

HAWAIIAN ELECTRIC INDUSTRIES INC
Form 8-K
October 27, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K
CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report: October 27, 2003

| Exact Name of Registrant as Specified in Its Charter | Commission File Number | I.R.S. Employer Identification No. |
|---|---|---|
| Hawaiian Electric Industries, Inc. | 1-8503 | 99-0208097 |
| Hawaiian Electric Company, Inc. | 1-4955 | 99-0040500 |

State of Hawaii

(State or other jurisdiction of incorporation)

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900 Richards Street, Honolulu, Hawaii 93813

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code:

(808) 543-5662 Hawaiian Electric Industries, Inc. (HEI)

(808) 543-7771 Hawaiian Electric Company, Inc. (HECO)

None

(Former name or former address, if changed since last report.)

Item 5. Other Events.

On October 27, 2003, HEI issued the following news release:

HAWAIIAN ELECTRIC INDUSTRIES, INC. REPORTS THIRD QUARTER 2003 EARNINGS

HONOLULU Hawaiian Electric Industries, Inc. (NYSE HE) today reported net income for the three months ended September 30, 2003, of \$30.5 million, or 81 cents per share, compared with \$33.5 million, or 92 cents per share in the same quarter of 2002. For the nine months ended September 30, 2003, income from continuing operations was \$80.6 million, or \$2.16 per share, compared with \$91.8 million, or \$2.54 per share in the same period last year.

Kilowatthour sales were strong, bank net income was up 4 percent and the holding and other companies' net losses were down 24 percent this quarter, said Robert F. Clarke, HEI chairman, president and chief executive officer. However, retirement benefits expense continues to negatively impact earnings.

Electric utility net income during the quarter was \$20.4 million versus \$25.6 million in the same quarter last year. Electric utility net income for the first nine months of 2003 was \$56.6 million versus \$69.8 million in the same period of 2002.

Kilowatthour sales were up 3 percent compared with the same quarter last year largely due to warmer weather and higher residential and neighbor island commercial usage. More than offsetting the impact of higher sales were retirement benefits expenses that were \$5.5 million (\$3.4 million, net) higher than in the third quarter of 2002 and a previously reported notice of violation and proposed penalty of \$1.6 million from the State of Hawaii Department of Health on two of our Maui generating units. In addition, the timing and larger scope of overhauls lowered utility operating income by \$2.3 million and depreciation expense was \$1.3 million higher than in the third quarter of 2002.

Bank net income in the third quarter was \$15.3 million compared to \$14.7 million in the same quarter last year. Bank net income for the nine months ended September 30, 2003, was \$42.3 million versus \$42.8 million in the same period in 2002.

Bank earnings rose slightly in the third quarter of 2003 as compared with the same quarter of 2002, helped by lower loan loss provisioning, securities gains and improvement in the value of the bank's mortgage servicing asset which offset continued margin compression and higher general and administrative expenses. The bank's interest rate spread was lower at 3.01% compared with the third quarter of last year when it was 3.28% and net interest income declined by \$3 million quarter over quarter. The strong Hawaii real estate market and low interest rates continued to have a positive effect on credit quality, allowing the bank to lower its provision for loan losses by \$0.9 million as compared with the third quarter of 2002. Also contributing to the bank's positive quarter were increased fee income from other financial services and deposit liabilities (\$10.4 million in the third quarter versus \$9.5 million in the third quarter of 2002) and better results on sales of securities (\$1.7 million gain in the third quarter versus a \$0.9 million loss in the third quarter of 2002). The reversal of an allowance related to purchased mortgage servicing rights contributed further because prepayments of loans slowed as interest rates increased over the quarter, improving the value of the servicing asset (\$1.9 million in the third quarter compared with a \$1.3 million provision in the third quarter of 2002). The bank incurred higher general and administrative costs quarter over quarter as retirement benefit expenses increased by \$0.8 million and the bank continued implementation of its strategic plan to transform to a full-service community bank.

