HAWAIIAN ELECTRIC CO INC
Form 10-Q
August 09, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

OR

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

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

State of Hawaii

(State or other jurisdiction of incorporation or organization)

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 x No o

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 x No o

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 x No o

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 o No o

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 o No x

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 o No x

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class of Common Stock	**Outstanding July 30, 2010**
Hawaiian Electric Industries, Inc. (Without Par Value)	93,680,089 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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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 o	Accelerated filer o
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company o

Table of Contents

Hawaiian Electric Industries, Inc. and Subsidiaries

Hawaiian Electric Company, Inc. and Subsidiaries

Form 10-Q Quarter ended June 30, 2010

INDEX

i

Table of Contents

Hawaiian Electric Industries, Inc. and Subsidiaries

Hawaiian Electric Company, Inc. and Subsidiaries

Form 10-Q Quarter ended June 30, 2010

GLOSSARY OF TERMS

Terms	Definitions
AFUDC	Allowance for funds used during construction
AOCI	Accumulated other comprehensive income
ASB	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).
ASHI	American Savings Holdings, Inc., a wholly owned subsidiary of Hawaiian Electric Industries, Inc. and the parent company of American Savings Bank, F.S.B.
CEIS	Clean Energy Infrastructure Surcharge
CHP	Combined heat and power
CIP CT-1	Campbell Industrial Park combustion turbine No. 1
Company	When used in Hawaiian Electric Industries, Inc. sections, the Company 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 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 Company refers to Hawaiian Electric Company, Inc. and its direct subsidiaries.
Consumer Advocate	Division of Consumer Advocacy, Department of Commerce and Consumer Affairs of the State of Hawaii
DBEDT	State of Hawaii Department of Business, Economic Development and Tourism
DBF	State of Hawaii Department of Budget and Finance
D&O	Decision and order
DG	Distributed generation
DOD	Department of Defense federal
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DOE	Department of Energy federal
DOH	Department of Health of the State of Hawaii
DRIP	HEI Dividend Reinvestment and Stock Purchase Plan
DSM	Demand-side management
ECAC	Energy cost adjustment clauses
EIP	2010 Equity and Incentive Plan
Energy Agreement	Agreement dated October 20, 2008 and signed by the Governor of the State of Hawaii, the State of Hawaii Department of Business, Economic Development and Tourism, the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs, and HECO, for itself and on behalf of its electric utility subsidiaries committing to actions to develop renewable energy and reduce dependence on fossil fuels in support of the HCEI
EPA	Environmental Protection Agency federal
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
federal	U.S. Government

FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FNMA	Federal National Mortgage Association

Table of Contents

GLOSSARY OF TERMS, continued

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

Table of Contents

FORWARD-LOOKING STATEMENTS

This report and other presentations made by Hawaiian Electric Industries, Inc. (HEI) and Hawaiian Electric Company, Inc. (HECO) and their subsidiaries contain forward-looking statements, which include statements that are predictive in nature, depend upon or refer to future events or conditions, and usually include words such as expects, anticipates, intends, plans, believes, predicts, estimates or similar expressions. In addition, any statements concerning future financial performance, ongoing business strategies or prospects or possible future actions are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties and the accuracy of assumptions concerning HEI and its subsidiaries (collectively, the Company), the performance of the industries in which they do business and economic and market factors, among other things. **These forward-looking statements are not guarantees of future performance.**

Risks, uncertainties and other important factors that could cause actual results to differ materially from those 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, such as the Emergency Economic Stabilization Act of 2008 and the American Recovery and Reinvestment Act of 2009;

- 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 Iraq and 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);

- 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;

Table of Contents

- the risks associated with increasing reliance on renewable energy, as contemplated under the Energy Agreement, including the availability and cost of non-fossil fuel supplies for renewable 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 and its subsidiaries) 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, 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 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 relationships (i.e., concentrations of large loans and/or credit lines with certain customers);

- changes in accounting principles applicable to HEI, HECO, ASB and their subsidiaries, including the adoption of International Financial Reporting Standards (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;

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

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

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Hawaiian Electric Industries, Inc. and Subsidiaries

Consolidated Statements of Income (unaudited)

