on acceptances	383	530	228
Goodwill	297,251	303,358	288,090
Core deposit premium	33,846	35,795	39,105
Mortgage servicing rights	11,873	11,820	3,470
Bank-owned life insurance	100,021	68,325	67,249
Federal Home Loan Bank stock	48,797	48,797	48,797
Other assets	29,232	13,147	18,091
Total assets	\$ 5,290,812	\$ 5,239,139	\$ 4,918,781
<b>Liabilities and shareholders' equity</b>			
Deposits:			
Noninterest-bearing demand	\$ 673,784	\$ 730,952	\$ 663,133
Interest-bearing demand	410,296	442,879	429,553
Savings and money market	1,169,874	1,091,057	1,146,256
Time	1,410,206	1,377,356	1,267,210
Total deposits	3,664,160	3,642,244	3,506,152
Short-term borrowings	104,897	82,734	7,169
Long-term debt	742,907	749,258	675,524
Bank acceptances outstanding	383	530	228
Minority interest	13,143	13,157	12,781
Other liabilities	66,504	74,982	59,461
Total liabilities	4,591,994	4,562,905	4,261,315
Shareholders' equity:			
Preferred stock, no par value, authorized 1,000,000 shares, none issued			
Common stock, no par value, authorized 100,000,000 shares; issued and outstanding 30,480,230 shares at June 30, 2006, 30,436,862	427,747	428,012	427,415

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shares at December 31, 2005, and 30,409,823 shares at June 30,, 2005					
Surplus		49,723		46,432	45,848
Retained earnings		245,322		218,341	192,547
Deferred stock awards				(612)	(299)
Accumulated other comprehensive loss		(23,974)		(15,939)	(8,045)
Total shareholders' equity		698,818		676,234	657,466
Total liabilities and shareholders' equity	\$	5,290,812	\$	5,239,139	\$ 4,918,781

See accompanying notes to unaudited consolidated financial statements.

## CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
<b>Interest income:</b>				
Interest and fees on loans	\$ 67,606	\$ 54,138	\$ 132,159	\$ 104,972
<b>Interest and dividends on investment securities:</b>				
Taxable interest	8,947	7,948	17,510	15,397
Tax-exempt interest	1,277	1,630	2,595	2,635
Dividends	8	116	111	135
Interest on deposits in other banks	54	58	227	205
Interest on Federal funds sold and securities purchased under agreements to resell	2	21	54	79
Dividends on Federal Home Loan Bank stock				272
<b>Total interest income</b>	<b>77,894</b>	<b>63,911</b>	<b>152,656</b>	<b>123,695</b>
<b>Interest expense:</b>				
Interest on deposits	16,464	9,005	30,269	16,522
Interest on short-term borrowings	583	313	814	840
Interest on long-term debt	8,680	6,083	17,214	11,503
<b>Total interest expense</b>	<b>25,727</b>	<b>15,401</b>	<b>48,297</b>	<b>28,865</b>
Net interest income	52,167	48,510	104,359	94,830
Provision for loan losses	525	1,000	1,050	1,917
Net interest income after provision for loan losses	51,642	47,510	103,309	92,913
<b>Other operating income:</b>				
Income from fiduciary activities	740	581	1,417	1,114
Service charges on deposit accounts	3,457	2,456	6,993	4,898
Other service charges and fees	3,153	3,028	6,204	5,804
Equity in earnings of unconsolidated subsidiaries	147	187	331	290
Fees on foreign exchange	212	188	394	406
Gains on sales of loans	1,451	991	4,040	1,422
Investment securities gains (losses)	(19)	(63)	(19)	1,446
Income from bank-owned life insurance	785	515	1,709	1,148
Other	1,034	921	2,055	1,527
<b>Total other operating income</b>	<b>10,960</b>	<b>8,804</b>	<b>23,124</b>	<b>18,055</b>
<b>Other operating expense:</b>				
Salaries and employee benefits	17,615	14,243	36,677	30,452
Net occupancy	2,301	2,289	4,575	5,044
Equipment	1,280	1,328	2,453	2,525
Amortization of core deposit premium	974	1,655	1,948	2,955
Communication expense	1,208	1,069	2,376	2,153
Legal and professional services	2,323	1,724	4,189	4,360
Computer software expense	647	840	1,240	1,668



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Advertising expense	528	493	1,274	1,258
Other	4,582	5,073	10,505	9,208
Total other operating expense	31,458	28,714	65,237	59,623
Income before income taxes	31,144	27,600	61,196	51,345
Income taxes	10,706	9,698	21,419	16,238
Net income	\$ 20,438	\$ 17,902	\$ 39,777	\$ 35,107
Per share data:				
Basic earnings per share	\$ 0.67	\$ 0.59	\$ 1.31	\$ 1.19
Diluted earnings per share	0.66	0.58	1.29	1.17
Cash dividends declared	0.21	0.19	0.42	0.35
Basic weighted average shares outstanding	30,466	30,364	30,453	29,501
Diluted weighted average shares outstanding	30,783	30,843	30,768	30,025

See accompanying notes to unaudited consolidated financial statements.

## CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands, except per share data)	Common Stock	Surplus	Retained Earnings	Deferred Stock Awards	Accumulated Other Comprehensive Loss	Total
Six months ended June 30, 2006						
Balance at December 31, 2005	\$ 428,012	\$ 46,432	\$ 218,341	\$ (612)	\$ (15,939)	\$ 676,234
Net income			39,777			39,777
Net change in unrealized loss on investment securities, net of taxes of \$5,410					(8,035)	(8,035)
Comprehensive income						31,742
Cash dividends (\$0.42 per share)			(12,796)			(12,796)
538 shares of common stock purchased by directors deferred compensation plan	(20)					(20)
32,958 shares of common stock issued in conjunction with stock option exercises	478					478
Share-based compensation expense		1,702				1,702
Tax benefit related to stock option exercises		664				664
Reclassification of share-based plans	(723)	925		612		