Net losses for the holding and other companies in the third quarter were \$5.1 million compared with \$6.8 million in the same quarter last year. Holding and other companies' net losses from continuing operations for the first nine months of 2003 were \$18.2 million versus \$20.8 million in the same period of 2002. Lower losses were due in part to the fact that there were no investment writedowns in the third quarter of 2003 compared with \$1.7 million of writedowns in the same quarter last year.

HEI strives to provide value to its shareholders, its customers and the Hawaii community through a unique combination of operating companies a utility and a bank. HEI provides electric utility services to 95% of Hawaii's residents and a wide array of banking services to consumers and businesses through the state's third largest bank.

Forward-Looking Statements

This release may contain forward-looking statements, which include statements that are predictive in nature, depend upon or refer to future events or conditions, and usually include words such as expects, anticipates, intends, plans, believes, predicts, estimates or similar expressions. In addition, any statements concerning future financial performance (including future revenues, expenses, earnings or losses or growth rates), ongoing business strategies or prospects and possible future actions, which may be provided by management, are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties and assumptions about HEI and its subsidiaries, the performance of the industries in which they do business and economic and market factors, among other things. These forward-looking statements are not guarantees of future performance.

Forward-looking statements in this release should be read in conjunction with the Forward-Looking Statements and Risk Factors discussion (which is incorporated by reference herein) set forth on page v of HEI's Form 10-Q for the quarter ended June 30, 2003, and in HEI's future periodic reports that discuss important factors that could cause HEI's results to differ materially from those anticipated in such statements. Forward-looking statements speak only as of the date of this release.

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Hawaiian Electric Industries, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | | Twelve months ended September 30, | |
|--|--|------------------|------------------------------------|------------------|--------------------------------------|-------------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| (in thousands, except per share amounts) | | | | | | |
| Revenues | | | | | | |
| Electric utility | \$ 359,250 | \$ 333,636 | \$ 1,042,691 | \$ 919,643 | \$ 1,380,224 | \$ 1,235,487 |
| Bank | 93,770 | 99,722 | 281,575 | 300,633 | 380,197 | 409,197 |
| Other | 683 | (1,798) | 2,829 | (2,278) | 2,377 | (7,377) |
| | <u>453,703</u> | <u>431,560</u> | <u>1,327,095</u> | <u>1,217,998</u> | <u>1,762,798</u> | <u>1,637,307</u> |
| Expenses | | | | | | |
| Electric utility | 312,614 | 280,047 | 912,495 | 769,497 | 1,205,218 | 1,043,756 |
| Bank | 68,654 | 75,156 | 211,672 | 229,527 | 288,517 | 313,201 |
| Other | 4,200 | 4,619 | 14,152 | 12,006 | 20,822 | 15,894 |
| | <u>385,468</u> | <u>359,822</u> | <u>1,138,319</u> | <u>1,011,030</u> | <u>1,514,557</u> | <u>1,372,851</u> |
| Operating income (loss) | | | | | | |
| Electric utility | 46,636 | 53,589 | 130,196 | 150,146 | 175,006 | 191,731 |
| Bank | 25,116 | 24,566 | 69,903 | 71,106 | 91,680 | 95,996 |
| Other | (3,517) | (6,417) | (11,323) | (14,284) | (18,445) | (23,271) |
| | <u>68,235</u> | <u>71,738</u> | <u>188,776</u> | <u>206,968</u> | <u>248,241</u> | <u>264,456</u> |
| Interest expense other than bank | (19,233) | (17,751) | (55,092) | (54,618) | (72,766) | (73,883) |
| Allowance for borrowed funds used during construction | 496 | 549 | 1,385 | 1,392 | 1,848 | 1,939 |
| Preferred stock dividends of subsidiaries | (501) | (501) | (1,504) | (1,504) | (2,006) | (2,006) |
| Preferred securities distributions of trust subsidiaries | (2,090) | (4,008) | (10,108) | (12,026) | (14,117) | (16,035) |
| Allowance for equity funds used during construction | 1,098 | 1,162 | 3,075 | 2,977 | 4,052 | 3,998 |
| | <u>Income from continuing operations before income taxes</u> | <u>51,189</u> | <u>126,532</u> | <u>143,189</u> | <u>165,252</u> | <u>178,469</u> |
| Income taxes | 17,483 | 17,677 | 45,923 | 51,347 | 58,268 | 61,423 |
| | <u>Income from continuing operations</u> | <u>33,512</u> | <u>80,609</u> | <u>91,842</u> | <u>106,984</u> | <u>117,046</u> |
| Discontinued operations, net of income taxes | | | | | | |
| Loss from operations | | | (3,870) | | (3,870) | |
| Net loss on disposals | | | | | | (1,966) |
| | <u>Loss from discontinued operations</u> | <u></u> | <u>(3,870)</u> | <u></u> | <u>(3,870)</u> | <u>(1,966)</u> |
| | <u>Net income</u> | <u>\$ 33,512</u> | <u>\$ 76,739</u> | <u>\$ 91,842</u> | <u>\$ 103,114</u> | <u>\$ 115,080</u> |

