

HAWAIIAN ELECTRIC CO INC
Form 10-Q
August 04, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Exact Name of Registrant as Specified in Its Charter	Commission File Number	I.R.S. Employer Identification No.
HAWAIIAN ELECTRIC INDUSTRIES, INC. and Principal Subsidiary	1-8503	99-0208097
HAWAIIAN ELECTRIC COMPANY, INC.	1-4955	99-0040500

State of Hawaii

(State or other jurisdiction of incorporation or organization)

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

900 Richards Street, Honolulu, Hawaii 96813

(Address of principal executive offices and zip code)

Hawaiian Electric Industries, Inc. ----- (808) 543-5662

Hawaiian Electric Company, Inc. ----- (808) 543-7771

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether Registrant Hawaiian Electric Industries, Inc. (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether Registrant Hawaiian Electric Company, Inc. (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether Registrant Hawaiian Electric Industries, Inc. has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether Registrant Hawaiian Electric Company, Inc. has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether Registrant Hawaiian Electric Industries, Inc. is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate by check mark whether Registrant Hawaiian Electric Company, Inc. is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

Indicate the number of shares outstanding of each of the issuers' classes of common stock, as of the latest practicable date.

Class of Common Stock	Outstanding July 21, 2011
Hawaiian Electric Industries, Inc. (Without Par Value)	95,877,918 Shares
Hawaiian Electric Company, Inc. (\$6-2/3 Par Value)	13,830,823 Shares (not publicly traded)

Indicate by check mark whether Registrant Hawaiian Electric Industries, Inc. is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether Registrant Hawaiian Electric Company, Inc. is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

Table of Contents

Hawaiian Electric Industries, Inc. and Subsidiaries

Hawaiian Electric Company, Inc. and Subsidiaries

Form 10-Q Quarter ended June 30, 2011

INDEX

Page No.

- ii Glossary of Terms
- iv Forward-Looking Statements

PART I.

Item 1.

- 1
- 2
- 3
- 4
- 5

FINANCIAL INFORMATION

Financial Statements

Hawaiian Electric Industries, Inc. and Subsidiaries

Consolidated Statements of Income (unaudited) - three and six months ended June 30, 2011 and 2010

Consolidated Balance Sheets (unaudited) - June 30, 2011 and December 31, 2010

Consolidated Statements of Changes in Shareholders' Equity (unaudited) - six months ended June 30, 2011 and 2010

Consolidated Statements of Cash Flows (unaudited) - six months ended June 30, 2011 and 2010

Notes to Consolidated Financial Statements (unaudited)

Hawaiian Electric Company, Inc. and Subsidiaries

Consolidated Statements of Income (unaudited) - three and six months ended June 30, 2011 and 2010

Consolidated Balance Sheets (unaudited) - June 30, 2011 and December 31, 2010

Consolidated Statements of Changes in Common Stock Equity (unaudited) - six months ended June 30, 2011 and 2010

Consolidated Statements of Cash Flows (unaudited) - six months ended June 30, 2011 and 2010

Notes to Consolidated Financial Statements (unaudited)

Item 2.

- 23
- 24
- 25
- 26
- 27
- 46
- 46
- 51
- 58
- 66
- 67

Management's Discussion and Analysis of Financial Condition and Results of Operations

HEI Consolidated

Electric Utilities

Bank

Quantitative and Qualitative Disclosures About Market Risk

Controls and Procedures

PART II.

Item 1.

Item 1A.

Item 5.

Item 6.

Signatures

OTHER INFORMATION

Legal Proceedings

Risk Factors

Other Information

Exhibits

Table of Contents

Hawaiian Electric Industries, Inc. and Subsidiaries

Hawaiian Electric Company, Inc. and Subsidiaries

Form 10-Q Quarter ended June 30, 2011

GLOSSARY OF TERMS

Terms	Definitions
AFUDC	Allowance for funds used during construction
AOI	Accumulated other comprehensive income
ARO	Asset retirement obligation
ASB	American Savings Bank, F.S.B., a wholly-owned subsidiary of American Savings Holdings, Inc. American Savings Investment Services Corp. and its subsidiary, Bishop Insurance Agency of Hawaii, Inc. (dissolved in 2010) are former subsidiaries.
ASHI	American Savings Holdings, Inc., a wholly owned subsidiary of Hawaiian Electric Industries, Inc. and the parent company of American Savings Bank, F.S.B.
CIP CT-1	Campbell Industrial Park 110 MW combustion turbine No. 1
Company	Hawaiian Electric Industries, Inc. and its direct and indirect subsidiaries, including, without limitation, Hawaiian Electric Company, Inc. and its subsidiaries (listed under HECO); American Savings Holdings, Inc. and its subsidiary, American Savings Bank, F.S.B. and its former subsidiaries (listed under ASB); Pacific Energy Conservation Services, Inc. (dissolved on April 1, 2011); HEI Properties, Inc.; Hawaiian Electric Industries Capital Trust II and Hawaiian Electric Industries Capital Trust III (inactive financing entities); and The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.).
Consumer Advocate	Division of Consumer Advocacy, Department of Commerce and Consumer Affairs of the State of Hawaii
DBEDT	State of Hawaii Department of Business, Economic Development and Tourism
D&O	Decision and order
DG	Distributed generation
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DRIP	HEI Dividend Reinvestment and Stock Purchase Plan
DSM	Demand-side management
ECAC	Energy cost adjustment clauses
EIP	2010 Equity and Incentive Plan
Energy Agreement	Agreement dated October 20, 2008 and signed by the Governor of the State of Hawaii, the State of Hawaii Department of Business, Economic Development and Tourism, the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs, and HECO, for itself and on behalf of its electric utility subsidiaries committing to actions to develop renewable energy and reduce dependence on fossil fuels in support of the HCEI
EPA	Environmental Protection Agency federal
EPS	Earnings per share
Exchange Act	Securities Exchange Act of 1934
FDIC	Federal Deposit Insurance Corporation
federal	U.S. Government
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FNMA	Federal National Mortgage Association
FSS	Forward Starting Swaps

Table of Contents**GLOSSARY OF TERMS, continued**

Terms	Definitions
GAAP	U.S. generally accepted accounting principles
GHG	Greenhouse gas
GNMA	Government National Mortgage Association
HCEI	Hawaii Clean Energy Initiative
HECO	Hawaiian Electric Company, Inc., an electric utility subsidiary of Hawaiian Electric Industries, Inc. and parent company of Hawaii Electric Light Company, Inc., Maui Electric Company, Limited, HECO Capital Trust III (unconsolidated subsidiary), Renewable Hawaii, Inc. and Uluwehiokama Biofuels Corp.
HEI	Hawaiian Electric Industries, Inc., direct parent company of Hawaiian Electric Company, Inc., American Savings Holdings, Inc., Pacific Energy Conservation Services, Inc. (dissolved on April 1, 2011), HEI Properties, Inc., Hawaiian Electric Industries Capital Trust II, Hawaiian Electric Industries Capital Trust III and The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.)
HEIRSP	Hawaiian Electric Industries Retirement Savings Plan
HELCO	Hawaii Electric Light Company, Inc., an electric utility subsidiary of Hawaiian Electric Company, Inc.
HPOWER	City and County of Honolulu with respect to a power purchase agreement for a refuse-fired plant
IPP	Independent power producer
Kalaeloa	Kalaeloa Partners, L.P.
KWH	Kilowatt-hour
MECO	Maui Electric Company, Limited, an electric utility subsidiary of Hawaiian Electric Company, Inc.
MW	Megawatt/s (as applicable)
NII	Net interest income
NPV	Net portfolio value
NQSO	Nonqualified stock option
O&M	Other operation and maintenance
OPEB	Postretirement benefits other than pensions
OTS	Office of Thrift Supervision, Department of Treasury
PPA	Power purchase agreement
PUC	Public Utilities Commission of the State of Hawaii
RAM	Revenue adjustment mechanism
RBA	Revenue balancing account
RFP	Request for proposal
REIP	Renewable Energy Infrastructure Program
RHI	Renewable Hawaii, Inc., a wholly owned subsidiary of Hawaiian Electric Company, Inc.
ROACE	Return on average common equity
RORB	Return on average rate base
RPS	Renewable portfolio standard
SAR	Stock appreciation right
SEC	Securities and Exchange Commission
See	Means the referenced material is incorporated by reference
SOIP	1987 Stock Option and Incentive Plan, as amended
TDR	Troubled debt restructuring
UBC	Uluwehiokama Biofuels Corp., a non-regulated subsidiary of Hawaiian Electric Company, Inc.
VIE	Variable interest entity

Table of Contents

FORWARD-LOOKING STATEMENTS

This report and other presentations made by Hawaiian Electric Industries, Inc. (HEI) and Hawaiian Electric Company, Inc. (HECO) and their subsidiaries 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, ongoing business strategies or prospects or possible future actions 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 the accuracy of assumptions concerning HEI and its subsidiaries (collectively, the Company), 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.**

Risks, uncertainties and other important factors that could cause actual results to differ materially from those described in forward-looking statements and from historical results include, but are not limited to, the following:

- international, national and local economic conditions, including the state of the Hawaii tourism, defense and construction industries, the strength or weakness of the Hawaii and continental U.S. real estate markets (including the fair value and/or the actual performance of collateral underlying loans held by American Savings Bank, F.S.B. (ASB), which could result in higher loan loss provisions and write-offs), decisions concerning the extent of the presence of the federal government and military in Hawaii, and the implications and potential impacts of capital and credit market conditions and federal and state responses to those conditions;
- weather and natural disasters (e.g., hurricanes, earthquakes, tsunamis, lightning strikes and the potential effects of global warming, such as more severe storms and rising sea levels), including their impact on Company operations and the economy (e.g., the effect of the March 2011 natural disasters in Japan on its economy and tourism in Hawaii);
- global developments, including unrest and conflict in North Africa and the Middle East, terrorist acts, the war on terrorism, continuing U.S. presence in Afghanistan and potential conflict or crisis with North Korea;
- the timing and extent of changes in interest rates and the shape of the yield curve;
- the ability of the Company to access credit markets to obtain commercial paper and other short-term and long-term debt financing (including lines of credit) and to access capital markets to issue HEI common stock under volatile and challenging market conditions, and the cost of such financings, if available;
- the risks inherent in changes in the value of pension and other retirement plan assets and securities available for sale;
- changes in laws, regulations, market conditions and other factors that result in changes in assumptions used to calculate retirement benefits costs and funding requirements;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) and of the rules and regulations that the Dodd-Frank Act requires to be promulgated;
- increasing competition in the banking industry (e.g., increased price competition for deposits, or an outflow of deposits to alternative investments, which may have an adverse impact on ASB's cost of funds);

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

- the implementation of the Energy Agreement with the State of Hawaii and Consumer Advocate (Energy Agreement) setting forth the goals and objectives of a Hawaii Clean Energy Initiative (HCEI), revenue decoupling and the fulfillment by the electric utilities of their commitments under the Energy Agreement (given the Public Utilities Commission of the State of Hawaii (PUC) approvals needed; the PUC's potential delay in considering HCEI-related costs; reliance by the Company on outside parties like the state, independent power producers (IPPs) and developers; potential changes in political support for the HCEI; and uncertainties surrounding wind power, the proposed undersea cable (to bring power to Oahu from Lanai and/or Molokai), biofuels, environmental assessments and the impacts of implementation of the HCEI on future costs of electricity);
- capacity and supply constraints or difficulties, especially if generating units (utility-owned or IPP-owned) fail or measures such as demand-side management (DSM), distributed generation (DG), combined heat and power or other firm capacity supply-side resources fall short of achieving their forecasted benefits or are otherwise insufficient to reduce or meet peak demand;
- the risk to generation reliability when generation peak reserve margins on Oahu are strained;
- fuel oil price changes, performance by suppliers of their fuel oil delivery obligations and the continued availability to the electric utilities of their energy cost adjustment clauses (ECACs);
- the impact of fuel price volatility on customer satisfaction and political and regulatory support for the utilities;

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

Table of Contents

- the risks associated with increasing reliance on renewable energy, as contemplated under the Energy Agreement, including the availability and cost of non-fossil fuel supplies for renewable energy generation and the operational impacts of adding intermittent sources of renewable energy to the electric grid;
- the ability of IPPs to deliver the firm capacity anticipated in their power purchase agreements (PPAs);
- the ability of the electric utilities to negotiate, periodically, favorable fuel supply and collective bargaining agreements;
- new technological developments that could affect the operations and prospects of HEI and its subsidiaries (including HECO and its subsidiaries and ASB) or their competitors;
- federal, state, county and international governmental and regulatory actions, such as changes in laws, rules and regulations applicable to HEI, HECO, ASB and their subsidiaries (including changes in taxation, increases in capital requirements, regulatory changes resulting from the HCEI, environmental laws and regulations, the regulation of greenhouse gas (GHG) emissions, governmental fees and assessments (such as Federal Deposit Insurance Corporation assessments), and potential carbon cap and trade legislation that may fundamentally alter costs to produce electricity and accelerate the move to renewable generation);
- decisions by the PUC in rate cases and other proceedings (including the risks of delays in the timing of decisions, adverse changes in final decisions from interim decisions and the disallowance of project costs);
- decisions by the PUC and by other agencies and courts on land use, environmental and other permitting issues (such as required corrective actions and restrictions and penalties that may arise, such as with respect to environmental conditions or renewable portfolio standards (RPS));
- potential enforcement actions by the Office of Thrift Supervision (OTS) (or its regulatory successors, the Office of the Comptroller of the Currency and the Federal Reserve Board) and other governmental authorities (such as consent orders, required corrective actions, restrictions and penalties that may arise, for example, with respect to compliance deficiencies under existing or new banking and consumer protection laws and regulations or with respect to capital adequacy);
- ability to recover increasing costs and earn a reasonable return on capital investments not covered by revenue adjustment mechanisms;
- the risks associated with the geographic concentration of HEI's businesses and ASB's loans, ASB's concentration in a single product type (i.e., first mortgages) and ASB's significant credit relationships (i.e., concentrations of large loans and/or credit lines with certain customers);
- changes in accounting principles applicable to HEI, HECO, ASB and their subsidiaries, including the adoption of International Financial Reporting Standards or new U.S. accounting standards, the potential discontinuance of regulatory accounting and the effects of potentially required consolidation of variable interest entities (VIEs) or required capital lease accounting for PPAs with IPPs;
- changes by securities rating agencies in their ratings of the securities of HEI and HECO and the results of financing efforts;
- faster than expected loan prepayments that can cause an acceleration of the amortization of premiums on loans and investments and the impairment of mortgage-servicing assets of ASB;
- changes in ASB's loan portfolio credit profile and asset quality which may increase or decrease the required level of allowance for loan losses and charge-offs;
- changes in ASB's deposit cost or mix which may have an adverse impact on ASB's cost of funds;
- the final outcome of tax positions taken by HEI, HECO, ASB and their subsidiaries;

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

- the risks of suffering losses and incurring liabilities that are uninsured or underinsured; and
- other risks or uncertainties described elsewhere in this report and in other reports (e.g., Item 1A. Risk Factors in the Company's Annual Report on Form 10-K) previously and subsequently filed by HEI and/or HECO with the Securities and Exchange Commission (SEC).

