OIL STATES INTERNATIONAL, INC
Form 10-K
February 20, 2009

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2008

Commission file no. 1-16337

Oil States International, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**76-0476605**
(State or other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*

Three Allen Center, 333 Clay Street, Suite 4620, Houston, Texas 77002
(Address of Principal Executive Offices) (Zip Code)

Registrant s telephone number, including area code:
(713) 652-0582

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, par value $.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K. þ

Indicate by check mark whether the registrant 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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act. Yes o No þ

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant:

Voting common stock (as of June 30, 2008)	$ 3,136,507,402

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date:

As of February 11, 2009	Common Stock, par value $.01 per share	49,501,436 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Definitive Proxy Statement for the 2009 Annual Meeting of Stockholders, which the Registrant intends to file with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year covered by this Form 10-K, are incorporated by reference into Part III of this Form 10-K.

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PART I

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Actual results could differ materially from those projected in the forward-looking statements as a result of a number of important factors. For a discussion of important factors that could affect our results, please refer to Item 1. Business including the risk factors discussed therein and the financial statement line item discussions set forth in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations below.

Cautionary Statement Regarding Forward-Looking Statements

We include the following cautionary statement to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statement made by us, or on our behalf. The factors identified in this cautionary statement are important factors (but not necessarily all of the important factors) that could cause actual results to differ materially from those expressed in any forward-looking statement made by us, or on our behalf. You can typically identify forward-looking statements by the use of forward-looking words such as may, will, could, project, believe, anticipate, expect, estimate, potential, plan, forecast, and other similar words. All state than statements of historical facts contained in this Annual Report on Form 10-K, including statements regarding our future financial position, budgets, capital expenditures, projected costs, plans and objectives of management for future operations and possible future strategic transactions, are forward-looking statements. Where any such forward-looking statement includes a statement of the assumptions or bases underlying such forward-looking statement, we caution that, while we believe such assumptions or bases to be reasonable and make them in good faith, assumed facts or bases almost always vary from actual results. The differences between assumed facts or bases and actual results can be material, depending upon the circumstances.

Where, in any forward-looking statement, we, or our management, express an expectation or belief as to the future results, such expectation or belief is expressed in good faith and believed to have a reasonable basis. However, there can be no assurance that the statement of expectation or belief will result or be achieved or accomplished. Taking this into account, the following are identified as important factors that could cause actual results to differ materially from those expressed in any forward-looking statement made by, or on behalf of, our company:

- the level of demand for and supply of oil and gas;
- fluctuations in the prices of oil and gas;
- the level of drilling and completion activity;
- the level of offshore oil and gas developmental activities;
- current recessionary economic conditions and the depth and duration of the recession;
- our ability to find and retain skilled personnel;
- the availability and cost of capital; and
- the other factors identified under the caption Risks Factors ,

Item 1. ***Business***

Our Company

Oil States International, Inc. (the Company or Oil States), through its subsidiaries, is a leading provider of specialty products and services to oil and gas drilling and production companies throughout the world. We operate in a substantial number of the world s active oil and gas producing regions, including the Gulf of Mexico, U.S. onshore, West Africa, the North Sea, Canada, South America and Southeast and Central Asia. Our customers include many of the national oil companies, major and independent oil and gas companies and other oilfield service

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companies. We operate in three principal business segments offshore products, tubular services and well site services and have established a leadership position in certain of our product or service offerings in each segment.

Available Information

The Company maintains a website with the address www.oilstatesintl.com. The Company is not including the information contained on the Company s website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. The Company makes available free of charge through its website its Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after the Company electronically files such material with, or furnishes such material to, the Securities and Exchange Commission (SEC). The Board of Directors of the Company documented its governance practices by adopting several corporate governance policies. These governance policies, including the Company s corporate governance guidelines and its code of business conduct and ethics, as well as the charters for the committees of the Board (Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee) may also be viewed at the Company s website. Copies of such documents will be sent to shareholders free of charge upon written request of the corporate secretary at the address shown on the cover page of this Form 10-K.

In accordance with New York Stock Exchange (NYSE) Rules, on June 6, 2008, the Company filed the annual certification by our CEO that, as of the date of the certification, the Company was in compliance with the NYSE s corporate governance listing standards.