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| | | | | | | |
|--|------------------|------------------|------------------|------------------|-------------------|-------------------|
| Per common share | | | | | | |
| Basic earnings (loss) | | | | | | |
| Continuing operations | \$ 0.81 | \$ 0.92 | \$ 2.16 | \$ 2.54 | \$ 2.88 | \$ 3.27 |
| Discontinued operations | | | (0.10) | | (0.10) | (0.05) |
| | <u>\$ 0.81</u> | <u>\$ 0.92</u> | <u>\$ 2.06</u> | <u>\$ 2.54</u> | <u>\$ 2.78</u> | <u>\$ 3.22</u> |
| Diluted earnings (loss) | | | | | | |
| Continuing operations | \$ 0.81 | \$ 0.91 | \$ 2.15 | \$ 2.53 | \$ 2.87 | \$ 3.25 |
| Discontinued operations | | | (0.10) | | (0.10) | \$ (0.05) |
| | <u>\$ 0.81</u> | <u>\$ 0.91</u> | <u>\$ 2.05</u> | <u>\$ 2.53</u> | <u>\$ 2.77</u> | <u>\$ 3.20</u> |
| Dividends | \$ 0.62 | \$ 0.62 | \$ 1.86 | \$ 1.86 | \$ 2.48 | \$ 2.48 |
| Weighted-average number of common shares outstanding | 37,516 | 36,435 | 37,205 | 36,150 | 37,067 | 35,770 |
| Adjusted weighted-average shares | 37,676 | 36,627 | 37,364 | 36,350 | 37,232 | 35,957 |
| Income (loss) from continuing operations by segment | | | | | | |
| Electric utility | \$ 20,360 | \$ 25,610 | \$ 56,572 | \$ 69,819 | \$ 76,958 | \$ 88,283 |
| Bank | 15,275 | 14,652 | 42,277 | 42,815 | 55,687 | 58,192 |
| Other | (5,113) | (6,750) | (18,240) | (20,792) | (25,661) | (29,429) |
| Income from continuing operations | <u>\$ 30,522</u> | <u>\$ 33,512</u> | <u>\$ 80,609</u> | <u>\$ 91,842</u> | <u>\$ 106,984</u> | <u>\$ 117,046</u> |

This information should be read in conjunction with the consolidated financial statements and the notes thereto incorporated by reference in HEI's Annual Report on SEC Form 10-K for the year ended December 31, 2002 and the consolidated financial statements and the notes thereto in HEI's Quarterly Reports on SEC Form 10-Q for the quarters ended March 31, 2003, June 30, 2003 and September 30, 2003 (when filed).

Results of operations for interim periods are not necessarily indicative of results to be expected for future interim periods or the full year.

Hawaiian Electric Industries, Inc. and subsidiaries

GOODWILL

(Unaudited)

The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets on January 1, 2002. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually.

The Company's \$83.1 million of goodwill is in the bank segment and was tested for impairment as of January 1 and September 30, 2002 and will be tested for impairment annually in the fourth quarter using data as of September 30. As of January 1 and September 30, 2002, there was no impairment of goodwill. The fair value of the bank was estimated using a valuation method based on a market approach, which takes into consideration market values of comparable publicly traded companies and recent transactions of companies in the industry.

