HAWAIIAN ELECTRIC INDUSTRIES INC
Form DEF 14A
March 26, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

Hawaiian Electric Industries, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

HAWAIIAN ELECTRIC INDUSTRIES, INC. PO BOX 730 HONOLULU, HI 96808-0730

Constance H. Lau
President and
Chief Executive Officer

March 26, 2008

Dear Fellow Shareholder:

On behalf of the Board of Directors, it is my pleasure to invite you to attend the Annual Meeting of Shareholders of Hawaiian Electric Industries, Inc. (HEI). The meeting will be held on HEI's premises in Room 805 on the eighth floor of the American Savings Bank Tower in Honolulu, Hawaii on May 6, 2008, at 9:30 a.m., local time. A map showing the location of the meeting site appears on page 66 of the Proxy Statement.

The accompanying Notice of Annual Meeting of Shareholders and Proxy Statement describe the items of business to be conducted during the meeting. In addition, we will review significant events of 2007 and their impact on you and HEI. Officers and Board members will be available before and after the meeting to talk with you and answer questions.

As a shareholder of HEI, it is important that your views be represented. Please help us obtain the quorum needed to conduct business at the meeting by promptly voting your shares.

The Board and management team of HEI would like to express their appreciation to you for your confidence and support. I look forward to seeing you at the Annual Meeting in Honolulu.

Sincerely,

Recycled

Hawaiian Electric Industries, Inc.
900 Richards Street
Honolulu, Hawaii 96813

NOTICE OF ANNUAL MEETING

Date and Time
Tuesday, May 6, 2008, at 9:30 a.m., local time.

Place
American Savings Bank Tower, 1001 Bishop Street, 8th floor, Room 805, Honolulu, Hawaii 96813.

Items of Business
1. Elect five Class III directors.
2. Ratify appointment of KPMG LLP, as HEI's independent registered public accounting firm.
3. Approve the 1990 Nonemployee Director Stock Plan, as amended and restated.
4. Approve the 1987 Stock Option and Incentive Plan, as amended and restated.
5. Transact any other business properly brought before the meeting.

Proxy Record Date
February 27, 2008.

Annual Report
The 2007 Annual Report to Shareholders (Appendix A) and Summary Report to Shareholders, which are not a part of the proxy solicitation materials, have been mailed or made available electronically along with this Notice and accompanying Proxy Statement.

Proxy Voting
Shareholders of record may appoint proxies and vote their shares in one of three ways:

Via Internet pursuant to the instructions on the proxy card;

Calling the toll-free number on the proxy card; or

Signing, dating, and mailing the proxy card in the prepaid envelope provided.

Shareholders whose shares are held by a bank, broker, or other financial intermediary (street name) should follow the voting instruction card included by the intermediary.

Any proxy may be revoked in the manner described in the accompanying Proxy Statement.

Attendance at Meeting
If your shares are registered in street name, please bring a letter from your bank or broker or provide other evidence of your beneficial ownership if you plan to attend the Annual Meeting.

Important Notice Regarding the Availability of Proxy Materials for the Shareholders Meeting to Be Held on May 6, 2008
The proxy statement, annual report, and summary report to shareholders are at www.hei.com/proxymatl.html

By Order of the HEI Board of Directors.

March 26, 2008

Patricia U. Wong
Vice President-Administration and Corporate Secretary

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Proxy Statement

HEI is soliciting proxies for the Annual Meeting of Shareholders scheduled for May 6, 2008 at 9:30 a.m., local time, at the American Savings Bank Tower, 1001 Bishop Street, 8th floor, Room 805, Honolulu, Hawaii. The mailing address of the principal executive offices of HEI is P. O. Box 730, Honolulu, Hawaii 96808-0730.

The approximate mailing date for this Proxy Statement, form of proxy, and annual and summary reports to shareholders for the fiscal year ended December 31, 2007, is March 26, 2008. The annual report and summary report are not considered proxy soliciting materials.

About the Meeting

Who can attend the meeting?

Attendance will be limited to:

- shareholders of record;
- beneficial owners of HEI Common Stock having evidence of ownership and entitled to vote at the meeting;
- authorized representatives of absent shareholders; and
- invited guests of management.

If you own shares of HEI Common Stock in the name of a bank, brokerage firm or other holder of record, you must show proof of ownership. This may be in the form of a letter from the holder of record or a recent statement from the bank or broker showing ownership of HEI Common Stock.

Any person claiming to be an authorized representative of a shareholder must produce written evidence of the authorization.

What are shareholders being asked to vote on?

