

HAWAIIAN ELECTRIC CO INC
Form 8-K
January 21, 2004

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: January 20, 2004

| 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)

900 Richards Street, Honolulu, Hawaii 96813

(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

A. News Release

On January 20, 2004, HEI issued the following news release:

HAWAIIAN ELECTRIC INDUSTRIES, INC. REPORTS 2003 YEAREND AND FOURTH QUARTER EARNINGS

HONOLULU Hawaiian Electric Industries, Inc. (NYSE HE) today reported 2003 income from continuing operations of \$118.0 million, or \$3.16 per share, compared with \$118.2 million, or \$3.26 per share in 2002.

The Company performed well in 2003, said Robert F. Clarke, HEI chairman, president and chief executive officer. Net income for 2003 held steady compared with 2002 although the Company was faced with significant earnings challenges, said Clarke. At the utility, increased kilowatthour sales helped offset some of the impact of a \$23.9 million increase in its retirement benefits expenses. On an after-tax basis, the year-over-year increase in retirement benefits expenses at the utility amounted to \$14.6 million and for the entire Company it amounted to \$16.4 million. At the bank, earnings matched 2002's record earnings despite margin compression which squeezed bank net interest income by \$3.8 million. Margin compression resulted from the decline in asset yields from high refinancing volumes and the inability of the bank to reduce its cost of funds at the same rate. The holding and other companies reduced their net loss from continuing operations by \$11.1 million as interest costs were lower, lawsuits were settled and there were no investment writedowns, added Clarke.

Electric utility net income was \$78.9 million in 2003 versus \$90.2 million in 2002. Warmer weather and increases in usage and the number of residential customers contributed to kilowatthour sales growth of 2.4% in 2003, said Clarke. As the utility focused on capital expenditures to ensure reliability, maintenance expenses were down \$1.9 million in 2003 compared with 2002. More than offsetting kilowatthour sales increases and decreased maintenance expenses were year-over-year increases in gross retirement benefits expenses of \$23.9 million (\$14.6 million, net), an increase in depreciation of \$5.1 million and \$3.1 million of charges related to a settlement reached in December 2003, relating to the Keahole expansion project on the island of Hawaii.

Bank net income of \$56.3 million for 2003 matched 2002's record earnings of \$56.2 million despite margin compression, which started to pressure earnings beginning in September 2002 and continued throughout most of 2003. As a result of margin compression, the interest rate spread was 16 basis points lower at 3.08% in 2003 versus 3.24% in 2002. In the first half of 2003, the bank refinanced certain Federal Home Loan Bank (FHLB) advances to lower interest costs paid and lengthen maturities of outstanding advances, resulting in lower interest expense of \$4.6 million for the year.

Loan delinquencies and charge-offs during 2003 were lower, which translated into a \$6.7 million lower provision for loan losses compared with 2002. Asset quality improved across our portfolio in large part due to the strong Hawaii real estate market and strengthening Hawaii economy, said Clarke. Noninterest income was also higher as the bank sold securities at a \$4.1 million gain versus a \$0.6 million loss in 2002.

The bank's general and administrative expenses were \$8.4 million higher in 2003 due to increased costs of transforming from a traditional thrift to a full-service community bank, including hiring and training personnel in growing lines of business and increased retirement benefits expenses. The bank's efficiency ratio—the cost of earning \$1 of revenue—for 2003 was 61% compared with 58% for 2002.

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The holding and other companies' net loss was \$17.1 million in 2003 versus \$28.2 million in 2002. The net loss decreased due to lower interest costs, settlement of lawsuits and no investment writedowns.

Consolidated net income for the fourth quarter was \$37.4 million, or \$0.99 per share compared with \$26.4 million, or \$0.72 per share for the fourth quarter of 2002.

Electric utility net income for the fourth quarter was \$22.3 million compared with \$20.4 million for the same quarter of 2002. Kilowatthour sales were 3.2% higher than in the fourth quarter of 2002, driven up by warmer weather and increases in usage and number of residential customers. Maintenance costs were \$4.0 million lower quarter-over-quarter due to the timing and scope of generating unit overhauls compared to 2002, and the utility's focus on capital expenditures to ensure reliability. Partially offsetting these positives were \$3.6 million higher net retirement benefits expenses and \$1.3 million higher depreciation expenses in the fourth quarter of 2003, compared with the same quarter of 2002. In addition, the utility recorded two items in the fourth quarter of 2003 that it had not recorded in the fourth quarter of 2002: the previously mentioned \$3.1 million Keahole settlement charge and a reduction of a previously recorded charge (third quarter 2003) for a notice of violation from \$1.6 million to \$0.8 million (not tax deductible) based on a conditional settlement reached with the State of Hawaii. Further information about these settlements is included in the Company's filings with the Securities and Exchange Commission.

