

HAWAIIAN ELECTRIC INDUSTRIES INC
Form 8-K
February 22, 2008

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: February 21, 2008

Exact Name of Registrant

as Specified in Its Charter
Hawaiian Electric Industries, Inc.
Hawaiian Electric Company, Inc.

Commission File Number
1-8503
1-4955

I.R.S. Employer

Identification No.
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))

Item 2.02 Results of Operations and Financial Condition.

The news release dated February 21, 2008 filed under Item 8.01 Other Events herein is also furnished pursuant to Item 2.02, Results of Operations and Financial Condition.

Item 8.01 Other Events

A. Other Information

In connection with the issuance of its earnings release in B. News Release below, HEI is filing as exhibits to this Form 8-K its 2007 Annual Report to Shareholders (Selected Sections) and related certifications (see HEI Exhibits 13, 32.1 and 32.2) and HECO is filing its Forward-Looking Statements, Selected Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), Quantitative and Qualitative Disclosures about Market Risk, Annual Report of Management on Internal Control Over Financial Reporting, Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting, Consolidated 2007 Financial Statements (with Report of Independent Registered Public Accounting Firm thereon), and related certifications (see HECO Exhibits 99.1, 32.3 and 32.4).

B. News Release

On February 21, 2008, HEI issued the following news release:

HEI FOURTH QUARTER 2007 EARNINGS IMPROVE FULL YEAR RESULTS

HONOLULU Hawaiian Electric Industries, Inc. (NYSE - HE) today reported 2007 net income of \$84.8 million, or \$1.03 per share, compared with \$108.0 million, or \$1.33 per share in 2006. Net income for the fourth quarter of 2007 was \$40.6 million, or \$0.49 per share, compared with \$16.1 million, or \$0.20 per share for the fourth quarter of 2006.

While 2007 fourth quarter earnings improved, full-year 2007 earnings were down \$23 million, driven primarily by a drop in utility net income, said Constance H. Lau, HEI's president and chief executive officer. Interim rate increases approved by the Hawaii Public Utilities Commission (PUC) in 2007, which took effect mainly in the fourth quarter, helped to improve full-year earnings.

UTILITY RESULTS

Electric utility net income was \$52.2 million in 2007 versus \$74.9 million in 2006, down \$22.8 million. Interim rate relief in 2007 partially offset two charges related to rate case filings and higher year-over-year other operation, maintenance and depreciation expenses, said Lau. One of the charges related to a reserve for an expected \$16 million refund (\$9 million net of taxes), including interest, to Oahu customers resulting from a proposed final PUC decision and order in Hawaiian Electric Company's 2005 test year rate case. The other charge resulted from the write-off of \$12 million (\$7 million net of taxes) of Keahole power plant expansion costs pursuant to a settlement agreement with the State of Hawaii Office of Consumer Advocacy for Hawaii Electric Light Company's pending rate case.

Interim rate increases granted for the company's three utilities in 2007 resulted in \$32 million more revenues in 2007 compared with 2006.

Other operation and maintenance expense (O&M) increased by \$43.1 million in 2007 due to: 1) \$11.9 million higher production maintenance expenses due primarily to higher generating plant maintenance and an increase in the scope and number of generating unit overhauls performed in the year; 2) \$6.9 million higher demand-side management (DSM) costs that are recovered in electric rates; 3) \$5.5 million of increased year-over-year employee benefits expenses; 4) \$3.6 million higher transmission and distribution maintenance expenses resulting from higher substation maintenance and vegetation

management; and 5) \$15.2 million of higher costs to ensure reliable operations, including increased staffing.

Depreciation expense in 2007 increased \$6.9 million over 2006 due to 2006 plant additions, including the Ford Island Substation and new Dispatch Center on Oahu, and the Maalaea M-18 generating unit addition on Maui.

Kilowatthour sales were basically flat year-over-year. While residential customer usage increased, commercial customer usage was down due largely to energy efficiency projects and customer conservation.

BANK RESULTS

Bank net income for 2007 was \$53.1 million compared with \$55.8 million for 2006. We were pleased that 2007 bank earnings declined only 5% compared to 2006 given the challenging year for financial institutions in general, said Lau.

