HAWAIIAN ELECTRIC CO INC
Form 10-Q
May 06, 2008
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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 March 31, 2008

OR

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

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

HAWAIIAN ELECTRIC COMPANY, INC.

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 ¨

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 ¨

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. (Check one): Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

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. (Check one): Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x (Do not check if a smaller reporting company) Smaller reporting company ¨

Indicate by check mark whether Registrant Hawaiian Electric Industries, Inc. is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No 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 ¨ 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 April 30, 2008
Hawaiian Electric Industries, Inc. (Without Par Value)	84,077,675 Shares
Hawaiian Electric Company, Inc. ($6- $^2/_3$ Par Value)	12,805,843 Shares (not publicly traded)

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Hawaiian Electric Industries, Inc. and Subsidiaries

Hawaiian Electric Company, Inc. and Subsidiaries

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Hawaiian Electric Industries, Inc. and Subsidiaries

Hawaiian Electric Company, Inc. and Subsidiaries

Form 10-Q Quarter ended March 31, 2008

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 HEI Diversified, Inc. and parent company of American Savings Investment Services Corp. (and its subsidiary, Bishop Insurance Agency of Hawaii, Inc.). AdCommunications, Inc. (dissolved in May 2007) is a former subsidiary.
CHP	Combined heat and power
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); HEI Diversified, 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.; 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.). Former subsidiaries of HEI (other than former subsidiaries of HECO and ASB and former subsidiaries of HEI sold or dissolved prior to 2004) include Hycap Management, Inc. (dissolution completed in 2007); Hawaiian Electric Industries Capital Trust I (dissolved and terminated in 2004)*, HEI Preferred Funding, LP (dissolved and terminated in 2004)*, Malama Pacific Corp. (discontinued operations, dissolved in June 2004), and HEIPC (discontinued operations, dissolved in 2006) and its dissolved subsidiaries. (*unconsolidated subsidiaries as of January 1, 2004). 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
D&O	Decision and order
DG	Distributed generation
DOD	Department of Defense -- federal
DOH	Department of Health of the State of Hawaii
DRIP	HEI Dividend Reinvestment and Stock Purchase Plan
DSM	Demand-side management
EPA	Environmental Protection Agency -- federal
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
federal	U.S. Government
FHLB	Federal Home Loan Bank
FIN	Financial Accounting Standards Board Interpretation No.
GAAP	U.S. generally accepted accounting principles
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.

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GLOSSARY OF TERMS, continued

Terms	Definitions
HEI	Hawaiian Electric Industries, Inc., direct parent company of Hawaiian Electric Company, Inc., HEI Diversified, Inc., Pacific Energy Conservation Services, Inc., HEI Properties, Inc., HEI Investments, Inc., Hawaiian Electric Industries Capital Trust II, Hawaiian Electric Industries Capital Trust III and The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.). Former subsidiaries are listed under Company.
HEIDI	HEI Diversified, Inc., a wholly owned subsidiary of Hawaiian Electric Industries, Inc. and the parent company of American Savings Bank, F.S.B.
HEIII	HEI Investments, Inc. (formerly HEI Investment Corp.), a subsidiary of HEI Power Corp.
HEIRSP	Hawaiian Electric Industries Retirement Savings Plan
HELCO	Hawaii Electric Light Company, Inc., an electric utility subsidiary of Hawaiian Electric Company, Inc.
HPOWER	City and County of Honolulu with respect to a power purchase agreement for a refuse-fired plant
HREA	Hawaii Renewable Energy Alliance
IPP	Independent power producer
IRP	Integrated resource plan
kV	Kilovolt
kw	Kilowatts
KWH	Kilowatthour
MECO	Maui Electric Company, Limited, an electric utility subsidiary of Hawaiian Electric Company, Inc.
MW	Megawatt/s (as applicable)
NII	Net interest income
NPV	Net portfolio value
OPEB	Postretirement benefits other than pensions
OTS	Office of Thrift Supervision, Department of Treasury
PPA	Power purchase agreement
PRPs	Potentially responsible parties
PUC	Public Utilities Commission of the State of Hawaii
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
SEC	Securities and Exchange Commission
See	Means the referenced material is incorporated by reference
SFAS	Statement of Financial Accounting Standards
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 newly formed, non-regulated subsidiary of Hawaiian Electric Company, Inc.
VIE	Variable interest entity

