

HAWAIIAN ELECTRIC INDUSTRIES INC
Form 8-K
July 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: July 25, 2005

Exact Name of Registrant

I.R.S. Employer

as Specified in Its Charter

Commission File Number

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 July 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 July 25, 2005, HEI issued the following news release:

HAWAIIAN ELECTRIC INDUSTRIES, INC. REPORTS SECOND QUARTER 2005 EARNINGS

HONOLULU Hawaiian Electric Industries, Inc. (NYSE - HE) today reported net income from continuing operations for the three months ended June 30, 2005, of \$28.3 million, or 35 cents per share, compared with \$11.2 million, or 14 cents per share, in the same quarter of 2004. For the six months ended June 30, 2005, income from continuing operations was \$52.4 million or 65 cents per share, compared with \$42.2 million or 54 cents per share in the same period last year. The comparative results were impacted by the Company's recognition in June 2004, of a cumulative \$24 million charge to net income (30 cents per share) for an unfavorable tax ruling involving its bank's real estate investment trust (REIT) subsidiary, which was settled in December 2004.

Consistent with the continued expansion of the Hawaii economy in the second quarter, the utilities experienced increased demand and the bank experienced strong core deposit and loan growth, as well as good asset quality, said Robert F. Clarke, HEI's chairman, president and chief executive officer. However, both companies face challenges the utilities' operations and maintenance costs have been higher compared with 2004 and the current interest rate environment continues to pressure the bank's net interest margin.

Hawaiian Electric Company's net income for the second quarter of 2005 was \$19.6 million compared with \$21.7 million for the same quarter last year. Electric utility net income for the six months ended June 30, 2005, was \$32.0 million compared with \$41.8 million for the same period of 2004.

Kilowatt-hour sales were higher by 1.8% quarter-over-quarter. Warmer weather and increases in visitor days drove demand for electricity from both residential and commercial customers, said Clarke.

Increased demand has been a double-edged sword. We have been running our peaking units longer, which requires more operations and maintenance costs. It is also bringing the need for new generation to the forefront, added Clarke. To address this need and as part of our broader plans to meet future energy needs, we are asking our customers to conserve energy and are also implementing load control programs.

More than offsetting increased sales, however, were \$8.8 million of higher other operations and maintenance expenses and \$2.1 million of increased depreciation costs in the second quarter of 2005 compared with the second quarter of 2004. Other operations and maintenance expenses were higher primarily due to 1) an increased number of overhauls and inspections and higher generation station maintenance of \$2.4

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million; 2) \$2.0 million higher retirement benefits expenses due primarily to a decrease in the discount rate assumption used to calculate the benefit obligation; and 3) \$0.9 million higher substation maintenance and vegetation management expenses. The remaining increase in operations and maintenance expense of \$3.5 million includes increased staffing and other costs to support increased demand, reliability, customer service and energy efficiency programs. Increased operations and maintenance is one reason why HECO filed a request with the Hawaii Public Utilities Commission in November 2004 to increase base rates on Oahu. Hearings are scheduled for September 2005 and an interim decision and order is expected in the fourth quarter of 2005.

Bank net income in the second quarter of 2005 was \$13.6 million compared to a net loss of \$6.9 million in the second quarter of 2004. Bank net income for the six months ended June 30, 2005 was \$31.3 million, compared with \$9.0 million in the same period last year. The bank's 2004 results included the impact of the cumulative \$24 million charge in June 2004, related to the unfavorable tax court ruling involving the bank's REIT subsidiary described above.

Bank net interest income increased to \$48.8 million in the second quarter of 2005 compared with \$48.0 million in the second quarter of 2004.

Strong growth in loans and core deposits offset margin compression from a flattening yield curve, said Clarke. The bank's interest rate spread declined to 3.01% in the second quarter of 2005, compared with 3.08% in the second quarter of 2004. Although yields on the loan portfolio were higher, they were more than offset by increased funding costs, a decline in the yield on mortgage-related securities and the suspension of dividends on FHLB stock in the second quarter.

Continued strong asset quality offset the need to provision for the additional loan growth in the second quarter of 2005, said Clarke. Second quarter 2004 results, however, benefited from a \$3.0 million release of loan loss reserves.

Other income in the second quarter was \$1.2 million lower than in the second quarter of 2004, primarily as a result of lower fee income on loans serviced for others.

General and administrative expenses for the quarter ended June 30, 2005, decreased by \$2.5 million from the same period in 2004. Expenses for compensation, consulting and other services increased \$2.5 million quarter-over-quarter, but were more than offset by \$4.9 million less in interest on income taxes. Substantially all of the second quarter 2004 interest on income taxes is included in the charge involving the bank's REIT subsidiary described above.

