

CENTRAL PACIFIC FINANCIAL CORP
Form 11-K
June 24, 2009

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

FORM 11-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

or

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-10777

A. Full title of the plan and the address of the plan, if different from that of issuer named below:

CENTRAL PACIFIC BANK
401(k) RETIREMENT SAVINGS PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

CENTRAL PACIFIC FINANCIAL CORP.
220 South King Street
Honolulu, Hawaii 96813

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Report of Independent Registered Public Accounting Firm

The Plan Administrator
Central Pacific Bank
401(k) Retirement Savings Plan:

We have audited the accompanying statements of assets available for benefits of the Central Pacific Bank 401(k) Retirement Savings Plan (the Plan) as of December 31, 2008 and 2007, and the related statements of changes in assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets available for benefits of the Plan as of December 31, 2008 and 2007, and the changes in assets available for benefits for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of schedule H, line 4i – schedule of assets (held at end of year) as of December 31, 2008 is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ KPMG LLP
Honolulu, Hawaii
June 19, 2009

CENTRAL PACIFIC BANK
401(k) RETIREMENT SAVINGS PLAN

Statements of Assets Available for Benefits

December 31, 2008 and 2007

	2008		2007
Investments, at fair value (notes 3 and 4):			
Mutual funds	\$ 43,394,602	\$	61,525,332
Common stock fund	10,114,998		19,273,294
Collective trust fund	20,452,508		14,568,957
Total investments	73,962,108		95,367,583
Participant loans	1,242,857		1,165,129
Receivables (note 8):			
Employer's matching contribution	21,477		474,444
Employer's profit sharing contribution	—		953,962
Participants' contribution	—		123,715
Accrued interest	—		53,962
Total receivables	21,477		1,606,083
Assets reflecting all investments at fair value	75,226,442		98,138,795
Adjustment to contract value for fully benefit-responsive investment (notes 2 and 3)	267,381		(110,235)
Assets available for benefits	\$ 75,493,823	\$	98,028,560

See accompanying notes to financial statements.

CENTRAL PACIFIC BANK
401(k) RETIREMENT SAVINGS PLAN

Statements of Changes in Assets Available for Benefits

Years ended December 31, 2008 and 2007

	2008		2007
Investment loss:			
Net depreciation in fair value of investments (note 3)	\$ (27,916,428)	\$	(20,863,790)
Dividend income	2,544,262		4,454,500
Interest income	787,806		645,639
Total investment loss	(24,584,360)		(15,763,651)
Contributions:			
Participant	3,770,208		3,734,222
Employer – 401(k) matching	1,817,191		1,771,792
Rollovers	600,931		196,432
Employer – profit sharing	—		953,962
Total contributions	6,188,330		6,656,408
	(18,396,030)		(9,107,243)
Deductions:			
Benefits paid	(4,074,088)		(5,104,996)
Administrative expenses (note 4)	(64,619)		(6,903)
	(4,138,707)		(5,111,899)
Net decrease before transfer from other plan	(22,534,737)		(14,219,142)
Transfer from other plan (note 1)	—		1,568,032
Net decrease	(22,534,737)		(12,651,110)
Assets available for benefits:			
Beginning of year	98,028,560		110,679,670
End of year	\$ 75,493,823	\$	98,028,560

See accompanying notes to financial statements.

CENTRAL PACIFIC BANK
401(K) RETIREMENT SAVINGS PLAN

Notes to Financial Statements

December 31, 2008 and 2007

(1) Description of the Plan

The following brief description of the Central Pacific Bank 401(k) Retirement Savings Plan (the Plan) provides only general information. Participants should refer to the Plan documents for a more complete description of the Plan's provisions.

(a) General

The Plan is a defined contribution retirement savings plan covering all employees of Central Pacific Bank and subsidiaries (the Bank) and certain other affiliated companies (note 7). The Plan permits employees to make participant contributions and receive base matching contributions after six months of service. Additionally, employees who have completed one year of employment and 1,000 hours of service during the year are entitled to share in any excess matching, discretionary profit sharing, and Employee Stock Ownership Plan (ESOP) contributions. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

On September 15, 2004, Central Pacific Financial Corp. (the Company) completed its merger with CB Bancshares, Inc. (CBBI) whereby the Company acquired all of CBBI's outstanding shares for cash and stock. Pursuant to the merger agreement, the employees of CBBI and its subsidiaries are eligible to participate in the Company's plan on substantially the same terms as the Company's employees, taking into account for purposes of eligibility and vesting, service by employees of CBBI and its subsidiaries as if such services were with the Company. The Bank is a wholly owned subsidiary of the Company.