- Election of five Class III directors for a three-year term expiring at the 2011 Annual Meeting of Shareholders.
- Ratification of appointment of KPMG LLP as HEI's independent registered public accounting firm.
- Approval of the Amended and Restated 1990 Nonemployee Director Stock Plan.
- Approval of the Amended and Restated 1987 Stock Option and Incentive Plan.

Voting Procedures

Who is eligible to vote?

Only shareholders of record at the close of business on February 27, 2008 (the proxy record date) are entitled to vote.

How many shares are outstanding and entitled to vote?

On February 27, 2008, 83,580,279 shares of HEI Common Stock were outstanding. Each shareholder is entitled to one vote for each share held. Under the Bylaws of HEI, shareholders do not have cumulative voting rights in the election of directors.

What constitutes a quorum?

A quorum is needed to conduct business at the Annual Meeting. A majority of the shares entitled to vote at the meeting constitutes a quorum. Abstentions and broker nonvotes will be counted in the number of shares present, in person or by proxy, for purposes of determining a quorum. A broker nonvote occurs when a broker does not have discretionary voting power to vote on a specific matter (such as nonroutine proposals) and has not received voting instructions from the beneficial owner.

How do shareholders vote?

Whether or not you plan to attend the Annual Meeting, please take the time to vote. You may vote by mail, telephone, or on-line via the Internet. The telephone and Internet procedures are designed to authenticate and confirm that your voting instructions are followed. You do not need to return your proxy if you vote by telephone or via the Internet.

BY MAIL: Please mark your vote and sign, date, and promptly return the proxy in the enclosed postage-paid envelope. If you return the signed proxy but do not mark the boxes showing how you wish to vote, your votes will be cast following the recommendations of management on all proposals.

BY TELEPHONE: Please call the toll-free telephone number on the proxy (1-888-693-8683). Once connected, you will be prompted to record and confirm your vote. Telephone voting is available 24 hours a day, through Monday, May 5, 2008, 11:59 p.m. (EDT).

BY INTERNET: You may vote on-line by using the following Internet address: http://www.cesvote.com. Specific instructions will be available allowing you to record and confirm your vote. Internet voting is available 24 hours a day, through Monday, May 5, 2008, 11:59 p.m. (EDT).

IN PERSON: You may vote your shares by attending the Annual Meeting and voting in person. If you wish to give your proxy to someone other than the individuals listed on the enclosed proxy, cross out all three names and insert the name of another person to vote your shares at the meeting.

How do shareholders vote if their shares are held in street name?

If your shares are held in "street name" (that is, through a broker, trustee or other holder of record), you will receive a proxy card from your broker seeking instruction as to how your shares should be voted. If no instructions are given, your broker or nominee may vote your shares at its discretion on your behalf on routine matters (such as the election of directors and the ratification of the independent registered public accounting firm) under New York Stock Exchange rules. However, your broker or nominee will not be able to vote your shares on the other proposals to be presented at the Annual Meeting without instructions and the Board of Directors requests and encourages you to provide instructions on these matters.

You may not vote shares held in "street name" at the Annual Meeting unless you obtain a legal proxy from your broker or holder of record.

How do shareholders vote if their shares are held in the Dividend Reinvestment and Stock Purchase Plan or the HEI Retirement Savings Plan?

If you own shares held in the Dividend Reinvestment and Stock Purchase Plan or the HEI Retirement Savings Plan (including shares previously received under the Tax Reduction Act Stock Ownership Plan), the respective plan trustees will vote the shares of stock held in these Plans according to your directions. For both Dividend Reinvestment and Stock Purchase Plan and HEI Retirement

Savings Plan, the respective trustees will vote all the shares of HEI Common Stock for which they receive no voting instructions in the same proportion as they vote shares for which they receive instruction.

Can shareholders change their vote?

If you execute and return a proxy, you may revoke it at any time before the Annual Meeting in one of three ways:

- submit a properly signed proxy with a later date or vote again at a later time by telephone or Internet;
- notify the Corporate Secretary of HEI in writing; or
- vote in person at the Annual Meeting (if your shares are registered directly on HEI's books or, if your shares are held in "street name" and you have a legal proxy from your broker or holder of record).

How many votes are required?

If a quorum is present at the Annual Meeting, then:

- directors shall be elected by a plurality of the votes cast in the election,
- appointment of HEI's independent registered public accounting firm shall be ratified if more votes are cast in favor than against, and
- The Amended and Restated 1990 Nonemployee Director Stock Plan and the Amended and Restated 1987 Stock Option and Incentive Plan shall be approved if a majority of the votes cast are in favor of the amendments and, in the case of the Amended and Restated 1990 Nonemployee Director Stock Plan, the total votes cast on the proposal represent more than 50% of all shares entitled to vote.