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FORWARD-LOOKING STATEMENTS

This report and other presentations made by Hawaiian Electric Industries, Inc. (HEI) and Hawaiian Electric Company, Inc. (HECO) and their subsidiaries contain forward-looking statements, which include statements that are predictive in nature, depend upon or refer to future events or conditions, and usually include words such as expects, anticipates, intends, plans, believes, predicts, estimates or similar expressions. In addition, any statements concerning future financial performance, ongoing business strategies or prospects and 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:

- the effects of international, national and local economic conditions, including the state of the Hawaii tourist 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 and mortgage-related securities held by American Savings Bank, F.S.B. (ASB)) and decisions concerning the extent of the presence of the federal government and military in Hawaii;

- the effects of weather and natural disasters, such as hurricanes, earthquakes, tsunamis and the potential effects of global warming;

- global developments, including the effects of terrorist acts, the war on terrorism, continuing U.S. presence in Iraq and Afghanistan, potential conflict or crisis with North Korea and in the Middle East, Iran s nuclear activities and potential avian flu pandemic;

- 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 financing;

- the risks inherent in changes in the value of and market for securities available for sale and in the value of pension and other retirement plan assets;

- changes in assumptions used to calculate retirement benefits costs and changes in funding requirements;

- 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);

- capacity and supply constraints or difficulties, especially if generating units (utility-owned or independent power producer (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;

increased risk to generation reliability as generation peak reserve margins on Oahu continue to be 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 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 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, environmental laws and regulations, the potential regulation of greenhouse gas emissions and governmental fees and assessments); decisions by the Public Utilities Commission of the State of Hawaii (PUC) in rate cases (including decisions on ECACs) and other proceedings 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 Office of Thrift Supervision (OTS) 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 the Bank Secrecy Act or other regulatory requirements or with respect to capital adequacy);

increasing operation and maintenance expenses for the electric utilities, resulting in the need for more frequent rate cases, and increasing noninterest expenses at ASB;

the risks associated with the geographic concentration of HEI s businesses;

the effects of changes in accounting principles applicable to HEI, HECO, ASB and their subsidiaries, including the adoption of new accounting principles (such as the effects of Statement of Financial Accounting Standards (SFAS) No. 158 regarding employers accounting for defined benefit pension and other postretirement plans and Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48 regarding uncertainty in income taxes), continued regulatory accounting under SFAS No. 71, Accounting for the Effects of Certain Types of Regulation, and the possible effects of applying FIN 46R, Consolidation of Variable Interest Entities, and Emerging Issues Task Force Issue No. 01-8, Determining Whether an Arrangement Contains a Lease, to PPAs with independent power producers;

the effects of 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;

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

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

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Hawaiian Electric Industries, Inc. and Subsidiaries

Consolidated Statements of Income (unaudited)

Three months ended March 31 (in thousands, except per share amounts and ratio of earnings to fixed charges)	2008	2007
Revenues		
Electric utility	$ 623,889	$ 447,678
Bank	105,844	104,460
Other	(116)	1,885
	729,617	**554,023**
Expenses		
Electric utility	572,906	434,686
Bank	82,481	86,032
Other	3,484	4,764
	658,871	**525,482**
Operating income (loss)		
Electric utility	50,983	12,992
Bank	23,363	18,428
Other	(3,600)	(2,879)
	70,746	**28,541**
Interest expense other than on deposit liabilities and other bank borrowings	(19,249)	(20,511)
Allowance for borrowed funds used during construction	762	598
Preferred stock dividends of subsidiaries	(473)	(473)
Allowance for equity funds used during construction	1,901	1,232
Income before income taxes	**53,687**	**9,387**
Income taxes	19,720	2,623
Net income	**$ 33,967**	**$ 6,764**
Basic earnings per common share	$ 0.41	$ 0.08
Diluted earnings per common share	$ 0.41	$ 0.08
Dividends per common share	$ 0.31	$ 0.31
Weighted-average number of common shares outstanding	83,472	81,448
Dilutive effect of stock-based compensation	142	265
Adjusted weighted-average shares	83,614	81,713

Ratio of earnings to fixed charges (SEC method)		
Excluding interest on ASB deposits	2.31	1.22
Including interest on ASB deposits	1.90	1.14

See accompanying Notes to Consolidated Financial Statements for HEI.