On August 17, 2005, the Bank acquired Hawaii HomeLoans, Inc. (HHL). Effective December 31, 2005, the Hawaii HomeLoans, Inc. 401(k) Retirement Savings Plan (HHL Plan) was terminated and plan assets of \$1,568,032 were transferred from the HHL Plan to the Plan in July 2007. Upon the merger of the HHL Plan into the Plan, the provisions of this Plan, as amended, apply to the accounts transferred from the HHL Plan.

(b) Participant Contributions

Participant contributions to the Plan are based on an elected percentage of 1% to 100% of participant compensation. Participants who have attained age 50 before the end of the Plan year are eligible to make catch-up contributions.

(c) Employer Contributions – 401(k)

The Bank may make matching contributions to the Plan out of its own funds equal to 100% of the elective deferrals made by eligible participants, up to a limit of not less than 4% or more than 6% of the participant's eligible compensation with the first 4% referred to as Base Matching Contributions and the balance, if any, referred to as Excess Matching Contributions. The Bank may also make discretionary contributions to eligible participant's accounts. No discretionary contributions were made in 2008 or 2007.

(d) Employer Contributions – Profit Sharing

The Bank's annual profit sharing contribution is at the discretion of the Bank's board of directors. The annual contribution is limited to the maximum allowed deduction for federal income tax purposes and may not exceed 25% of the compensation earned by eligible participants during the Plan year. The participant must be employed on the last day of the Plan year to be eligible to share in any profit sharing contribution. The Bank made no profit sharing contributions for 2008 and \$953,962 for 2007.

(e) Employer Contributions – Employee Stock Ownership Plan

The Central Pacific Bank Employee Stock Ownership Plan (ESOP) was merged in to the Plan effective July 1, 2003. The Bank may make ESOP contributions to the Plan at the discretion of the Bank's board of directors. The annual contribution is limited to the maximum allowed deduction for federal income tax purposes and may not exceed 25% of the compensation earned by eligible participants during the Plan year. No discretionary contributions were made in 2008 or 2007.

(f) Participants' Accounts and Forfeitures

Each participant's account is credited with the participant's contribution, the employer matching contribution, and any specified discretionary contributions, and is credited or charged with an allocation of Plan net earnings or losses and Plan administrative expenses. Daily allocations of Plan net earnings or losses are based on participants' account balances at the end of the previous day. Forfeitures of employer contributions may be (1) reallocated to participants, (2) used to reduce employer contributions, or (3) used to offset Plan expenses. Prior to 2007, the Bank elected to reallocate forfeitures to participants. In February 2007, the Bank elected to use forfeitures to offset Plan expenses as allowed in the Plan document. At December 31, 2008, there were \$7,244 of forfeited nonvested employer matching contributions and \$4,962 of forfeited nonvested profit sharing contributions to be used to offset Plan expenses. At December 31, 2007, there were \$14 of forfeited nonvested employer matching contributions and \$28,685 of forfeited nonvested profit sharing contributions to be used to offset Plan expenses.

(g) Vesting

Participant contributions and employer Base Matching Contributions plus actual earnings thereon are immediately vested. A participant's balance of his or her employer Excess Matching Contribution account and the employer's discretionary contributions are vested based on the participant's years of service, at a rate of 20% per year.

(h) Loans to Participants

Participants may borrow from their account up to 50% of their vested 401(k) account balance up to a maximum of \$50,000, provided that the loan is paid back with interest within 5 years (or 15 years for the purchase of a primary residence). The loans are secured by the balance in the participant's account and bear interest at prevailing rates. Participant loans may be granted for any personal reason. At December 31, 2008, participant loans bear interest at various rates ranging from 3.93% to 9.00% and mature in years beginning in 2009 through 2023. Participant loans are valued at amortized cost.

(i) Payment of Benefits

Upon a participant's death, disability, retirement, or other termination of employment with the Bank, the participant will elect to be paid either a lump-sum amount, periodic installments over a fixed period, a direct rollover to another qualified plan or traditional individual retirement account, or a combination of these options equal to the value of his or her account. If a participant's vested interest in his or her account is \$1,000 or less, the participant's vested interest may be distributed to the participant in a lump sum as soon as practicable after the participant's severance from employment. No consent of the participant is required for this involuntary cashout to be made.

