

HAWAIIAN ELECTRIC INDUSTRIES INC
Form 8-K
July 23, 2002

**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: July 22, 2002

| 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

On July 22, 2002, HEI issued the following news release:

HAWAIIAN ELECTRIC INDUSTRIES, INC. REPORTS SECOND QUARTER 2002 EARNINGS

HONOLULU Hawaiian Electric Industries, Inc. (NYSE HE) today reported income from continuing operations for the three months ended June 30, 2002 of \$31.0 million, or 86 cents per share, compared with \$26.1 million, or 78 cents per share in the same quarter of 2001. For the six months ended June 30, 2002, income from continuing operations was \$57.9 million, or \$1.61 per share, compared with \$53.9 million, or \$1.62 per share in the same period last year.

We had a strong second quarter, said Robert F. Clarke, HEI chairman, president and chief executive officer. Income from continuing operations was up 19% compared with the same quarter last year due to 45% net income growth from our bank and 5% net income growth from our utilities, partially offset by holding company investment writedowns and expenses. Earnings per share from continuing operations were up 10% for the quarter as compared with the same quarter last year notwithstanding an increase in the number of shares outstanding, primarily resulting from HEI's November 2001 common stock offering.

Electric utility net income during the quarter was \$23.9 million versus \$22.7 million in the same quarter last year. Electric utility net income for the six months was \$44.2 million versus \$44.1 million in the same period of 2001.

Increases in usage and number of residential customers, warmer weather and sales growth in nontourism related commercial sectors boosted kilowattour sales by 3.5% for the quarter despite lower visitor arrivals post-September 11, said Clarke. Increased operation and maintenance expenses, taxes and depreciation as compared with the same quarter last year partially offset the earnings impact of the increase in kilowattour sales. Maintenance expenses were higher primarily due to the timing and larger scope of generating unit overhauls.

Bank net income in the second quarter was \$14.8 million compared to \$10.2 million in the same quarter last year. Bank net income for the six months was \$28.2 million versus \$22.1 million in the same period of 2001.

Our bank's net income benefited from very favorable interest rates that lowered its cost of funds, said Clarke. The interest rate spread was 3.31% in the recent quarter versus 3.07% for the same quarter of 2001. Noninterest income for the quarter was also higher due to the absence of investment losses recorded in the second quarter of 2001, increased collection of service charges and increased financial services income, added Clarke. In addition, the adoption of new accounting rules established by the Financial Accounting Standards Board calling for the discontinuation of goodwill amortization resulted in \$1.0 million of the \$4.6 million increase in bank net income for the second quarter as compared to the same quarter last year. For the first half of 2002, the discontinuation of goodwill amortization resulted in a \$1.9 million increase in bank net income. These increases were partially offset by a decrease in gains on sales of securities and increases in operating, administrative and general expenses.