Abstentions and broker nonvotes will count in establishing a quorum, but will not otherwise affect the outcome of the election of directors or the ratification of the appointment of HEI's independent registered public accounting firm. Abstentions and broker nonvotes will not affect the outcome of the proposals to approve the Amended and Restated 1990 Nonemployee Director Stock Plan or the Amended and Restated 1987 Stock Option and Incentive Plan, unless, in the case of the Amended and Restated 1990 Nonemployee Director Stock Plan, they cause the total votes cast to be less than 50% of the shares entitled to vote.

Who will count the votes and are the votes confidential?

Corporate Election Services will act as tabulator for broker and bank proxies as well as the proxies of the other shareholders of record. Your identity and vote will not be disclosed to persons other than those acting as tabulators except as follows:

- as required by law;
- to verify the validity of proxies and the results of the voting in the case of a contested proxy solicitation; or
- when you write a comment on the proxy form.

Could other matters be decided at the Annual Meeting?

HEI knows of no business to be presented at the 2008 Annual Meeting other than the items set forth in this proxy statement. If other business is properly brought before the Annual Meeting, or any adjournment thereof, the persons named on the enclosed proxy will vote your stock in accordance with their best judgment, unless authority to do so is withheld by you in your proxy.

What happens if the Annual Meeting is postponed or adjourned?

If the Annual Meeting is postponed or adjourned, your proxy will still be good and may be voted at the postponed or adjourned meeting. You will still be able to change or revoke your proxy until it is voted at the Annual Meeting.

Proposals You May Vote On

1. Election of Class III Directors

The Board of Directors currently consists of 13 directors divided into three classes with staggered terms so that one class of directors must be elected at each Annual Meeting.

This year, the five Class III nominees being proposed for election at this Annual Meeting are:

Don E. Carroll

Richard W. Gushman, II

Victor H. Li

Bill D. Mills

Barry K. Taniguchi

Mr. Gushman, who joined the Board in June 2007, is being proposed for election to the Board by the shareholders for the first time. His nomination was recommended by nonmanagement directors.

Each nominee is currently a member of the Board and has consented to serve for the new term expiring at the 2011 Annual Meeting. If a nominee is unable to stand for election, the proxy holders listed in the proxy may vote in their discretion for a suitable substitute.

YOUR BOARD RECOMMENDS THAT YOU VOTE FOR EACH OF THE NOMINEES FOR CLASS III DIRECTORS.

Detailed information on each nominee and Class I and II directors is provided on pages 16-18.

2. Ratification of appointment of Independent Registered Public Accounting Firm

KPMG LLP, an independent registered public accounting firm, has been the auditor of HEI since 1981. The Audit Committee selected KPMG LLP as HEI's independent registered public accounting firm for 2008. The Board, upon the recommendation of its Audit Committee, recommends the ratification of KPMG LLP as the independent registered public accounting firm of HEI for fiscal year 2008 and thereafter until its successor is appointed. Representatives of KPMG LLP will be present at the Annual Meeting and will be given the opportunity to make a statement and to respond to appropriate questions.

YOUR BOARD AND THE AUDIT COMMITTEE RECOMMEND THAT YOU VOTE FOR THE RATIFICATION OF KPMG LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM OF HEI.

3. Approval of the proposed Amended and Restated 1990 Nonemployee Director Stock Plan

The 1990 Nonemployee Director Stock Plan, as previously amended, provides nonemployee directors with incentives to improve HEI's performance by increasing the level of stock owned by nonemployee directors to reinforce their role in enhancing shareholder value and to provide an additional means of attracting and retaining nonemployee directors.

As further described below, the Board has amended the Nonemployee Director Stock Plan, subject to your approval of this proposal, as follows: (a) increase the annual stock award from 1,400 shares to 1,800 shares, (b) reflect the change in jurisdiction over director compensation from the Nominating and Corporate Governance Committee to the Compensation Committee, (c) reserve an additional 75,000 shares of HEI Common Stock for issuance (currently 300,000 shares of HEI Common Stock have been reserved for issuance under the Nonemployee Director Stock Plan, 236,922 of which have been issued as of the date hereof), and (d) extend the term of the Nonemployee Director Stock Plan from the current date of April 27, 2010, until May 6, 2018.

Attached as Appendix B to this Proxy Statement is a copy of the Nonemployee Director Stock Plan as it would be amended and restated upon approval of the proposed amendment. The summary of the Nonemployee Director Stock Plan set forth below is qualified in its entirety by reference to the full text of the Nonemployee Director Stock Plan (as it would be amended), which is incorporated herein by reference.