Bank net interest income decreased by \$5.5 million in 2007 compared with 2006. Increased interest income primarily from higher rates and balances on loans was more than offset by increased funding costs and lower investment and mortgage-related securities balances. The bank's net interest margin decreased to 3.08% compared to 3.18% in 2006.

The bank provided \$5.7 million for loan losses in 2007, compared to \$1.4 million in 2006. Overall credit quality remained strong in 2007 with most of the provision relating to a single commercial borrower, said Lau. As a result of stable housing prices during 2007 and our focus on the prime residential loan market, our residential loan portfolio experienced low levels of delinquencies and no residential loan charge-offs in 2007, Lau added.

Noninterest income increased by \$8.8 million in 2007, primarily due to higher fee income on deposits of \$7.6 million.

Noninterest expense increased by \$3.6 million year-over-year, primarily due to higher costs to strengthen the bank's risk management and compliance infrastructure and higher legal expenses, partially offset by an \$8.8 million gain (\$5.3 million net of taxes) recorded in the fourth quarter resulting from previously disclosed changes to the bank's defined benefit plan.

HOLDING AND OTHER COMPANIES RESULTS

The holding and other companies' net loss was \$20.5 million in 2007, compared with \$22.7 million in 2006. Gains on the sale of non-strategic assets were partially offset by higher general and administrative and interest expenses in 2007 compared with 2006.

FOURTH QUARTER RESULTS

Consolidated net income for the fourth quarter of 2007 was \$40.6 million, or \$0.49 per share, compared with \$16.1 million, or \$0.20 per share, for the fourth quarter of 2006.

Fourth quarter net income benefited from the receipt of interim rate relief for our three utilities and a gain resulting from changes to the bank's defined benefit plan, said Lau.

UTILITY RESULTS

Electric utility net income for the fourth quarter of 2007 was \$28.2 million compared with \$13.0 million for the same quarter in 2006. The positive impact of rate relief for all three utilities and accrual of DSM incentives resulted in an increase in net income despite lower kilowatthour sales and higher O&M and depreciation expenses, said Lau.

Kilowatthour sales were down 1.4% compared with the same quarter of 2006 due in part to lower consumption by commercial customers.

Other O&M expenses were \$2.0 million higher quarter-over-quarter due primarily to \$1.9 million higher DSM costs that are recovered in electric rates, \$1.4 million higher employee benefits expenses and \$5.7 million in higher costs to ensure reliable operations, including increased staffing, partially offset by \$6.8 million lower production maintenance expenses due to the timing of maintenance work and \$0.2 million lower transmission and distribution expenses.

The utility also recorded \$1.7 million in higher quarter-over-quarter depreciation expenses in 2007 due to 2006 plant additions.

In the fourth quarter of 2007, the utility recorded \$2.2 million of DSM incentives, net of tax, related to successful implementation of energy efficiency DSM programs in 2007.

BANK RESULTS

Bank net income for the fourth quarter of 2007 was \$17.2 million compared with \$9.3 million for the fourth quarter of 2006.

Bank net interest income for the fourth quarter of 2007 was \$49.1 million compared with \$47.9 million in the same quarter of 2006. The increase in net interest income was driven by higher balances on loans, partially offset by higher funding costs. The bank's net interest margin was 3.08% in the fourth quarter of 2007, compared with 3.05% in the fourth quarter of 2006, as the yields on earning assets increased more than the overall cost of the bank's liabilities.

In the fourth quarter of 2007, the bank recorded a \$1.8 million provision for loan losses, compared to a \$1.4 million provision recorded in the same period of 2006. While we don't believe that this is indicative of a trend in the overall credit quality of the bank's loan portfolio, our delinquent and nonaccrual loans have been at historically low levels. Accordingly, we expect to see an increase in loan loss provisions, especially as the economy begins to slow, added Lau.

Noninterest income in the fourth quarter of 2007 was \$3.3 million higher than in the fourth quarter of 2006. Fee income from deposits was higher by \$1.7 million and the bank recorded a \$1.1 million gain on sale of stock in a membership organization in the fourth quarter of 2007.

Noninterest expense in the fourth quarter of 2007 was \$8.5 million lower than in the fourth quarter of 2006, primarily due to lower compensation and employee benefits expenses resulting from an \$8.8 million gain recorded as a result of changes to the bank's defined benefit plan.