Our Background

Oil States International, Inc. was originally incorporated in July 1995 and completed its initial public offering in February 2001. In July 2000, Oil States International, Inc., including its principal operating subsidiaries, Oil States Industries, Inc. (Oil States Industries), HWC Energy Services, Inc. (HWC), PTI Group Inc. (PTI) and Sooner Inc. (Sooner) entered into a Combination Agreement (the Combination Agreement) providing that, concurrently with the closing of our initial public offering, HWC, PTI and Sooner would merge with wholly owned subsidiaries of Oil States (the Combination). As a result, HWC, PTI and Sooner became wholly owned subsidiaries of the Company in February 2001. In this Annual Report on Form 10-K, references to the Company or to we, us, our, and similar term are to Oil States International, Inc. and its subsidiaries following the Combination.

Our Business Strategy

We have in past years grown our business lines both organically and through strategic acquisitions. Our investments are focused in growth areas and on areas where we can expand market share and where we can achieve attractive returns. Currently, we see opportunities in the oil sands developments in Canada and in the expansion of our capabilities to manufacture and assemble deepwater capital equipment. Current economic conditions have led us to emphasize appropriate reductions in our capital spending and operating expenses consistent with the decline in demand for our services as producers curtail their drilling activity in response to reduced commodity price expectations. As part of our long-term growth strategy, we continue to review complementary acquisitions as well as capital expenditures to enhance our ability to increase cash flows from our existing assets. For additional discussion of our business strategy, please read Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Acquisitions and Capital Spending

Since the completion of our initial public offering in February 2001, we have completed 35 acquisitions for total consideration of $497.0 million. Acquisitions of other oilfield service businesses have been an important aspect of our growth strategy and plans to increase shareholder value. Our acquisition strategy has primarily been focused in the well site services segment where we have expanded our geographic locations and our product and service offerings, especially in our rental tool business line. This growth strategy has allowed us to leverage our existing and acquired product and service offerings in new geographic locations. We have also made strategic acquisitions in offshore products, tubular services and in other well site services business lines.

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Capital spending since our initial public offering in February 2001 has totaled $857.1 million and has included both growth and maintenance capital expenditures in each of our businesses as follows: Accommodations $402.8 million, Rental Tools $193.4 million, Drilling and Other $167.9 million, Offshore Products $81.2 million, Tubular Services $9.1 million and Corporate $2.7 million.

In 2002 through 2004, we acquired 19 businesses for total consideration of $178.0 million. Each of the businesses acquired became part of our existing business segments and included rental tool companies, offshore products companies and product lines and a tubular distribution company.

In 2005, we completed nine acquisitions for total consideration of $158.6 million. In our well site services segment, we acquired a Wyoming based land drilling company, five related entities providing wellhead isolation equipment and services, and a Canadian manufacturer of work force accommodations. Our tubular services segment acquired a Texas based oil country tubular goods (OCTG) distributor, and our offshore products segment acquired a small product line.

In August 2006, we acquired three drilling rigs operating in West Texas for total consideration of $14.0 million. The rigs acquired, which are classified as part of our capital expenditures in 2006, were added to our existing West Texas drilling fleet in our drilling services business within the well site services segment.

In 2007, we acquired two rental tool businesses primarily providing well testing and flowback services and completion-related rental tools for total consideration of $112.8 million. The operations of these businesses have been included in the rental tools business within the well site services segment.

In 2008, we completed two acquisitions for total consideration of $29.9 million. In February 2008, we purchased all of the equity of Christina Lake Enterprises Ltd., the owners of an accommodations lodge (Christina Lake Lodge) in the Conklin area of Alberta, Canada, for total consideration of $7.0 million. Christina Lake Lodge provides lodging and catering in the southern area of the oil sands region. The Christina Lake Lodge has been included in the accommodations business within the well site services segment since the date of acquisition. In February 2008, we also acquired a waterfront facility on the Houston ship channel for use in our offshore products segment for total consideration of $22.9 million. The new waterfront facility expanded our ability to manufacture, assemble, test and load out larger subsea production and drilling rig equipment thereby expanding our capabilities.

Workover Services Business Transaction

Effective March 1, 2006, we completed a transaction to combine our workover services business with Boots & Coots International Well Control, Inc. (AMEX: WEL) (Boots & Coots) in exchange for 26.5 million shares of Boots & Coots common stock valued at $1.45 per share at closing and senior subordinated promissory notes totaling $21.2 million. Our workover services business was part of our well site services segment prior to the combination. The closing of the transaction resulted in a non-cash pretax gain of $20.7 million.