Bank net income for the fourth quarter of 2003 was \$14.0 million versus \$13.4 million for the fourth quarter of 2002. Net interest income was up \$1.0 million for the fourth quarter of 2003 as compared with the same quarter of 2002. In addition, the provision for loan losses was \$1.5 million lower in the fourth quarter of 2003 compared with the fourth quarter of 2002, reflecting lower delinquencies and charge-offs in the bank's loan portfolio. These positives were offset by a decrease in other income.

The holding and other companies' net income was \$1.1 million in the fourth quarter of 2003 versus a net loss of \$7.4 million in same quarter of 2002, primarily due to lower interest costs, settlement of lawsuits and no investment writedowns.

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 September 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)

| (in thousands, except per share amounts) | Three months ended | | Years ended | |
|---|--------------------|------------------|-------------------|-------------------|
| | December 31, | | December 31, | |
| | 2003 | 2002 | 2003 | 2002 |
| Revenues | | | | |
| Electric utility | \$ 353,994 | \$ 337,533 | \$ 1,396,685 | \$ 1,257,176 |
| Bank | 89,745 | 98,622 | 371,320 | 399,255 |
| Other | 10,482 | (452) | 13,311 | (2,730) |
| | <u>454,221</u> | <u>435,703</u> | <u>1,781,316</u> | <u>1,653,701</u> |
| Expenses | | | | |
| Electric utility | 307,625 | 292,723 | 1,220,120 | 1,062,220 |
| Bank | 66,893 | 76,845 | 278,565 | 306,372 |
| Other | 4,912 | 6,670 | 19,064 | 18,676 |
| | <u>379,430</u> | <u>376,238</u> | <u>1,517,749</u> | <u>1,387,268</u> |
| Operating income (loss) | | | | |
| Electric utility | 46,369 | 44,810 | 176,565 | 194,956 |
| Bank | 22,852 | 21,777 | 92,755 | 92,883 |
| Other | 5,570 | (7,122) | (5,753) | (21,406) |
| | <u>74,791</u> | <u>59,465</u> | <u>263,567</u> | <u>266,433</u> |
| Interest expense other than bank | (16,118) | (17,674) | (69,292) | (72,292) |
| Allowance for borrowed funds used during construction | 529 | 463 | 1,914 | 1,855 |
| Preferred stock dividends of subsidiaries | (502) | (502) | (2,006) | (2,006) |
| Preferred securities distributions of trust subsidiaries | (4,009) | (4,009) | (16,035) | (16,035) |
| Allowance for equity funds used during construction | 1,192 | 977 | 4,267 | 3,954 |
| | <u>55,883</u> | <u>38,720</u> | <u>182,415</u> | <u>181,909</u> |
| Income from continuing operations before income taxes | | | | |
| Income taxes | 18,444 | 12,345 | 64,367 | 63,692 |
| | <u>37,439</u> | <u>26,375</u> | <u>118,048</u> | <u>118,217</u> |
| Loss from discontinued operations, net of income taxes | | | (3,870) | |
| | <u>\$ 37,439</u> | <u>\$ 26,375</u> | <u>\$ 114,178</u> | <u>\$ 118,217</u> |
| Per common share | | | | |
| Basic earnings (loss) | | | | |
| Continuing operations | \$ 0.99 | \$ 0.72 | \$ 3.16 | \$ 3.26 |
| Discontinued operations | | | (0.10) | |
| | <u>\$ 0.99</u> | <u>\$ 0.72</u> | <u>\$ 3.06</u> | <u>\$ 3.26</u> |

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| | | | | |
|--|-----------|-----------|------------|------------|
| Diluted earnings (loss) | | | | |
| Continuing operations | \$ 0.99 | \$ 0.72 | \$ 3.15 | \$ 3.24 |
| Discontinued operations | | | (0.10) | |
| | \$ 0.99 | \$ 0.72 | \$ 3.05 | \$ 3.24 |
| Dividends | \$ 0.62 | \$ 0.62 | \$ 2.48 | \$ 2.48 |
| Weighted-average number of common shares outstanding | 37,771 | 36,658 | 37,348 | 36,278 |
| Adjusted weighted-average shares | 37,936 | 36,869 | 37,487 | 36,477 |
| Income (loss) from continuing operations by segment | | | | |
| Electric utility | \$ 22,339 | \$ 20,386 | \$ 78,911 | \$ 90,205 |
| Bank | 13,984 | 13,410 | 56,261 | 56,225 |
| Other | 1,116 | (7,421) | (17,124) | (28,213) |
| Income from continuing operations | \$ 37,439 | \$ 26,375 | \$ 118,048 | \$ 118,217 |