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

The holding and other companies' results were \$(4.9) million in the second quarter of 2005 versus \$(3.5) million in same quarter of 2004. The holding and other companies' results for the six months ended June 30, 2005, were \$(10.9) million compared with \$(8.6) million for the same period of 2004. Second quarter of 2005 results were lower than the same quarter of 2004 due in part to the reduction of preferred dividends from the bank described above.

HEI supplies power to over 400,000 customers or 93% of the Hawaii 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.

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Forward-looking statements in this release should be read in conjunction with the Cautionary Statements and Risk Factors that May Affect Future Results discussion (which is incorporated by reference herein) set forth on page iv of HEI's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, 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 | | Six months ended | | Twelve months ended | |
|---|--------------------|------------------|------------------|------------------|---------------------|-------------------|
| | June 30, | | June 30, | | June 30, | |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Revenues | | | | | | |
| Electric utility | \$ 429,730 | \$ 370,605 | \$ 804,505 | \$ 717,218 | \$ 1,637,958 | \$ 1,430,462 |
| Bank | 91,946 | 89,982 | 189,170 | 179,240 | 374,214 | 362,755 |
| Other | 586 | 1,211 | 1,215 | 2,450 | 7,867 | 13,615 |
| | <u>522,262</u> | <u>461,798</u> | <u>994,890</u> | <u>898,908</u> | <u>2,020,039</u> | <u>1,806,832</u> |
| Expenses | | | | | | |
| Electric utility | 387,083 | 324,691 | 730,252 | 627,164 | 1,479,856 | 1,247,403 |
| Bank | 69,744 | 66,971 | 138,015 | 130,121 | 267,204 | 265,668 |
| Other | 3,986 | 3,190 | 8,503 | 6,840 | 18,682 | 15,952 |
| | <u>460,813</u> | <u>394,852</u> | <u>876,770</u> | <u>764,125</u> | <u>1,765,742</u> | <u>1,529,023</u> |
| Operating income (loss) | | | | | | |
| Electric utility | 42,647 | 45,914 | 74,253 | 90,054 | 158,102 | 183,059 |
| Bank | 22,202 | 23,011 | 51,155 | 49,119 | 107,010 | 97,087 |
| Other | (3,400) | (1,979) | (7,288) | (4,390) | (10,815) | (2,337) |
| | <u>61,449</u> | <u>66,946</u> | <u>118,120</u> | <u>134,783</u> | <u>254,297</u> | <u>277,809</u> |
| Interest expense other than bank | (19,130) | (19,106) | (37,965) | (40,553) | (74,588) | (73,986) |
| Allowance for borrowed funds used during construction | 475 | 733 | 902 | 1,377 | 2,067 | 2,402 |
| Preferred stock dividends of subsidiaries | (474) | (475) | (950) | (950) | (1,901) | (1,953) |
| Preferred securities distributions of trust subsidiaries | | | | | | (8,017) |
| Allowance for equity funds used during construction | 1,182 | 1,673 | 2,269 | 3,122 | 4,941 | 5,412 |
| | <u>43,502</u> | <u>49,771</u> | <u>82,376</u> | <u>97,779</u> | <u>184,816</u> | <u>201,667</u> |
| Income from continuing operations before income taxes | 43,502 | 49,771 | 82,376 | 97,779 | 184,816 | 201,667 |
| Income taxes | 15,167 | 38,533 | 29,946 | 55,609 | 66,817 | 91,536 |
| | <u>28,335</u> | <u>11,238</u> | <u>52,430</u> | <u>42,170</u> | <u>117,999</u> | <u>110,131</u> |
| Income from continuing operations | 28,335 | 11,238 | 52,430 | 42,170 | 117,999 | 110,131 |
| Loss from discontinued operations, net of income taxes | (755) | | (755) | | 1,158 | |
| | <u>\$ 27,580</u> | <u>\$ 11,238</u> | <u>\$ 51,675</u> | <u>\$ 42,170</u> | <u>\$ 119,157</u> | <u>\$ 110,131</u> |
| Per common share | | | | | | |
| Basic earnings (loss) - Continuing operations | \$ 0.35 | \$ 0.14 | \$ 0.65 | \$ 0.54 | \$ 1.46 | \$ 1.43 |
| - Discontinued operations | (0.01) | | (0.01) | | 0.02 | |
| | <u>\$ 0.34</u> | <u>\$ 0.14</u> | <u>\$ 0.64</u> | <u>\$ 0.54</u> | <u>\$ 1.48</u> | <u>\$ 1.43</u> |