(j) Administration

The Plan is administered by an administrative committee, which is composed of certain appointed employees of the Bank. The administrative committee has the responsibility of selecting the investment options of the trust into which participants can direct their contributions.

Vanguard Fiduciary Trust Company (the Trustee) is the trustee of the Plan. The Trustee has the responsibilities of investing, holding, collecting, distributing, and accounting for the assets of the trust.

All expenses incurred in the administration of the Plan have been paid by the Bank to the extent not paid by the Plan.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

As described in Financial Accounting Standards Board Staff Position, FSP AAG INV-1 and SOP 94-4-1, Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans (FSP), investment contracts held by a defined-contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the assets available for benefits of a defined-contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the plan. As required by the FSP, the statements of assets available for benefits presents the fair value of the investment contracts as well as the adjustment of the fully benefit-responsive investment contracts from fair value to contract value. The statements of changes in assets available for benefits is prepared on a contract value basis.

(b) Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management of the Plan to make a number of estimates and assumptions relating to the reported amounts of assets and changes therein and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(c) Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 applies to fair value measurements that are already required or permitted under existing accounting pronouncements with some exceptions. SFAS 157 retains the exchange price notion in defining fair value and clarifies that the exchange price is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability. It emphasizes that fair value is a market-based, not an entity-specific, measurement based upon the assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions in fair value measurements, SFAS 157 establishes a hierarchy that gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). SFAS 157 expands disclosures about the use of fair value, including disclosure of the level within the hierarchy in which the fair value measurements fall and the effect of the measurements on earnings (or changes in assets) for the period. The Plan adopted SFAS 157 on January 1, 2008.

(d) Investment Valuation and Income Recognition

The Plan's investments are stated at fair value in accordance with SFAS 157. SFAS 157 discusses acceptable valuation techniques and inputs to these techniques. These inputs are assumptions market participants use in pricing investments. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs, which are summarized as follows:

Level 1 – Valuation is based upon quoted prices (unadjusted) for identical assets or liabilities traded in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of discounted cash flow models and similar techniques that require the use of significant judgment or estimation.

The common stock fund is valued at its year-end unit closing price (comprised of year-end market price plus uninvested cash position). Quoted market prices in active markets are used to value the mutual funds. The collective trust fund invests primarily in guaranteed investment contracts and synthetic investment contracts with insurance companies which are fully benefit-responsive. This investment is presented at the fair value of units held by the Plan as of December 31 in the statements of assets available for benefits, including separate disclosure of the adjustment to contract value, which is equal to principal balance plus accrued interest. As provided in the FSP, an investment contract is generally valued at contract value, rather than fair value, to the extent it is fully benefit-responsive. The fair value of fully benefit-responsive investment contracts is calculated using a discounted cash flow model which considers (i) recent fee bids as determined by recognized dealers, (ii) discount rate, and (iii) the duration of the underlying portfolio securities.

Net depreciation in fair value of investments includes realized and unrealized changes in the values of investments bought, sold, and held during the year.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2008:

	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 43,394,602	\$ -	\$ -	\$ 43,394,602
Common stock fund	10,114,998	-	-	10,114,998
Collective trust fund	-	20,452,508	-	20,452,508
	\$ 53,509,600	\$ 20,452,508	\$ -	\$ 73,962,108

(e) Payment of Benefits

Benefits are recorded when paid.

(f) Risks and Uncertainties

The Plan may invest in various types of investment securities, including shares of Central Pacific Financial Corp. common stock held in the Central Pacific Financial Corp. stock fund (CPF Stock Fund). Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of assets available for benefits.

Recent market conditions have resulted in an unusually high degree of volatility and increased the risks and short-term liquidity associated with certain investments held by the Plan, which could impact the value of investments after the date of these financial statements.

(3) Investments

The following presents investments as of December 31, 2008 and 2007. Investments that represent 5% or more of the Plan's assets available for benefits are separately identified.