(in thousands, except per share amounts)	Three months ended June 30 2010	2009	Six months ended June 30 2010	2009
Revenues				
Electric utility	$ 584,095	$ 450,417	$ 1,132,206	$ 912,214
Bank	71,632	75,499	142,546	157,531
Other	(63)	(15)	(48)	(47)
	655,664	**525,901**	**1,274,704**	**1,069,698**
Expenses				
Electric utility	542,660	418,254	1,048,162	848,982
Bank	45,857	69,993	95,000	134,904
Other	3,516	2,599	7,204	6,099
	592,033	**490,846**	**1,150,366**	**989,985**
Operating income (loss)				
Electric utility	41,435	32,163	84,044	63,232
Bank	25,775	5,506	47,546	22,627
Other	(3,579)	(2,614)	(7,252)	(6,146)
	63,631	**35,055**	**124,338**	**79,713**
Interest expense other than on deposit liabilities and other bank borrowings	(20,520)	(17,910)	(40,901)	(35,743)
Allowance for borrowed funds used during construction	790	1,727	1,569	3,349
Allowance for equity funds used during construction	1,847	4,120	3,620	7,725
Income before income taxes	**45,748**	**22,992**	**88,626**	**55,044**
Income taxes	16,013	7,040	31,292	18,224
Net income	**29,735**	**15,952**	**57,334**	**36,820**
Preferred stock dividends of subsidiaries	473	473	946	946
Net income for common stock	**$ 29,262**	**$ 15,479**	**$ 56,388**	**$ 35,874**
Basic earnings per common share	$ 0.31	$ 0.17	$ 0.61	$ 0.39
Diluted earnings per common share	$ 0.31	$ 0.17	$ 0.61	$ 0.39
Dividends per common share	$ 0.31	$ 0.31	$ 0.62	$ 0.62
Weighted-average number of common shares outstanding	93,159	91,384	92,867	90,996
Dilutive effect of share-based compensation	255	110	292	92
Adjusted weighted-average shares	93,414	91,494	93,159	91,088

See accompanying Notes to Consolidated Financial Statements for HEI.

1

Table of Contents

Hawaiian Electric Industries, Inc. and Subsidiaries

Consolidated Balance Sheets (unaudited)

(dollars in thousands)	June 30, 2010	December 31, 2009
Assets		
Cash and cash equivalents	$ 278,324	$ 503,922
Accounts receivable and unbilled revenues, net	266,701	241,116
Available-for-sale investment and mortgage-related securities	623,965	432,881
Investment in stock of Federal Home Loan Bank of Seattle	97,764	97,764
Loans receivable, net	3,573,131	3,670,493
Property, plant and equipment, net of accumulated depreciation of $1,996,286 and $1,945,482	3,106,812	3,088,611
Regulatory assets	424,614	426,862
Other	426,860	381,163
Goodwill, net	82,190	82,190
	$ 8,880,361	$ 8,925,002
Liabilities and stockholders equity		
Liabilities		
Accounts payable	$ 164,538	$ 159,044
Interest and dividends payable	30,829	27,950
Deposit liabilities	4,001,534	4,058,760
Short-term borrowings other than bank	55,012	41,989
Other bank borrowings	256,515	297,628
Long-term debt, net other than bank	1,364,879	1,364,815
Deferred income taxes	187,809	188,875
Regulatory liabilities	293,299	288,214
Contributions in aid of construction	326,050	321,544
Other	698,970	700,242
	7,379,435	7,449,061
Preferred stock of subsidiaries - not subject to mandatory redemption	34,293	34,293
Stockholders equity		
Preferred stock, no par value, authorized 10,000,000 shares; issued: none		
Common stock, no par value, authorized 200,000,000 shares; issued and outstanding: 93,619,909 shares and 92,520,638 shares	1,289,471	1,265,157
Retained earnings	183,015	184,213
Accumulated other comprehensive loss, net of tax benefits	(5,853)	(7,722)
	1,466,633	1,441,648
	$ 8,880,361	$ 8,925,002

See accompanying Notes to Consolidated Financial Statements for HEI.

Table of Contents

Hawaiian Electric Industries, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders Equity (unaudited)

