

HEALTHSOUTH CORP
Form DEF 14A
December 02, 2005
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
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HealthSouth Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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HEALTHSOUTH CORPORATION

ONE HEALTHSOUTH PARKWAY

BIRMINGHAM, ALABAMA 35243

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Our 2005 annual meeting of stockholders will be held at One HealthSouth Parkway, Birmingham, Alabama on December 29, 2005, beginning at 11:00 a.m., Central Time. The meeting is being held for the following purposes:

- (1) To elect ten directors to serve until our next annual meeting of stockholders or until their successors shall have been duly elected and qualified;

- (2) To consider a stockholder proposal if properly presented at the annual meeting; and

- (3) To act on any other matter that may properly come before the annual meeting or any adjournment(s) or postponement(s) of the annual meeting.

All stockholders of record who own shares of our common stock at the close of business on November 28, 2005 are entitled to receive notice of and to vote at the annual meeting. A complete list of stockholders entitled to vote at the meeting will be open for examination by our stockholders, during regular business hours, for a period of ten days prior to the meeting, at the meeting place.

WHETHER OR NOT YOU INTEND TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, DATE, SIGN AND PROMPTLY RETURN THE ACCOMPANYING FORM OF PROXY, USING THE ENCLOSED PREPAID ENVELOPE OR VOTE ON THE INTERNET OR BY TELEPHONE IN ACCORDANCE WITH THE INSTRUCTIONS SET FORTH ON THE PROXY CARD. IF YOU ATTEND THE ANNUAL MEETING IN PERSON, YOU MAY REVOKE YOUR PROXY AND VOTE IN PERSON. ATTENDANCE AT THE MEETING DOES NOT OF ITSELF REVOKE YOUR PROXY.

IMPORTANT NOTICE REGARDING DELIVERY OF SECURITY HOLDER DOCUMENTS

In accordance with notices previously sent to stockholders, HealthSouth is delivering one annual report and proxy statement in one envelope addressed to all stockholders who share a single address unless they have notified us that they wish to opt out of the program known as householding. Householding is intended to reduce our printing and postage costs. **We will deliver a separate copy of the annual report or proxy statement promptly upon written or oral request.**

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If you are a beneficial stockholder and you choose not to have the aforementioned disclosure documents sent to a single household address as described above, you must opt-out by writing to ADP Investor Communication Services, Householding Department, 51 Mercedes Way, Edgewood, New York 11717 or by calling 1-800-542-1061 and we will cease householding all such disclosure documents within 30 days. If we do not receive instructions to remove your account(s) from this service, your account(s) will continue to be househeld until we notify you otherwise. If you own common stock in nominee name (such as through a broker), information regarding householding of disclosure documents should have been forwarded to you by your broker.

By Order of the Special Committee

of the Board of Directors

Gregory L. Doody
Executive Vice President,
General Counsel and Secretary

Birmingham, Alabama

December 2, 2005

This proxy statement and the accompanying form of proxy are being sent to our stockholders in connection with our solicitation of proxies for use at the 2005 annual meeting of our stockholders or at any adjournment(s) or postponement(s) of the annual meeting.

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HEALTHSOUTH CORPORATION

PROXY STATEMENT

INTRODUCTION

The annual meeting of stockholders will be held on December 29, 2005, beginning at 11:00 a.m., Central Time, at our principal executive offices, located at One HealthSouth Parkway, Birmingham, Alabama 35243. We encourage all of our stockholders to vote at the annual meeting, and we hope that the information contained in this document will help you decide how you wish to vote at the annual meeting. These proxy solicitation materials are being sent to our stockholders on or about December 5, 2005.

THE ANNUAL MEETING

Purpose of the Annual Meeting

The purpose of the annual meeting is to elect a board of directors to serve until our 2006 annual meeting of stockholders or until their successors are duly elected and qualified, to consider a stockholder proposal as described in this proxy statement, if properly presented at the time, and to act on any other matter that may properly come before the annual meeting of stockholders of HealthSouth Corporation for the fiscal year ending December 31, 2005.

Proxy Solicitation

This proxy solicitation is being made by the Special Committee of the board of directors of HealthSouth, which was established on April 4, 2003 in response to the events of March 19, 2003 and the revelation of the accounting fraud that occurred under HealthSouth's prior management. Our board of directors delegated to the Special Committee, to the fullest extent permitted by Delaware law, all authority that may be delegated to the Special Committee, and authorized the Special Committee, to the fullest extent permitted by Delaware law, to exercise all of the powers and authority of the board of directors in the management of the business and affairs of HealthSouth when the board of directors is not in session. The Special Committee currently consists of all members of the board of directors except Richard M. Scrusby, who has refused our requests to resign as a director. We anticipate that the Special Committee will be disbanded following the annual meeting.

To assist us in soliciting proxies, we have retained Innisfree M&A Incorporated, a proxy soliciting firm, and we have agreed to pay Innisfree M&A Incorporated a fee of \$15,000, and all reasonable out-of-pocket expenses incurred by it in connection with the provision of its services. In addition, our directors, officers and other employees, not specifically employed for this purpose, may also solicit proxies by personal interview, mail, telephone or other electronic transmission. They will not receive additional compensation for their efforts. We will bear the entire cost of this proxy solicitation. We will request banks, brokers, nominees, custodians and other fiduciaries, who hold shares of HealthSouth common stock in street name, to forward these proxy solicitation materials to the beneficial owners of those shares and we will reimburse them the reasonable out-of-pocket expenses they incur in doing so.

Quorum; Voting Rights

Our Special Committee has determined that those stockholders who are recorded in our record books as owning shares of HealthSouth common stock as of the close of business on November 28, 2005, are entitled to receive notice of and to vote at the annual meeting. As of the record date, there were 397,804,441 shares of HealthSouth common stock issued and outstanding. Our common stock is our only class of outstanding voting securities.

Before any business may be transacted at the annual meeting, a quorum must be present. A quorum will be present if a majority of the shares of HealthSouth common stock which are entitled to vote at the annual meeting are present in person or represented by proxy at the annual meeting. Broker non-votes, if any, will be counted as shares present for purposes of determining the presence of a quorum.

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Each share of common stock is entitled to one vote on any matter to properly come before the annual meeting. There are no dissenters' rights of appraisal in connection with any stockholder vote to be taken at the annual meeting.

Voting at the Annual Meeting; Proxies

To vote at the annual meeting, you may attend the annual meeting and vote your shares of HealthSouth common stock in person, or you may appoint a person to act as your proxy who will vote your shares at the annual meeting in accordance with your instructions. If you wish to appoint a proxy who will vote your shares of HealthSouth common stock on your behalf at the annual meeting, you should complete, date, sign and return the form of proxy accompanying this document by using the enclosed prepaid envelope or vote on the Internet or by telephone in accordance with the instructions set forth on the proxy card. If you cast your vote in any of the ways set forth on the proxy card in accordance with the instructions, your shares of HealthSouth common stock will be voted in accordance with the voting instructions you completed on the proxy, unless you have validly revoked the proxy. If you are a beneficial owner and wish to attend the annual meeting and vote your shares in person you must request and obtain a valid proxy card from your bank, broker or other agent or nominee. Follow the instructions from your bank, broker or other agent or nominee included with these proxy materials, or contact your bank, broker or other agent or nominee to request a power of attorney or other proxy authority. If you vote in person at the annual meeting, you will revoke any prior proxy you may have submitted.

IF YOUR PROXY DOES NOT SPECIFY HOW YOUR SHARES ARE TO BE VOTED, YOUR SHARES OF HEALTHSOUTH COMMON STOCK WILL BE VOTED FOR THE ELECTION OF EACH NOMINEE NAMED UNDER THE SECTION OF THIS DOCUMENT CAPTIONED "ELECTION OF DIRECTORS" AND WILL BE COUNTED AS ABSTENTIONS WITH REGARDS TO THE STOCKHOLDER PROPOSAL. UNDER DELAWARE LAW, ABSTENTIONS HAVE THE SAME EFFECT AS A VOTE AGAINST THE PROPOSAL.

We do not currently anticipate that any other matters will be presented for action at the annual meeting. If any other matters are properly presented for action, the person(s) named on your proxy will vote your shares of HealthSouth common stock on these other matters in their discretion, under the discretionary authority you have granted to them in your proxy.

You may revoke your proxy at any time prior to its exercise at the annual meeting by:

- providing a signed, original notice of written revocation of your proxy dated later than the proxy you wish to revoke;
- properly completing and delivering another proxy (including by telephone or by the Internet) which is granted and dated after any other proxy previously granted by you; or
- attending the annual meeting and voting in person.

Notices of revocation should be addressed to us as follows:

**HEALTHSOUTH CORPORATION ONE HEALTHSOUTH PARKWAY BIRMINGHAM, ALABAMA 35243 ATTENTION:
SECRETARY**

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In order to revoke your proxy, we must receive an original notice of revocation of your proxy at the address above sent by U.S. mail or overnight courier. You may not revoke your proxy by any other means. If you grant a proxy, you are not prevented from attending the annual meeting and voting in person. However, your attendance at the annual meeting will not by itself revoke a proxy that you have previously granted; you must vote in person at the annual meeting to revoke your proxy. If you have instructed your broker, nominee, custodian, or other

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fiduciary to vote your shares of HealthSouth common stock, you must contact that fiduciary and follow its directions on how to change your vote.

Effect of Abstentions and Broker Non-Votes

We intend to count abstentions and broker non-votes for the purpose of determining if a quorum is present at the annual meeting. An abstention will occur at the annual meeting if your shares of HealthSouth common stock are deemed to be present at the annual meeting, either because you attend the annual meeting or because you have properly completed and returned a proxy, but you do not vote on any proposal or other matter which is required to be voted on by our stockholders at the annual meeting. A broker non-vote will occur if your shares of HealthSouth common stock are held by a broker or nominee and your shares are deemed to be present at the annual meeting but you have not instructed your broker or nominee how to vote your shares. Brokerage firms that hold shares in street name may not vote a client's shares with respect to any non-discretionary item if the client has not furnished voting instructions to the brokerage firm. You should consult your broker if you have any questions about this.

Required Vote To Approve Each Proposal

Election of Directors

Election of the director nominees named in Proposal One requires the affirmative vote of a plurality of the shares of our common stock present in person or represented by proxy at the annual meeting and entitled to vote. Shares will be voted, if authority to do so is not withheld, for the election of the Special Committee of the board of directors' nominees named in Proposal One. Votes may be cast in favor of or withheld with respect to all of the director nominees, or any of them. Broker non-votes, if any, will not be counted as having been voted and will have no effect on the outcome of the vote on the election of directors. Stockholders may not cumulate votes in the election of directors.

Approval of Stockholder Proposal

Approval of the stockholder proposal, as set forth in Proposal Two, requires the affirmative vote of a majority of the shares of our common stock present in person or represented by proxy at the annual meeting and entitled to vote. Abstentions will be counted toward the tabulation of votes cast on this proposal and will have the same effect as a vote against this proposal. Broker non-votes, if any, will have no effect on the vote for this proposal.

No other matters are expected to be voted on at the annual meeting.

Recommendation of the Special Committee

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Our Special Committee recommends that you vote **FOR** the election of all ten of its nominees for director. Our Special Committee makes no voting recommendation with respect to the stockholder proposal.

PRINCIPAL STOCKHOLDERS

The following table sets forth information regarding the beneficial ownership of our common stock as of September 30, 2005, for (a) each person who is known by us to own beneficially more than 5% of the outstanding shares of our common stock, (b) each of our incumbent directors, (c) each of our named executive officers, and (d) all of our incumbent directors and executive officers as a group.

The percentages of shares outstanding provided in the table below are based on 397,224,001 voting shares outstanding as of September 30, 2005. Beneficial ownership is determined in accordance with rules established by the United States Securities and Exchange Commission (the SEC) and generally includes voting or investment power with respect to securities. Unless otherwise indicated, each person or entity named in the table

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has sole voting and investment power, or shares voting and investment power with his or her spouse, with respect to all shares of stock listed as owned by that person. The number of shares shown does not include the interest of certain persons in shares held by family members in their own right. Shares issuable upon the exercise of options that are exercisable within 60 days of September 30, 2005 are considered beneficially owned and outstanding for the purpose of calculating the percentage of outstanding shares of our common stock held by the individual, but not for the purpose of calculating the percentage of outstanding shares held by any other individual. The address of our directors and executive officers is c/o HealthSouth Corporation, One HealthSouth Parkway, Birmingham, Alabama 35243.

Name of Beneficial Owner	Shares of Common Stock	Percentage of Class
Duquesne Capital Management, L.L.C. ⁽¹⁾	27,042,600	6.8%
Steven R. Berrard	16,644	*
Edward A. Blechschmidt	26,851	*
Donald L. Correll	6,466	*
Yvonne M. Curl	7,962	*
Charles M. Elson	11,961	*
Gregory L. Doody ⁽²⁾	81,667	*
Jay Grinney ⁽³⁾	533,334	*
Jon F. Hanson ⁽⁴⁾	106,226	*
Leo I. Higdon, Jr.	12,601	*
John Markus ⁽⁵⁾	81,667	*
John E. Maupin, Jr.	12,082	*
Robert P. May ⁽⁶⁾	97,096	*
Richard M. Scrushy	3,719,661	*
L. Edward Shaw, Jr.	6,466	*
Michael D. Snow ⁽⁷⁾	210,000	*
John L. Workman ⁽⁸⁾	100,834	*
All directors and executive officers as a group	5,520,012	1.4%

* Less than 1%

(1) Duquesne Capital Management, L.L.C. and its affiliate, Mr. Stanley F. Druckenmiller, located at 40 West 57th Street, 25th Floor, New York, New York 10019, may be deemed to beneficially own 26,997,600 shares of our common stock and share the power to vote or direct the vote, and the power to dispose or direct the disposition of these shares. This information is based on a Schedule 13G filed by Duquesne Capital Management, L.L.C. and Mr. Stanley F. Druckenmiller with the Securities and Exchange Commission on June 30, 2005.