Equity Compensation Plan Information

Information as of December 31, 2007 about HEI Common Stock that may be issued upon the exercise of awards granted under all of HEI's equity compensation plans was as follows:

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(2)
Equity compensation plans approved by shareholders	699,276	$ 19.68	4,158,745
Equity compensation plans not approved by shareholders			
Total	699,276	$ 19.68	4,158,745

(1) Includes 603,800 shares subject to outstanding nonqualified stock options and 95,476 of dividend equivalent shares accrued as of December 31, 2007 for such options.

(2) This represents the number of shares remaining available as of December 31, 2007, including 4,095,667, net of any shares underlying outstanding grants, under the 1987 Stock Option and Incentive Plan, as amended, and 63,078 under the HEI Nonemployee Director Plan. All of the shares remaining available for issuance under the HEI Nonemployee Director Plan may be issued in the form of unrestricted HEI Common Stock. Of the shares remaining available for issuance under the 1987 Stock Option and Incentive Plan, as amended, 309,000 shares may be issued in the form of restricted stock, stock payments, or stock-settled restricted stock units (i.e., other than in the form of options, warrants or rights).

Summary of Plan Terms

The Nonemployee Director Stock Plan was originally adopted by HEI in 1990. It was subsequently amended in certain respects and, in 2002, was amended to incorporate provisions formerly memorialized in HEI's 1999 Nonemployee Company Director Stock Grant Plan, which was thereupon superseded. In 2005, the Board amended the Nonemployee Director Stock Plan to reserve an additional 100,000 shares of HEI Common Stock for issuance, bringing the maximum number of shares of HEI Common Stock that may be issued under the Nonemployee Director Stock Plan, when taken together with any shares ever granted under the Nonemployee Director Stock Plan, to 300,000 (as adjusted for HEI's 2004 stock split and subject to appropriate adjustments upon changes in capitalization, such as a stock split). The shareholders approved that amendment at the 2006 Annual Meeting of Shareholders. The Nonemployee Director Stock Plan has been amended in certain other respects from time to time.

Pursuant to the amendment subject to this proposal, the Nonemployee Director Stock Plan will be administered in the discretion of the Compensation Committee or such other committee as may be appointed from time to time by the Board. The Nonemployee Director Stock Plan provides benefits to nonemployee directors of HEI and nonemployee directors of HEI's operating subsidiaries (American Savings Bank, F.S.B., and Hawaiian Electric Company, Inc.) whose participation in the Nonemployee Director Stock Plan has been approved by the Board. Currently, 12 HEI and 9 subsidiary directors participate in the Nonemployee Director Stock Plan.

Under the terms of the Nonemployee Director Stock Plan: (i) each nonemployee HEI director who serves in that capacity immediately following the date of an Annual Meeting of Shareholders of HEI receives 1,400 shares of HEI Common Stock (subject to an increase to 1,800 shares of HEI Common Stock pursuant to the amendment subject to this proposal), and (ii) each nonemployee director of subsidiaries who serves in that capacity immediately following the date of an Annual Meeting of Shareholders receives 1,000 shares of Common Stock. Each individual who, during any calendar year, becomes a nonemployee HEI director or nonemployee director of a subsidiary for the first time, other than at the Annual Meeting of Shareholders (whether by election or appointment as a director of HEI or one of its subsidiaries), receives 2,000 shares of HEI Common Stock as a HEI director or 1,000 shares of Common Stock as a subsidiary company director. The dollar value of such stock payment will vary with changes in the fair market value of HEI Common Stock. Such stock payments are paid by HEI as soon as practicable following the date the director is first elected or appointed to the HEI Board of Directors or a subsidiary, as the case may be. Once granted, the shares of HEI Common Stock are not subject to forfeiture.

The Board in its discretion may amend, suspend or terminate the Nonemployee Director Stock Plan at any time. However, no such amendment will, without approval of the shareholders of HEI, change the class of persons eligible to receive stock grants under the Nonemployee Director Stock Plan or otherwise modify the requirements as to eligibility for participation in the Nonemployee Director Stock Plan, or increase the number of shares of HEI Common Stock which may be issued under the Nonemployee Director Stock Plan. Moreover, no amendment, suspension or termination of the Nonemployee Director Stock Plan will, without the consent of any affected nonemployee HEI director or nonemployee director of a subsidiary company, alter, terminate, impair or adversely affect any right or obligations under any stock payment previously granted under the Nonemployee Director Stock Plan unless such amendment, suspension or termination is required by applicable law. Notwithstanding the foregoing, the Board may, without further action by the shareholders of HEI, amend the Nonemployee Director Stock Plan or modify the grants of stock under the Nonemployee Director Stock Plan in response to changes in securities or other laws, or rules, regulations or regulatory interpretations thereof, applicable to the Nonemployee Director Stock Plan, or to comply with stock exchange rules or requirements. Unless terminated earlier by the Board, and subject to shareholder approval of this proposal, the Nonemployee Director Stock Plan will expire on May 6, 2018.

