

HAWAIIAN ELECTRIC CO INC  
Form 10-Q  
November 03, 2010  
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**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 September 30, 2010

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.
<b>HAWAIIAN ELECTRIC INDUSTRIES, INC.</b> and Principal Subsidiary	1-8503	99-0208097
<b>HAWAIIAN ELECTRIC COMPANY, INC.</b>	1-4955	99-0040500

State of Hawaii

(State or other jurisdiction of incorporation or organization)

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**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:**

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

<b>Class of Common Stock</b>	<b>Outstanding October 29, 2010</b>
Hawaiian Electric Industries, Inc. (Without Par Value)	94,157,246 Shares
Hawaiian Electric Company, Inc. (\$6-2/3 Par Value)	13,786,959 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"/>

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Hawaiian Electric Industries, Inc. and Subsidiaries

Hawaiian Electric Company, Inc. and Subsidiaries

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**GLOSSARY OF TERMS**

<b>Terms</b>	<b>Definitions</b>
<b>AFUDC</b>	Allowance for funds used during construction
<b>AOCI</b>	Accumulated other comprehensive income
<b>AOS</b>	Adequacy of supply
<b>ASB</b>	American Savings Bank, F.S.B., a wholly-owned subsidiary of American Savings Holdings, Inc. and parent company of American Savings Investment Services Corp. (and its subsidiary, Bishop Insurance Agency of Hawaii, Inc., substantially all of whose assets were sold in 2008).
<b>ASHI</b>	American Savings Holdings, Inc., a wholly owned subsidiary of Hawaiian Electric Industries, Inc. and the parent company of American Savings Bank, F.S.B.
<b>CEIS</b>	Clean energy infrastructure surcharge
<b>CHP</b>	Combined heat and power
<b>CIP CT-1</b>	Campbell Industrial Park combustion turbine No. 1
<b>Company</b>	When used in Hawaiian Electric Industries, Inc. sections, the <b>Company</b> refers to 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 subsidiaries (listed under ASB); Pacific Energy Conservation Services, Inc.; HEI Properties, Inc.; HEI Investments, Inc. (dissolved in 2008); 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.).  When used in Hawaiian Electric Company, Inc. sections, the <b>Company</b> refers to Hawaiian Electric Company, Inc. and its direct subsidiaries.
<b>Consumer Advocate</b>	Division of Consumer Advocacy, Department of Commerce and Consumer Affairs of the State of Hawaii
<b>DBEDT</b>	State of Hawaii Department of Business, Economic Development and Tourism
<b>DBF</b>	State of Hawaii Department of Budget and Finance
<b>D&amp;O</b>	Decision and order
<b>DG</b>	Distributed generation
<b>DOD</b>	Department of Defense federal
<b>Dodd-Frank Act</b>	Dodd-Frank Wall Street Reform and Consumer Protection Act
<b>DOE</b>	Department of Energy federal
<b>DOH</b>	Department of Health of the State of Hawaii
<b>DRIP</b>	HEI Dividend Reinvestment and Stock Purchase Plan
<b>DSM</b>	Demand-side management
<b>ECAC</b>	Energy cost adjustment clauses
<b>EIP</b>	2010 Equity and Incentive Plan
<b>Energy Agreement</b>	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
<b>EPA</b>	Environmental Protection Agency federal

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<b>EPS</b>	Earnings per share
<b>Exchange Act</b>	Securities Exchange Act of 1934
<b>FASB</b>	Financial Accounting Standards Board
<b>FDIC</b>	Federal Deposit Insurance Corporation
<b>federal</b>	U.S. Government
<b>FHLB</b>	Federal Home Loan Bank
<b>FHLMC</b>	Federal Home Loan Mortgage Corporation
<b>FNMA</b>	Federal National Mortgage Association
<b>FSS</b>	Forward Starting Swaps

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

<b>Terms</b>	<b>Definitions</b>
<b>GAAP</b>	U.S. generally accepted accounting principles
<b>GHG</b>	Greenhouse gas
<b>GNMA</b>	Government National Mortgage Association
<b>HCEI</b>	Hawaii Clean Energy Initiative
<b>HECO</b>	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.
<b>HEI</b>	Hawaiian Electric Industries, Inc., direct parent company of Hawaiian Electric Company, Inc., American Savings Holdings, Inc., Pacific Energy Conservation Services, Inc., HEI Properties, Inc., HEI Investments, Inc. (dissolved in 2008), Hawaiian Electric Industries Capital Trust II, Hawaiian Electric Industries Capital Trust III and The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.).
<b>HEIII</b>	HEI Investments, Inc. (dissolved in 2008), a wholly owned subsidiary of Hawaiian Electric Industries, Inc.
<b>HEIRSP</b>	Hawaiian Electric Industries Retirement Savings Plan
<b>HELCO</b>	Hawaii Electric Light Company, Inc., an electric utility subsidiary of Hawaiian Electric Company, Inc.
<b>HPOWER</b>	City and County of Honolulu with respect to a power purchase agreement for a refuse-fired plant
<b>IPP</b>	Independent power producer
<b>IRP</b>	Integrated resource plan
<b>Kalaeloa</b>	Kalaeloa Partners, L.P.
<b>kV</b>	Kilovolt
<b>kW</b>	Kilowatt
<b>KWH</b>	Kilowatthour
<b>MECO</b>	Maui Electric Company, Limited, an electric utility subsidiary of Hawaiian Electric Company, Inc.
<b>MW</b>	Megawatt/s (as applicable)
<b>MWh</b>	Megawatthour
<b>NII</b>	Net interest income
<b>NPV</b>	Net portfolio value
<b>NQSO</b>	Nonqualified stock option
<b>O&amp;M</b>	Operation and maintenance
<b>OPEB</b>	Postretirement benefits other than pensions
<b>OTS</b>	Office of Thrift Supervision, Department of Treasury
<b>OTTI</b>	Other than temporary impairment
<b>PBF</b>	Public benefits fund
<b>PPA</b>	Power purchase agreement
<b>PRPs</b>	Potentially responsible parties
<b>PUC</b>	Public Utilities Commission of the State of Hawaii
<b>RAM</b>	Revenue adjustment mechanism
<b>RBA</b>	Revenue balancing account
<b>REG</b>	Renewable Energy Group Marketing and Logistics, LLC
<b>RFP</b>	Request for proposal
<b>RHI</b>	Renewable Hawaii, Inc., a wholly owned subsidiary of Hawaiian Electric Company, Inc.
<b>ROACE</b>	Return on average common equity
<b>ROR</b>	Return on average rate base
<b>RPS</b>	Renewable portfolio standards
<b>SAR</b>	Stock appreciation right
<b>SEC</b>	Securities and Exchange Commission
<b>See</b>	Means the referenced material is incorporated by reference
<b>SOIP</b>	1987 Stock Option and Incentive Plan, as amended
<b>SPRBs</b>	Special Purpose Revenue Bonds
<b>TOOTS</b>	The Old Oahu Tug Service, a wholly owned subsidiary of Hawaiian Electric Industries, Inc.



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<b>UBC</b>	Uluwehiokama Biofuels Corp., a non-regulated subsidiary of Hawaiian Electric Company, Inc.
<b>VIE</b>	Variable interest entity

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**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 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 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 current capital and credit market conditions and federal and state responses to those conditions;
- weather and natural disasters, such as hurricanes, earthquakes, tsunamis, lightning strikes and the potential effects of global warming (such as more severe storms and rising sea levels);
- global developments, including terrorist acts, the war on terrorism, continuing U.S. presence in Afghanistan, potential conflict or crisis with North Korea or in the Middle East and Iran's nuclear activities;
- 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 (Dodd-Frank Act) and of the rules and regulations that the Dodd-Frank Act requires to be promulgated over the next several months;
- increasing competition in the electric utility and banking industries (e.g., increased self-generation of electricity may have an adverse impact on HECO's revenues and increased price competition for deposits, or an outflow of deposits to alternative investments, may have an adverse impact on ASB's cost of funds);

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- 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 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, 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 (CHP) 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;

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- 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 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 emissions (GHG), healthcare reform, governmental fees and assessments (such as Federal Deposit Insurance Corporation assessments), 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, restrictions and penalties that may arise, for example with respect to environmental conditions or renewable portfolio standards (RPS));
- enforcement actions by the 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);
- increasing operation and maintenance expenses and investment in infrastructure for the electric utilities, resulting in the need for more frequent rate cases;
- the risks associated with the geographic concentration of HEI's businesses and ASB's loans, ASB's concentration in a single product type (first mortgages) and ASB's significant credit relationship (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 (IFRS) or new U.S. accounting standards, the potential discontinuance of regulatory accounting and the effects of potentially required consolidation of variable interest entities 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;

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- the final outcome of tax positions taken by HEI, HECO, ASB and their subsidiaries;
- 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.

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Hawaiian Electric Industries, Inc. and Subsidiaries

**Consolidated Statements of Income (unaudited)**

(in thousands, except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
<b>Revenues</b>				
Electric utility	\$ 623,126	\$ 548,440	\$ 1,755,332	\$ 1,460,654
Bank	71,429	71,947	213,975	229,478
Other	(14)	(74)	(62)	(121)
	<b>694,541</b>	<b>620,313</b>	<b>1,969,245</b>	<b>1,690,011</b>
<b>Expenses</b>				
Electric utility	571,783	494,268	1,619,945	1,343,250
Bank	47,040	54,258	142,040	189,162
Other	3,087	3,148	10,291	9,247
	<b>621,910</b>	<b>551,674</b>	<b>1,772,276</b>	<b>1,541,659</b>
<b>Operating income (loss)</b>				
Electric utility	51,343	54,172	135,387	117,404
Bank	24,389	17,689	71,935	40,316
Other	(3,101)	(3,222)	(10,353)	(9,368)
	<b>72,631</b>	<b>68,639</b>	<b>196,969</b>	<b>148,352</b>
Interest expense other than on deposit liabilities and other bank borrowings	(21,015)	(19,678)	(61,916)	(55,421)
Allowance for borrowed funds used during construction	492	1,118	2,061	4,467
Allowance for equity funds used during construction	1,197	2,628	4,817	10,353
<b>Income before income taxes</b>	<b>53,305</b>	<b>52,707</b>	<b>141,931</b>	<b>107,751</b>
Income taxes	20,385	18,753	51,677	36,977
<b>Net income</b>	<b>32,920</b>	<b>33,954</b>	<b>90,254</b>	<b>70,774</b>
Preferred stock dividends of subsidiaries	471	471	1,417	1,417
<b>Net income for common stock</b>	<b>\$ 32,449</b>	<b>\$ 33,483</b>	<b>\$ 88,837</b>	<b>\$ 69,357</b>
Basic earnings per common share	\$ 0.35	\$ 0.37	\$ 0.95	\$ 0.76
Diluted earnings per common share	\$ 0.35	\$ 0.37	\$ 0.95	\$ 0.76
Dividends per common share	\$ 0.31	\$ 0.31	\$ 0.93	\$ 0.93
Weighted-average number of common shares outstanding	93,699	91,522	93,148	91,173
Dilutive effect of share-based compensation	192	131	257	105
Adjusted weighted-average shares	93,891	91,653	93,405	91,278

See accompanying Notes to Consolidated Financial Statements for HEI.