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

Hawaiian Electric Company, Inc. (HECO) and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| (in thousands) | Three months ended | | Years Ended | |
|--|--------------------|------------|--------------|--------------|
| | December 31 | | December 31, | |
| | 2003 | 2002 | 2003 | 2002 |
| Operating revenues | \$ 353,257 | \$ 336,527 | \$ 1,393,038 | \$ 1,252,929 |
| Operating expenses | | | | |
| Fuel oil | 94,257 | 91,694 | 388,560 | 310,595 |
| Purchased power | 94,915 | 85,711 | 368,076 | 326,455 |
| Other operation | 40,927 | 36,337 | 155,531 | 131,910 |
| Maintenance | 16,838 | 20,814 | 64,621 | 66,541 |
| Depreciation | 27,690 | 26,361 | 110,560 | 105,424 |
| Taxes, other than income taxes | 33,154 | 31,349 | 130,677 | 120,118 |
| Income taxes | 13,310 | 12,619 | 50,175 | 56,729 |
| | 321,091 | 304,885 | 1,268,200 | 1,117,772 |
| Operating income | 32,166 | 31,642 | 124,838 | 135,157 |
| Other income | | | | |
| Allowance for equity funds used during construction | 1,192 | 977 | 4,267 | 3,954 |
| Other, net | 1,156 | 706 | 1,903 | 3,141 |
| | 2,348 | 1,683 | 6,170 | 7,095 |
| Income before interest and other charges | 34,514 | 33,325 | 131,008 | 142,252 |
| Interest and other charges | | | | |
| Interest on long-term debt | 9,965 | 10,290 | 40,698 | 40,720 |
| Amortization of net bond premium and expense | 511 | 509 | 2,131 | 2,014 |
| Preferred securities distributions of trust subsidiaries | 1,919 | 1,919 | 7,675 | 7,675 |
| Other interest charges | (190) | 185 | 1,512 | 1,498 |
| Allowance for borrowed funds used during construction | (529) | (463) | (1,914) | (1,855) |
| Preferred stock dividends of subsidiaries | 229 | 229 | 915 | 915 |
| | 11,905 | 12,669 | 51,017 | 50,967 |
| Income before preferred stock dividends of HECO | 22,609 | 20,656 | 79,991 | 91,285 |
| Preferred stock dividends of HECO | 270 | 270 | 1,080 | 1,080 |
| Net income for common stock | \$ 22,339 | \$ 20,386 | \$ 78,911 | \$ 90,205 |
| OTHER ELECTRIC UTILITY INFORMATION | | | | |
| Kilowatthour sales (millions) | 2,506 | 2,427 | 9,775 | 9,544 |
| Cooling degree days (Oahu) | 1,260 | 1,187 | 5,010 | 4,798 |

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| | | | | |
|------------------------------|----------|----------|----------|----------|
| Average fuel cost per barrel | \$ 34.72 | \$ 33.73 | \$ 36.23 | \$ 29.10 |
|------------------------------|----------|----------|----------|----------|

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

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| (in thousands) | Three months ended | | Years ended | |
|--|--------------------|---------------|----------------|----------------|
| | December 31, | | December 31 | |
| | 2003 | 2002 | 2003 | 2002 |
| Interest and dividend income | | | | |
| Interest and fees on loans | \$ 48,393 | \$ 50,782 | \$ 198,948 | \$ 203,082 |
| Interest on mortgage-related securities | 27,320 | 31,618 | 107,496 | 135,252 |
| Interest and dividends on investment securities | 1,648 | 1,917 | 6,384 | 7,896 |
| | <u>77,361</u> | <u>84,317</u> | <u>312,828</u> | <u>346,230</u> |
| Interest expense | | | | |
| Interest on deposit liabilities | 12,626 | 16,300 | 53,808 | 73,631 |
| Interest on Federal Home Loan Bank advances | 11,213 | 15,281 | 48,280 | 58,608 |
| Interest on securities sold under repurchase agreements | 5,177 | 5,387 | 21,236 | 20,643 |
| | <u>29,016</u> | <u>36,968</u> | <u>123,324</u> | <u>152,882</u> |
| Net interest income | <u>48,345</u> | <u>47,349</u> | <u>189,504</u> | <u>193,348</u> |
| Provision for loan losses | 300 | 1,750 | 3,075 | 9,750 |
| Net interest income after provision for loan losses | <u>48,045</u> | <u>45,599</u> | <u>186,429</u> | <u>183,598</u> |
| Other income | | | | |
| Fees from other financial services | 4,853 | 5,873 | 22,817 | 21,254 |
| Fee income on deposit liabilities | 4,714 | 4,017 | 16,971 | 15,734 |
| Fee income on other financial products | 2,260 | 2,416 | 9,920 | 10,063 |
| Fee income on loans serviced for others, net | (353) | 205 | 155 | (164) |
| Gain (loss) on sale of securities | | | 4,085 | (640) |
| Other income | 910 | 1,794 | 4,544 | 6,778 |
| | <u>12,384</u> | <u>14,305</u> | <u>58,492</u> | <u>53,025</u> |
| General and administrative expenses | | | | |
| Compensation and employee benefits | 16,094 | 15,548 | 65,805 | 59,594 |
| Occupancy and equipment | 7,859 | 7,699 | 30,546 | 30,086 |
| Data processing | 2,712 | 2,939 | 10,668 | 11,167 |
| Professional services | 1,496 | 3,626 | 8,670 | 9,376 |
| Office supplies, printing and postage | 1,199 | 1,241 | 4,850 | 4,746 |
| Communication | 1,054 | 1,004 | 4,072 | 3,465 |
| Marketing | 1,387 | 955 | 3,973 | 3,967 |
| Other | 5,776 | 5,115 | 23,582 | 21,339 |
| | <u>37,577</u> | <u>38,127</u> | <u>152,166</u> | <u>143,740</u> |
| Income before minority interests and income taxes | <u>22,852</u> | <u>21,777</u> | <u>92,755</u> | <u>92,883</u> |