HEI is the largest Hawaii-based company, providing 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 Forward-looking statements (which is incorporated by reference herein) set forth on page v of HEI's Quarterly Report on Form 10-Q for the quarter ended March 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 ended June 30, | | Six months ended June 30, | | Twelve months ended June 30, | | |
|---|--|------------------|------------------------------|------------------|---------------------------------|------------------|------------------|
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 | |
| (in thousands, except per share amounts) | | | | | | | |
| Revenues | | | | | | | |
| Electric utility | \$ 307,676 | \$ 313,651 | \$ 586,007 | \$ 632,074 | \$ 1,243,237 | \$ 1,311,994 | |
| Bank | 102,069 | 112,250 | 200,911 | 228,004 | 417,509 | 459,920 | |
| Other | (743) | 1,438 | (480) | 598 | (7,707) | 3,362 | |
| | <u>409,002</u> | <u>427,339</u> | <u>786,438</u> | <u>860,676</u> | <u>1,653,039</u> | <u>1,775,276</u> | |
| Expenses | | | | | | | |
| Electric utility | 256,723 | 263,623 | 489,450 | 534,036 | 1,050,773 | 1,124,110 | |
| Bank | 77,700 | 94,678 | 154,371 | 190,283 | 326,591 | 387,663 | |
| Other | 5,094 | 4,338 | 9,263 | 6,723 | 15,782 | 10,882 | |
| | <u>339,517</u> | <u>362,639</u> | <u>653,084</u> | <u>731,042</u> | <u>1,393,146</u> | <u>1,522,655</u> | |
| Operating income (loss) | | | | | | | |
| Electric utility | 50,953 | 50,028 | 96,557 | 98,038 | 192,464 | 187,884 | |
| Bank | 24,369 | 17,572 | 46,540 | 37,721 | 90,918 | 72,257 | |
| Other | (5,837) | (2,900) | (9,743) | (6,125) | (23,489) | (7,520) | |
| | <u>69,485</u> | <u>64,700</u> | <u>133,354</u> | <u>129,634</u> | <u>259,893</u> | <u>252,621</u> | |
| Interest expense other than bank | (18,340) | (19,939) | (36,867) | (39,524) | (76,069) | (78,077) | |
| Allowance for borrowed funds used during construction | 488 | 511 | 843 | 1,187 | 1,914 | 2,696 | |
| Preferred stock dividends of subsidiaries | (502) | (501) | (1,003) | (1,003) | (2,006) | (2,006) | |
| Preferred securities distributions of trust subsidiaries | (4,009) | (4,009) | (8,018) | (8,018) | (16,035) | (16,035) | |
| Allowance for equity funds used during construction | 1,042 | 955 | 1,815 | 2,220 | 3,834 | 5,003 | |
| | <u>Income from continuing operations before income taxes</u> | <u>48,164</u> | <u>41,717</u> | <u>90,124</u> | <u>84,496</u> | <u>171,531</u> | <u>164,202</u> |
| Income taxes | 17,180 | 15,605 | 32,221 | 30,620 | 59,758 | 57,711 | |
| | <u>Income from continuing operations</u> | <u>30,984</u> | <u>26,112</u> | <u>57,903</u> | <u>53,876</u> | <u>111,773</u> | <u>106,491</u> |
| Discontinued operations, net of income taxes | | | | | | | |
| Loss from operations | | (524) | | (543) | (711) | (55,486) | |
| Net loss on disposals | | | | | (22,787) | | |
| | <u>Loss from discontinued operations</u> | <u>(524)</u> | <u>(543)</u> | <u>(543)</u> | <u>(23,498)</u> | <u>(55,486)</u> | |
| | <u>Net income</u> | <u>\$ 30,984</u> | <u>\$ 25,588</u> | <u>\$ 57,903</u> | <u>\$ 53,333</u> | <u>\$ 88,275</u> | <u>\$ 51,005</u> |
| Per common share | | | | | | | |
| Basic earnings | | | | | | | |
| Continuing operations | \$ 0.86 | \$ 0.78 | \$ 1.61 | \$ 1.62 | \$ 3.19 | \$ 3.22 | |
| Discontinued operations | | (0.02) | | (0.02) | (0.67) | (1.68) | |

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| | | | | | | |
|--|-----------|-----------|-----------|-----------|------------|------------|
| | \$ 0.86 | \$ 0.76 | \$ 1.61 | \$ 1.60 | \$ 2.52 | \$ 1.54 |
| Diluted earnings | | | | | | |
| Continuing operations | \$ 0.85 | \$ 0.78 | \$ 1.60 | \$ 1.61 | \$ 3.17 | \$ 3.21 |
| Discontinued operations | | (0.02) | | (0.02) | (0.67) | (1.67) |
| | \$ 0.85 | \$ 0.76 | \$ 1.60 | \$ 1.59 | \$ 2.50 | \$ 1.54 |
| Dividends | \$ 0.62 | \$ 0.62 | \$ 1.24 | \$ 1.24 | \$ 2.48 | \$ 2.48 |
| Weighted-average number of common shares outstanding | 36,189 | 33,481 | 36,005 | 33,321 | 35,085 | 33,035 |
| Adjusted weighted-average shares | 36,406 | 33,646 | 36,203 | 33,477 | 35,248 | 33,172 |
| Income (loss) from continuing operations by segment | | | | | | |
| Electric utility | \$ 23,850 | \$ 22,716 | \$ 44,209 | \$ 44,141 | \$ 88,368 | \$ 83,688 |
| Bank | 14,812 | 10,207 | 28,163 | 22,082 | 54,612 | 42,095 |
| Other | (7,678) | (6,811) | (14,469) | (12,347) | (31,207) | (19,292) |
| Income from continuing operations | \$ 30,984 | \$ 26,112 | \$ 57,903 | \$ 53,876 | \$ 111,773 | \$ 106,491 |

