

HAWAIIAN ELECTRIC INDUSTRIES INC
Form 8-K
April 26, 2005

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 25, 2005

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

State of Hawaii

(State or other jurisdiction of incorporation)

900 Richards Street, Honolulu, Hawaii 96813

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(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.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 Results of Operations and Financial Condition.

The news release dated April 25, 2005 filed under Item 8.01 Other Events herein is also furnished pursuant to Item 2.02, Results of Operations and Financial Condition.

Items 8.01 Other Events.

On April 25, 2005, HEI issued the following news release:

HAWAIIAN ELECTRIC INDUSTRIES, INC. REPORTS FIRST QUARTER 2005 EARNINGS

HONOLULU Hawaiian Electric Industries, Inc. (NYSE HE) today reported net income for the three months ended March 31, 2005, of \$24.1 million, or 30 cents per share, compared with \$30.9 million, or 40 cents per share, in the same quarter of 2004.

First quarter results were down as we continued to experience increased operations and maintenance costs at our utilities to ensure reliable electric service to our customers, said Robert F. Clarke, HEI chairman, president and chief executive officer. Several years of growth in Hawaii's economy have resulted in new construction and increased residential usage which have added to our load especially our peak load. To ensure reliability, we have been running our peaking units more often, which in turn increases operations and maintenance expenses, added Clarke. The earnings decline at the utility was partially offset by an increase in bank earnings.

Electric utility net income for the first quarter was \$12.4 million compared to \$20.0 million for the same quarter last year. Kilowatthour sales were lower by 0.9% for the quarter compared to the first quarter of 2004.

Cooler weather was the primary reason for the decline in kilowatthour sales. However, strength in tourism and a healthy Hawaii economy helped moderate the decrease, said Clarke.

Cooling degree days were lower by 14.5% in the first quarter of 2005, compared with the same quarter of 2004.

Other operations and maintenance expenses were \$8.0 million higher primarily due to 1) \$2.5 million expensed in the first quarter of 2005 related to the increased scope of overhaul repairs and maintenance on an Oahu peaking unit (Waiiau 9) which began in the 4th quarter of 2004, 2) a \$1.2 million increase in retirement benefit expenses due primarily to a decrease in the discount rate assumption used to calculate the benefit obligation, 3) \$0.7 million of increased transmission and distribution operations and maintenance (primarily line inspections), and 4) \$0.4 million of higher external Sarbanes-Oxley (SOX) compliance costs. Overhaul repairs and maintenance on Waiiau 9 were completed this month and overhaul repairs and maintenance will commence on Waiiau 9's twin unit, Waiiau 10, this quarter. Depreciation expenses were \$2.1 million higher largely due to 2004 plant additions, including the Keahole CT-4 and CT-5 generating units and a new underground fuel pipeline.

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Our bank's net income rose 12% in the first quarter of 2005 compared with the first quarter of 2004, benefiting from Hawaii's strong economy, said Clarke.

Bank net income increased to \$17.8 million from \$15.9 million for the same quarter last year. The bank's earnings benefited from strong growth in both deposits and loans, continued good loan quality, the reversal of loan loss reserves, and an increase in interest on mortgage-related securities, said Clarke.

The interest rate spread was 3.29% in the first quarter of 2005, compared with 3.05% in the first quarter of 2004, helped primarily by the increase in interest on mortgage-related securities. Margin compression remained a challenge for the bank as the yield curve continued to flatten. However, loan growth funded by continued low-cost core deposits helped improve the spread.

The bank reversed loan loss reserves associated with a large delinquent commercial loan which was repaid in full, partially offset by provision to the allowance for loan losses for loan growth. The net reversal of \$3.1 million in the first quarter of 2005 exceeded the reversal of \$1.6 million for the first quarter of 2004.

General and administrative expenses for the quarter ended March 31, 2005 increased by \$4.8 million, or 13%, from the same period in 2004, primarily due to a reserve for interest related to income taxes as a result of a recent IRS examination, expenses associated with SOX compliance efforts and higher pension costs.

A higher effective tax rate applied to bank income in the first quarter of 2005, compared with the first quarter of 2004, because the bank no longer applies the 70 percent dividends received deduction to dividends it receives from its real estate investment trust subsidiary in calculating its state franchise tax liability.

In December 2004, the bank's preferred stock owned by HEI was converted to common equity. Accordingly, preferred stock dividends were lower by \$1.4 million in the first quarter of 2005, compared with the same quarter of 2004.

The holding and other companies' results were \$(6.1) million in the first quarter of 2005 versus \$(5.0) million in the first quarter of 2004. The decrease in quarter-over-quarter results was due in part to the reduction of preferred dividends from the bank as described above. This decrease was partially offset by lower interest expense.

HEI will hold its annual shareholders' meeting at 9:30 a.m., on Tuesday, April 26, in Honolulu, Hawaii to elect four Class III directors and a Class II director and the Company's independent auditor.