(2) Includes 21,667 shares issuable upon exercise of options.

(3) Includes 333,334 shares issuable upon exercise of options.

(4) Includes 50,000 shares issuable upon exercise of options and 11,000 shares held in trust over which he has investment power. Does not include 30,000 shares held by his spouse.

(5) Includes 21,667 shares issuable upon exercise of options.

(6) Includes 50,000 shares issuable upon exercise of options.

(7) Includes 35,000 shares issuable upon exercise of options.

(8) Includes 18,334 shares issuable upon exercise of options.

We know of no arrangements, the operation of which may at a subsequent date result in the change of control of HealthSouth.

PROPOSAL ONE ELECTION OF DIRECTORS

Our Special Committee proposes that each of the ten nominees listed below be elected at the annual meeting as members of our board of directors, to serve until the annual meeting of our stockholders in 2006 or until such nominee's successor is duly elected and qualified. The affirmative vote of a majority of the shares of HealthSouth common stock present in person or represented by proxy and entitled to vote at the annual meeting

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is required for the election of each nominee. Unless otherwise instructed on the proxy, the persons designated as proxies will vote the shares represented by them FOR the election of the nominees listed below. If a nominee becomes unable or unwilling to accept the nomination or election, the persons designated as proxies will be entitled to vote for any other person designated as a substitute nominee by our Special Committee. **THE SPECIAL COMMITTEE RECOMMENDS VOTING FOR THE ELECTION OF THE TEN NOMINEES LISTED BELOW.**

Nominees for Director

Information relating to each of the nominees proposed by our Special Committee for election as one of our directors is set out below. We have no reason to believe that any of the following nominees will be unable to serve.

Name	Age on 12/2/2005	Position	Date Became Director
Steven R. Berrard*	51	Director; Member of Special Committee, Audit Committee, and Finance Committee (Chairman)	1/31/2004
Edward A. Blechschmidt*	53	Director; Member of Special Committee and Audit Committee (Chairman)	1/31/2004
Donald L. Correll*	55	Director; Member of Special Committee, Audit Committee, and Finance Committee	6/29/2005
Yvonne M. Curl*	50	Director; Member of Special Committee, Compensation Committee, Corporate Compliance Committee, and Settlement Committee (ad hoc)	11/18/2004
Charles M. Elson*	46	Director; Member of Special Committee, Nominating/Corporate Governance Committee (Chairman), and Settlement Committee (ad hoc)	9/9/2004
Jay Grinney	54	Director; Member of Special Committee; President and Chief Executive Officer	5/10/2004
Jon F. Hanson*	69	Director; Chairman of the Board of Directors; Member of Special Committee, Audit Committee ⁽¹⁾ , Finance Committee, and Nominating/Corporate Governance Committee	9/17/2002
Leo I. Higdon, Jr.*	59	Director; Member of Special Committee, Compensation Committee (Chairman), Finance Committee, and Settlement Committee (ad hoc) (Chairman)	8/17/2004
John E. Maupin, Jr.*	59	Director; Member of Special Committee, Corporate Compliance Committee (Chairman), and Nominating/Corporate Governance Committee	8/17/2004
L. Edward Shaw, Jr.*	61	Director; Member of Special Committee, Compensation Committee, Corporate Compliance Committee, and Settlement Committee (ad hoc)	6/29/2005

* Denotes independent director.

(1) Mr. Hanson will leave the Audit Committee immediately after the filing of our Form 10-K for the fiscal year ended December 31, 2004, which was filed the same date as this proxy statement.

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Steven R. Berrard Managing Partner, New River Capital Partners

Mr. Berrard is Co-Founder and Managing Partner of New River Capital Partners, a private equity fund. He co-founded and worked until 1999 as Co-Chief Executive Officer of AutoNation, Inc., which through its affiliated dealers is the largest new and used vehicle retailer in the United States. He also served as Vice Chairman of Blockbuster Entertainment Corporation prior to its acquisition by Viacom in 1994. Mr. Berrard held various finance positions in his career, including Chief Financial Officer of Blockbuster. Mr. Berrard currently serves on the board of directors of Services Acquisition Corp. International.

Edward A. Blechschmidt

Mr. Blechschmidt was Chairman, Chief Executive Officer and President of Gentiva Health Services, Inc., a leading provider of specialty pharmaceutical and home health care services, from March 2000 to June 2002. From March 1999 to March 2000, Mr. Blechschmidt served as Chief Executive Officer and a director of Olsten Corporation. He served as President of Olsten Corporation from October 1998 to March 1999. He also served as President and Chief Executive Officer of Siemens Nixdorf Americas and Siemens Pyramid Technology from July 1996 to October 1998. Prior to Siemens, he spent more than 20 years with Unisys Corp., including serving as its Chief Financial Officer. Mr. Blechschmidt serves as a director of Option Care, Inc., Neoforma, Inc., Lionbridge Technologies, Inc. and Columbia Laboratories, Inc.

Donald L. Correll President and Chief Executive Officer, Pennichuck Corporation

Since August 4, 2003, Mr. Correll has served as President and Chief Executive Officer of Pennichuck Corporation, a publicly traded holding company who, through its subsidiaries, provides public water supply services, certain water related services, and certain real estate activities, including property development and management. From 1991 to 2001, Mr. Correll served as Chairman, President and Chief Executive Officer of United Water Resources, a water and wastewater utility company. Prior to 1991, Mr. Correll spent nearly 15 years with United Water, including serving as its Chief Financial Officer. From 2001 to 2003, Mr. Correll served as an independent advisor to water service and investment firms on issues relating to marketing, acquisitions and investments in the water services sector. Mr. Correll also serves as a director of Interchange Financial Services Corporation and as a Commissioner of the New Jersey Water Supply Authority.

Yvonne M. Curl

Ms. Curl is a former Vice President and Chief Marketing Officer of Avaya, Inc., which position she held from October 2000 through April 2004. From 1976 to 2000, Ms. Curl served in a number of middle and senior management positions at Xerox Corporation. Ms. Curl currently serves as a director of Nationwide Mutual Insurance Company and Charming Shoppes, Inc.

Charles M. Elson Director, John L. Weinberg Center for Corporate Governance, University of Delaware

Mr. Elson holds the Edgar S. Woolard, Jr., Chair in Corporate Governance and is the Director of the John L. Weinberg Center for Corporate Governance at the University of Delaware. Mr. Elson has served on the National Association of Corporate Directors' Commissions on Director

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Compensation, Executive Compensation and the Role of the Compensation Committee, Director Professionalism, CEO Succession, Audit Committees, Strategic Planning, and Director Evaluation, was a member of its Best Practices Council on Coping with Fraud and Other Illegal Activity, and presently serves on that organization's Advisory Council. In addition, Mr. Elson serves as Vice Chairman of the American Bar Association's Committee on Corporate Governance and is a member of the American Bar Association's Committee on Corporate Laws. Mr. Elson serves as a director of Alderwoods Group, Inc., and AutoZone, Inc.

Jay Grinney President and Chief Executive Officer, HealthSouth Corporation

Mr. Grinney was named our President and Chief Executive Officer on May 10, 2004. From June 1990 to May 2004, Mr. Grinney served in a number of middle and senior management positions with HCA or its

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predecessor companies, in particular, serving as President of HCA's Eastern Group from May 1996 to May 2004, President of the Greater Houston Division from October 1993 to April 1996 and as Chief Operating Officer of the Houston Region from November 1992 to September 1993. Before joining HCA, Mr. Grinney held several executive positions during a nine year career at the Methodist Hospital System in Houston, Texas.

Jon F. Hanson Chairman and Founder, The Hampshire Companies

Mr. Hanson is the Chairman and founder of The Hampshire Companies and has over 46 years of experience in the real estate industry. Mr. Hanson was named non-executive Chairman of the Board of HealthSouth, effective October 1, 2005. Since 1994, Mr. Hanson has served as Chairman of the National Football Foundation and College Hall of Fame, Inc. Since 1991, Mr. Hanson has served as a director of Prudential Financial Corp., and he has also served as a director of the Hackensack University Medical Center for the past 18 years. Mr. Hanson also currently serves as a director of Pascack Community Bank and Yankee Global Enterprises.

Leo I. Higdon, Jr. President, College of Charleston

On October 1, 2001, Mr. Higdon became the 20th President of the College of Charleston. Between 1997 and 2001, Mr. Higdon served as President of Babson College in Wellesley, Massachusetts, a leading school of entrepreneurship. He also served as Dean of the Darden Graduate School of Business Administration at the University of Virginia. His financial experience includes a 20-year tenure at Salomon Brothers, where he became Vice Chairman and member of the executive committee, managing the Global Investment Banking Division. Mr. Higdon serves as a director of Chemtura Corporation, Eaton Vance Corp., and Newmont Mining.

John E. Maupin, Jr. President and Chief Executive Officer, Meharry Medical College

Dr. Maupin is President and Chief Executive Officer of Meharry Medical College, a position he has held since 1994. Dr. Maupin came to Meharry from the Morehouse School of Medicine, where he served as Executive Vice President and Chief Operating Officer from 1989 to 1994. Before joining Morehouse, he was Chief Executive Officer of Southside Healthcare, Inc., from 1987 to 1989 and prior to that Deputy Commissioner of Health of the Baltimore City Health Department from 1981 to 1987. Dr. Maupin serves as a director of Pinnacle Financial Partners, Inc., LifePoint Hospitals, and VALIC Companies I and II of American International Group, Inc.

L. Edward Shaw, Jr. Of Counsel, Gibson Dunn & Crutcher LLP

Since September 1, 2004, Mr. Shaw has been Of Counsel with the New York office of Gibson Dunn & Crutcher LLP, a law firm based in Los Angeles with national and international offices. From January 1, 2004 to August 31, 2004, Mr. Shaw practiced law as a sole practitioner in the areas of corporate governance and securities regulation and compliance. From May 1999 to December 31, 2003, Mr. Shaw served as General Counsel of Aetna, Inc., one of the leading providers of health and group insurance benefits in the United States. Mr. Shaw also served as an Executive Vice President and member of the office of the Chairman of Aetna from September 2000 to December 31, 2004. Mr. Shaw also serves as a director of Mine Safety Appliances Co. and Covenant House, the nation's largest privately-funded provider of crisis care to children.

Other Director Not Nominated for Election

Richard M. Scrusy currently sits on our board of directors. Mr. Scrusy's employment with us was terminated on March 19, 2003, but he refused our requests that he resign as a director. Mr. Scrusy has not been nominated to continue serving as a member of our board of directors. Certain information relating to Mr. Scrusy is presented below.

<u>Name</u>	<u>Age on 12/2/2005</u>	<u>Position</u>	<u>Date Became Director</u>
Richard M. Scrusy	53	Director	2/22/1984

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Mr. Scrusby was the principal founder of HealthSouth and acted as Chairman of the Board and Chief Executive Officer of the company from 1984 until March 19, 2003 (except for a period from late August 2002 until early January 2003, when he served as Chairman of the Board only). On March 19, 2003, our board of directors placed Mr. Scrusby on administrative leave following our discovery of a broad governmental investigation into HealthSouth's financial reporting and related practices conducted during his management of the company. Shortly thereafter, the outside directors on our board unanimously declared Mr. Scrusby's employment agreement null and void and removed him from his positions as Chairman of the Board and Chief Executive Officer, effective March 19, 2003.

MANAGEMENT MATTERS

There are no arrangements or understandings known to us between any of the individuals listed above and any other person pursuant to which a director was or is to be elected as a director or nominee, other than any arrangements or understandings with directors or officers of HealthSouth acting solely in their capacities as such. There are no family relationships between any directors or executive officers of HealthSouth. Other than as described in the section entitled "Involvement in Certain Legal Proceedings" below, none of our directors, nominees or executive officers is a party to any material proceedings adverse to us or any of our subsidiaries or has a material interest adverse to us or any of our subsidiaries.

The board of directors did not meet during the fiscal year ended December 31, 2004. However, the Special Committee of the board of directors met 21 times during the fiscal year ended December 31, 2004.

The Special Committee has determined that each of Steven R. Berrard, Edward A. Blechschmidt, Donald L. Correll, Yvonne M. Curl, Charles M. Elson, Jon F. Hanson, Leo I. Higdon, Jr., John E. Maupin, Jr. and L. Edward Shaw, Jr. is an independent director based on our Corporate Governance Guidelines. Each of these directors also satisfies the definition of independence contained in Rule 303.01 of the listing standards for the New York Stock Exchange and Rule 4200(a)(14) of the listing standards of the National Association of Securities Dealers.

Committees of the Board of Directors

Our board of directors has the following five standing committees: Audit Committee, Compensation Committee, Corporate Compliance Committee, Finance Committee, and Nominating/Corporate Governance Committee. Each of our board committees is governed by a charter, a current copy of which is available on our corporate website at www.healthsouth.com under the heading "About HealthSouth/Corporate Governance & Ethics." Board committee charters are also available in print to stockholders upon request, addressed to HealthSouth Corporation, One HealthSouth Parkway, Birmingham, Alabama 35243, Attention: Secretary.

In addition, as previously mentioned, our board of directors created the Special Committee and delegated to the Special Committee, to the fullest extent permitted by Delaware law, all authority that may be delegated to the Special Committee, and authorized the Special Committee, to the fullest extent permitted by Delaware law, to exercise all of the powers and authority of the board of directors in the management of the business and affairs of HealthSouth when the board of directors is not in session. The Special Committee currently consists of all members of the board of directors except Richard M. Scrusby, who has refused our requests to resign as a director. We anticipate that the Special Committee will be disbanded following the annual meeting.