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Hawaiian Electric Industries, Inc. and Subsidiaries

**Consolidated Balance Sheets (unaudited)**

(dollars in thousands)	September 30, 2010	December 31, 2009
<b>Assets</b>		
Cash and cash equivalents	\$ 387,488	\$ 503,922
Accounts receivable and unbilled revenues, net	259,132	241,116
Available-for-sale investment and mortgage-related securities	570,262	432,881
Investment in stock of Federal Home Loan Bank of Seattle	97,764	97,764
Loans receivable, net	3,466,550	3,670,493
Property, plant and equipment, net of accumulated depreciation of \$2,011,138 and \$1,945,482	3,131,198	3,088,611
Regulatory assets	422,177	426,862
Other	478,406	381,163
Goodwill, net	82,190	82,190
Total assets	\$ 8,895,167	\$ 8,925,002
<b>Liabilities and stockholders' equity</b>		
<b>Liabilities</b>		
Accounts payable	\$ 142,971	\$ 159,044
Interest and dividends payable	31,318	27,950
Deposit liabilities	3,958,636	4,058,760
Short-term borrowings - other than bank	27,296	41,989
Other bank borrowings	246,571	297,628
Long-term debt, net - other than bank	1,364,911	1,364,815
Deferred income taxes	253,284	188,875
Regulatory liabilities	289,568	288,214
Contributions in aid of construction	331,405	321,544
Other	735,261	700,242
Total liabilities	7,381,221	7,449,061
Preferred stock of subsidiaries - not subject to mandatory redemption	34,293	34,293
<b>Stockholders' equity</b>		
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: 94,121,108 shares and 92,520,638 shares	1,301,710	1,265,157
Retained earnings	186,425	184,213
Accumulated other comprehensive loss, net of tax benefits	(8,482)	(7,722)
Total stockholders' equity	1,479,653	1,441,648
Total liabilities and stockholders' equity	\$ 8,895,167	\$ 8,925,002

See accompanying Notes to Consolidated Financial Statements for HEL.



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Hawaiian Electric Industries, Inc. and Subsidiaries

**Consolidated Statements of Changes in Stockholders Equity (unaudited)**

(in thousands, except per share amounts)	Common stock		Retained earnings	Accumulated other comprehensive loss	Total
	Shares	Amount			
<b>Balance, December 31, 2009</b>	<b>92,521</b>	<b>\$ 1,265,157</b>	<b>\$ 184,213</b>	<b>\$ (7,722)</b>	<b>\$ 1,441,648</b>
Comprehensive income (loss):					
Net income for common stock			88,837		88,837
Net unrealized gains on securities:					
Net unrealized gains on securities arising during the period, net of taxes of \$1,599				2,421	2,421
Unrealized losses on derivatives qualified as cash flow hedges:					
Net unrealized holding losses arising during the period, net of tax benefits of \$2,278				(3,575)	(3,575)
Retirement benefit plans:					
Amortization of net loss, prior service gain and transition obligation included in net periodic benefit cost, net of taxes of \$1,932				3,034	3,034
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of tax benefits of \$1,681				(2,640)	(2,640)
Comprehensive income			88,837	(760)	88,077
Issuance of common stock, net	1,600	36,553			36,553
Common stock dividends (\$0.93 per share)			(86,625)		(86,625)
<b>Balance, September 30, 2010</b>	<b>94,121</b>	<b>\$ 1,301,710</b>	<b>\$ 186,425</b>	<b>\$ (8,482)</b>	<b>\$ 1,479,653</b>
<b>Balance, December 31, 2008</b>	<b>90,516</b>	<b>\$ 1,231,629</b>	<b>\$ 210,840</b>	<b>\$ (53,015)</b>	<b>\$ 1,389,454</b>
Cumulative effect of adoption of a standard on other-than-temporary impairment recognition, net of taxes of \$2,497			3,781	(3,781)	
Comprehensive income (loss):					
Net income for common stock			69,357		69,357
Net unrealized gains (losses) on securities:					
Net unrealized gains on securities arising during the period, net of taxes of \$16,248				24,607	24,607
Net unrealized losses related to factors other than credit during the period, net of tax benefits of \$6,650				(10,072)	(10,072)
Less: reclassification adjustment for net realized losses included in net income, net of tax benefits of \$6,125				9,276	9,276
Retirement benefit plans:					
Amortization of net loss, prior service gain and transition obligation included in net periodic benefit cost, net of taxes of \$5,562				8,717	8,717
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of tax benefits of \$4,990				(7,835)	(7,835)
Comprehensive income			69,357	24,693	94,050
Issuance of common stock, net	1,499	23,264			23,264
Common stock dividends (\$0.93 per share)			(84,860)		(84,860)

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<b>Balance, September 30, 2009</b>	<b>92,015</b>	<b>\$</b>	<b>1,254,893</b>	<b>\$</b>	<b>199,118</b>	<b>\$</b>	<b>(32,103)</b>	<b>\$</b>	<b>1,421,908</b>
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See accompanying Notes to Consolidated Financial Statements for HEI.

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Hawaiian Electric Industries, Inc. and Subsidiaries

**Consolidated Statements of Cash Flows (unaudited)**

Nine months ended September 30 (in thousands)	2010	2009
<b>Cash flows from operating activities</b>		
Net income	\$ 90,254	\$ 70,774
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	117,109	113,916
Other amortization	2,995	4,037
Provision for loan losses	12,310	27,000
Loans receivable originated and purchased, held for sale	(286,950)	(368,880)
Proceeds from sale of loans receivable, held for sale	306,587	400,213
Net gain on sale of investment and mortgage-related securities		(44)
Other-than-temporary impairment of available-for-sale mortgage-related securities		15,444
Changes in deferred income taxes	75,821	2,958
Changes in excess tax benefits from share-based payment arrangements	56	324
Allowance for equity funds used during construction	(4,817)	(10,353)
Increase in cash overdraft	884	
Changes in assets and liabilities		
Decrease (increase) in accounts receivable and unbilled revenues, net	(18,016)	48,480
Decrease (increase) in fuel oil stock	(42,569)	9,826
Decrease in accounts, interest and dividends payable	(12,705)	(641)
Changes in prepaid and accrued income taxes and utility revenue taxes	(45,787)	(50,514)
Changes in other assets and liabilities	(5,585)	(35,561)
<b>Net cash provided by operating activities</b>	<b>189,587</b>	<b>226,979</b>
<b>Cash flows from investing activities</b>		
Available-for-sale investment and mortgage-related securities purchased	(485,495)	(247,425)
Principal repayments on available-for-sale investment and mortgage-related securities	350,673	304,728
Proceeds from sale of available-for-sale investment and mortgage-related securities		44
Net decrease in loans held for investment	171,242	396,706
Proceeds from sale of real estate acquired in settlement of loans	3,405	
Capital expenditures	(137,628)	(239,441)
Contributions in aid of construction	16,775	7,472
Other	1,615	426
<b>Net cash provided by (used in) investing activities</b>	<b>(79,413)</b>	<b>222,510</b>
<b>Cash flows from financing activities</b>		
Net decrease in deposit liabilities	(100,124)	(132,234)
Net decrease in short-term borrowings with original maturities of three months or less	(14,693)	
Net decrease in retail repurchase agreements	(51,057)	(18,573)
Proceeds from other bank borrowings		310,000
Repayments of other bank borrowings		(604,517)
Proceeds from issuance of long-term debt		153,186
Changes in excess tax benefits from share-based payment arrangements	(56)	(324)
Net proceeds from issuance of common stock	16,672	11,004
Common stock dividends	(69,585)	(73,931)
Preferred stock dividends of subsidiaries	(1,417)	(1,417)
Decrease in cash overdraft		(9,847)
Other	(6,348)	(7,232)
<b>Net cash used in financing activities</b>	<b>(226,608)</b>	<b>(373,885)</b>
Net increase (decrease) in cash and cash equivalents	(116,434)	75,604
Cash and cash equivalents, beginning of period	503,922	183,435

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<b>Cash and cash equivalents, end of period</b>	<b>\$</b>	<b>387,488</b>	<b>\$</b>	<b>259,039</b>
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See accompanying Notes to Consolidated Financial Statements for HEI.

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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 incorporated by reference in HEI's Form 10-K for the year ended December 31, 2009 and the unaudited consolidated financial statements and the notes thereto in HEI's Quarterly Reports on SEC Form 10-Q for the quarters ended March 31, 2010 and June 30, 2010.

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 September 30, 2010 and December 31, 2009, the results of its operations for the three and nine months ended September 30, 2010 and 2009 and cash flows for the nine months ended September 30, 2010 and 2009. 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 periods consolidated financial statements to conform to the current presentation.

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**2 • Segment financial information**

(in thousands)	Electric Utility	Bank	Other	Total
<b>Three months ended September 30, 2010</b>				
Revenues from external customers	\$ 623,090	71,429	22	\$ 694,541
Intersegment revenues (eliminations)	36		(36)	
Revenues	623,126	71,429	(14)	694,541
Income (loss) before income taxes	37,197	24,359	(8,251)	53,305
Income taxes (benefit)	14,719	9,066	(3,400)	20,385
Net income (loss)	22,478	15,293	(4,851)	32,920
Preferred stock dividends of subsidiaries	498		(27)	471
Net income (loss) for common stock	21,980	15,293	(4,824)	32,449
<b>Nine months ended September 30, 2010</b>				
Revenues from external customers	\$ 1,755,213	213,975	57	\$ 1,969,245
Intersegment revenues (eliminations)	119		(119)	
Revenues	1,755,332	213,975	(62)	1,969,245
Income (loss) before income taxes	95,063	71,842	(24,974)	141,931
Income taxes (benefit)	35,893	26,682	(10,898)	51,677
Net income (loss)	59,170	45,160	(14,076)	90,254
Preferred stock dividends of subsidiaries	1,496		(79)	1,417
Net income (loss) for common stock	57,674	45,160	(13,997)	88,837
Assets (at September 30, 2010)	4,089,328	4,804,155	1,684	8,895,167
<b>Three months ended September 30, 2009</b>				
Revenues from external customers	\$ 548,373	\$ 71,947	\$ (7)	\$ 620,313
Intersegment revenues (eliminations)	67		(67)	
Revenues	548,440	71,947	(74)	620,313
Income (loss) before income taxes	42,877	17,665	(7,835)	52,707
Income taxes (benefit)	15,865	6,342	(3,454)	18,753
Net income (loss)	27,012	11,323	(4,381)	33,954
Preferred stock dividends of subsidiaries	498		(27)	471
Net income (loss) for common stock	26,514	11,323	(4,354)	33,483
<b>Nine months ended September 30, 2009</b>				
Revenues from external customers	1,460,515	229,478	18	1,690,011
Intersegment revenues (eliminations)	139		(139)	
Revenues	1,460,654	229,478	(121)	1,690,011
Income (loss) before income taxes	90,626	40,239	(23,114)	107,751
Income taxes (benefit)	32,989	14,013	(10,025)	36,977
Net income (loss)	57,637	26,226	(13,089)	70,774
Preferred stock dividends of subsidiaries	1,496		(79)	1,417
Net income (loss) for common stock	56,141	26,226	(13,010)	69,357
Assets (at December 31, 2009)	3,978,392	4,940,985	5,625	8,925,002

Intercompany electric sales of consolidated HECO 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.

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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.

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

For HECO's consolidated financial information, including its commitments and contingencies, see pages 21 through 43.