As a result of the closing of the transaction, we initially owned 45.6% of Boots & Coots. The senior subordinated promissory notes received in the transaction bear a fixed annual interest rate of 10% and mature on September 1, 2010. In connection with this transaction, we also entered into a Registration Rights Agreement requiring Boots & Coots to file a shelf registration statement. A shelf registration statement was finalized by Boots & Coots effective in the fourth quarter of 2006 and we sold shares in 2007 and 2008 as described below.

In April 2007, the Company sold, pursuant to a registration statement filed by Boots & Coots, 14,950,000 shares of Boots & Coots common stock that it owned for net proceeds of $29.4 million and, as a result, we recognized a net after tax gain of $8.4 million, or approximately $0.17 per diluted share, in the second quarter of 2007. After this sale of Boots & Coots shares and the sale of primary shares of stock directly by Boots & Coots in April 2007, our ownership interest in Boots & Coots was reduced to approximately 15%. The carrying value of the Company s remaining investment in Boots & Coots common stock totaled $19.6 million as of December 31, 2007.

The Company sold an aggregate total of 11,512,137 shares of Boots & Coots common stock representing the remaining shares that it owned in a series of transactions during May, June and August of 2008. The sale of Boots & Coots common stock resulted in net proceeds of $27.4 million and a net after tax gain of $3.6 million, or

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approximately $0.07 per diluted share, in the twelve months ended December 31, 2008. The carrying value of the Company s senior subordinated promissory notes receivable due from Boots & Coots was $21.2 million as of December 31, 2008 and is included in other non-current assets on the balance sheet. In February 2009, we received $21.2 million in cash from Boots & Coots in full payment of the senior subordinated promissory notes.

Our Industry

We operate in the oilfield services industry and provide a broad range of products and services to our customers through our offshore products, tubular services and well site services business segments. Demand for our products and services is cyclical and substantially dependent upon activity levels in the oil and gas industry, particularly our customers willingness to spend capital on oil and natural gas exploration and development activities. Management estimates that approximately 55% to 60% of the Company s revenues are dependent on North American natural gas drilling and completion activity with a significant amount of such revenues being derived from lower margin OCTG sales. As such, we estimate that our profitability is fairly evenly balanced between oil driven activity and natural gas driven activity. Demand for our products and services by our customers is highly sensitive to current and expected future oil and natural gas prices. See Note 14 to our Consolidated Financial Statements included in this Annual Report on Form 10-K for financial information by segment and a geographical breakout of revenues and long-lived assets.

Our financial results reflect the cyclical nature of the oilfield services business. Since 2001, there have been periods of increasing and decreasing activity in each of our operating segments. The current sustained declines in oil and gas prices, particularly in combination with the constrained capital and credit markets and overall economic downturn, has resulted in a decline in activity by customers in each of our segments during the first quarter of 2009. For additional information on how each of our segments have responded to declines in oil and natural gas prices, please see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Our Well Site Services businesses, which are significantly affected by the North American rig count, saw increasing activity from 2004 through 2006, had relatively flat year-over-year activity in 2007 and again saw an overall increase in activity for the year 2008, but saw declines beginning in the fourth quarter of 2008 which have continued into 2009. Acquisitions and capital expenditures made in this segment have created growth opportunities. In addition, increased activity supporting oil sands developments in northern Alberta, Canada by our work force accommodations, catering and logistics business has had a positive impact on this segment s overall trends.

Our Offshore Products segment, which is more influenced by deepwater development activity and rig and vessel construction and repair, experienced decreased activity during 2004; however, backlog increased significantly from 2004 to 2008, which resulted in improved operating results during 2005, 2006, 2007 and in 2008. However, new order activity slowed in the latter part of 2008.

Our Tubular Services business is influenced by U.S. drilling activity similar to our Well Site Services and has historically been our most cyclical business segment. In addition, during 2005 and 2008, this segment s margins were positively affected in a significant manner by increasing prices for steel products, including the OCTG we sell. Prices for steel products remained comparatively stable during 2006, declined in 2007 and then increased in 2008. Subsequent to December 31, 2008, OCTG prices have weakened.

Well Site Services

Overview

During the year ended December 31, 2008, we generated approximately 33% of our revenue and 52% of our operating income, before corporate charges, from our Well Site Services segment. Our well site services segment includes a broad range of products and services that are used to establish and maintain the flow of oil and gas from a well throughout its lifecycle and to accommodate personnel in remote locations. Our operations include land drilling services, work force accommodations and associated services and rental tools. We use our fleet of drilling rigs, rental equipment and work force accommodation facilities to serve our customers at well sites and project development locations. Our products and services are used in both onshore and offshore applications throughout the exploration, development and production phases of a well s life. Additionally, our work force accommodations and associated services are employed to support work forces in the oil sands and a variety of mining and related natural resource applications as well as forest fire fighting and disaster relief efforts.