Application of the provisions of SFAS No. 142 has affected the comparability of the twelve months ended results of operations because the goodwill in the bank segment is no longer being amortized over a 25 year period. Thus, the following transitional disclosures present net income and earnings per common share adjusted as shown below:

| | Twelve months ended | |
|---|---------------------|------------|
| | September 30, | |
| | 2003 | 2002 |
| (in thousands, except per share amounts) | | |
| Consolidated | | |
| Reported net income | \$ 103,114 | \$ 115,080 |
| Goodwill amortization, net of tax benefits | | 968 |
| Adjusted net income | \$ 103,114 | \$ 116,048 |
| Per common share | | |
| Reported basic earnings | \$ 2.78 | \$ 3.22 |
| Goodwill amortization, net of tax benefits | | 0.03 |
| Adjusted basic earnings | \$ 2.78 | \$ 3.25 |
| Per common share | | |
| Reported diluted earnings | \$ 2.77 | \$ 3.20 |
| Goodwill amortization, net of tax benefits | | 0.03 |
| Adjusted diluted earnings | \$ 2.77 | \$ 3.23 |
| Bank | | |
| Reported net income | \$ 55,687 | \$ 58,192 |
| Goodwill amortization, net of tax benefits | | 968 |

| | | |
|---------------------|-----------|-----------|
| Adjusted net income | \$ 55,687 | \$ 59,160 |
|---------------------|-----------|-----------|

Hawaiian Electric Company, Inc. (HECO) and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| | Three months ended | | Nine months ended | |
|--|--------------------|------------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2003 | 2002 | 2003 | 2002 |
| (in thousands) | | | | |
| Operating revenues | \$ 358,435 | \$ 332,453 | \$ 1,039,781 | \$ 916,402 |
| Operating expenses | | | | |
| Fuel oil | 101,296 | 85,311 | 294,303 | 218,901 |
| Purchased power | 92,543 | 87,123 | 273,161 | 240,744 |
| Other operation | 37,760 | 33,888 | 114,604 | 95,573 |
| Maintenance | 18,025 | 15,705 | 47,783 | 45,727 |
| Depreciation | 27,625 | 26,340 | 82,870 | 79,063 |
| Taxes, other than income taxes | 33,636 | 31,287 | 97,523 | 88,769 |
| Income taxes | 13,974 | 16,287 | 36,865 | 44,110 |
| | 324,859 | 295,941 | 947,109 | 812,887 |
| Operating income | 33,576 | 36,512 | 92,672 | 103,515 |
| Other income | | | | |
| Allowance for equity funds used during construction | 1,098 | 1,162 | 3,075 | 2,977 |
| Other, net | (889) | 858 | 747 | 2,435 |
| | 209 | 2,020 | 3,822 | 5,412 |
| Income before interest and other charges | 33,785 | 38,532 | 96,494 | 108,927 |
| Interest and other charges | | | | |
| Interest on long-term debt | 11,891 | 10,127 | 32,651 | 30,430 |
| Amortization of net bond premium and expense | 579 | 498 | 1,620 | 1,505 |
| Preferred securities distributions of trust subsidiaries | | 1,918 | 3,838 | 5,756 |
| Other interest charges | 953 | 430 | 1,702 | 1,313 |
| Allowance for borrowed funds used during construction | (496) | (549) | (1,385) | (1,392) |
| Preferred stock dividends of subsidiaries | 228 | 228 | 686 | 686 |
| | 13,155 | 12,652 | 39,112 | 38,298 |
| Income before preferred stock dividends of HECO | 20,630 | 25,880 | 57,382 | 70,629 |
| Preferred stock dividends of HECO | 270 | 270 | 810 | 810 |
| Net income for common stock | \$ 20,360 | \$ 25,610 | \$ 56,572 | \$ 69,819 |
| OTHER ELECTRIC UTILITY INFORMATION | | | | |
| Kilowatthour sales (millions) | 2,583 | 2,515 | 7,269 | 7,117 |
| Cooling degree days (Oahu) | 1,639 | 1,539 | 3,750 | 3,611 |

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| | | | | |
|------------------------------|----------|----------|----------|----------|
| Average fuel cost per barrel | \$ 35.62 | \$ 30.68 | \$ 36.75 | \$ 27.52 |
|------------------------------|----------|----------|----------|----------|