YOUR BOARD RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF THE AMENDED AND RESTATED 1990 NONEMPLOYEE DIRECTOR STOCK PLAN.

4. Approval of the proposed Amended and Restated 1987 Stock Option and Incentive Plan

HEI's 1987 Stock Option and Incentive Plan, as amended and restated in 1992, 1996, 2001, 2003 and 2004, provides a means to attract and retain high caliber personnel and provides participating employees with long-term stock and other incentives to align their interests with the interests of shareholders. The Board has approved and adopted amendments to the Stock Option and Incentive Plan, effective as of January 22, 2008, subject to the approval of shareholders.

At this time, HEI is seeking shareholder approval of all of the performance goals set forth in the Stock Option and Incentive Plan, including three new performance goals added to the Stock Option and Incentive Plan by the amendment.

A summary of the amendments and the remaining material provisions of the Stock Option and Incentive Plan is set forth below.

The Stock Option and Incentive Plan, as restated to incorporate the amendments, is printed in full and attached to this Proxy Statement as Appendix C and is incorporated herein by reference. The following summary of the Stock Option and Incentive Plan is qualified in its entirety by reference to the full text of the Stock Option and Incentive Plan.

Addition of Performance Goals

Prior to the amendment, the Stock Option and Incentive Plan provided that the Compensation Committee may condition payment of an option or other incentive award permitted under the Stock Option and Incentive Plan in whole or in part on the attainment of one or more of the following performance goals, applied to a participant and/or a business unit or HEI and/or a parent or subsidiary of HEI: (1) total return to shareholders; (2) earnings per share of Common Stock; (3) net income (before or after taxes); (4) earnings before all or any interest, taxes, depreciation and/or amortization; (5) gross revenue; (6) return on assets; (7) market share; (8) cost reduction goals; (9) earnings from continuing operations, levels of expense, cost or liability; (10) performance against operational budgets; (11) a participant's individual operational project goals; (12) return on average common equity; (13) individual performance goals; and (14) any combination of, or a specified increase or decrease of, one or more of the foregoing over a specified period, in each case, as applicable, as determined in accordance with generally accepted accounting principles, where applicable.

The amendment adds free cash flow, modified free cash flow (net income plus depreciation and amortization less net capital expenditures) and shareholder value added to the above list of performance goals.

In order to comply with the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended (hereinafter "Internal Revenue Code"), HEI seeks shareholder approval of all of the above performance goals, including the three new performance goals added to the Stock Option and Incentive Plan by the amendment.

Additional Revisions

Certain other revisions were made to the Stock Option and Incentive Plan by the amendments, including those intended to (1) revise the definition of average fair market value by (a) eliminating the reference to the average of the daily high and low sales prices on the composite tape for stocks listed on the New York Stock Exchange as quoted in the New York Stock Exchange Composite Transactions published in the Western Edition of The Wall Street Journal and (b) streamlining such definition to mean simply the average of the daily high and low sales price of the Common Stock as quoted on the New York Stock Exchange; (2) revise the definition of fair market value by (a) eliminating the references to the average of the daily high and low sales prices on the composite tape for stocks listed on the New York Stock Exchange as quoted in the New York Stock Exchange Composite Transactions published in the Western Edition of The Wall Street Journal and, if there is no trading of Common Stock on the determination date, to the average of the daily high and low sales prices of the Common Stock as quoted in such Composite Transactions on the next preceding date on which there was trading and (b) streamlining such definition to mean simply the average of the daily high and low sales price of the Common Stock as quoted on the New York Stock Exchange or, if there is no trading of Common Stock on such date, the next preceding date on which there was trading, as quoted on the New York Stock Exchange; (3) clarify that specified adjustments to the Stock Option and Incentive Plan and incentive awards *must* be made in the case of certain events (e.g., increase/decrease in outstanding shares of Common Stock, distribution of additional, new or different shares, other securities or property with respect to shares of Common Stock or other securities through merger, consolidations, asset sale, reorganization, etc.) and not that such adjustments *may* be made; (4) permit the Compensation Committee, as it deems appropriate, to amend or terminate the Stock Option and Incentive Plan and/or amend, restructure, terminate or replace an incentive award to either not be subject to Section 409A of the Internal Revenue Code, as amended, or to comply with Section 409A; and (5) make certain other technical or clarifying changes to the provisions of the Stock Option and Incentive Plan to reflect changes in applicable law.