Audit Committee

The Audit Committee's purpose is to assist the board of directors in fulfilling its responsibilities with respect to the oversight of the accounting and financial reporting practices of HealthSouth, including oversight of the integrity of our financial statements and compliance with legal and regulatory requirements, the qualifications

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and independence of our independent registered public accounting firm, and the performance of our internal audit function and our independent registered public accounting firm. The Audit Committee is also charged with preparation of an audit committee report, retention and termination of our independent registered public accounting firm, annual review of the report of our independent registered public accounting firm, and discussion with our independent registered public accounting firm of the audited and quarterly financial statements of HealthSouth and any audit problems or difficulties and management's response thereto.

The Audit Committee consists of Steven R. Berrard, Edward A. Blechschmidt (Chairman), Donald L. Correll, and Jon F. Hanson, each of whom the Special Committee has determined is independent (in accordance with the definitions of independence contained in Rule 303.01 of the listing standards for the New York Stock Exchange, Rule 4200(a)(14) of the listing standards for the National Association of Securities Dealers, and our Corporate Governance Guidelines). In addition, the board of directors has determined that each of Edward A. Blechschmidt, Steven R. Berrard, and Donald L. Correll is an audit committee financial expert as defined by SEC rules. The formal report of our Audit Committee can be found on page 33 of this proxy statement. The Audit Committee met 13 times during the fiscal year ended December 31, 2004. A copy of the audit committee charter is attached hereto as *Appendix A*. Mr. Hanson will leave the Audit Committee immediately after the filing of our Form 10-K for the fiscal year ended December 31, 2004, which was filed the same date as this proxy statement.

Compensation Committee

The Compensation Committee's purpose is to oversee the development of our compensation objectives and policies and to review and recommend to the board of directors the individual compensation of our executive officers in order to attract and retain high-quality personnel to help ensure our long-term success and the creation of long-term stockholder value.

The primary objectives and direct responsibilities of the Compensation Committee are to:

review and approve the objectives of our compensation programs and policies, including our benefit plans;

enable the board of directors to discharge its responsibilities relating to the compensation of our executive officers;

make recommendations with respect to incentive compensation plans and equity-based plans;

review and approve corporate goals and objectives relevant to the compensation of the chief executive officer and other executive officers;

evaluate the performance of the chief executive officer in light of those goals and objectives;

determine and approve the base compensation level of and incentive compensation for the chief executive officer based on this evaluation;

approve base compensation and incentive compensation levels for other executive officers for ratification by the board of directors;

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recommend to the board of directors all equity-based awards;

act as (or designate) an administrator for such plans as may be required; and

review and recommend to the board of directors fees and retainers for members of the board of directors and members and chairpersons of committees of the board of directors.

The Compensation Committee consists of Yvonne M. Curl, Leo I. Higdon, Jr. (Chairman), and L. Edward Shaw, Jr. The formal report of our Compensation Committee can be found on page 29 of this proxy statement. The Compensation Committee met eight times during the fiscal year ended December 31, 2004.

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Corporate Compliance Committee

The Corporate Compliance Committee's function is to assist our board of directors in fulfilling its fiduciary responsibilities relating to our regulatory compliance activities. The committee is primarily responsible for overseeing, monitoring, and evaluating HealthSouth's compliance with all of its regulatory obligations other than tax and securities law related obligations.

The primary objectives and responsibilities of the Corporate Compliance Committee are to:

ensure the establishment and maintenance of a regulatory compliance program that constitutes an effective program to prevent and detect violations of law as defined by guidelines promulgated by the United States Sentencing Commission;

appoint and oversee the activities of a chief compliance officer with responsibility for developing and implementing our regulatory compliance program;

monitor the company's compliance with any Corporate Integrity Agreement (CIA) or similar undertaking, with the Office of Inspector General, U.S. Department of Health and Human Services or any other government agency;

review and approve an annual regulatory compliance program and audit plan developed by the chief compliance officer;

perform, or have performed, an annual evaluation of the performance of the chief compliance officer and the compliance office;

review periodic reports from the chief compliance officer, including an annual regulatory compliance report summarizing compliance-related activities undertaken by HealthSouth during the year and the results of all regulatory compliance audits conducted during the year; and

recommend such actions or measures or adopted by the board that it deems appropriate.

The Corporate Compliance Committee consists of Yvonne M. Curl, John E. Maupin, Jr. (Chairman), and L. Edward Shaw, Jr. The Corporate Compliance Committee met six times during the fiscal year ended December 31, 2004.

Finance Committee

The Finance Committee is responsible for assisting our board of directors in the oversight of the use and development of our financial resources, including our financial structure, investment policies and objectives, long-term financial strategy and financial needs, and other matters of a financial and investment nature.

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The primary objectives and direct responsibilities of the Finance Committee are to review, evaluate, and make recommendations to the board of directors regarding HealthSouth's:

Name and Principal Position	Year	Payouts					
		Salary (\$)	Restricted Stock Award (\$)	Securities Underlying Options/SARs (#)*	Bonus (\$)	LTIP** Payout (\$)	All Other Compensation (\$)
Clint Arnoldus	2004	516,692			180,000		1,080,791(1)
Chief Executive Officer, Central Pacific Financial Corp. and Central Pacific Bank	2003	469,203			49,605		61,448(2)
	2002	452,972	505,218		40,000		503,239(3)
Neal K. Kanda	2004	244,341	71,250				139,334(4)
President and Chief Operating Officer, Central Pacific Financial Corp. and Central Pacific Bank	2003	219,300			15,457		42,890(5)
	2002	210,002	126,073		16,338		45,943(6)
Alwyn S. Chikamoto,	2004	191,580	48,668				138,904(7)
Executive Vice President, Commercial Real Estate, Central Pacific Bank	2003	183,600			12,941		42,501(8)
	2002	165,673	72,000		11,192		45,773(9)
Blenn A. Fujimoto,	2004	191,580	48,668				136,093(10)
Executive Vice President, Hawaii Market, Central Pacific Bank	2003	183,600			12,941		39,940(11)
	2002	157,670	110,000		6,924		41,160(12)
Dean K. Hirata,	2004	54,178	33,750				6,771(13)
Executive Vice President, Chief Financial Officer, Central Pacific Financial Corp. and Central Pacific Bank	2003	N/A	N/A	N/A	N/A	N/A	N/A
	2002	N/A	N/A	N/A	N/A	N/A	N/A
Denis K. Isono,	2004	185,845	47,316				134,411(14)
Executive Vice President, Operations and Services, Central Pacific Financial Corp. and Central Pacific Bank	2003	178,500			8,388		29,917(15)
	2002	116,002	100,000				31,899(16)
Douglas R. Weld,	2004	56,875	37,500				5,996(17)
Executive Vice President and Chief Credit Officer, Central Pacific Bank	2003	N/A	N/A	N/A	N/A	N/A	N/A
	2002	N/A	N/A	N/A	N/A	N/A	N/A

* SAR stands for "Stock Appreciation Rights" and refers to SARs payable in cash or stock, including SARs payable in cash or stock at the election of the Company or Named Executive Officer.

** LTIP stands for "Long-Term Incentive Plan" and refers to any plan providing compensation intended to serve as an incentive for performance to occur over a period longer than one fiscal year, whether such performance is measured by reference to financial performance of the Company or an affiliate, the Company's stock price, or any other measure, but excluding restricted stock, stock option and SAR Plans.

(1) Includes contributions to the Bank's Cash or Deferred Arrangement ("CODA")/Profit Sharing Plan and the Bank's 401(k) Plan for the account of Mr. Arnoldus of \$18,791 and \$8,200, respectively, a \$12,000 automobile allowance, and a \$1,080,000 one-time merger bonus.

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- (2) Includes contributions to the Bank's Cash or Deferred Arrangement ("CODA")/Profit Sharing Plan and the Bank's 401(k) Plan for the account of Mr. Arnoldus of \$23,198 and \$8,000, respectively, a \$12,000 automobile allowance, and \$15,556 related to residential security system expenses.
- (3) Includes \$260,000 representing a sign-on bonus, \$210,905 representing payments for relocation expenses, including \$88,448 related to the sale of Mr. Arnoldus' former residence and purchase of new residence, \$18,304 related to temporary housing expenses, \$17,968 related to residential security system expenses, \$95,076 related to "gross-up" payments for additional personal income tax obligations resulting from the relocation expense reimbursement, and a \$11,877 automobile allowance.
- (4) Includes contributions to the Bank's CODA/Profit Sharing Plan and the Bank's 401(k) Plan for the account of Mr. Kanda of \$18,791 and \$8,200, respectively, a \$8,400 automobile allowance, and a \$100,000 merger-related executive retention bonus.
- (5) Includes contributions to the Bank's CODA/Profit Sharing Plan and the Bank's 401(k) Plan for the account of Mr. Kanda of \$23,198 and \$8,000, respectively, and a \$8,400 automobile allowance.
- (6) Includes contributions to the Bank's CODA/Profit Sharing Plan, the Bank's ESOP and the Bank's 401(k) Plan for the account of Mr. Kanda of \$13,234, \$13,406 and \$8,000, respectively, and a \$8,400 automobile allowance.

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- (7) Includes contributions to the Bank's CODA/Profit Sharing Plan and the Bank's 401(k) Plan for the account of Mr. Chikamoto of \$18,791 and \$8,200, respectively, a \$8,400 automobile allowance, and a \$100,000 merger-related executive retention bonus.
- (8) Includes contributions to the Bank's CODA/Profit Sharing Plan and the Bank's 401(k) Plan for the account of Mr. Chikamoto of \$23,198 and \$8,000, respectively, and a \$8,400 automobile allowance.
- (9) Includes contributions to the Bank's CODA/Profit Sharing Plan, the Bank's ESOP and the Bank's 401(k) Plan for the account of Mr. Chikamoto of \$13,234, \$13,406 and \$8,000, respectively, and a \$8,400 automobile allowance.
- (10) Includes contributions to the Bank's CODA/Profit Sharing Plan and the Bank's 401(k) Plan for the account of Mr. Fujimoto of \$18,791 and \$8,200, respectively, an automobile allowance of \$8,400, and a \$100,000 merger-related executive retention bonus.
- (11) Includes contributions to the Bank's CODA/Profit Sharing Plan and the Bank's 401(k) Plan for the account of Mr. Fujimoto of \$23,198 and \$8,000, respectively, and an automobile allowance of \$8,400.
- (12) Includes contributions to the Bank's CODA/Profit Sharing Plan, the Bank's ESOP and the Bank's 401(k) Plan for the account of Mr. Fujimoto of \$12,741, \$13,100 and \$7,577, respectively, and an automobile allowance of \$7,000.
- (13) Includes contributions to the Bank's CODA/Profit Sharing Plan for the account of Mr. Hirata of \$1,625, and an automobile allowance of \$2,700. Mr. Hirata became an executive officer of the Company on September 15, 2004 with the CB Bancshares, Inc. merger.
- (14) Includes contributions to the Bank's CODA/Profit Sharing Plan and the Bank's 401(k) Plan for the account of Mr. Isono of \$14,301 and \$8,200, respectively, an automobile allowance of \$8,400, and a \$100,000 merger-related executive retention bonus.
- (15) Includes contributions to the Bank's CODA/Profit Sharing Plan and the Bank's 401(k) Plan for the account of Mr. Isono of \$12,549 and \$6,268, respectively, and an automobile allowance of \$8,400.
- (16) Includes a sign-on bonus of \$25,000, and an automobile allowance of \$5,600.
- (17) Includes contributions to the Bank's CODA/Profit Sharing Plan for the account of Mr. Weld of \$1,706, and an automobile allowance of \$2,800. Mr. Weld became an executive officer of the Company on September 15, 2004 with the CB Bancshares, Inc. merger.

Option Grants. Mr. Arnoldus was granted 180,000 Company stock options during 2004 at an exercise price of \$27.50 per share. There were no other option grants to our Named Executive Officers during 2004.

The following table provides information with respect to the Named Executive Officers concerning the granting of options during the fiscal year ended December 31, 2004. As of December 31, 2004, the Company has not granted any stock appreciation rights.

OPTION GRANTS DURING FISCAL YEAR 2004

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(2)	
	Number of Shares Underlying Options Granted	Percentage of Total Options Granted to Employees in 2004	Exercise Price Per Share	Option Expiration Date	5%	10%
ARNOLDUS, Clint	180,000(1)	100.0%	\$ 27.50	9/15/14	\$ 3,113,028	\$ 7,889,025
KANDA, Neal K.	N/A	N/A	N/A	N/A	N/A	N/A
CHIKAMOTO, Alwyn S.	N/A	N/A	N/A	N/A	N/A	N/A
FUJIMOTO, Blenn A.	N/A	N/A	N/A	N/A	N/A	N/A
HIRATA, Dean K.	N/A	N/A	N/A	N/A	N/A	N/A

Individual Grants

ISONO, Denis K.	N/A	N/A	N/A	N/A	N/A	N/A
WELD, Douglas R.	N/A	N/A	N/A	N/A	N/A	N/A

- (1) The options granted to Mr. Arnoldus are subject to a vesting schedule pursuant to which one-third shall vest annually on the anniversary of the grant date. The grant date was September 15, 2004.
- (2) The potential realizable value of each grant of options included in the table represents the potential value assuming that the market price of the underlying shares appreciates in value from the date of grant to the end of the option term at an annualized rate of 5% or 10%. Actual gains, if any, on stock option exercises will depend upon the actual future market price of the Company's stock.

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Option Exercises and Holdings. The following table provides information with respect to the Named Executive Officers concerning the exercise of options during the fiscal year ended December 31, 2004 and unexercised options held by the Named Executive Officers as of December 31, 2004

AGGREGATED OPTION EXERCISES DURING FISCAL YEAR 2004 AND 2004 FISCAL YEAR-END OPTION VALUES

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Unexercised Options at 12/31/04		Value of Unexercised In- the-Money Options* at 12/31/04	
			Exercisable	Unexercisable	Exercisable	Unexercisable
ARNOLDUS, Clint			59,842	209,763	\$ 1,008,681	\$ 1,809,121
KANDA, Neal K.			12,724	19,071	178,055	266,825
CHIKAMOTO, Alywn S.			9,655	14,478	129,788	194,611
FUJIMOTO, Blenn A.			26,509	16,556	525,454	252,248
HIRATA, Dean K.			40,404		1,043,059	
ISONO, Denis K.			3,357	5,031	28,031	42,009
WELD, Douglas R.						

