

HAWAIIAN ELECTRIC CO INC
Form 10-Q
November 09, 2005
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2005

OR

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

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

State of Hawaii

(State or other jurisdiction of incorporation or organization)

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

900 Richards Street, Honolulu, Hawaii 96813

(Address of principal executive offices and zip code)

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

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

(Registrant's telephone number, including area code)

Not applicable

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

Indicate by check mark whether each registrant (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 each registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

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

<u>Class of Common Stock</u>	<u>Outstanding October 31, 2005</u>
Hawaiian Electric Industries, Inc. (Without Par Value)	80,955,756 Shares
Hawaiian Electric Company, Inc. (\$6-2/3 Par Value)	12,805,843 Shares (not publicly traded)

Table of Contents

Hawaiian Electric Industries, Inc. and Subsidiaries

Hawaiian Electric Company, Inc. and Subsidiaries

Form 10-Q Quarter ended September 30, 2005

INDEX

	Page No.
<u>Glossary of Terms</u>	ii
<u>Cautionary Statements and Risk Factors that May Affect Future Results</u>	iv
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
Hawaiian Electric Industries, Inc. and Subsidiaries	
<u>Consolidated Balance Sheets (unaudited) - September 30, 2005 and December 31, 2004</u>	1
<u>Consolidated Statements of Income (unaudited) - three and nine months ended September 30, 2005 and 2004</u>	2
<u>Consolidated Statements of Changes in Stockholders' Equity (unaudited) - nine months ended September 30, 2005 and 2004</u>	3
<u>Consolidated Statements of Cash Flows (unaudited) - nine months ended September 30, 2005 and 2004</u>	4
<u>Notes to Consolidated Financial Statements (unaudited)</u>	5
Hawaiian Electric Company, Inc. and Subsidiaries	
<u>Consolidated Balance Sheets (unaudited) - September 30, 2005 and December 31, 2004</u>	13
<u>Consolidated Statements of Income (unaudited) - three and nine months ended September 30, 2005 and 2004</u>	14
<u>Consolidated Statements of Retained Earnings (unaudited) - three and nine months ended September 30, 2005 and 2004</u>	14
<u>Consolidated Statements of Cash Flows (unaudited) - nine months ended September 30, 2005 and 2004</u>	15
<u>Notes to Consolidated Financial Statements (unaudited)</u>	16
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	33
<u>HEI Consolidated</u>	33
<u>Electric Utilities</u>	40
<u>Bank</u>	50
<u>Certain Factors that May Affect Future Results and Financial Condition</u>	55
<u>Material Estimates and Critical Accounting Policies</u>	55
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	56
Item 4. <u>Controls and Procedures</u>	57
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	57
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	57
Table of Contents	4

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

Item 5.	<u>Other Information</u>	58
Item 6.	<u>Exhibits</u>	59
	<u>Signatures</u>	60

Table of Contents

Hawaiian Electric Industries, Inc. and Subsidiaries

Hawaiian Electric Company, Inc. and Subsidiaries

Form 10-Q Quarter ended September 30, 2005

GLOSSARY OF TERMS

<u>Terms</u>	<u>Definitions</u>
AES Hawaii	AES Hawaii, Inc., formerly known as AES Barbers Point, Inc.
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.) and AdCommunications, Inc. Former subsidiaries include ASB Realty Corporation (dissolved in May 2005) and ASB Service Corporation (dissolved in January 2004).
BLNR	Board of Land and Natural Resources of the State of Hawaii
CHP	Combined heat and power
Company	Hawaiian Electric Industries, Inc. and its direct and indirect subsidiaries, including, without limitation, Hawaiian Electric Company, Inc., Maui Electric Company, Limited, Hawaii Electric Light Company, Inc., HECO Capital Trust III*, Renewable Hawaii, Inc., HEI Diversified, Inc., American Savings Bank, F.S.B. and its subsidiaries, Pacific Energy Conservation Services, Inc., HEI Properties, Inc., Hycap Management, Inc. (in dissolution), Hawaiian Electric Industries Capital Trust II*, Hawaiian Electric Industries Capital Trust III*, The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.) and HEI Power Corp. and its subsidiaries (discontinued operations, except for subsidiary HEI Investments, Inc.). Former subsidiaries include HECO Capital Trust I (dissolved in April 2004 and terminated in December 2004)*, HECO Capital Trust II (dissolved in April 2004 and terminated in December 2004)*, Hawaiian Electric Industries Capital Trust I (dissolved in April 2004 and terminated in December 2004)*, HEI Preferred Funding, LP (dissolved in April 2004 and terminated in December 2004)* and Malama Pacific Corp. (discontinued operations, dissolved in June 2004). (*unconsolidated subsidiaries as of January 1, 2004)
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
DOT	Department of Taxation of the State of Hawaii
DRIP	HEI Dividend Reinvestment and Stock Purchase Plan
DSM	Demand-side management
EITF	Emerging Issues Task Force
EPA	Environmental Protection Agency federal
FASB	Financial Accounting Standards Board
Federal	U.S. Government
FHLB	Federal Home Loan Bank
FIN	Financial Accounting Standards Board Interpretation No.