**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 September 30		Nine months ended September 30	
	2010	2009	2010	2009
<b>Interest and dividend income</b>				
Interest and fees on loans	\$ 49,221	\$ 53,080	\$ 148,294	\$ 166,535
Interest and dividends on investment and mortgage-related securities	3,852	6,943	10,815	21,762
	53,073	60,023	159,109	188,297
<b>Interest expense</b>				
Interest on deposit liabilities	3,390	7,286	11,665	28,753
Interest on other borrowings	1,414	2,205	4,258	7,710
	4,804	9,491	15,923	36,463
<b>Net interest income</b>	<b>48,269</b>	<b>50,532</b>	<b>143,186</b>	<b>151,834</b>
Provision for loan losses	5,961	5,200	12,310	27,000
<b>Net interest income after provision for loan losses</b>	<b>42,308</b>	<b>45,332</b>	<b>130,876</b>	<b>124,834</b>
<b>Noninterest income</b>				
Fee income on deposit liabilities	6,109	8,211	21,520	22,384
Fees from other financial services	6,781	6,385	19,844	18,747
Fee income on other financial products	1,697	1,613	4,957	4,285
Net losses on available-for-sale securities		(9,863)		(15,400)
Other income	3,769	5,578	8,545	11,165
	18,356	11,924	54,866	41,181
<b>Noninterest expense</b>				
Compensation and employee benefits	18,168	17,721	54,477	55,072
Occupancy	4,176	4,905	12,617	15,956
Data processing	2,019	3,684	10,921	10,352
Services	1,544	2,437	5,117	9,656
Equipment	1,600	1,782	4,949	7,112
Loss on early extinguishment of debt				101
Other expense	8,798	9,062	25,819	27,527
	36,305	39,591	113,900	125,776
<b>Income before income taxes</b>	<b>24,359</b>	<b>17,665</b>	<b>71,842</b>	<b>40,239</b>
Income taxes	9,066	6,342	26,682	14,013
<b>Net income</b>	<b>\$ 15,293</b>	<b>\$ 11,323</b>	<b>45,160</b>	<b>\$ 26,226</b>





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

**Consolidated Balance Sheets Data (unaudited)**

(in thousands)	September 30, 2010	December 31, 2009
<b>Assets</b>		
Cash and cash equivalents	\$ 350,404	\$ 425,896
Federal funds sold	1,000	1,479
Available-for-sale investment and mortgage-related securities	570,262	432,881
Investment in stock of Federal Home Loan Bank of Seattle	97,764	97,764
Loans receivable, net	3,466,550	3,670,493
Other	235,985	230,282
Goodwill, net	82,190	82,190
	\$ 4,804,155	\$ 4,940,985
<b>Liabilities and stockholder's equity</b>		
Deposit liabilities - noninterest-bearing	\$ 830,593	\$ 808,474
Deposit liabilities - interest-bearing	3,128,043	3,250,286
Other borrowings	246,571	297,628
Other	96,306	92,129
	4,301,513	4,448,517
Common stock	330,493	329,439
Retained earnings	174,815	172,655
Accumulated other comprehensive loss, net of tax benefits	(2,666)	(9,626)
	502,642	492,468
	\$ 4,804,155	\$ 4,940,985

**Other assets**

(in thousands)	September 30, 2010	December 31, 2009
Bank-owned life insurance	\$ 116,422	\$ 113,433
Premises and equipment, net	56,534	54,428
Prepaid expenses	21,127	24,353
Accrued interest receivable	14,825	15,247
Mortgage-servicing rights	6,031	4,200
Real estate acquired in settlement of loans, net	4,474	3,959
Other	16,572	14,662
	\$ 235,985	\$ 230,282

**Other liabilities**

(in thousands)	September 30, 2010	December 31, 2009
Accrued expenses	\$ 18,634	\$ 17,270
Federal and state income taxes payable	30,207	19,141
Cashier's checks	24,656	26,877

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Advance payments by borrowers		6,052		10,989
Other		16,757		17,852
	\$	96,306	\$	92,129

Other borrowings consisted of securities sold under agreements to repurchase and advances from the Federal Home Loan Bank (FHLB) of Seattle of \$182 million and \$65 million, respectively, as of September 30, 2010 and \$233 million and \$65 million, respectively, as of December 31, 2009.

Bank-owned life insurance is life insurance purchased by ASB on the lives of certain 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.

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As of September 30, 2010, ASB had total commitments to borrowers for undisbursed loan funds, loan commitments and unused lines and letters of credit of \$1.2 billion.

**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)	Book value	September 30, 2010			Estimated fair value	Book value	December 31, 2009		
		Gross unrealized gains	Gross unrealized losses	Estimated fair value			Gross unrealized gains	Gross unrealized losses	Estimated fair value
Investment securities									
federal agency obligations	\$ 265,941	\$ 583	\$ (49)	\$ 266,475	\$ 104,091	\$ 109	\$ (156)	\$ 104,044	
Mortgage-related securities									
FNMA, FHLMC and GNMA	265,449	10,935	(54)	276,330	319,642	7,967	(88)	327,521	
Municipal bonds	27,003	510	(56)	27,457	1,300	16		1,316	
	\$ 558,393	\$ 12,028	\$ (159)	\$ 570,262	\$ 425,033	\$ 8,092	\$ (244)	\$ 432,881	

The following tables detail the contractual maturities and yields of available-for-sale securities. All positions with variable maturities (e.g., callable debentures and mortgage backed securities) are disclosed based upon the bond's contractual maturity. Actual average maturities may be substantially shorter than those detailed below.

(dollars in thousands)	Book value	Weighted average yield (%)	Maturity <1 year		Maturity 1-5 years		Maturity 5-10 years		Maturity >10 years	
			Book value	Yield (%)	Book value	Yield (%)	Book value	Yield (%)	Book value	Yield (%)
<b>September 30, 2010</b>										
Investment securities										
federal agency obligations	\$ 265,941	1.32	\$ 10,000	0.26	\$ 215,408	1.18	\$ 40,533	2.32	\$	
Mortgage-related securities										
FNMA, FHLMC and GNMA	265,449	3.81			3,565	2.29	110,794	3.79	151,090	3.86
Municipal bonds	27,003	3.99	500	1.92	800	2.50	25,703	4.08		
	\$ 558,393	2.63	\$ 10,500	0.34	\$ 219,773	1.20	\$ 177,030	3.49	\$ 151,090	3.86
<b>December 31, 2009</b>										
Investment securities										
federal agency obligations	\$ 104,091	1.08	\$		\$ 94,091	1.01	\$ 10,000	1.80	\$	
Mortgage-related securities										
FNMA, FHLMC and GNMA	319,642	3.85			5,787	2.32	138,617	3.80	175,238	3.94
Municipal bonds	1,300	2.27	500	1.92	800	2.50				
	\$ 425,033	3.17	\$ 500	1.92	\$ 100,678	1.10	\$ 148,617	3.67	\$ 175,238	3.94

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The net losses on available for sale securities for the third quarter of 2009 of \$9.9 million consisted of \$13.7 million of total other-than-temporary impairment losses, net of \$3.8 million of non-credit losses recognized in other comprehensive income.

The net losses on available for sale securities for the nine months ended September 30, 2009 of \$15.4 million included impairment losses of \$15.4 million, which consisted of \$32.1 million of total other-than-temporary impairment losses, net of \$16.7 million of non-credit losses recognized in other comprehensive income.

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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
<u>September 30, 2010</u>						
Investment securities federal agency obligations	\$ (49)	\$ 39,966	\$	\$	\$ (49)	\$ 39,966
Mortgage-related securities FNMA, FHLMC and GNMA	(54)	5,357			(54)	5,357
Municipal bonds	(56)	3,600			(56)	3,600
	\$ (159)	\$ 48,923	\$	\$	\$ (159)	\$ 48,923
<u>December 31, 2009</u>						
Investment securities federal agency obligations	\$ (156)	\$ 54,834	\$	\$	\$ (156)	\$ 54,834
Mortgage-related securities FNMA, FHLMC and GNMA	(88)	15,352			(88)	15,352
Municipal bonds						
	\$ (244)	\$ 70,186	\$	\$	\$ (244)	\$ 70,186

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 September 30, 2010.

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

**Federal Deposit Insurance Corporation restoration plan.** Under the Federal Deposit Insurance Reform Act of 2005 (the Reform Act), the Federal Deposit Insurance Corporation (FDIC) may set the designated reserve ratio within a range of 1.15% to 1.50%. The Reform Act requires that the FDIC's Board of Directors adopt a restoration plan when the Deposit Insurance Fund (DIF) reserve ratio falls below 1.15% or is expected to within six months. Financial institution failures have significantly increased the DIF's loss provisions, resulting in declines in the reserve ratio.

In May 2009, the board of directors of the FDIC voted to levy a special assessment on deposit institutions to build the DIF and restore public confidence in the banking system. ASB's special assessment was \$2.3 million and ASB recorded the charge in June 2009.

In November 2009, the Board of Directors of the FDIC approved a restoration plan that required banks to prepay, by December 30, 2009, their estimated quarterly, risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012. For the fourth quarter of 2009 and all of 2010, the prepaid assessment rate was assessed according to a risk-based premium schedule adopted earlier in 2009. The prepaid assessment rate for 2011 and 2012 was the current assessment rate plus 3 basis points. The prepaid assessment was recorded as a prepaid asset as of December 30, 2009, and each quarter thereafter ASB will record a charge to earnings for its regular quarterly assessment and offset the

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prepaid expense until the asset is exhausted. Once the asset is exhausted, ASB will record an accrued expense payable each quarter for the assessment to be paid. If the prepaid assessment is not exhausted by December 30, 2014, any remaining amount will be returned to ASB. ASB's prepaid assessment was approximately \$24 million. For each of the quarters ended September 30, 2010 and 2009, ASB's assessment rate was 14 basis points of deposits, or \$1.4 million and \$1.5 million, respectively.

The FDIC may impose additional special assessments in the future if it is deemed necessary to ensure the DIF ratio does not decline to a level that is close to zero or that could otherwise undermine public confidence in federal deposit insurance. Management cannot predict with certainty the timing or amounts of any additional assessments.

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**Deposit insurance coverage.** In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act permanently raised the current standard maximum deposit insurance amount to \$250,000. Previously, the standard maximum deposit insurance amount of \$100,000 had been temporarily raised to \$250,000 through December 31, 2013. The Dodd Frank Act also redefines the assessment base as average total consolidated assets less average tangible equity (previously the assessment base was based on deposits).

**5 • Retirement benefits**

**Defined benefit plans.** For the first nine months of 2010, the utilities contributed \$23.8 million and HEI contributed \$0.6 million to their respective retirement benefit plans, compared to \$19.9 million and \$1.0 million, respectively, in the first nine months of 2009. The Company's current estimate of contributions to its retirement benefit plans in 2010 is \$32 million (\$31 million to be made by the utilities and \$1 million by HEI), compared to contributions of \$25 million in 2009 (\$24 million made by the utilities and \$1 million by HEI). In addition, the Company expects to pay directly \$2 million of benefits in 2010, compared to the \$1 million paid in 2009.

The components of net periodic benefit cost were as follows:

(in thousands)	Three months ended September 30				Nine months ended September 30			
	Pension benefits		Other benefits		Pension benefits		Other benefits	
	2010	2009	2010	2009	2010	2009	2010	2009
Service cost	\$ 7,376	\$ 6,479	\$ 1,248	\$ 1,427	\$ 21,424	\$ 19,208	\$ 3,539	\$ 3,654
Interest cost	16,197	15,468	2,565	2,678	48,330	46,520	7,901	8,363
Expected return on plan assets	(17,272)	(14,336)	(2,792)	(2,240)	(51,687)	(42,907)	(8,310)	(6,677)
Amortization of unrecognized transition obligation	1	1		262	2	2		1,831
Amortization of prior service cost (credit)	(97)	(100)	(83)	(34)	(291)	(288)	(187)	(27)
Recognized actuarial loss (gain)	1,942	3,957	(5)	86	5,449	11,890	(8)	309
Net periodic benefit cost	8,147	11,469	933	2,179	23,227	34,425	2,935	7,453
Impact of PUC D&Os	2,574	(1,776)	1,512	(270)	7,602	(9,974)	4,133	(1,002)
Net periodic benefit cost (adjusted for impact of PUC D&Os)	\$ 10,721	\$ 9,693	\$ 2,445	\$ 1,909	\$ 30,829	\$ 24,451	\$ 7,068	\$ 6,451

The Company recorded retirement benefits expense of \$29 million and \$24 million in the first nine months of 2010 and 2009, respectively, and charged the remaining amounts primarily to electric utility plant.

In the third quarter of 2010, MECO eliminated the electric discount benefit which will generate nominal credits through other benefit costs over the next few years as the total negative amendment credit is amortized.



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Also, see Note 4, Retirement benefits, of HECO's Notes to Consolidated Financial Statements.

**Defined contribution plan.** For the first nine months of 2010 and 2009, ASB's total expense for its employees participating in the Hawaiian Electric Industries Retirement Savings Plan and the ASB 401(k) Plan combined was \$2.9 million and \$2.1 million, respectively. For the first nine months of 2010 and 2009, ASB's cash contributions were \$3.2 million and \$3.4 million, respectively.

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**6 • Share-based compensation**

The 2010 Equity and Incentive Plan (EIP) was approved by shareholders in May 2010 and allows HEI to issue an aggregate of 4 million shares of common stock as additional incentive compensation to selected employees in the form of stock options, stock appreciation rights, restricted shares, deferred shares, performance shares and other share-based and cash-based awards. Through September 30, 2010, grants under the EIP consisted of 77,500 deferred shares.

Under the 1987 Stock Option and Incentive Plan, as amended (SOIP), grants and awards of an estimated 1.1 million shares of common stock (based on various assumptions, including LTIP awards at maximum levels and the use of the September 30, 2010 market price of shares as the price on the exercise/payment dates) were outstanding as of September 30, 2010 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 registered shares under the SOIP will be deregistered and delisted.