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| | | | | | | |
|--|-----------|-----------|-----------|-----------|------------|------------|
| Diluted earnings (loss) - Continuing operations | \$ 0.35 | \$ 0.14 | \$ 0.65 | \$ 0.53 | \$ 1.46 | \$ 1.43 |
| - Discontinued operations | (0.01) | | (0.01) | | \$ 0.01 | |
| | \$ 0.34 | \$ 0.14 | \$ 0.64 | \$ 0.53 | \$ 1.47 | \$ 1.43 |
| Dividends | \$ 0.31 | \$ 0.31 | \$ 0.62 | \$ 0.62 | \$ 1.24 | \$ 1.24 |
| Weighted-average number of common shares outstanding | 80,814 | 80,350 | 80,741 | 78,544 | 80,637 | 76,906 |
| Adjusted weighted-average shares | 81,213 | 80,707 | 81,145 | 78,895 | 80,950 | 77,136 |
| Income (loss) from continuing operations by segment | | | | | | |
| Electric utility | \$ 19,644 | \$ 21,735 | \$ 32,029 | \$ 41,758 | \$ 71,448 | \$ 84,457 |
| Bank | 13,552 | (6,949) | 31,313 | 8,978 | 63,397 | 38,237 |
| Other | (4,861) | (3,548) | (10,912) | (8,566) | (16,846) | (12,563) |
| Income from continuing operations | \$ 28,335 | \$ 11,238 | \$ 52,430 | \$ 42,170 | \$ 117,999 | \$ 110,131 |

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 Reports on SEC Form 10-Q for the quarters ended March 31, 2005 and June 30, 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 with a distribution date of June 10, 2004. All share and per share information above reflects the stock split.

In June 2004, ASB recorded a cumulative after-tax charge to net income of \$24 million for an unfavorable tax ruling involving its real estate investment trust subsidiary, which was settled in December 2004. As a result of the settlement, ASB recognized \$3 million in additional net income in the fourth quarter of 2004.

Hawaiian Electric Company, Inc. (HECO) and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| (in thousands) | Three months ended | | Six months ended | |
|--|--------------------|------------|------------------|------------|
| | June 30, | | June 30, | |
| | 2005 | 2004 | 2005 | 2004 |
| Operating revenues | \$ 428,807 | \$ 369,393 | \$ 802,497 | \$ 715,337 |
| Operating expenses | | | | |
| Fuel oil | 148,775 | 114,496 | 264,401 | 211,582 |
| Purchased power | 106,369 | 94,267 | 207,585 | 186,506 |
| Other operation | 41,794 | 36,877 | 83,110 | 71,146 |
| Maintenance | 19,837 | 15,910 | 37,775 | 32,906 |
| Depreciation | 30,822 | 28,744 | 61,642 | 57,488 |
| Taxes, other than income taxes | 39,293 | 34,198 | 75,264 | 67,082 |
| Income taxes | 12,293 | 13,779 | 20,031 | 26,666 |
| | 399,183 | 338,271 | 749,808 | 653,376 |
| Operating income | 29,624 | 31,122 | 52,689 | 61,961 |
| Other income | | | | |
| Allowance for equity funds used during construction | 1,182 | 1,673 | 2,269 | 3,122 |
| Other, net | 777 | 1,088 | 1,620 | 1,729 |
| | 1,959 | 2,761 | 3,889 | 4,851 |
| Income before interest and other charges | 31,583 | 33,883 | 56,578 | 66,812 |
| Interest and other charges | | | | |
| Interest on long-term debt | 10,656 | 10,825 | 21,565 | 20,895 |
| Amortization of net bond premium and expense | 557 | 577 | 1,113 | 1,146 |
| Other interest charges | 702 | 980 | 1,775 | 3,392 |
| Allowance for borrowed funds used during construction | (475) | (733) | (902) | (1,377) |
| Preferred stock dividends of subsidiaries | 229 | 229 | 458 | 458 |
| | 11,669 | 11,878 | 24,009 | 24,514 |
| Income before preferred stock dividends of HECO | 19,914 | 22,005 | 32,569 | 42,298 |
| Preferred stock dividends of HECO | 270 | 270 | 540 | 540 |
| Net income for common stock | \$ 19,644 | \$ 21,735 | \$ 32,029 | \$ 41,758 |
| OTHER ELECTRIC UTILITY INFORMATION | | | | |
| Kilowatthour sales (millions) | 2,519 | 2,473 | 4,866 | 4,841 |
| Cooling degree days (Oahu) | 1,471 | 1,320 | 2,251 | 2,232 |
| Average fuel cost per barrel | \$ 51.90 | \$ 40.43 | \$ 48.96 | \$ 39.08 |