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

GAAP

Accounting principles generally accepted in the United States of America

HECO

Hawaiian Electric Company, Inc., an electric utility subsidiary of Hawaiian Electric Industries, Inc. and parent company of Maui Electric Company, Limited, Hawaii Electric Light Company, Inc., HECO Capital Trust III* and Renewable Hawaii, Inc. Former subsidiaries include HECO Capital Trust I (dissolved in April 2004 and terminated in December 2004)* and HECO Capital Trust II (dissolved in April 2004 and terminated in December 2004)*. (*unconsolidated subsidiaries as of January 1, 2004)

Table of Contents**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., Hycap Management, Inc. (in dissolution), Hawaiian Electric Industries Capital Trust II*, Hawaiian Electric Industries Capital Trust III*, The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.) and HEI Power Corp. (discontinued operations, except for subsidiary HEI Investments, Inc.). Former subsidiaries include Hawaiian Electric Industries Capital Trust I (dissolved in April 2004 and terminated in December 2004)* and Malama Pacific Corp. (discontinued operations, dissolved in June 2004). (*unconsolidated subsidiaries as of January 1, 2004)
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.
HEIPC	HEI Power Corp., a wholly owned subsidiary of Hawaiian Electric Industries, Inc., and the parent company of numerous subsidiaries, several of which were dissolved or otherwise wound up in 2002, 2003 and 2004, pursuant to a formal plan to exit the international power business (formerly engaged in by HEIPC and its subsidiaries) adopted by the HEI Board of Directors in October 2001
HEIPC Group	HEI Power Corp. and its subsidiaries
HEIRSP	Hawaiian Electric Industries Retirement Savings Plan
HELCO	Hawaii Electric Light Company, Inc., an electric utility subsidiary of Hawaiian Electric Company, Inc.
HTB	Hawaiian Tug & Barge Corp. In November 1999, HTB sold substantially all of its operating assets and the stock of Young Brothers, Limited, and changed its name to The Old Oahu Tug Services, Inc.
IPP	Independent power producer
IRP	Integrated resource plan
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
PPA	Power purchase agreement
PRPs	Potentially responsible parties
PUC	Public Utilities Commission of the State of Hawaii
REIT	Real estate investment trust
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
SEC	Securities and Exchange Commission
See	Means the referenced material is incorporated by reference
SFAS	Statement of Financial Accounting Standards
SOX	Sarbanes-Oxley Act of 2002
SPRBs	Special Purpose Revenue Bonds
TOOTS	The Old Oahu Tug Service, Inc. (formerly Hawaiian Tug & Barge Corp.), a wholly owned subsidiary of Hawaiian Electric Industries, Inc. On November 10, 1999, HTB sold the stock of YB and substantially all of HTB's operating assets and changed its name.
VIE	Variable interest entity

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

YB Young Brothers, Limited, which was sold on November 10, 1999, was formerly a wholly owned subsidiary of Hawaiian Tug & Barge Corp.

iii

Table of Contents

Cautionary Statements and Risk Factors that May Affect Future Results

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 of collateral underlying loans and mortgage-related securities) and decisions concerning the extent of the presence of the federal government and military in Hawaii;

the effects of weather and natural disasters;

global developments, including the effects of terrorist acts, the war on terrorism, continuing U.S. presence in Iraq and Afghanistan and potential conflict or crisis with North Korea;

the timing and extent of changes in interest rates;

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

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

demand for services and market acceptance risks;

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 American Savings Bank, F.S.B.'s (ASB's) cost of funds);

capacity and supply constraints or difficulties, especially if 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 forecast benefits or are otherwise insufficient to reduce or meet peak demand;

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

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;

the ability of independent power producers (IPPs) to deliver the firm capacity anticipated in their power purchase agreements (PPAs);

the ability of the electric utilities to negotiate, periodically, favorable fuel supply and collective bargaining agreements;

new technological developments that could affect the operations and prospects of HEI and its subsidiaries (including HECO and its subsidiaries and ASB) or their competitors;

federal, state and international governmental and regulatory actions, such as changes in laws, rules and regulations applicable to HEI, HECO and their subsidiaries (including changes in taxation, environmental laws and regulations and governmental fees and assessments); decisions by the Public Utilities Commission of the State of Hawaii (PUC) in rate cases and other proceedings and by other agencies and courts on land use, environmental and other permitting issues; required corrective actions, restrictions and penalties (that may arise with respect to environmental conditions, capital adequacy and business practices);

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

the effects of changes in accounting principles applicable to HEI, HECO and their subsidiaries, including continued regulatory accounting under Statement of Financial Accounting Standards (SFAS) No. 71 (Accounting for the Effects of Certain Types of Regulation), and the possible effects of applying FASB Interpretation No. (FIN) 46R (Consolidation of Variable Interest Entities) and Emerging Issues Task Force (EITF) Issue No. 01-8 (Determining Whether an Arrangement Contains a Lease) to power purchase arrangements with independent power producers;

the effects of changes by securities rating agencies in their ratings of the securities of HEI and HECO;

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 rights 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;

the ultimate net proceeds from the disposition of assets and settlement of liabilities of discontinued or sold operations and the final outcome of related arbitration proceedings;

the final outcome of tax positions taken by HEI and its subsidiaries;

the ability of consolidated HEI to generate capital gains and utilize capital loss carryforwards on future tax returns;

the risks of suffering losses and incurring liabilities that are uninsured; and

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

other risks or uncertainties described elsewhere in this report and in other periodic reports 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 and its subsidiaries undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

