

HAWAIIAN ELECTRIC INDUSTRIES INC
Form 8-K
April 22, 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: April 21, 2003

| | | |
|---|--------------------|---------------------------|
| Exact Name of Registrant | Commission | I.R.S. Employer |
| as Specified in Its Charter | File Number | 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)

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 April 21, 2003, HEI issued the following news release:

HAWAIIAN ELECTRIC INDUSTRIES, INC. REPORTS FIRST QUARTER 2003 EARNINGS

HONOLULU Hawaiian Electric Industries, Inc. (NYSE HE) today reported net income for the three months ended March 31, 2003, of \$24.3 million, or 66 cents per share, compared with \$26.9 million, or 75 cents per share, in the same quarter of 2002. Net income was down 9% for the quarter due to lower utility net income that was partially offset by a 1.2% increase in bank net income. We had a strong first quarter considering the expected increases in retirement benefits costs and the impact of the uncertainties surrounding the war in Iraq on the Hawaii economy, said Robert F. Clarke, HEI chairman, president and chief executive officer. HEI has previously announced that it expected a \$16 million increase in retirement benefits expense, net of tax benefits, in 2003 compared to 2002.

Electric utility net income for the first quarter was \$17.7 million compared to \$20.4 million for the same quarter last year primarily due to higher retirement benefits expense and depreciation expense. These increased expenses were partially offset by higher kilowatthour sales. Increases in residential usage and the number of residential customers as a result of a strong real estate market in Hawaii helped to boost kilowatthour sales by 2.5% for the quarter, said Clarke. Going forward, the full impact of the conflict with Iraq on the Hawaii tourism industry and the Company's kilowatthour sales growth is still unknown.

Bank net income in the first quarter was \$13.5 million compared to \$13.4 million in the same quarter last year. The increase in net income was primarily due to a lower provision for loan losses and slightly higher net interest and other income. The increase was partially offset by writedowns of mortgage servicing rights and higher general and administrative expenses as a result of the bank's continued implementation of its strategic transformation from a retail thrift to a full-service community bank.

During the first quarter, the bank continued to see loan asset quality and delinquencies improve resulting in a lower provision for loan losses, said Clarke. However, the low interest rate environment continued to put pressure on the interest rate spread. The interest rate spread was lower at 3.14% in the recent quarter versus 3.27% for the same period in 2002.

HEI will hold its annual shareholders' meeting tomorrow at 9:30 a.m., in Honolulu, Hawaii to elect four Class I directors and the Company's independent auditor, as well as to consider approval of proposed amendments to its 1987 Stock Option and Incentive Plan.

HEI is the largest Hawaii-based company, providing electric utility services to approximately 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 vi of HEI's Annual Report on Form 10-K for the year ended December 31, 2002, 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 | | Twelve months | |
|--|------------------|------------------|-------------------|------------------|
| | ended March 31, | | ended March 31, | |
| (in thousands, except per share amounts) | 2003 | 2002 | 2003 | 2002 |
| Revenues | | | | |
| Electric utility | \$ 328,912 | \$ 278,331 | \$ 1,307,757 | \$ 1,249,212 |
| Bank | 95,102 | 98,842 | 395,515 | 427,690 |
| Other | 622 | 263 | (2,371) | (5,526) |
| | <u>424,636</u> | <u>377,436</u> | <u>1,700,901</u> | <u>1,671,376</u> |
| Expenses | | | | |
| Electric utility | 287,937 | 232,727 | 1,117,430 | 1,057,673 |
| Bank | 72,676 | 76,671 | 302,377 | 343,569 |
| Other | 4,935 | 3,434 | 20,177 | 14,291 |
| | <u>365,548</u> | <u>312,832</u> | <u>1,439,984</u> | <u>1,415,533</u> |
| Operating income (loss) | | | | |
| Electric utility | 40,975 | 45,604 | 190,327 | 191,539 |
| Bank | 22,426 | 22,171 | 93,138 | 84,121 |
| Other | (4,313) | (3,171) | (22,548) | (19,817) |
| | <u>59,088</u> | <u>64,604</u> | <u>260,917</u> | <u>255,843</u> |
| Interest expense other than bank | (17,980) | (18,527) | (71,745) | (77,668) |
| Allowance for borrowed funds used during construction | 443 | 355 | 1,943 | 1,937 |
| Preferred stock dividends of subsidiaries | (502) | (501) | (2,007) | (2,005) |
| Preferred securities distributions of trust subsidiaries | (4,009) | (4,009) | (16,035) | (16,035) |
| Allowance for equity funds used during construction | 988 | 773 | 4,169 | 3,747 |
| | <u>38,028</u> | <u>42,695</u> | <u>177,242</u> | <u>165,819</u> |
| Income from continuing operations before income taxes | | | | |
| Income taxes | 13,701 | 15,823 | 61,570 | 58,965 |
| | <u>24,327</u> | <u>26,872</u> | <u>115,672</u> | <u>106,854</u> |
| Income from continuing operations | | | | |
| Discontinued operations, net of income taxes | | | | |
| Loss from operations | | | | (1,235) |
| Net loss on disposals | | | | (22,787) |
| | <u></u> | <u></u> | <u></u> | <u>(24,022)</u> |
| Loss from discontinued operations | | | | |
| Net income | <u>\$ 24,327</u> | <u>\$ 26,872</u> | <u>\$ 115,672</u> | <u>\$ 82,832</u> |