*

The value of unexercised "in-the-money" options is the difference between the market price of the Common Stock on December 31, 2004 (\$36.17 per share) and the exercise price of the option, multiplied by the number of shares subject to the option.

Defined Benefit Pension Plan. The Bank has a Defined Benefit Pension Plan that was closed to new participants effective December 31, 2002. To be eligible, an executive must have been hired prior to December 2, 2001. Accordingly, Messrs. Arnoldus, Hirata, Isono and Weld are not eligible to receive benefits pursuant to the Defined Benefit Pension Plan.

The table below shows estimated annual retirement benefits at age 65 for various levels of executive compensation and service under the Bank's Defined Benefit Pension Plan.

PENSION PLAN TABLE

Annualized Final Average Compensation	Years of Service				
	15 Years	20 Years	25 Years	30 Years	35 Years
\$ 50,000	\$ 5,625	\$ 7,500	\$ 9,375	\$ 11,250	\$ 13,125
100,000	11,250	15,000	18,750	22,500	26,250
150,000	16,875	22,500	28,125	33,750	39,375
200,000	22,500	30,000	37,500	45,000	52,500
250,000	28,125	37,500	46,875	56,250	65,625
300,000	33,750	45,000	56,250	67,500	78,750
350,000	39,375	52,500	65,625	78,750	91,875
400,000	45,000	60,000	75,000	90,000	105,000
450,000	50,625	67,500	84,375	101,250	118,125
500,000	56,250	75,000	93,750	112,500	131,250

Under the Defined Benefit Pension Plan, benefits are based upon the employee's years of service and highest average annual salary in the final 60-consecutive month period of service as of December 31, 2002. The credited years of service as of December 31, 2004 for Messrs. Kanda, Chikamoto and Fujimoto are 13, 25 and 2, respectively.

Supplemental Executive Retirement Arrangements. The Company also has non-qualified, unfunded supplemental executive retirement arrangements ("SERA") for certain executive officers. For Mr. Arnoldus, the SERA provides a lump sum payment equal to the actuarial equivalent of a joint and 100% survivor annuity payable for life and upon his death to his current spouse for life starting at age 65. The

annuity amount on which the SERA benefit will be based is equal to (A) the product of his years of service with the Company, up to a maximum of 15 years, multiplied by $3\frac{1}{3}\%$ of the average of his salary and bonus for the three fiscal years preceding his termination, reduced by (B) the actuarial equivalent of his benefit under the Social Security Act and any other retirement benefits provided by the Company. For Mr. Kanda, the SERA provides a benefit equal to the difference between (A) the benefit which would have accrued under the Company's Defined Benefit Pension Plan, without regard to limitations imposed by laws and regulations governing such plans, reduced by (B) the benefit that actually accrued under the Defined Benefit Pension Plan. The Defined Benefit Pension Plan was curtailed effective December 31, 2002, and accordingly, no new benefits are accruing to Mr. Kanda. Each of Mr. Hirata and Mr. Weld is entitled to receive, upon termination, a SERA benefit calculated as if the Supplemental Executive Retirement Agreement between each of Messrs. Hirata and Weld and CB Bancshares, Inc. (the "CB SERP") had continued in effect until the date of termination of his employment and a SERA benefit calculated under the "change of control" provisions of the CB SERP as of the date of the merger of the Company and CB Bancshares, Inc. The nominal SERA benefit under the CB SERP would be a life annuity equal to the greater of (A) 65% of final average compensation, less 50% of his social security benefit and less any pension benefits accrued under any CB Bancshares defined contribution plan or (B) the full SERA benefit that he would have received had he remained in the employ of CB Bancshares and retired at age 65 and calculated as of the date of the merger of the Company and CB Bancshares, Inc. The 65% formula is reduced by 2.5% for each year of service less than 25 years of service and increased by 2.5% for each year of service exceeding 25 years of service (subject to a maximum adjusted percentage of 70%). The final average compensation means the average base salary plus bonus for the five year period preceding the executive's termination of employment.

Employment Arrangements

Effective September 14, 2004, the Company entered into a separate Employment Agreement with each of (a) Clint Arnoldus, Chief Executive Officer and Vice Chairman of the Company and the Bank, (b) Ronald K. Migita, Chairman of the Company and the Bank, (c) Neal K. Kanda, President and Chief Operating Officer of the Company and the Bank, (d) Dean K. Hirata, Executive Vice President and Chief Financial Officer of the Company and the Bank, (e) Douglas R. Weld, Executive Vice President and Chief Credit Officer of the Bank, (f) Alwyn S. Chikamoto, Executive Vice President, Commercial Real Estate, of the Bank, (g) Blenn A. Fujimoto, Executive Vice President, Hawaii Market, of the Bank and (h) Denis K. Isono, Executive Vice President, Operations and Services of the Company and the Bank.

Terms of Mr. Arnoldus' Agreement

Under his agreement, Mr. Arnoldus receives an annual base salary of \$600,000 with a minimum bonus target of 50% of his base salary.

The Company may terminate Mr. Arnoldus' employment at any time and Mr. Arnoldus may resign at any time. If the Company chooses to terminate Mr. Arnoldus' employment for reasons other than "cause" (as defined in his agreement) or if Mr. Arnoldus resigns for "good reason" (as defined in his agreement), the Company will be required to pay Mr. Arnoldus a lump sum payment equal to twice his base salary and target bonus, and Mr. Arnoldus will become entitled to his supplemental retirement benefit. In addition, the Company will be required to pay Mr. Arnoldus his accrued and unpaid compensation, a pro rata target bonus, continued health and welfare benefits for Mr. Arnoldus and his wife for life, accelerated vesting of all equity awards, relocation reimbursement and outplacement assistance. Mr. Arnoldus will be subject to a non-solicitation and non-competition requirement for the remainder or the term of his employment agreement.

In the event of a change of control of the Company, Mr. Arnoldus may voluntarily resign during the sixty-day period following the sixth month after the change of control date. In the event Mr. Arnoldus' employment is terminated in anticipation of or following a change of control, he will be entitled to the

same benefits he would have received had he been terminated without cause or resigned for good reason except that his severance amount will be three times base salary and target bonus. He will also be entitled to payments to cover any excise tax liability (on an after-tax basis) under Section 4999 of the Internal Revenue Code with respect to his payments under the employment agreement.

Terms of Mr. Migita's Agreement

Under his agreement, Mr. Migita receives an annual base salary of \$200,000 and ordinary course directors fees.

The Company may terminate Mr. Migita's employment at any time, and Mr. Migita may resign at any time. If the Company chooses to terminate Mr. Migita's employment for reasons other than "cause" (as defined in his agreement) or if Mr. Migita resigns for "good reason" (as defined in his agreement), the Company will be required to pay to Mr. Migita his accrued but unpaid compensation, a lump-sum payment of salary for the remainder of the term, continued health and welfare benefits for the remainder of the term and accelerated vesting of all equity awards. Mr. Migita will be subject to a non-solicitation and non-competition requirement for the remainder of the term of the employment agreement.

Terms of Mr. Kanda's Agreement

Under his agreement, Mr. Kanda receives an annual base salary of \$285,000 with a minimum bonus target of 40% of his base salary.

The Company may terminate Mr. Kanda's employment at any time, and Mr. Kanda may resign at any time. If the Company chooses to terminate Mr. Kanda's employment for reasons other than "cause" (as defined in his agreement) or if Mr. Kanda resigns for "good reason" (as defined in his agreement), the Company will be required to pay to Mr. Kanda a lump-sum payment equal to salary and target bonus for the "severance period", which is two years. In addition, the Company will be required to pay Mr. Kanda his accrued but unpaid compensation, a pro rata target bonus, continued health and welfare benefits for the remainder of the severance period, accelerated vesting of equity awards and outplacement assistance. In this circumstance, Mr. Kanda will be subject to a non-solicitation and non-competition requirement for the duration of his severance period. If Mr. Kanda terminates his employment without good reason or the Company terminates his employment for cause, Mr. Kanda will be subject to a non-solicitation and non-competition requirement for the remainder of the term of his employment agreement. Mr. Kanda would also be entitled to these severance benefits if the Company does not agree to renew his employment on substantially similar terms after the end of his two-year term. If there is a change of control of the Company, the term of the employment agreement and the severance period will both automatically extend to three years and Mr. Kanda will be entitled to payments to cover any excise tax liabilities (on an after-tax basis) under Section 4999 of the Internal Revenue Code with respect to his payments under the agreement.

Terms of Mr. Hirata's Agreement

Under his agreement, Mr. Hirata receives an annual base salary of \$200,000 with a minimum bonus target of 30% of his base salary.

The Company may terminate Mr. Hirata's employment at any time, and Mr. Hirata may resign at any time. If the Company chooses to terminate Mr. Hirata's employment for reasons other than "cause" (as defined in his agreement) or if Mr. Hirata resigns for "good cause" (as defined in his agreement), the Company will be required to pay Mr. Hirata a lump-sum payment equal to the higher of (1) about \$824,000 and (2) salary and target bonus for the "severance period", which is the shorter of two years or the remainder of the term of the employment agreement. In addition, Mr. Hirata will also be entitled to his accrued but unpaid compensation, a pro rata target bonus, continued health and welfare benefits for the remainder of the severance period, outplacement assistance and accelerated vesting of all equity awards. In this circumstance, Mr. Hirata will be subject to a non-solicitation and non-competition requirement for the

duration of his severance period. If Mr. Hirata terminates his employment without good reason or the Company terminates his employment for cause, Mr. Hirata will be subject to a non-solicitation and non-competition requirement for the remainder of the terms of the employment agreement. If there is a change in control of the Company, the term of the employment agreement and the severance period will both automatically extend to three years, and Mr. Hirata will be entitled to payments to cover any excise liabilities (on an after-tax basis) under Section 4999 of the Internal Revenue Code.

Under certain circumstances provided in his agreement, Mr. Hirata will be provided with benefits and/or payments as if the change of control agreement and supplemental executive retirement agreement that he previously had with CB Bancshares continued in effect.

Terms of Mr. Weld's Agreement

Under his agreement, Mr. Weld receives an annual base salary of \$195,000 with a minimum bonus target of 30% of his base salary.

The Company may terminate Mr. Weld's employment at any time, and Mr. Weld may resign at any time. If the Company chooses to terminate Mr. Weld's employment for reasons other than "cause" (as defined in his agreement) or if Mr. Weld resigns for "good reason" (as defined in his agreement), Central Pacific will be required to pay Mr. Weld a lump-sum payment equal to the higher of (1) about \$819,000 and (2) salary and target bonus for the "severance period", which is the shorter of two years or the remainder of the term of the employment agreement. In addition, Mr. Weld will also be entitled to his accrued but unpaid compensation, a pro rata target bonus, continued health and welfare benefits for the remainder of the severance period and accelerated vesting of all equity awards. In this circumstance, Mr. Weld will be subject to a non-solicitation and non-competition requirement for the duration of his severance period. If Mr. Weld terminates his employment without good reason or the Company terminates his employment for cause, Mr. Weld will be subject to a non-solicitation and non-competition requirement for the remainder of the term of the employment agreement. If there is a change of control of the Company, the term of the employment agreement and the severance period will both automatically extend to three years, and Mr. Weld will be entitled under the proposed terms to payments to cover any excise tax liabilities (on an after-tax basis) under Section 4999 of the Internal Revenue Code.

Under certain circumstances provided in his agreement, Mr. Weld will be provided with benefits and/or payments as if the change of control agreement and supplemental executive retirement agreement that he previously had with CB Bancshares continued in effect.

Terms of the Agreements for Messrs. Chikamoto, Fujimoto and Isono

Under his respective employment agreement, each of Messrs. Chikamoto, Fujimoto and Isono will receive an annual base salary with a minimum bonus target of 30% of his base salary. The annual base salary for each of Messrs. Chikamoto and Fujimoto is \$194,670 and for Mr. Isono is \$189,263.

The Company may terminate the employment of each of the officers listed above at any time, and each officer may resign at any time. If the Company chooses to terminate the officers' employment for reasons other than "cause" (as defined in their respective agreements) or if the officer resigns for "good reason" (as defined in their respective agreements), the Company will be required to pay the officer a lump sum payment equal to salary and target bonus for the "severance period", which is the shorter of two years or the remainder of the term of the employment agreement. In addition, the Company will be required to pay the officer his accrued but unpaid compensation, a pro rata target bonus, continued health and welfare benefits for the severance period, accelerated vesting of all equity awards and outplacement assistance. In this circumstance, the officer will be subject to a non-solicitation and non-competition requirement for the duration of his severance period. If the officer terminates his employment without good reason or the Company terminates his employment for cause, the officer will be subject to a non-solicitation and non-competition agreement for the remainder of the term of the employment

agreement. If there is a change of control of the Company, the term of the employment agreement and the severance period will both automatically extend to three years, and the officer will be entitled to payments to cover any excise tax liabilities (on an after-tax basis) under Section 4999 of the Internal Revenue Code with respect to his payments under the agreement.

Report of the Compensation Committee

Set forth below is a report of the Compensation Committee addressing the Company's compensation policies for 2004 applicable to the Company's executives, including the Named Executive Officers.

The following Report of the Compensation Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filings under the Securities Act or under the Exchange Act, except to the extent we specifically incorporate this Report of the Compensation Committee by reference.

Report of the Compensation Committee on Executive Compensation

The Company's compensation programs reflect the philosophy that executive compensation should be linked to Company performance, yet be competitive and consistent with the compensation paid to others holding positions of similar responsibility in the banking and financial services industries. The Company's compensation plans are designed to assist the Company in attracting and retaining qualified employees critical to the Company's long-term success, while motivating employees to perform to their fullest abilities to increase profitability and maximize shareholder value.