Hawaiian Electric Industries, Inc. and Subsidiaries

Consolidated Balance Sheets (unaudited)

(dollars in thousands)	September 30, 2005	December 31, 2004
Assets		
Cash and equivalents	\$ 165,395	\$ 132,138
Federal funds sold	67,080	41,491
Accounts receivable and unbilled revenues, net	239,133	208,533
Available-for-sale investment and mortgage-related securities	1,929,433	2,034,091
Available-for-sale mortgage-related securities pledged for repurchase agreements	813,136	919,281
Investment in Federal Home Loan Bank of Seattle stock (estimated fair value \$97,764 and \$97,365)	97,764	97,365
Loans receivable, net	3,501,540	3,249,191
Property, plant and equipment, net of accumulated depreciation of \$1,516,119 and \$1,434,840	2,488,603	2,422,303
Regulatory assets	109,518	108,630
Other	474,220	414,971
Goodwill and other intangibles	89,696	91,263
	<u>\$ 9,975,518</u>	<u>\$ 9,719,257</u>
Liabilities and stockholders' equity		
Liabilities		
Accounts payable	\$ 182,470	\$ 153,943
Deposit liabilities	4,551,837	4,296,172
Short-term borrowings	120,642	76,611
Securities sold under agreements to repurchase	681,427	811,438
Advances from Federal Home Loan Bank	1,008,200	988,231
Long-term debt, net	1,173,009	1,166,735
Deferred income taxes	234,339	229,765
Regulatory liabilities	213,230	197,089
Contributions in aid of construction	242,505	235,505
Other	320,208	318,418
	<u>8,727,867</u>	<u>8,473,907</u>
Minority interests		
Preferred stock of subsidiaries - not subject to mandatory redemption	34,293	34,405
Stockholders' equity		
Preferred stock, no par value, authorized 10,000,000 shares; issued: none		
Common stock, no par value, authorized 100,000,000 shares; issued and outstanding: 80,955,756 shares and 80,687,350 shares	1,018,170	1,010,090
Retained earnings	222,969	208,998
Accumulated other comprehensive loss, net of tax benefits	(27,781)	(8,143)

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

	1,213,358	1,210,945
	<u>9,975,518</u>	<u>9,719,257</u>

See accompanying Notes to Consolidated Financial Statements for HEL.

Table of Contents

Hawaiian Electric Industries, Inc. and Subsidiaries

Consolidated Statements of Income (unaudited)

(in thousands, except per share amounts and ratio of earnings to fixed charges)	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Revenues				
Electric utility	\$ 491,339	\$ 410,077	\$ 1,295,844	\$ 1,127,295
Bank	97,431	90,296	286,601	269,536
Other	7,145	6,386	8,360	8,836
	595,915	506,759	1,590,805	1,405,667
Expenses				
Electric utility	443,806	357,364	1,174,058	984,528
Bank	71,493	63,765	209,508	193,886
Other	3,377	3,944	11,880	10,784
	518,676	425,073	1,395,446	1,189,198
Operating income (loss)				
Electric utility	47,533	52,713	121,786	142,767
Bank	25,938	26,531	77,093	75,650
Other	3,768	2,442	(3,520)	(1,948)
	77,239	81,686	195,359	216,469
Interest expense other than bank	(18,990)	(18,376)	(56,955)	(58,929)
Allowance for borrowed funds used during construction	558	859	1,460	2,236
Preferred stock dividends of subsidiaries	(471)	(475)	(1,421)	(1,425)
Allowance for equity funds used during construction	1,406	1,934	3,675	5,056
	59,742	65,628	142,118	163,407
Income taxes	22,252	24,869	52,198	80,478
	37,490	40,759	89,920	82,929
Discontinued operations-gain (loss) on disposal, net of income taxes		1,913	(755)	1,913
Net income	\$ 37,490	\$ 42,672	\$ 89,165	\$ 84,842
Basic earnings (loss) per common share				
Continuing operations	\$ 0.46	\$ 0.51	\$ 1.11	\$ 1.05
Discontinued operations		0.02	(0.01)	0.02
	\$ 0.46	\$ 0.53	\$ 1.10	\$ 1.07
Diluted earnings (loss) per common share				
Continuing operations	\$ 0.46	\$ 0.51	\$ 1.11	\$ 1.05

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

Discontinued operations		0.02	(0.01)	0.02
	\$ 0.46	\$ 0.53	\$ 1.10	\$ 1.07
Dividends per common share	\$ 0.31	\$ 0.31	\$ 0.93	\$ 0.93
Weighted-average number of common shares outstanding	80,903	80,509	80,795	79,204
Dilutive effect of stock options and dividend equivalents	451	319	397	245
Adjusted weighted-average shares	81,354	80,828	81,192	79,449
Ratio of earnings to fixed charges (SEC method)				
Excluding interest on ASB deposits			2.23	2.37
Including interest on ASB deposits			1.93	2.05

See accompanying Notes to Consolidated Financial Statements for HEI.