Forward-looking statements speak only as of the date of the report, presentation or filing in which they are made. Except to the extent required by the federal securities laws, HEI, HECO, ASB and their subsidiaries undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements**

Hawaiian Electric Industries, Inc. and Subsidiaries

Consolidated Statements of Income (unaudited)

(in thousands, except per share amounts)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Revenues				
Electric utility	\$ 728,738	\$ 584,095	\$ 1,374,073	\$ 1,132,206
Bank	66,318	71,632	131,631	142,546
Other	(737)	(63)	(752)	(48)
	794,319	655,664	1,504,952	1,274,704
Expenses				
Electric utility	686,220	542,660	1,286,347	1,048,162
Bank	42,498	45,857	86,057	95,000
Other	1,940	3,516	5,512	7,204
	730,658	592,033	1,377,916	1,150,366
Operating income (loss)				
Electric utility	42,518	41,435	87,726	84,044
Bank	23,820	25,775	45,574	47,546
Other	(2,677)	(3,579)	(6,264)	(7,252)
	63,661	63,631	127,036	124,338
Interest expense other than on deposit liabilities and other bank borrowings	(24,177)	(20,520)	(44,317)	(40,901)
Allowance for borrowed funds used during construction	553	790	1,073	1,569
Allowance for equity funds used during construction	1,317	1,847	2,561	3,620
Income before income taxes	41,354	45,748	86,353	88,626
Income taxes	13,742	16,013	29,806	31,292
Net income	27,612	29,735	56,547	57,334
Preferred stock dividends of subsidiaries	473	473	946	946
Net income for common stock	\$ 27,139	\$ 29,262	\$ 55,601	\$ 56,388
Basic earnings per common share	\$ 0.28	\$ 0.31	\$ 0.58	\$ 0.61
Diluted earnings per common share	\$ 0.28	\$ 0.31	\$ 0.58	\$ 0.61
Dividends per common share	\$ 0.31	\$ 0.31	\$ 0.62	\$ 0.62
Weighted-average number of common shares outstanding				
	95,393	93,159	95,107	92,867
Dilutive effect of share-based compensation	162	255	287	292
Adjusted weighted-average shares	95,555	93,414	95,394	93,159

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

Hawaiian Electric Industries, Inc. and Subsidiaries

Consolidated Balance Sheets (unaudited)

(dollars in thousands)	June 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents	\$ 266,746	\$ 330,651
Accounts receivable and unbilled revenues, net	319,533	266,996
Available-for-sale investment and mortgage-related securities	711,347	678,152
Investment in stock of Federal Home Loan Bank of Seattle	97,764	97,764
Loans receivable held for investment, net	3,580,418	3,489,880
Loans held for sale, at lower of cost or fair value	4,784	7,849
Property, plant and equipment, net of accumulated depreciation of \$2,055,204 in 2011 and \$2,037,598 in 2010	3,204,996	3,165,918
Regulatory assets	478,766	478,330
Other	494,527	487,614
Goodwill	82,190	82,190
Total assets	\$ 9,241,071	\$ 9,085,344
Liabilities and shareholders equity		
Liabilities		
Accounts payable	\$ 168,187	\$ 202,446
Interest and dividends payable	29,593	27,814
Deposit liabilities	4,054,949	3,975,372
Short-term borrowings other than bank		24,923
Other bank borrowings	239,122	237,319
Long-term debt, net other than bank	1,440,006	1,364,942
Deferred income taxes	316,843	278,958
Regulatory liabilities	309,809	296,797
Contributions in aid of construction	339,489	335,364
Other	796,573	823,479
Total liabilities	7,694,571	7,567,414
Preferred stock of subsidiaries - not subject to mandatory redemption	34,293	34,293
Shareholders equity		
Preferred stock, no par value, authorized 10,000,000 shares; issued: none		
Common stock, no par value, authorized 200,000,000 shares; issued and outstanding: 95,853,329 shares in 2011 and 94,690,932 shares in 2010	1,343,537	1,314,199
Retained earnings	178,513	181,910
Accumulated other comprehensive loss, net of tax benefits	(9,843)	(12,472)
Total shareholders equity	1,512,207	1,483,637
Total liabilities and shareholders equity	\$ 9,241,071	\$ 9,085,344

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

Hawaiian Electric Industries, Inc. and Subsidiaries

Consolidated Statements of Changes in Shareholders Equity (unaudited)

(in thousands, except per share amounts)	Common stock		Retained earnings	Accumulated other comprehensive loss	Total
	Shares	Amount			
Balance, December 31, 2010	94,691	\$ 1,314,199	\$ 181,910	\$ (12,472)	\$ 1,483,637
Comprehensive income (loss):					
Net income for common stock			55,601		55,601
Net unrealized gains on securities:					
Net unrealized gains on securities arising during the period, net of taxes of \$2,341				3,435	3,435
Less: reclassification adjustment for net realized gains included in net income, net of taxes of \$2				(3)	(3)
Derivatives qualified as cash flow hedges:					
Net unrealized holding losses arising during the period, net of tax benefits of \$9				(3)	(3)
Less: reclassification adjustment to net income, net of tax benefits of \$41				64	64
Retirement benefit plans:					
Less: amortization of net loss, prior service gain and transition obligation included in net periodic benefit cost, net of tax benefits of \$2,108				3,488	3,488
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of \$2,801				(4,352)	(4,352)
Other comprehensive income				2,629	
Comprehensive income					58,230
Issuance of common stock, net	1,162	29,338			29,338
Common stock dividends (\$0.62 per share)			(58,998)		(58,998)
Balance, June 30, 2011	95,853	\$ 1,343,537	\$ 178,513	\$ (9,843)	\$ 1,512,207
Balance, December 31, 2009	92,521	\$ 1,265,157	\$ 184,213	\$ (7,722)	\$ 1,441,648
Comprehensive income (loss):					
Net income for common stock			56,388		56,388
Net unrealized gains on securities:					
Net unrealized gains on securities arising during the period, net of taxes of \$1,747				2,646	2,646
Derivatives qualified as cash flow hedges:					
Net unrealized holding losses arising during the period, net of tax benefits of \$662				(1,039)	(1,039)
Retirement benefit plans:					
Less: amortization of net loss, prior service gain and transition obligation included in net periodic benefit cost, net of tax benefits of \$1,248				1,959	1,959
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of \$1,080				(1,697)	(1,697)
Other comprehensive income				1,869	
Comprehensive income					58,257
Issuance of common stock, net	1,099	24,314			24,314

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

Common stock dividends (\$0.62 per share)				(57,586)			(57,586)
Balance, June 30, 2010	93,620	\$	1,289,471	\$	183,015	\$	(5,853) \$ 1,466,633

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

Hawaiian Electric Industries, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)

Six months ended June 30 (in thousands)	2011	2010
Cash flows from operating activities		
Net income	\$ 56,547	\$ 57,334
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	75,243	79,606
Other amortization	11,965	2,149
Provision for loan losses	7,105	6,349
Loans receivable originated and purchased, held for sale	(64,028)	(136,197)
Proceeds from sale of loans receivable, held for sale	71,829	167,583
Changes in deferred income taxes	39,051	(2,381)
Changes in excess tax benefits from share-based payment arrangements	(55)	97
Allowance for equity funds used during construction	(2,561)	(3,620)
Decrease in cash overdraft	(2,305)	(302)
Changes in assets and liabilities		
Increase in accounts receivable and unbilled revenues, net	(52,537)	(25,012)
Increase in fuel oil stock	(6,509)	(49,759)
Decrease (increase) in accounts, interest and dividends payable	(41,989)	1,359
Changes in prepaid and accrued income taxes and utility revenue taxes	8,333	(30,699)
Changes in other assets and liabilities	(44,908)	11,732
Net cash provided by operating activities	55,181	78,239
Cash flows from investing activities		
Available-for-sale investment and mortgage-related securities purchased	(193,119)	(379,896)
Principal repayments on available-for-sale investment and mortgage-related securities	161,526	203,783
Proceeds from sale of available-for-sale investment securities	2,066	
Net decrease (increase) in loans held for investment	(104,824)	61,017
Proceeds from sale of real estate acquired in settlement of loans	3,977	2,118
Capital expenditures	(89,088)	(76,659)
Contributions in aid of construction	8,153	9,430
Other	(2,911)	(10)
Net cash used in investing activities	(214,220)	(180,217)
Cash flows from financing activities		
Net increase (decrease) in deposit liabilities	79,577	(57,226)
Net increase (decrease) in short-term borrowings with original maturities of three months or less	(24,923)	13,023
Net increase (decrease) in retail repurchase agreements	1,803	(41,112)
Proceeds from issuance of long-term debt	125,000	
Repayment of long-term debt	(50,000)	
Changes in excess tax benefits from share-based payment arrangements	55	(97)
Net proceeds from issuance of common stock	12,071	10,789
Common stock dividends	(47,331)	(46,246)
Preferred stock dividends of subsidiaries	(946)	(946)
Other	(172)	(1,805)
Net cash provided by (used in) financing activities	95,134	(123,620)
Net decrease in cash and cash equivalents	(63,905)	(225,598)
Cash and cash equivalents, beginning of period	330,651	503,922
Cash and cash equivalents, end of period	\$ 266,746	\$ 278,324

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

Hawaiian Electric Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1 • Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for interim financial information, the instructions to SEC Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates. The accompanying unaudited consolidated financial statements and the following notes should be read in conjunction with the audited consolidated financial statements and the notes thereto included in HEI's Form 10-K for the year ended December 31, 2010 and the unaudited consolidated financial statements and the notes thereto in HEI's Quarterly Report on SEC Form 10-Q for the quarter ended March 31, 2011.

In the opinion of HEI's management, the accompanying unaudited consolidated financial statements contain all material adjustments required by GAAP to fairly state the Company's financial position as of June 30, 2011 and December 31, 2010, the results of its operations for the three and six months ended June 30, 2011 and 2010 and cash flows for the six months ended June 30, 2011 and 2010. All such adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q or other referenced material. Results of operations for interim periods are not necessarily indicative of results for the full year. When required, certain reclassifications are made to the prior period's consolidated financial statements to conform to the current presentation.

Table of Contents**2 • Segment financial information**

(in thousands)	Electric Utility	Bank	Other	Total
Three months ended June 30, 2011				
Revenues from external customers	\$ 728,702	\$ 66,318	\$ (701)	\$ 794,319
Intersegment revenues (eliminations)	36		(36)	
Revenues	728,738	66,318	(737)	794,319
Income (loss) before income taxes	28,603	23,806	(11,055)	41,354
Income taxes (benefit)	11,080	8,611	(5,949)	13,742
Net income (loss)	17,523	15,195	(5,106)	27,612
Preferred stock dividends of subsidiaries	499		(26)	473
Net income (loss) for common stock	17,024	15,195	(5,080)	27,139
Six months ended June 30, 2011				
Revenues from external customers	\$ 1,374,001	\$ 131,631	\$ (680)	\$ 1,504,952
Intersegment revenues (eliminations)	72		(72)	
Revenues	1,374,073	131,631	(752)	1,504,952
Income (loss) before income taxes	59,870	45,533	(19,050)	86,353
Income taxes (benefit)	22,659	16,487	(9,340)	29,806
Net income (loss)	37,211	29,046	(9,710)	56,547
Preferred stock dividends of subsidiaries	998		(52)	946
Net income (loss) for common stock	36,213	29,046	(9,658)	55,601
Tangible assets (at June 30, 2011)	4,279,122	4,801,483	71,422	9,152,027
Three months ended June 30, 2010				
Revenues from external customers	\$ 584,048	\$ 71,632	\$ (16)	\$ 655,664
Intersegment revenues (eliminations)	47		(47)	
Revenues	584,095	71,632	(63)	655,664
Income (loss) before income taxes	28,354	25,747	(8,353)	45,748
Income taxes (benefit)	10,213	9,616	(3,816)	16,013
Net income (loss)	18,141	16,131	(4,537)	29,735
Preferred stock dividends of subsidiaries	499		(26)	473
Net income (loss) for common stock	17,642	16,131	(4,511)	29,262
Six months ended June 30, 2010				
Revenues from external customers	\$ 1,132,123	\$ 142,546	\$ 35	\$ 1,274,704
Intersegment revenues (eliminations)	83		(83)	
Revenues	1,132,206	142,546	(48)	1,274,704
Income (loss) before income taxes	57,866	47,483	(16,723)	88,626
Income taxes (benefit)	21,174	17,616	(7,498)	31,292
Net income (loss)	36,692	29,867	(9,225)	57,334
Preferred stock dividends of subsidiaries	998		(52)	946
Net income (loss) for common stock	35,694	29,867	(9,173)	56,388
Tangible assets (at December 31, 2010)	4,285,680	4,707,870	2,905	8,996,455

Intercompany electricity sales of the electric utilities to the bank and other segments are not eliminated because those segments would need to purchase electricity from another source if it were not provided by consolidated HECO, the profit on such sales is nominal and the elimination of electric sales revenues and expenses could distort segment operating income and net income for common stock.

Bank fees that ASB charges the electric utility and other segments are not eliminated because those segments would pay fees to another financial institution if they were to bank with another institution, the profit on such fees is nominal and the elimination of bank fee income and expenses could distort segment operating income and net income for common stock.

Table of Contents**3 • Electric utility subsidiary**

For consolidated HECO financial information, including its commitments and contingencies, see pages 23 through 36 (HECO and Subsidiaries Consolidated Statements of Income (unaudited) through Note 11).

4 • Bank subsidiary**Selected financial information**

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

Consolidated Statements of Income Data (unaudited)

(in thousands)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Interest and dividend income				
Interest and fees on loans	\$ 45,648	\$ 49,328	\$ 91,745	\$ 99,073
Interest and dividends on investment and mortgage-related securities	3,793	3,646	7,562	6,963
Total interest and dividend income	49,441	52,974	99,307	106,036
Interest expense				
Interest on deposit liabilities	2,387	3,852	4,980	8,275
Interest on other borrowings	1,382	1,418	2,749	2,844
Total interest expense	3,769	5,270	7,729	11,119
Net interest income	45,672	47,704	91,578	94,917
Provision for loan losses	2,555	990	7,105	6,349
Net interest income after provision for loan losses	43,117	46,714	84,473	88,568
Noninterest income				
Fee income on deposit liabilities	4,599	7,891	9,048	15,411
Fees from other financial services	7,240	6,649	14,186	13,063
Fee income on other financial products	1,861	1,735	3,534	3,260
Other income	3,177	2,383	5,556	4,776
Total noninterest income	16,877	18,658	32,324	36,510
Noninterest expense				
Compensation and employee benefits	18,166	18,907	35,671	36,309
Occupancy	4,288	4,216	8,528	8,441
Data processing	2,058	4,564	4,028	8,902
Services	1,949	1,845	3,720	3,573
Equipment	1,772	1,640	3,429	3,349
Other expense	7,955	8,453	15,888	17,021
Total noninterest expense	36,188	39,625	71,264	77,595
Income before income taxes	23,806	25,747	45,533	47,483
Income taxes	8,611	9,616	16,487	17,616
Net income	\$ 15,195	\$ 16,131	\$ 29,046	\$ 29,867

Table of Contents

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

Consolidated Balance Sheets Data (unaudited)

(in thousands)	June 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents	\$ 178,251	\$ 204,397
Federal funds sold	1,249	1,721
Available-for-sale investment and mortgage-related securities	711,347	678,152
Investment in stock of Federal Home Loan Bank of Seattle	97,764	97,764
Loans receivable held for investment, net	3,580,418	3,489,880
Loans held for sale, at lower of cost or fair value	4,784	7,849
Other	234,524	234,806
Goodwill	82,190	82,190
Total assets	\$ 4,890,527	\$ 4,796,759
Liabilities and shareholder s equity		
Deposit liabilities noninterest-bearing	\$ 912,034	\$ 865,642
Deposit liabilities interest-bearing	3,142,915	3,109,730
Other borrowings	239,122	237,319
Other	99,260	90,683
Total liabilities	4,393,331	4,303,374
Common stock	331,348	330,562
Retained earnings	170,157	169,111
Accumulated other comprehensive loss, net of tax benefits	(4,309)	(6,288)
Total shareholder s equity	497,196	493,385
Total liabilities and shareholder s equity	\$ 4,890,527	\$ 4,796,759
Other assets		
Bank-owned life insurance	\$ 119,671	\$ 117,565
Premises and equipment, net	56,415	56,495
Prepaid expenses	17,700	18,608
Accrued interest receivable	15,178	14,887
Mortgage-servicing rights	6,854	6,699
Real estate acquired in settlement of loans, net	4,722	4,292
Other	13,984	16,260
	\$ 234,524	\$ 234,806
Other liabilities		
Accrued expenses	\$ 13,036	\$ 16,426
Federal and state income taxes payable	34,167	28,372
Cashier s checks	26,486	22,396
Advance payments by borrowers	10,061	10,216
Other	15,510	13,273
	\$ 99,260	\$ 90,683

Other borrowings consisted of securities sold under agreements to repurchase and advances from the Federal Home Loan Bank (FHLB) of Seattle of \$174 million and \$65 million, respectively, as of June 30, 2011 and \$172 million and \$65 million, respectively, as of December 31, 2010.