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Hawaiian Electric Industries, Inc. and Subsidiaries

Consolidated Balance Sheets (unaudited)

(dollars in thousands)	March 31, 2008	December 31, 2007
Assets		
Cash and equivalents	$ 189,959	$ 145,855
Federal funds sold	17,184	64,000
Accounts receivable and unbilled revenues, net	298,304	294,447
Available-for-sale investment and mortgage-related securities	2,086,037	2,140,772
Investment in stock of Federal Home Loan Bank of Seattle (estimated fair value $97,764)	97,764	97,764
Loans receivable, net	4,153,950	4,101,193
Property, plant and equipment, net of accumulated depreciation of $1,775,790 and $1,749,386	2,761,396	2,743,410
Regulatory assets	283,498	284,990
Other	351,408	338,405
Goodwill, net	83,080	83,080
	$ 10,322,580	$ 10,293,916
Liabilities and stockholders equity		
Liabilities		
Accounts payable	$ 213,966	$ 202,299
Deposit liabilities	4,330,356	4,347,260
Short-term borrowings other than bank	199,281	91,780
Other bank borrowings	1,789,157	1,810,669
Long-term debt, net other than bank	1,202,028	1,242,099
Deferred income taxes	154,988	155,337
Regulatory liabilities	268,890	261,606
Contributions in aid of construction	300,847	299,737
Other	524,764	573,409
	8,984,277	8,984,196
Minority interests		
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: 83,956,023 shares and 83,431,513 shares	1,084,267	1,072,101
Retained earnings	233,213	225,168
Accumulated other comprehensive loss, net of tax benefits	(13,470)	(21,842)
	1,304,010	1,275,427
	$ 10,322,580	$ 10,293,916

See accompanying Notes to Consolidated Financial Statements for HEI.

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Hawaiian Electric Industries, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders Equity (unaudited)

(in thousands, except per share amounts)	Common stock Shares	Common stock Amount	Retained earnings	Accumulated other comprehensive loss	Total
Balance, December 31, 2007	**83,432**	**$ 1,072,101**	**$ 225,168**	**$ (21,842)**	**$ 1,275,427**
Comprehensive income:					
Net income			33,967		33,967
Net unrealized gains on securities					
Net unrealized gains on securities arising during the period, net of taxes of $5,808				8,796	8,796
Less: reclassification adjustment for net realized gains included in net income, net of taxes of $372				(563)	(563)
Retirement benefit plans:					
Amortization of net loss, prior service gain and transition obligation included in net periodic benefit cost, net of taxes of $923				1,448	1,448
Less: reclassification adjustment for impact of D&Os of the PUC included in regulatory assets, net of taxes of $834				(1,309)	(1,309)
Comprehensive income			33,967	8,372	42,339
Issuance of common stock, net	524	12,166			12,166
Common stock dividends ($0.31 per share)			(25,922)		(25,922)
Balance, March 31, 2008	**83,956**	**$ 1,084,267**	**$ 233,213**	**$ (13,470)**	**$ 1,304,010**
Balance, December 31, 2006	**81,461**	**$ 1,028,101**	**$ 242,667**	**$ (175,528)**	**$ 1,095,240**
Comprehensive income:					
Net income			6,764		6,764
Net unrealized gains on securities arising during the period, net of taxes of $6,406				9,701	9,701
Defined benefit pension plans amortization of net loss, prior service gain and transition obligation included in net periodic pension cost, net of taxes of $1,400				2,200	2,200
Comprehensive income			6,764	11,901	18,665
Adjustment to initially apply FIN 48			(228)		(228)
Issuance of common stock, net	363	8,148			8,148
Common stock dividends ($0.31 per share)			(25,257)		(25,257)
Balance, March 31, 2007	**81,824**	**$ 1,036,249**	**$ 223,946**	**$ (163,627)**	**$ 1,096,568**

See accompanying Notes to Consolidated Financial Statements for HEI.

Hawaiian Electric Industries, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)