American Savings Bank, F.S.B. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|---------------|------------------------------------|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| (in thousands) | | | | |
| Interest and dividend income | | | | |
| Interest and fees on loans | \$ 49,657 | \$ 50,210 | \$ 150,555 | \$ 152,300 |
| Interest on mortgage-related securities | 24,876 | 35,503 | 80,176 | 103,634 |
| Interest and dividends on investment securities | 1,428 | 1,880 | 4,736 | 5,979 |
| | <u>75,961</u> | <u>87,593</u> | <u>235,467</u> | <u>261,913</u> |
| Interest expense | | | | |
| Interest on deposit liabilities | 13,099 | 17,833 | 41,182 | 57,331 |
| Interest on Federal Home Loan Bank advances | 11,449 | 14,905 | 37,067 | 43,327 |
| Interest on securities sold under repurchase agreements | 5,287 | 5,683 | 16,059 | 15,256 |
| | <u>29,835</u> | <u>38,421</u> | <u>94,308</u> | <u>115,914</u> |
| Net interest income | 46,126 | 49,172 | 141,159 | 145,999 |
| Provision for loan losses | 600 | 1,500 | 2,775 | 8,000 |
| Net interest income after provision for loan losses | <u>45,526</u> | <u>47,672</u> | <u>138,384</u> | <u>137,999</u> |
| Other income | | | | |
| Fees from other financial services | 6,015 | 5,416 | 17,964 | 15,381 |
| Fee income on deposit liabilities | 4,423 | 4,091 | 12,257 | 11,717 |
| Fee income on other financial products | 2,426 | 2,592 | 7,660 | 7,647 |
| Fee income on loans serviced for others, net | 1,952 | (882) | 508 | (369) |
| Gain (loss) on sale of securities | 1,719 | (913) | 4,085 | (640) |
| Other income | 1,274 | 1,825 | 3,634 | 4,984 |
| | <u>17,809</u> | <u>12,129</u> | <u>46,108</u> | <u>38,720</u> |
| General and administrative expenses | | | | |
| Compensation and employee benefits | 16,917 | 14,753 | 49,711 | 44,046 |
| Occupancy and equipment | 8,019 | 7,896 | 22,687 | 22,387 |
| Data processing | 2,549 | 2,579 | 7,956 | 8,228 |
| Consulting | 899 | 1,582 | 5,076 | 4,374 |
| Other | 9,835 | 8,425 | 29,159 | 26,578 |
| | <u>38,219</u> | <u>35,235</u> | <u>114,589</u> | <u>105,613</u> |
| Income before minority interests and income taxes | 25,116 | 24,566 | 69,903 | 71,106 |
| Minority interests | 48 | 42 | 114 | 131 |
| Income taxes | 8,440 | 8,519 | 23,454 | 24,102 |
| Income before preferred stock dividends | <u>16,628</u> | <u>16,005</u> | <u>46,335</u> | <u>46,873</u> |

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| | | | | |
|------------------------------------|------------------|------------------|------------------|------------------|
| Preferred stock dividends | 1,353 | 1,353 | 4,058 | 4,058 |
| Net income for common stock | \$ 15,275 | \$ 14,652 | \$ 42,277 | \$ 42,815 |
| Interest rate spread (%) | 3.01 | 3.28 | 3.06 | 3.28 |

Item 12. Results of Operations and Financial Condition.

The information filed under Item 5, Other Events, herein is also furnished pursuant to Item 12, Results of Operations and Financial Condition.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature of the undersigned companies shall be deemed to relate only to matters having reference to such companies and any subsidiaries thereof.

HAWAIIAN ELECTRIC INDUSTRIES, INC.
(Registrant)

HAWAIIAN ELECTRIC COMPANY, INC.
(Registrant)

/s/ CURTIS Y. HARADA

Curtis Y. Harada

Controller

(Chief Accounting Officer of HEI)

Date: October 27, 2003

/s/ ERNEST T. SHIRAKI

Ernest T. Shiraki

Controller

(Chief Accounting Officer of HECO)

Date: October 27, 2003