(in thousands, except per share amounts)	Common stock Shares		Amount		Retained earnings		Accumulated other comprehensive loss		Total
Balance, December 31, 2009	**92,521**	**$**	**1,265,157**	**$**	**184,213**	**$**	**(7,722)**	**$**	**1,441,648**
Comprehensive income (loss):									
Net income for common stock					56,388				56,388
Net unrealized gains (losses) on securities:									
Net unrealized gains on securities arising during the period, net of taxes of $1,747							2,646		2,646
Unrealized losses on derivatives qualified as cash flow hedges:									
Unrealized holding loss arising during the period, net of tax benefits of $662							(1,039)		(1,039)
Retirement benefit plans:									
Amortization of net loss, prior service gain and transition obligation included in net periodic benefit cost, net of taxes of $1,248							1,959		1,959
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of tax benefits of $1,080							(1,697)		(1,697)
Comprehensive income					56,388		1,869		58,257
Issuance of common stock, net	1,099		24,314						24,314
Common stock dividends ($0.62 per share)					(57,586)				(57,586)
Balance, June 30, 2010	**93,620**	**$**	**1,289,471**	**$**	**183,015**	**$**	**(5,853)**	**$**	**1,466,633**
Balance, December 31, 2008	**90,516**	**$**	**1,231,629**	**$**	**210,840**	**$**	**(53,015)**	**$**	**1,389,454**
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					35,874				35,874
Net unrealized gains (losses) on securities:									
Net unrealized gains on securities arising during the period, net of taxes of $14,237							21,561		21,561
Net unrealized losses related to factors other than credit during the period, net of tax benefits of $5,147							(7,794)		(7,794)
Less: reclassification adjustment for net realized losses included in net income, net of tax benefits of $2,202							3,335		3,335
Retirement benefit plans:									
Amortization of net loss, prior service gain and transition obligation included in net periodic benefit cost, net of taxes of $3,718							5,827		5,827
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of tax benefits of $3,333							(5,233)		(5,233)
Comprehensive income					35,874		17,696		53,570
Issuance of common stock, net	1,046		15,199						15,199
Common stock dividends ($0.62 per share)					(56,477)				(56,477)

Balance, June 30, 2009	**91,562**	**$**	**1,246,828**	**$**	**194,018**	**$**	**(39,100)**	**$**	**1,401,746**

See accompanying Notes to Consolidated Financial Statements for HEI.

Table of Contents

Hawaiian Electric Industries, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)

Six months ended June 30 (in thousands)	2010	2009
Cash flows from operating activities		
Net income	$ 57,334	$ 36,820
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	79,606	76,999
Other amortization	2,149	2,484
Provision for loan losses	6,349	21,800
Loans receivable originated and purchased, held for sale	(136,197)	(291,500)
Proceeds from sale of loans receivable, held for sale	167,583	322,692
Net gain on sale of investment and mortgage-related securities		(44)
Other-than-temporary impairment of available-for-sale mortgage-related securities		5,581
Changes in deferred income taxes	(2,381)	3,973
Changes in excess tax benefits from share-based payment arrangements	97	318
Allowance for equity funds used during construction	(3,620)	(7,725)
Decrease in cash overdraft	(302)	
Changes in assets and liabilities		
Decrease (increase) in accounts receivable and unbilled revenues, net	(25,012)	88,308
Decrease (increase) in fuel oil stock	(49,759)	22,383
Increase (decrease) in accounts, interest and dividends payable	8,373	(20,748)
Changes in prepaid and accrued income taxes and utility revenue taxes	(30,699)	(56,397)
Changes in other assets and liabilities	11,732	(24,633)
Net cash provided by operating activities	**85,253**	**180,311**
Cash flows from investing activities		
Available-for-sale investment and mortgage-related securities purchased	(379,896)	(190,095)
Principal repayments on available-for-sale investment and mortgage-related securities	203,783	248,109
Proceeds from sale of available-for-sale investment and mortgage-related securities		44
Net decrease in loans held for investment	61,017	305,381
Proceeds from sale of real estate acquired in settlement of loans	2,118	
Capital expenditures	(83,673)	(175,092)
Contributions in aid of construction	9,430	4,917
Other	(10)	86
Net cash provided by (used in) investing activities	**(187,231)**	**193,350**
Cash flows from financing activities		
Net decrease in deposit liabilities	(57,226)	(11,467)
Net increase in short-term borrowings with original maturities of three months or less	13,023	55,000
Net decrease in retail repurchase agreements	(41,112)	(24,592)
Proceeds from other bank borrowings		310,000
Repayments of other bank borrowings		(577,517)
Proceeds from issuance of long-term debt		3,168
Changes in excess tax benefits from share-based payment arrangements	(97)	(318)
Net proceeds from issuance of common stock	10,789	8,786
Common stock dividends	(46,246)	(51,127)
Preferred stock dividends of subsidiaries	(946)	(946)
Decrease in cash overdraft		(962)
Other	(1,805)	(1,190)
Net cash used in financing activities	**(123,620)**	**(291,165)**
Net increase (decrease) in cash and cash equivalents	(225,598)	82,496
Cash and cash equivalents, beginning of period	503,922	183,435

Cash and cash equivalents, end of period	**$**	**278,324**	**$**	**265,931**

See accompanying Notes to Consolidated Financial Statements for HEI.