Three months ended March 31 (in thousands)	2008	2007
Cash flows from operating activities		
Net income	$ 33,967	$ 6,764
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of property, plant and equipment	37,882	36,856
Other amortization	2,860	2,680
Provision for loan losses	900	
Writedown of utility plant		11,701
Deferred income taxes	(5,874)	(5,908)
Allowance for equity funds used during construction	(1,901)	(1,232)
Excess tax benefits from share-based payment arrangements	(28)	(233)
Loans receivable originated and purchased, held for sale	(66,664)	(11,017)
Proceeds from sale of loans receivable, held for sale	67,223	17,749
Changes in assets and liabilities		
Decrease (increase) in accounts receivable and unbilled revenues, net	(3,857)	27,745
Increase in fuel oil stock	(9,269)	(2,403)
Increase in accounts payable	11,667	7,049
Decrease in taxes accrued	(41,888)	(34,828)
Changes in other assets and liabilities	950	(4,022)
Net cash provided by operating activities	**25,968**	**50,901**
Cash flows from investing activities		
Available-for-sale investment and mortgage-related securities purchased	(66,145)	(132,195)
Principal repayments on available-for-sale investment and mortgage-related securities	132,885	108,556
Proceeds from sale of available-for-sale investment and mortgage-related securities	935	
Net proceeds from sale of investments		2,536
Net increase in loans held for investment	(52,401)	(41,232)
Capital expenditures	(48,882)	(35,521)
Contributions in aid of construction	3,836	2,495
Other	(57)	1
Net cash used in investing activities	**(29,829)**	**(95,360)**
Cash flows from financing activities		
Net increase (decrease) in deposit liabilities	(16,904)	1,525
Net increase (decrease) in short-term borrowings with original maturities of three months or less	107,501	(65,866)
Proceeds from short-term borrowings with original maturities of greater than three months		13,008
Net increase in retail repurchase agreements	14,432	23,370
Proceeds from other bank borrowings	152,500	238,988
Repayments of other bank borrowings	(188,600)	(238,813)
Proceeds from issuance of long-term debt	9,897	215,679
Repayment of long-term debt	(50,000)	(126,000)
Excess tax benefits from share-based payment arrangements	28	233
Net proceeds from issuance of common stock	6,314	2,411
Common stock dividends	(20,676)	(20,166)
Decrease in cash overdraft	(8,582)	(11,280)
Other	(4,761)	(5,034)

Net cash provided by financing activities	**1,149**	**28,055**
Net decrease in cash and equivalents and federal funds sold	(2,712)	(16,404)
Cash and equivalents and federal funds sold, beginning of period	209,855	257,301
Cash and equivalents and federal funds sold, end of period	**$ 207,143**	**$ 240,897**

See accompanying Notes to Consolidated Financial Statements for HEI.

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Hawaiian Electric Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) for interim financial information, the instructions to SEC Form 10-Q and Article 10 of Regulation S X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses for the period. Actual results could differ significantly from those estimates. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in HEI s Form 10-K for the year ended December 31, 2007.

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 March 31, 2008 and December 31, 2007 and the results of its operations and cash flows for the three months ended March 31, 2008 and 2007. All such adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10 Q or other referenced material. Results of operations for interim periods are not necessarily indicative of results for the full year. When required, certain reclassifications are made to the prior period s consolidated financial statements to conform to the current presentation.

(2) Segment financial information

(in thousands)	Electric Utility	Bank	Other	Total
Three months ended March 31, 2008				
Revenues from external customers	$ 623,849	$ 105,844	$ (76)	$ 729,617
Intersegment revenues (eliminations)	40		(40)	
Revenues	623,889	105,844	(116)	729,617
Profit (loss)*	39,806	23,341	(9,460)	53,687
Income taxes (benefit)	15,221	8,765	(4,266)	19,720
Net income (loss)	24,585	14,576	(5,194)	33,967
Assets (at March 31, 2008)	3,468,599	6,844,494	9,487	10,322,580
Three months ended March 31, 2007				
Revenues from external customers	$ 447,608	$ 104,460	$ 1,955	$ 554,023
Intersegment revenues (eliminations)	70		(70)	
Revenues	447,678	104,460	1,885	554,023
Profit (loss)*	140	18,399	(9,152)	9,387
Income taxes (benefit)	(313)	6,803	(3,867)	2,623
Net income (loss)	453	11,596	(5,285)	6,764
Assets (at March 31, 2007)	3,050,554	6,845,576	26,446	9,922,576

* 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.

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(3) Electric utility subsidiary

For HECO s consolidated financial information, including its contingencies, see pages 15 through 35.

(4) Bank subsidiary

Selected financial information

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

Consolidated Statements of Income Data (unaudited)

Three months ended March 31 **(in thousands)**	**2008**	**2007**
Interest and dividend income		
Interest and fees on loans	$ 63,465	$ 60,281
Interest and dividends on investment and mortgage-related securities	24,451	28,165
	87,916	88,446
Interest expense		
Interest on deposit liabilities	18,220	20,738
Interest on other borrowings	19,149	18,406
	37,369	39,144
Net interest income	**50,547**	**49,302**
Provision for loan losses	900	
Net interest income after provision for loan losses	**49,647**	**49,302**
Noninterest income		
Fees from other financial services	6,823	6,501
Fee income on deposit liabilities	6,794	6,055
Fee income on other financial products	1,804	2,012
Gain on sale of securities	935	
Other income	1,572	1,446
	17,928	16,014
Noninterest expense		
Compensation and employee benefits	18,240	18,396
Occupancy	5,397	4,948
Equipment	3,114	3,478
Services	5,673	8,358
Data processing	2,616	2,557
Other expense	9,194	9,180
	44,234	46,917
Income before income taxes	**23,341**	**18,399**
Income taxes	8,765	6,803