Salary Compensation

The Company pays cash salaries to its executive officers which are competitive with salaries paid to executives of other companies in the banking and financial services industries based upon the individual's experience, performance and responsibilities and past and potential contribution to the Company. In determining the market rate, the Company obtains information regarding executive salary levels for other companies in the banking and financial services industries, including national banking organizations. The relative asset size and profitability levels of these institutions are also considered. On April 28, 2004, the Company's Board approved the compensation for all executive officers for the ensuing year, effective May 1, 2004.

The Company's Chief Executive Officer, Clint Arnoldus, was hired in January 2002 as President and Chief Operating Officer and became Chairman, President and Chief Executive Officer in April 2002. In September 2004, in connection with the Company's merger with CB Bancshares, Mr. Arnoldus relinquished the titles of Chairman and President and since that time has served in the positions of Chief Executive Officer and Vice Chairman. In determining Mr. Arnoldus' compensation, the Compensation Committee considered the Company's performance, his experience and background, and peer-level compensation. Other considerations included his leadership, management philosophy, vision and other factors that were determined to be key to the Company's future success.

Incentive Compensation

During 2004, the Company had two programs whereby compensation for the Named Executive Officers was directly linked to the Company's performance: the Profit Sharing Plan and the Annual Executive Incentive Plan.

Profit Sharing Plan. The Bank has a Profit Sharing Plan (the "Profit Sharing Plan") pursuant to which the Bank makes annual profit-sharing contributions (the "Profit Sharing Contribution") to the Retirement Savings Plan as determined by the Bank's Board of Directors depending on the profitability of

the Bank during the year, subject to certain limitations on contributions under the Internal Revenue Code and the Profit Sharing Plan.

Employees with not less than one year of service with the Bank are eligible to participate in the Profit Sharing Plan. The Profit Sharing Contribution is allocated among participating employees, including the Named Executive Officers, in the proportion which each participant's compensation for the fiscal year bears to the total compensation for all participating employees for such year. Benefits vest at a rate of twenty percent (20%) per year and participants receive a distribution of vested amounts allocated to their accounts only upon retirement or termination of employment with the Bank.

In 1994, the Bank's Board of Directors approved the Cash or Deferred Arrangement ("CODA") program which allows each employee who is a participant in the Profit Sharing Plan to elect to receive up to one-half of the current year's profit sharing contribution in cash with the other half being allocated to such employee's account under the Retirement Savings Plan. Elections not made would be deferred into that employee's Retirement Savings Plan account.

The Bank's Board of Directors makes its determination of the amount of the Profit Sharing Contribution based upon management's recommendation at the end of the fiscal year. For 2004, the Profit Sharing Contribution equaled five percent (5%) of the pre-tax income of the Bank (excluding the effect of the Profit Sharing Contribution expense), less the amount of cash dividends paid by the Bank during the fiscal year. In 2004, the Bank's Profit Sharing Contribution was \$1,920,000, which equaled 9.0% of total compensation paid to all participating employees for the year.

Annual Executive Incentive Plan. The 2004 Annual Executive Incentive Plan was adopted by the Company's Board of Directors and approved by the Company's shareholders for the 2004 fiscal year. Executives with the corporate title of Executive Vice President or above as of January 1, 2004, including Messrs. Arnoldus, Kanda, Chikamoto, Fujimoto and Isono, were eligible to participate in the Annual Executive Incentive Plan.

Subject to approval by the Compensation Committee, participants were eligible to receive a cash bonus under the Annual Executive Incentive Plan based upon a combination of Company and individual performance criteria. The Company performance criteria was based on a number of financial measures including the Company's return on equity, efficiency ratio and earnings per share, adjusted to exclude the impact of the merger. The Company achieved its return on equity and minimum earnings per share thresholds, and accordingly, cash bonuses were paid to Messrs. Kanda, Chikamoto, Fujimoto and Isono. Discretionary cash bonuses were also paid to Messrs. Hirata and Weld reflecting their contributions to the Company since the merger.

Stock-Based Compensation

The Company also believes that stock ownership by employees, including the Named Executive Officers, provides valuable long-term incentives for such persons who will benefit as the Common Stock price increases and that stock-based performance compensation arrangements are beneficial in aligning employees' and shareholders' interests. To facilitate these objectives, the Company adopted the 2004 Stock Compensation Plan.

2004 Stock Compensation Plan. The 2004 Stock Compensation Plan was adopted in 2004 to replace the 1997 Stock Option Plan. The 2004 Stock Compensation Plan provides for the award of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units and stock-based awards to be given to any employee, director, or independent contractor of the Company or any of its affiliates. The 2004 Stock Compensation Plan is administered by the Compensation Committee of the Board.

The granting of stock options for fiscal year 2004 was conditioned upon the attainment of all financial performance objectives consistent with the Annual Executive Incentive Plan. Since those performance

thresholds were not met in their entirety, there were no grants of stock options for 2004, other than those granted to Mr. Arnoldus in connection with the merger.

Other Compensation

In connection with the Company's merger with CB Bancshares, Inc. on September 15, 2004, certain officers received merger-related bonus payments from the Company. Mr. Arnoldus received a one-time merger-related bonus. Each of Messrs. Kanda, Chikamoto, Fujimoto and Isono received a retention bonus: \$100,000 was paid to such executive on the merger closing date and \$100,000 will be paid on the first anniversary of the merger closing date provided the executive is still in the employ of the Company on such date.

The Named Executive Officers also participate in the Company's broad-based employee benefit plans, such as the 401(k) Savings Plan and medical, dental, supplemental disability and term life insurance programs.

Certain Company executives are eligible to participate in the Company's Defined Benefit Pension Plan (the "Pension Plan"), SERA and the Split Dollar Life Insurance Plan (the "Insurance Plan"). See "**ELECTION OF DIRECTORS Compensation of Directors and Executive Officers Executive Compensation Defined Benefit Pension Plan and Supplemental Executive Retirement Plan.**" Under the Insurance Plan, the Company provides life insurance coverage for certain senior officers. The Insurance Plan agreements provide death benefits of approximately two times the officer's normal annual salary during employment and an amount approximating the officer's final normal annual salary upon retirement. Of the Named Executive Officers, Messrs. Chikamoto, Fujimoto and Kanda participate in the Pension Plan, Messrs. Arnoldus, Kanda, Hirata and Weld are eligible to receive benefits pursuant to the SERA, and Messrs. Chikamoto and Kanda participate in the Insurance Plan.

Respectfully submitted by the members of the Compensation Committee of the Board of Directors:

COLBERT M. MATSUMOTO, CHAIR
DWIGHT L. YOSHIMURA, VICE CHAIR
RICHARD J. BLANGIARDI
CLAYTON K. HONBO
PAUL J. KOSASA

Compensation Committee Interlocks and Insider Participation

The Compensation Committee of the Company is composed entirely of the following five independent directors: Colbert M. Matsumoto (Chair), Dwight L. Yoshimura (Vice Chair), Richard J. Blangiardi, Clayton K. Honbo and Paul J. Kosasa.

PERFORMANCE GRAPH

The following graph compares the yearly percentage change in the Company's cumulative total shareholder return on Common Stock with (i) the cumulative total return of the Russell 2000 index and (ii) the cumulative total return of all publicly-traded U.S. banks with assets of \$1-\$5 billion as quoted by SNL Financial over the period from December 31, 1999 through December 31, 2004. The graph assumes an initial investment of \$100 at the end of 1999 and reinvestment of dividends during the ensuing five-year period. The graph is not necessarily indicative of future price performance.

The following performance graph does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filings under the Securities Act or under the Exchange Act, except to the extent we specifically incorporate this performance graph by reference.

**Comparison of Five Year Cumulative Total Return
Among Russell 2000 Index Companies, Publicly-Traded U.S. Banks with Total Assets of \$1-\$5 Billion
and Central Pacific Financial Corp.**

DISCUSSION OF PROPOSALS RECOMMENDED BY THE BOARD OF DIRECTORS

PROPOSAL 1:

ELECTION OF DIRECTORS

The Board of Directors recommends the election of the five (5) nominees listed below as directors, to serve a three-year term expiring at the 2008 Annual Meeting of Shareholders and until their respective successors are elected and qualified or until their earlier death, resignation or removal.

Earl E. Fry

B. Jeannie Hedberg

Duane K. Kurisu

Colbert M. Matsumoto

Crystal K. Rose

For more information regarding the background of each of the nominees for director, see the section titled "**ELECTION OF DIRECTORS Director's and Executive Officers' Information**". The person named as "Proxy" in the enclosed form of proxy statement will vote the shares represented by all valid returned proxies in accordance with the specifications of the shareholders returning such proxies. If at the time of the Annual Meeting of Shareholders any of the nominees named above should be unable to serve, which event is not expected to occur, the discretionary authority provided in the proxy statement will be exercised to vote for such substitute nominee or nominees, if any, as shall be designated by the Board of Directors.

The election of directors requires a plurality of the votes cast "FOR" the election of the directors by the shares entitled to vote in the election at a meeting at which a quorum is present. Accordingly, the five directorships to be filled at the meeting will be filled by the five (5) nominees receiving the highest number of "FOR" votes.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" ALL 5 NOMINEES. UNLESS A CONTRARY CHOICE IS SPECIFIED, PROXIES SOLICITED BY THE BOARD WILL BE VOTED "FOR" ALL 5 NOMINEES.

PROPOSAL 2:

RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board has appointed KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2005. KPMG LLP audited the Company's financial statements for the fiscal year ended December 31, 2004, and has audited the Company's financial statements since the Company's inception in 1982. Representatives of KPMG LLP are expected to attend the Meeting. The representatives are expected to be available to respond to appropriate questions and will have an opportunity to make a statement, if they desire to do so.

The Company is asking its shareholders to ratify the selection of KPMG LLP as its independent registered public accounting firm (as it has done in prior years) because it believes it is a matter of good corporate practice. If the Company's shareholders do not ratify the selection, the Audit Committee will reconsider whether to retain KPMG LLP, but may still retain them. Even if the selection is ratified, the Audit Committee, in its discretion, may change the appointment at any time during the year if it determines that such a change would be in the best interests of the Company and its shareholders.

Fees Paid to Independent Registered Accounting Firm

The following table sets forth the aggregate fees the Company has incurred for audit and non-audit services provided by KPMG LLP who acted as independent registered public accounting firm for the fiscal year ending 2004 and performed the Company's audit services in fiscal year 2004. The table lists audit fees, audit-related fees, tax fees, and all other fees.

Audit Fees. The audit fees include only fees that are customary under generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and are the aggregate fees the Company incurred for professional services rendered for the audit of the Company's annual financial statements for fiscal year 2004, the audit of internal controls over financial reporting for fiscal year 2004, reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q for fiscal year 2004, review of financial statements included in the Company's Registration Statement on Form S-4 and amendments thereto filed in fiscal year 2004, and regulatory and statutory engagements related to the aforementioned statements.

Audit-Related Fees. Audit-related fees include fees for assurance and related services that are related to the performance of the audit of the financial statements, but are not reported under audit fees. These services include audits of the Company's retirement plans and common area maintenance audits for office buildings owned by the Company.

Tax Fees. Tax fees include only fees the Company incurred for professional services rendered for preparation of the Company's tax return, tax filings, and tax consulting.

All Other Fees. All other fees include the aggregate fees billed for services rendered by KPMG LLP other than those services covered above. All other fees consist principally of fees for services relating to the compilation of the Company's existing loan policies into a loan manual.

	Year Ended December 31, 2004		Year Ended December 31, 2003	
	Amount	Percent Approved by Audit Committee	Amount	Percent Approved by Audit Committee
Audit Fees(1)	\$ 1,623,500	100%	\$ 405,600	100%
Audit-Related Fees	68,500	100%	63,600	100%
Tax Fees	53,000	100%	67,200	55%
All Other Fees	8,120	100%	21,450	100%

(1) The increase in audit fees for fiscal year 2004 is attributable primarily to costs related to the audit of internal control over financial reporting and the CB Bancshares merger.

The Audit Committee of the Board established a policy in 2003 to pre-approve all services provided by KPMG LLP. Each service to be provided by KPMG LLP is presented for pre-approval at the Audit Committee's regular meeting or presented to the Chair of the Audit Committee for pre-approval under delegated authority and presented to the Audit Committee at their next regular meeting. All engagements with KPMG LLP that commenced during 2003 and since then have been pre-approved in accordance with the pre-approval policy. Tax fees for the year ended December 31, 2003 that were not pre-approved by the Audit Committee related to an engagement that commenced prior to the Audit Committee's establishment of the pre-approval process.

The Audit Committee considered whether the provision of audit-related services, tax services, and all other services is compatible with maintaining the independence of KPMG LLP.

The Board has submitted its appointment of KPMG LLP for ratification by the Company's shareholders. The affirmative vote of the holders of at least a majority of the outstanding shares of Common Stock represented and entitled to vote at the Meeting will be required for passage of this proposal.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THIS PROPOSAL. UNLESS A CONTRARY CHOICE IS SPECIFIED, PROXIES SOLICITED BY THE BOARD WILL BE VOTED "FOR" THIS PROPOSAL.

PROPOSAL 3:

AMENDMENT OF RESTATED ARTICLES OF INCORPORATION OF CENTRAL PACIFIC FINANCIAL CORP.

The Board of Directors recommends the approval of an amendment to the Restated Articles of Incorporation of Central Pacific Financial Corp. to add a new Article IX regarding director limitation of liability as provided for under Hawaii law. The amendment will limit the liability of directors of the Company to the fullest extent permitted by Hawaii law. The Company believes that the new provisions relating to limitation on liability, which are similar to those commonly found in the charters of companies in Hawaii and nationwide, will enhance the Company's ability to continue to attract qualified individuals to serve as directors.