Summary of Remaining Material Provisions of the Stock Option and Incentive Plan

The Stock Option and Incentive Plan is administered by the Compensation Committee, which consists of two or more persons who are "non-employee directors" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934 and "outside directors" within the meaning of Section 162(m) of the Internal Revenue Code.

Subject to the express provisions of the Stock Option and Incentive Plan, the Compensation Committee has complete authority to interpret and implement the Stock Option and Incentive Plan and its actions and decisions will be final and binding upon participants. The Board, Compensation Committee and officers and employees of HEI or designees acting on their behalf, will be indemnified to the extent permitted by law in respect of any action, determination or interpretation taken in good faith with respect to the Stock Option and Incentive Plan or any transaction arising under the Stock Option and Incentive Plan.

The Compensation Committee selects from all regular full-time employees of HEI and its subsidiaries those who are eligible to receive awards under the Stock Option and Incentive Plan. As of December 31, 2007, HEI and its subsidiaries had approximately 3,682 employees, of which approximately 3,520 were regular full-time employees.

No determination has yet been made concerning which individuals will receive future awards under the Stock Option and Incentive Plan. Although it is contemplated that the principal participants will be the key employees of HEI and its subsidiaries, the Compensation Committee has broad discretion under the Stock Option and Incentive Plan in selecting employees.

The Stock Option and Incentive Plan provides that the Compensation Committee may grant to eligible individuals any combination of incentive awards in the form of nonqualified stock options, incentive stock options, restricted stock, stock appreciation rights, performance awards, stock payments, dividend equivalents or restricted stock units (which awards are described more fully below). Each incentive award will be evidenced by either a written instrument or a written plan adopted by the Committee, in either case indicating the type and terms of the award. The applicable instrument or plan may include any other terms and conditions consistent with the Stock Option and Incentive Plan as the Committee may in its discretion determine, including without limitation terms and conditions that would prohibit a participant from transferring or otherwise disposing of a share of Common Stock issued under an incentive award for a period identified in the incentive award agreement or require the forfeiture of a share of Common Stock issued under an incentive award if the participant engages in any conduct that is identified in the incentive award agreement. The Committee may, on such terms and conditions as it determines, permit a participant to elect to defer all or any portion of cash or shares payable under an incentive award and credit such deferred amounts with an interest rate or other rate of return determined by the Committee.

The number of shares of Common Stock for which incentive awards may be granted during the term of the Stock Option and Incentive Plan (prior to the adjustment for the stock split in June 2004) is 4,650,000 shares; provided that, of these shares, the 2,000,000 shares that were added to the Stock Option and Incentive Plan by amendment effective January 21, 2003 may not be made subject to any incentive awards other than nonqualified stock options, incentive stock options, or stock appreciation rights. Either authorized but unissued shares or previously issued shares reacquired by HEI, including shares purchased on the open market, may be issued under the Stock Option and Incentive Plan.

On February 27, 2008, the per share closing price of the HEI Common Stock on the New York Stock Exchange was $23.31. As of December 31, 2007, approximately 4,794,943 shares of Common Stock remained available for grant under the Stock Option and Incentive Plan, options to purchase 699,276 shares of Common Stock were outstanding, no shares of Common Stock were subject to outstanding stock appreciation rights and 146,000 shares of Common Stock subject to restricted stock awards were outstanding.

The 4,650,000 share limit, as well as the maximum number of incentive awards that may be granted, as described below, the prices of options and other incentive awards outstanding under the Stock Option and Incentive Plan and the number of shares subject to options and other incentive awards outstanding under the Stock Option and Incentive Plan, will be appropriately adjusted for stock dividends, stock splits, recapitalizations, combinations of shares and other changes affecting HEI's stock. All shares for which awards have terminated or expired, or were settled in cash, including awards that provide the grantee with dividend and voting rights, will again be available for issuance pursuant to incentive awards under the Stock Option and Incentive Plan. In addition, to the extent that payment for an option upon exercise is made with shares of Common Stock or shares of Common Stock are withheld from payment of an incentive award in satisfaction of any federal, state or local tax withholding requirements, these shares will again be available for issuance pursuant to incentive awards under the Stock Option and Incentive Plan.

The Stock Option and Incentive Plan is designed to enable the Board to ensure that compensation payable in the form of certain incentive awards under the Stock Option and Incentive Plan will qualify as performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code, at such time as the Board determines that it is advisable for such compensation to so qualify. To this end, the Compensation Committee may grant incentive awards that will be payable solely by reason of the attainment of certain pre-established performance goals listed above (see section above entitled "*Addition of Performance Goals*") and set forth in the Stock Option and Incentive Plan. With respect to compensation not intended to qualify as performance-based under Section 162(m) of the Internal Revenue Code, the Committee may condition payment of an incentive award in whole or in part on the attainment of the performance goals listed above or other performance goals.