Net income for common stock	**$ 14,576**	**$ 11,596**

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

Consolidated Balance Sheet Data (unaudited)

(in thousands)	March 31, 2008	December 31, 2007
Assets		
Cash and equivalents	$ 173,230	$ 140,023
Federal funds sold	17,184	64,000
Available-for-sale investment and mortgage-related securities	2,086,037	2,140,772
Investment in stock of Federal Home Loan Bank of Seattle	97,764	97,764
Loans receivable, net	4,153,950	4,101,193
Other	233,249	234,661
Goodwill, net	83,080	83,080
	$ 6,844,494	$ 6,861,493
Liabilities and stockholder s equity		
Deposit liabilities noninterest-bearing	$ 678,934	$ 652,055
Deposit liabilities interest-bearing	3,651,422	3,695,205
Other borrowings	1,789,157	1,810,669
Other	123,646	108,800
	6,243,159	6,266,729
Common stock	326,193	325,467
Retained earnings	285,088	287,710
Accumulated other comprehensive loss, net of tax benefits	(9,946)	(18,413)
	601,335	594,764
	$ 6,844,494	$ 6,861,493

Other borrowings consisted of securities sold under agreements to repurchase and advances from the Federal Home Loan Bank (FHLB) of Seattle of $807 million and $982 million, respectively, as of March 31, 2008 and $765 million and $1 billion, respectively, as of December 31, 2007.

As of March 31, 2008, ASB had commitments to borrowers for undisbursed loan funds, loan commitments and unused lines and letters of credit of $1.3 billion.

Guarantees

In October 2007, ASB, as a member financial institution of Visa U.S.A. Inc., received restricted shares of Visa, Inc. (Visa) as a result of a restructuring of Visa U.S.A. Inc. in preparation for an initial public offering by Visa. As a part of the restructuring, ASB entered into judgment and loss sharing agreements with Visa in order to apportion financial responsibilities arising from any potential adverse judgment or negotiated settlements related to indemnified litigation involving Visa. In November 2007, Visa announced that it had reached a settlement with American Express regarding certain of this litigation. In the fourth quarter of 2007, ASB recorded a charge of $0.3 million for its proportionate share of this settlement and a charge of approximately $0.6 million for potential losses arising from indemnified litigation that has not yet settled, which estimated fair value is highly judgmental. In March 2008, Visa funded an escrow account designed to address potential liabilities arising from litigation covered in the Retrospective Responsibility Plan and, based on the amount funded in the escrow account, ASB recorded a receivable of $0.4 million for its proportionate share of the escrow account. Because the extent of ASB s obligations under this agreement depends entirely upon the occurrence of future events, ASB s maximum potential future liability under this agreement is not determinable.

Regulatory compliance

ASB is subject to a range of bank regulatory compliance obligations. In connection with ASB s review of internal compliance processes and OTS examinations, certain compliance deficiencies were identified. ASB has and continues to take steps to remediate these deficiencies and to strengthen ASB s overall compliance programs. ASB agreed to a consent order (Order) issued by the OTS on January 23, 2008 as a result of issues relating to ASB s compliance with certain laws and regulations, including the Bank Secrecy Act and Anti-Money Laundering (BSA/AML). The Order does not impose restrictions on ASB s business activities; however it requires, among other things, various actions by ASB to strengthen its BSA/AML Program and its Compliance Management Program. ASB has implemented several initiatives to enhance its BSA/AML Program that address the requirements of the Order, and is on course with its remediation efforts. ASB is also implementing initiatives to enhance its Compliance Management Program in accordance with the requirements of the Order.

ASB has also consented to the concurrent issuance of an order by the OTS for the assessment of a Civil Money Penalty of $37,730 related to non-compliance with certain flood insurance laws and regulations and paid the penalty in January 2008.

ASB is unable to predict what other actions, if any, may be initiated by the OTS and other governmental authorities against ASB as a result of these deficiencies, or the impact of any such measures or actions on ASB or the Company.