For the NQSOs and SARs, the exercise price of each NQSO or SAR generally equaled the fair market value of HEI's stock on or near the date of grant. NQSOs, SARs and related dividend equivalents issued in the form of stock awarded generally became exercisable in installments of 25% each year for four years, and expire if not exercised ten years from the date of the grant. NQSOs and SARs compensation expense has been recognized in accordance with the fair value-based measurement method of accounting. The estimated fair value of each NQSO and SAR grant was calculated on the date of grant using a Binomial Option Pricing Model.

Restricted stock awards under the SOIP generally become unrestricted four years after the date of grant and are forfeited for terminations of employment during the vesting period, except that pro-rata vesting is provided for terminations by reason of death, disability or termination without cause. Restricted stock awards compensation expense has been recognized in accordance with the fair-value-based measurement method of accounting. Dividends on restricted stock awards are paid quarterly in cash.

Deferred shares and restricted stock units generally vest and will be issued as unrestricted stock four years after the date of the grant and are forfeited for terminations of employment during the vesting period, except that pro-rata vesting is provided for terminations due to death, disability and retirement. Deferred shares and restricted stock units expense has been recognized in accordance with the fair-value-based measurement method of accounting. Dividend equivalent rights are accrued quarterly and are paid in cash at the end of the restriction period when the deferred shares and restricted stock units vest.

Stock performance awards granted under the 2009-2011 and 2010-2012 Long-Term Incentive Plans (LTIP) entitle the grantee to shares of common stock with dividend equivalent rights once service conditions and performance conditions are satisfied at the end of the three-year performance period. LTIP awards are forfeited for terminations of employment during the performance period, except that pro-rata participation is provided for terminations due to death, disability and retirement based upon completed months of service after a minimum of 12 months of service in the performance period. Compensation expense for the stock performance awards portion of the LTIP has been recognized in accordance with the fair-value-based measurement method of accounting for performance shares.

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

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(\$ in millions)	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Share-based compensation expense (1)	0.6	0.3	2.0	0.7
Income tax benefit	0.2	0.1	0.6	0.2

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

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**Nonqualified stock options.** Information about HEI's NQSOs is summarized as follows:

September 30, 2010		Outstanding & Exercisable (Vested)		
Year of grant	Range of exercise prices	Number of options	Weighted-average remaining contractual life	Weighted-average Exercise price
2001	\$ 17.96	64,000	0.6	\$ 17.96
2002	21.68	82,000	1.4	21.68
2003	20.49	117,500	2.2	20.49
	\$ 17.96 - 21.68	263,500	1.6	\$ 20.44

As of December 31, 2009, NQSOs outstanding totaled 374,500 (representing the same number of underlying shares), with a weighted-average exercise price of \$19.73. As of September 30, 2010, all NQSOs outstanding were exercisable and had an aggregate intrinsic value (including dividend equivalents) of \$1.4 million.

NQSO activity and statistics are summarized as follows:

(\$ in thousands, except prices)	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Shares expired			2,000	1,000
Weighted-average price of shares expired			\$ 20.49	\$ 17.61
Shares exercised	46,000		109,000	
Weighted-average exercise price	\$ 21.52		\$ 18.48	
Cash received from exercise	\$ 990		\$ 2,014	
Intrinsic value of shares exercised (1)	\$ 287		\$ 912	
Tax benefit realized for the deduction of exercises	\$ 81		\$ 324	

(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 is summarized as follows:

September 30, 2010		Outstanding & Exercisable (Vested)		
Year of grant	Range of exercise prices	Number of shares underlying SARs	Weighted-average remaining contractual life	Weighted-average exercise price
2004	\$ 26.02	150,000	2.3	\$ 26.02

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2005		26.18	312,000	2.9		26.18	
	\$	26.02	26.18	462,000	2.7	\$	26.13

As of December 31, 2009, the shares underlying SARs outstanding totaled 480,000, with a weighted-average exercise price of \$26.13. As of September 30, 2010, all SARs outstanding were exercisable and had no intrinsic value.

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SARs activity and statistics are summarized as follows:

(\$ in thousands, except prices)	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Shares forfeited				6,000
Weighted-average price of shares forfeited				\$ 26.18
Shares expired			18,000	305,000
Weighted-average price of shares expired			\$ 26.18	\$ 26.10
Shares vested				228,000
Aggregate fair value of vested shares				\$ 1,354
Shares exercised				
Dividend equivalent shares distributed under Section 409A				3,143
Weighted-average Section 409A distribution price				\$ 13.64
Intrinsic value of shares distributed under Section 409A(1)				\$ 43
Tax benefit realized for Section 409A distributions				\$ 17

(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 right.

**Section 409A.** As a result of the changes enacted in Section 409A of the Internal Revenue Code of 1986, as amended (Section 409A), for the nine months ended September 30, 2009 a total of 3,143 dividend equivalent shares for SAR grants were distributed to SOIP participants. Section 409A, which amended the federal income tax rules governing deferred compensation, required the Company to change the way certain affected dividend equivalents are paid in order to avoid significant adverse tax consequences to the SOIP participants. Generally, dividend equivalents subject to Section 409A will be paid within 2½ months after the end of the calendar year. Upon retirement, an SOIP participant may elect to take distributions of dividend equivalents subject to Section 409A at the time of retirement or at the end of the calendar year. The dividend equivalents associated with the 2005 SAR grants had no intrinsic value at December 31, 2009; thus, no distribution will be made in 2010. No further dividend equivalents are intended to be paid in accordance with this Section 409A modified distribution.

**Restricted stock awards.** Information about HEI's grants of restricted stock awards is summarized as follows:

	Three months ended September 30				Nine months ended September 30			
	2010		2009		2010		2009	
	Shares	(1)	Shares	(1)	Shares	(1)	Shares	(1)
Outstanding, beginning of period	78,700	\$ 25.04	134,000	\$ 25.50	129,000	\$ 25.50	160,500	\$ 25.51
Granted								
Vested and issued					(43,565)	26.29	(3,851)	24.52
Forfeited	(7,000)	23.00	(4,000)	25.36	(13,735)	24.35	(26,649)	25.68
Outstanding, end of period	71,700	\$ 25.24	130,000	\$ 25.50	71,700	\$ 25.24	130,000	\$ 25.50

(1) Represents the 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 nine months ended September 30, 2010 and 2009, total restricted stock vested had a fair value of \$1.1 million and \$94,000, respectively. The tax benefits realized for the tax deductions related to restricted stock awards were \$0.1 million for each of the first nine months of 2010 and 2009.

As of September 30, 2010, there was \$0.4 million of total unrecognized compensation cost related to nonvested restricted stock awards. The cost is expected to be recognized over a weighted-average period of 1.3 years.

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**Deferred shares and restricted stock units.** Information about HEI's grants of deferred shares and restricted stock units are summarized as follows:

	Three months ended September 30				Nine months ended September 30			
	2010		2009		2010		2009	
	Shares	(1)	Shares	(1)	Shares	(1)	Shares	(1)
Outstanding, beginning of period	146,500	\$ 19.80	70,500	\$ 16.99	70,500	\$ 16.99		\$
Granted					77,500(3)	22.30	70,500(2)	16.99
Vested and issued					(250)	16.99		
Forfeited					(1,250)	16.99		
Outstanding, end of period	146,500	\$ 19.80	70,500	\$ 16.99	146,500	\$ 19.80	70,500	\$ 16.99

(1) Represents the weighted-average grant-date fair value per share. The grant date fair value of the deferred shares and 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 \$1.2 million.

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

As of September 30, 2010, 77,500 deferred shares were outstanding under the EIP and 69,000 restricted stock units were outstanding under the SOIP.

For the nine months ended September 30, 2010, total restricted stock units vested had a fair value of \$4,000 and related tax benefits to be realized will be immaterial.

As of September 30, 2010, there was \$2.0 million of total unrecognized compensation cost related to the nonvested deferred shares and restricted stock units. The cost is expected to be recognized over a weighted-average period of 3.2 years.

**LTIP payable in stock.** The 2010-2012 LTIP and the 2009-2011 LTIP provide for payment in 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 is fixed on the date the grants are made based on target performance levels. The payout varies from 0% to 200% of the number of target shares depending on achievement of the goals. The LTIP contains a market condition based on total return to shareholders (TRS) of HEI stock as a percentile to the Edison Electric Institute Index over the three-year period. The 2009-2011 LTIP performance condition is HEI return on average common equity (ROACE). The 2010-2012 LTIP goals with performance conditions include HEI consolidated net income, HECO consolidated ROACE, ASB net income and ASB return on assets – all based on two-year averages (2011-2012).

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



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	Three months ended September 30				Nine months ended September 30			
	2010		2009		2010		2009	
	Shares	(1)	Shares	(1)	Shares	(1)	Shares	(1)
Outstanding, beginning of period	132,588	\$ 20.42	36,198	\$ 14.85	36,198	\$ 14.85		\$
Granted					97,191	22.45	36,198(2)	14.85
Vested and issued								
Forfeited	(5,806)	\$ 22.45			(6,607)	21.53		
Outstanding, end of period	126,782	\$ 20.33	36,198	\$ 14.85	126,782	\$ 20.33	36,198	\$ 14.85

(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 \$0.5 million.

On February 8, 2010, LTIP grants (under the 2010-2012 LTIP) were made with the TRS condition payable with 97,191 shares of HEI common stock (based on the grant date price of \$18.95 and target performance levels) with a weighted-average grant date fair value of \$2.2 million based on the weighted-average grant date fair value per share of \$22.45.

The grant date fair values were determined using a Monte Carlo simulation model utilizing actual information for the common shares of HEI and its peers for the period from the beginning of the performance period to the grant date and estimated future stock volatility and dividends of HEI and its peers over the remaining three-year

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performance period. The expected stock volatility assumptions for HEI and its peer group were based on the three-year historic stock volatility, and the annual dividend yield assumptions were based on dividend yields calculated on the basis of daily stock prices over the same three-year historical period. The following table summarizes the assumptions used to determine the fair value of the LTIP linked to TRS and the resulting fair value of LTIP granted:

	2010	2009
Risk-free interest rate	1.30%	1.30%
Expected life in years	3	3
Expected volatility	27.9%	23.7%
Dividend yield	6.55%	4.53%
Range of expected volatility for Peer Group	22.3% to 52.3%	20.8% to 46.9%
Grant date fair value (per share)	\$ 22.45	\$ 14.85

As of September 30, 2010, there was \$1.7 million of total unrecognized compensation cost related to the nonvested shares linked to TRS. The cost is expected to be recognized over a weighted-average period of 2.0 years.

LTIP linked to other performance conditions. Information about HEI's LTIP grants linked to other performance conditions is summarized as follows:

	Three months ended September 30				Nine months ended September 30			
	2010		2009		2010		2009	
	Shares	(1)	Shares	(1)	Shares	(1)	Shares	(1)
Outstanding, beginning of period	184,535	\$ 18.69	24,131	\$ 16.99	24,131	\$ 16.99	24,131(2)	\$ 16.99
Granted					160,939	18.95		
Vested								
Forfeited	(23,225)	\$ 18.95			(23,760)	18.90		
Outstanding, end of period	161,310	\$ 18.66	24,131	\$ 16.99	161,310	\$ 18.66	24,131	\$ 16.99

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- (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 \$0.4 million.

On February 8, 2010, LTIP grants (under the 2010-2012 LTIP) with performance conditions were made, payable in 160,939 shares of HEI common stock (based on the grant date price of \$18.95 and target performance levels), with a weighted-average grant date fair value of \$3.0 million based on the weighted-average grant date fair value per share of \$18.95.

As of September 30, 2010, there was \$2.6 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.

