

CENTRAL PACIFIC FINANCIAL CORP
Form 10-Q
November 09, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

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 **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 **T**

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 **T**

The number of shares outstanding of registrant's common stock, par value \$.01 per share, on October 31, 2007 was 29,880,993 shares.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

Table of Contents

<u>Part I.</u>	<u>Financial Information</u>
<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u>
	<u>Consolidated Balance Sheets</u> <u>September 30, 2007 and December 31, 2006</u>
	<u>Consolidated Statements of Income</u> <u>Three and nine months ended September 30, 2007 and 2006</u>
	<u>Consolidated Statements of Cash Flows</u> <u>Nine months ended September 30, 2007 and 2006</u>
	<u>Notes to Consolidated Financial Statements</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Results of Operations and Financial Condition</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>
<u>Part II.</u>	<u>Other Information</u>
<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>
<u>Signatures</u>	
<u>Exhibit Index</u>	

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 in economic conditions, including the continued slowing of the real estate market. 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 for the last fiscal year. The Company does not update any of its forward-looking statements.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Dollars in thousands)	September 30, 2007	December 31, 2006
Assets		
Cash and due from banks	\$ 90,161	\$ 129,715
Interest-bearing deposits in other banks	439	5,933
Federal funds sold	14,900	-
Investment securities:		
Held to maturity, at amortized cost (fair value of \$46,977 at September 30, 2007 and \$64,249 at December 31, 2006)	47,465	65,204
Available for sale, at fair value	801,640	833,154
Total investment securities	849,105	898,358
Loans held for sale	31,388	26,669
Loans and leases	4,072,536	3,846,004
Less allowance for loan and lease losses	72,517	52,280
Net loans and leases	4,000,019	3,793,724
Premises and equipment	80,173	77,341
Accrued interest receivable	27,580	26,269
Investment in unconsolidated subsidiaries	16,333	12,957
Goodwill	292,453	297,883
Core deposit premium	29,844	31,898
Mortgage servicing rights	11,111	11,640
Bank-owned life insurance	130,089	102,394
Federal Home Loan Bank stock	48,797	48,797
Other assets	25,232	23,614
Total assets	\$ 5,647,624	\$ 5,487,192
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing demand	\$ 630,586	\$ 661,027
Interest-bearing demand	441,884	438,943
Savings and money market	1,216,991	1,205,271
Time	1,652,798	1,539,242
Total deposits	3,942,259	3,844,483
Short-term borrowings	72,245	79,308
Long-term debt	816,535	740,189
Minority interest	13,110	13,130
Other liabilities	59,503	71,943
Total liabilities	4,903,652	4,749,053
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 29,914,586 shares at September 30, 2007 and 30,709,389 shares at December 31, 2006	419,463	430,904
Surplus	54,686	51,756
Retained earnings	281,682	270,624
Accumulated other comprehensive loss	(11,859)	(15,145)
Total shareholders' equity	743,972	738,139
Total liabilities and shareholders' equity	\$ 5,647,624	\$ 5,487,192

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 September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Interest income:				
Interest and fees on loans and leases	\$ 78,325	\$ 72,444	\$ 231,561	\$ 204,603
Interest and dividends on investment securities:				
Taxable interest	8,386	8,486	25,964	25,996
Tax-exempt interest	1,343	1,227	4,071	3,822
Dividends	83	153	176	264
Interest on deposits in other banks	82	79	156	306
Interest on Federal funds sold and securities purchased under agreements to resell				
	125	31	244	85
Dividends on Federal Home Loan Bank stock				
	73	-	195	-
Total interest income	88,417	82,420	262,367	235,076
Interest expense:				
Interest on deposits:				
Demand	139	136	418	428
Savings and money market	6,321	4,969	18,773	11,667
Time	17,925	14,050	51,182	37,329
Interest on short-term borrowings	302	1,221	1,110	2,035
Interest on long-term debt	10,900	8,949	31,484	26,163
Total interest expense	35,587	29,325	102,967	77,622
Net interest income	52,830	53,095	159,400	157,454
Provision for loan and lease losses	21,200	300	24,800	1,350
Net interest income after provision for loan and lease losses	31,630	52,795	134,600	156,104
Other operating income:				
Service charges on deposit accounts	3,581	3,570	10,488	10,563
Other service charges and fees	3,281	2,994	10,052	8,993
Income from fiduciary activities	968	740	2,583	2,157
Equity in earnings of unconsolidated subsidiaries				
	169	90	593	421
Fees on foreign exchange	149	207	541	601
Loan placement fees	248	464	790	1,256
Gains on sales of loans	1,116	680	3,886	4,133
Income from bank-owned life insurance	1,861	1,085	4,075	2,794
Other	379	715	1,434	2,751
Total other operating income	11,752	10,545	34,442	33,669

Edgar Filing: CENTRAL PACIFIC FINANCIAL CORP - Form 10-Q

Other operating expense:				
Salaries and employee benefits	16,240	17,451	49,534	54,128
Net occupancy	2,624	2,399	7,721	6,974
Equipment	1,255	1,171	3,810	3,624
Amortization of core deposit premium	684	974	2,054	2,922
Amortization of mortgage servicing rights	478	547	1,488	1,697
Communication expense	1,032	1,186	3,118	3,562
Legal and professional services	2,223	1,985	6,660	6,174
Computer software expense	869	716	2,561	1,956
Advertising expense	661	515	1,919	1,789
Other	5,487	4,272	14,495	13,627
Total other operating expense	31,553	31,216	93,360	96,453
Income before income taxes	11,829	32,124	75,682	93,320
Income taxes	2,722	11,521	25,424	32,940
Net income	\$ 9,107	\$ 20,603	\$ 50,258	\$ 60,380
Per share data:				
Basic earnings per share	\$ 0.30	\$ 0.67	\$ 1.65	\$ 1.98
Diluted earnings per share	0.30	0.67	1.64	1.96
Cash dividends declared	0.25	0.23	0.73	0.65
Shares used in computation:				
Basic shares	30,192	30,532	30,480	30,465
Diluted shares	30,378	30,838	30,707	30,790

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands)	Nine Months Ended September 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 50,258	\$ 60,380
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	24,800	1,350
Depreciation and amortization	5,303	5,150
Amortization of intangible assets	3,542	4,619
Net amortization of investment securities	1,591	2,236
Net loss on investment securities	-	19
Share-based compensation	2,920	2,580
Deferred income tax (benefit) expense	(6,521)	24
Net gain on sale of loans	(3,886)	(4,133)
Proceeds from sales of loans held for sale	688,923	413,756
Originations of loans held for sale	(689,756)	(370,827)