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| | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| Minority interests | 10 | 42 | 124 | 173 |
| Income taxes | 7,505 | 6,972 | 30,959 | 31,074 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Income before preferred stock dividends | 15,337 | 14,763 | 61,672 | 61,636 |
| Preferred stock dividends | 1,353 | 1,353 | 5,411 | 5,411 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net income for common stock | \$ 13,984 | \$ 13,410 | \$ 56,261 | \$ 56,225 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Interest rate spread (%) | 3.16 | 3.12 | 3.08 | 3.24 |

B. Pension and other postretirement benefits

For 2002, 2001 and 2000, the realized and unrealized net losses on retirement benefit plan assets were \$112 million, \$96 million and \$31 million, respectively. In contrast, for 2003, the retirement benefit plan assets generated a total return of nearly 25% for realized and unrealized net gains of approximately \$154 million. As of December 31, 2003, the market value of the retirement benefit plan assets was \$822 million.

Based on various assumptions (e.g., discount rate and expected return on plan assets, which are noted below) and assuming no further changes in retirement benefit plan provisions, HEI s, consolidated HECO s and American Savings Bank, F.S.B. s (ASB s) accumulated other comprehensive income (AOCI) balance, net of tax benefits, related to the minimum pension liability at December 31, 2003 and 2002 and retirement benefits expense (income), net of income taxes, for 2004 (estimated), 2003 and 2002 were as follows:

| | <u>Years ended December 31</u> | <u>(Estimated)</u> | | |
|---|--------------------------------|--------------------|------------------|-------------|
| | | <u>2004</u> | <u>2003</u> | <u>2002</u> |
| | | | (\$ in millions) | |
| Consolidated HEI | | | | |
| AOCI balance, net of tax benefits, December 31 | | NA | \$ (1.4) | \$ (5.2) |
| Retirement benefits expense (income), net of income taxes | | \$ 7.4 | 12.1 | (4.3) |
| Consolidated HECO | | | | |
| AOCI balance, net of tax benefits, December 31 | | NA | (0.2) | (0.1) |
| Retirement benefits expense (income), net of income taxes | | 4.6 | 8.4 | (6.2) |
| ASB | | | | |
| AOCI balance, net of tax benefits, December 31 | | NA | (0.2) | (4.1) |
| Retirement benefits expense, net of income tax benefits | | 2.0 | 2.7 | 1.2 |
| Assumptions | | | | |
| Discount rate, January 1 | | 6.25% | 6.75% | 7.25% |
| Expected return on plan assets | | 9.00% | 9.00% | 9.00% |

NA Not available.

Contributions to the retirement benefits plans totaled \$48 million in 2003.

The 2004 estimated retirement benefits expenses, net of income taxes, are forward looking statements subject to risks and uncertainties, including the impact of plan changes during the year, if any, and the impact of actual information when received (e.g., actual participant demographics as of January 1, 2004).

Item 12. Results of Operations and Financial Condition

The news release dated January 20, 2004 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)

/s/ ERIC K. YEAMAN

Eric K. Yeaman

Financial Vice President, Treasurer

and Chief Financial Officer

(Principal Financial Officer of HEI)

HAWAIIAN ELECTRIC COMPANY, INC.

(Registrant)

/s/ RICHARD A. VON GNECHTEN

Richard A. von Gnechten

Financial Vice President

(Principal Financial Officer of HECO)

Date: January 20, 2004

Date: January 20, 2004