**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 a portion of the \$150 million of medium-term notes expected to be issued by HEI in 2011, thereby enabling HEI to better forecast its future interest expense. The FSS terminate in January and June 2011 and entitle 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 FSS are designated and accounted for as cash flow hedges and have a negative fair value of \$6.2 million as of September 30, 2010 (recorded in Other liabilities on the consolidated balance sheet). Changes in fair value are recognized (1) in other comprehensive income to the extent that they are considered effective, and (2) in net income for any portion considered ineffective. The balance in accumulated other comprehensive income/(loss) (AOCI) at the dates of the anticipated medium-term note issuances will be accreted/amortized into interest expense over the lives of the new notes based on the effective interest method. For the third quarter of 2010, the ineffective portion of the change in fair value, or \$0.4 million (\$0.2 million, net of tax benefits), was recorded as a derivative loss in Interest expense other than on deposit liabilities and other bank borrowings and the effective portion, or \$3.6 million, net of tax benefits, was recorded as a net loss in AOCI. Of the \$3.6 million net loss in AOCI, a net \$0.3 million is expected to be reclassified to earnings during the next 12 months.

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**8 • Earnings per share (EPS)**

For the three and nine months ended September 30, 2010, under the two-class method of computing basic and diluted EPS, distributed earnings were \$0.31 and \$0.93 per share, respectively, and undistributed earnings were \$0.04 and \$0.02 per share, respectively, for both unvested restricted stock awards and unrestricted common stock. For the three and nine months ended September 30, 2009, under the two-class method of computing basic and diluted EPS, distributed earnings were \$0.31 and \$0.93 per share, respectively, and undistributed earnings (loss) were \$0.06 and \$(0.17) per share, respectively, for both unvested restricted stock awards and unrestricted common stock.

As of September 30, 2010 and 2009, the antidilutive effects of SARs (462,000 shares of HEI common stock) and SARs and NQSOs (743,500 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**

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 and have not been considered.

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:

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**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 is 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 is 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 collectibility.

**Deposit liabilities.** The fair value of demand deposits, savings accounts, and money market deposits was the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit was

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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 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 are 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.

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

(in thousands)	September 30, 2010		December 31, 2009	
	Carrying or notional amount	Estimated fair value	Carrying or notional amount	Estimated fair value
<b>Financial assets</b>				
Cash and cash equivalents	\$ 387,488	\$ 387,488	\$ 503,922	\$ 503,922
Available-for-sale investment and mortgage-related securities	570,262	570,262	432,881	432,881
Investment in stock of Federal Home Loan Bank of Seattle	97,764	97,764	97,764	97,764
Loans receivable, net	3,466,550	3,603,254	3,670,493	3,760,954
<b>Financial liabilities</b>				
Deposit liabilities	3,958,636	3,967,738	4,058,760	4,063,888
Short-term borrowings other than bank	27,296	27,296	41,989	41,989
Other bank borrowings	246,571	265,565	297,628	307,154
Long-term debt, net other than bank	1,364,911	1,403,063	1,364,815	1,336,250
Forward Starting Swaps	6,223	6,223		
<b>Off-balance sheet items</b>				

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HECO-obligated preferred securities of trust subsidiary	50,000	50,340	50,000	48,480
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As of September 30, 2010 and December 31, 2009, loan commitments and unused lines and letters of credit issued by ASB had notional amounts of \$1.2 billion and their estimated fair values on such dates were \$0.5 million and \$0.2 million, respectively. As of September 30, 2010 and December 31, 2009, loans serviced by ASB for others had notional amounts of \$762.6 million and \$577.5 million and the estimated fair value of the servicing rights for such loans was \$7.8 million and \$5.6 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 current market disruption. Inputs to these valuation techniques reflect the assumptions that consider credit and nonperformance risk that market participants would

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

(in thousands)	Quoted prices in active markets for identical assets (Level 1)	Fair value measurements using Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>September 30, 2010</b>			
Available-for-sale securities			
Mortgage-related securities-FNMA, FHLMC and GNMA	\$	\$	276,330
Investment securities-federal agency obligation		266,475	
Municipal bonds		27,457	
	\$	\$	570,262
Forward Starting Swaps	\$	\$	(6,223)
<b>December 31, 2009</b>			
Available-for-sale securities			
Mortgage-related securities-FNMA, FHLMC and GNMA	\$	\$	327,521
Investment securities-federal agency obligation		104,044	
Municipal bonds		1,316	
	\$	\$	432,881

**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 U.S. 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 December 31, 2009, there were no adjustments to fair value for assets measured at fair value on a nonrecurring basis in accordance with U.S. GAAP. In the second and third quarters of 2010, HECO's asset retirement obligation was adjusted (see Note 8, "Fair value measurements" of HECO Notes to Consolidated Financial Statements below).

**11 • Cash flows**

**Supplemental disclosures of cash flow information.** For the nine months ended September 30, 2010 and 2009, the Company paid interest (net of amounts capitalized and including bank interest) to non-affiliates amounting to \$69 million and \$75 million, respectively.

For the nine months ended September 30, 2010 and 2009, the Company paid income taxes amounting to \$44 million and \$14 million, respectively. The increase in income taxes paid was primarily due to higher operating income in 2010 and estimated tax payments made through September 2010 without the retroactive effect of 2010 bonus depreciation (which was enacted after the payment of September 2010 estimated taxes).



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**Supplemental disclosures of noncash activities.** Noncash increases in common stock for director and officer compensatory plans of the Company were \$2.9 million and \$1.5 million for the nine months ended September 30, 2010 and 2009, respectively.

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 \$17 million and \$11 million for the first nine months of 2010 and 2009, respectively. HEI satisfied the requirements of the HEI DRIP and the HEIRSP (from April 16, 2009 through September 3, 2009) and the ASB 401(k) Plan (from May 7, 2009 through September 3, 2009) by acquiring for cash its common shares through open market purchases rather than by issuing additional shares. Effective September 4, 2009, HEI resumed satisfying the requirements of the HEI DRIP, HEIRSP and ASB 401(k) Plan through the issuance of additional shares of common stock.

Real estate acquired in settlement of loans in noncash transactions amounted to \$4 million in each of the first nine months of 2010 and 2009.

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**12 • Recent accounting pronouncements and interpretations**

**Variable interest entities.** In June 2009, the Financial Accounting Standards Board (FASB) issued a standard that amends the guidance in ASC Topic 810 related to the consolidation of variable interest entities (VIEs). The standard eliminates exceptions to consolidating qualifying special-purpose entities (QSPEs), contains new criteria for determining the primary beneficiary, and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a VIE. It also clarifies, but does not significantly change, the characteristics that identify a VIE. The Company adopted this standard in the first quarter of 2010 and the adoption did not impact the Company's or HECO's consolidated financial condition, results of operations or liquidity.

**Allowance for Credit Losses.** In July 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, which will require the Company to provide a greater level of disaggregated information about the credit quality of the Company's loans and leases and the Allowance for Loan and Lease Losses (the Allowance). This ASU will also require the Company to disclose additional information related to credit quality indicators, nonaccrual and past due information, and information related to impaired loans and loans modified in a troubled debt restructuring. The provisions of this ASU are effective for the Company's reporting period ending December 31, 2010. As this ASU amends only the disclosure requirements for loans and leases and the Allowance, the adoption will have no impact on the Company's consolidated statements of income and balance sheet.

**13 • Credit agreement**

Effective May 7, 2010, HEI entered into a revolving unsecured 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. Any draws on the facility bear interest at the Adjusted LIBO Rate plus 225 basis points or the greatest of (a) the Prime Rate, (b) the sum of the Federal Funds Rate plus 50 basis points and (c) the Adjusted LIBO Rate for a one month Interest Period plus 100 basis points per annum, as defined in the agreement. Annual fees on undrawn commitments are 40 basis points. The agreement contains provisions for revised pricing in the event of a ratings change. The agreement does not contain clauses that would affect access to the lines by reason of a ratings downgrade, nor does it have broad material adverse change clauses. However, the agreement does contain customary conditions which must be met in order to draw on it, including compliance with its covenants.

HEI's \$125 million credit 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. HEI's \$100 million syndicated credit facility expiring March 31, 2011 was terminated concurrently with the effectiveness of this new syndicated credit facility.

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidated Statements of Income (unaudited)**

(in thousands)	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
<b>Operating revenues</b>	\$ 622,223	\$ 546,502	\$ 1,751,029	\$ 1,453,623
<b>Operating expenses</b>				
Fuel oil	235,534	186,719	662,608	463,893
Purchased power	147,880	134,447	404,175	364,120
Other operation	62,665	61,173	182,163	186,751
Maintenance	30,618	25,968	89,894	81,562
Depreciation	36,277	35,557	113,568	108,406
Taxes, other than income taxes	58,317	50,031	164,278	137,741
Income taxes	14,818	15,957	36,972	33,228
	586,109	509,852	1,653,658	1,375,701
<b>Operating income</b>	<b>36,114</b>	<b>36,650</b>	<b>97,371</b>	<b>77,922</b>
<b>Other income</b>				
Allowance for equity funds used during construction	1,197	2,628	4,817	10,353
Other, net	510	1,657	2,123	6,493
	1,707	4,285	6,940	16,846
<b>Interest and other charges</b>				
Interest on long-term debt	14,383	13,601	43,149	37,458
Amortization of net bond premium and expense	799	735	2,192	2,092
Other interest charges	653	705	1,861	2,048
Allowance for borrowed funds used during construction	(492)	(1,118)	(2,061)	(4,467)
	15,343	13,923	45,141	37,131
<b>Net income</b>	<b>22,478</b>	<b>27,012</b>	<b>59,170</b>	<b>57,637</b>
Preferred stock dividends of subsidiaries	228	228	686	686
<b>Net income attributable to HECO</b>	<b>22,250</b>	<b>26,784</b>	<b>58,484</b>	<b>56,951</b>
Preferred stock dividends of HECO	270	270	810	810
<b>Net income for common stock</b>	<b>\$ 21,980</b>	<b>\$ 26,514</b>	<b>\$ 57,674</b>	<b>\$ 56,141</b>

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.

See accompanying Notes to Consolidated Financial Statements for HECO.

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidated Balance Sheets (unaudited)**

(dollars in thousands, except par value)	September 30, 2010	December 31, 2009
<b>Assets</b>		
<b>Utility plant, at cost</b>		
Land	\$ 51,371	\$ 52,530
Plant and equipment	4,832,409	4,696,257
Less accumulated depreciation	(1,915,263)	(1,848,416)
Construction in progress	105,492	132,980
<b>Net utility plant</b>	<b>3,074,009</b>	<b>3,033,351</b>
<b>Current assets</b>		
Cash and cash equivalents	35,044	73,578
Customer accounts receivable, net	141,678	133,286
Accrued unbilled revenues, net	95,866	84,276
Other accounts receivable, net	6,841	8,449
Fuel oil stock, at average cost	121,230	78,661
Materials and supplies, at average cost	36,293	35,908
Prepayments and other	82,089	16,201
<b>Total current assets</b>	<b>519,041</b>	<b>430,359</b>
<b>Other long-term assets</b>		
Regulatory assets	422,177	426,862
Unamortized debt expense	14,435	14,288
Other	59,666	73,532
<b>Total other long-term assets</b>	<b>496,278</b>	<b>514,682</b>
	\$ 4,089,328	\$ 3,978,392
<b>Capitalization and liabilities</b>		
<b>Capitalization</b>		
Common stock (\$6 2/3 par value, authorized 50,000,000 shares; outstanding 13,786,959 shares)	\$ 91,931	\$ 91,931
Premium on capital stock	385,650	385,659
Retained earnings	846,350	827,036
Accumulated other comprehensive income, net of income taxes	1,961	1,782
<b>Common stock equity</b>	<b>1,325,892</b>	<b>1,306,408</b>
Cumulative preferred stock not subject to mandatory redemption	34,293	34,293
Long-term debt, net	1,057,911	1,057,815
<b>Total capitalization</b>	<b>2,418,096</b>	<b>2,398,516</b>
<b>Current liabilities</b>		
Accounts payable	116,710	132,711
Interest and preferred dividends payable	22,461	21,223
Taxes accrued	150,352	156,092
Other	52,099	48,192
<b>Total current liabilities</b>	<b>341,622</b>	<b>358,218</b>
<b>Deferred credits and other liabilities</b>		
Deferred income taxes	244,455	180,603
Regulatory liabilities	289,568	288,214
Unamortized tax credits	58,083	56,870
Retirement benefits liability	293,069	296,623
Other	113,030	77,804
<b>Total deferred credits and other liabilities</b>	<b>998,205</b>	<b>900,114</b>
Contributions in aid of construction	331,405	321,544
	\$ 4,089,328	\$ 3,978,392

See accompanying Notes to Consolidated Financial Statements for HECO.