Table of Contents

Hawaiian Electric Industries, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity (unaudited)

(in thousands, except per share amounts)	Common stock		Retained earnings	Accumulated other comprehensive income (loss)	Total
	Shares	Amount			
Balance, December 31, 2004	80,687	\$ 1,010,090	\$ 208,998	\$ (8,143)	\$ 1,210,945
Comprehensive income:					
Net income			89,165		89,165
Net unrealized losses on securities:					
Net unrealized losses on securities arising during the period, net of tax benefits of \$15,459				(19,532)	(19,532)
Less: reclassification adjustment for net realized gains included in net income, net of taxes of \$70				(106)	(106)
Comprehensive income (loss)			89,165	(19,638)	69,527
Issuance of common stock, net	269	8,080			8,080
Common stock dividends (\$0.93 per share)			(75,194)		(75,194)
Balance, September 30, 2005	80,956	\$ 1,018,170	\$ 222,969	\$ (27,781)	\$ 1,213,358
Balance, December 31, 2003	75,838	\$ 888,431	\$ 197,774	\$ 2,826	\$ 1,089,031
Comprehensive income:					
Net income			84,842		84,842
Net unrealized losses on securities:					
Net unrealized losses arising during the period, net of tax benefits of \$2,621				(3,969)	(3,969)
Less: reclassification adjustment for net realized gains included in net income, net of taxes of \$2,002				(3,535)	(3,535)
Minimum pension liability adjustment, net of tax benefits of \$19				1	1
Comprehensive income (loss)			84,842	(7,503)	77,339
Issuance of common stock, net	4,726	119,323			119,323
Common stock dividends (\$0.93 per share)			(73,446)		(73,446)
Balance, September 30, 2004	80,564	\$ 1,007,754	\$ 209,170	\$ (4,677)	\$ 1,212,247

See accompanying Notes to Consolidated Financial Statements for HEI.

Table of Contents

Hawaiian Electric Industries, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)

(in thousands)	Nine months ended September 30	
	2005	2004
Cash flows from operating activities		
Income from continuing operations	\$ 89,920	\$ 82,929
Adjustments to reconcile income from continuing operations to net cash provided by operating activities		
Depreciation of property, plant and equipment	100,391	94,065
Other amortization	7,565	14,135
Reversal of allowance for loan losses	(3,100)	(8,400)
Deferred income taxes	19,843	15,152
Allowance for equity funds used during construction	(3,675)	(5,056)
Gain on sale of income notes		(5,607)
Changes in assets and liabilities		
Increase in accounts receivable and unbilled revenues, net	(30,600)	(15,806)
Increase in tax deposit	(30,000)	
Increase in accounts payable	28,527	40,818
Increase in taxes accrued	13,439	55,968
Changes in other assets and liabilities	(35,931)	(33,802)
Net cash provided by operating activities	156,379	234,396
Cash flows from investing activities		
Available-for-sale mortgage-related securities purchased	(411,811)	(863,790)
Principal repayments on available-for-sale mortgage-related securities	555,640	606,356
Proceeds from sale of available-for-sale mortgage-related securities	28,039	45,207
Net decrease (increase) in loans held for investment	(243,452)	4,933
Proceeds from sale of real estate acquired in settlement of loans		749
Capital expenditures	(146,696)	(141,459)
Contributions in aid of construction	10,274	5,857
Distributions from unconsolidated subsidiaries		24,379
Other	1,197	9,889
Net cash used in investing activities	(206,809)	(307,879)
Cash flows from financing activities		
Net increase in deposit liabilities	255,665	156,159
Net increase in short-term borrowings with maturities of three months or less	44,031	8,392
Net increase in retail repurchase agreements	17,717	20,428
Proceeds from securities sold under agreements to repurchase	674,056	608,650
Repayments of securities sold under agreements to repurchase	(822,950)	(672,650)
Proceeds from advances from Federal Home Loan Bank	173,000	129,200
Principal payments on advances from Federal Home Loan Bank	(153,031)	(126,200)
Proceeds from issuance of long-term debt	58,525	102,525
Repayment of long-term debt	(53,000)	(223,165)
Net proceeds from issuance of common stock	3,232	108,356
Common stock dividends	(75,153)	(68,895)
Other	(10,354)	(5,099)

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

Net cash provided by financing activities	<u>111,738</u>	<u>37,701</u>
Net cash provided by (used in) discontinued operations	<u>(2,462)</u>	<u>3,366</u>
Net increase (decrease) in cash and equivalents and federal funds sold	58,846	(32,416)
Cash and equivalents and federal funds sold, beginning of period	<u>173,629</u>	<u>279,988</u>
Cash and equivalents and federal funds sold, end of period	<u>\$ 232,475</u>	<u>\$ 247,572</u>

See accompanying Notes to Consolidated Financial Statements for HEI.

Table of Contents

Hawaiian Electric Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (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, 2004 and the unaudited consolidated financial statements and the notes thereto in HEI's Quarterly Reports on SEC Form 10-Q for the quarters ended March 31, 2005 and June 30, 2005.

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 September 30, 2005 and December 31, 2004 and the results of its operations for the three and nine months ended September 30, 2005 and 2004 and its cash flows for the nine months ended September 30, 2005 and 2004. 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. For example, assets and liabilities at December 31, 2004 have been restated for the reclassification of regulatory assets from Regulatory liabilities, net to Regulatory assets.