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| | | | | |
|--|-----------|-----------|------------|------------|
| Per common share | | | | |
| Basic earnings (loss) | | | | |
| Continuing operations | \$ 0.66 | \$ 0.75 | \$ 3.17 | \$ 3.11 |
| Discontinued operations | | | | (0.70) |
| | \$ 0.66 | \$ 0.75 | \$ 3.17 | \$ 2.41 |
| Diluted earnings (loss) | | | | |
| Continuing operations | | | | |
| Continuing operations | \$ 0.66 | \$ 0.75 | \$ 3.15 | \$ 3.09 |
| Discontinued operations | | | | (0.69) |
| | \$ 0.66 | \$ 0.75 | \$ 3.15 | \$ 2.40 |
| Dividends | | | | |
| | \$ 0.62 | \$ 0.62 | \$ 2.48 | \$ 2.48 |
| Weighted-average number of common shares outstanding | | | | |
| | 36,897 | 35,818 | 36,544 | 34,410 |
| Adjusted weighted-average shares | | | | |
| | 37,086 | 36,014 | 36,751 | 34,573 |
| Income (loss) from continuing operations by segment | | | | |
| Electric utility | \$ 17,656 | \$ 20,359 | \$ 87,502 | \$ 87,234 |
| Bank | 13,508 | 13,351 | 56,382 | 50,007 |
| Other | (6,837) | (6,838) | (28,212) | (30,387) |
| Income from continuing operations | \$ 24,327 | \$ 26,872 | \$ 115,672 | \$ 106,854 |

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 Report on SEC Form 10-Q for the quarter ended March 31, 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.

In 2002, the Company recorded stock option compensation expense under the fair value based method of accounting prescribed by Statement of Financial Accounting Standards (SFAS) No. 123, as amended. In 2001, the Company recorded stock option compensation expense under the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25 and related interpretations. Also, in 2002, the Company no longer amortized goodwill as prescribed by SFAS No. 142.