Table of Contents

Hawaiian Electric Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1 • Basis of presentation

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

In the opinion of HEI s management, the accompanying unaudited consolidated financial statements contain all material adjustments required by GAAP to present fairly the Company s financial position as of June 30, 2010 and December 31, 2009, the results of its operations for the three and six months ended June 30, 2010 and 2009 and cash flows for the six months ended June 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.

Table of Contents

2 • Segment financial information

(in thousands)	Electric Utility	Bank	Other	Total
Three months ended June 30, 2010				
Revenues from external customers	$ 584,048	$ 71,632	$ (16)	$ 655,664
Intersegment revenues (eliminations)	47		(47)	
Revenues	584,095	71,632	(63)	655,664
Profit (loss)*	28,354	25,747	(8,353)	45,748
Income taxes (benefit)	10,213	9,616	(3,816)	16,013
Net income (loss)	18,141	16,131	(4,537)	29,735
Preferred stock dividends of subsidiaries	499		(26)	473
Net income (loss) for common stock	17,642	16,131	(4,511)	29,262
Six months ended June 30, 2010				
Revenues from external customers	$ 1,132,123	$ 142,546	$ 35	$ 1,274,704
Intersegment revenues (eliminations)	83		(83)	
Revenues	1,132,206	142,546	(48)	1,274,704
Profit (loss)*	57,866	47,483	(16,723)	88,626
Income taxes (benefit)	21,174	17,616	(7,498)	31,292
Net income (loss)	36,692	29,867	(9,225)	57,334
Preferred stock dividends of subsidiaries	998		(52)	946
Net income (loss) for common stock	35,694	29,867	(9,173)	56,388
Assets (at June 30, 2010)	3,994,068	4,874,809	11,484	8,880,361
Three months ended June 30, 2009				
Revenues from external customers	$ 450,381	$ 75,499	$ 21	$ 525,901
Intersegment revenues (eliminations)	36		(36)	
Revenues	450,417	75,499	(15)	525,901
Profit (loss)*	24,666	5,482	(7,156)	22,992
Income taxes (benefit)	8,672	1,461	(3,093)	7,040
Net income (loss)	15,994	4,021	(4,063)	15,952
Preferred stock dividends of subsidiaries	499		(26)	473
Net income (loss) for common stock	15,495	4,021	(4,037)	15,479
Six months ended June 30, 2009				
Revenues from external customers	$ 912,142	$ 157,531	$ 25	$ 1,069,698
Intersegment revenues (eliminations)	72		(72)	
Revenues	912,214	157,531	(47)	1,069,698
Profit (loss)*	47,749	22,574	(15,279)	55,044
Income taxes (benefit)	17,124	7,671	(6,571)	18,224
Net income (loss)	30,625	14,903	(8,708)	36,820
Preferred stock dividends of subsidiaries	998		(52)	946
Net income (loss) for common stock	29,627	14,903	(8,656)	35,874
Assets (at December 31, 2009)	3,978,392	4,940,985	5,625	8,925,002

* Income (loss) before income taxes.

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.

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 49.

4 • Bank subsidiary

Selected financial information

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

Consolidated Statements of Income Data (unaudited)

(in thousands)	Three months ended June 30 2010	Three months ended June 30 2009	Six months ended June 30 2010	Six months ended June 30 2009
Interest and dividend income				
Interest and fees on loans	$ 49,328	$ 55,363	$ 99,073	$ 113,455
Interest and dividends on investment and mortgage-related securities	3,646	7,143	6,963	14,819
	52,974	62,506	106,036	128,274
Interest expense				
Interest on deposit liabilities	3,852	9,902	8,275	21,467
Interest on other borrowings	1,418	2,241	2,844	5,505
	5,270	12,143	11,119	26,972
Net interest income	**47,704**	**50,363**	**94,917**	**101,302**
Provision for loan losses	990	13,500	6,349	21,800
Net interest income after provision for loan losses	**46,714**	**36,863**	**88,568**	**79,502**
Noninterest income				
Fee income on deposit liabilities	7,891	7,462	15,411	14,173
Fees from other financial services	6,649	6,443	13,063	12,362
Fee income on other financial products	1,735	1,628	3,260	2,672
Net losses on available-for-sale securities		(5,537)		(5,537)
Other income	2,383	2,997	4,776	5,587
	18,658	12,993	36,510	29,257
Noninterest expense				
Compensation and employee benefits	18,907	17,991	36,309	37,351
Occupancy	4,216	5,922	8,441	11,051
Data processing	4,564	3,481	8,902	6,668
Services	1,845	3,801	3,573	7,219
Equipment	1,640	2,540	3,349	5,330
Loss on early extinguishment of debt		60		101
Other expense	8,453	10,579	17,021	18,465
	39,625	44,374	77,595	86,185
Income before income taxes	**25,747**	**5,482**	**47,483**	**22,574**
Income taxes	9,616	1,461	17,616	7,671