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

Bank-owned life insurance is life insurance purchased by ASB on the lives of certain key employees, with ASB as the beneficiary. The insurance is used to fund employee benefits through tax-free income from increases in the cash value of the policies and insurance proceeds paid to ASB upon an insured's death.

As of June 30, 2011, ASB had total commitments to borrowers for loan commitments and unused lines and letters of credit of \$1.3 billion.

Table of Contents**Investment and mortgage-related securities portfolio.**

Available-for-sale securities. The book value and aggregate fair value by major security type were as follows:

(in thousands)	June 30, 2011				December 31, 2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Federal agency obligations	\$ 292,346	\$ 1,049	\$ (439)	\$ 292,956	\$ 317,945	\$ 171	\$ (2,220)	\$ 315,896
Mortgage-related securities FNMA, FHLMC and GNMA	365,908	10,680	(209)	376,379	310,711	9,570	(311)	319,970
Municipal bonds	41,459	568	(15)	42,012	43,632	7	(1,353)	42,286
	\$ 699,713	\$ 12,297	\$ (663)	\$ 711,347	\$ 672,288	\$ 9,748	\$ (3,884)	\$ 678,152

The following table details the contractual maturities of available-for-sale securities. All positions with variable maturities (e.g. callable debentures and mortgage-related securities) are disclosed based upon the bond's contractual maturity.

June 30, 2011 (in thousands)		
	Amortized Cost	Fair value
Due in one year or less	\$ 10,800	\$ 10,830
Due after one year through five years	272,346	273,366
Due after five years through ten years	41,577	41,673
Due after ten years	9,082	9,099
	333,805	334,968
Mortgage-related securities-FNMA,FHLMC and GNMA	365,908	376,379
Total available-for-sale securities	\$ 699,713	\$ 711,347

Gross unrealized losses and fair value. The gross unrealized losses and fair values (for securities held in available for sale by duration of time in which positions have been held in a continuous loss position) were as follows:

(in thousands)	Less than 12 months		12 months or more		Total	
	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
June 30, 2011						
Federal agency obligations	\$ (439)	\$ 39,555	\$	\$	\$ (439)	\$ 39,555
Mortgage-related securities FNMA, FHLMC and GNMA	(100)	19,793	(109)	20,164	(209)	39,957
Municipal bonds	(15)	4,540			(15)	4,540
	\$ (554)	\$ 63,888	\$ (109)	\$ 20,164	\$ (663)	\$ 84,052
December 31, 2010						
Federal agency obligations	\$ (2,220)	\$ 205,316	\$	\$	\$ (2,220)	\$ 205,316

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

Mortgage-related securities FNMA, FHLMC and GNMA	(311)	30,986	(311)	30,986
Municipal bonds	(1,353)	41,479	(1,353)	41,479
	\$ (3,884)	\$ 277,781	\$ (3,884)	\$ 277,781

The unrealized losses on ASB's investments in obligations issued by federal agencies were caused by interest rate movements. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because ASB does not intend to sell the securities and has determined it is more likely than not that it will not be required to sell the investments before recovery of their amortized costs bases, which may be at maturity, ASB does not consider these investments to be other-than-temporarily impaired at June 30, 2011.

The fair values of ASB's investment securities could decline if interest rates rise or spreads widen.

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

Table of Contents

Allowance for loan losses. ASB must maintain an allowance for loan losses that is adequate to absorb estimated probable credit losses associated with its loan portfolio. The allowance for loan losses consists of an allocated portion, which estimates credit losses for specifically identified loans and pools of loans, and an unallocated portion.

The allowance for loan losses was comprised of the following:

(in thousands)	Residential 1-4 family	Commercial real estate	Home equity line of credit	Residential land	Commercial construction	Residential construction	Commercial loans	Consumer loans	Unallocated	Total
June 30, 2011										
Allowance for loan losses:										
Beginning balance	\$ 6,497	\$ 1,474	\$ 4,269	\$ 6,411	\$ 1,714	\$ 7	\$ 16,015	\$ 3,325	\$ 934	\$ 40,646
Charge-offs	(2,695)		(362)	(2,790)			(1,773)	(1,518)		(9,138)
Recoveries	33		4	19			300	314		670
Provision	3,694	168	(695)	1,385	15	(2)	327	1,350	863	7,105
Ending balance	\$ 7,529	\$ 1,642	\$ 3,216	\$ 5,025	\$ 1,729	\$ 5	\$ 14,869	\$ 3,471	\$ 1,797	\$ 39,283
Ending balance: individually evaluated for impairment	\$ 230	\$	\$	\$ 3,067	\$	\$	\$ 1,923	\$	\$	\$ 5,220
Ending balance: collectively evaluated for impairment	\$ 7,299	\$ 1,642	\$ 3,216	\$ 1,958	\$ 1,729	\$ 5	\$ 12,946	\$ 3,471	\$ 1,797	\$ 34,063
Financing Receivables:										
Ending balance	\$ 2,028,502	\$ 321,967	\$ 466,783	\$ 51,901	\$ 38,419	\$ 3,738	\$ 640,221	\$ 83,059	\$	\$ 3,634,590
Ending balance: individually evaluated for impairment	\$ 30,816	\$ 13,543	\$ 1,263	\$ 41,268	\$	\$	\$ 54,620	\$ 25	\$	\$ 141,535
Ending balance: collectively evaluated for impairment	\$ 1,997,686	\$ 308,424	\$ 465,520	\$ 10,633	\$ 38,419	\$ 3,738	\$ 585,601	\$ 83,034	\$	\$ 3,493,055
December 31, 2010										
Allowance for loan losses:										
Beginning balance	\$ 5,522	\$ 861	\$ 4,679	\$ 4,252	\$ 3,068	\$ 19	\$ 19,498	\$ 2,590	\$ 1,190	\$ 41,679
Charge-offs	(6,142)		(2,517)	(6,487)			(6,261)	(3,408)		(24,815)
Recoveries	744		63	63			1,537	481		2,888
Provision	6,373	613	2,044	8,583	(1,354)	(12)	1,241	3,662	(256)	20,894
Ending balance	\$ 6,497	\$ 1,474	\$ 4,269	\$ 6,411	\$ 1,714	\$ 7	\$ 16,015	\$ 3,325	\$ 934	\$ 40,646
Ending balance: individually evaluated for impairment	\$ 230	\$	\$	\$ 1,642	\$	\$	\$ 1,588	\$	\$	\$ 3,460
Ending balance: collectively evaluated for impairment	\$ 6,267	\$ 1,474	\$ 4,269	\$ 4,769	\$ 1,714	\$ 7	\$ 14,427	\$ 3,325	\$ 934	\$ 37,186
Financing Receivables:										
Ending balance	\$ 2,087,813	\$ 300,689	\$ 416,453	\$ 65,599	\$ 38,079	\$ 5,602	\$ 551,683	\$ 80,138	\$	\$ 3,546,056
Ending balance: individually evaluated for impairment	\$ 34,615	\$ 12,156	\$ 827	\$ 39,631	\$	\$	\$ 28,886	\$ 76	\$	\$ 116,191
Ending balance: collectively evaluated	\$ 2,053,198	\$ 288,533	\$ 415,626	\$ 25,968	\$ 38,079	\$ 5,602	\$ 522,797	\$ 80,062	\$	\$ 3,429,865

for impairment

Credit quality. ASB performs an internal loan review and grading on an ongoing basis. The review provides management with periodic information as to the quality of the loan portfolio and effectiveness of its lending policies and procedures. The objectives of the loan review and grading procedures are to identify, in a timely manner, existing or emerging credit quality problems so that appropriate steps can be initiated to avoid or minimize future losses. Loans subject to grading include commercial, commercial real estate and commercial construction loans.

A ten-point risk rating system is used to determine loan grade and is based on borrower loan risk. The risk rating is a numerical representation of risk based on the overall assessment of the borrower's financial and operating strength including earnings, operating cash flow, debt service capacity, asset and liability structure, competitive issues, experience and quality of management, financial reporting issues and industry/economic factors.

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

Table of Contents

The loan grade categories are:

- | | |
|-----------------------------|--------------------|
| 1- Substantially risk free | 6- Acceptable risk |
| 2- Minimal risk | 7- Special mention |
| 3- Modest risk | 8- Substandard |
| 4- Better than average risk | 9- Doubtful |
| 5- Average risk | 10- Loss |

Grades 1 through 6 are considered pass grades. Pass exposures generally are well protected by the current net worth and paying capacity of the obligor or by the value of the asset or underlying collateral.

The credit risk profile by internally assigned grade for loans was as follows:

(in thousands)	June 30, 2011			December 31, 2010		
	Commercial real estate	Commercial construction	Commercial	Commercial real estate	Commercial construction	Commercial
Grade:						
Pass	\$ 305,260	\$ 38,419	\$ 557,463	\$ 285,624	\$ 38,079	\$ 462,078
Special mention	1,056		23,820	526		44,759
Substandard	15,651		56,795	14,539		44,259
Doubtful			1,978			556
Loss			165			31
Total	\$ 321,967	\$ 38,419	\$ 640,221	\$ 300,689	\$ 38,079	\$ 551,683

The credit risk profile based on payment activity for loans was as follows:

(in thousands)	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Current	Total financing receivables	Recorded Investment > 90 days and accruing
	June 30, 2011						
Real estate loans:							
Residential 1-4 family	\$ 4,775	\$ 2,837	\$ 34,942	\$ 42,554	\$ 1,985,948	\$ 2,028,502	\$
Commercial real estate					321,967	321,967	
Home equity line of credit	993	729	1,492	3,214	463,569	466,783	
Residential land	968	834	14,027	15,829	36,072	51,901	
Commercial construction					38,419	38,419	
Residential construction					3,738	3,738	
Commercial loans	1,400	1,667	2,837	5,904	634,317	640,221	60
Consumer loans	483	280	615	1,378	81,681	83,059	442
Total loans	\$ 8,619	\$ 6,347	\$ 53,913	\$ 68,879	\$ 3,565,711	\$ 3,634,590	\$ 502

December 31, 2010

Real estate loans:

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

Residential 1-4 family	\$	8,245	\$	3,719	\$	36,419	\$	48,383	\$	2,039,430	\$	2,087,813	\$	
Commercial real estate				4				4		300,685		300,689		
Home equity line of credit		1,103		227		1,659		2,989		413,464		416,453		
Residential land		1,543		1,218		16,060		18,821		46,778		65,599	581	
Commercial construction										38,079		38,079		
Residential construction										5,602		5,602		
Commercial loans		892		1,317		3,191		5,400		546,283		551,683	64	
Consumer loans		629		410		617		1,656		78,482		80,138	320	
Total loans	\$	12,412	\$	6,895	\$	57,946	\$	77,253	\$	3,468,803	\$	3,546,056	\$	965

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

Table of Contents

The credit risk profile based on nonaccrual loans, accruing loans 90 days or more past due and troubled debt restructured loans was as follows:

(in thousands)	Nonaccrual loans	June 30, 2011 Accruing loans 90 days or more past due	Trouble debt restructured loans	Nonaccrual loans	December 31, 2010 Accruing loans 90 days or more past due	Trouble debt restructured loans
Real estate loans:						
Residential 1-4 family	\$ 34,942	\$	\$ 4,938	\$ 36,420	\$	\$ 5,150
Commercial real estate						1,963
Home equity line of credit	1,492			1,659		
Residential land	16,022		25,857	15,479	581	27,689
Commercial construction						
Residential construction						
Commercial loans	5,442	60	26,203	4,956	64	4,035
Consumer loans	210	442		341	320	
Total	\$ 58,108	\$ 502	\$ 56,998	\$ 58,855	\$ 965	\$ 38,837

The total carrying amount and the total unpaid principal balance of impaired loans were as follows:

(in thousands)	Recorded investment	June 30, 2011 Unpaid principal balance	Related Allowance	Three months ended June 30, 2011 Average recorded investment	Interest income recognized	Six months ended June 30, 2011 Average recorded investment	Interest income recognized
With no related allowance recorded							
Real estate loans:							
Residential 1-4 family	\$ 20,771	\$ 28,523	\$	\$ 20,000	\$ 68	\$ 19,848	\$ 128
Commercial real estate	13,543	13,543		12,396	183	11,276	331
Home equity line of credit	543	1,422		654	1	615	1
Residential land	32,310	40,526		32,092	420	33,177	939
Commercial construction							
Residential construction							
Commercial loans	43,665	43,665		39,419	702	37,284	1,361
Consumer loans							
	110,832	127,679		104,561	1,374	102,200	2,760
With an allowance recorded							
Real estate loans:							
Residential 1-4 family	3,884	3,884	230	3,890	49	3,898	109
Commercial real estate							
Home equity line of credit							
Residential land	8,748	8,808	3,067	8,482	146	7,363	316
Commercial construction							
Residential construction							
Commercial loans	10,955	10,955	1,923	8,418	130	7,179	230
Consumer loans							
	23,587	23,647	5,220	20,790	325	18,440	655
Total							

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

Real estate loans:

Residential 1-4 family	24,655	32,407	230	23,890	117	23,746	237
Commercial real estate	13,543	13,543		12,396	183	11,276	331
Home equity line of credit	543	1,422		654	1	615	1
Residential land	41,058	49,334	3,067	40,574	566	40,540	1,255
Commercial construction							
Residential construction							
Commercial loans	54,620	54,620	1,923	47,837	832	44,463	1,591
Consumer loans							
	\$ 134,419	\$ 151,326	\$ 5,220	\$ 125,351	\$ 1,699	\$ 120,640	\$ 3,415

Table of Contents

(in thousands)	Recorded investment	December 31, 2010 Unpaid principal balance	Related allowance	2010 Average recorded investment	Interest income recognized
With no related allowance recorded					
Real estate loans:					
Residential 1-4 family	\$ 18,205	\$ 24,692	\$	\$ 14,609	\$ 278
Commercial real estate	12,156	12,156		14,276	979
Home equity line of credit					
Residential land	33,777	40,802		29,914	1,499
Commercial construction					
Residential construction					
Commercial loans	22,041	22,041		29,636	1,846
Consumer loans					
	86,179	99,691		88,435	4,602
With an allowance recorded					
Real estate loans:					
Residential 1-4 family	3,917	3,917	230	2,807	175
Commercial real estate					
Home equity line of credit					
Residential land	5,041	5,090	1,642	3,753	327
Commercial construction					
Residential construction					
Commercial loans	6,845	6,845	1,588	2,796	182
Consumer loans					
	15,803	15,852	3,460	9,356	684
Total					
Real estate loans:					
Residential 1-4 family	22,122	28,609	230	17,416	453
Commercial real estate	12,156	12,156		14,276	979
Home equity line of credit					
Residential land	38,818	45,892	1,642	33,667	1,826
Commercial construction					
Residential construction					
Commercial loans	28,886	28,886	1,588	32,432	2,028
Consumer loans					
	\$ 101,982	\$ 115,543	\$ 3,460	\$ 97,791	\$ 5,286

Litigation. In March 2011, a purported class action lawsuit was filed by a customer who claimed that ASB had improperly charged overdraft fees on debit card transactions. Management is evaluating the merits of the claims alleged in the lawsuit, which is in its preliminary stage. Thus, the outcome is not determinable.