Table of Contents**(2) Segment financial information**

<u>(in thousands)</u>	<u>Electric Utility</u>	<u>Bank</u>	<u>Other</u>	<u>Total</u>
Three months ended September 30, 2005				
Revenues from external customers	\$ 491,263	\$ 97,431	\$ 7,221	\$ 595,915
Intersegment revenues (eliminations)	76		(76)	
Revenues	491,339	97,431	7,145	595,915
Profit (loss)*	36,315	25,938	(2,511)	59,742
Income taxes (benefit)	13,728	10,027	(1,503)	22,252
Income (loss) from continuing operations	22,587	15,911	(1,008)	37,490
Nine months ended September 30, 2005				
Revenues from external customers	1,295,721	286,601	8,483	1,590,805
Intersegment revenues (eliminations)	123		(123)	
Revenues	1,295,844	286,601	8,360	1,590,805
Profit (loss)*	88,288	77,044	(23,214)	142,118
Income taxes (benefit)	33,672	29,820	(11,294)	52,198
Income (loss) from continuing operations	54,616	47,224	(11,920)	89,920
Assets (at September 30, 2005, including net assets of discontinued operations)	2,998,745	6,901,465	75,308	9,975,518
Three months ended September 30, 2004				
Revenues from external customers	\$ 410,077	\$ 90,296	\$ 6,386	\$ 506,759
Profit (loss)*	42,866	25,154	(2,392)	65,628
Income taxes (benefit)	16,691	9,776	(1,598)	24,869
Income (loss) from continuing operations	26,175	15,378	(794)	40,759
Nine months ended September 30, 2004				
Revenues from external customers	1,127,295	269,536	8,836	1,405,667
Profit (loss)*	110,988	71,519	(19,100)	163,407
Income taxes (benefit)	43,055	47,163	(9,740)	80,478
Income (loss) from continuing operations	67,933	24,356	(9,360)	82,929
Assets (at September 30, 2004, including net assets of discontinued operations)	2,818,610	6,679,989	71,582	9,570,181

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

* Income (loss) before income taxes.

Long-lived assets located in foreign countries as of the dates and for the periods identified above were not material.

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.

In June 2004, ASB recorded a cumulative after-tax charge to net income of \$24 million for an unfavorable tax ruling involving its real estate investment trust subsidiary, which was settled in December 2004.

Table of Contents**(3) Electric utility subsidiary**

For HECO's consolidated financial information, including its commitments and contingencies, see pages 13 through 32.

(4) Bank subsidiary**Selected financial information**

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

Consolidated Balance Sheet Data (unaudited)

(in thousands)	September 30, 2005	December 31, 2004
Assets		
Cash and equivalents	\$ 157,167	\$ 120,295
Federal funds sold	67,080	41,491
Available-for-sale investment and mortgage-related securities	1,929,433	2,034,091
Available-for-sale mortgage-related securities pledged for repurchase agreements	813,136	919,281
Investment in Federal Home Loan Bank of Seattle stock (estimated fair value \$97,764 and \$97,365)	97,764	97,365
Loans receivable, net	3,501,540	3,249,191
Other	245,649	213,528
Goodwill and other intangibles	89,696	91,263
	<u>\$ 6,901,465</u>	<u>\$ 6,766,505</u>
Liabilities and stockholder's equity		
Deposit liabilities - noninterest bearing	\$ 611,897	\$ 558,958
Deposit liabilities - interest bearing	3,939,940	3,737,214
Securities sold under agreements to repurchase	681,427	811,438
Advances from Federal Home Loan Bank	1,008,200	988,231
Other	101,857	110,938
	<u>6,343,321</u>	<u>6,206,779</u>
Minority interests		3,415
Common stock	321,476	320,501
Retained earnings	263,516	243,001
Accumulated other comprehensive loss, net of tax benefits	(26,848)	(7,191)
	<u>558,144</u>	<u>556,311</u>

	<u>\$ 6,901,465</u>	<u>\$ 6,766,505</u>
--	---------------------	---------------------

Table of Contents

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

Consolidated Statements of Income Data (unaudited)

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Interest and dividend income				
Interest and fees on loans	\$ 52,649	\$ 45,504	\$ 151,819	\$ 137,745
Interest on mortgage-related securities	29,711	29,608	90,175	84,244
Interest and dividends on investment securities	1,178	1,619	3,100	5,032
	<u>83,538</u>	<u>76,731</u>	<u>245,094</u>	<u>227,021</u>
Interest expense				
Interest on deposit liabilities	13,355	11,660	37,832	35,334
Interest on Federal Home Loan Bank advances	11,393	11,143	33,509	31,987
Interest on securities sold under repurchase agreements	5,885	5,345	18,410	15,822
	<u>30,633</u>	<u>28,148</u>	<u>89,751</u>	<u>83,143</u>
Net interest income	52,905	48,583	155,343	143,878
Reversal of allowance for loan losses		(3,800)	(3,100)	(8,400)
Net interest income after reversal of allowance for loan losses	52,905	52,383	158,443	152,278
Other income				
Fees from other financial services	6,512	5,980	18,708	17,722
Fee income on deposit liabilities	4,311	4,619	12,574	13,276
Fee income on other financial products	2,191	2,328	6,780	7,950
Gain (loss) on sale of securities		(86)	175	(70)
Other income	879	724	3,270	3,637
	<u>13,893</u>	<u>13,565</u>	<u>41,507</u>	<u>42,515</u>
General and administrative expenses				
Compensation and employee benefits	17,275	16,044	51,343	47,503
Occupancy	4,356	4,201	12,462	12,730
Equipment	3,413	3,319	10,114	10,364
Data processing	2,491	2,949	8,039	8,549
Services	3,986	3,292	11,594	9,013
Interest on income taxes	14	461	3,096	5,785
Other	9,325	9,151	26,209	25,199
	<u>40,860</u>	<u>39,417</u>	<u>122,857</u>	<u>119,143</u>
Income before minority interests and income taxes	25,938	26,531	77,093	75,650
Minority interests		24	45	73
Income taxes	10,027	9,776	29,820	47,163