	2008	2007
Mutual funds:		
Vanguard PRIMECAP Fund	\$ 6,859,901	\$ 10,089,113
Vanguard Target Retirement 2020 Fund	4,518,418	6,366,920
Vanguard Growth and Income Fund	3,001,534	5,310,674
Vanguard Total International Stock Index Fund	2,758,192	6,265,104
American Century Value Fund	—	5,985,814
Others	26,256,557	27,507,707
	43,394,602	61,525,332
Common stock fund – Central Pacific Financial Corp. stock fund	10,114,998	19,273,294
Collective trust fund – Vanguard Retirement Savings Trust, at fair value	20,452,508	14,568,957
Adjustment from fair value to contract value	267,381	(110,235)
Collective trust fund, at contract value	20,719,889	14,458,722
Total investments	\$ 74,229,489	\$ 95,257,348

During 2008 and 2007, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year), appreciated (depreciated) in value as follows:

	2008	2007
Central Pacific Financial Corp. stock fund	\$ (8,403,516)	\$ (21,008,870)
Mutual funds	(19,512,912)	145,080
	\$ (27,916,428)	\$ (20,863,790)

(4) Related-Party Transactions

Plan investments include shares of mutual funds, shares of a collective trust fund, and participant loans managed by an affiliate of the Trustee. Therefore, these transactions qualify as party-in-interest. Administrative expenses paid to the Trustee amounted to \$64,619 and \$6,903 for the years ended December 31, 2008 and 2007, respectively.

Plan investments also include 997,517 and 1,032,466 shares of Central Pacific Financial Corp. common stock held in the CPF Stock Fund as of December 31, 2008 and 2007, respectively.

(5) Plan Termination

Although it has not expressed any intent to do so, the Bank has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100% vested in their employer contributions.

(6) Tax Status

The Plan obtained its latest determination letter in 2002, in which the Internal Revenue Service (IRS) stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code (the Code). The Plan has been amended since receiving the determination letter. The Company has identified a compliance issue with respect to the Plan and is working with its legal counsel to determine the necessary actions required to adequately resolve this technical plan compliance issue (note 8).

(7) Plan Amendments

Effective October 1, 2007, the Plan limited participant investment holdings in the CPF Stock Fund to 20% of such participant's total Plan account balance. This was adopted in order to limit the risk of single stock investments. Participants with CPF Stock Fund holdings greater than 20% on October 1, 2007 were grandfathered and not required to liquidate their holdings. However, these participants could not increase their holdings in the CPF Stock Fund and would be subject to the restriction if their holdings in the CPF Stock Fund fell below 20%.

Effective July 1, 2008, the Plan revised the definition of "Company" under the Plan to permit certain affiliated companies that have previously entered into joint venture agreements with the Company to participate in the Plan.

(8) Technical Plan Compliance Issues

In 1999, the Plan was converted to a “safe-harbor” 401(k) plan. A “safe-harbor” plan automatically meets the nondiscrimination tests under Section 401(k) of the Code because the employer makes certain required contributions. However, the Bank never intended to and never has matched contributions made under a Cash or Deferred Arrangement (CODA) option which through December 31, 2005 allowed participants to receive one-half of their profit-sharing contribution allocation in cash or defer such amount to their 401(k) account. Since CODA contributions were not matched, the Plan has never met the safe harbor requirements. The Company voluntarily proposed to correct these specific ERISA violations through a Voluntary Correction Program filing with the IRS in July 2007. The Company made an accrual in 2005 for CODA matching contributions, including earnings thereon, amounting to \$398,098 for the years 2000 through 2005. At December 31, 2007, the accrual amounted to \$393,508, of which \$339,546 is included in employer’s matching contribution receivable and \$53,962 is included in accrued interest receivable in the accompanying December 31, 2007 statement of assets available for benefits. The Company does not believe that an accrual for profit sharing contributions or interest thereon is necessary for participants not employed on the last day of the year since it was always its intent that participants be employed on the last day of the year. In addition, all Plan correspondence to participants indicated that participants had to be employed on the last day of the Plan year. The Company received notification from the IRS in November 2007 that the corrections proposed by the Company adequately resolve the technical plan compliance issues. The CODA matching contributions and earnings thereon were subsequently paid by the Company to the Plan in February 2008.

The employer’s matching contributions for the years 1996 through 2007 were overstated due to an administrative error in the calculation of such amounts for the initial year that new participants in the Plan were eligible to receive such contributions. The amount of excess contributions was not significant to the Plan’s financial statements in any individual year. The Company is currently working with its legal counsel to determine the necessary actions required to adequately resolve this technical plan compliance issue.

CENTRAL PACIFIC BANK
401(k) RETIREMENT SAVINGS PLAN

Schedule H, Line 4i – Schedule of Assets (Held at End of Year)

December 31