5 • Retirement benefits

Retirement benefit plan changes. On March 11, 2011, the utilities union members ratified a new benefit agreement, which included changes to retirement benefits. Changes to retirement benefits for HEI and utility employees commencing employment after April 30, 2011 include a reduction of benefits provided through the defined benefit plan (the Retirement Plan for Employees of Hawaiian Electric Industries, Inc. and Participating Subsidiaries) and the addition of a 50% match by the applicable employer on the first 6% of employee deferrals through the

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

defined contribution plan (under the Hawaiian Electric Industries Retirement Savings Plan (HEIRSP)). In addition, new eligibility rules and contribution levels applicable to existing and new HEI and utility employees were adopted for postretirement welfare benefits. In general, defined pension benefits are based on the employees' years of service and compensation.

Defined benefit plans. For the six months of 2011, HEI contributed \$0.5 million (unconsolidated) to its retirement benefit plans, compared to \$0.4 million in the first six months of 2010. HEI's current estimate of contributions to its

Table of Contents

retirement benefit plans in 2011 is \$2 million (unconsolidated), compared to \$1 million in 2010. In addition, HEI expects to pay directly \$1 million (unconsolidated) of benefits in 2011, comparable to 2010. For a discussion of HECO's 2011 estimated contributions to the retirement benefit plans, see Note 4, Retirement benefits, of HECO's Notes to Consolidated Financial Statements.

The components of net periodic benefit cost for consolidated HEI were as follows:

(in thousands)	Three months ended June 30				Six months ended June 30			
	Pension benefits		Other benefits		Pension benefits		Other benefits	
	2011	2010	2011	2010	2011	2010	2011	2010
Service cost	\$ 8,824	\$ 7,095	\$ 1,173	\$ 1,168	\$ 17,741	\$ 14,048	\$ 2,440	\$ 2,291
Interest cost	16,271	16,093	2,417	2,652	32,580	32,133	4,878	5,336
Expected return on plan assets	(17,172)	(17,221)	(2,657)	(2,766)	(34,273)	(34,415)	(5,305)	(5,518)
Amortization of unrecognized transition obligation					1	1		
Amortization of prior service gain	(97)	(97)	(309)	(52)	(194)	(194)	(533)	(104)
Recognized actuarial loss (gain)	4,314	1,791	40	(2)	8,719	3,507	55	(3)
Net periodic benefit cost	12,140	7,661	664	1,000	24,574	15,080	1,535	2,002
Impact of PUC D&Os	(556)	2,020	1,734	1,333	(2,100)	5,028	2,752	2,621
Net periodic benefit cost (adjusted for impact of PUC D&Os)	\$ 11,584	\$ 9,681	\$ 2,398	\$ 2,333	\$ 22,474	\$ 20,108	\$ 4,287	\$ 4,623

Consolidated HEI recorded retirement benefits expense of \$20 million and \$19 million in the first six months of 2011 and 2010, respectively, and charged the remaining amounts primarily to electric utility plant.

Defined contribution plans. For the first six months of 2011 and 2010, ASB's expense for its employees participating in the ASB 401(k) Plan was \$1.7 million and \$1.9 million, respectively. For the first six months of both 2011 and 2010, ASB's cash contributions to the plan were \$2.8 million.

For the first six months of 2011, the Company's expense for matching contributions under the HEIRSP was immaterial.

6 • Share-based compensation

Under the 2010 Equity and Incentive Plan (EIP), HEI can issue an aggregate of 4 million shares of common stock as incentive compensation to selected employees in the form of stock options, stock appreciation rights, restricted shares, restricted stock units, performance shares and other share-based and cash-based awards.

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

Through June 30, 2011, grants under the EIP consisted of 18,009 restricted shares (counted against the shares authorized for issuance under EIP as four shares for every share issued, or 72,036 shares), 162,517 restricted stock units (which will be counted against the shares authorized for issuance under EIP as four shares for every share issued when issued or 650,068 shares) and 371,957 shares that may be issued under the 2011-2013 long-term incentive plan (LTIP) at maximum levels.

Under the 1987 Stock Option and Incentive Plan, as amended (SOIP), grants and awards of an estimated 0.8 million shares of common stock (based on various assumptions, including LTIP awards at maximum levels and the use of the June 30, 2011 market price of shares as the price on the exercise/payment dates) were outstanding as of June 30, 2011 to selected employees in the form of nonqualified stock options (NQSOs), stock appreciation rights (SARs), restricted stock units, LTIP performance and other shares and dividend equivalents. As of May 11, 2010, no new awards may be granted under the SOIP. After the shares of common stock for the outstanding SOIP grants and awards are issued or such grants and awards expire, the remaining shares registered under the SOIP will be deregistered and delisted.

The Company's share-based compensation expense and related income tax benefit were as follows:

(dollars in millions)	Three months ended		Six months ended	
	2011	2010	2011	2010
Share-based compensation expense (1)	0.5	0.8	1.7	1.4
Income tax benefit	0.1	0.2	0.5	0.4

(1) The Company has not capitalized any share-based compensation cost.

Table of Contents

Nonqualified stock options. Information about HEI's NQSOs was as follows:

June 30, 2011

Year of grant	Range of exercise prices	Number of options	Outstanding & Exercisable (Vested)	
			Weighted-average remaining contractual life	Weighted-average exercise price
2002	\$ 21.68	20,000	0.8	\$ 21.68
2003	20.49	93,500	1.7	20.49
	\$ 20.49 - 21.68	113,500	1.5	\$ 20.70

As of December 31, 2010, NQSOs outstanding totaled 215,500 (representing the same number of underlying shares), with a weighted-average exercise price of \$20.76. As of June 30, 2011, all NQSOs outstanding were exercisable and had an aggregate intrinsic value (including dividend equivalents) of \$0.7 million.

NQSO activity and statistics were as follows:

(dollars in thousands, except prices)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Shares expired				2,000
Weighted-average price of shares expired				\$ 20.49
Shares exercised	69,500	17,000	102,000	63,000
Weighted-average exercise price	\$ 21.07	\$ 20.34	\$ 20.82	\$ 16.25
Cash received from exercise	\$ 1,465	\$ 346	\$ 2,123	\$ 1,024
Intrinsic value of shares exercised (1)	\$ 581	\$ 76	\$ 840	\$ 625
Tax benefit realized for the deduction of exercises	\$ 170	\$ 29	\$ 271	\$ 243

(1) Intrinsic value is the amount by which the fair market value of the underlying stock and the related dividend equivalents exceeds the exercise price of the option.

Stock appreciation rights. Information about HEI's SARs was as follows:

June 30, 2011

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

Year of grant	Range of exercise prices	Number of shares underlying SARs	Outstanding & Exercisable (Vested)	
			Weighted-average remaining contractual life	Weighted-average exercise price
2004	\$ 26.02	132,000	1.8	\$ 26.02
2005	26.18	278,000	2.5	26.18
	\$ 26.02 26.18	410,000	2.3	\$ 26.13

As of December 31, 2010, the shares underlying SARs outstanding totaled 450,000, with a weighted-average exercise price of \$26.13. As of June 30, 2011, all SARs outstanding were exercisable and had no intrinsic value.

SARs activity and statistics were as follows:

(dollars in thousands, except prices)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Shares forfeited				
Weighted-average price of shares forfeited				
Shares expired	4,000	12,000	40,000	18,000
Weighted-average price of shares expired	\$ 26.18	\$ 26.18	\$ 26.11	\$ 26.18
Shares exercised				

Table of Contents

Restricted shares and restricted stock awards. Information about HEI's grants of restricted shares and restricted stock awards was as follows:

	Three months ended June 30				Six months ended June 30			
	2011		2010		2011		2010	
	Shares	(1)	Shares	(1)	Shares	(1)	Shares	(1)
Outstanding, beginning of period	88,709	\$ 24.63	120,700	\$ 25.48	89,709	\$ 24.64	129,000	\$ 25.50
Granted								
Vested	(29,800)	26.03	(42,000)	26.30	(29,800)	26.03	(43,565)	26.29
Forfeited	(1,000)	24.68			(2,000)	25.02	(6,735)	25.75
Outstanding, end of period	57,909	\$ 23.91	78,700	\$ 25.04	57,909	\$ 23.91	78,700	\$ 25.04

(1) Weighted-average grant-date fair value per share. The grant date fair value of a restricted stock award share was the closing or average price of HEI common stock on the date of grant.

For the second quarters of 2011 and 2010, total restricted stock vested had a fair value of \$0.8 million and \$1.1 million, respectively. For the six months ended June 30, 2011 and 2010, total restricted stock vested had a fair value of \$0.8 million and \$1.1 million, respectively. The tax benefits realized for the tax deductions related to restricted stock awards were \$0.1 million and \$0.3 million for the first six months of 2011 and 2010, respectively.

As of June 30, 2011, there was \$0.4 million of total unrecognized compensation cost related to nonvested restricted shares and restricted stock awards. The cost is expected to be recognized over a weighted-average period of 2.6 years.

Restricted stock units. Information about HEI's grants of restricted stock units was as follows:

	Three months ended June 30				Six months ended June 30			
	2011		2010		2011		2010	
	Shares	(1)	Shares	(1)	Shares	(1)	Shares	(1)
Outstanding, beginning of period	230,517	\$ 21.69	69,000	\$ 16.99	146,500	\$ 19.80	70,500	\$ 16.99
Granted	1,000(2)	26.25	77,500(4)	22.30	86,017(3)	24.97	77,500(4)	22.30
Vested							(250)	16.99
Forfeited					(1,000)	22.60	(1,250)	16.99
Outstanding, end of period	231,517	\$ 21.70	146,500	\$ 19.80	231,517	\$ 21.70	146,500	\$ 19.80

(1) Weighted-average grant-date fair value per share. The grant date fair value of the restricted stock units was the average price of HEI common stock on the date of grant.

(2) Total weighted-average grant date fair value of \$26,000.

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

- (3) Total weighted-average grant-date fair value of \$2.1 million.
- (4) Total weighted-average grant-date fair value of \$1.7 million

As of June 30, 2011, there was \$3.2 million of total unrecognized compensation cost related to the nonvested restricted stock units. The cost is expected to be recognized over a weighted-average period of 3.0 years.

LTIP payable in stock. The 2011-2013 LTIP provides for performance awards under the EIP and the 2009-2011 LTIP and the 2010-2012 LTIP provide for performance awards under the SOIP of shares of HEI common stock based on the satisfaction of performance goals and service conditions over a three-year performance period. The number of shares of HEI common stock that may be awarded is fixed on the date the grants are made subject to the achievement of specified performance levels. The payout varies from 0% to 200% of the number of target shares depending on achievement of the goals. The LTIP performance goals for both LTIP periods include awards with a market goal based on total return to shareholders (TRS) of HEI stock as a percentile to the Edison Electric Institute Index over the applicable three-year period. In addition, the 2009-2011 LTIP has performance goals based on HEI return on average common equity (ROACE), the 2010-2012 LTIP has performance goals related to levels of HEI consolidated net income, HECO consolidated ROACE, ASB net income and ASB return on assets all based on two-year averages (2011-2012), and the 2011-2013 LTIP has performance goals related to levels of HEI consolidated net income, HECO consolidated ROACE, HECO 3-year average consolidated net income, ASB return on assets and ASB 3-year average net income.

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

Table of Contents

LTIP linked to TRS. Information about HEI's LTIP grants linked to TRS was as follows:

	Three months ended June 30				Six months ended June 30			
	2011		2010		2011		2010	
	Shares	(1)	Shares	(1)	Shares	(1)	Shares	(1)
Outstanding, beginning of period	200,735	\$ 25.94	132,588	\$ 20.42	126,782	\$ 20.33	36,198	\$ 14.85
Granted	475	35.46			75,015(2)	35.46	97,191(3)	22.45
Vested								
Forfeited	(1,647)	22.45			(2,234)	22.45	(801)	14.85
Outstanding, end of period	199,563	\$ 25.99	132,588	\$ 20.42	199,563	\$ 25.99	132,588	\$ 20.42

-
- (1) Weighted-average grant-date fair value per share determined using a Monte Carlo simulation model.
 - (2) Total weighted-average grant-date fair value of \$2.7 million.
 - (3) Total weighted-average grant-date fair value of \$2.2 million.

On May 12, 2011, LTIP grants (under the 2011-2013 LTIP) were made payable in 475 shares of HEI common stock (based on the grant date price of \$26.25 and target TRS performance levels) with a weighted-average grant date fair value of \$17,000 based on the weighted-average grant date fair value per share of \$35.46.

The assumptions used to determine the fair value of the LTIP linked to TRS and the resulting fair value of LTIP granted were as follows:

	2011	2010
Risk-free interest rate	1.25%	1.30%
Expected life in years	3	3
Expected volatility	27.8%	27.9%
Range of expected volatility for Peer Group	21.2% to 82.6%	22.3% to 52.3%
Grant date fair value (per share)	\$35.46	\$22.45

As of June 30, 2011, there was \$3.1 million of total unrecognized compensation cost related to the nonvested performance awards payable in shares linked to TRS. The cost is expected to be recognized over a weighted-average period of 1.7 years.

LTIP linked to other performance conditions. Information about HEI's LTIP awards payable in shares linked to other performance conditions was as follows:

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

	Three months ended June 30				Six months ended June 30			
	2011		2010		2011		2010	
	Shares	(1)	Shares	(1)	Shares	(1)	Shares	(1)
Outstanding, beginning of period	273,550	\$ 21.26	184,535	\$ 18.69	161,310	\$ 18.66	24,131	\$ 16.99
Granted	712	26.25			113,831(2)	24.96	160,939(3)	18.95
Vested								
Cancelled	(81,908)	18.38			(81,908)	18.38		
Forfeited	(6,587)	18.95			(7,466)	18.95	(535)	16.99
Outstanding, end of period	185,767	\$ 22.63	184,535	\$ 18.69	185,767	\$ 22.63	184,535	\$ 18.69

-
- (1) Weighted-average grant-date fair value per share based on the average price of HEI common stock on the date of grant.
- (2) Total weighted-average grant-date fair value of \$2.8 million.
- (3) Total weighted-average grant-date fair value of \$3.0 million.

On May 12, 2011, LTIP grants (under the 2011-2013 LTIP) were made payable in 712 shares of HEI common stock (based on the grant date price of \$26.25 and target performance levels relating to performance goals other than TRS), with a weighted-average grant date fair value of \$19,000 based on the weighted-average grant date fair value per share of \$26.25.

As of June 30, 2011, there was \$3.1 million of total unrecognized compensation cost related to the nonvested shares linked to performance conditions other than TRS. The cost is expected to be recognized over a weighted-average period of 2.1 years.

Table of Contents

7 • Interest rate swap agreements

In June 2010, HEI entered into multiple Forward Starting Swaps (FSS) with notional amounts totaling \$125 million to hedge against interest rate fluctuations on medium-term notes expected to be issued by HEI in 2011, thereby enabling HEI to better forecast its future interest expense. The FSS entitled HEI to receive/(pay) the present value of the positive/(negative) difference between three-month LIBOR and a fixed rate at termination applied to the notional amount over a five-year period. The outstanding FSS were designated and accounted for as cash flow hedges and had a negative fair value of \$2.8 million as of December 31, 2010 (recorded in Other liabilities). Changes in fair value were recognized (1) in other comprehensive income to the extent that they are considered effective, and (2) in Interest expense other than on deposit liabilities and other bank borrowings for any portion considered ineffective.

In the first six months of 2011, HEI settled the FSS for payments totaling \$5.2 million, of which \$3.3 million was the ineffective portion (\$0.8 million and \$2.5 million recognized in 2010 and 2011, respectively) and \$1.9 million is being amortized to interest expense over five years beginning March 24, 2011 (the date that HEI issued \$125 million of Senior Notes via a private placement \$75 million of 4.41% notes due March 24, 2016 and \$50 million of 5.67% notes due March 24, 2021).

