

CENTRAL PACIFIC FINANCIAL CORP
Form 10-Q
November 09, 2005

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 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 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

(Address of principal executive offices)

96813

(Zip Code)

(808)544-0500

(Registrant's telephone number, including area code)

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

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 October 31, 2005, the number of shares of common stock outstanding of the registrant was 30,412,482 shares.

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 - September 30, 2005 and 2004, and December 31, 2004</u> <u>Consolidated Statements of Income - Three and nine months ended September 30, 2005 and 2004</u> <u>Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Loss - Nine months ended September 30, 2005 and 2004</u> <u>Consolidated Statements of Cash Flows - Nine months ended September 30, 2005 and 2004</u> <u>Notes to Consolidated Financial Statements - September 30, 2005 and 2004</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 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 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. Be advised, we do not update any of our forward-looking statements.

Item 1. Financial Statements

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands)	September 30, 2005	December 31, 2004	September 30, 2004
Assets			
Cash and due from banks	\$ 111,223	\$ 84,869	\$ 114,645
Interest-bearing deposits in other banks	15,971	52,978	33,672
Federal funds sold		25,600	3,160
Investment securities:			
Held to maturity, at amortized cost (fair value of \$76,515 at September 30, 2005, \$101,869 at December 31, 2004, and \$104,694 at September 30, 2004)	77,418	101,337	103,520
Available for sale, at fair value	871,942	749,484	752,144
Total investment securities	949,360	850,821	855,664
Loans held for sale	53,970	17,736	11,256
Loans	3,366,620	3,099,830	3,061,867
Less allowance for loan losses	52,745	50,703	49,879
Net loans	3,313,875	3,049,127	3,011,988
Premises and equipment	72,982	77,099	76,786
Accrued interest receivable	20,787	18,298	17,424
Investment in unconsolidated subsidiaries	12,298	11,536	10,935
Due from customers on acceptances	202	547	231
Other real estate		580	580
Goodwill	299,232	284,712	283,872
Core deposit premium	37,450	49,188	51,124
Other assets	154,212	128,811	141,126
Total assets	\$ 5,041,562	\$ 4,651,902	\$ 4,612,463
Liabilities and shareholders' equity			
Deposits:			
Noninterest-bearing deposits	\$ 659,699	\$ 594,401	\$ 579,337
Interest-bearing deposits	2,811,098	2,732,625	2,718,883
Total deposits	3,470,797	3,327,026	3,298,220
Short-term borrowings	114,448	88,900	56,775
Long-term debt	709,685	587,380	592,673
Bank acceptances outstanding	202	547	231
Minority interest	13,541	12,782	13,082
Other liabilities	67,881	67,405	92,043
Total liabilities	4,376,554	4,084,040	4,053,024
Shareholders' equity:			

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

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 30,412,482 shares at September 30, 2005, 28,159,395 shares at December 31, 2004, and 28,028,455 shares at September 30, 2004	427,458	360,550	359,193
Surplus	46,362	45,848	45,848
Retained earnings	204,765	167,801	159,168
Deferred stock awards	(280)	(174)	(152)
Accumulated other comprehensive loss	(13,297)	(6,163)	(4,618)
Total shareholders' equity	665,008	567,862	559,439
Total liabilities and shareholders' equity	\$ 5,041,562	\$ 4,651,902	\$ 4,612,463

See accompanying notes to unaudited consolidated financial statements.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Interest income:				
Interest and fees on loans	\$ 56,366	\$ 28,591	\$ 161,338	\$ 71,016
Interest and dividends on investment securities:				
Taxable interest	8,980	5,795	24,377	16,422
Tax-exempt interest	1,297	1,068	3,932	3,077
Dividends	93	249	500	657
Interest on deposits in other banks	37	45	242	78
Interest on Federal funds sold and securities purchased under agreements to resell	87	13	166	22
Total interest income	66,860	35,761	190,555	91,272
Interest expense:				
Interest on deposits	9,969	3,853	26,491	9,721
Interest on short-term borrowings	319	138	1,159	241
Interest on long-term debt	6,998	3,204	18,501	7,426
Total interest expense	17,286	7,195	46,151	17,388
Net interest income	49,574	28,566	144,404	73,884
Provision for loan losses	1,000	533	2,917	1,133
Net interest income after provision for loan losses	48,574	28,033	141,487	72,751
Other operating income:				
Income from fiduciary activities	649	559	1,763	1,690
Service charges on deposit accounts	3,383	1,671	8,281	4,482
Other service charges and fees	3,369	1,498	9,173	4,193
Equity in earnings of unconsolidated subsidiaries	263	37	541	37
Fees on foreign exchange	188	149	594	483
Gains on sales of loans	2,134	296	3,323	410
Investment securities gains (losses)	(23)	174	1,423	174
Other	1,511	560	4,431	1,481
Total other operating income	11,474	4,944	29,529	12,950
Other operating expense:				
Salaries and employee benefits	17,594	11,288	48,046	26,859
Net occupancy	2,516	1,292	7,560	3,395
Equipment	1,196	821	3,721	2,020
Amortization of core deposit premium	1,656	645	4,611	645
Communication expense	947	546	3,100	1,433
Legal and professional services	1,600	2,998	5,960	4,488
Computer software expense	553	593	2,221	1,605
Advertising expense	662	728	1,920	1,637

