

CENTRAL PACIFIC FINANCIAL CORP
Form 10-Q
May 08, 2009

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, 2009

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)

Hawaii
(State or other jurisdiction of
incorporation or organization)

99-0212597
(I.R.S. Employer
Identification No.)

220 South King Street, Honolulu, Hawaii 96813
(Address of principal executive offices) (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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

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to submit and post such files). Yes T 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 T	Non-accelerated filer £	Smaller reporting company £
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes £ No T

The number of shares outstanding of registrant’s common stock, no par value, on May 1, 2009 was 28,741,504 shares.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

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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 may include the words “believes”, “plans”, “intends”, “expects”, “anticipate”, “forecasts” 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 limited to: the impact of local, national, and international economies and events (including natural disasters such as wildfires, tsunamis and earthquakes) on the Company’s business and operations and on tourism, the military, and other major industries operating within the Hawaii market and any other markets in which the Company does business; 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 changes in asset quality; adverse conditions in the public debt market, the stock market or other capital markets, including any adverse changes in the price of the Company's stock; and a general deterioration or malaise in economic conditions, including the continued destabilizing factors in the financial industry and continued deterioration of the real estate market, as well as the impact of declining levels of consumer and business confidence in the state of the economy in general and in financial institutions in particular. For further information on factors that could cause actual results to materially differ from projections, please see the Company’s publicly available Securities and Exchange Commission filings, including the Company’s Form 10-K/A for the last fiscal year. The Company does not update any of its forward-looking statements.

Item 1. Financial Statements

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands)	March 31, 2009	December 31, 2008
Assets		
Cash and due from banks	\$ 78,170	\$ 107,270
Interest-bearing deposits in other banks	10,199	475
Federal funds sold	7,000	-
Investment securities:		
Available for sale	933,215	742,600
Held to maturity (fair value of \$7,622 at March 31, 2009 and \$8,759 at December 31, 2008)	7,523	8,697
Total investment securities	940,738	751,297
Loans held for sale	63,056	40,108
Loans and leases	3,818,900	4,030,266
Less allowance for loan and lease losses	122,286	119,878
Net loans and leases	3,696,614	3,910,388
Premises and equipment, net	77,828	81,059
Accrued interest receivable	20,887	20,079
Investment in unconsolidated subsidiaries	14,338	15,465
Other real estate	16,558	11,220
Goodwill	152,689	152,689
Other intangible assets	43,122	39,783
Bank-owned life insurance	136,437	135,371
Federal Home Loan Bank stock	48,797	48,797
Income tax receivable	47,728	42,400
Other assets	77,398	75,960
Total assets	\$ 5,431,559	\$ 5,432,361
Liabilities and Equity		
Deposits:		
Noninterest-bearing demand	\$ 612,045	\$ 627,094
Interest-bearing demand	511,919	472,269
Savings and money market	1,290,521	1,057,881
Time	1,588,088	1,754,322
Total deposits	4,002,573	3,911,566
Short-term borrowings	83,474	279,450
Long-term debt	623,903	649,257
Other liabilities	54,227	55,748
Total liabilities	4,764,177	4,896,021
Equity:		
Preferred stock, no par value, authorized 1,000,000 shares; issued and outstanding		

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135,000 shares at March 31, 2009 and none at December 31, 2008	127,836	-
Common stock, no par value, authorized 100,000,000 shares, issued and outstanding 28,740,217 shares at March 31, 2009 and 28,732,259 shares at December 31, 2008	403,203	403,176
Surplus	62,276	55,963
Retained earnings	64,524	63,762
Accumulated other comprehensive income (loss)	(500)	3,390
Total shareholders' equity	657,339	526,291
Non-controlling interest	10,043	10,049
Total equity	667,382	536,340
Total liabilities and equity	\$ 5,431,559	\$ 5,432,361