8 • Earnings per share (EPS)

For the three and six months ended June 30, 2011, under the two-class method of computing basic and diluted EPS, distributed earnings were \$0.31 and \$0.62 per share, respectively, and undistributed losses were \$(0.03) and \$(0.04) per share, respectively, for both unvested restricted stock awards and unrestricted common stock. For the three and six months ended June 30, 2010, under the two-class method of computing basic and diluted EPS, distributed earnings were \$0.31 and \$0.62 per share, respectively, and undistributed losses were nil and \$(0.01) per share, respectively, for both unvested restricted stock awards and unrestricted common stock.

As of June 30, 2011 and 2010, the antidilutive effects of SARs of 410,000 shares and 462,000 shares of HEI common stock, respectively, for which the exercise prices were greater than the closing market price of HEI's common stock were not included in the computation of diluted EPS.

9 • Commitments and contingencies

See Note 4, Bank subsidiary, above and Note 5, Commitments and contingencies, of HECO's Notes to Consolidated Financial Statements, below.

10 • Fair value measurements

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

Fair value estimates are based on the price that would be received to sell an asset, or paid upon the transfer of a liability, in an orderly transaction between market participants at the measurement date. The fair value estimates are generally determined based on assumptions that market participants would use in pricing the asset or liability and are based on market data obtained from independent sources. However, in certain cases, the Company uses its own assumptions about market participant assumptions based on the best information available in the circumstances. These valuations are estimates at a specific point in time, based on relevant market information, information about the financial instrument and judgments regarding future expected loss experience, economic conditions, risk characteristics of various financial instruments and other factors. These estimates do not reflect any premium or discount that could result if the Company were to sell its entire holdings of a particular financial instrument at one time. Because no active trading market exists for a portion of the Company's financial instruments, fair value estimates cannot be determined with precision. Changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the estimates. Fair value estimates are provided for certain financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. In addition, the tax ramifications related to the realization of the unrealized gains and losses could have a significant effect on fair value estimates, but have not been considered in making such estimates.

Table of Contents

The Company used the following methods and assumptions to estimate the fair value of each applicable class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents and short term borrowings other than bank. The carrying amount approximated fair value because of the short maturity of these instruments.

Investment and mortgage-related securities. Fair value was based on observable inputs using market-based valuation techniques.

Loans receivable. For residential real estate loans, fair value was calculated by discounting estimated cash flows using discount rates based on current industry pricing for loans with similar contractual characteristics.

For other types of loans, fair value was estimated by discounting contractual cash flows using discount rates that reflect current industry pricing for loans with similar characteristics and remaining maturity. Where industry pricing is not available, discount rates are based on ASB's current pricing for loans with similar characteristics and remaining maturity.

The fair value of all loans was adjusted to reflect current assessments of loan collectability.

Deposit liabilities. The fair value of savings, negotiable orders of withdrawal, demand and money market deposits was the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit was estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

Other bank borrowings. Fair value was estimated by discounting the future cash flows using the current rates available for borrowings with similar credit terms and remaining maturities.

Long-term debt. Fair value was obtained from a third-party financial services provider or the BLOOMBERG PROFESSIONAL service based on the current rates offered for debt of the same or similar remaining maturities.

Forward Starting Swaps. Fair value was estimated by discounting the expected future cash flows of the swaps, using the contractual terms of the swaps, including the period to maturity, and observable market-based inputs, including forward interest rate curves. Fair value incorporates credit valuation adjustments to appropriately reflect nonperformance risk.

Off-balance sheet financial instruments. The fair value of loans serviced for others was calculated by discounting expected net income streams using discount rates that reflect industry pricing for similar assets. Expected net income streams were estimated based on industry assumptions regarding prepayment speeds and income and expenses associated with servicing residential mortgage loans for others. The fair value of commitments to originate loans was estimated based on the change in current primary market prices of new commitments. Since lines of credit can expire without being drawn and customers are under no obligation to utilize the lines, no fair value was assigned to unused lines of credit. The fair value of letters of credit was estimated based on the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements. The fair value of HECO-obligated preferred securities of trust subsidiaries was based on quoted market prices.

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

Table of Contents

The estimated fair values of certain of the Company's financial instruments were as follows:

(in thousands)	June 30, 2011		December 31, 2010	
	Carrying or notional amount	Estimated fair value	Carrying or notional amount	Estimated fair value
Financial assets				
Cash and cash equivalents, excluding money market accounts	\$ 180,900	\$ 180,900	\$ 329,553	\$ 329,553
Money market accounts	85,846	85,846	1,098	1,098
Available-for-sale investment and mortgage-related securities	711,347	711,347	678,152	678,152
Investment in stock of Federal Home Loan Bank of Seattle	97,764	97,764	97,764	97,764
Loans receivable, net	3,585,202	3,756,997	3,497,729	3,639,983
Financial liabilities				
Deposit liabilities	4,054,949	4,058,762	3,975,372	3,979,027
Short-term borrowings other than bank			24,923	24,923
Other bank borrowings	239,122	253,291	237,319	251,822
Long-term debt, net other than bank	1,440,006	1,411,318	1,364,942	1,345,770
Forward starting swaps			2,762	2,762
Off-balance sheet items				
HECO-obligated preferred securities of trust subsidiary	50,000	50,040	50,000	52,500

As of June 30, 2011 and December 31, 2010, loan commitments and unused lines and letters of credit issued by ASB had notional amounts of \$1.3 billion and \$1.2 billion, respectively, and their estimated fair value on such dates were \$0.2 million and \$0.4 million, respectively. As of June 30, 2011 and December 31, 2010, loans serviced by ASB for others had notional amounts of \$849 million and \$818 million and the estimated fair value of the servicing rights for such loans was \$9.6 million and \$8.8 million, respectively.

Fair value measurements on a recurring basis. While securities held in ASB's investment portfolio trade in active markets, they do not trade on listed exchanges nor do the specific holdings trade in quoted markets by dealers or brokers. All holdings are valued using market-based approaches that are based on exit prices that are taken from identical or similar market transactions, even in situations where trading volume may be low when compared with prior periods as has been the case during the recent market disruption. Inputs to these valuation techniques reflect the assumptions that consider credit and nonperformance risk that market participants would use in pricing the asset based on market data obtained from independent sources. Available-for-sale securities were comprised of federal agency obligations and mortgage-backed securities and municipal bonds.

Assets and liabilities measured at fair value on a recurring basis were as follows:

(in thousands)	Fair value measurements using		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant Unobservable inputs (Level 3)
<u>June 30, 2011</u>	\$	\$ 85,846	\$

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

Money market accounts (electric utility and other segments)

Available-for-sale securities (bank segment)				
Mortgage-related securities-FNMA, FHLMC and GNMA	\$	\$	376,379	\$
Federal agency obligations			292,956	
Municipal bonds			42,012	
	\$	\$	711,347	\$

December 31, 2010

Money market accounts (other segment)	\$	\$	1,098	\$
Available-for-sale securities (bank segment)				
Mortgage-related securities-FNMA, FHLMC and GNMA	\$	\$	319,970	\$
Federal agency obligations			315,896	
Municipal bonds			42,286	
	\$	\$	678,152	\$
Forward starting swaps (other segment)	\$	\$	(2,762)	\$

Table of Contents

Fair value measurements on a nonrecurring basis. From time to time, the Company may be required to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the write-downs of individual assets. ASB does not record loans at fair value on a recurring basis. However, from time to time, ASB records nonrecurring fair value adjustments to loans to reflect specific reserves on loans based on the current appraised value of the collateral or unobservable market assumptions. Unobservable assumptions reflect ASB's own estimate of the fair value of collateral used in valuing the loan. ASB may also be required to measure goodwill at fair value on a nonrecurring basis. During the first six months of 2011 and 2010, goodwill was not measured at fair value. For the first six months of 2011 and 2010, there were no adjustments to fair value for assets measured at fair value on a nonrecurring basis in accordance with GAAP other than the specific reserves on loans receivable held for investment.

From time to time, the Company may be required to measure certain liabilities at fair value on a nonrecurring basis in accordance with GAAP. The fair value of HECO's asset retirement obligations (Level 3) was determined by discounting the expected future cash flows using market-observable risk-free rates as adjusted by HECO's credit spread (also see Note 3).

11 • Cash flows

Supplemental disclosures of cash flow information. For the six months ended June 30, 2011 and 2010, the Company paid interest to non-affiliates amounting to \$50 million and \$46 million, respectively.

For the six months ended June 30, 2011 and 2010, the Company paid/(received) income taxes amounting to \$(21) million and \$44 million, respectively. Income taxes were received in 2011 primarily due to the refunding of estimated tax payments made prior to the extension of bonus depreciation provisions.

Supplemental disclosures of noncash activities. Under the HEI Dividend Reinvestment and Stock Purchase Plan (DRIP), common stock dividends reinvested by shareholders in HEI common stock in noncash transactions amounted to \$12 million and \$11 million for the six months ended June 30, 2011 and 2010, respectively.

Noncash increases in common stock for director and officer compensatory plans of the Company were \$5.6 million and \$2.3 million for the six months ended June 30, 2011 and 2010, respectively.

Real estate acquired in settlement of loans in noncash transactions amounted to \$5 million and \$2 million for the six months ended June 30, 2011 and 2010, respectively.

12 • Recent accounting pronouncements and interpretations

Troubled debt restructuring (TDR). In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-02, *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*, which clarifies which loan modifications constitute TDRs and is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a TDR, both for purposes of recording an impairment loss and for disclosure of TDRs. In evaluating whether a restructuring constitutes a TDR, a creditor must separately conclude that both (a) the restructuring constitutes a concession by the creditor; and (b) the debtor is experiencing financial difficulties. Clarifying guidance is provided on a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties.

The Company will adopt this standard in the third quarter of 2011 and does not expect the adoption to have a material impact on the Company's results of operations, financial condition or liquidity.

Repurchase agreements. In April 2011, the FASB issued ASU No. 2011-03, *Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements*, which is intended to improve the financial reporting of repurchase agreements and other agreements that entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. This ASU removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets. ASB will apply this guidance prospectively to transactions or modifications of existing transactions that occur on or after January 1, 2012 and does not expect it to have a material impact on the Company's financial condition, results of operations or liquidity.

Table of Contents

Fair value measurements. In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which represents the converged guidance of the FASB and the International Accounting Standards Board (the Boards) on fair value measurement. This ASU includes the Boards' common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term fair value. The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards.

The Company will prospectively adopt this standard in the first quarter of 2012 and does not expect it to have a material impact on the Company's financial condition, results of operations or liquidity.

Comprehensive income. In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, which eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. All items of net income and other comprehensive income are required to be presented in either a single continuous statement of comprehensive income or in two separate, but consecutive, statements—a net income statement and a total comprehensive income statement.

The Company expects to retrospectively adopt this standard by the first quarter of 2012 using a two-statement approach.

13 • Credit agreement

HEI maintains a revolving noncollateralized credit agreement establishing a line of credit facility of \$125 million, with a letter of credit sub-facility, expiring on May 7, 2013, with a syndicate of eight financial institutions. The facility will be maintained to support the issuance of commercial paper, but also may be drawn to repay HEI's short-term and long-term indebtedness, to make investments in or loans to subsidiaries and for HEI's working capital and general corporate purposes.

Table of Contents

Hawaiian Electric Company, Inc. and Subsidiaries

Consolidated Statements of Income (unaudited)

(in thousands)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Operating revenues	\$ 727,652	\$ 582,094	\$ 1,371,953	\$ 1,128,806
Operating expenses				
Fuel oil	312,141	215,322	573,001	427,074
Purchased power	171,737	139,513	319,695	256,295
Other operation	67,388	60,254	132,919	119,498
Maintenance	31,276	32,223	60,472	59,276
Depreciation	36,258	38,649	72,690	77,291
Taxes, other than income taxes	67,152	54,170	127,147	105,961
Income taxes	11,160	11,113	22,770	22,154
	697,112	551,244	1,308,694	1,067,549
Operating income	30,540	30,850	63,259	61,257
Other income				
Allowance for equity funds used during construction	1,317	1,847	2,561	3,620
Other, net	898	372	1,808	1,613
	2,215	2,219	4,369	5,233
Interest and other charges				
Interest on long-term debt	14,383	14,383	28,766	28,766
Amortization of net bond premium and expense	766	726	1,549	1,393
Other interest charges	636	609	1,175	1,208
Allowance for borrowed funds used during construction	(553)	(790)	(1,073)	(1,569)
	15,232	14,928	30,417	29,798
Net income	17,523	18,141	37,211	36,692
Preferred stock dividends of subsidiaries	229	229	458	458
Net income attributable to HECO	17,294	17,912	36,753	36,234
Preferred stock dividends of HECO	270	270	540	540
Net income for common stock	\$ 17,024	\$ 17,642	\$ 36,213	\$ 35,694

HEI owns all of the common stock of HECO. Therefore, per share data with respect to shares of common stock of HECO are not meaningful.

The accompanying notes for HECO are an integral part of these consolidated financial statements.

Table of Contents

Hawaiian Electric Company, Inc. and Subsidiaries

Consolidated Balance Sheets (unaudited)

(dollars in thousands, except par value)	June 30, 2011	December 31, 2010
Assets		
Utility plant, at cost		
Land	\$ 51,439	\$ 51,364
Plant and equipment	4,941,887	4,896,974
Less accumulated depreciation	(1,968,207)	(1,941,059)
Construction in progress	122,946	101,562
Net utility plant	3,148,065	3,108,841
Current assets		
Cash and cash equivalents	25,534	122,936
Customer accounts receivable, net	174,434	138,171
Accrued unbilled revenues, net	122,863	104,384
Other accounts receivable, net	6,425	9,376
Fuel oil stock, at average cost	159,214	152,705
Materials and supplies, at average cost	38,207	36,717
Prepayments and other	41,094	55,216
Regulatory assets	9,982	7,349
Total current assets	577,753	626,854
Other long-term assets		
Regulatory assets	468,784	470,981
Unamortized debt expense	13,145	14,030
Other	71,375	64,974
Total other long-term assets	553,304	549,985
Total assets	\$ 4,279,122	\$ 4,285,680
Capitalization and liabilities		
Capitalization		
Common stock (\$6 2/3 par value, authorized 50,000,000 shares; outstanding 13,830,823 shares)	\$ 92,224	\$ 92,224
Premium on capital stock	389,609	389,609
Retained earnings	855,790	854,856
Accumulated other comprehensive income, net of income taxes	783	709
Common stock equity	1,338,406	1,337,398
Cumulative preferred stock not subject to mandatory redemption	34,293	34,293
Long-term debt, net	1,000,506	1,057,942
Total capitalization	2,373,205	2,429,633
Current liabilities		
Current portion of long-term debt	57,500	
Accounts payable	140,180	178,959
Interest and preferred dividends payable	20,457	20,603
Taxes accrued	173,811	175,960
Other	57,820	56,354
Total current liabilities	449,768	431,876
Deferred credits and other liabilities		
Deferred income taxes	301,503	269,286
Regulatory liabilities	309,809	296,797
Unamortized tax credits	60,143	58,810
Retirement benefits liability	335,874	355,844
Other	109,331	108,070
Total deferred credits and other liabilities	1,116,660	1,088,807

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

Contributions in aid of construction		339,489		335,364
Total capitalization and liabilities	\$	4,279,122	\$	4,285,680

The accompanying notes for HECO are an integral part of these consolidated financial statements.