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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				
<b>Balance, December 31, 2009</b>	<b>13,787</b>	<b>\$ 91,931</b>	<b>\$ 385,659</b>	<b>\$ 827,036</b>	<b>\$ 1,782</b>	<b>\$ 1,306,408</b>
Comprehensive income (loss):						
Net income for common stock				57,674		57,674
Retirement benefit plans:						
Amortization of net loss, prior service gain and transition obligation included in net periodic benefit cost, net of taxes of \$1,796					2,819	2,819
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of tax benefits of \$1,681					(2,640)	(2,640)
Comprehensive income				57,674	179	57,853
Common stock dividends				(38,360)		(38,360)
Common stock issue expenses			(9)			(9)
<b>Balance, September 30, 2010</b>	<b>13,787</b>	<b>\$ 91,931</b>	<b>\$ 385,650</b>	<b>\$ 846,350</b>	<b>\$ 1,961</b>	<b>\$ 1,325,892</b>
<b>Balance, December 31, 2008</b>	<b>12,806</b>	<b>\$ 85,387</b>	<b>\$ 299,214</b>	<b>\$ 802,590</b>	<b>\$ 1,651</b>	<b>\$ 1,188,842</b>
Comprehensive income (loss):						
Net income for common stock				56,141		56,141
Retirement benefit plans:						
Amortization of net loss, prior service gain and transition obligation included in net periodic benefit cost, net of taxes of \$5,101					8,008	8,008
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of tax benefits of \$4,990					(7,835)	(7,835)
Comprehensive income				56,141	173	56,314
Common stock issue expenses			(7)			(7)
Common stock dividends				(32,756)		(32,756)
<b>Balance, September 30, 2009</b>	<b>12,806</b>	<b>\$ 85,387</b>	<b>\$ 299,207</b>	<b>\$ 825,975</b>	<b>\$ 1,824</b>	<b>\$ 1,212,393</b>

See accompanying Notes to Consolidated Financial Statements for HECO.

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidated Statements of Cash Flows (unaudited)**

Nine months ended September 30 (in thousands)	2010	2009
<b>Cash flows from operating activities</b>		
Net income	\$ 59,170	\$ 57,637
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	113,568	108,406
Other amortization	5,360	7,702
Changes in deferred income taxes	74,720	12,532
Changes in tax credits, net	1,939	(501)
Allowance for equity funds used during construction	(4,817)	(10,353)
Increase in cash overdraft	884	
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	(6,784)	32,423
Decrease (increase) in accrued unbilled revenues	(11,590)	14,183
Decrease (increase) in fuel oil stock	(42,569)	9,826
Increase in materials and supplies	(385)	(1,825)
Increase in regulatory assets	(3,269)	(13,829)
Decrease in accounts payable	(16,001)	(4,952)
Changes in prepaid and accrued income and utility revenue taxes	(55,202)	(62,388)
Changes in other assets and liabilities	1,415	3,360
<b>Net cash provided by operating activities</b>	<b>116,439</b>	<b>152,221</b>
<b>Cash flows from investing activities</b>		
Capital expenditures	(131,140)	(237,664)
Contributions in aid of construction	16,775	7,472
Other	657	340
<b>Net cash used in investing activities</b>	<b>(113,708)</b>	<b>(229,852)</b>
<b>Cash flows from financing activities</b>		
Common stock dividends	(38,360)	(32,756)
Preferred stock dividends of HECO and subsidiaries	(1,496)	(1,496)
Proceeds from issuance of long-term debt		153,186
Net decrease in short-term borrowings from nonaffiliates and affiliate with original maturities of three months or less		(30,850)
Decrease in cash overdraft		(9,847)
Other	(1,409)	(1,021)
<b>Net cash provided by (used in) financing activities</b>	<b>(41,265)</b>	<b>77,216</b>
Net decrease in cash and cash equivalents	(38,534)	(415)
Cash and cash equivalents, beginning of period	73,578	6,901
<b>Cash and cash equivalents, end of period</b>	<b>\$ 35,044</b>	<b>\$ 6,486</b>

See accompanying Notes to Consolidated Financial Statements for HECO.

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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, 2009 and the unaudited consolidated financial statements and the notes thereto in HECO's Quarterly Reports on SEC Form 10-Q for the quarters ended March 31, 2010 and June 30, 2010.

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 September 30, 2010 and December 31, 2009 and the results of their operations for the three and nine months ended September 30, 2010 and 2009 and their cash flows for the nine months ended September 30, 2010 and 2009. 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 each of Hawaii Electric Light Company, Inc. (HELCO) and Maui Electric Company, Limited (MECO) in the respective principal amounts 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 September 30, 2010 and December 31, 2009 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 nine months ended September 30, 2010 and 2009 each consisted of \$2.5 million of interest income received from the 2004 Debentures, \$2.4 million of distributions to holders of the Trust Preferred Securities, and \$0.1 million of common dividends on the trust common securities to HECO. So long as the 2004



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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 payment of interest on any of their respective 2004 Debentures, then

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HECO will be subject to a number of restrictions, including a prohibition on the payment of dividends on its common stock.

**Power purchase agreements (PPAs).** As of September 30, 2010, 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, none of which are currently required to be consolidated as VIEs. Approximately 91% of the 540 MW of firm capacity is under 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 nine months ended September 30, 2010 totaled \$404 million, with purchases from AES Hawaii, Kalaeloa, HEP and HPOWER totaling \$106 million, \$162 million, \$43 million and \$33 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 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 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 nine months ended September 30, 2010 and 2009, HECO and its subsidiaries included approximately \$156 million and \$130 million, respectively, of revenue taxes in operating revenues and in taxes, other than income taxes expense.

### 4 • Retirement benefits

**Defined benefit plans.** For the first nine months of 2010, HECO and its subsidiaries contributed \$23.8 million to their retirement benefit plans, compared to \$19.9 million in the first nine months of 2009. HECO and its subsidiaries' current estimate of contributions to their retirement benefit plans in 2010 is \$31 million, compared to contributions of \$24 million in 2009. In addition, HECO and its subsidiaries expect to pay directly \$1.4 million of benefits in 2010, compared to \$0.5 million paid in 2009.



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The components of net periodic benefit cost were as follows:

(in thousands)	Three months ended September 30				Nine months ended September 30			
	Pension benefits		Other benefits		Pension benefits		Other benefits	
	2010	2009	2010	2009	2010	2009	2010	2009
Service cost	\$ 7,097	\$ 6,205	\$ 1,206	\$ 1,385	\$ 20,479	\$ 18,372	\$ 3,425	\$ 3,549
Interest cost	14,816	14,005	2,500	2,594	44,053	42,089	7,667	8,114
Expected return on plan assets	(15,408)	(12,735)	(2,759)	(2,204)	(46,085)	(38,101)	(8,202)	(6,565)
Amortization of unrecognized transition obligation			(2)	259			(6)	1,824
Amortization of prior service cost (credit)	(186)	(190)	(86)	(37)	(560)	(558)	(197)	(37)
Recognized actuarial loss (gain)	1,925	3,677	(2)	79	5,377	11,021	2	296
Net periodic benefit cost	8,244	10,962	857	2,076	23,264	32,823	2,689	7,181
Impact of PUC D&Os	2,574	(1,776)	1,512	(270)	7,602	(9,974)	4,133	(1,002)
Net periodic benefit cost (adjusted for impact of PUC D&Os)	\$ 10,818	\$ 9,186	\$ 2,369	\$ 1,806	\$ 30,866	\$ 22,849	\$ 6,822	\$ 6,179

HECO and its subsidiaries recorded retirement benefits expense of \$29 million and \$22 million for the first nine months of 2010 and 2009, respectively. The electric utilities charged a portion of the net periodic benefit cost to plant.

In the third quarter 2010, MECO eliminated the electric discount benefit which will generate nominal credits through other benefit costs over the next few years as the total negative amendment credit is amortized.

### **5 • Commitments and contingencies**

**Hawaii Clean Energy Initiative.** In January 2008, the State of Hawaii (State) and the U.S. Department of Energy (DOE) 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 Energy 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.

Among the major provisions of the Energy Agreement are the following: (a) pursuing an overall goal of providing 70% of Hawaii's electricity and ground transportation energy needs from clean energy sources by 2030; (b) establishing a surcharge to recover costs stranded by clean energy initiatives and to expedite cost recovery for infrastructure that supports greater use of renewable energy or grid efficiency; (c) developing

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a feed-in tariff (FIT) system with standardized purchase prices for renewable energy; (d) replacing system-wide caps on net energy metering (NEM) with per circuit thresholds that require a further study before a proposed interconnection that would take the circuit over the threshold may proceed; (e) adopting a regulatory rate-making model under which the utilities' revenues would be decoupled from KWH sales; (f) continuing the existing energy cost adjustment clauses (ECACs), subject to periodic review by the PUC; (g) establishing a surcharge to allow the utilities to pass through all reasonably incurred purchased power costs; (h) supporting the development and use of renewable biofuels; (i) promoting greater use of renewable energy, including wind power and solar energy; (j) providing for the retirement or placement on reserve standby status of older and less efficient fossil fuel fired generating units as new, renewable generation is installed; (k) improving and expanding load management and demand response programs that allow the utilities to control customer loads to improve grid reliability and cost management; (l) the filing of PUC applications for approval of the installation of Advanced Metering Infrastructure, coupled with time-of-use or dynamic rate options for customers; (m) supporting prudent and cost effective investments in smart grid technologies; (n) delinking prices paid under all new renewable energy contracts from oil prices; and (o) exploring establishment of lifeline rates for low income customers.

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Many actions have been taken, and continue to be taken, to further the goals of the HCEI. In August 2010, the PUC issued a final decision and order (D&O) in the decoupling proceeding, which approved a proposed decoupling mechanism subject to certain modifications. In October 2010, the PUC approved the implementation of FITs for renewable energy generators, including applicable pricing, other terms and conditions and a standard form contract.

**Renewable energy projects.** HECO and its subsidiaries continue to negotiate with developers of proposed projects (identified in the Energy Agreement) to integrate into its grid approximately 1,100 MW 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, with the assistance of the State, up to 400 MW of wind power into the Oahu electrical grid that would be imported via a yet-to-be-built undersea transmission cable system from wind farms proposed by developers to be built on the islands of Lanai and/or Molokai. The State and HECO have agreed to work 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 wind farm facilities. In December 2009, the PUC issued a D&O that allows HECO to defer the costs of studies for this large wind project for later review of prudence and reasonableness.

**Interim increases.** As of September 30, 2010, HECO and its subsidiaries had recognized \$167 million of revenues with respect to interim orders (\$162 million related to interim orders regarding general rate increase requests and \$5 million related to interim orders regarding certain integrated resource planning costs). 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 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 have not yet been allowed in rate base by a final PUC order include HECO's Campbell Industrial Park combustion turbine No. 1 (CIP CT-1) and transmission line, HECO's East Oahu Transmission Project, HELCO's CT-4, CT-5 and ST-7 and HECO's Customer Information System (CIS).

**Campbell Industrial Park combustion turbine No. 1 (CIP CT-1) and transmission line.** HECO built a 110 MW simple cycle combustion turbine generating unit and added an additional 138 kilovolt (kV) transmission line to transmit power from generating units at CIP to the rest of the Oahu electric grid (collectively, the Project).

In a second interim D&O to HECO's 2009 test year rate case issued in February 2010, the PUC granted HECO an increase of \$12.7 million in annual revenues to recover \$163 million of the costs of the Project. As of September 30, 2010, HECO's cost estimate for the Project was \$196 million (of which \$194 million had been incurred, including \$9 million of allowance for funds used during construction (AFUDC)). In its 2011 test year rate case, HECO is seeking to recover actual project costs in excess of the \$163 million estimate included in its 2009 test year rate case. Management believes no adjustment to project costs is required as of September 30, 2010.