HEI supplies power to over 400,000 customers or 93% of the Hawaii electric public utility market through its electric utilities, Hawaiian Electric Company, Hawaii Electric Light Company and Maui Electric Company, and provides a wide array of banking and other financial services to consumers and businesses through American Savings Bank, the state's third largest financial institution based on asset size.

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 Form 10-K for the fiscal year ended December 31, 2004, 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.

Hawaiian Electric Industries, Inc. (HEI) and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| (in thousands, except per share amounts) | Three months ended | | Twelve months ended | |
|--|--------------------|------------------|---------------------|-------------------|
| | March 31, | | March 31, | |
| | 2005 | 2004 | 2005 | 2004 |
| Revenues | | | | |
| Electric utility | \$ 374,775 | \$ 346,613 | \$ 1,578,833 | \$ 1,414,386 |
| Bank | 97,224 | 89,258 | 372,250 | 365,476 |
| Other | 629 | 1,239 | 8,492 | 13,928 |
| | <u>472,628</u> | <u>437,110</u> | <u>1,959,575</u> | <u>1,793,790</u> |
| Expenses | | | | |
| Electric utility | 343,169 | 302,473 | 1,417,464 | 1,234,656 |
| Bank | 68,271 | 63,150 | 264,431 | 269,039 |
| Other | 4,517 | 3,650 | 17,886 | 17,779 |
| | <u>415,957</u> | <u>369,273</u> | <u>1,699,781</u> | <u>1,521,474</u> |
| Operating income (loss) | | | | |
| Electric utility | 31,606 | 44,140 | 161,369 | 179,730 |
| Bank | 28,953 | 26,108 | 107,819 | 96,437 |
| Other | (3,888) | (2,411) | (9,394) | (3,851) |
| | <u>56,671</u> | <u>67,837</u> | <u>259,794</u> | <u>272,316</u> |
| Interest expense other than bank | (18,835) | (21,447) | (74,564) | (72,759) |
| Allowance for borrowed funds used during construction | 427 | 644 | 2,325 | 2,115 |
| Preferred stock dividends of subsidiaries | (476) | (475) | (1,902) | (1,979) |
| Preferred securities distributions of trust subsidiaries | | | | (12,026) |
| Allowance for equity funds used during construction | 1,087 | 1,449 | 5,432 | 4,728 |
| | <u>38,874</u> | <u>48,008</u> | <u>191,085</u> | <u>192,395</u> |
| Income from continuing operations before income taxes | 38,874 | 48,008 | 191,085 | 192,395 |
| Income taxes | 14,779 | 17,076 | 90,183 | 67,742 |
| | <u>24,095</u> | <u>30,932</u> | <u>100,902</u> | <u>124,653</u> |
| Income from continuing operations | 24,095 | 30,932 | 100,902 | 124,653 |
| Income (loss) from discontinued operations, net of income taxes | | | 1,913 | (3,870) |
| | <u>\$ 24,095</u> | <u>\$ 30,932</u> | <u>\$ 102,815</u> | <u>\$ 120,783</u> |
| Per common share | | | | |
| Basic earnings (loss) -Continuing operations | \$ 0.30 | \$ 0.40 | \$ 1.26 | \$ 1.65 |
| -Discontinued operations | | | 0.02 | (0.05) |
| | <u>\$ 0.30</u> | <u>\$ 0.40</u> | <u>\$ 1.28</u> | <u>\$ 1.60</u> |

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| | | | | |
|--|------------------|------------------|-------------------|-------------------|
| Diluted earnings (loss) - Continuing operations | \$ 0.30 | \$ 0.40 | \$ 1.25 | \$ 1.65 |
| -Discontinued operations | | | 0.02 | (0.05) |
| | <u>\$ 0.30</u> | <u>\$ 0.40</u> | <u>\$ 1.27</u> | <u>\$ 1.60</u> |
| Dividends | \$ 0.31 | \$ 0.31 | \$ 1.24 | \$ 1.24 |
| Weighted-average number of common shares outstanding | 80,701 | 76,738 | 80,547 | 75,424 |
| Adjusted weighted-average shares | 81,135 | 77,156 | 80,828 | 75,698 |
| Income (loss) from continuing operations by segment | | | | |
| Electric utility | \$ 12,385 | \$ 20,023 | \$ 73,539 | \$ 81,278 |
| Bank | 17,761 | 15,927 | 42,896 | 58,680 |
| Other | (6,051) | (5,018) | (15,533) | (15,305) |
| Income from continuing operations | <u>\$ 24,095</u> | <u>\$ 30,932</u> | <u>\$ 100,902</u> | <u>\$ 124,653</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, 2004 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, 2005 (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 April 2004, the HEI board of directors approved a 2-for-1 stock split in the form of a 100% stock dividend. All share and per share information above reflects the stock split.