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

Other	5,617	3,148	14,825	8,623
Total other operating expense	32,341	22,059	91,964	50,705
Income before income taxes	27,707	10,918	79,052	34,996
Income taxes	9,710	3,234	25,948	10,734
Net income	\$ 17,997	\$ 7,684	\$ 53,104	\$ 24,262
Per share data:				
Basic earnings per share	\$ 0.59	\$ 0.42	\$ 1.78	\$ 1.44
Diluted earnings per share	0.58	0.41	1.75	1.42
Cash dividends declared	0.19	0.16	0.54	0.48
Basic weighted average shares outstanding	30,401	18,195	29,804	16,796
Diluted weighted average shares outstanding	30,836	18,528	30,266	17,115

See accompanying notes to unaudited consolidated financial statements.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY AND COMPREHENSIVE LOSS

(Unaudited)

	Common Stock	Surplus	Retained Earnings	Deferred Stock Awards	Accumulated other comprehensive loss	Total
Nine months ended September 30, 2005						
Balance at December 31, 2004	\$ 360,550	\$ 45,848	\$ 167,801	\$ (174)	\$ (6,163)	\$ 567,862
Net income			53,104			53,104
Net change in unrealized gain (loss) on investment securities, net of taxes of \$(4,834)					(7,134)	(7,134)
Comprehensive income						45,970
Cash dividends (\$0.54 per share)			(16,071)			(16,071)
2,012,500 shares issued in conjunction with common stock offering	64,210					64,210
239,125 shares of common stock issued in conjunction with stock option exercises	2,626					2,626
1,181 shares of common stock purchased by directors' deferred compensation plan	(46)					(46)
2,893 shares of common stock repurchased	(37)		(69)			(106)
4,355 shares of deferred stock awards granted	155			(155)		
Amortization of vested stock awards				49		49
Tax impact of nonqualified stock options exercised		514				514
Balance at September 30, 2005	\$ 427,458	\$ 46,362	\$ 204,765	\$ (280)	\$ (13,297)	\$ 665,008
Disclosure of reclassification amount:						
Unrealized holding loss on investment securities during period, net of taxes of \$(4,771)	\$	\$	\$	\$	\$ (7,039)	\$ (7,039)
Less reclassification adjustment for gains included in net income, net of taxes of \$63					95	95
Net change in unrealized gain (loss) on investment securities	\$	\$	\$	\$	\$ (7,134)	\$ (7,134)
Nine months ended September 30, 2004						
Balance at December 31, 2003	\$ 9,589	\$ 45,848	\$ 142,635	\$ (50)	\$ (3,423)	\$ 194,599
Net income			24,262			24,262
Net change in unrealized gain (loss) on investment securities, net of taxes of \$(737)					(1,195)	(1,195)

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

Comprehensive income							23,067
Cash dividends (\$0.48 per share)						(7,729)	(7,729)
11,887,012 shares of common stock issued in conjunction with merger with CB Bancshares, Inc.	348,757						348,757
72,686 shares of common stock issued in conjunction with stock option exercises	711						711
2,400 shares of deferred stock awards granted	136				(136)		
Amortization of vested stock awards					34		34
Balance at September 30, 2004	\$ 359,193	\$ 45,848	\$ 159,168	\$ (152)	\$ (4,618)		559,439
Disclosure of reclassification amount:							
Unrealized holding loss on investment securities during period, net of taxes of \$(1,565)	\$	\$	\$	\$	\$	(2,440)	(2,440)
Less reclassification adjustment for gains included in net income, net of taxes of \$828						(1,245)	(1,245)
Net Change in unrealized gain (loss) on investment securities	\$	\$	\$	\$	\$	(1,195)	(1,195)

See accompanying notes to unaudited consolidated financial statements.

CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)	Nine Months Ended September 30,	
	2005	2004
Cash flows from operating activities:		
Net income	\$ 53,104	\$ 24,262
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,917	1,133
Provision for depreciation and amortization	5,786	3,083
Amortization of intangible assets	5,697	4,625
Net amortization of deferred stock awards	50	35
Net amortization of investment securities	3,162	1,451
Net gain on investment securities	(1,423)	(174)
Net gain on sale of loans	(3,323)	(410)
Proceeds from sales of loans held for sale	197,927	31,746
Originations of loans held for sale	(230,838)	(23,772)
Deferred income tax expense (benefit)	14,713	(33,003)
Equity in earnings of unconsolidated subsidiaries	(541)	(37)
Net increase in other assets	(16,539)	(6,969)
Net increase (decrease) in other liabilities	(15,572)	10,775
Net cash provided by operating activities	15,120	12,745
Cash flows from investing activities:		
Proceeds from maturities of and calls on investment securities held to maturity	23,298	5,571
Proceeds from sales of investment securities available for sale	121,524	51,319
Proceeds from maturities of and calls on investment securities available for sale	595,998	388,274
Purchases of investment securities available for sale	(853,066)	(474,846)
Net loan originations	(239,099)	(225,301)
Purchases of premises and equipment	(4,968)	(4,735)
Distributions from unconsolidated subsidiaries		