See accompanying notes to consolidated financial statements.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Amounts in thousands, except per share data)	Three Months Ended March 31,	
	2009	2008
Interest income:		
Interest and fees on loans and leases	\$ 56,505	\$ 70,294
Interest and dividends on investment securities:		
Taxable interest	8,729	9,271
Tax-exempt interest	1,171	1,389
Dividends	3	24
Interest on deposits in other banks	-	4
Interest on Federal funds sold and securities purchased under agreements to resell	-	21
Dividends on Federal Home Loan Bank stock	-	122
Total interest income	66,408	81,125
Interest expense:		
Interest on deposits:		
Demand	321	137
Savings and money market	2,863	3,785
Time	9,894	14,729
Interest on short-term borrowings	238	1,923
Interest on long-term debt	6,619	9,694
Total interest expense	19,935	30,268
Net interest income	46,473	50,857
Provision for loan and lease losses	26,750	34,272
Net interest income after provision for loan and lease losses	19,723	16,585
Other operating income:		
Service charges on deposit accounts	3,537	3,543
Other service charges and fees	3,320	3,415
Income from fiduciary activities	970	1,005
Equity in earnings of unconsolidated subsidiaries	274	283
Fees on foreign exchange	116	194
Investment securities losses	(150)	-
Loan placement fees	248	153
Net gain on sales of residential loans	4,009	1,798
Income from bank-owned life insurance	1,070	1,870
Other	2,290	2,018
Total other operating income	15,684	14,279
Other operating expense:		
Salaries and employee benefits	16,260	17,364
Net occupancy	3,279	2,853
Equipment	1,512	1,395
Amortization and impairment of other intangible assets	1,421	1,169
Communication expense	1,139	1,085
Legal and professional services	2,716	2,413

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Computer software expense	912	863
Advertising expense	755	682
Foreclosed asset expense	135	2,590
Write down of assets	435	-
Other	9,134	1,046
Total other operating expense	37,698	31,460
Loss before income taxes	(2,291)	(596)
Income tax benefit	(4,920)	(2,254)
Net income	2,629	1,658
Preferred stock dividends and accretion	1,867	-
Net income available to common shareholders	\$ 762	\$ 1,658
Per common share data:		
Basic earnings per share	\$ 0.03	\$ 0.06
Diluted earnings per share	0.03	0.06
Cash dividends declared	-	0.25
Shares used in computation:		
Basic shares	28,681	28,686
Diluted shares	28,692	28,801

See accompanying notes to consolidated financial statements.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Dollars in thousands)	Three Months Ended March 31,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 2,629	\$ 1,658
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan and lease losses	26,750	34,272
Depreciation and amortization	2,090	1,864
Gain on sale of premises and equipment	(3,612)	-
Write down of assets	435	-
Foreclosed asset expense	135	2,590
Amortization and impairment of other intangible assets	1,421	1,169
Net amortization of investment securities	674	462
Share-based compensation	(437)	612
Net loss on investment securities	150	-
Deferred income tax expense	3,412	6,776
Net gain on sales of residential loans	(4,009)	(1,798)
Ineffective portion of derivatives	184	-
Proceeds from sales of loans held for sale	542,074	353,790
Originations of loans held for sale	(561,013)	(352,083)
Tax benefits from share-based compensation	-	(40)
Equity in earnings of unconsolidated subsidiaries	(274)	(283)
Increase in cash surrender value of bank-owned life insurance	(1,066)	(1,870)
Increase in income tax receivable	(5,328)	(9,419)
Net change in other assets and liabilities	(7,105)	(11,445)
Net cash provided by (used in) operating activities	(2,890)	26,255
Cash flows from investing activities:		
Proceeds from maturities of and calls on investment securities available for sale	59,080	201,684
Proceeds from sales of investment securities available for sale	2,135	-
Purchases of investment securities available for sale	(245,902)	(213,065)
Proceeds from maturities of and calls on investment securities held to maturity	1,162	19,187
Net loan originations	66,693	(151,089)
Proceeds from sales of loans originated for investment	98,444	-
Proceeds from sale of other real estate	201	-
Proceeds from bank-owned life insurance	-	843
Proceeds from sale of premises and equipment	7,207	-
Purchases of premises and equipment	(2,454)	(2,527)
Distributions from unconsolidated subsidiaries	553	620
Net cash used in investing activities	(12,881)	(144,347)
Cash flows from financing activities:		
Net increase (decrease) in deposits	91,007	(222,698)
Proceeds from long-term debt	-	30,000
Repayments of long-term debt	(25,268)	(30,365)
Net increase (decrease) in short-term borrowings	(195,976)	352,375