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

Income before preferred stock dividends	15,911	16,731	47,228	28,414
Preferred stock dividends		1,353	4	4,058
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income for common stock	\$ 15,911	\$ 15,378	\$ 47,224	\$ 24,356
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

In December 2004, ASB's capital structure changed when ASB redeemed its preferred stock held by HEIDI (\$75 million) and HEIDI infused common equity into ASB (\$75 million).

At September 30, 2005, ASB had commitments to borrowers for undisbursed loan funds, loan commitments and unused lines and letters of credit of \$1.1 billion.

In the first quarter of 2005, ASB recorded a \$3 million reserve for potential interest on the disputed timing of dividend income recognition for federal income tax purposes. In the second quarter of 2005, ASB made a \$30 million deposit primarily to stop the further accrual of interest on the disputed timing of dividend income recognition related to a change in ASB's 2000 and 2001 tax year-ends. ASB believes it has adequately provided for this disputed issue and other minor unresolved income tax issues with federal and state tax authorities and related interest.

Table of Contents

ASB Realty Corporation

In 1998, ASB formed a subsidiary, ASB Realty Corporation, which elected to be taxed as a real estate investment trust (REIT). This reorganization had reduced Hawaii bank franchise taxes as a result of ASB taking a dividends received deduction on dividends paid to it by ASB Realty Corporation. The State of Hawaii Department of Taxation (DOT) challenged ASB's position on the dividends received deduction and issued notices of tax assessment for 1999 through 2001. ASB filed an appeal with the State Board of Review, First Taxation District (Board), which issued its decision in favor of the DOT. ASB filed a notice of appeal with the Hawaii Tax Appeal Court, which issued its decision in favor of the DOT in June 2004. As a result of the decision, ASB recorded a cumulative after-tax charge to net income in the second quarter of 2004 of \$24 million (\$21 million for the bank franchise taxes and \$3 million for interest). ASB appealed the decision to the Hawaii Supreme Court, which appeal was dismissed as part of a settlement on December 31, 2004. ASB agreed to settle its dispute with the DOT and close the tax years 1999 through 2004 (relating to the financial performance of ASB for the years 1998 through 2003) for purposes of audit, examination, assessment, refund and judicial review. Under the terms of the settlement, ASB agreed to pay the DOT \$12 million, in addition to \$17 million previously paid under protest, dismiss its appeal to the Hawaii Supreme Court and not take the dividends received deduction in future years. As a result, ASB recognized \$3 million in additional net income in the fourth quarter of 2004, representing a partial reversal of the \$24 million previously charged against net income. ASB Realty Corporation was dissolved in the second quarter of 2005, with substantially all of its assets being distributed to ASB.

(5) Discontinued operations - HEI Power Corp. (HEIPC)

In 2001, the HEI Board of Directors adopted a formal plan to exit the international power business (engaged in by HEIPC and its subsidiaries, the HEIPC Group). HEIPC management has carried out a program to dispose of all of the HEIPC Group's remaining projects and investments. Accordingly, the HEIPC Group has been reported as a discontinued operation in the Company's consolidated statements of income.

In the third quarter of 2004, the HEIPC Group transferred its interest in a China joint venture to its partner and another entity for \$3 million and recorded a gain on disposal, net of income taxes, of \$2 million. The HEIPC Group pursued recovery of a significant portion of its losses through arbitration of its claims under a political risk insurance policy. In the second quarter of 2005, HEIPC increased its reserve for future expenses by \$1 million primarily due to higher than expected arbitration costs. In the fourth quarter of 2005, the arbitration panel issued its decision denying HEIPC's claims for recovery of losses under the political risk insurance policy.

As of September 30, 2005, the remaining net assets of the discontinued international power operations amounted to \$12 million (included in Other assets) and consisted primarily of deferred taxes receivable, reduced by a reserve for losses from operations during the phase-out period (primarily for legal fees).

Table of Contents**(6) Retirement benefits**

In the first nine months of 2005, ASB paid \$6 million and HECO paid \$8 million of contributions to the retirement benefit plans, compared to \$1 million and \$22 million, respectively, in the first nine months of 2004. The Company's current estimate of contributions to the retirement benefit plans in 2005 is \$17 million, compared to contributions of \$37 million in 2004. The balance of the estimated 2005 contributions is expected to be made primarily by the electric utilities.