Table of Contents

Hawaiian Electric Company, Inc. and Subsidiaries

Consolidated Statements of Changes in Common Stock Equity (unaudited)

(in thousands)	Common stock		Premium on capital stock	Retained earnings	Accumulated other comprehensive income (loss)	Total
	Shares	Amount				
Balance, December 31, 2010	13,831	\$ 92,224	\$ 389,609	\$ 854,856	\$ 709	\$ 1,337,398
Comprehensive income (loss):						
Net income for common stock				36,213		36,213
Retirement benefit plans:						
Less: amortization of net loss, prior service gain and transition obligation included in net periodic benefit cost, net of tax benefits of \$2,849					4,426	4,426
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of \$2,801					(4,352)	(4,352)
Other comprehensive income					74	
Comprehensive income						36,287
Common stock dividends				(35,279)		(35,279)
Common stock issue expenses						
Balance, June 30, 2011	13,831	\$ 92,224	\$ 389,609	\$ 855,790	\$ 783	\$ 1,338,406
Balance, December 31, 2009	13,787	\$ 91,931	\$ 385,659	\$ 827,036	\$ 1,782	\$ 1,306,408
Comprehensive income (loss):						
Net income for common stock				35,694		35,694
Retirement benefit plans:						
Less: amortization of net loss, prior service gain and transition obligation included in net periodic benefit cost, net of tax benefits of \$1,155					1,813	1,813
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of \$1,080					(1,697)	(1,697)
Other comprehensive income					116	
Comprehensive income						35,810
Common stock dividends				(26,887)		(26,887)
Common stock issue expenses				(7)		(7)
Balance, June 30, 2010	13,787	\$ 91,931	\$ 385,652	\$ 835,843	\$ 1,898	\$ 1,315,324

The accompanying notes for HECO are an integral part of these consolidated financial statements.

Table of Contents

Hawaiian Electric Company, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)

Six months ended June 30 (in thousands)	2011	2010
Cash flows from operating activities		
Net income	\$ 37,211	\$ 36,692
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	72,690	77,291
Other amortization	10,833	3,101
Changes in deferred income taxes	33,456	(4,522)
Changes in tax credits, net	1,556	1,685
Allowance for equity funds used during construction	(2,561)	(3,620)
Decrease in cash overdraft	(2,305)	(302)
Changes in assets and liabilities		
Increase in accounts receivable	(33,312)	(18,258)
Increase in accrued unbilled revenues	(18,479)	(6,497)
Increase in fuel oil stock	(6,509)	(49,759)
Increase in materials and supplies	(1,490)	(872)
Increase in regulatory assets	(14,498)	(2,252)
Decrease in accounts payable	(48,288)	(1,186)
Changes in prepaid and accrued income taxes and utility revenue taxes	12,178	(31,864)
Changes in other assets and liabilities	(24,425)	14,669
Net cash provided by operating activities	16,057	14,306
Cash flows from investing activities		
Capital expenditures	(85,395)	(71,497)
Contributions in aid of construction	8,153	9,430
Other	77	
Net cash used in investing activities	(77,165)	(62,067)
Cash flows from financing activities		
Common stock dividends	(35,279)	(26,887)
Preferred stock dividends of HECO and subsidiaries	(998)	(998)
Net increase in short-term borrowings from nonaffiliates and affiliate with original maturities of three months or less		14,100
Other	(17)	(1,349)
Net cash used in financing activities	(36,294)	(15,134)
Net decrease in cash and cash equivalents	(97,402)	(62,895)
Cash and cash equivalents, beginning of period	122,936	73,578
Cash and cash equivalents, end of period	\$ 25,534	\$ 10,683

The accompanying notes for HECO are an integral part of these consolidated financial statements.

Table of Contents

Hawaiian Electric Company, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1 • Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with GAAP for interim financial information, the instructions to SEC Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates. The accompanying unaudited consolidated financial statements and the following notes should be read in conjunction with the audited consolidated financial statements and the notes thereto incorporated by reference in HECO's Form 10-K for the year ended December 31, 2010 and the unaudited consolidated financial statements and the notes thereto in HECO's Quarterly Report on SEC Form 10-Q for the quarter ended March 31, 2011.

In the opinion of HECO's management, the accompanying unaudited consolidated financial statements contain all material adjustments required by GAAP to fairly state the financial position of HECO and its subsidiaries as of June 30, 2011 and December 31, 2010 and the results of their operations for the three and six months ended June 30, 2011 and 2010 and their cash flows for the six months ended June 30, 2011 and 2010. All such adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q or other referenced material. Results of operations for interim periods are not necessarily indicative of results for the full year. When required, certain reclassifications are made to the prior period's consolidated financial statements to conform to the current presentation.

2 • Unconsolidated variable interest entities

HECO Capital Trust III. HECO Capital Trust III (Trust III) was created and exists for the exclusive purposes of (i) issuing in March 2004 2,000,000 6.50% Cumulative Quarterly Income Preferred Securities, Series 2004 (2004 Trust Preferred Securities) (\$50 million aggregate liquidation preference) to the public and trust common securities (\$1.5 million aggregate liquidation preference) to HECO, (ii) investing the proceeds of these trust securities in 2004 Debentures issued by HECO in the principal amount of \$31.5 million and issued by Hawaii Electric Light Company, Inc. (HELCO) and Maui Electric Company, Limited (MECO) each in the principal amount of \$10 million, (iii) making distributions on these trust securities and (iv) engaging in only those other activities necessary or incidental thereto. The 2004 Trust Preferred Securities are mandatorily redeemable at the maturity of the underlying debt on March 18, 2034, which maturity may be extended to no later than March 18, 2053; and are currently redeemable at the issuer's option without premium. The 2004 Debentures, together with the obligations of HECO, HELCO and MECO under an expense agreement and HECO's obligations under its trust guarantee and its guarantee of the obligations of HELCO and MECO under their respective debentures, are the sole assets of Trust III. Trust III has at all times been an unconsolidated subsidiary of HECO. Since HECO, as the common security holder, does not absorb the majority of the variability of Trust III, HECO is not the primary beneficiary and does not consolidate Trust III in accordance with accounting rules on the consolidation of VIEs. Trust III's balance sheets as of June 30, 2011 and December 31, 2010 each consisted of \$51.5 million of 2004 Debentures; \$50.0 million of 2004 Trust Preferred Securities; and \$1.5 million of trust common securities. Trust III's income statements for the six months ended June 30, 2011 and 2010 each consisted of \$1.7 million of interest income received from the 2004 Debentures, \$1.6 million of distributions to holders of the Trust Preferred Securities, and

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

\$0.1 million of common dividends on the trust common securities to HECO. So long as the 2004 Trust Preferred Securities are outstanding, HECO is not entitled to receive any funds from Trust III other than pro-rata distributions, subject to certain subordination provisions, on the trust common securities. In the event of a default by HECO in the performance of its obligations under the 2004 Debentures or under its Guarantees, or in the event HECO, HELCO or MECO elect to defer

Table of Contents

payment of interest on any of their respective 2004 Debentures, then HECO will be subject to a number of restrictions, including a prohibition on the payment of dividends on its common stock.

Power purchase agreements. As of June 30, 2011, HECO and its subsidiaries had six PPAs totaling 540 megawatts (MW) of firm capacity and other PPAs with smaller independent power producers (IPPs) and Schedule Q providers (i.e., customers with cogeneration and/or small power production facilities with a capacity of 100 kW or less who buy power from or sell power to the utilities), none of which are currently required to be consolidated as VIEs. Approximately 91% of the 540 MW of firm capacity is pursuant to PPAs, entered into before December 31, 2003, with AES Hawaii, Inc. (AES Hawaii), Kalaeloa Partners, L.P. (Kalaeloa), Hamakua Energy Partners, L.P. (HEP) and HPOWER. Purchases from all IPPs for the six months ended June 30, 2011 totaled \$320 million, with purchases from AES Hawaii, Kalaeloa, HEP and HPOWER totaling \$71 million, \$139 million, \$24 million and \$30 million, respectively.

Some of the IPPs have provided sufficient information for HECO to determine that the IPP was not a VIE, or was either a business or governmental organization (e.g., HPOWER), and thus excluded from the scope of accounting standards for VIEs. A windfarm and Kalaeloa provided sufficient information, as required under their PPAs or amendments, such that HECO could determine that consolidation was not required. Management has concluded that the consolidation of some IPPs is not required as HECO and its subsidiaries do not have variable interests in the IPPs because the PPAs do not require them to absorb any variability of the IPPs.

An enterprise with an interest in a VIE or potential VIE created before December 31, 2003 and not thereafter materially modified is not required to apply accounting standards for VIEs to that entity if the enterprise is unable to obtain the necessary information after making an exhaustive effort. HECO and its subsidiaries have made and continue to make exhaustive efforts to get the necessary information, but have been unsuccessful to date as it was not a contractual requirement prior to 2004. If the requested information is ultimately received from these IPPs, a possible outcome of future analyses of such information is the consolidation of one or more of such IPPs. The consolidation of any significant IPP could have a material effect on the Company's and HECO's consolidated financial statements, including the recognition of a significant amount of assets and liabilities and the potential recognition of losses. If HECO and its subsidiaries determine they are required to consolidate the financial statements of such an IPP and the consolidation has a material effect, HECO and its subsidiaries would retrospectively apply accounting standards for VIEs.

3 • Revenue taxes

HECO and its subsidiaries' operating revenues include amounts for various Hawaii state revenue taxes. Revenue taxes are generally recorded as an expense in the period the related revenues are recognized. However, HECO and its subsidiaries' revenue tax payments to the taxing authorities are based on the prior year's revenues. For the six months ended June 30, 2011 and 2010, HECO and its subsidiaries included approximately \$121 million and \$100 million, respectively, of revenue taxes in operating revenues and in taxes, other than income taxes expense.

4 • Retirement benefits

Retirement benefit plan changes. See Retirement benefit plan changes in Note 5 of HEI's Notes to Consolidated Financial Statements.

Defined benefit plans. For the first six months of 2011, HECO and its subsidiaries contributed \$37 million to their retirement benefit plans, compared to \$16 million in the first six months of 2010. HECO and its subsidiaries' current estimate of contributions to their retirement benefit plans in 2011 is \$73 million, compared to contributions of \$31 million in 2010. The increase in expected 2011 contributions over 2010 contributions is driven by the minimum funding requirements under the Pension Protection Act of 2006, which were impacted by the following three factors: (1) the credit balance available to apply toward satisfaction of the minimum funding requirements was fully depleted in 2010 leaving no credit balance to be applied to 2011, (2) under the Pension Protection Act of 2006, the requirement was to fund 96% of target liability in 2010, which increased to 100% for 2011 and future years, and (3)

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

Table of Contents

lower interest rates. HECO and its subsidiaries expect to pay directly \$1 million of benefits in 2011, comparable to 2010.

The components of net periodic benefit cost were as follows:

(in thousands)	Three months ended June 30				Six months ended June 30			
	Pension benefits		Other benefits		Pension benefits		Other benefits	
	2011	2010	2011	2010	2011	2010	2011	2010
Service cost	\$ 8,474	\$ 6,772	\$ 1,129	\$ 1,131	\$ 17,039	\$ 13,382	\$ 2,352	\$ 2,219
Interest cost	14,803	14,658	2,340	2,571	29,652	29,237	4,724	5,167
Expected return on plan assets	(15,352)	(15,353)	(2,618)	(2,728)	(30,636)	(30,677)	(5,226)	(5,443)
Amortization of unrecognized transition obligation			(2)	(2)			(4)	(4)
Amortization of prior service gain	(187)	(187)	(312)	(56)	(374)	(374)	(539)	(111)
Recognized actuarial loss	4,016	1,767	37	1	8,136	3,452	55	4
Net periodic benefit cost	11,754	7,657	574	917	23,817	15,020	1,362	1,832
Impact of PUC D&Os	(556)	2,020	1,734	1,333	(2,100)	5,028	2,752	2,621
Net periodic benefit cost (adjusted for impact of PUC D&Os)	\$ 11,198	\$ 9,677	\$ 2,308	\$ 2,250	\$ 21,717	\$ 20,048	\$ 4,114	\$ 4,453

HECO and its subsidiaries recorded retirement benefits expense of \$19 million for each of the first six months of 2011 and 2010. The electric utilities charged a portion of the net periodic benefit cost to plant.

Defined contribution plan. For the first six months of 2011, the utilities expense for matching contributions under the HEIRSP was immaterial.

5 • Commitments and contingencies

Hawaii Clean Energy Initiative. In January 2008, the State of Hawaii (State) and the U.S. Department of Energy signed a memorandum of understanding establishing the Hawaii Clean Energy Initiative (HCEI). In October 2008, the Governor of the State, the State Department of Business, Economic Development and Tourism, the Division of Consumer Advocacy of the State Department of Commerce and Consumer Affairs, and HECO, on behalf of itself and its subsidiaries, HELCO and MECO (collectively, the parties), signed an agreement setting forth goals and objectives under the HCEI and the related commitments of the parties (the Energy Agreement), including pursuing a wide range of actions to decrease the State's dependence on imported fossil fuels through substantial increases in renewable energy and programs intended to secure greater energy efficiency and conservation. Many of the actions and programs included in the Energy Agreement require approval of the

PUC.

Renewable energy projects. HECO and its subsidiaries continue to negotiate with developers of proposed projects to integrate power into its grid from a variety of renewable energy sources, including solar, biomass, wind, ocean thermal energy conversion, wave and others. This includes HECO's commitment to integrate wind power into the Oahu electrical grid that would be imported via a yet-to-be-built undersea transmission cable system from a windfarm proposed to be built on the island of Lanai. The State and HECO are working together to ensure the supporting infrastructure needed is in place to reliably accommodate this large increment of wind power, including appropriate additional storage capacity investments and any required utility system connections or interfaces with the cable and the windfarm facility. In December 2009, the PUC allowed HECO to defer the costs of studies for this large wind project for later review of prudence and reasonableness, and HECO is now seeking PUC approval to recover the deferred costs totaling \$3.9 million through the REIP surcharge. Additionally, in July 2011, the PUC directed HECO to draft an RFP for 200 MW or more of renewable energy to be delivered to Oahu and to submit the draft RFP to the PUC by mid-October 2011.

Interim increases. As of June 30, 2011, HECO and its subsidiaries had recognized \$11 million of revenues with respect to interim orders related to general rate increase requests. Revenue amounts recorded pursuant to interim orders are subject to refund, with interest, if they exceed amounts allowed in a final order.

Major projects. Many public utility projects require PUC approval and various permits from other governmental agencies. Difficulties in obtaining, or the inability to obtain, the necessary approvals or permits can result in

Table of Contents

significantly increased project costs or even cancellation of projects. Further, completion of projects is subject to various risks, such as problems or disputes with vendors. In the event a project does not proceed, or if it becomes probable the PUC will disallow cost recovery for all or part of a project, project costs may need to be written off in amounts that could result in significant reductions in HECO's consolidated net income. Significant projects whose costs (or costs in excess of estimates) have not yet been allowed in rate base by a final PUC order include those described below.

In May 2011, based upon recommendations solicited from the Consumer Advocate, the PUC ordered that independently conducted regulatory audits on the reasonableness of costs incurred for HECO's East Oahu Transmission Project, Campbell Industrial Park combustion turbine project, and Customer Information System Project be undertaken. Any revenue requirements arising from specific project costs being audited shall either remain interim and subject to refund until audit completion, or remain within regulatory deferral accounts. In the Interim D&O, the PUC approved the portion of the settlement agreement allowing HECO to defer the portion of costs that are in excess of prior PUC approved amounts and related depreciation for HECO's East Oahu Transmission Project Phase 1 (\$43 million) and Campbell Industrial Park combustion turbine project (\$32 million) until completion of an independently conducted regulatory review on the reasonableness of the total project costs. The PUC approved the accrual of a carrying charge on the cost of such projects not yet included in rates and the related depreciation expense, from July 1, 2011 until the regulatory reviews are completed and the PUC has issued an order allowing the remaining project costs in electric rates. For accounting purposes, HECO will record the equity portion of the carrying charge when it is allowed in electric rates. However, the PUC did not approve the agreement to defer expenses (subject to a limit to which the parties agreed) associated with the yet-to-be completed Customer Information System.

Campbell Industrial Park 110 MW combustion turbine No. 1 (CIP CT-1) and transmission line. HECO's incurred costs for this project, which was placed in service in 2009, were \$195 million, including \$9 million of allowance for funds used during construction (AFUDC). HECO's current rates reflect recovery of project costs of \$163 million. See Major projects above regarding the process for determining recovery of the remaining costs for this project. Management believes no adjustment to project costs is required as of June 30, 2011.