**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 October 2007, the PUC approved HECO's request to expend funds (then estimated at \$56 million - \$42 million for Phase 1 and

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\$14 million for Phase 2) for a revised EOTP using different routes requiring the construction of subtransmission lines, but stated that the issue of recovery of the EOTP costs would be determined in a subsequent rate case, after the project is installed and in service.

Phase 1 was placed in service on June 29, 2010 and is currently estimated to cost \$58 million (as a result of higher costs and the project delays). In April 2010, HECO proposed a modification of Phase 2 that uses smart grid

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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 September 30, 2010, the accumulated costs recorded for the EOTP amounted to \$60 million (\$58 million for Phase 1 and \$2 million for Phase 2), including (i) \$12 million of planning and permitting costs incurred prior to the 2002 denial of the permit, (ii) \$24 million of planning, permitting and construction costs incurred after the denial of the permit and (iii) \$24 million for AFUDC. Management believes no adjustment to project costs is required as of September 30, 2010.

HELCO generating units. In 1991, HELCO began planning to meet increased forecast demand for electricity. HELCO planned to install at its Keahole power plant two 20 MW combustion turbines (CT-4 and CT-5), followed by an 18 MW heat recovery steam generator (ST-7), at which time the units would be converted to a 56 MW (net) dual-train combined-cycle unit. In 1994, the PUC approved expenditures for CT-4. In 1995, the PUC allowed HELCO to pursue construction of and commit expenditures for CT-5 and ST-7, but noted that such costs are not to be included in rate base until the project is installed and is used and useful for utility purposes.

CT-4 and CT-5 became operational in mid-2004 and the costs of CT-4 and CT-5 (less a previously agreed to \$12 million write-off) were included in HELCO's 2006 test year rate case interim and final rate increases.

On June 22, 2009, ST-7 was placed into service. As of September 30, 2010, HELCO's cost estimate for ST-7 was \$92 million (of which \$91 million had been incurred). HELCO is seeking to recover the costs of ST-7 in its 2010 test year rate case.

Management believes that no further adjustment to project costs is required at September 30, 2010.

Customer Information System (CIS) Project. In 2005, the PUC approved the utilities' request to (i) expend the then-estimated \$20 million for a new CIS, provided that no part of the project costs may 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. 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 September 30, 2010, the accumulated deferred and capital costs recorded for the CIS amounted to \$16 million. Management believes no adjustment to project costs is required as of September 30, 2010.

**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 the



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last year, legislative and regulatory activity related to the environment, including proposals and rulemaking under the Clean Air Act (CAA) and Clean Water Act, has increased significantly and management anticipates that such activity will continue. Depending upon the final outcome of the legislative and regulatory activity (including under the Clean Water Act with respect to cooling water intake controls and changes in effluent standards and the Clean Air Act with respect to hazardous air pollutant emissions, tightening of the National Ambient Air Quality Standards, and the Regional Haze rule), HECO and its subsidiaries may be required to incur material capital expenditures and other compliance costs.

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, the Company believes the costs of responding to its subsidiaries' releases identified to date will not have a material adverse effect, individually or in the aggregate, on the Company's or HECO's consolidated results of operations, financial condition or liquidity.

Honolulu Harbor investigation. HECO has been involved since 1995 in a work group with several other potentially responsible parties (PRPs) identified by the State of Hawaii Department of Health (DOH), including oil companies, in investigating and responding to historical subsurface petroleum contamination in the Honolulu Harbor

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area. A subset of the PRPs (the Participating Parties) entered into a joint defense agreement and ultimately entered into an Enforceable Agreement with the DOH to address petroleum contamination at the site. The Participating Parties are funding the investigative and remediation work using an interim cost allocation method (subject to a final allocation) and have organized a limited liability company to perform the work. Although the Honolulu Harbor investigation involves four units Iwilei, Downtown, Kapalama and Sand Island to date all the investigative and remedial work has focused on the Iwilei Unit.

The Participating Parties have conducted subsurface investigations, assessments and preliminary oil removal, and anticipate finalizing remedial design work for the Iwilei unit in 2010.

As of September 30, 2010, HECO's remaining accrual for its estimated share of environmental costs for the Iwilei unit was \$1.4 million (\$3.3 million expensed less \$1.9 million expended). Because (1) the full scope of work remains to be determined, (2) the final cost allocation method among the Participating Parties has not yet been established and (3) management cannot estimate the costs to be incurred (if any) for the sites other than the Iwilei unit (such as its Honolulu power plant located in the Downtown unit), the cost estimate may be subject to significant change and additional material costs may be incurred.

Global climate change and greenhouse gas (GHG) emissions reduction. National and international concern about climate change and the contribution of GHG emissions to global warming have led to action by the State and to federal legislative and regulatory proposals to reduce GHG emissions. Carbon dioxide emissions, including those from the combustion of fossil fuels, comprise the largest percentage of 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 to be undertaken under the Energy Agreement. A Task Force consultant prepared a work plan, which was submitted to the Hawaii Legislature in December 2009. Because the regulations implementing Act 234 have not yet been developed or promulgated, management cannot predict the impact of Act 234 on the electric utilities and the Company, but compliance costs could be significant.

In June 2009, the U.S. House of Representatives passed H.R. 2454, the American Clean Energy and Security Act of 2009 (ACES). Among other things, ACES establishes a declining cap on GHG emissions requiring a 3% emissions reduction by 2012 that increases periodically to 83% by 2050. ACES also establishes a trading and offset scheme for GHG allowances. The trading program combined with the declining cap is known as a cap and trade approach to emissions reduction. In September 2009, the U.S. Senate began consideration of the Clean Energy Jobs and American Power Act, which also includes cap and trade provisions. Since then, several other approaches to GHG emission reduction have been either introduced or discussed in the U.S. Senate; however, no legislation has yet been enacted.

On September 22, 2009, the EPA issued the Final Mandatory Reporting of Greenhouse Gases Rule, which requires that sources emitting GHGs above certain threshold levels monitor and report GHG emissions beginning in 2010. 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.

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In addition, the Prevention of Significant Deterioration (PSD) permit program of the CAA applies to designated air pollutants from new or modified stationary sources, such as utility electrical generation 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. The GHG Tailoring Rule requires a number of existing HECO, HELCO and MECO facilities that are not currently subject to the Covered Source Permit program to submit an initial Covered Source Permit application to the DOH within one year. The EPA has stated that the PSD program will apply to GHG emissions on January 2, 2011 because that is the date the federal GHG emission standards for motor vehicles (Tailpipe Rule) take effect.

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The EPA is proposing and adopting these rules on a parallel track with federal climate change legislation. If comprehensive GHG emission control legislation is not adopted, then these (and other future) EPA rules would likely be finalized and be applicable to the utilities. In particular, the Company anticipates that, unless comprehensive GHG legislation is adopted, permitting after January 2, 2011 of new or modified stationary sources 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.

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 demand-side management (DSM) programs that foster energy efficiency, using renewable resources for energy production and purchasing power from IPPs generated by renewable resources, committing to burn renewable biodiesel in HECO's CIP CT-1, using biodiesel for startup and shutdown of selected MECO generation units, and pursuing plans to test biofuel blends in other HECO and MECO generating units. Management is unable to evaluate the ultimate impact on the Company's operations of eventual GHG regulation. However, the Company 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 Company's 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 Company. For example, severe weather could cause significant harm to the Company's physical facilities.

Given Hawaii's unique geographic location and its isolated electric grids, physical risks of the type associated with climate change have been considered by the Company in the planning, design, construction, operation and maintenance of its facilities. To ensure the reliability of each island's grid, the Company designs and constructs its electric generation system with greater levels of redundancy than is typical for U.S. mainland, interconnected systems. Although a major natural disaster could have severe financial implications, such risks have existed since the Company's inception and the Company makes a concerted effort to prepare for a fast response in the event of an emergency.

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

**BlueEarth Biofuels LLC.** BlueEarth Maui Biodiesel LLC (BlueEarth Maui), a joint venture to pursue biodiesel development, was formed in early 2008 between BlueEarth Biofuels LLC (BlueEarth) and Uluwehiokama Biofuels Corp. (UBC), a non-regulated subsidiary of HECO. UBC invested \$400,000 in BlueEarth Maui for a minority ownership interest. MECO began negotiating with BlueEarth Maui for a biodiesel fuel purchase contract, however, negotiations stalled. In October 2008, BlueEarth filed a civil action in federal district court against MECO, HECO and others alleging claims based on the parties' failure to have reached agreement on the biodiesel supply and related land agreements. The lawsuit seeks damages and equitable relief. A trial date has been scheduled for June 2011. The project was terminated because the litigation was filed and UBC's investment in the venture was written off in 2009.

**Asset retirement obligations.** In July 2009, HECO hired an industrial hygienist to conduct an inspection of HECO's Honolulu power plant, which inspection indicated that retired Generating Units Nos. 5 and 7 at the plant were now deteriorating. The industrial hygienist recommended removing asbestos-containing materials and lead-based paint. Based on prior assessments, the timing of the removal of asbestos and lead-based

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paint had not been estimable. Based on the inspection, however, HECO now intends to remove Units Nos. 5 and 7, including abating the asbestos and lead-based paint, over the period 2010 to 2013. Accordingly, HECO recorded an asset retirement obligation in September 2009. In August 2010, HECO recorded a similar asset retirement obligation related to removing retired Generating Units Nos. 1 and 2 at HECO's Waiau power plant, including abating the asbestos and

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lead-based paint, over the period 2011 to 2013. As of September 30, 2010, HECO's asset retirement obligations related to Honolulu power plant Units Nos. 5 and 7, and Waiiau power plant Units 1 and 2, were \$35 million and \$12 million, respectively.

**Collective bargaining agreements.** As of September 30, 2010, approximately 55% of the electric utilities' employees were members of the International Brotherhood of Electrical Workers, AFL-CIO, Local 1260, Unit 8, which is the only union representing employees of the Company. On March 1, 2008, members of the union ratified collective bargaining and benefit agreements with HECO, HELCO and MECO. The agreements cover a three-year term, from November 1, 2007 to October 31, 2010, and provide for non-compounded wage increases of 3.5% effective November 1, 2007, 4% effective January 1, 2009 and 4.5% effective January 1, 2010. The utilities are currently renegotiating the contract with the union.

**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 substation buildings and contents) have a replacement 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.

**6 • Cash flows**

**Supplemental disclosures of cash flow information.** For the nine months ended September 30, 2010 and 2009, HECO and its subsidiaries paid interest amounting to \$42 million and \$29 million, respectively.

For the nine months ended September 30, 2010 and 2009, HECO and its subsidiaries paid income taxes amounting to \$37 million and \$12 million, respectively. The increase in income taxes paid was primarily due to higher operating income in 2010 and estimated tax payments made through September 2010 without the retroactive effect of 2010 bonus depreciation (which was enacted after the payment of September 2010 estimated taxes).

**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 \$4.8 million and \$10.4 million for the nine months ended September 30, 2010 and 2009, respectively.

**7 • Recent accounting pronouncements and interpretations**

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

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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.

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 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.

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

(in thousands)	September 30, 2010		December 31, 2009	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
<b>Financial assets</b>				
Cash and cash equivalents	\$ 35,044	\$ 35,044	\$ 73,578	\$ 73,578
<b>Financial liabilities</b>				
Long-term debt, net, including amounts due within one year	1,057,911	1,071,586	1,057,815	1,018,900



**Off-balance sheet item**

HECO-obligated preferred securities of trust subsidiary	50,000	50,340	50,000	48,480
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**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 U.S. 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 December 31, 2009, there were no adjustments to fair value for assets measured at fair value on a nonrecurring basis in accordance with U.S. GAAP. In the second quarter of 2010, HECO increased its asset retirement obligation (ARO) related to the Honolulu power plant by \$11 million to \$35 million (Level 3) due to an increase in estimated removal and abatement costs. In the third quarter of 2010, HECO increased its ARO by \$13 million to \$48 million (Level 3) due to the addition of estimated removal and abatement costs for two units at the Waiiau power plant. The fair value of the ARO was determined by discounting the expected future cash flows using market-observable risk-free rates as adjusted by HECO's credit spread.