The specific language of the proposed amendment is as follows:

ARTICLE IX

1. To the fullest extent permitted by the Hawaii Business Corporation Act, including, without limitation, Hawaii Revised Statutes, Section 414-222, as the Hawaii Business Corporation Act now exists or hereafter may be amended (but, in the case of any such amendment, if permitted by law, only to the extent that such amendment permits the Corporation to provide a broader limitation on monetary liability than permitted before that amendment), no director of the Corporation shall be liable to the Corporation or its stockholders for monetary damages for any action taken, or any failure to take any action, as a director.
2. Any repeal or modification of the foregoing paragraph shall not adversely affect any right or protection of a director of the Corporation existing at the time of that repeal or modification.

This provision is permitted under Hawaii law, specifically Section 414-222 of the Hawaii Revised Statutes (Hawaii Business Corporation Act). Section 414-222(a) provides that a corporation may eliminate or limit the personal liability of its directors in any action brought by the shareholders or the corporation for monetary damages against any director of the corporation for any action taken, or any failure to take any action, as a director. Section 414-222(b) prohibits a corporation from eliminating or limiting the personal liability of a director for: (1) the amount of a financial benefit received by a director to which the director is not entitled; (2) an intentional infliction of harm on the corporation or the shareholders; (3) a violation of section 414-223, relating to liability for unlawful distributions; or (4) an intentional violation of criminal law.

If the proposed amendment is adopted, a director would still remain personally liable for certain acts described under subsection (b) of §414-222.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE AMENDMENT TO THE RESTATED ARTICLES OF INCORPORATION OF CENTRAL PACIFIC FINANCIAL CORP. UNLESS A CONTRARY CHOICE IS SPECIFIED, PROXIES SOLICITED BY THE BOARD WILL BE VOTED "FOR" THIS PROPOSAL.

PROPOSALS OF SHAREHOLDERS

Shareholder proposals intended to be included in the Company proxy statement and voted on at the Company's regularly scheduled 2006 annual meeting of shareholders must be received at the Company's offices at 220 South King Street, Honolulu, Hawaii 96813, Attention: Corporate Secretary, by November 23, 2005. Applicable SEC rules and regulations govern the submission of shareholder proposals and the Company's consideration of them for inclusion in next year's proxy statement and form of proxy.

The Company's Restated Bylaws contain procedures that shareholders must follow to present business at a meeting of shareholders if such business is not specified in the proxy statement. A shareholder may obtain a copy of these procedures from the Company's Secretary. In addition to other applicable requirements, for business to be properly brought before the 2006 annual meeting of shareholders, a shareholder must give notice to the matter to be presented at the meeting in a proper written form to the Company's Secretary. The Secretary must receive this written notice at the principal offices of the Company not less than 90 calendar days nor more than 120 calendar days prior to the anniversary date of the preceding year's annual meeting. As a result, any notice given by or on behalf of a shareholder pursuant to these provisions of our Restated Bylaws (and not pursuant to SEC Rule 14a-8) must be received no earlier than December 27, 2005 and no later than January 26, 2006. Shareholder proposals not made in accordance with these requirements may be disregarded by the chairperson of the meeting.

OTHER BUSINESS

The Board knows of no other business that will be presented for consideration at the Meeting other than as stated in the Notice of Meeting. If, however, other matters are properly brought before the Meeting, it is the intention of the persons named in the accompanying form of Proxy to vote the shares represented thereby on such matters in accordance with the recommendation of the Board.

Incorporation by Reference

To the extent that this Proxy Statement is incorporated by reference into any other filing by the company under the U.S. Securities Act of 1933 or the U.S. Securities Exchange Act of 1934, the sections of this Proxy Statement entitled "Report of the Compensation Committee on Executive Compensation," "Report of the Audit Committee" (to the extent permitted by the rules of the SEC) and "Stock Price Performance," will not be deemed incorporated, unless specifically provided otherwise in such filing.

Dated: March 23, 2005

CENTRAL PACIFIC FINANCIAL CORP.

RONALD K. MIGITA
Chairman

CLINT ARNOLDUS
Vice Chairman and Chief Executive Officer

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CENTRAL PACIFIC FINANCIAL CORP.

BOARD OF DIRECTORS

AUDIT COMMITTEE CHARTER

(Revised & Adopted by the Board of Directors, Effective February 1, 2005)

I. DEFINITIONS OF TERMS USED HEREIN

The following terms used in this Charter have the following meanings:

- A. "applicable laws" means and includes all laws, rules, regulations and requirements applicable or relating to a particular matter, and includes, without limitation, the Sarbanes-Oxley Act of 2002, the NYSE Listing Standards, the Securities Exchange Act of 1934, the FDIC Rules and Regulations (including, without limitation, Part 363), the Federal Deposit Insurance Corporation Improvement Act of 1991, and the Interagency Policy Statement on the Internal Audit Function and Its Outsourcing (FDIC FIL-21-2003, dated March 17, 2003).
- B. "Bank" means Central Pacific Bank.
- C. "Board" means the Board of Directors of the Company.
- D. "Charter" means this Audit Committee Charter of the Company.
- E. "Committee" means the Audit Committee of the Company.
- F. "Company" means Central Pacific Financial Corp.
- G. "Exchange Act" means the Securities Exchange Act of 1934.
- H. "FDIC" means the Federal Deposit Insurance Corporation.
- I. "GAAP" means generally accepted accounting principles.
- J. "NYSE" means the New York Stock Exchange.
- K. "outsourcing" means the engagement of third parties to provide services to and/or perform work for the Company which has traditionally been accomplished within the Company.
- L. "SEC" means the United States Securities and Exchange Commission.

II. PURPOSE

The Committee's primary purpose is to assist the Board in overseeing various accounting, auditing, internal control, legal and regulatory matters of the Company. Accordingly, in fulfillment of this purpose, the Committee's primary objectives are to:

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- A. Monitor the integrity of the financial statements and accounting, of the internal audits, of the internal controls, and of the handling of legal matters, of the Company and its subsidiaries.
- B. Appoint (subject to shareholder approval, if applicable), determine the qualifications, independence and compensation of, oversee the work of, and evaluate the performance of, the Company's independent and internal auditors that audit the Company and any of its subsidiaries.
- C. Monitor the compliance by the Company with legal and regulatory requirements, to include without limitation, the Company's Code of Conduct & Ethics for all employees, officers and directors, and the Company's Code of Conduct & Ethics for Senior Financial Officers.

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- D. Coordinate and facilitate communication among the auditors, Company management and the Board respecting accounting, auditing, internal control and legal matters.
- E. Perform such other duties and responsibilities as may be requested by the Board or required by law to be performed by the Committee as the audit committee for the Company.
- F. Take all such related and other actions as the Committee deems reasonably necessary in order to fulfill its duties and responsibilities under this Charter.

III. AUTHORITY

The Committee is established pursuant to Article V of the Bylaws (as amended and restated) of the Company.

In order to carry out its purpose, objectives and responsibilities under this Charter, the Committee shall have the following authority:

- A. To take all necessary or appropriate actions in order to fulfill its responsibilities under this Charter.
- B. To appoint (subject to shareholder approval, if applicable), terminate, determine the qualifications, independence and compensation of, oversee the work of, and evaluate the performance of, the Company's independent auditors and the internal audit function of the Company and any of its subsidiaries. The Committee shall have the sole authority (subject only to any applicable shareholder approval), with respect to the matters set forth in the preceding sentence. The Committee shall also have the authority to outsource the internal audit function.
- C. To communicate directly with and have direct access to the Company's independent and internal auditors that audit the Company and any of its subsidiaries.
- D. To determine the level of funding appropriate for payment of compensation to the auditors (independent and internal) for issuing audit reports and rendering other audit services and to any advisors employed by the Committee. The Committee shall have sole authority to approve all audit engagement fees.
- E. To request that any officer or employee of the Company or the Company's auditors (independent and internal) or outside attorneys to attend a meeting of the Committee or to meet with any members of, or consultants or advisors to, the Committee.
- F. To the extent it deems necessary or appropriate, to ask the Company to provide the Committee with resources to assist it in carrying out its duties.
- G. To the extent it deems necessary or appropriate, to form and delegate authority to subcommittees consisting of one or more committee members, including the authority to grant pre-approvals of audit and non-audit services, provided that the decision of such subcommittees to grant pre-approvals shall be presented to the full Committee at its next scheduled meeting.
- H. To conduct any investigation that it deems necessary or appropriate pursuant to its fulfillment of its responsibilities under this Charter.
- I. To the extent it deems necessary or appropriate, to retain independent legal, accounting or other consultants or advisors.
- J.

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To perform such other duties and responsibilities as may be requested by the Board or required by law to be performed by the Committee as the audit committee for the Company.

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IV. MEMBERSHIP

- A. *Appointment.* The members of the Committee are appointed annually by the Board and serve until their successors are duly elected and qualified.
- B. *Number.* The Board determines the number of members in the Committee from time to time, but the number shall not be less than the minimum number prescribed by the Company's Bylaws, or by any applicable laws.
- C. *Independence.* Committee members must be non-employee directors, be independent and free from any relationship that would interfere with the exercise of their independent judgment, and fully satisfy any and all other independence requirements as prescribed by all applicable laws.
- D. *Financial Experience.* All members of the Committee shall have sufficient business, financial and/or accounting background and experience in order to fully satisfy any and all financial and accounting experience requirements which are prescribed by all applicable laws.
- E. *Audit Committee Financial Expert.* At least one member of the Committee shall have sufficient business, financial and/or accounting background and experience in order to fully qualify such person as an "audit committee financial expert", as defined by any applicable laws.
- F. *Committee Chair and Vice Chair.* The Board will appoint one of the members of the Committee to serve as Committee Chair and another member of the Committee to serve as Committee Vice Chair. The Committee Chair (and in the Committee Chair's absence, the Committee Vice Chair) will have authority to act on behalf of the Committee between meetings.
- G. *Other Membership Requirements.* The members of the Committee and its Chair and Vice Chair, shall satisfy all other applicable laws pertaining to the qualifications of any member or Chair or Vice Chair of the Committee, or to the composition of the Committee.

V. MEETINGS

- A. *Chair/Vice Chair.* The Chair of the Committee shall preside over the Committee meetings. In the absence of the Chair, the Vice Chair will preside over the Committee meetings. In the event both the Chair and Vice Chair are absent and neither the Chair nor Vice Chair have delegated another Committee member to preside over the meeting, the Committee members present at any such Committee meeting shall decide among themselves which member shall preside over that meeting.
- B. *Frequency.* The Committee shall meet at least four times annually, and may meet more frequently as it deems necessary or appropriate.
- C. *Agenda.* The Chair (and in the Chair's absence, the Vice Chair) shall be responsible for preparing or having prepared an agenda for each Committee meeting.
- D. *Attendance by Others.* The Chair (and in the Chair's absence, the Vice Chair) shall coordinate the attendance at the meeting by management, auditors (independent and internal), and all others whom the Committee seeks to meet with.
- E. *Private Sessions.* The Committee will, on a periodic basis, meet separately with the independent auditors, the internal auditors, and management, to discuss any matters which the Committee or these other groups want to discuss privately.
- F.

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Minutes. The Chair (and in the Chair's absence, the Vice Chair) shall ensure that minutes of every Committee meeting are taken, recorded and kept, and also that all documentation submitted before the Committee is maintained with the minutes.

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G.

Joint Sessions. The Committee may meet simultaneously as a committee of the Company and of the Bank, though it should hold separate sessions if necessary to address issues that are relevant to one entity but not the other or to consider transactions between the two entities or other matters where the Company and the Bank may have different interests. The Committee should consult with internal or outside counsel if, in the opinion of the Committee, any matter under consideration by the Committee has the potential for any conflict between the interests of the Company and those of the Bank or the Company's other subsidiaries in order to ensure that appropriate procedures are established for addressing any such potential conflict and for ensuring compliance with the Company's policies regarding Sections 23A and 23B of the Federal Reserve Act and related Regulation W.

VI. RESPONSIBILITIES

In fulfilling its primary purpose and objectives, the Committee shall have the following responsibilities:

A.

Charter Review. The Committee will review and reassess the adequacy of this Charter annually, and thereafter recommend this Charter, and any proposed changes to this Charter, to the Board for annual approval. The Committee shall ensure this Charter is published and otherwise made publicly available in accordance with all applicable laws.

B.

Financial Reporting. The Committee will accomplish the following with respect monitoring the Company's financial reporting.

1.

Review and discuss with management and the independent auditors the Company's quarterly financial statements, including disclosures made in management's discussion and analysis, prior to the filing of its Form 10-Q, including the results of the independent auditors' reviews of the quarterly financial statements. This review should include a discussion of all applicable items set forth in this subsection B.

2.

Review and discuss with management and the independent auditors the Company's annual audited financial statements, including disclosures made in management's discussion and analysis, and recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K. This review should include a discussion of all applicable items set forth in this subsection B.

3.

Review and discuss with management and the independent auditors significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including the appropriateness and quality of the Company's accounting principles, any significant changes in the Company's selection or application of accounting principles, the development, selection and disclosure of critical accounting estimates and the use thereof, and analyses of the effect of alternative assumptions, estimates or GAAP methods on the Company's financial statements.

4.

Discuss with management, either specifically or by discussion of the types of information to be disclosed and the types of presentation to be made, the Company's earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information and any earnings guidance, as well as financial information provided to analysts and rating agencies.

5.

Review and discuss any accounting adjustments that were noted or proposed by the auditors but were "passed" (as immaterial or otherwise); any communication between the audit team and the audit firm's national office respecting auditing or accounting issues presented by the engagement; and any "management" or "internal control" letter issued, or proposed to be issued by the audit firm of the Company.