To comply with Section 162(m), the Compensation Committee must establish any of the pre-established performance goals not later than 90 days after the commencement of the period of service to which the incentive award relates (or if less, 25% of this period of service), and once granted, the Committee may not have discretion to increase the amount payable under the incentive award. Nevertheless, the Committee will have the authority to make appropriate adjustments in performance goals under an incentive award to reflect the impact of extraordinary items not reflected in these goals. These extraordinary items include: (1) any profit or loss attributable to acquisitions or dispositions of stock or assets; (2) any changes in accounting standards that may be required or permitted by the Financial Accounting Standards Board or adopted by HEI after the goal is established; (3) all items of gain, loss or expense for the year related to restructuring charges for HEI; (4) all items of gain, loss or expense for the year determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of a business; (5) all items of gain, loss or expense for the year related to discontinued operations that do not qualify as a segment of a business as defined in Statement of Financial Accounting Standards No. 144; (6) such other items as may be prescribed by Section 162(m) and the applicable Treasury Regulations as may be in effect from time to time, and any amendments, revisions or successor provisions; and (7) with respect to incentive awards not intended to constitute qualified performance-based compensation within the meaning of Section 162(m), such other items as the Committee may deem appropriate.

The Stock Option and Incentive Plan provides maximum limits on the number of incentive awards that may be granted under the Stock Option and Incentive Plan. Commencing with the 2003 calendar year, the aggregate number of shares of Common Stock with respect to which incentive awards may be granted to any individual participant during any calendar year may not exceed 100,000 (including shares with respect to incentive awards payable in cash but denominated in Common Stock, like cash-settled stock appreciation rights and restricted stock units, which are described below). Moreover, the total number of shares that may be subject to restricted stock, stock payments or stock-settled restricted stock units granted on or after April 23, 2003 may not exceed 5% of the total number of shares of Common Stock authorized under the Stock Option and Incentive Plan as of such date but not subject to an incentive award immediately before such date.

In addition, with respect to performance awards under the Stock Option and Incentive Plan (which are a particular type of incentive award settled in cash or stock, or a combination, and the value of which is based on the achievement of performance goals or other criteria as may be determined by the Compensation Committee), commencing with the 2003 calendar year, (1) no performance award may relate to a performance period in excess of three years; (2) no more than two performance awards may be granted to any individual participant during any calendar year; (3) with respect to any performance award that relates to a performance period of not more than one year, the maximum value of the performance award may not exceed $2,000,000 (to the extent payable in shares of Common Stock, based on either fair market value or average fair market value (both as defined below) at the time of award or payment, as determined by the Committee); and (4) with respect to any performance award that relates to a performance period of more than one year, the maximum value of the performance award may not exceed $2,500,000 (to the extent payable in shares of Common Stock, based on either fair market value or average fair market value at the time of award or payment).

Nonqualified stock options will provide for the right to purchase Common Stock at a price that is not less than the lesser of the fair market value and the average fair market value on the date of the grant. These options will be granted for a term that may not exceed ten years. HEI's current practice is to grant nonqualified stock options with an exercise price equal to the fair market value of the underlying Common Stock on the date of grant.

As amended, subject to shareholder approval of this proposal, the term "fair market value" under the Stock Option and Incentive Plan means, as of any determination date, the average of the daily high and low sales prices of the Common Stock as quoted on the New York Stock Exchange on the date as of which fair market value is to be determined, or if there is no trading of Common Stock on that date, the average of the daily high and low sales prices of the Common Stock as quoted on the New York Stock Exchange on the next preceding date on which there was trading in the shares; and the term "average fair market value" means, as of any determination date, the average of the daily high and low sales prices of the Common Stock as quoted on the New York Stock Exchange for all trading days during the calendar month preceding the determination date. If the Common Stock is no longer traded on the New York Stock Exchange, fair market value and average fair market value will be determined in such reasonable manner as the Compensation Committee determines.

Incentive stock options will be designed to comply with the provisions of the Internal Revenue Code, and will be subject to restrictions contained in the Internal Revenue Code. Incentive stock options will be granted at not less than the fair market value of the Common Stock subject to such options on the date of grant and will extend for a term of up to ten years. However, incentive stock options granted to any person who owns more than 10% of the combined voting power of HEI's outstanding securities must be granted at prices that are not less than 110% of fair market value on the date of grant and may not extend for more than five years.

The purchase price of Common Stock purchased upon the exercise of a stock option must be paid in full on the date of exercise in cash or its equivalent, or in such other manner acceptable to the Compensation Committee, including other Common Stock of HEI owned by the participant and valued at its fair market value on the exercise date.