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, 2001 and the consolidated financial statements and the notes thereto in HEI's Quarterly Report on SEC Form 10-Q for the quarters ended March 31, 2002 and June 30, 2002 (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 \$83.2 million of goodwill is in the bank segment and was tested for impairment as of January 1, 2002 and will be tested for impairment annually in the third quarter. As of January 1, 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 current period results of operations with prior periods 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:

| | Three months ended June 30, | | Six months ended June 30, | | Twelve months ended June 30, | |
|--|--------------------------------|-----------|------------------------------|-----------|---------------------------------|-----------|
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| (in thousands, except per share amounts) | | | | | | |
| Consolidated | | | | | | |
| Reported net income | \$ 30,984 | \$ 25,588 | \$ 57,903 | \$ 53,333 | \$ 88,275 | \$ 51,005 |
| Goodwill amortization, net of tax benefits | | 962 | | 1,916 | 1,929 | 3,824 |
| Adjusted net income | \$ 30,984 | \$ 26,550 | \$ 57,903 | \$ 55,249 | \$ 90,204 | \$ 54,829 |
| Per common share | | | | | | |
| Reported basic earnings | \$ 0.86 | \$ 0.76 | \$ 1.61 | \$ 1.60 | \$ 2.52 | \$ 1.54 |
| Goodwill amortization, net of tax benefits | | 0.03 | | 0.06 | 0.05 | 0.12 |
| Adjusted basic earnings | \$ 0.86 | \$ 0.79 | \$ 1.61 | \$ 1.66 | \$ 2.57 | \$ 1.66 |
| Per common share | | | | | | |
| Reported diluted earnings | \$ 0.85 | \$ 0.76 | \$ 1.60 | \$ 1.59 | \$ 2.50 | \$ 1.54 |
| Goodwill amortization, net of tax benefits | | 0.03 | | 0.06 | 0.06 | 0.11 |
| Adjusted diluted earnings | \$ 0.85 | \$ 0.79 | \$ 1.60 | \$ 1.65 | \$ 2.56 | \$ 1.65 |
| Bank | | | | | | |
| Reported net income | \$ 14,812 | \$ 10,207 | \$ 28,163 | \$ 22,082 | \$ 54,612 | \$ 42,095 |
| Goodwill amortization, net of tax benefits | | 962 | | 1,916 | 1,929 | 3,824 |
| Adjusted net income | \$ 14,812 | \$ 11,169 | \$ 28,163 | \$ 23,998 | \$ 56,541 | \$ 45,919 |

Hawaiian Electric Company, Inc. (HECO) and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|------------|------------------------------|------------|
| | 2002 | 2001 | 2002 | 2001 |
| | (in thousands) | | | |
| Operating revenues | \$ 306,616 | \$ 312,455 | \$ 583,949 | \$ 629,748 |
| Operating expenses | | | | |
| Fuel oil | 74,355 | 82,085 | 133,590 | 170,330 |
| Purchased power | 76,520 | 83,481 | 153,621 | 165,397 |
| Other operation | 32,462 | 30,096 | 61,685 | 59,870 |
| Maintenance | 16,010 | 13,015 | 30,022 | 28,212 |
| Depreciation | 26,363 | 25,363 | 52,723 | 49,972 |
| Taxes, other than income taxes | 30,792 | 29,426 | 57,482 | 59,917 |
| Income taxes | 15,032 | 14,362 | 27,823 | 27,966 |
| | 271,534 | 277,828 | 516,946 | 561,664 |
| Operating income | 35,082 | 34,627 | 67,003 | 68,084 |
| Other income | | | | |
| Allowance for equity funds used during construction | 1,042 | 955 | 1,815 | 2,220 |
| Other, net | 762 | 960 | 1,577 | 1,937 |
| | 1,804 | 1,915 | 3,392 | 4,157 |
| Income before interest and other charges | 36,886 | 36,542 | 70,395 | 72,241 |
| Interest and other charges | | | | |
| Interest on long-term debt | 10,167 | 10,072 | 20,303 | 20,001 |
| Amortization of net bond premium and expense | 507 | 507 | 1,007 | 1,037 |
| Other interest charges | 432 | 1,340 | 883 | 3,413 |
| Allowance for borrowed funds used during construction | (488) | (511) | (843) | (1,187) |
| Preferred stock dividends of subsidiaries | 229 | 229 | 458 | 458 |
| Preferred securities distributions of trust subsidiaries | 1,919 | 1,919 | 3,838 | 3,838 |
| | 12,766 | 13,556 | 25,646 | 27,560 |
| Income before preferred stock dividends of HECO | 24,120 | 22,986 | 44,749 | 44,681 |
| Preferred stock dividends of HECO | 270 | 270 | 540 | 540 |
| Net income for common stock | \$ 23,850 | \$ 22,716 | \$ 44,209 | \$ 44,141 |