HOLDING AND OTHER COMPANIES RESULTS

The holding and other companies' net losses were \$4.8 million in the fourth quarter of 2007 versus \$6.2 million in the fourth quarter of 2006. The quarter-over-quarter improvement was primarily due to higher investment gains in the fourth quarter of 2007 compared with the fourth quarter of 2006.

WEBCAST AND TELECONFERENCE

Hawaiian Electric Industries, Inc. will conduct a webcast and teleconference call to review its 2007 earnings on Friday, February 22, 2008, at 8:00 a.m. Hawaii Time (1:00 p.m. Eastern Time). The event can be accessed through HEI's website at <http://www.hei.com> or by dialing (866) 270-6057, passcode: 11751245 for the teleconference call.

An online replay of the webcast will be available at the same website beginning about two hours after the event. Replays of the teleconference call will also be available approximately two hours after the event through March 7, 2008, by dialing (888) 286-8010, passcode: 45194385.

Representing management will be Constance H. Lau, president and chief executive officer, Hawaiian Electric Industries, Inc., chairman, Hawaiian Electric Company, Inc. and chairman and chief executive officer, American Savings Bank, F.S.B.; T. Michael May, president and chief executive officer, Hawaiian Electric Company, Inc.; and Timothy K. Schools, president, American Savings Bank F.S.B.

HEI supplies power to over 400,000 customers or 95% of Hawaii's population through its electric utilities, Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc. and Maui Electric Company, Limited and provides a wide array of banking and other financial services to consumers and businesses through American Savings Bank, F.S.B., the state's third largest financial institution based on year-end 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 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 September 30, 2007, 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. (HEI) and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| (in thousands, except per share amounts) | Three months ended December 31, | | Years ended December 31, | |
|--|------------------------------------|------------|-----------------------------|--------------|
| | 2007 | 2006 | 2007 | 2006 |
| Revenues | | | | |
| Electric utility | \$ 598,309 | \$ 506,029 | \$ 2,106,314 | \$ 2,054,890 |
| Bank | 108,002 | 102,467 | 425,495 | 408,365 |
| Other | 1,860 | (1,417) | 4,609 | (2,351) |
| | 708,171 | 607,079 | 2,536,418 | 2,460,904 |
| Expenses | | | | |
| Electric utility | 540,871 | 473,388 | 1,975,729 | 1,888,172 |
| Bank | 80,661 | 87,661 | 341,485 | 319,807 |
| Other | 4,774 | 2,870 | 15,472 | 13,529 |
| | 626,306 | 563,919 | 2,332,686 | 2,221,508 |
| Operating income (loss) | | | | |
| Electric utility | 57,438 | 32,641 | 130,585 | 166,718 |
| Bank | 27,341 | 14,806 | 84,010 | 88,558 |
| Other | (2,914) | (4,287) | (10,863) | (15,880) |
| | 81,865 | 43,160 | 203,732 | 239,396 |
| Interest expense other than on deposit liabilities and other bank borrowings | (19,174) | (19,152) | (78,556) | (75,678) |
| Allowance for borrowed funds used during construction | 712 | 620 | 2,552 | 2,879 |
| Preferred stock dividends of subsidiaries | (470) | (473) | (1,890) | (1,890) |
| Allowance for equity funds used during construction | 1,449 | 1,374 | 5,219 | 6,348 |
| Income from continuing operations before income taxes | 64,382 | 25,529 | 131,057 | 171,055 |
| Income taxes | 23,797 | 9,412 | 46,278 | 63,054 |
| Net income | \$ 40,585 | \$ 16,117 | \$ 84,779 | \$ 108,001 |
| Per common share | | | | |
| Basic earnings | \$ 0.49 | \$ 0.20 | \$ 1.03 | \$ 1.33 |
| Diluted earnings | \$ 0.49 | \$ 0.20 | \$ 1.03 | \$ 1.33 |
| Dividends | \$ 0.31 | \$ 0.31 | \$ 1.24 | \$ 1.24 |
| Weighted-average number of common shares outstanding | 83,003 | 81,282 | 82,215 | 81,145 |
| Adjusted weighted-average shares | 83,163 | 81,587 | 82,419 | 81,373 |
| Income (loss) from continuing operations by segment | | | | |
| Electric utility | \$ 28,178 | \$ 13,007 | \$ 52,156 | \$ 74,947 |
| Bank | 17,198 | 9,267 | 53,107 | 55,782 |

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| | | | | |
|------------|-----------|-----------|-----------|------------|
| Other | (4,791) | (6,157) | (20,484) | (22,728) |
| Net income | \$ 40,585 | \$ 16,117 | \$ 84,779 | \$ 108,001 |

This information should be read in conjunction with the consolidated financial statements and the notes thereto for the years ended December 31, 2007 and 2006 (included in HEI Exhibit 13 to HEI's Form 8-K dated February 21, 2008) 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, 2007, June 30, 2007 and September 30, 2007.