Well Site Services Market

Demand for our drilling rigs, rental equipment and work force accommodations and associated services has historically been tied to the level of activity by oil and gas explorationists and producers. The primary driver for this activity is the price of oil and natural gas. Activity levels have been, and we expect will continue to be, highly correlated with hydrocarbon commodity prices. Demand for our workforce accommodations business has grown in recent years due to the increasing demand for accommodations to support workers in the oil sands region of Canada. However, full utilization of additional capacity as a result of our current and future expansions of our accommodations facilities will largely depend on continued oil sands developments. Because costs for production from oil sands may be substantially higher than costs to produce conventional crude oil, the recent decline in crude oil prices has made certain oil sands projects less profitable or uneconomic. If crude oil prices remain at their current levels or decline further, oil sands producers may cancel or delay plans to expand their facilities, as some oil sands producers have already done.

Products and Services

Drilling Services. Our drilling services business is located in the United States and provides land drilling services for shallow to medium depth wells ranging from 1,500 to 12,500 feet. Drilling services are typically used during the exploration and development stages of a field. We have a total of 36 semi-automatic drilling rigs with hydraulic pipe handling booms and lift capacities ranging from 75,000 to 500,000 pounds, 12 of which were fabricated and/or assembled in our Odessa, Texas facility with components purchased from specialty vendors. Twenty-two of these drilling rigs are based in Odessa, Texas, ten are based in the Rocky Mountains region and four are based in Wooster, Ohio. Utilization increased from an average of 79.3% in 2007 to an average of 82.4% in 2008. On December 31, 2008, 61.1% of our rigs, or 22 rigs, were working or under contract. One additional rig was under construction in our facility in Odessa, Texas at December 31, 2008. Utilization has decreased in early 2009, and has been in the range of 35% to 45%.

We market our drilling services directly to a diverse customer base, consisting of major, independent and private oil and gas companies. Our largest customers in drilling services in 2008 included Apache Corporation and Occidental Petroleum Corporation. We contract on both footage and dayrate basis. Under a daywork drilling contract, the customer pays for certain costs that the Company would normally provide when drilling on a footage basis, and the customer assumes more risk than on a footage basis. Depending on market conditions and availability of drilling rigs, we will see changes in pricing, utilization and contract terms. The land drilling business is highly fragmented and our competition consists of a small number of large companies and many smaller companies.

Rental Equipment. Our rental equipment business provides a wide range of products and services for use in the offshore and onshore oil and gas industry, including:

- wireline and coiled tubing pressure control equipment;
- wellhead isolation equipment;
- pipe recovery systems;
- thru-tubing fishing services;

hydraulic chokes and manifolds;

blow out preventers;

well testing equipment, including separators and line heaters;

gravel pack operations on well bores; and

surface control equipment and down-hole tools utilized by coiled tubing operators.

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Our rental equipment is primarily used during the completion and production stages of a well. As of December 31, 2008, we provided rental equipment at 72 distribution points throughout the United States, Canada, Mexico and Argentina. We are currently combining some of these distribution points in key markets where opportunities exist to streamline operations and market our equipment more effectively. We provide rental equipment on a daily rental basis with rates varying depending on the type of equipment and the length of time rented. In certain operations, we also provide service personnel in connection with the equipment rental. We own patents covering some of our rental tools, particularly, in our wellhead isolation equipment product line. Our customers in the rental equipment business include major, independent and private oil and gas companies and other large oilfield service companies. Competition in the rental tool business is widespread and includes many smaller companies, although we do compete with a small number of the larger oilfield service companies, who are also our customers for certain products and services.

Workforce Accommodations, Catering, Logistics and Modular Building Construction. We are one of North America s largest providers of integrated services providing accommodations for people working in remote locations. Our scalable modular facilities provide temporary and permanent workforce accommodations where traditional hotels and infrastructure are not accessible or cost effective. Once the facilities are deployed in the field, we also provide catering and food services, housekeeping, laundry, facility management, water and wastewater treatment, power generation, communications and redeployment logistics.

In addition to our large-scale lodge facilities, we offer a broad range of semi-permanent and mobile options to house workers in remote regions. Our fleet of temporary camps is designed to be deployed on short notice and can be relocated as a project site moves. Our temporary camps range in size from a 25 person drilling camp to a 2,000 person construction camp.