SFAS No. 157, Fair Value Measurements

SFAS No. 157 (which defines fair value, establishes a framework for measuring fair value under GAAP and expands disclosures about fair value measurements) was adopted prospectively and only partially applied as of the beginning of 2008. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. ASB grouped its financial assets measured at fair value in three levels outlined in SFAS No.157 as follows:

Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

In accordance with FASB Staff Position No. FAS 157-2, the Company has delayed the application of SFAS No. 157 to ASB s goodwill.

Assets Measured at Fair Value on a Recurring Basis

Available-for-sale investment and mortgage-related securities. While securities held in ASB s investment portfolio trade in active markets, they do not trade on listed exchanges nor do the specific holdings trade in quoted markets by dealers or brokers. All holdings are valued using market-based approaches that are taken from identical or similar market transactions. Inputs to these valuation techniques reflect the assumptions market participants would use in pricing the asset based on market data obtained from independent sources.

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The table below presents the balances of assets measured at fair value on a recurring basis:

		Fair value measurements using		
Description (in millions)	**March 31, 2008**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Available-for-sale securities	$ 2,086	$	$ 2,086	$

Unrealized gains for the first quarter of 2008 were $15 million and were included in other comprehensive income.

Assets Measured at Fair Value on a Nonrecurring Basis

Loans. ASB does not record loans at fair value on a recurring basis. However, from time to time, ASB records nonrecurring fair value adjustments to loans to reflect specific reserves on loans based on the current appraised value of the collateral or an unobservable market assumption. These adjustments to fair value usually result from the application of lower-of-cost-or-market accounting or write-downs of individual loans. Unobservable assumptions reflect ASB s own estimate of the fair value of collateral used in valuing the loan.

The table below presents the balances of assets measured at fair value on a nonrecurring basis:

		Fair value measurements using		
Description (in millions)	**March 31, 2008**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Loans	$ 9.0	$	$ 0.2	$ 8.8

Specific reserves for the first quarter of 2008 were $5.6 million and were included in loans receivable held for investment, net. For the three months ended March 31, 2008, there were no adjustments to fair value for ASB s loans held for sale.

Subsequent event.

In the second quarter of 2008, ASB shifted its strategy on an existing technology project designed to automate many of its workflows. ASB determined that alternatives are available that would result in lower net expenses compared to costs necessary to complete and maintain the current project. ASB made a decision to terminate further work on the project and redeploy its internal resources on other solutions designed to improve ASB s efficiency. A pretax write-off of $1.9 million ($1.2 million after tax) for the disposal of software was recorded in the second quarter of 2008.

(5) Retirement benefits

Defined benefit plans.

For the first quarter of 2008, HECO contributed $0.9 million and HEI contributed $0.2 million to their respective retirement benefit plans, compared to $0.3 million and nil, respectively, in the first quarter of 2007. The Company s current estimate of contributions to its retirement benefit plans in 2008 is $14.3 million (including $13.6 million to be made by the utilities and $0.7 million by HEI), compared to contributions of $13.1 million in 2007 (including $12.1 million made by the utilities, $0.9 million by ASB and $0.1 million by HEI). In addition, the Company expects to pay directly $1 million of benefits in 2008, comparable to the $1 million paid in 2007.

For the first quarter of 2008, the Company s defined benefit retirement plans assets generated a loss, including investment management fees, of 7.7%. The market value of the defined benefit retirement plans assets as of March 31, 2008 was $1.0 billion compared to $1.1 billion at December 31, 2007, a decline of approximately $93 million.

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The components of net periodic benefit cost were as follows:

Three months ended March 31 (in thousands)	Pension benefits 2008 (1)	Pension benefits 2007	Other benefits 2008	Other benefits 2007
Service cost	$ 6,856	$ 7,753	$ 1,165	$ 1,231
Interest cost	14,876	14,420	2,838	2,860
Expected return on plan assets	(18,232)	(17,102)	(2,740)	(2,298)
Amortization of unrecognized transition obligation	1	1	785	785
Amortization of prior service cost (gain)	(90)	(49)	3	3
Recognized actuarial loss	1,690	2,855		
Net periodic benefit cost	5,101	7,878	2,051	2,581
Impact of PUC D&Os	1,657		193	
Net periodic benefit cost (adjusted for impact of PUC D&Os)	$ 6,758	$ 7,878	$ 2,244	$ 2,581

(1) Due to the freezing of ASB s defined benefit plan as of December 31, 2007 (see below), there are no amounts for ASB employees for certain components (service cost, amortizations and recognized actuarial loss).

The Company recorded retirement benefits expense of $7 million and $8 million in the first quarters of 2008 and 2007, 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.