Hawaiian Electric Company, Inc. (HECO) and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| (in thousands) | Three months ended December 31, | | Years ended December 31, | |
|--|------------------------------------|------------|-----------------------------|--------------|
| | 2007 | 2006 | 2007 | 2006 |
| Operating revenues | \$ 597,192 | \$ 504,855 | \$ 2,096,958 | \$ 2,050,412 |
| Operating expenses | | | | |
| Fuel oil | 224,348 | 186,800 | 774,119 | 781,740 |
| Purchased power | 146,799 | 127,977 | 536,960 | 506,893 |
| Other operation | 59,098 | 49,884 | 214,047 | 186,449 |
| Maintenance | 19,944 | 27,130 | 105,743 | 90,217 |
| Depreciation | 34,269 | 32,550 | 137,081 | 130,164 |
| Taxes, other than income taxes | 55,768 | 47,687 | 194,607 | 190,413 |
| Income taxes | 18,152 | 8,472 | 34,126 | 47,381 |
| | 558,378 | 480,500 | 1,996,683 | 1,933,257 |
| Operating income | 38,814 | 24,355 | 100,275 | 117,155 |
| Other income | | | | |
| Allowance for equity funds used during construction | 1,449 | 1,374 | 5,219 | 6,348 |
| Other, net | 703 | 314 | (627) | 3,123 |
| | 2,152 | 1,688 | 4,592 | 9,471 |
| Income before interest and other charges | 40,966 | 26,043 | 104,867 | 126,626 |
| Interest and other charges | | | | |
| Interest on long-term debt | 11,600 | 10,778 | 45,964 | 43,109 |
| Amortization of net bond premium and expense | 627 | 547 | 2,440 | 2,198 |
| Other interest charges | 774 | 1,832 | 4,864 | 7,256 |
| Allowance for borrowed funds used during construction | (712) | (620) | (2,552) | (2,879) |
| Preferred stock dividends of subsidiaries | 229 | 229 | 915 | 915 |
| | 12,518 | 12,766 | 51,631 | 50,599 |
| Income before preferred stock dividends of HECO | 28,448 | 13,277 | 53,236 | 76,027 |
| Preferred stock dividends of HECO | 270 | 270 | 1,080 | 1,080 |
| Net income for common stock | \$ 28,178 | \$ 13,007 | \$ 52,156 | \$ 74,947 |

OTHER ELECTRIC UTILITY INFORMATION

| | | | | |
|-------------------------------|----------|----------|----------|----------|
| Kilowatthour sales (millions) | 2,550 | 2,588 | 10,118 | 10,116 |
| Cooling degree days (Oahu) | 1,169 | 1,198 | 4,835 | 4,520 |
| Average fuel cost per barrel | \$ 79.67 | \$ 65.23 | \$ 69.08 | \$ 68.13 |

This information should be read in conjunction with the consolidated financial statements and the notes thereto for the years ended December 31, 2007 and 2006 (included in HECO Exhibit 99.1 to HECO's Form 8-K dated February 21, 2008) 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, 2007, June 30, 2007 and September 30, 2007.