We own two manufacturing plants which specialize in the design, engineering, production, transportation and installation of a variety of portable modular buildings. We manufacture facilities to suit the climate, terrain and population of a specific project site.

Our workforce accommodations business is focused primarily in western and northern Canada, but also operates in the U.S. Rocky Mountain corridor (Wyoming, Colorado, Utah), Fayetteville Shale region of Arkansas and offshore locations in the Gulf of Mexico. In the past, we have also served companies operating in international markets including the Middle East, Europe, Asia and South America.

Our customers operate in a diverse mix of industries including primarily oil sands mining and development, and drilling, exploration and extraction of oil and gas. We also operate in other industries, but to a lesser extent, including pipeline construction, mining, forestry, humanitarian aid and disaster relief, and support for military operations. Our largest customers in the workforce accommodations market in 2008 were Suncor Energy, Inc. and Albian Sands Energy, Inc. Our primary competitors in Canada include Aramark Corporation, Compass Group PLC, ATCO Structures Limited, Black Diamond Income Fund and Horizon North Logistics, Inc.

To a significant extent, the Company s recent capital expenditures have focused on opportunities in the oil sands region in northern Alberta. Since the beginning of 2005, we have spent $322.8 million, or 46.1%, of our total consolidated capital expenditures in our Canadian accommodations business. Most of these capital investments have been in support of oil sands developments, both for initial construction phases and ongoing operations. In addition, as conventional oil and gas drilling has decreased, we have shifted certain accommodations assets, formerly used in support of conventional drilling and mining activities, to support demand in the oil sands. Oil sands related accommodations revenues have increased from 32.9% of total accommodations revenues in 2005 to 67.7% in 2008.

Since mid year 2006, we have installed over 5,300 rooms in four of our major lodge properties supporting oil sands activities in northern Alberta. Our growth plan for this area of our business includes the expansion of these properties where we believe there is durable long-term demand. As of December 31, 2008, these company-owned properties include PTI Beaver River Executive Lodge (732 rooms), PTI Athabasca Lodge (1,537 rooms), PTI Wapasu Creek Lodge (2,702 rooms) and PTI Conklin Lodge (376 rooms). We are currently expanding the capacity of our PTI Wapasu Creek Lodge to 2,991 rooms in 2009.

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Offshore Products

Overview

During the year ended December 31, 2008, we generated approximately 18% of our revenue and 22% of our operating income, before corporate charges, from our offshore products segment. Through this segment, we design and manufacture a number of cost-effective, technologically advanced products for the offshore energy industry. In addition, we have other lower margin products and services such as fabrication and inspection services. Our products and services are used in both shallow and deepwater producing regions and include flex-element technology, advanced connector systems, blow-out preventor stack integration and repair services, deepwater mooring and lifting systems, offshore equipment and installation services and subsea pipeline products. We have facilities in Arlington, Houston and Lampasas, Texas; Houma, Louisiana; Tulsa, Oklahoma; Scotland; Brazil; England; Singapore and Thailand that support our offshore products segment.

Offshore Products Market

The market for our offshore products and services depends primarily upon development of infrastructure for offshore production activities, drilling rig refurbishments and upgrades and new rig and vessel construction. Demand for oil and gas and related drilling and production in offshore areas throughout the world, particularly in deeper water, will drive spending on these activities.

The upgrade of existing rigs to equip them with the capability to drill in deeper water and withstand harsh operating conditions, the construction of new deepwater-capable rigs, and the installation of fixed or floating production systems require specialized products and services like the ones we provide.

Products and Services

Our offshore products segment provides a broad range of products and services for use in offshore drilling and development activities. In addition, this segment provides onshore oil and gas, defense and general industrial products and services. Our offshore products segment is dependent in part on the industry s continuing innovation and creative applications of existing technologies.

We design and build manufacturing and testing systems for many of our new products and services. These testing and manufacturing facilities enable us to provide reliable, technologically advanced products and services. Our Aberdeen facility provides structural testing for risers including full-scale product simulations.

Offshore Development and Drilling Activities. We design, manufacture, fabricate, inspect, assemble, repair, test and market subsea equipment and offshore vessel and rig equipment. Our products are components of equipment used for the drilling and production of oil and gas wells on offshore fixed platforms and mobile production units, including floating platforms and floating production, storage and offloading (FPSO) vessels, and on other marine vessels, floating rigs and jack-ups. Our products and services include:

- flexible bearings and connector products;
- subsea pipeline products;
- marine winches, mooring and lifting systems and rig equipment;

conductor casing connections and pipe;

drilling riser repair services;

blowout preventer stack assembly, integration, testing and repair services; and

other products and services.