East Oahu Transmission Project (EOTP). HECO had planned a project to construct a partially underground transmission line to a major substation. However, in 2002, an application for a permit, which would have allowed construction in a route through conservation district lands, was denied. In 2007, the PUC approved HECO's request to expend funds for a revised EOTP using different routes requiring the construction of subtransmission lines in two phases (then estimated at \$56 million - \$42 million for Phase 1 and \$14 million for Phase 2), but did not address the issue as to whether the pre-2003 planning and permitting costs, and related AFUDC, should be included in the project costs. That issue was to be addressed in a subsequent proceeding and will now be reviewed in the independently conducted regulatory audits.

Phase 1 was placed in service on June 29, 2010. As of June 30, 2011, HECO's incurred costs for Phase 1 of this project was \$59 million (as a result of higher costs and the project delays), including (i) \$12 million of pre-2003 planning and permitting costs, (ii) \$24 million of planning, permitting and construction costs incurred after the denial of the permit and (iii) \$23 million for AFUDC. The interim D&O issued in HECO's 2011 test year rate case reflects approximately \$16 million of EOTP Phase 1 costs and related depreciation expense in determining revenue requirements. See Major projects above regarding the process for determining recovery of the remaining costs for EOTP Phase 1.

In April 2010, HECO proposed a modification of Phase 2 that uses smart grid technology and is estimated to cost \$10 million (total cost of \$15 million less \$5 million of funding through the Smart Grid Investment Grant Program of the American Recovery and Reinvestment Act of 2009). In October 2010, the PUC approved HECO's modification request for Phase 2, which is projected for completion in 2012. As of June 30, 2011, HECO's incurred costs for Phase 2 of this project amounted to \$5 million.

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

Management believes no adjustment to project costs is required as of June 30, 2011.

Customer Information System Project. In 2005, the PUC approved the utilities request to (i) expend the then-estimated \$20 million for a new Customer Information System (CIS), provided that no part of the project costs may

Table of Contents

be included in rate base until the project is in service and is used and useful for public utility purposes, and (ii) defer certain computer software development costs, accumulate AFUDC during the deferral period, amortize the deferred costs over a specified period and include the unamortized deferred costs in rate base, subject to specified conditions.

HECO signed a contract with a software company in March 2006 with a transition to the new CIS originally scheduled to occur in February 2008, which transition did not occur. Disputes over the parties' contractual obligations resulted in litigation, which subsequently was settled. HECO subsequently contracted with a new CIS software vendor and a new system integrator. The CIS project is proceeding with the implementation of the new software system. As of June 30, 2011, HECO's total deferred and capital cost estimate for the CIS was \$57 million (of which \$30 million was recorded). Management believes no adjustment to project costs is required as of June 30, 2011.

Environmental regulation. HECO and its subsidiaries are subject to environmental laws and regulations that regulate the operation of existing facilities, the construction and operation of new facilities and the proper cleanup and disposal of hazardous waste and toxic substances. In recent years, legislative and regulatory activity related to the environment, including proposals and rulemaking under the Clean Air Act (CAA) and Clean Water Act (CWA), has increased significantly and management anticipates that such activity will continue.

On April 20, 2011, the Federal Register published the federal Environmental Protection Agency's (EPA's) proposed regulations required by section 316(b) of the CWA designed to protect aquatic organisms from adverse impacts associated with existing power plant cooling water intake structures. The proposed regulations would apply to the cooling water systems for the steam generating units at the utilities Honolulu, Kahe and Waiiau power plants on the island of Oahu. Although the proposed regulations provide some flexibility, management believes they do not adequately focus on site-specific conditions and cost-benefit factors and, if adopted as proposed, would require significant capital and annual O&M expenditures. As proposed, the regulations would require facilities to come into compliance within 8 years of the effective date of the final rule, which the EPA expects to issue in 2012.

Subsequently, on May 3, 2011, the Federal Register published the EPA's proposed National Emission Standards for Hazardous Air Pollutants for fossil-fuel fired steam electrical generating units (EGUs) that would establish Maximum Achievable Control Technology (MACT) standards for the control of hazardous air pollutants (HAP) in emissions from new and existing EGUs. The proposed rules, also known as EGU MACT, would apply to the 14 EGUs at the utilities Honolulu, Kahe and Waiiau power plants. As proposed, the regulations would require significant capital and annual expenditures for the installation and operation of emission control equipment on the utilities' EGUs. The CAA requires that facilities come into compliance with final MACT standards within 3 years of the final rule, although facilities may be granted a 1 year extension to install emission control technology. In view of the isolated nature of HECO's electrical system and the proposed requirement to install control equipment on all HECO steam generating units while maintaining system reliability, the EGU MACT compliance schedule poses a significant challenge to HECO. Under the terms of a settlement agreement, the EPA is required to issue the final rule by November 16, 2011.

Depending upon the final outcome of the CWA 316(b) regulations, possible changes in CWA effluent standards, the EGU MACT regulations, the tightening of the National Ambient Air Quality Standards, and the Regional Haze rule under the CAA, HECO and its subsidiaries may be required to incur material capital expenditures and other compliance costs. Additionally, the combined effects of these regulatory initiatives may result in a decision to retire certain generating units earlier than anticipated.

HECO, HELCO and MECO, like other utilities, periodically experience petroleum or other chemical releases into the environment associated with current operations and report and take action on these releases when and as required by applicable law and regulations. Except as otherwise disclosed herein, HECO and its subsidiaries believe the costs of responding to their releases identified to date will not have a material adverse

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

effect, individually or in the aggregate, on HECO's consolidated results of operations, financial condition or liquidity.

Global climate change and greenhouse gas (GHG) emissions reduction. National and international concern about climate change and the contribution of GHG emissions (including carbon dioxide emissions from the

Table of Contents

combustion of fossil fuels) to global warming have led to action by the State and to federal legislative and regulatory proposals to reduce GHG emissions.

In July 2007, Act 234, which requires a statewide reduction of GHG emissions by January 1, 2020 to levels at or below the statewide GHG emission levels in 1990, became law in Hawaii. The electric utilities are participating in a Task Force established under Act 234, which is charged with developing a work plan and regulatory approach to reduce GHG emissions, as well as in initiatives aimed at reducing their GHG emissions, such as those being implemented under the Energy Agreement. Because the regulations implementing Act 234 have not yet been promulgated, management cannot predict the impact of Act 234 on the electric utilities, but compliance costs could be significant.

Several approaches (e.g., cap and trade) to GHG emission reduction have been either introduced or discussed in the U.S. Congress; however, no federal legislation has yet been enacted.

On September 22, 2009, the EPA issued its Final Mandatory Reporting of Greenhouse Gases Rule, which requires that sources emitting GHGs above certain threshold levels monitor and report GHG emissions. The utilities' reports for 2010 are due on September 30, 2011. In December 2009, the EPA made the finding that motor vehicle GHG emissions endanger public health or welfare. Management believes the EPA will make the same or similar endangerment finding regarding GHG emissions from stationary sources like the utilities' generating units.

In June 2010, the EPA issued its Prevention of Significant Deterioration and Title V Greenhouse Gas Tailoring Rule (GHG Tailoring Rule) that created new thresholds for GHG emissions from new and existing facilities. States may need to increase fees to cover the increased level of activity caused by this rule. Effective January 2, 2011, under the Prevention of Significant Deterioration program, permitting of new or modified stationary sources (such as utility electrical generating units) that have the potential to emit GHGs in greater quantities than the thresholds in the GHG Tailoring Rule will entail GHG emissions evaluation, analysis and, potentially, control requirements. In January 2011, the EPA announced that it plans to defer, for three years, GHG permitting requirements for carbon dioxide (CO₂) emissions from biomass-fired and other biogenic sources. The utilities are evaluating the impact of this deferral on their generation units that are or will be fired on biofuels.

HECO and its subsidiaries have taken, and continue to identify opportunities to take, direct action to reduce GHG emissions from their operations, including, but not limited to, supporting DSM programs that foster energy efficiency, using renewable resources for energy production and purchasing power from IPPs generated by renewable resources, burning renewable biodiesel in HECO's CIP CT-1, using biodiesel for startup and shutdown of selected MECO generation units, and testing biofuel blends in other HECO and MECO generating units. Management is unable to evaluate the ultimate impact on the utilities' operations of eventual comprehensive GHG regulation. However, management believes that the various initiatives it is undertaking will provide a sound basis for managing the electric utilities' carbon footprint and meeting GHG reduction goals that will ultimately emerge.

While the timing, extent and ultimate effects of climate change cannot be determined with any certainty, climate change is predicted to result in sea level rise, which could potentially impact coastal and other low-lying areas (where much of the utilities' electric infrastructure is sited), and could cause erosion of beaches, saltwater intrusion into aquifers and surface ecosystems, higher water tables and increased flooding and storm damage due to heavy rainfall. The effects of climate change on the weather (for example, floods or hurricanes), sea levels, and water availability and quality have the potential to materially adversely affect the results of operations, financial condition and liquidity of the electric utilities. For example, severe weather could cause significant harm to the electric utilities' physical facilities.

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

The utilities are undertaking an adaptation survey of their facilities as a step in developing a longer-term strategy for responding to the consequences of global climate change.

Fuel contracts and power purchase agreements. HECO and Chevron Products Company, a division of Chevron USA, Inc. (Chevron), are parties to an amended contract for the purchase/sale of low sulfur fuel oil (LSFO), which terminates on April 30, 2013.

HECO and Tesoro Hawaii Corporation (Tesoro) are parties to an amended LSFO supply contract (LSFO contract). The term of the amended agreement runs through April 30, 2013 and may automatically renew for annual terms thereafter unless earlier terminated by either party.

Table of Contents

The energy charge for energy purchased from Kalaeloa under HECO's PPA with Kalaeloa is based, in part, on the price Kalaeloa pays Tesoro for fuel oil under a Facility Fuel Supply Contract (fuel contract) between them. Kalaeloa and Tesoro have negotiated a proposed amendment to the pricing formula in their fuel contract. The amendment could result in higher fuel prices for Kalaeloa, which would in turn increase the energy charge paid by HECO to Kalaeloa. HECO consented to the amendment on September 7, 2010.

On May 13, 2011, the PUC approved the latest Chevron and Tesoro amendments and HECO's consent to the Kalaeloa-Tesoro amendment and allowed HECO to include the costs incurred under the amendments in its ECAC, to the extent such costs are not recovered through HECO's base rates.

Asset retirement obligations. Asset retirement obligations (AROs) represent legal obligations associated with the retirement of certain tangible long-lived assets, are measured as the present value of the projected costs for the future retirement of specific assets and are recognized in the period in which the liability is incurred if a reasonable estimate of fair value can be made. HECO and its subsidiaries' recognition of AROs have no impact on its earnings. The cost of the AROs is recovered over the life of the asset through depreciation. AROs recognized by HECO and its subsidiaries relate to obligations to retire plant and equipment, including removal of asbestos and other hazardous materials. In September 2009, HECO recorded an estimated ARO of \$23 million related to removing retired generating units at its Honolulu power plant, including abating asbestos and lead-based paint. The obligation was subsequently increased in June 2010, due to an increase in the estimated costs of the removal project. In August 2010, HECO recorded a similar estimated ARO of \$12 million related to removing retired generating units at HECO's Waiau power plant.

Changes to the ARO liability included in Other liabilities on HECO's balance sheet were as follows:

(in thousands)	2011	2010
Balance, January 1	\$ 48,630	\$ 23,746
Accretion expense	1,134	1,143
Liabilities incurred		
Liabilities settled	(573)	(11)
Revisions in estimated cash flows		11,141
Balance, June 30	\$ 49,191	\$ 36,019

Collective bargaining agreements. As of June 30, 2011, approximately 53% of the electric utilities' employees were members of the International Brotherhood of Electrical Workers, AFL-CIO, Local 1260, which is the only union representing employees of the electric utilities. On March 11, 2011, the union's members ratified a new collective bargaining agreement and a new benefit agreement. The new collective bargaining agreement covers a term from January 1, 2011 to October 31, 2013 and provides for non-compounded wage increases (1.75%, 2.5%, and 3.0% for 2011, 2012 and 2013, respectively). The new benefit agreement covers a term from January 1, 2011 to October 31, 2014 and includes changes to medical, dental and vision plans with increased employee contributions and changes to retirement benefits for employees. See Note 4.

Limited insurance. HECO and its subsidiaries purchase insurance to protect themselves against loss or damage to their properties and against claims made by third-parties and employees. However, the protection provided by such insurance is limited in significant respects and, in some instances, there is no coverage. HECO, HELCO and MECO's transmission and distribution systems (excluding substations) have a replacement

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

value roughly estimated at \$5 billion and are uninsured. Similarly, HECO, HELCO and MECO have no business interruption insurance. If a hurricane or other uninsured catastrophic natural disaster were to occur, and if the PUC were not to allow the utilities to recover from ratepayers restoration costs and revenues lost from business interruption, their results of operations, financial condition and liquidity could be materially adversely impacted. Also, if a series of losses occurred, each of which were subject to an insurance deductible amount, or if the maximum limit of the available insurance were substantially exceeded, the utilities could incur losses in amounts that would have a material adverse effect on their results of operations, financial condition and liquidity.

Table of Contents

6 • Cash flows

Supplemental disclosures of cash flow information. For the six months ended June 30, 2011 and 2010, HECO and its subsidiaries paid interest amounting to \$29 million and \$28 million, respectively.

For the six months ended June 30, 2011 and 2010, HECO and its subsidiaries paid/(received) income taxes amounting to \$(27) million and \$37 million, respectively. Income taxes were received in 2011 primarily due to the refunding of estimated tax payments made prior to the extension of bonus depreciation provisions.

Supplemental disclosure of noncash activities. The allowance for equity funds used during construction, which was charged to construction in progress as part of the cost of electric utility plant, amounted to \$2.6 million and \$3.6 million for the six months ended June 30, 2011 and 2010, respectively.

Noncash capital expenditures were \$10 million and \$7 million for the six months ended June 30, 2011 and 2010, respectively.

7 • Recent accounting pronouncements and interpretations

For a discussion of recent accounting pronouncements and interpretations, see Note 12 of HEI's Notes to Consolidated Financial Statements.

8 • Fair value measurements

Fair value estimates are based on the price that would be received to sell an asset, or paid upon the transfer of a liability, in an orderly transaction between market participants at the measurement date. The fair value estimates are generally determined based on assumptions that market participants would use in pricing the asset or liability and are based on market data obtained from independent sources. However, in certain cases, the electric utilities use their own assumptions about market participant assumptions based on the best information available in the circumstances. These valuations are estimates at a specific point in time, based on relevant market information, information about the financial instrument and judgments regarding future expected loss experience, economic conditions, risk characteristics of various financial instruments and other factors. These estimates do not reflect any premium or discount that could result if the electric utilities were to sell their entire holdings of a particular financial instrument at one time. Because no market exists for a portion of the electric utilities' financial instruments, fair value estimates cannot be determined with precision. Changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the estimates. Fair value estimates are provided for certain financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. In addition, the tax ramifications related to the realization of the unrealized gains and losses could have a significant effect on fair value estimates, but have not been considered in determining such fair values.

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

The electric utilities used the following methods and assumptions to estimate the fair value of each applicable class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents and short-term borrowings. The carrying amount approximated fair value because of the short maturity of these instruments.

Long-term debt. Fair value was obtained from a third-party financial services provider or the BLOOMBERG PROFESSIONAL service based on the current rates offered for debt of the same or similar remaining maturities.

Off-balance sheet financial instruments. Fair value of HECO-obligated preferred securities of trust subsidiaries was based on quoted market prices.