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

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

| (in thousands) | Three months ended December 31, | | Years ended December 31, | |
|--|--|-----------------|-------------------------------------|------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Interest and dividend income | | | | |
| Interest and fees on loans | \$ 63,402 | \$ 59,717 | \$ 245,593 | \$ 231,610 |
| Interest and dividends on investment and mortgage-related securities | 26,380 | 27,845 | 111,470 | 117,160 |
| | 89,782 | 87,562 | 357,063 | 348,770 |
| Interest expense | | | | |
| Interest on deposit liabilities | 19,928 | 21,519 | 81,879 | 73,614 |
| Interest on other borrowings | 20,789 | 18,121 | 78,019 | 72,482 |
| | 40,717 | 39,640 | 159,898 | 146,096 |
| Net interest income | 49,065 | 47,922 | 197,165 | 202,674 |
| Provision for loan losses | 1,800 | 1,400 | 5,700 | 1,400 |
| Net interest income after provision for loan losses | 47,265 | 46,522 | 191,465 | 201,274 |
| Noninterest income | | | | |
| Fees from other financial services | 7,377 | 6,655 | 27,916 | 26,385 |
| Fee income on deposit liabilities | 7,247 | 5,561 | 26,342 | 18,779 |
| Fee income on other financial products | 1,573 | 1,717 | 7,418 | 8,025 |
| Gain on sale of securities | 1,109 | | 1,109 | 1,735 |
| Other income | 914 | 972 | 5,647 | 4,671 |
| | 18,220 | 14,905 | 68,432 | 59,595 |
| Noninterest expense | | | | |
| Compensation and employee benefits | 9,204 | 15,767 | 61,937 | 68,478 |
| Occupancy | 5,344 | 4,934 | 21,051 | 18,829 |
| Equipment | 3,524 | 3,800 | 14,417 | 14,700 |
| Services | 6,535 | 8,043 | 29,173 | 21,484 |
| Data processing | 2,659 | 2,623 | 10,458 | 10,164 |
| Other expense | 10,900 | 11,454 | 38,872 | 38,656 |
| | 38,166 | 46,621 | 175,908 | 172,311 |
| Income before income taxes | 27,319 | 14,806 | 83,989 | 88,558 |
| Income taxes | 10,121 | 5,539 | 30,882 | 32,776 |
| Net income | \$ 17,198 | \$ 9,267 | \$ 53,107 | \$ 55,782 |
| Net interest margin (%) | 3.08 | 3.05 | 3.08 | 3.18 |

This information should be read in conjunction with the consolidated financial statements and the notes thereto for the years ended December 31, 2007 and 2006 (included in HEI's Form 8-K dated February 21, 2008) 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, 2007, June 30, 2007 and September 30, 2007.

Item 9.01. Financial Statements and Exhibits.

(c) Exhibits.

| | |
|-------------------|---|
| HEI Exhibit 13 | HEI's 2007 Annual Report to Shareholders (Selected Sections) |
| HEI Exhibit 32.1 | Written Statement of Constance H. Lau (HEI Chief Executive Officer) Furnished Pursuant to 18 U.S.C. Section 1350, as Adopted by Section 906 of the Sarbanes-Oxley Act of 2002 |
| HEI Exhibit 32.2 | Written Statement of Curtis Y. Harada (HEI Acting Chief Financial Officer) Furnished Pursuant to 18 U.S.C. Section 1350, as Adopted by Section 906 of the Sarbanes-Oxley Act of 2002 |
| HECO Exhibit 32.3 | Written Statement of T. Michael May (HECO Chief Executive Officer) Furnished Pursuant to 18 U.S.C. Section 1350, as Adopted by Section 906 of the Sarbanes-Oxley Act of 2002 |
| HECO Exhibit 32.4 | Written Statement of Tayne S. Y. Sekimura (HECO Chief Financial Officer) Furnished Pursuant to 18 U.S.C. Section 1350, as Adopted by Section 906 of the Sarbanes-Oxley Act of 2002 |
| HECO Exhibit 99.1 | Forward-Looking Statements, Selected Financial Data, HECO's MD&A, Quantitative and Qualitative Disclosures about Market Risk, Annual Report of Management on Internal Control Over Financial Reporting, Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting and HECO's Consolidated 2007 Financial Statements (with Report of Independent Registered Public Accounting Firm thereon) |

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/ Curtis Y. Harada
Curtis Y. Harada
Controller and Acting Financial Vice President,
Treasurer and Chief Financial Officer
(Principal Financial and Accounting Officer of HEI)
Date: February 21, 2008

HAWAIIAN ELECTRIC COMPANY, INC.
(Registrant)

/s/ Tayne S. Y. Sekimura
Tayne S. Y. Sekimura
Senior Vice President, Finance and Administration
(Principal Financial Officer of HECO)
Date: February 21, 2008