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Cash dividends paid on common stock	-	(7,190)
Cash dividends paid on preferred stock	(675)	-
Tax benefits from share-based compensation	-	40
Repurchases of common stock	-	(1,825)
Net proceeds from issuance of common stock and stock option exercises	50	194
Net proceeds from issuance of preferred stock and warrants	134,257	-
Net cash provided by financing activities	3,395	120,531
Net increase (decrease) in cash and cash equivalents	(12,376)	2,439
Cash and cash equivalents at beginning of period	107,745	82,129
Cash and cash equivalents at end of period	\$ 95,369	\$ 84,568
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 20,681	\$ 31,190
Income taxes	1,531	1,315
Cash received during the period for:		
Income taxes	192	-
Supplemental disclosure of noncash investing and financing activities:		
Net change in common stock held by directors' deferred compensation plan	\$ 23	\$ 20
Net reclassification of loans to other real estate	5,539	2,000
Net transfer of loans to loans held for sale	-	60,080
Securitization of residential mortgage loans into available for sale mortgage backed securities	15,823	-
Dividends accrued on preferred stock	863	-
Accretion of preferred stock discount	329	-

See accompanying notes to consolidated financial statements.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Central Pacific Financial Corp. (referred to herein as “the Company,” “we,” “us,” or “our”) have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These interim condensed consolidated financial statements and notes should be read in conjunction with the Company’s consolidated financial statements and notes thereto filed on Form 10-K/A for the fiscal year ended December 31, 2008. In the opinion of management, all adjustments necessary for a fair presentation have been made and include all normal recurring adjustments. Interim results of operations are not necessarily indicative of results to be expected for the year.

Certain prior period amounts in the consolidated financial statements and the notes thereto have been reclassified to conform to the current period presentation. Such reclassifications had no effect on net income or shareholders’ equity for any periods presented.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

On January 1, 2009, we adopted the following new accounting pronouncements:

- FSP FAS 157-2 – FASB Staff Position FAS No. 157-2, “Effective Date of FASB Statement No. 157,”
- FSP FAS 142-3 - FASB Staff Position FAS No. 142-3, “Determination of the Useful Life of Intangible Assets,”
- SFAS 141(R) – Statement of Financial Accounting Standards No. 141(R), “Business Combinations,”
- SFAS 160 – Statement of Financial Accounting Standards No. 160, “Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51,”
- SFAS 161 – Statement of Financial Accounting Standards No. 161, “Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement 133,” and
- FSP EITF 03-6-1 – FASB Staff Position EITF No. 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.”

The adoption of these pronouncements did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued three Staff Positions (“FSPs”) that are intended to provide additional application guidance and enhance disclosures about fair value measurements and impairments of securities. FSP FAS 157-4 clarifies the objective and method of fair value measurement even when there has been a significant decrease in market activity for the asset being measured. FSP FAS 115-2 and FAS 124-2 establishes a new model for measuring other-than-temporary impairments for debt securities, including establishing criteria for when to recognize a write-down through earnings versus other comprehensive income. FSP FAS 107-1 and APB 28-1 expands the fair value disclosures required for all financial instruments within the scope of SFAS No. 107, “Disclosures about Fair Value of Financial Instruments,” to interim periods. We plan to adopt these FSPs effective beginning April 1, 2009 and are assessing the potential impact that the adoption of these FSPs may have on our consolidated financial statements

and related disclosures.

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3. INVESTMENT SECURITIES

A summary of investment securities is as follows:

Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
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