Flexible Bearings and Connector Products. We are the principal supplier of flexible bearings, or FlexJoints®, to the offshore oil and gas industry. We also supply connections and fittings that join lengths of large diameter conductor or casing used in offshore drilling operations. FlexJoints® are flexible bearings that permit the controlled movement of riser pipes or tension leg platform tethers under high tension and pressure. They are used on drilling, production and export risers and are used increasingly as offshore production moves to deeper water areas. Drilling riser systems provide the vertical conduit between the floating drilling vessel and the subsea wellhead. Through the drilling riser, equipment is guided into the well and drilling fluids are returned to the surface. Production riser systems provide the vertical conduit from the subsea wellhead to the floating production platform. Oil and gas flows to the surface for processing through the production riser. Export risers provide the vertical conduit from the floating production platform to the subsea export pipelines. FlexJoints® are a critical element in the construction and operation of production and export risers on floating production systems in deepwater.

Floating production systems, including tension leg platforms, Spars and FPSO facilities, are a significant means of producing oil and gas, particularly in deepwater environments. We provide many important products for the construction of these facilities. A tension leg platform is a floating platform that is moored by vertical pipes, or tethers, attached to both the platform and the sea floor. Our FlexJoint® tether bearings are used at the top and bottom connections of each of the tethers, and our Merlin connectors are used to join shorter pipe sections to form long pipes offshore. A Spar is a floating vertical cylindrical structure which is approximately six to seven times longer than its diameter and is anchored in place. Our FlexJoints® are also used to attach the steel catenary risers to a Spar, FPSO or tension leg platform and for use on import or export risers.

Subsea Pipeline Products. We design and manufacture a variety of fittings and connectors used in offshore oil and gas pipelines. Our products are used for new construction, maintenance and repair applications. New construction fittings include:

- pipeline end manifolds, pipeline end terminals;
- midline tie-in sleds;
- forged steel Y-shaped connectors for joining two pipelines into one;
- pressure-balanced safety joints for protecting pipelines and related equipment from anchor snags or a shifting sea-bottom;
- electrical isolation joints; and
- hot tap clamps that allow new pipelines to be joined into existing lines without interrupting the flow of petroleum product.

We provide diverless connection systems for subsea flowlines and pipelines. Our HydroTech® collet connectors provide a high-integrity, proprietary metal-to-metal sealing system for the final hook-up of deep offshore pipelines and production systems. They also are used in diverless pipeline repair systems and in future pipeline tie-in systems. Our lateral tie-in sled, which is installed with the original pipeline, allows a subsea tie-in to be made quickly and efficiently using proven HydroTech® connectors without costly offshore equipment mobilization and without shutting off product flow.

We provide pipeline repair hardware, including deepwater applications beyond the depth of diver intervention. Our products include:

- repair clamps used to seal leaks and restore the structural integrity of a pipeline;
- mechanical connectors used in repairing subsea pipelines without having to weld;

flanges used to correct misalignment and swivel ring flanges; and

pipe recovery tools for recovering dropped or damaged pipelines.

Marine Winches, Mooring and Lifting Systems and Rig Equipment. We design, engineer and manufacture marine winches, mooring and lifting systems and rig equipment. Our Skagit® winches are specifically designed for mooring floating and semi-submersible drilling rigs and positioning pipelay and derrick barges, anchor handling boats and jack-ups, while our Nautilus® marine cranes are used on production platforms throughout the world. We also design and fabricate rig equipment such as automatic pipe racking and blow-out preventor handling equipment. Our engineering teams, manufacturing capability and service technicians who install and service our products

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provide our customers with a broad range of equipment and services to support their operations. Aftermarket service and support of our installed base of equipment to our customers is also an important source of revenue to us.

BOP Stack Assembly, Integration, Testing and Repair Services. We design and fabricate lifting and protection frames and offer system integration of blow-out preventer stacks and subsea production trees. We can provide complete turnkey and design fabrication services. We also design and manufacture a variety of custom subsea equipment, such as riser flotation tank systems, guide bases, running tools and manifolds. In addition, we also offer blow-out preventer and drilling riser testing and repair services.