Net income	**$**	**16,131**	**$**	**4,021**	**$**	**29,867**	**$**	**14,903**

Table of Contents

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

Consolidated Balance Sheets Data (unaudited)

(in thousands)	June 30, 2010	December 31, 2009
Assets		
Cash and cash equivalents	$ 265,464	$ 425,896
Federal funds sold	794	1,479
Available-for-sale investment and mortgage-related securities	623,965	432,881
Investment in stock of Federal Home Loan Bank of Seattle	97,764	97,764
Loans receivable, net	3,573,131	3,670,493
Other	231,501	230,282
Goodwill, net	82,190	82,190
	$ 4,874,809	$ 4,940,985
Liabilities and stockholder s equity		
Deposit liabilities noninterest-bearing	$ 824,004	$ 808,474
Deposit liabilities interest-bearing	3,177,530	3,250,286
Other borrowings	256,515	297,628
Other	109,458	92,129
	4,367,507	4,448,517
Common stock	330,218	329,439
Retained earnings	179,522	172,655
Accumulated other comprehensive loss, net of tax benefits	(2,438)	(9,626)
	507,302	492,468
	$ 4,874,809	$ 4,940,985

Other assets

(in thousands)	June 30, 2010	December 31, 2009
Bank-owned life insurance	$ 115,433	$ 113,433
Premises and equipment, net	56,671	54,428
Prepaid expenses	21,766	24,353
Accrued interest receivable	15,544	15,247
Mortgage-servicing rights	4,943	4,200
Real estate acquired in settlement of loans, net	3,764	3,959
Other	13,380	14,662
	$ 231,501	$ 230,282

Other liabilities

(in thousands)	June 30, 2010	December 31, 2009
Accrued expenses	$ 30,838	$ 17,270
Federal and state income taxes payable	28,596	19,141
Cashier s checks	25,788	26,877

Advance payments by borrowers	10,533	10,989
Other	13,703	17,852
	$ 109,458	$ 92,129

Other borrowings consisted of securities sold under agreements to repurchase and advances from the Federal Home Loan Bank (FHLB) of Seattle of $192 million and $65 million, respectively, as of June 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.

Table of Contents

As of June 30, 2010, ASB had 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:

	June 30, 2010				December 31, 2009			
(in thousands)	**Book value**	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**	**Book value**	**Gross unrealized gains**	**Gross unrealized losses**	**Estimated fair value**
Investment securities federal agency obligations	$ 307,328	$ 853	$ (3)	$ 308,178	$ 104,091	$ 109	$ (156)	$ 104,044
Mortgage-related securities FNMA, FHLMC and GNMA	291,424	11,379	(7)	302,796	319,642	7,967	(88)	327,521
Municipal bonds	12,972	19		12,991	1,300	16		1,316
	$ 611,724	$ 12,251	$ (10)	$ 623,965	$ 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.

			Maturity<1 year		Maturity 1-5 years		Maturity 5-10 years		Maturity>10 years	
(dollars in thousands)	**Book value**	**Weighted average yield (%)**	**Book value**	**Yield (%)**	**Book value**	**Yield (%)**	**Book value**	**Yield (%)**	**Book value**	**Yield (%)**
June 30, 2010										
Investment securities federal agency obligations	$ 307,328	1.31	$ 10,000	0.30	$ 258,870	1.22	$ 38,458	2.15	$	
Mortgage-related securities FNMA, FHLMC and GNMA	291,424	3.81			4,177	2.29	120,318	3.79	166,929	3.87
Municipal bonds	12,972	3.14	500	1.92	800	2.50	11,116	3.24	556	3.00
	$ 611,724	2.54	$ 10,500	0.38	$ 263,847	1.24	$ 169,892	3.38	$ 167,485	3.87
December 31, 2009										
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

The net losses on available for sale securities for the three and six months ended June 30, 2009 of $5.5 million included impairment losses of $5.6 million, which consisted of $18.5 million of total other-than- temporary impairment losses, net of $12.9 million of non-credit losses recognized in other comprehensive income.