Other Electric Utility Information

| | | | | |
|-------------------------------|-------|-------|-------|-------|
| Kilowatthour sales (millions) | 2,379 | 2,298 | 4,602 | 4,539 |
| Cooling degree days (Oahu) | 1,253 | 1,223 | 2,072 | 2,133 |

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

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|----------------|------------------------------|----------------|
| | 2002 | 2001 | 2002 | 2001 |
| (in thousands) | | | | |
| Interest and dividend income: | | | | |
| Interest and fees on loans | \$ 50,468 | \$ 60,766 | \$ 102,090 | \$ 124,905 |
| Interest on mortgage-related securities | 36,325 | 38,393 | 68,131 | 76,195 |
| Interest and dividends on investment securities | 1,873 | 3,432 | 4,099 | 9,092 |
| Total interest and dividend income | 88,666 | 102,591 | 174,320 | 210,192 |
| Interest expense: | | | | |
| Interest on deposit liabilities | 19,325 | 31,233 | 39,498 | 63,226 |
| Interest on Federal Home Loan Bank advances | 14,440 | 18,070 | 28,422 | 37,727 |
| Interest on securities sold under repurchase agreements | 5,612 | 7,509 | 9,573 | 16,359 |
| Total interest expense | 39,377 | 56,812 | 77,493 | 117,312 |
| Net interest income | 49,289 | 45,779 | 96,827 | 92,880 |
| Provision for loan losses | 3,000 | 3,000 | 6,500 | 6,000 |
| Net interest income after provision for loan losses | 46,289 | 42,779 | 90,327 | 86,880 |
| Other income: | | | | |
| Fees from other financial services | 5,345 | 4,318 | 9,965 | 8,082 |
| Fees from deposit liabilities | 4,151 | 2,211 | 7,626 | 4,404 |
| Fee income on other financial products | 2,368 | 2,428 | 5,055 | 3,568 |
| Gain on sale of securities | 117 | 4,035 | 273 | 3,999 |
| Loss on investments | | (5,417) | | (6,164) |
| Other income | 1,422 | 2,084 | 3,672 | 3,923 |
| Total other income | 13,403 | 9,659 | 26,591 | 17,812 |
| General and administrative expenses: | | | | |
| Compensation and employee benefits | 15,276 | 13,111 | 29,293 | 25,557 |
| Office occupancy | 7,376 | 7,109 | 14,491 | 14,099 |
| Service bureau | 2,664 | 2,419 | 5,340 | 4,844 |
| Consulting | 1,146 | 1,097 | 2,792 | 1,627 |
| Amortization of goodwill and core deposit intangibles | 432 | 1,677 | 865 | 3,345 |
| Other | 8,429 | 9,453 | 17,597 | 17,499 |
| Total general and administrative expenses | 35,323 | 34,866 | 70,378 | 66,971 |
| Income before minority interest and income taxes | 24,369 | 17,572 | 46,540 | 37,721 |
| Minority interests | 44 | 55 | 89 | 114 |

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| | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| Income taxes | 8,161 | 5,958 | 15,583 | 12,820 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Income before preferred stock dividends | 16,164 | 11,559 | 30,868 | 24,787 |
| Preferred stock dividends | 1,352 | 1,352 | 2,705 | 2,705 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net income for common stock | <u>\$ 14,812</u> | <u>\$ 10,207</u> | <u>\$ 28,163</u> | <u>\$ 22,082</u> |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Interest rate spread (%) | 3.31 | 3.07 | 3.29 | 3.08 |

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/

Robert F. Mougeot
Financial Vice President, Treasurer
and Chief Financial Officer
(Principal Financial Officer of HEI)

Date: July 22, 2002

HAWAIIAN ELECTRIC COMPANY, INC.
(Registrant)

/s/

Richard A. von Gnechten
Financial Vice President
(Principal Financial Officer of HECO)

Date: July 22, 2002