Effective December 31, 2007, ASB ended the accrual of benefits in, and the addition of new participants to, ASB s defined benefit pension plan. The change to the plan did not affect the vested pension benefits of former participants, including ASB retirees, as of December 31, 2007. All active participants who were employed on December 31, 2007 became fully vested in their accrued pension benefit as of December 31, 2007.

Defined contribution plan

On January 1, 2008, ASB began providing for employer contributions for ASB employees to HEI s retirement savings plan with two contribution components in addition to employee contributions: 1) 401(k) matching of 100% on the first 4% of eligible pay contributed by participants; and 2) a discretionary employer value-sharing contribution (based on the participant s number of years of vested service) up to 6% of eligible pay that is not contingent on contributions by participants. For the first quarter of 2008, ASB s total expense for its employees participating in the HEI retirement savings plan was $1.1 million and contributions were $0.5 million. ASB s current estimate of contributions to the retirement savings plan in 2008 is $2.1 million.

(6) Share-based compensation

Under the 1987 Stock Option and Incentive Plan, as amended (SOIP), HEI may issue an aggregate of 9.3 million shares of common stock (4,768,791 shares available for issuance under outstanding and future grants and awards as of March 31, 2008) to officers and key employees as incentive stock options, nonqualified stock options (NQSOs), restricted stock, stock appreciation rights (SARs), stock payments or dividend equivalents. HEI has issued new shares for NQSOs, restricted stock (nonvested stock), SARs and dividend equivalents under the SOIP. All information presented has been adjusted for the 2-for-1 stock split in June 2004.

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 prior to and through 2004 generally become exercisable in installments of 25% each year for four years, and expire if not exercised ten years from the date of the grant. The 2005 SARs awards, which have a ten year exercise life, generally become exercisable at the end of four years (i.e., cliff vesting) with the related dividend equivalents issued in the form of stock on an annual basis. Accelerated vesting is provided in the event of a change-in-control or upon retirement. 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 grants generally become unrestricted three to five years after the date of grant and restricted stock compensation expense has been recognized in accordance with the fair value-based measurement method of accounting. Dividends on restricted stock are paid quarterly in cash.

The Company s share-based compensation expense and related income tax benefit (including a valuation allowance due to limits on the deductibility of executive compensation) are as follows:

	Three months ended March 31	
($ in millions)	**2008**	**2007**
Share-based compensation expense [1]	0.3	0.3
Income tax benefit	0.1	0.1

[1] The Company has not capitalized any share-based compensation cost. The estimated forfeiture rate for SARs was 5.0% and the estimated forfeiture rate for restricted stock was 12.7%.

Nonqualified stock options.

Information about HEI s NQSOs is summarized as follows:

March 31, 2008		**Outstanding & Exercisable**		
Year of grant	**Range of exercise prices**	**Number of options**	**Weighted-average remaining contractual life**	**Weighted-average exercise price**
1999	$ 17.61 17.63	48,300	1.3	$ 17.62
2000	14.74	52,000	2.1	14.74
2001	17.96	83,000	2.9	17.96
2002	21.68	134,000	3.8	21.68
2003	20.49	274,500	4.7	20.49
	$ 14.74 21.68	591,800	3.7	$ 19.67

As of December 31, 2007, NQSOs outstanding totaled 603,800, with a weighted-average exercise price of $19.68. As of March 31, 2008, NQSO shares outstanding and NQSOs exercisable had an aggregate intrinsic value (including dividend equivalents) of $4.6 million.

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NQSO activity and statistics are summarized as follows:

($ in thousands, except prices)	Three months ended March 31 2008	2007
Shares granted		
Shares forfeited		
Shares expired		
Shares vested		1,500
Aggregate fair value of vested shares		$ 7
Shares exercised	12,000	19,500
Weighted-average exercise price	$ 20.49	$ 21.47
Cash received from exercise	$ 246	$ 419
Intrinsic value of shares exercised [1]	$ 84	$ 142
Tax benefit realized for the deduction of exercises	$ 33	$ 55
Dividend equivalent shares distributed under Section 409A	6,125	21,892
Weighted-average Section 409A distribution price	$ 22.38	$ 26.15
Intrinsic value of shares distributed under Section 409A	$ 137	$ 572
Tax benefit realized for Section 409A distributions	$ 53	$ 223

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

As of March 31, 2008, all NQSOs were vested.

Stock appreciation rights.