Table of Contents**9 • Credit agreement**

Effective May 7, 2010, HECO entered into a revolving unsecured 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. The agreement has an initial term which expires on May 6, 2011, but its term will extend to May 7, 2013 if approved by the PUC. Any draws on the facility bear interest at the Adjusted LIBO Rate plus 200 basis points or the greatest of (a) the Prime Rate, (b) the sum of the Federal Funds Rate plus 50 basis points and (c) the Adjusted LIBO Rate for a one month Interest Period plus 100 basis points per annum, as defined in the agreement. Annual fees on the undrawn commitments are 30 basis points. The agreement contains provisions for revised pricing in the event of a ratings change. The agreement does not contain clauses that would affect access to the lines by reason of a ratings downgrade, nor does it have broad material adverse change clauses. However, the agreement does contain customary conditions that must be met in order to draw on it, including compliance with several covenants.

HECO's \$175 million 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. HECO's \$175 million syndicated credit facility expiring March 31, 2011 was terminated concurrently with the effectiveness of this new syndicated credit facility. In July 2010, HECO filed with the PUC an application seeking approval to extend the termination date of its credit agreement from May 6, 2011 to May 7, 2013.

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

(in thousands)	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Operating income from regulated and nonregulated activities before income taxes (per HEI consolidated statements of income)	\$ 51,343	\$ 54,172	\$ 135,387	\$ 117,404
Deduct:				
Income taxes on regulated activities	(14,818)	(15,957)	(36,972)	(33,228)
Revenues from nonregulated activities	(903)	(1,938)	(4,303)	(7,031)
Add: Expenses from nonregulated activities	492	373	3,259	777
Operating income from regulated activities after income taxes (per HECO consolidated statements of income)	\$ 36,114	\$ 36,650	\$ 97,371	\$ 77,922

**11 • 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.

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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.

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Statement of Income (Loss) (unaudited)**

Three months ended September 30, 2010

(in thousands)	HECO	HELCO	MECO	RHI	UBC	Reclassifications and eliminations	HECO Consolidated
Operating revenues	\$ 436,919	95,645	89,659				\$ 622,223
<b>Operating expenses</b>							
Fuel oil	168,019	22,968	44,547				235,534
Purchased power	111,552	30,206	6,122				147,880
Other operation	44,949	7,848	9,868				62,665
Maintenance	20,258	4,995	5,365				30,618
Depreciation	21,197	9,127	5,953				36,277
Taxes, other than income taxes	40,924	8,904	8,489				58,317
Income taxes	8,665	3,327	2,826				14,818
	415,564	87,375	83,170				586,109
<b>Operating income</b>	21,355	8,270	6,489				36,114
<b>Other income</b>							
Allowance for equity funds used during construction	923	129	145				1,197
Equity in earnings of subsidiaries	9,454					(9,454)	
Other, net	267	147	120	(2)	(2)	(20)	510
	10,644	276	265	(2)	(2)	(9,474)	1,707
<b>Interest and other charges</b>							
Interest on long-term debt	9,130	2,985	2,268				14,383
Amortization of net bond premium and expense	512	160	127				799
Other interest charges	476	92	105			(20)	653
Allowance for borrowed funds used during construction	(369)	(66)	(57)				(492)
	9,749	3,171	2,443			(20)	15,343
<b>Net income (loss)</b>	22,250	5,375	4,311	(2)	(2)	(9,454)	22,478
Preferred stock dividend of subsidiaries		133	95				228
<b>Net income (loss) attributable to HECO</b>	22,250	5,242	4,216	(2)	(2)	(9,454)	22,250
Preferred stock dividends of HECO	270						270
<b>Net income (loss) for common stock</b>	\$ 21,980	5,242	4,216	(2)	(2)	(9,454)	\$ 21,980

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Statement of Income (Loss) (unaudited)**

Three months ended September 30, 2009

(in thousands)	HECO	HELCO	MECO	RHI	UBC	Reclassifications and eliminations	HECO Consolidated
<b>Operating revenues</b>	\$ 380,722	87,631	78,149				\$ 546,502
<b>Operating expenses</b>							
Fuel oil	131,717	19,370	35,632				186,719
Purchased power	101,625	26,442	6,380				134,447
Other operation	43,854	8,055	9,264				61,173
Maintenance	15,844	5,794	4,330				25,968
Depreciation	19,928	8,253	7,376				35,557
Taxes, other than income taxes	34,703	8,052	7,276				50,031
Income taxes	10,596	3,262	2,099				15,957
	358,267	79,228	72,357				509,852
<b>Operating income</b>	22,455	8,403	5,792				36,650
<b>Other income</b>							
Allowance for equity funds used during construction	2,376	21	231				2,628
Equity in earnings of subsidiaries	8,874					(8,874)	
Other, net	1,666	68	134	(3)	(134)	(74)	1,657
	12,916	89	365	(3)	(134)	(8,948)	4,285
<b>Interest and other charges</b>							
Interest on long-term debt	8,659	2,674	2,268				13,601
Amortization of net bond premium and expense	451	165	119				735
Other interest charges	503	142	134			(74)	705
Allowance for borrowed funds used during construction	(1,026)	4	(96)				(1,118)
	8,587	2,985	2,425			(74)	13,923
<b>Net income (loss)</b>	26,784	5,507	3,732	(3)	(134)	(8,874)	27,012
Preferred stock dividend of subsidiaries		133	95				228
<b>Net income (loss) attributable to HECO</b>	26,784	5,374	3,637	(3)	(134)	(8,874)	26,784
Preferred stock dividends of HECO	270						270
<b>Net income (loss) for common stock</b>	\$ 26,514	5,374	3,637	(3)	(134)	(8,874)	\$ 26,514

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Statement of Income (Loss) (unaudited)**

Nine months ended September 30, 2010

(in thousands)	HECO	HELCO	MECO	RHI	UBC	Reclassifications and eliminations	HECO Consolidated
Operating revenues	\$ 1,220,589	276,120	254,320				\$ 1,751,029
<b>Operating expenses</b>							
Fuel oil	464,482	69,600	128,526				662,608
Purchased power	302,106	83,671	18,398				404,175
Other operation	130,795	25,097	26,271				182,163
Maintenance	55,898	16,305	17,691				89,894
Depreciation	65,022	27,380	21,166				113,568
Taxes, other than income taxes	114,481	25,741	24,056				164,278
Income taxes	25,417	7,369	4,186				36,972
	1,158,201	255,163	240,294				1,653,658
<b>Operating income</b>	62,388	20,957	14,026				97,371
<b>Other income</b>							
Allowance for equity funds used during construction	4,081	330	406				4,817
Equity in earnings of subsidiaries	18,173					(18,173)	
Other, net	2,271	402	(464)	(6)	(12)	(68)	2,123
	24,525	732	(58)	(6)	(12)	(18,241)	6,940
<b>Interest and other charges</b>							
Interest on long-term debt	27,391	8,954	6,804				43,149
Amortization of net bond premium and expense	1,429	395	368				2,192
Other interest charges	1,342	288	299			(68)	1,861
Allowance for borrowed funds used during construction	(1,733)	(168)	(160)				(2,061)
	28,429	9,469	7,311			(68)	45,141
<b>Net income (loss)</b>	58,484	12,220	6,657	(6)	(12)	(18,173)	59,170
Preferred stock dividend of subsidiaries		400	286				686
<b>Net income (loss) attributable to HECO</b>	58,484	11,820	6,371	(6)	(12)	(18,173)	58,484
Preferred stock dividends of HECO	810						810
<b>Net income (loss) for common stock</b>	\$ 57,674	11,820	6,371	(6)	(12)	(18,173)	\$ 57,674

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Statement of Income (Loss) (unaudited)**

Nine months ended September 30, 2009

(in thousands)	HECO	HELCO	MECO	RHI	UBC	Reclassifications and eliminations	HECO Consolidated
<b>Operating revenues</b>	\$ 986,578	251,936	215,109				\$ 1,453,623
<b>Operating expenses</b>							
Fuel oil	317,456	50,896	95,541				463,893
Purchased power	261,799	86,580	15,741				364,120
Other operation	131,574	26,767	28,410				186,751
Maintenance	49,950	17,428	14,184				81,562
Depreciation	61,523	24,754	22,129				108,406
Taxes, other than income taxes	93,659	23,708	20,374				137,741
Income taxes	22,515	6,402	4,311				33,228
	938,476	236,535	200,690				1,375,701
<b>Operating income</b>	48,102	15,401	14,419				77,922
<b>Other income</b>							
Allowance for equity funds used during construction	8,254	1,530	569				10,353
Equity in earnings of subsidiaries	18,083					(18,083)	
Other, net	5,713	1,007	331	(11)	(147)	(400)	6,493
	32,050	2,537	900	(11)	(147)	(18,483)	16,846
<b>Interest and other charges</b>							
Interest on long-term debt	23,995	6,659	6,804				37,458
Amortization of net bond premium and expense	1,256	475	361				2,092
Other interest charges	1,516	591	341			(400)	2,048
Allowance for borrowed funds used during construction	(3,566)	(666)	(235)				(4,467)
	23,201	7,059	7,271			(400)	37,131
<b>Net income (loss)</b>	56,951	10,879	8,048	(11)	(147)	(18,083)	57,637
Preferred stock dividend of subsidiaries		400	286				686
<b>Net income (loss) attributable to HECO</b>	56,951	10,479	7,762	(11)	(147)	(18,083)	56,951
Preferred stock dividends of HECO	810						810
<b>Net income (loss) for common stock</b>	\$ 56,141	10,479	7,762	(11)	(147)	(18,083)	\$ 56,141

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Hawaiian Electric Company, Inc. and Subsidiaries

**Consolidating Balance Sheet (unaudited)**

September 30, 2010

(in thousands)	HECO	HELCO	MECO	RHI	UBC	Reclassifications and eliminations	HECO Consolidated
<b>Assets</b>							
Utility plant, at cost							
Land	\$ 43,248	5,108	3,015				\$ 51,371
Plant and equipment	2,954,843	1,005,755	871,811				4,832,409
Less accumulated depreciation	(1,120,269)	(400,922)	(394,072)				(1,915,263)
Construction in progress	73,799	19,389	12,304				105,492
Net utility plant	1,951,621	629,330	493,058				3,074,009
Investment in wholly owned subsidiaries, at equity	469,495					(469,495)	
<b>Current assets</b>							
Cash and cash equivalents	32,260	2,053	635	90	6		35,044
Advances to affiliates	7,050		19,500			(26,550)	
Customer accounts receivable, net	100,067	22,266	19,345				141,678
Accrued unbilled revenues, net	66,475	14,764	14,627				95,866
Other accounts receivable, net	7,159	3,061	530			(3,909)	6,841
Fuel oil stock, at average cost	91,106	13,313	16,811				121,230
Materials & supplies, at average cost	19,449	4,288	12,556				36,293
Prepayments and other	51,392	21,503	9,194				82,089
Total current assets	374,958	81,248	93,198	90	6	(30,459)	519,041
<b>Other long-term assets</b>							
Regulatory assets	311,329	57,195	53,653				422,177
Unamortized debt expense	9,543	2,736	2,156				14,435
Other	36,242	8,027	15,397				59,666
Total other long-term assets	357,114	67,958	71,206				496,278
	\$ 3,153,188	778,536	657,462	90	6	(499,954)	\$ 4,089,328
<b>Capitalization and liabilities</b>							
<b>Capitalization</b>							
Common stock equity	\$ 1,325,892	244,695	224,707	88	5	(469,495)	\$ 1,325,892
Cumulative preferred stock not subject to mandatory redemption	22,293	7,000	5,000				34,293
Long-term debt, net	672,252	211,271	174,388				1,057,911
Total capitalization	2,020,437	462,966	404,095	88	5	(469,495)	2,418,096
<b>Current liabilities</b>							
Short-term borrowings-affiliate	19,500	7,050				(26,550)	
Accounts payable	83,814	19,033	13,863				116,710
Interest and preferred dividends payable	14,194	4,318	3,953			(4)	22,461
Taxes accrued	98,312	28,690	23,350				150,352
Other	33,685	7,729	14,587	2	1	(3,905)	52,099
Total current liabilities	249,505	66,820	55,753	2	1	(30,459)	341,622
<b>Deferred credits and other liabilities</b>							