Other Products and Services. We provide equipment for securing subsea structures and offshore platform jackets, including our Hydra-Lok® hydraulic system. The Hydra-Lok® tool, which has been successfully used at depths of 3,000 feet, does not require diver intervention or guide lines.

We also provide cost-effective, standardized leveling systems for offshore structures that are anchored by foundation piles, including subsea templates, subsea manifolds and platform jackets.

Our offshore products segment also produces a variety of products for use in applications other than in the offshore oil and gas industry. For example, we provide:

- elastomer consumable downhole products for onshore drilling and production;
- sound and vibration isolation equipment for the U.S. Navy submarine fleet;
- metal-elastomeric FlexJoints® used in a variety of naval and marine applications; and
- drum-clutches and brakes for heavy-duty power transmission in the mining, paper, logging and marine industries.

Backlog. Backlog in our offshore products segment was $362.1 million at December 31, 2008, compared to $362.2 million at December 31, 2007 and $349.3 million at December 31, 2006. We expect in excess of 85% of our backlog at December 31, 2008 to be completed in 2009. Our offshore products backlog consists of firm customer purchase orders for which contractual commitments exist and delivery is scheduled. In some instances, these purchase orders are cancelable by the customer, subject to the payment of termination fees and/or the reimbursement of our costs incurred. Although our backlog is an important indicator of future offshore products shipments and revenues, backlog as of any particular date may not be indicative of our actual operating results for any future period. We believe that the offshore construction and development business is characterized by lengthy projects and a long lead-time order cycle. The change in backlog levels from one period to the next does not necessarily evidence a long-term trend.

Regions of Operations

Our offshore products segment provides products and services to customers in the major offshore oil and gas producing regions of the world, including the Gulf of Mexico, West Africa, Azerbaijan, the North Sea, Brazil and Southeast Asia. We are currently expanding our capabilities in Southeast Asia by constructing a new facility in Singapore.

Customers and Competitors

We market our products and services to a broad customer base, including the direct end users, engineering and design companies, prime contractors, and at times, our competitors through outsourcing arrangements.

Tubular Services

Overview

During the year ended December 31, 2008, we generated approximately 50% of our revenue and 26% of our operating income, before corporate charges, from our tubular services segment. Through this segment, we distribute

OCTG and provide associated OCTG finishing and logistics services to the oil and gas industry. OCTG consist of downhole casing and production tubing. Through our tubular services segment, we:

- distribute a broad range of casing and tubing;
- provide threading, remediation, logistical and inventory management services; and
- offer e-commerce pricing, ordering, tracking and financial reporting capabilities.

We serve a customer base ranging from major oil and gas companies to small independents. Through our key relationships with more than 20 domestic and foreign manufacturers and related service providers and suppliers of OCTG, we deliver tubular products and ancillary services to oil and gas companies, drilling contractors and consultants predominantly in the United States. The OCTG distribution market is highly fragmented and competitive, and is focused in the United States. We purchase tubular goods from a variety of sources. However, during 2008, we purchased from a single domestic supplier 58% of the total tubular goods we purchased and from three domestic suppliers approximately 75% of such tubular goods. Since the fourth quarter of 2008, we have reduced our forward purchase commitments for OCTG considering the decline in drilling activity.

OCTG Market

Our tubular services segment primarily distributes casing and tubing. Casing forms the structural wall in oil and gas wells to provide support, control pressure and prevent caving during drilling operations. Casing is also used to protect water-bearing formations during the drilling of a well. Casing is generally not removed after it has been installed in a well. Production tubing, which is used to bring oil and gas to the surface, may be replaced during the life of a producing well.

A key indicator of domestic demand for OCTG is the aggregate footage of wells drilled onshore and offshore in the United States. The OCTG market is also affected by the level of inventories maintained by manufacturers, distributors and end users. Inventory on the ground, when at high levels, can cause tubular sales to lag a rig count increase due to inventory destocking. Demand for tubular products is positively impacted by increased drilling of deeper, horizontal and offshore wells. Deeper wells require incremental tubular footage and enhanced mechanical capabilities to ensure the integrity of the well. Premium tubulars are used in horizontal drilling to withstand the increased bending and compression loading associated with a horizontal well. Operators typically specify premium tubulars for the completion of offshore wells.

Products and Services

Tubular Products and Services. We distribute various types of OCTG produced by both domestic and foreign manufacturers to major and independent oil and gas exploration and production companies and other OCTG distributors. We do not manufacture any of the tubular goods that we distribute. As a result, gross margins in this segment are generally lower than those reported by our other segments. We operate our tubular services segment from a total of eight offices and facilities located near areas of oil and gas exploration and development activity. We have distribution relationships with most major domestic and certain international steel mills.