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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 thereto in HECO's Quarterly Reports on SEC Form 10-Q for the quarters ended March 31, 2005 and June 30, 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)

| (in thousands) | Three months ended | | Six months ended | |
|--|--------------------|---------------|------------------|----------------|
| | June 30, | | June 30, | |
| | 2005 | 2004 | 2005 | 2004 |
| Interest and dividend income | | | | |
| Interest and fees on loans | \$ 50,657 | \$ 45,832 | \$ 99,170 | \$ 92,241 |
| Interest on mortgage-related securities | 26,636 | 27,559 | 60,464 | 54,636 |
| Interest and dividends on investment securities | 887 | 1,665 | 1,922 | 3,413 |
| | <u>78,180</u> | <u>75,056</u> | <u>161,556</u> | <u>150,290</u> |
| Interest expense | | | | |
| Interest on deposit liabilities | 12,460 | 11,464 | 24,477 | 23,674 |
| Interest on Federal Home Loan Bank advances | 11,291 | 10,347 | 22,116 | 20,844 |
| Interest on securities sold under repurchase agreements | 5,602 | 5,231 | 12,525 | 10,477 |
| | <u>29,353</u> | <u>27,042</u> | <u>59,118</u> | <u>54,995</u> |
| Net interest income | <u>48,827</u> | <u>48,014</u> | <u>102,438</u> | <u>95,295</u> |
| Recovery of loan losses | | (3,000) | (3,100) | (4,600) |
| Net interest income after recovery of loan losses | <u>48,827</u> | <u>51,014</u> | <u>105,538</u> | <u>99,895</u> |
| Other income | | | | |
| Fees from other financial services | 6,333 | 6,160 | 12,196 | 11,742 |
| Fee income on deposit liabilities | 4,092 | 4,276 | 8,263 | 8,657 |
| Fee income on other financial products | 2,154 | 2,646 | 4,589 | 5,622 |
| Fee income on loans serviced for others, net | 114 | 907 | 329 | 577 |
| Gain on sale of securities | 175 | | 175 | 16 |
| Other income | 898 | 937 | 2,062 | 2,336 |
| | <u>13,766</u> | <u>14,926</u> | <u>27,614</u> | <u>28,950</u> |
| General and administrative expenses | | | | |
| Compensation and employee benefits | 17,441 | 15,704 | 34,068 | 31,459 |
| Occupancy | 4,088 | 4,273 | 8,106 | 8,529 |
| Equipment | 3,302 | 3,378 | 6,701 | 7,045 |
| Data processing | 2,503 | 2,777 | 5,548 | 5,600 |
| Consulting and other services | 3,941 | 3,190 | 7,608 | 5,721 |
| Interest on income taxes | 406 | 5,324 | 3,082 | 5,324 |
| Other | 8,710 | 8,283 | 16,884 | 16,048 |
| | <u>40,391</u> | <u>42,929</u> | <u>81,997</u> | <u>79,726</u> |
| Income before minority interests and income taxes | <u>22,202</u> | <u>23,011</u> | <u>51,155</u> | <u>49,119</u> |
| Minority interests | 18 | 23 | 45 | 49 |

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| | | | | |
|--|------------------|-------------------|------------------|-----------------|
| Income taxes | 8,631 | 28,584 | 19,793 | 37,387 |
| Income before preferred stock dividends | 13,553 | (5,596) | 31,317 | 11,683 |
| Preferred stock dividends | 1 | 1,353 | 4 | 2,705 |
| Net income (loss) for common stock | \$ 13,552 | \$ (6,949) | \$ 31,313 | \$ 8,978 |
| Interest rate spread (%) | 3.01 | 3.08 | 3.15 | 3.06 |

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 Reports on SEC Form 10-Q for the quarters ended March 31, 2005 and June 30, 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 June 2004, ASB recorded a cumulative after-tax charge to net income of \$24 million for an unfavorable tax ruling involving its real estate investment trust subsidiary, which was settled in December 2004.

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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/ Eric K. Yeaman

/s/ Tayne S. Y. Sekimura

Eric K. Yeaman
Financial Vice President, Treasurer
and Chief Financial Officer
(Principal Financial Officer of HEI)
Date: July 25, 2005

Tayne S. Y. Sekimura
Financial Vice President
(Principal Financial Officer of HECO)
Date: July 25, 2005