Table of Contents

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:

	Less than 12 months		12 months or more		Total	
(in thousands)	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value
June 30, 2010						
Investment securities federal agency obligations	$ (3)	$ 13,864	$	$	$ (3)	$ 13,864
Mortgage-related securities FNMA, FHLMC and GNMA	(7)	2,391			(7)	2,391
Municipal bonds						
	$ (10)	$ 16,255	$	$	$ (10)	$ 16,255
December 31, 2009						
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 June 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, on 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 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 June 30, 2010 and 2009, ASB s assessment rate was 14 basis points of deposits, or $1.5 million.

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.

Table of Contents

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 six months of 2010, the utilities contributed $16.4 million and HEI contributed $0.4 million to their respective retirement benefit plans, compared to $15.7 million and $0.7 million, respectively, in the first six 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:

	Three months ended June 30				**Six months ended June 30**			
	Pension benefits		**Other benefits**		**Pension benefits**		**Other benefits**	
(in thousands)	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Service cost	$ 7,095	$ 6,388	$ 1,168	$ 1,171	$ 14,048	$ 12,729	$ 2,291	$ 2,227
Interest cost	16,093	15,514	2,652	2,838	32,133	31,052	5,336	5,685
Expected return on plan assets	(17,221)	(14,295)	(2,766)	(2,222)	(34,415)	(28,571)	(5,518)	(4,437)
Amortization of unrecognized transition obligation				784	1	1		1,569
Amortization of prior service cost (credit)	(97)	(95)	(52)	4	(194)	(188)	(104)	7
Recognized actuarial loss (gain)	1,791	3,964	(2)	107	3,507	7,933	(3)	223
Net periodic benefit cost	7,661	11,476	1,000	2,682	15,080	22,956	2,002	5,274
Impact of PUC D&Os	2,020	(4,107)	1,333	(407)	5,028	(8,198)	2,621	(732)
Net periodic benefit cost (adjusted for impact of PUC D&Os)	$ 9,681	$ 7,369	$ 2,333	$ 2,275	$ 20,108	$ 14,758	$ 4,623	$ 4,542

The Company recorded retirement benefits expense of $19 million and $15 million in the first six months of 2010 and 2009, respectively, and charged the remaining amounts primarily to electric utility plant.

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

Defined contribution plan. On May 7, 2009, the ASB 401(k) Plan was spun-off from the existing Hawaiian Electric Industries Retirement Savings Plan (HEIRSP). The new Plan allows ASB employees the opportunity to defer a portion of their earnings on a pre-tax basis and receive a matching contribution (AmeriMatch) after one year with ASB. AmeriMatch equals 100% of the first 4% of the participant s eligible pay that is deferred to the plan and is fully vested. In addition, participants are eligible for an annual discretionary profit sharing contribution (AmeriShare) that is based on ASB s performance and achievement of its financial goals for the year. On May 15, 2009, ASB contributed $2.1 million to fund AmeriShare for the 2008 plan year. This AmeriShare contribution was allocated pro-rata to accounts of eligible participants based on a flat 4% percent of eligible pay. On March 17, 2010, ASB contributed $1.9 million to fund AmeriShare for the 2009 plan year. This contribution equated to 3.6% of eligible pay for eligible participants. For the first six months of 2010 and 2009, ASB s total expense for its employees participating in the HEIRSP and the new ASB 401(k) Plan combined was $1.9 million and $1.3 million, respectively. For the first six months of 2010 and 2009, ASB s cash contributions were $2.8 million and $3.0 million, respectively.

Table of Contents

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 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 June 30, 2010, 77,500 deferred shares were granted under the EIP.

Under the 1987 Stock Option and Incentive Plan, as amended (SOIP), grants and awards of 1.2 million shares of common stock (estimated based on assumptions, including LTIP awards at maximum levels and the use of the June 30, 2010 market price of shares as the price on the exercise/payment dates) were outstanding as of June 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, 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 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:

($ in millions)	Three months ended June 30 2010	Three months ended June 30 2009	Six months ended June 30 2010	Six months ended June 30 2009
Share-based compensation expense (1)	0.8		1.4	0.4
Income tax benefit	0.2		0.4	0.1

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

Table of Contents

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

June 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	0.8	$ 17.96
2002	21.68	122,000	1.6	21.68
2003	20.49	123,500	2.4	