Grants of restricted stock are awards of Common Stock that a participant may purchase at a price determined by the Compensation Committee, or Common Stock to which the participant may become entitled without payment of any price, upon the lapse of restrictions specified by the Committee in the applicable award agreement at time of grant. The Committee may provide that a restricted stock award will vest based on continuing employment or upon the satisfaction of pre-established performance objectives and may impose such other conditions as the Committee deems advisable. In general, restricted stock may not be sold, transferred or hypothecated until the restrictions lapse, are removed or expire. Recipients of restricted stock awards, unlike recipients of options, may have voting rights and may receive dividends prior to the time when restrictions lapse.

Restricted stock units are rights to receive, when the units vest, shares of Common Stock or a cash amount equal to the fair market value or average fair market value of the restricted stock units (as determined by the Compensation Committee), plus, in either case, the aggregate amount of cash dividends paid with respect to the shares of Common Stock represented by these units, from the date of grant of the units until the vesting date. The Committee may provide that a restricted stock unit award will vest upon the satisfaction of certain restrictions or conditions.

Stock appreciation rights may be granted in tandem with either nonqualified or incentive stock options, or as free-standing stock appreciation rights, which are stock appreciation rights that are granted independent of, and not in connection with, the grant of options. Free-standing stock appreciation rights will permit the participant to exercise the stock appreciation rights by surrendering them in exchange for an amount equivalent to the difference between the fair market value of the shares subject to the stock appreciation rights and the exercise price of such shares. Tandem stock appreciation rights will permit the participant to exercise the stock appreciation rights by surrendering the unexercised options in exchange for an amount equivalent to the difference between the fair market value of the option shares with respect to which the stock appreciation rights are exercised and the option price of such shares.

The Compensation Committee may elect to pay stock appreciation rights in cash or in Common Stock or in a combination of cash and Common Stock. The stock appreciation rights will provide that the holder of the stock appreciation rights may exercise the stock appreciation rights or the tandem option in whole or in part. Stock appreciation rights granted in tandem with options may not extend beyond the term of the related option and will be transferable only to the extent that the related option is transferable. To the extent that an option is exercised, any related stock appreciation rights will be reduced by the number of shares with respect to which the option is exercised. To the extent any stock appreciation rights are exercised, any related option will be reduced by the number of shares with respect to which the stock appreciation rights are exercised.

Performance awards may be granted by the Compensation Committee on an individual basis. These awards may be paid in cash or shares of Common Stock and will be based either upon specific written instruments or upon specific incentive performance plans. The written instrument or plan will set forth the performance criteria to be utilized to calculate the value of the performance awards, the term over which such performance will be measured, the events which will give rise to payment of the awards and the form and time of payment of the awards. The Committee may also provide for interest or earnings to be credited on any cash or stock payments that are deferred at a rate specified by the Committee.

The Compensation Committee may approve a stock payment in Common Stock to any employee who otherwise may be entitled to a cash payment other than base salary, such as the payment of a performance award or a bonus under one of HEI's bonus plans. In the event Common Stock is issued in lieu of such a cash compensation payment, the Common Stock will be valued at its fair market value or average fair market value at the time of payment, as determined by the Committee.

Under the Stock Option and Incentive Plan, the Compensation Committee has discretion to prescribe the time period during which an option may be exercised after termination of employment. Unless an option award agreement provides otherwise, however, upon a participant's termination of employment for any reason, all of the participant's options that have not yet vested will be forfeited. In the case of performance awards, if a participant's employment with HEI is terminated for any reason prior to the occurrence of the events that vest a performance award, the performance award will expire unless the applicable award instrument or plan provides otherwise. Similarly, all of a participant's restricted stock and restricted stock units remaining subject to restrictions on the date of termination of employment will be forfeited unless the applicable restricted stock award or restricted stock unit agreement provides otherwise.

The Stock Option and Incentive Plan further provides that the Compensation Committee may include, in any incentive award instrument or plan, provisions to the effect that the time at which the award is vested, exercisable, payable or free from restrictions, as the case may be, may be accelerated by the occurrence of certain events, either automatically or upon a further determination made by the Committee at the time of the events.

Except as otherwise provided in an incentive award agreement, plan or other written instrument, upon the occurrence of a change-in-control (as defined in the Stock Option and Incentive Plan, unless otherwise provided in an award agreement), outstanding incentive awards will immediately become fully vested, exercisable, payable, or free from restrictions.

The Stock Option and Incentive Plan provides that HEI may make whatever provisions it deems appropriate to withhold any taxes it is required to withhold with respect to incentive awards and to require participants to satisfy any tax requirements before making payments pursuant to incentive awards or authorizing the issuance of shares of Common Stock to the participants.

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