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6. Discuss with management and the independent auditors the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.
7. Discuss with management the Company's policies with respect to risk assessment and risk management, including the risk of fraud. The Committee shall also discuss the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
8. Discuss with the independent auditors the matters required to be discussed by Statement of Auditing Standards No. 61.
9. Discuss with the Company's independent auditors, internal auditors, and management any weaknesses or deficiencies that any of the foregoing have identified relating to financial reporting or other related matters and their proposals for rectifying such weaknesses or deficiencies.
10. Monitor the Company's progress in promptly addressing and correcting any and all identified weaknesses or deficiencies in financial reporting or related matters.
11. Receive periodic reports from the independent auditors and appropriate officers of the Company on significant accounting or reporting developments proposed by the Financial Accounting Standards Board or the SEC that may impact the Company.
12. Receive periodic reports from independent auditors and appropriate officers of the Company on significant financial reporting or other related matters for non-bank subsidiaries.
13. Oversee the preparation of the Committee's report required by the rules of the SEC to be included in the Company's annual proxy statement.

C.

Internal Controls. The Committee will accomplish the following with respect monitoring the Company's internal controls.

1. Discuss and review management's assessment of the effectiveness of internal controls over financial reporting as of the end of the most recent fiscal year and the independent auditors report on management's assessment.
2. Discuss with the Company's independent auditors, internal auditors, and management any weaknesses or deficiencies that any of the foregoing have identified relating to internal controls or other related matters and their proposals for rectifying such weaknesses or deficiencies, in connection with the required quarterly certifications under Section 302 of the Sarbanes-Oxley Act. In addition, the Committee shall discuss with management, the internal auditors and independent auditors any significant changes in internal controls over financial reporting that are disclosed or considered for disclosure, in the Company's periodic filing with the SEC.
3. Monitor the Company's progress in promptly addressing and correcting any and all identified weaknesses or deficiencies in internal controls or related matters.
4. Receive periodic reports from independent and internal auditors and appropriate officers of the Company on internal controls or other related matters for non-bank subsidiaries.

D.

Independent and Internal Auditors and Audits. The Committee will accomplish the following with respect to the independent and internal auditors and audits of the Company or any of its subsidiaries.

1. Appoint (subject to shareholder approval, if applicable), compensate, and oversee the work of the independent and internal auditors (including resolution of disagreements between management and the auditors) for the purpose of preparing or issuing an audit report or related work. The Committee is directly responsible for appointing, compensating and overseeing the work of the auditors and the auditors are directly accountable to and shall report directly to the Committee.
2. In selecting an auditor, the Committee shall ensure that sufficient due diligence is performed, to include, without limitation, reviewing the auditor's and its staffs' experience, expertise, qualifications and available resources.
3. The Committee shall ensure that all auditor engagements are in writing and cover all pertinent areas of the engagement, to include, without limitation: the expectations and responsibilities of both parties; the scope and frequency of the work; fees; type and frequency of reporting to senior management and the Board; the handling of amendments, defaults and termination of the engagement; possession, ownership, accessibility, location, and retention regarding reports and work-papers; submission to regulatory review; dispute resolution process and allocation of liability; and, separation of auditor from management/employee functions.
4. Oversee the rotation of the lead (or coordinating) audit partner having primary responsibility for the independent audit and the audit partner responsible for reviewing the independent audit at least once every five years and consider whether, in order to assure the continuing auditor independence, it is appropriate to rotate the auditing firm itself on a regular basis.
5. Review and monitor the independence, qualifications and performance of the independent and internal auditors by, among other things:
 - a. Obtaining and reviewing a report from the auditors at least annually regarding (i) the auditors' internal quality-control procedures, (ii) any material issues raised by the most recent quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more audits carried out by the firm, (iii) any steps taken to deal with any such issues, (iv) all relationships between the auditors and the Company, and (v) all significant relationships that could impair the auditors' independence;
 - b. Evaluating the independence, qualifications and performance of the auditors, including considering (i) whether the auditors' quality controls are adequate, (ii) whether any disclosed relationships or services may impair the objectivity and independence of the auditors, (iii) whether the experience, qualifications and independence of the senior members of the independent and internal audit teams are acceptable, and (iv) whether, for the independent auditor, the provision of any non-audit services is compatible with maintaining the independent auditors' independence, taking into account the opinions of management and the internal auditors; and
 - c. Taking appropriate action to ensure the continued independence of the independent and internal auditors.

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6. Review and discuss with the independent and internal auditors, and approve, their respective annual audit plans, budgets, staffing, reports and responsibilities, and the scope, approach and results of their audits, and any reliance upon management and others.
7. Ensure that the internal auditors accomplish the following items.
 - a. Develop and execute a comprehensive internal audit plan. This plan must be presented to the Committee for approval. In addition, any deviations from the plan shall be reported to and receive the approval from the Committee.
 - b. Examine the effectiveness of all levels of management in their stewardship of Company resources and in their compliance with established policies and procedures, and with all applicable laws.
 - c. When necessary, recommend improvement of management controls designed to safeguard Company resources, ensure accurate reporting, and ensure compliance with all applicable laws.
 - d. Review policies, procedures, records and other documentation for their adequacy to accomplish intended objectives.
 - e. Provide reports to the Committee on the results of internal audits, and meet with the Committee regarding such reports and management's responses thereto.
 - f. Appraise the adequacy of actions taken by management to correct reported deficiencies, accept adequate corrective action, reject inadequate corrective action, and continue reviews on inadequate corrective action until adequate corrective action or some other alternate acceptable action is taken or the matter is otherwise satisfactorily resolved.
 - g. Conduct special examinations at the request of management, the Committee or the Board.
 - h. Provide advice and opinions at the request of management regarding management controls, provided, however, that the internal auditors shall not participate in any decision-making process or in the implementation of any management decision.

Internal auditors shall not have any authority to approve transactions of any nature, nor may internal auditors administer or supervise any Company function or operation.

8. Pre-approve all auditing services and permitted non-audit services to be performed for the Company or any of its subsidiaries by the independent auditors, except as provided in this paragraph. In no event shall the independent auditors perform any non-audit services for the Company which are prohibited by any applicable laws. The Committee shall establish general guidelines for the permissible scope and nature of any permitted non-audit services in connection with its annual review of the audit plan and shall review such guidelines with the Board. The Committee may delegate to one or more of its members the authority to grant pre-approvals of such permitted non-audit services, provided that any such pre-approvals granted pursuant to this delegated authority shall be reported to the Committee at its next regular meeting. Formal pre-approval shall not be required for the provision of non-audit services if (i) the aggregate amount of all such non-audit services constitutes not more than 5% of the total amount of revenues paid by the Company to the auditors during the fiscal year in which the non-audit services are provided, (ii) such services were not recognized by the Company at the time of engagement to be non-audit services, and (iii) such services are promptly brought to the attention of the Committee and approved

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prior to the completion of the audit. Approvals of a non-audit service to be performed by the

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independent auditors and, if applicable, the guidelines pursuant to which such services were approved, shall be disclosed as promptly as practicable in the Company's quarterly or annual reports required by Section 13(a) of the Exchange Act. In carrying out its responsibilities under the preceding paragraph, if the Committee approves an audit service within the scope of engagement of the independent auditors, such audit service shall be deemed to have been preapproved for purposes of this paragraph.

9. Preapprove all services to be performed for the Company or any of its subsidiaries by the internal auditors.
10. Ensure that the independent and internal auditors have access to all necessary Company resources and personnel.
11. Instruct the independent and internal auditors to communicate directly to the Committee, any disputes with management, or any problems or difficulties encountered in connection with any audit.
12. Obtain from the independent and internal auditors any reports required to be furnished to the Committee under all applicable laws.
13. Review all reports prepared by the independent and internal auditors for or on behalf of the Company and/or management, and any management responses thereto.
14. Determine and approve the fees and other compensation paid to the independent and internal auditors.
15. Discharge and terminate the independent and/or internal auditors when circumstances warrant.
16. Review with management and the independent auditors the basis for the reports required to be filed by management and by the independent auditors with the FDIC pursuant to 12 C.F.R. Section 363.2(a) and (b) and Sections 363.3(a) and (b), respectively.

E.

Compliance Oversight. The Committee will conduct the following oversight activities.

1. Receive, investigate and otherwise handle complaints of an accounting, auditing or internal control nature, pursuant to the Company's Complaint Policy, and in accordance with all applicable laws. On at least an annual basis, review and recommend to the Board approval of, the Complaint Policy and any changes thereto.
2. Determine conflicts of interest pursuant to the Company's Code of Conduct & Ethics, and Code of Conduct & Ethics for Senior Financial Officers, and in accordance with all applicable laws. On at least an annual basis, review and recommend to the Board approval of, the Code of Conduct & Ethics, and Code of Conduct & Ethics for Senior Financial Officers and any changes thereto.
3. Discuss with management and the independent and internal auditors the status and adequacy of the Company's management information systems, including the significant risks and major controls over such risks.
4. Review and evaluate all related party transactions that are material to the financial statements.
5. Discuss with management and the external and internal auditors the Company's processes regarding compliance with applicable laws, and when appropriate request and receive reports from management concerning such compliance.

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6. Discuss with management and the independent and internal auditors any correspondence, complaints, inquiries, investigations or reports, from regulators, governmental agencies, or others, which raise material issues regarding the Company's financial statements or accounting policies or which result in substantial non-compliance with the Company's Code of Conduct & Ethics or Code of Conduct & Ethics for Senior Financial Officers, or which result in substantial non-compliance with any other applicable laws.
7. Discuss with the Company's General Counsel legal matters that may have a significant adverse impact on the Company.
8. Discuss with the Company's Compliance Manager compliance matters that may have a significant adverse impact on the Company.
9. Discuss with the Company's Chief Risk Officer risks that may have a significant adverse impact on the Company.

F.

General. The Committee will also accomplish the following:

1. Regularly report to the Board on the Committee's activities, and seek Board ratification (exclusive of inside directors) of Committee actions as and when required and/or permitted by all applicable laws.
2. In addition to Committee minutes, maintain any other records of the Committee's activities.
3. Review and assess the quality and clarity of the information provided to the Committee and make recommendations to management as the Committee may deem appropriate for improving such materials.
4. Annually review the performance of the Committee.
5. Perform the duties required to be performed by the audit committee for any subsidiary of the Company that does not have its own audit committee, in each case to the extent permitted, and in the manner required, by applicable laws and regulations.
6. Perform any other activities in fulfillment of and consistent with the responsibilities of the Committee under this Charter, and as the Board may deem necessary or appropriate.

VII. HIRING OF EMPLOYEES OR FORMER EMPLOYEES OF INDEPENDENT AUDITOR.

The Company shall not employ in any position involved in financial reporting matters (to include, but not be limited to, the Company's chief executive officer, chief financial officer, and controller), any person who, within the one-year period preceding the commencement of the audit of the Company's current year's financial statements, was employed by the Company's independent auditor and performed more than ten hours of work on the independent audit or any other audit, review or attestation engagement for the Company. The Company may employ such person at any time in a position that does not involve financial reporting matters.

VIII. AMENDMENT.

This Charter may only be amended by a majority of the Board. The Committee, may, however, in its best judgment and discretion, deviate from or alter, modify or change any of its responsibilities in this Charter if doing so would better serve the primary purpose and objectives of this Charter, provided such deviation is of a temporary nature, and provided further that the Chair informs the Board of such deviation and obtains Board approval of same.

IX. LIMITATIONS.

A.

It should be noted that the Committee's job is one of oversight as set forth in this Charter. It is not the duty of the Committee to prepare the Company's financial statements, to conduct audits, or to determine that the Company's financial statements are complete and accurate and are in accordance with GAAP. The Company's management is responsible for preparing the Company's financial statements and for maintaining internal control, and the independent auditors are responsible for auditing the financial statements. Nor is it the duty of the Committee to assure the Company's compliance with all applicable laws.

B.

In performing their responsibilities, Committee members are entitled to rely in good faith on information, opinions, reports or statements prepared or presented by the following persons and groups.

1.

One or more officers or employees of the Company whom the Committee members reasonably believe to be reliable and competent in the matters presented.

2.

Accountants, auditors, counsel or other persons as to matters which the Committee members reasonably believe to be within the professional or expert competence of such person.

3.

Another committee of the Board as to matters within its designated authority which committee the Committee members reasonably believe to merit confidence.

**CENTRAL PACIFIC FINANCIAL CORP.
STANDARDS REGARDING DIRECTOR INDEPENDENCE**

A. In order to qualify as independent, a Director ("Director") of Central Pacific Financial Corp. ("CPF") or Central Pacific Bank ("CPB") must meet all of the following criteria:

I. The Board of Directors of CPF and CPB must affirmatively determine that the Director has no material relationship with CPF, either directly or as a partner, shareholder or officer of an organization that has a relationship with CPF.

Note: Under the NYSE Corporate Governance Standards, in order for any Director to qualify as "independent" the Board must affirmatively determine that the Director has no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company or any subsidiary of the Company). In making its independence determination, the Board should broadly consider all relevant facts and circumstances. In particular, when assessing the materiality of a Director's relationship with the Company, the Board should consider the issue not merely from the standpoint of the Director, but also from that of persons or organizations with which the Director has an affiliation. Material relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others. Ownership of a significant amount of stock in the Company is not, by itself, however, a bar to an independence finding. The identity of the independent Directors and the basis for the Board's determination that a relationship is not material must be disclosed in the Company's annual proxy statement.