Information about HEI s SARs is summarized as follows:

March 31, 2008		Outstanding			Exercisable		
Year of grant	Range of exercise prices	Number of shares underlying SARs	Weighted-average remaining contractual life	Weighted-average exercise price	Number of shares underlying SARs	Weighted-average remaining contractual life	Weighted-average exercise price
2004	$ 26.02	325,000	3.8	$ 26.02	283,000	3.5	$ 26.02
2005	26.18	532,000	5.0	26.18	196,000	1.4	26.18
	$ 26.02 26.18	857,000	4.5	$ 26.12	479,000	2.6	$ 26.09

As of December 31, 2007, the shares underlying SARs outstanding totaled 857,000, with a weighted-average exercise price of $26.12. As of March 31, 2008, the SARs outstanding and exercisable (including dividend equivalents) had no intrinsic value.

SARs activity and statistics are summarized as follows:

($ in thousands, except prices)	Three months ended March 31 2008	2007
Shares granted		
Shares forfeited		

Shares expired		
Shares vested	15,000	6,000
Aggregate fair value of vested shares	$ 87	$ 36
Shares exercised		4,000
Weighted-average exercise price		$ 26.18
Cash received from exercise		
Intrinsic value of shares exercised [1]		$ 3
Tax benefit realized for the deduction of exercises		$ 1
Dividend equivalent shares distributed under Section 409A		23,760
Weighted-average Section 409A distribution price		$ 26.15
Intrinsic value of shares distributed under Section 409A		$ 621
Tax benefit realized for Section 409A distributions		$ 242

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

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As of March 31, 2008, there was $0.4 million of total unrecognized compensation cost related to SARs and that cost is expected to be recognized over a weighted average period of 1.0 years.

Section 409A modification

As a result of the changes enacted in Section 409A of the Internal Revenue Code of 1986, as amended (Section 409A), for the three months ended March 31, 2008 and 2007 a total of 6,125 and 45,652 dividend equivalent shares for NQSO and SAR grants were distributed to SOIP participants, respectively. Section 409A, which amended the rules on deferred compensation, required the Company to change the way certain affected dividend equivalents are paid in order to avoid significant adverse tax consequences to the SOIP participants. Generally dividend equivalents subject to Section 409A will be paid within 2 $^{1}/2$ months after the end of the calendar year. Upon retirement, an SOIP participant may elect to take distributions of dividend equivalents subject to Section 409A at the time of retirement or at the end of the calendar year.

Restricted stock

As of December 31, 2007, restricted stock shares outstanding totaled 146,000, with a weighted-average grant date fair value of $25.82. As of March 31, 2008, restricted stock shares outstanding totaled 140,000, with a weighted-average grant date fair value of $25.80. The grant date fair value of a grant of a restricted stock share was the closing or average price of HEI common stock on the date of grant.

During the first quarter of 2008, no shares of restricted stock were granted, no restricted stock shares were vested and 6,000 shares of restricted stock with a grant date fair market value of $0.2 million were forfeited. During the first quarter of 2007, 8,700 shares of restricted stock with a grant date fair market value of $0.2 million were granted, no shares of restricted stock vested and no restricted stock shares were forfeited. The tax benefit realized for the tax deductions from restricted stock dividends were immaterial for the first quarters of 2008 and 2007.

As of March 31, 2008, there was $2.1 million of total unrecognized compensation cost related to nonvested restricted stock. The cost is expected to be recognized over a weighted-average period of 2.8 years.

In April 2008, 42,700 shares of restricted stock were granted to officers and key employees with a grant date fair market value of $1.1 million.

(7) Commitments and contingencies

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

(8) Cash flows

Supplemental disclosures of cash flow information

For the three months ended March 31, 2008 and 2007, the Company paid interest (net of amounts capitalized and including bank interest) to non-affiliates amounting to $50 million and $56 million, respectively.

For the three months ended March 31, 2008 and 2007, the Company paid income taxes amounting to $38 million and $3 million, respectively. The significant increase in taxes paid in the first quarter of 2008 versus 2007 was due primarily to the difference in the taxes due with the extensions for tax years 2007 and 2006. Estimated taxes paid during the year are based on the timing of taxable income generated during the year. In 2007, taxable income was significantly larger in the fourth quarter when compared to the first three quarters, resulting in a larger portion of the 2007 taxes paid with the extension filed in the first quarter of 2008.

Supplemental disclosures of noncash activities

Noncash increases in common stock for director and officer compensatory plans of the Company were $0.6 million and $0.5 million for the three months ended March 31, 2008 and 2007, respectively.

Under the HEI Div