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

Table of Contents

The estimated fair values of the financial instruments held or issued by the electric utilities were as follows:

(in thousands)	June 30, 2011		December 31, 2010	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets				
Cash and cash equivalents, excluding money market accounts	\$ 844	\$ 844	\$ 122,936	\$ 122,936
Money market accounts fair value measurements on a recurring basis using significant other observable inputs (Level 2)	24,690	24,690		
Financial liabilities				
Long-term debt, net, including amounts due within one year	1,058,006	1,004,669	1,057,942	1,020,550
Off-balance sheet item				
HECO-obligated preferred securities of trust subsidiary	50,000	50,040	50,000	52,500

Fair value measurements on a nonrecurring basis. From time to time, the utilities may be required to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets. As of June 30, 2011, there were no adjustments to fair value for assets measured at fair value on a nonrecurring basis in accordance with GAAP.

From time to time, the utilities may be required to measure certain liabilities at fair value on a nonrecurring basis in accordance with GAAP. The fair value of the utilities ARO (Level 3) was determined by discounting the expected future cash flows using market-observable risk-free rates as adjusted by HECO's credit spread. See Note 5.

9 • Credit agreement

HECO maintains a revolving noncollateralized credit agreement establishing a line of credit facility of \$175 million, with a letter of credit sub-facility, with a syndicate of eight financial institutions, expiring on May 7, 2013. The credit facility will be maintained to support the issuance of commercial paper, but also may be drawn to repay HECO's short-term indebtedness, to make loans to subsidiaries and for HECO's capital expenditures, working capital and general corporate purposes.

10 • Reconciliation of electric utility operating income per HEI and HECO consolidated statements of income

(in thousands)	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

Operating income from regulated and nonregulated activities before income taxes (per HEI consolidated statements of income)	\$	42,518	\$	41,435	\$	87,726	\$	84,044
Deduct:								
Income taxes on regulated activities		(11,160)		(11,113)		(22,770)		(22,154)
Revenues from nonregulated activities		(1,086)		(2,001)		(2,120)		(3,400)
Add: Expenses from nonregulated activities		268		2,529		423		2,767
Operating income from regulated activities after income taxes (per HECO consolidated statements of income)	\$	30,540	\$	30,850	\$	63,259	\$	61,257

Table of Contents

11 • Subsequent event

On July 22, 2011, the PUC issued an interim D&O granting HECO a net increase of \$38.2 million in annual revenues, or 2.2%, net of the revenues currently being recovered through the decoupling Revenue Adjustment Mechanism (RAM), effective July 26, 2011. Including the RAM revenues, the total annual interim increase is \$53.2 million, or 3.1%. If the interim rate increase exceeds the amount of the increase ultimately approved in the final D&O, then the excess would be refunded to HECO's customers, with interest.

12 • Consolidating financial information

HECO is not required to provide separate financial statements or other disclosures concerning HELCO and MECO to holders of the 2004 Debentures issued by HELCO and MECO to Trust III since all of their voting capital stock is owned, and their obligations with respect to these securities have been fully and unconditionally guaranteed, on a subordinated basis, by HECO. Consolidating information is provided below for these and other HECO subsidiaries for the periods ended and as of the dates indicated.

HECO also unconditionally guarantees HELCO's and MECO's obligations (a) to the State of Hawaii for the repayment of principal and interest on Special Purpose Revenue Bonds issued for the benefit of HELCO and MECO and (b) relating to the trust preferred securities of Trust III (see Note 2 above). HECO is also obligated, after the satisfaction of its obligations on its own preferred stock, to make dividend, redemption and liquidation payments on HELCO's and MECO's preferred stock if the respective subsidiary is unable to make such payments.

Table of Contents

Hawaiian Electric Company, Inc. and Subsidiaries

Consolidating Statement of Income (Loss) (unaudited)

Three months ended June 30, 2011

(in thousands)	HECO	HELCO	MECO	RHI	UBC	Reclassifications and eliminations	HECO Consolidated
Operating revenues	\$ 510,653	110,595	106,404				\$ 727,652
Operating expenses							
Fuel oil	220,231	32,123	59,787				312,141
Purchased power	131,921	32,242	7,574				171,737
Other operation	48,396	9,524	9,468				67,388
Maintenance	22,077	4,297	4,902				31,276
Depreciation	22,885	8,148	5,225				36,258
Taxes, other than income taxes	47,108	10,163	9,881				67,152
Income taxes	3,640	4,725	2,795				11,160
	496,258	101,222	99,632				697,112
Operating income	14,395	9,373	6,772				30,540
Other income							
Allowance for equity funds used during construction	974	233	110				1,317
Equity in earnings of subsidiaries	10,963					(10,963)	
Other, net	626	214	62		(1)	(3)	898
	12,563	447	172		(1)	(10,966)	2,215
Interest and other charges							
Interest on long-term debt	9,131	2,984	2,268				14,383
Amortization of net bond premium and expense	503	137	126				766
Other interest charges	442	93	104			(3)	636
Allowance for borrowed funds used during construction	(412)	(102)	(39)				(553)
	9,664	3,112	2,459			(3)	15,232
Net income (loss)	17,294	6,708	4,485		(1)	(10,963)	17,523
Preferred stock dividend of subsidiaries		133	96				229
Net income (loss) attributable to HECO	17,294	6,575	4,389		(1)	(10,963)	17,294
Preferred stock dividends of HECO	270						270
Net income (loss) for common stock	\$ 17,024	6,575	4,389		(1)	(10,963)	\$ 17,024

Table of Contents

Hawaiian Electric Company, Inc. and Subsidiaries

Consolidating Statement of Income (Loss) (unaudited)

Three months ended June 30, 2010

(in thousands)	HECO	HELCO	MECO	RHI	UBC	Reclassifications and eliminations	HECO Consolidated
Operating revenues	\$ 407,566	91,443	83,085				\$ 582,094
Operating expenses							
Fuel oil	150,121	23,153	42,048				215,322
Purchased power	104,693	27,763	7,057				139,513
Other operation	44,220	8,232	7,802				60,254
Maintenance	18,566	7,915	5,742				32,223
Depreciation	21,912	9,127	7,610				38,649
Taxes, other than income taxes	37,834	8,509	7,827				54,170
Income taxes	8,847	1,395	871				11,113
	386,193	86,094	78,957				551,244
Operating income	21,373	5,349	4,128				30,850
Other income							
Allowance for equity funds used during construction	1,599	106	142				1,847
Equity in earnings of subsidiaries	3,426					(3,426)	
Other, net	890	140	(629)	(2)	(5)	(22)	372
	5,915	246	(487)	(2)	(5)	(3,448)	2,219
Interest and other charges							
Interest on long-term debt	9,131	2,984	2,268				14,383
Amortization of net bond premium and expense	484	118	124				726
Other interest charges	441	95	95			(22)	609
Allowance for borrowed funds used during construction	(680)	(53)	(57)				(790)
	9,376	3,144	2,430			(22)	14,928
Net income (loss)	17,912	2,451	1,211	(2)	(5)	(3,426)	18,141
Preferred stock dividend of subsidiaries		133	96				229
Net income (loss) attributable to HECO	17,912	2,318	1,115	(2)	(5)	(3,426)	17,912
Preferred stock dividends of HECO	270						270
Net income (loss) for common stock	\$ 17,642	2,318	1,115	(2)	(5)	(3,426)	\$ 17,642

Table of Contents

Hawaiian Electric Company, Inc. and Subsidiaries

Consolidating Statement of Income (Loss) (unaudited)

Six months ended June 30, 2011

(in thousands)	HECO	HELCO	MECO	RHI	UBC	Reclassifications and eliminations	HECO Consolidated
Operating revenues	\$ 960,477	210,230	201,246				\$ 1,371,953
Operating expenses							
Fuel oil	403,497	58,614	110,890				573,001
Purchased power	244,672	62,264	12,759				319,695
Other operation	95,651	17,792	19,476				132,919
Maintenance	43,269	8,148	9,055				60,472
Depreciation	45,768	16,471	10,451				72,690
Taxes, other than income taxes	88,997	19,336	18,814				127,147
Income taxes	8,338	8,494	5,938				22,770
	930,192	191,119	187,383				1,308,694
Operating income	30,285	19,111	13,863				63,259
Other income							
Allowance for equity funds used during construction	1,934	316	311				2,561
Equity in earnings of subsidiaries	22,453					(22,453)	
Other, net	1,358	320	154	(2)	(4)	(18)	1,808
	25,745	636	465	(2)	(4)	(22,471)	4,369
Interest and other charges							
Interest on long-term debt	18,261	5,969	4,536				28,766
Amortization of net bond premium and expense	1,016	280	253				1,549
Other interest charges	820	174	199			(18)	1,175
Allowance for borrowed funds used during construction	(820)	(135)	(118)				(1,073)
	19,277	6,288	4,870			(18)	30,417
Net income (loss)	36,753	13,459	9,458	(2)	(4)	(22,453)	37,211
Preferred stock dividend of subsidiaries		267	191				458
Net income (loss) attributable to HECO	36,753	13,192	9,267	(2)	(4)	(22,453)	36,753
Preferred stock dividends of HECO	540						540
Net income (loss) for common stock	\$ 36,213	13,192	9,267	(2)	(4)	(22,453)	\$ 36,213

Table of Contents

Hawaiian Electric Company, Inc. and Subsidiaries

Consolidating Statement of Income (Loss) (unaudited)

Six months ended June 30, 2010

(in thousands)	HECO	HELCO	MECO	RHI	UBC	Reclassifications and eliminations	HECO Consolidated
Operating revenues	\$ 783,670	180,475	164,661				\$ 1,128,806
Operating expenses							
Fuel oil	296,463	46,632	83,979				427,074
Purchased power	190,554	53,465	12,276				256,295
Other operation	85,846	17,249	16,403				119,498
Maintenance	35,640	11,310	12,326				59,276
Depreciation	43,825	18,253	15,213				77,291
Taxes, other than income taxes	73,557	16,837	15,567				105,961
Income taxes	16,752	4,042	1,360				22,154
	742,637	167,788	157,124				1,067,549
Operating income	41,033	12,687	7,537				61,257
Other income							
Allowance for equity funds used during construction	3,158	201	261				3,620
Equity in earnings of subsidiaries	8,719					(8,719)	
Other, net	2,004	255	(584)	(4)	(10)	(48)	1,613
	13,881	456	(323)	(4)	(10)	(8,767)	5,233
Interest and other charges							
Interest on long-term debt	18,261	5,969	4,536				28,766
Amortization of net bond premium and expense	917	235	241				1,393
Other interest charges	866	196	194			(48)	1,208
Allowance for borrowed funds used during construction	(1,364)	(102)	(103)				(1,569)
	18,680	6,298	4,868			(48)	29,798
Net income (loss)	36,234	6,845	2,346	(4)	(10)	(8,719)	36,692
Preferred stock dividend of subsidiaries		267	191				458
Net income (loss) attributable to HECO	36,234	6,578	2,155	(4)	(10)	(8,719)	36,234
Preferred stock dividends of HECO	540						540
Net income (loss) for common stock	\$ 35,694	6,578	2,155	(4)	(10)	(8,719)	\$ 35,694

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

Table of Contents

Hawaiian Electric Company, Inc. and Subsidiaries

Consolidating Balance Sheet (unaudited)

June 30, 2011

(in thousands)	HECO	HELCO	MECO	RHI	UBC	Reclassifications and Eliminations	HECO Consolidated
Assets							
Utility plant, at cost							
Land	\$ 43,241	5,182	3,016				\$ 51,439
Plant and equipment	3,028,815	1,023,920	889,152				4,941,887
Less accumulated depreciation	(1,158,380)	(406,262)	(403,565)				(1,968,207)
Construction in progress	94,880	14,545	13,521				122,946
Net utility plant	2,008,556	637,385	502,124				3,148,065
Investment in wholly owned subsidiaries, at equity	509,216					(509,216)	
Current assets							
Cash and cash equivalents	23,287	1,844	291	85	27		25,534
Advances to affiliates		36,800	17,000			(53,800)	
Customer accounts receivable, net	119,404	28,788	26,242				174,434
Accrued unbilled revenues, net	88,283	17,787	16,793				122,863
Other accounts receivable, net	11,485	1,126	1,125			(7,311)	6,425
Fuel oil stock, at average cost	109,190	20,919	29,105				159,214
Materials and supplies, at average cost	19,846	4,586	13,775				38,207
Prepayments and other	31,631	4,393	5,108			(38)	41,094
Regulatory assets	7,407	1,309	1,266				9,982
Total current assets	410,533	117,552	110,705	85	27	(61,149)	577,753
Other long-term assets							
Regulatory assets	348,662	59,947	60,175				468,784
Unamortized debt expense	8,648	2,515	1,982				13,145
Other	46,435	9,261	15,679				71,375
Total other long-term assets	403,745	71,723	77,836				553,304
Total assets	\$ 3,332,050	826,660	690,665	85	27	(570,365)	\$ 4,279,122
Capitalization and liabilities							
Capitalization							
Common stock equity	\$ 1,338,406	275,705	233,401	84	26	(509,216)	\$ 1,338,406
Cumulative preferred stock not subject to mandatory redemption	22,293	7,000	5,000				34,293
Long-term debt, net	629,722	204,095	166,689				1,000,506
Total capitalization	1,990,421	486,800	405,090	84	26	(509,216)	2,373,205
Current liabilities							
Current portion of long-term debt	42,580	7,200	7,720				57,500
Short-term borrowings—affiliate	53,800					(53,800)	
Accounts payable	98,986	23,218	17,976				140,180

Edgar Filing: HAWAIIAN ELECTRIC CO INC - Form 10-Q

Interest and preferred dividends payable	13,383	4,319	2,756			(1)	20,457
Taxes accrued	114,485	29,794	29,570			(38)	173,811
Other	37,748	12,770	14,610	1	1	(7,310)	57,820
Total current liabilities	360,982	77,301	72,632	1	1	(61,149)	449,768
Deferred credits and other liabilities							
Deferred income taxes	217,426	51,034	33,043				301,503
Regulatory liabilities	211,981	59,291	38,537				309,809
Unamortized tax credits	34,661	13,153	12,329				60,143
Retirement benefits liability	256,391	37,360	42,123				335,874
Other	68,403	28,368	12,560				109,331
Total deferred credits and other liabilities	788,862	189,206	138,592				1,116,660
Contributions in aid of construction	191,785	73,353	74,351				339,489
Total capitalization and liabilities	\$ 3,332,050	826,660	690,665	85	27	(570,365)	\$ 4,279,122

Table of Contents

Hawaiian Electric Company, Inc. and Subsidiaries

Consolidating Balance Sheet (unaudited)

December 31, 2010

(in thousands)	HECO	HELCO	MECO	RHI	UBC	Reclassifications and Eliminations	HECO Consolidated
Assets							
Utility plant, at cost							
Land	\$ 43,240	5,108	3,016				\$ 51,364
Plant and equipment	2,984,887	1,030,520	881,567				4,896,974
Less accumulated depreciation	(1,134,423)	(408,704)	(397,932)				(1,941,059)
Construction in progress	78,934	9,828	12,800				101,562
Net utility plant	1,972,638	636,752	499,451				3,108,841
Investment in wholly owned subsidiaries, at equity	500,801					(500,801)	
Current assets							
Cash and cash equivalents	121,019	1,229	594	89	5		122,936
Advances to affiliates		30,950	29,500			(60,450)	
Customer accounts receivable, net	93,474	23,484	21,213				138,171
Accrued unbilled revenues, net	71,712	16,018	16,654				104,384
Other accounts receivable, net	11,536	3,319	668			(6,147)	9,376
Fuel oil stock, at average cost	121,280	15,751	15,674				152,705
Materials and supplies, at average cost	18,890	4,498	13,329				36,717
Prepayments and other	36,974	9,825	8,417				55,216
Regulatory assets	5,294	1,064	991				7,349
Total current assets	480,179	106,138	107,040	89	5	(66,597)	626,854
Other long-term assets							
Regulatory assets	352,038	61,051	57,892				470,981
Unamortized debt expense	9,240	2,681	2,109				14,030
Other	41,236	8,257	15,481				64,974