Hawaiian Electric Company, Inc. (HECO) and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| Three months ended March 31 | 2003 | 2002 |
|--|-------------------|-------------------|
| (in thousands) | | |
| Operating revenues | \$ 327,961 | \$ 277,333 |
| Operating expenses | | |
| Fuel oil | 90,839 | 59,235 |
| Purchased power | 85,354 | 77,101 |
| Other operation | 38,527 | 29,223 |
| Maintenance | 14,282 | 14,012 |
| Depreciation | 27,612 | 26,360 |
| Taxes, other than income taxes | 31,077 | 26,690 |
| Income taxes | 11,215 | 12,791 |
| | <u>298,906</u> | <u>245,412</u> |
| Operating income | 29,055 | 31,921 |
| Other income | | |
| Allowance for equity funds used during construction | 988 | 773 |
| Other, net | 767 | 815 |
| | <u>1,755</u> | <u>1,588</u> |
| Income before interest and other charges | 30,810 | 33,509 |
| Interest and other charges | | |
| Interest on long-term debt | 10,324 | 10,136 |
| Amortization of net bond premium and expense | 513 | 500 |
| Other interest charges | 342 | 451 |
| Allowance for borrowed funds used during construction | (443) | (355) |
| Preferred stock dividends of subsidiaries | 229 | 229 |
| Preferred securities distributions of trust subsidiaries | 1,919 | 1,919 |
| | <u>12,884</u> | <u>12,880</u> |
| Income before preferred stock dividends of HECO | 17,926 | 20,629 |
| Preferred stock dividends of HECO | 270 | 270 |
| Net income for common stock | \$ 17,656 | \$ 20,359 |
| OTHER ELECTRIC UTILITY INFORMATION | | |
| Kilowatthour sales (millions) | 2,279 | 2,223 |

Cooling degree days (Oahu)

828

819

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

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| Three months ended March 31 | 2003 | 2002 |
|--|---------------|---------------|
| (in thousands) | | |
| Interest and dividend income: | | |
| Interest and fees on loans | \$ 50,473 | \$ 51,622 |
| Interest on mortgage-related securities | 29,277 | 31,806 |
| Interest and dividends on investment securities | 1,757 | 2,226 |
| | <u>81,507</u> | <u>85,654</u> |
| Interest expense: | | |
| Interest on deposit liabilities | 14,430 | 20,173 |
| Interest on Federal Home Loan Bank advances | 13,566 | 13,982 |
| Interest on securities sold under repurchase agreements | 5,341 | 3,961 |
| | <u>33,337</u> | <u>38,116</u> |
| Net interest income | 48,170 | 47,538 |
| Provision for loan losses | 1,150 | 3,500 |
| | <u>47,020</u> | <u>44,038</u> |
| Net interest income after provision for loan losses | 47,020 | 44,038 |
| Other income: | | |
| Fees from other financial services | 5,685 | 4,620 |
| Fees from deposit liabilities | 3,870 | 3,475 |
| Fee income on other financial products | 2,855 | 2,687 |
| Fee income on loans serviced by others, net | (1,002) | 413 |
| Gain on sale of securities | 812 | 156 |
| Other income | 1,375 | 1,837 |
| | <u>13,595</u> | <u>13,188</u> |
| Total other income | 13,595 | 13,188 |
| General and administrative expenses: | | |
| Compensation and employee benefits | 16,093 | 14,017 |
| Occupancy and equipment | 7,192 | 7,115 |
| Data processing | 2,804 | 2,830 |
| Consulting | 2,718 | 1,646 |
| Other | 9,382 | 9,447 |
| | <u>38,189</u> | <u>35,055</u> |
| Total general and administrative expenses | 38,189 | 35,055 |
| Income before minority interest and income taxes | 22,426 | 22,171 |
| Minority interests | 34 | 45 |

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| | | |
|--|-------------------|-------------------|
| Income taxes | 7,531 | 7,422 |
| | <u> </u> | <u> </u> |
| Income before preferred stock dividends | 14,861 | 14,704 |
| Preferred stock dividends | 1,353 | 1,353 |
| | <u> </u> | <u> </u> |
| Net income for common stock | \$ 13,508 | \$ 13,351 |
| | <u> </u> | <u> </u> |
| Interest rate spread (%) | 3.14 | 3.27 |

Item 9. Regulation FD Disclosure

The information filed under Item 5, Other Events, herein is also furnished pursuant to Item 9, Regulation FD Disclosure, and Item 12, Disclosure of 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.

HAWAIIAN ELECTRIC COMPANY, INC.

(Registrant)

(Registrant)

/s/ ERIC K. YEAMAN

/s/ RICHARD A. VON GNECHTEN

Eric K. Yeaman

Richard A. von Gnechten

Financial Vice President,

Financial Vice President

**Treasurer and Chief Financial Officer
(Principal Financial Officer of HEI)**

(Principal Financial Officer of HECO)

Date: April 21, 2003

Date: April 21, 2003