The components of net periodic benefit cost were as follows:

(in thousands)	Three months ended				Nine months ended			
	September 30				September 30			
	Pension benefits		Other benefits		Pension benefits		Other benefits	
	2005	2004	2005	2004	2005	2004	2005	2004
Service cost	\$ 7,354	\$ 6,677	\$ 1,316	\$ 1,133	\$ 22,027	\$ 19,778	\$ 3,934	\$ 3,398
Interest cost	13,001	12,662	2,759	2,693	39,090	37,993	8,311	8,078
Expected return on plan assets	(18,569)	(18,209)	(2,465)	(2,423)	(55,478)	(54,672)	(7,390)	(7,268)
Amortization of unrecognized transition obligation	1	1	785	785	3	3	2,354	2,354
Amortization of prior service cost (gain)	(156)	(145)		3	(467)	(442)		10
Recognized actuarial loss	1,447	284	101		4,443	876	332	
Net periodic benefit cost	\$ 3,078	\$ 1,270	\$ 2,496	\$ 2,191	\$ 9,618	\$ 3,536	\$ 7,541	\$ 6,572

Of the net periodic benefit costs, the Company recorded expense of \$14 million and \$9 million in the first nine months of 2005 and 2004, respectively, and charged the remaining amounts primarily to electric utility plant.

(7) Common stock split

On April 20, 2004, the HEI Board of Directors approved a 2-for-1 stock split in the form of a 100% stock dividend with a record date of May 10, 2004 and a distribution date of June 10, 2004. All share and per share information in the accompanying financial statements, notes and elsewhere in this Form 10-Q have been adjusted to reflect the stock split for all periods presented (unless otherwise noted).

(8) Commitments and contingencies

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

See Note 5, Discontinued operations, above and Note 5, Commitments and contingencies, of HECO's Notes to Consolidated Financial Statements.

(9) Cash flows

Supplemental disclosures of cash flow information

For the nine months ended September 30, 2005 and 2004, the Company paid interest amounting to \$126.8 million and \$116.6 million, respectively.

For the nine months ended September 30, 2005 and 2004, the Company paid income taxes amounting to \$20.7 million and \$5.2 million, respectively. The increase for the first nine months of 2005 compared to the first nine months of 2004 is primarily due to the payments of previously accrued bank franchise and federal income taxes in settlement of prior years' liabilities.

Supplemental disclosures of noncash activities

Under the HEI Dividend Reinvestment and Stock Purchase Plan (DRIP), common stock dividends reinvested by shareholders in HEI common stock in noncash transactions amounted to \$4.5 million for the nine months ended September 30, 2004. Beginning in March 2004, HEI began satisfying the requirements of the HEI DRIP and the Hawaiian Electric Industries Retirement Savings Plan (HEIRSP) by acquiring for cash its common shares through open market purchases rather than the issuances of additional shares.

Other noncash increases in common stock for director and officer compensatory plans were \$4.6 million and \$2.4 million for the nine months ended September 30, 2005 and 2004, respectively.

Table of Contents

(10) Recent accounting pronouncements and interpretations

For a discussion of recent accounting pronouncements and interpretations regarding the consolidation of variable interest entities and the tax effects of income from domestic production activities, see Note 7 of HECO's Notes to Consolidated Financial Statements.

Other-than-temporary impairment and its application to certain investments

In March 2004, the Financial Accounting Standards Board (FASB) ratified EITF Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. EITF Issue No. 03-1 provides guidance for determining whether an investment in debt or equity securities is impaired, evaluating whether an impairment is other-than-temporary and measuring impairment. EITF Issue No. 03-1 also provides disclosure guidance. The recognition and measurement guidance would have applied prospectively to all current and future investments within the scope of EITF Issue No. 03-1 in reporting periods beginning after June 15, 2004. However, in September 2004, the FASB issued FASB Staff Position (FSP) EITF 03-1-1 to delay the effective date of the recognition and measurement guidance. At its June 29, 2005 meeting, the FASB decided not to provide additional guidance on the meaning of other-than-temporary impairment, but directed its staff to issue proposed FSP EITF 03-1-a as final (retitled as FSP FAS 115-1 and FAS 124-1). The guidance in FSP FAS 115-1 and FAS 124-1 addresses the determination of when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. The FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP amends FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and FASB Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, and adds a footnote to APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. The guidance in this FSP nullifies certain requirements of EITF Issue No. 03-1 and supersedes EITF Abstracts, Topic D-44, *Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value*. The guidance in this FSP is required to be applied to reporting periods beginning after December 15, 2005.

Share-based payment

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment*, which requires companies to recognize the grant-date fair value of stock options and other equity-based compensation issued to employees in the income statement. Since the Company adopted the recognition provisions of SFAS No. 123 as of January 1, 2002, the only change the Company expects to make upon adoption of SFAS No. 123 (revised 2004) is how it accounts for forfeitures. Historically, forfeitures have not been significant. SFAS No. 123 (revised 2004) is effective as of January 1, 2006 for the Company. Also, in March 2005, the SEC issued Staff Accounting Bulletin (SAB) No. 107, which provides accounting, disclosure, valuation and other guidance related to share-based payment arrangements. The Company will adopt the provisions of SFAS No. 123 (revised 2004) and the guidance in SAB No. 107 on January 1, 2006 and expects the impact of adoption will be immaterial.

Asset retirement obligations

In March 2005, the FASB issued FIN 47, *Accounting for Conditional Asset Retirement Obligations*, which will require recognition of a liability for the fair value of a legal obligation to perform asset-retirement activities that are conditional on a future event if the amount can be reasonably estimated. The Company must adopt the provisions of FIN 47 no later than December 31, 2005. Management has not yet determined the impact of adoption on the Company's financial position or results of operations.