None of the following relationships shall be considered to be a material relationship that would cause a director not to be independent (provided such relationships do not otherwise conflict with any independence standards set by the New York Stock Exchange, the Securities and Exchange Commission, or by any other applicable law, rule or regulation):

- a. Service by a Director as an executive officer, employee or equity owner of a company that has made payments to or received payments from CPF or CPB or any subsidiary or affiliate of CPF or CPB, so long as the payments made or received during such other company's last three fiscal years are not in excess of the greater of \$1 million or 2% of such other company's consolidated gross revenues for such other company's fiscal year in which the payments were made.
- b. Service by a Director solely in the position of director, trustee, advisor or similar position, of a business or entity that engages in a transaction with CPF or CPB or any subsidiary or affiliate of CPF or CPB, provided a majority of the directors of that business or entity do not comprise a majority of the directors of CPF or CPB or any subsidiary or affiliate of CPF or CPB.
- c. Extensions of credit by CPB to a Director, or a company of which a Director is an executive officer, employee or equity owner, or maintenance at CPB by a Director, or a company of which a Director is an executive officer, employee or equity owner, of deposit, checking, trust, investment, or other accounts with CPB, in each case on terms that are substantially similar to those available to similarly situated customers of CPB.
- d. Referrals by a Director of clients, business or personal acquaintances or family members to CPF or CPB or any other subsidiary or affiliate of CPF or CPB.
- e. Service by a Director solely in the position of director, trustee, advisor or similar position of a tax-exempt organization to which CPF or CPB or any subsidiary or affiliate of CPF or CPB makes contributions.

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f. Any other transaction or relationship between a Director and CPF or CPB or any subsidiary or affiliate of CPF or CPB in which the amount involved does not exceed \$10,000.

2. The Director is not employed by CPF nor was employed by CPF within the last 3 years.

3. None of the Director's immediate family members is an executive officer of CPF nor was an executive officer of CPF within the last 3 years.

4. Within the last 3 years, the Director has not received more than \$100,000 during any twelve-month period in direct compensation from CPF, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service).

5. Within the last 3 years, none of the Director's immediate family members has received more than \$100,000 during any twelve-month period in direct compensation from CPF, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service).

Note: Compensation received by an immediate family member for service as a non-executive employee of CPF need not be considered in determining independence.

6. The Director is not a current partner of a firm that is CPF's internal or external auditor.

7. None of the Director's immediate family members are a current partner of a firm that is CPF's internal or external auditor.

8. The Director is not a current employee of a firm that is CPF's internal or external auditor.

9. The Director does not have an immediate family member who is an employee of a firm that is CPF's internal or external auditor, and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice.

10. Within the last 3 years, the Director was not a partner or employee of a firm that is or was CPF's internal or external auditor, who personally worked on CPF's audit within that time.

11. Within the last 3 years, no immediate family member of the Director was a partner or employee of a firm that is CPF's internal or external auditor, who personally worked on CPF's audit within that time.

12. The Director does not serve, and within the last 3 years has not served, as an executive officer of another company (excluding CPF companies) in which any present CPF executive officer serves on that other company's compensation committee.

13. None of the Director's immediate family members is, nor within the last 3 years has been, employed as an executive officer of another company (excluding CPF companies) in which any present CPF executive officer serves on that other company's compensation committee.

14. The Director is not a current employee of a company that has made payments to, or received payments from, CPF for property or services in an amount which, in any of the last 3 fiscal years, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues.

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Note: Both the payments and the consolidated gross revenues to be measured shall be those reported in the last completed fiscal year of such other company. The look-back provision for this test applies solely to the financial relationship between CPF and the director or immediately family member's current employer; a listed company need not consider former employment of the director or immediate family member.

Note: Contributions to tax exempt organizations shall not be considered "payments", provided however, that CPF must disclose in its annual proxy statement, any such contributions made by CPF to any tax exempt organization in which any independent director serves as an executive officer if,

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within the preceding 3 years, contributions in any single fiscal year from CPF to the organization exceeded the greater of \$1 million or 2% of such tax exempt organization's consolidated gross revenues.

15.

None of the Director's immediate family members is a current executive officer of a company that has made payments to, or received payments from, CPF for property or services in an amount which, in any of the last 3 fiscal years, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues.

Note: Same "Notes" in number 14 above apply to this number 15.

B.

In order to qualify as independent for purposes of the audit committee, a Director must meet all of the following additional independence criteria:

1.

Other than in his or her capacity as a member of the Board or any Board committee, a Director must not accept or have accepted, directly or indirectly, any consulting, advisory, or other compensatory fee from CPF.

Note: Compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with CPF (provided that such compensation is not contingent in any way on continued service).

Note: The term indirect acceptance by a member of an audit committee of any consulting, advisory or other compensatory fee includes acceptance of such a fee by a spouse, a minor child or stepchild or a child or stepchild sharing a home with the member or by an entity in which such member is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to CPF or any of its subsidiaries.

2.

A Director must not be affiliated with CPF or any subsidiary of CPF.

Note: An audit committee member that sits on the board of directors of a listed issuer and an affiliate of the listed issuer is exempt from this requirement if the member, except for being a director on each such board of directors, otherwise meets the independence requirements for each such entity, including the receipt of only ordinary-course compensation for serving as a member of the board of directors, audit committee or any other board committee of each such entity.

When used above the following terms shall have the following meanings:

"affiliate of" or "affiliated with", a specified person, means a person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, the person specified. A person is not deemed to be in control of a specified person if the person is not the beneficial owner, directly or indirectly, of more than 10% of any class of voting equity securities of the specified person, and is not an executive officer of the specified person. The following are deemed affiliates: an executive officer of an affiliate; a director who is also an employee of an affiliate; a general partner of an affiliate, and a managing member of an affiliate. [See Securities Exchange Act of 1934, Rule 10-A-3] The term "affiliate" also includes a subsidiary, sibling company, predecessor, parent company, or former parent company. [See NYSE Corporate Governance Standards]

"Company" and "CPF" means and includes Central Pacific Financial Corp. and its affiliates and subsidiaries.

"executive officer" means and includes as to Central Pacific Financial Corp., its chief executive officer, president, any vice president in charge of a principal business unit, division or function (such as sales, administration or finance), any other officer who performs a policy making function or any other person

who performs similar policy making functions for Central Pacific Financial Corp. Executive officers of affiliates and subsidiaries of Central Pacific Financial Corp. may be deemed executive officers of Central Pacific Financial Corp. if they perform such policy making functions for Central Pacific Financial Corp. [See Securities Exchange Act of 1934, Rule 3b-7]

"immediate family member(s)" means and includes a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who share such person's home (when applying the look-back provisions, one need not consider individuals who are no longer immediate family members as a result of legal separation or divorce, or those who have died or become incapacitated).

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**CENTRAL PACIFIC FINANCIAL CORP.
ANNUAL MEETING OF SHAREHOLDERS**

April 26, 2005

This Proxy is solicited on behalf of the Board of Directors

The undersigned hereby appoints Clint Arnoldus, Neal K. Kanda and Glenn K.C. Ching as proxies, each with full power of substitution, to represent and vote as designated on the reverse side, all the shares of Common Stock of Central Pacific Financial Corp. held of record by the undersigned on February 28, 2005, at the Annual Meeting of Shareholders to be held in the Plumeria Room of the Ala Moana Hotel, 410 Atkinson Drive, Honolulu, Hawaii, on April 26, 2005, at 6:00 p.m., Hawaii time, or any adjournment or postponement thereof.

(Continued and to be signed on the reverse side)

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Annual Meeting of Shareholders
CENTRAL PACIFIC FINANCIAL CORP.

April 26, 2005

Please date, sign and mail
your proxy card in the
envelope provided as soon
as possible.

V Please detach along perforated line and mail in the envelope provided. V

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF DIRECTORS AND "FOR" PROPOSALS 2 AND 3. PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE ¶

	WITHHOLD AUTHORITY TO VOTE FOR ALL NOMINEES LISTED	FOR ALL EXCEPT (See Instructions Below)		FOR	AGAINST	ABSTAIN
<p>1. ELECTION OF DIRECTORS. Class II Terms will expire in 2008</p>			<p>Nominees: Earl E. Fry B. Jeannie Hedberg Duane K. Kurisu Colbert M. Matsumoto Crystal K. Rose</p>			
			<p>2. RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM. To ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for fiscal year ending December 31, 2005.</p>	FOR	AGAINST	ABSTAIN
			<p>3. APPROVAL OF AMENDMENT OF RESTATED ARTICLES OF INCORPORATION OF CENTRAL PACIFIC FINANCIAL CORP. To approve an amendment to the Restated Articles of Incorporation of Central Pacific Financial Corp. to add a new Article IX regarding limitation of liability for directors as provided for under Hawaii law.</p>	FOR	AGAINST	ABSTAIN

INSTRUCTION: To withhold authority to vote for any individual nominee(s), mark "FOR ALL EXCEPT" and fill in the circle next to each nominee you wish to withhold, as shown here:

FOR ALL NOMINEES	WITHHOLD AUTHORITY TO VOTE FOR ALL NOMINEES LISTED	FOR ALL EXCEPT (See Instructions Below)	FOR	AGAINST	ABSTAIN
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4. OTHER BUSINESS. To transact such other business as may properly come before the Meeting and at any and all adjournments thereof. The Board of Directors at present knows of no other business to be presented by or on behalf of the Company or the Board of Directors at the Annual Meeting.

The Board of Directors recommends a vote "FOR" the election of all nominees for director, "FOR" ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm, and "FOR" approval of the proposed amendment to the Restated Articles of Incorporation of Central Pacific Financial Corp. If any other business is properly presented at such meeting, this proxy shall be voted in accordance with the recommendations of the Board of Directors.

The undersigned hereby ratifies and confirms all that said attorneys and Proxy Holders, or any of them, or their substitutes, shall lawfully do or cause to be done by virtue hereof, and hereby revokes any and all proxies heretofore given by the undersigned to vote at the Annual Meeting. The undersigned acknowledges receipt of the Notice of Annual Meeting and Proxy Statement accompanying said notice.

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method. o

Signature of Shareholder _____ Date: _____ Signature of Shareholder _____ Date: _____
Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

**Please date, sign and mail
your proxy card in
the envelope provided as soon
as possible.**

∨ Please fold and detach card at perforation before mailing ∨

**CENTRAL PACIFIC FINANCIAL CORP.
ANNUAL MEETING OF SHAREHOLDERS**

To Be Held April 26, 2005

This Proxy is solicited on behalf of the Board of Directors

The undersigned shareholders of Central Pacific Financial Corp. (the "Company") hereby nominate, constitute and appoint Messrs. Clint Arnoldus, Neal K. Kanda and Glenn K.C. Ching, or any one of them, each with full power of substitution, as the lawful attorneys, agents and proxies of the undersigned, for the Annual Meeting of Shareholders of Central Pacific Financial Corp. (the "Annual Meeting") to be held in the Plumeria Room of the Ala Moana Hotel, 410 Atkinson Drive, Honolulu, Hawaii, on Tuesday, April 26, 2005 at 6:00 p.m., Hawaii time, and at any and all adjournments thereof, to represent the undersigned and to cast all votes to which the undersigned would be entitled to cast if personally present, as follows:

This proxy will be voted "FOR" the election of all nominees unless authority to do so is withheld for all nominees or for any other nominee. Unless "AGAINST" or "ABSTAIN" is indicated, this proxy will be voted "FOR" approval of the independent registered public accounting firm and "FOR" approval of the amendment to Restated Articles of Incorporation of the Company. PLEASE SIGN, DATE AND RETURN THIS PROXY AS PROMPTLY AS POSSIBLE IN THE POSTAGE PREPAID ENVELOPE PROVIDED.

However, if you are a 401(k) participant, this proxy covers all shares for which the undersigned has the right to give voting instructions to Vanguard Fiduciary Trust Company, Trustee of the Central Pacific Bank 401(k) Retirement Savings Plan (the "Plan"). This proxy, when properly executed, will be voted as directed. If no direction is given to the Plan's Trustee by 5:00 PM EST on April 20, 2005, the Plan's Trustee will vote you shares held in the Plan in the same proportion as votes received from other participants in the Plan.

Date: _____

Signature of Shareholder

(Sign in the Box)

Please sign exactly as your name or names appear on this Proxy.

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Annual Meeting of Shareholders
CENTRAL PACIFIC FINANCIAL CORP.

April 26, 2005

∨ Please fold and detach card at perforation before mailing ∨

Please fill in box(es) as shown using black or blue ink or number 2 pencil. √
PLEASE DO NOT USE FINE POINT PENS.

	FOR ALL NOMINEES (EXCEPT AS INDICATED TO THE CONTRARY)	WITHHOLD AUTHORITY TO VOTE FOR ALL NOMINEES LISTED		FOR	AGAINST	ABSTAIN
	<hr/>	<hr/>		<hr/>	<hr/>	<hr/>
1. ELECTION OF DIRECTORS. Class II Terms will expire in 2008			Nominees: Earl E. Fry B. Jeannie Hedberg Duane K. Kurisu Colbert M. Matsumoto Crystal K. Rose			
			2. RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM. To ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for fiscal year ending December 31, 2005.			
				<hr/>	<hr/>	<hr/>
			3. APPROVAL OF AMENDMENT OF RESTATED ARTICLES OF INCORPORATION OF CENTRAL PACIFIC FINANCIAL CORP. To approve an amendment to the Restated Articles of Incorporation of Central Pacific Financial Corp. to add a new Article IX regarding limitation of liability for directors as provided for under Hawaii law.			
			4. OTHER BUSINESS. To transact such other business as may properly come before the Meeting and at any and all adjournments thereof. The Board of Directors at present knows of no other business to be presented by or on behalf of the Company or the Board of Directors at the Annual Meeting.			

(INSTRUCTION: To withhold authority to vote for any individual nominee, write that nominee's name in the space provided below.)

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The Board of Directors recommends a vote "FOR" the election of all nominees for director, "FOR" ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm, and "FOR" approval of the proposed amendment to the Restated Articles of Incorporation of Central Pacific Financial Corp. If any other business is properly presented at such meeting, this proxy shall be voted in accordance with the recommendations of the Board of Directors.

The undersigned hereby ratifies and confirms all that said attorneys and Proxy Holders, or any of them, or their substitutes, shall lawfully do or cause to be done by virtue hereof, and hereby revokes any and all proxies heretofore given by the undersigned to vote at the Annual Meeting. The undersigned acknowledges receipt of the Notice of Annual Meeting and Proxy Statement accompanying said notice.

IMPORTANT: Continued and to be signed on the reverse side.

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