Hawaiian Electric Company, Inc. (HECO) and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| Three months ended March 31 | 2005 | 2004 |
|--|-------------------|-------------------|
| (in thousands) | | |
| Operating revenues | \$ 373,690 | \$ 345,944 |
| Operating expenses | | |
| Fuel oil | 115,626 | 97,086 |
| Purchased power | 101,216 | 92,239 |
| Other operation | 41,316 | 34,269 |
| Maintenance | 17,938 | 16,996 |
| Depreciation | 30,820 | 28,744 |
| Taxes, other than income taxes | 35,971 | 32,884 |
| Income taxes | 7,738 | 12,887 |
| | 350,625 | 315,105 |
| Operating income | 23,065 | 30,839 |
| Other income | | |
| Allowance for equity funds used during construction | 1,087 | 1,449 |
| Other, net | 843 | 641 |
| | 1,930 | 2,090 |
| Income before interest and other charges | 24,995 | 32,929 |
| Interest and other charges | | |
| Interest on long-term debt | 10,909 | 10,070 |
| Amortization of net bond premium and expense | 556 | 569 |
| Other interest charges | 1,073 | 2,412 |
| Allowance for borrowed funds used during construction | (427) | (644) |
| Preferred stock dividends of subsidiaries | 229 | 229 |
| | 12,340 | 12,636 |
| Income before preferred stock dividends of HECO | 12,655 | 20,293 |
| Preferred stock dividends of HECO | 270 | 270 |
| Net income for common stock | \$ 12,385 | \$ 20,023 |
| OTHER ELECTRIC UTILITY INFORMATION | | |
| Kilowatthour sales (millions) | 2,347 | 2,368 |
| Cooling degree days (Oahu) | 780 | 912 |
| Average fuel cost per barrel | \$ 45.63 | \$ 37.59 |

This information should be read in conjunction with the consolidated financial statements and the notes thereto incorporated by reference in HECO's Annual Report on SEC Form 10-K for the year ended December 31, 2004 and the consolidated financial statements and the notes

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thereto in HECO's Quarterly Report on SEC Form 10-Q for the quarter ended March 31, 2005 (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.

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

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| Three months ended March 31 | 2005 | 2004 |
|--|---------------|---------------|
| (in thousands) | | |
| Interest and dividend income | | |
| Interest and fees on loans | \$ 48,513 | \$ 46,409 |
| Interest on mortgage-related securities | 33,828 | 27,077 |
| Interest and dividends on investment securities | 1,035 | 1,748 |
| | <u>83,376</u> | <u>75,234</u> |
| Interest expense | | |
| Interest on deposit liabilities | 12,017 | 12,210 |
| Interest on Federal Home Loan Bank advances | 10,825 | 10,497 |
| Interest on securities sold under repurchase agreements | 6,923 | 5,246 |
| | <u>29,765</u> | <u>27,953</u> |
| Net interest income | 53,611 | 47,281 |
| Provision for loan losses | (3,100) | (1,600) |
| Net interest income after provision for loan losses | 56,711 | 48,881 |
| Other income | | |
| Fees from other financial services | 5,863 | 5,582 |
| Fee income on deposit liabilities | 4,171 | 4,381 |
| Fee income on other financial products | 2,435 | 2,976 |
| Fee income on loans serviced for others, net | 215 | (330) |
| Gain on sale of securities | 16 | 16 |
| Other income | 1,164 | 1,399 |
| | <u>13,848</u> | <u>14,024</u> |
| General and administrative expenses | | |
| Compensation and employee benefits | 16,627 | 15,755 |
| Occupancy | 4,018 | 4,256 |
| Equipment | 3,399 | 3,667 |
| Data processing | 3,045 | 2,823 |
| Consulting and other services | 3,667 | 2,531 |
| Other | 10,850 | 7,765 |
| | <u>41,606</u> | <u>36,797</u> |
| Income before minority interests and income taxes | 28,953 | 26,108 |
| Minority interests | 27 | 26 |
| Income taxes | 11,162 | 8,803 |
| Income before preferred stock dividends | 17,764 | 17,279 |
| Preferred stock dividends | 3 | 1,352 |

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| | | |
|------------------------------------|------------------|------------------|
| Net income for common stock | <u>\$ 17,761</u> | <u>\$ 15,927</u> |
| Interest rate spread (%) | 3.29 | 3.05 |

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, 2004 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, 2005 (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.

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5

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)

/s/ Eric K. Yeaman

Eric K. Yeaman
Financial Vice President, Treasurer
and Chief Financial Officer

(Principal Financial Officer of HEI)

Date: April 25, 2005

HAWAIIAN ELECTRIC COMPANY, INC.
(Registrant)

/s/ Tayne S. Y. Sekimura

Tayne S. Y. Sekimura
Financial Vice President

(Principal Financial Officer of HECO)

Date: April 25, 2005