Accounting changes and error corrections

In June 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections. This new standard replaces APB Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements. Among other changes, SFAS No. 154 requires that a voluntary change in accounting principle be applied retrospectively so that all prior period financial statements presented are based on the new accounting principle, unless it is impracticable to do so. SFAS No. 154 also provides that (1) a change in method of depreciating or amortizing a long-lived nonfinancial asset be accounted for as a change in estimate (prospectively) that was

Table of Contents

effected by a change in accounting principle, and (2) correction of errors in previously issued financial statements should be termed a restatement. SFAS No. 154 is effective for accounting changes and error corrections made in fiscal years beginning after December 15, 2005. Because the impact of adopting the provisions of SFAS No. 154 will be dependent on future events and circumstances, management cannot predict such impact.

(11) Income taxes

In the first quarter of 2005, the Company recorded a \$3 million reserve for potential interest on the disputed timing of dividend income recognition. In the second quarter of 2005, the Company made a \$30 million deposit primarily to stop the further accrual of interest on the disputed timing of dividend income recognition related to a change in ASB's 2000 and 2001 tax year-ends. As of September 30, 2005, \$3 million, net of tax effects, was accrued for unresolved tax issues and related interest. In the second quarter of 2005, \$1 million of income taxes and interest payable were reversed due to the resolution of audit issues with the Internal Revenue Service. The Company believes it has adequately provided for the issue involving the disputed timing of dividend income recognition and other minor unresolved income tax issues with federal and state tax authorities and related interest. Although not probable, adverse developments on unresolved issues could result in additional charges to net income in the future. Based on information currently available, the Company believes the ultimate resolution of tax issues for all open tax periods will not have a material adverse effect on its results of operations, financial condition or liquidity.

(12) Investment in Hoku Scientific, Inc.

As of September 30, 2005, HEI Properties, Inc. (HEIPI) held 666,667 shares of Hoku Scientific, Inc. (Hoku), a Hawaii fuel cell technology startup company. Prior to August 5, 2005, the investment had been accounted for under the cost method since Hoku was a non-controlled corporation, HEIPI did not have the ability to exercise significant influence over the operating and financial policies of Hoku, and Hoku's shares were not publicly traded. Hoku went public and shares of Hoku began trading on the Nasdaq Stock Market on August 5, 2005 (closing price of \$10.70 on September 30, 2005 and \$10.59 on October 31, 2005). HEIPI is subject to certain lockup provisions that expire in February 2006. Since August 5, 2005, Hoku shares have been considered marketable and HEIPI has classified the shares as trading securities, carried at fair value with changes in fair value recorded in earnings. As of September 30, 2005, HEIPI carried its investment in Hoku shares at \$7 million, and in the third quarter of 2005, HEIPI recognized a \$4 million unrealized after-tax gain on the Hoku shares.

(13) Subsequent event

In May 2005, HEI and HEI Investments, Inc. (HEIII) entered into an agreement with a third party for the sale of HEIII's approximate 25% interest in the trust that is the lessor under a lease of a 60% undivided interest in a coal-fired electric generating plant in Georgia. The sale closed on October 28, 2005 and HEIII will recognize a gain of \$14 million (\$9 million after-tax) in the fourth quarter of 2005.

Table of Contents

Hawaiian Electric Company, Inc. and Subsidiaries

Consolidated Balance Sheets (unaudited)

(in thousands, except par value)	September 30, 2005	December 31, 2004
Assets		
Utility plant, at cost		
Land	\$ 32,988	\$ 32,995
Plant and equipment	3,689,748	3,573,716
Less accumulated depreciation	(1,435,445)	(1,361,703)
Plant acquisition adjustment, net	158	197
Construction in progress	131,138	102,949
Net utility plant	2,418,587	2,348,154
Current assets		
Cash and equivalents	2,903	327
Customer accounts receivable, net	119,058	102,007
Accrued unbilled revenues, net	90,181	79,028
Other accounts receivable, net	4,386	6,499
Fuel oil stock, at average cost	77,778	58,570
Materials and supplies, at average cost	26,889	23,768
Prepaid pension benefit cost	100,618	106,018
Other	8,270	8,327
Total current assets	430,083	384,544
Other long-term assets		
Regulatory assets	109,518	108,630
Unamortized debt expense	14,612	14,724
Other	25,945	23,563
Total other long-term assets	150,075	146,917
	\$ 2,998,745	\$ 2,879,615
Capitalization and liabilities		
Capitalization		
Common stock, \$6 2/3 par value, authorized 50,000 shares; outstanding 12,806 shares	\$ 85,387	\$ 85,387
Premium on capital stock	299,186	298,938
Retained earnings	653,440	632,779
Common stock equity	1,038,013	1,017,104
Cumulative preferred stock not subject to mandatory redemption	34,293	34,293
Long-term debt, net	765,009	752,735
Total capitalization	1,837,315	1,804,132
Current liabilities		

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

Short-term borrowings nonaffiliates	112,426	76,611
Short-term borrowings affiliate	12,575	11,957
Accounts payable	93,045	94,015
Interest and preferred dividends payable	14,984	10,738
Taxes accrued	116,541	105,925
Other	28,316	34,981
Total current liabilities	377,887	