In this business, inventory management is critical to our success. We maintain on-the-ground inventory in approximately 60 yards located in the United States, giving us the flexibility to fill customer orders from our own stock or directly from the manufacturer. We have a proprietary inventory management system, designed specifically for the OCTG industry, which enables us to track our product shipments.

A-Z Terminal. Our A-Z Terminal pipe maintenance and storage facility in Crosby, Texas is equipped to provide a full range of tubular services, giving us strong customer service capabilities. Our A-Z Terminal is on 109 acres, is an ISO 9001-certified facility, has a rail spur and more than 1,400 pipe racks and two double-ended thread lines. We have exclusive use of a permanent third-party inspection center within the facility. The facility also includes indoor chrome storage capability and patented pipe cleaning machines.

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We offer services at our A-Z Terminal facility typically outsourced by other distributors, including the following: threading, inspection, cleaning, cutting, logistics, rig returns, installation of float equipment and non-destructive testing.

Other Facilities. We also offer tubular services at our facilities in Midland and Godley, Texas and Searcy, Arkansas. Our Midland, Texas facility covers approximately 60 acres and has more than 400 pipe racks. Our Godley, Texas facility, which services the Barnett shale area, has approximately 60 pipe racks on approximately 27 developed acres and is serviced by a rail spur. Independent third party inspection companies operate within each of these facilities.

Tubular Products and Services Sales Arrangements. We provide our tubular products and logistics services through a variety of arrangements, including spot market sales and alliances. We provide some of our tubular products and services to independent and major oil and gas companies under alliance or program arrangements. Although our alliances are generally not as profitable as the spot market and can be cancelled by the customer, they provide us with more stable and predictable revenues and an improved ability to forecast required inventory levels, which allows us to manage our inventory more efficiently.

Regions of Operations

Our tubular services segment provides tubular products and services principally to customers in the United States both for land and offshore applications. However, we also sell a small percentage for export worldwide.

Customers, Suppliers and Competitors

Our largest end-user customer in the tubular distribution market in 2008 was Chesapeake Energy Corporation. Our largest suppliers were U.S. Steel Group and Tenaris Global Services USA Corporation. Although we have a leading market share position in tubular services distribution, the market is highly fragmented. Our main competitors in tubular distribution are Premier Pipe L.P., McJunkin Red Man Corporation (formerly Red Man Pipe & Supply Co., Inc.), Bourland & Leverich Supply Company, L.C. and Pipeco Services.

Seasonality of Operations

Our operations are directly affected by seasonal differences in weather in the areas in which we operate, most notably in Canada, the Rocky Mountain region and the Gulf of Mexico. A portion of our Canadian work force accommodations, catering and logistics operations is conducted during the winter months when the winter freeze in remote regions is required for exploration and production activity to occur. The spring thaw in these frontier regions restricts operations in the spring months and, as a result, adversely affects our operations and sales of products and services in the second quarter. Our operations in the Gulf of Mexico are also affected by weather patterns. Weather conditions in the Gulf Coast region generally result in higher drilling activity in the spring, summer and fall months with the lowest activity in the winter months. As a result of these seasonal differences, full year results are not likely to be a direct multiple of any particular quarter or combination of quarters. In addition, summer and fall drilling activity can be restricted due to hurricanes and other storms prevalent in the Gulf of Mexico and along the Gulf Coast. For example, during 2005, a significant disruption occurred in oil and gas drilling and production operations in the U.S. Gulf of Mexico due to damage inflicted by Hurricanes Katrina and Rita and, during 2008, from Hurricane Ike.

Employees

As of December 31, 2008, we had 6,983 full-time employees, 25% of whom are in our offshore products segment, 72% of whom are in our well site services segment, 2% of whom are in our tubular services segment and 1% of whom are in our corporate headquarters. We are party to collective bargaining agreements covering 1,150 employees located in Canada, the United Kingdom and Argentina as of December 31, 2008. We believe relations with our employees are good.

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Government Regulation

Our business is significantly affected by foreign, federal, state and local laws and regulations relating to the oil and natural gas industry, worker safety and environmental protection. Changes in these laws, including more stringent regulations and increased levels of enforcement of these laws and regulations, could significantly affect our business. We cannot predict changes in the level of enforcement of existing laws and regulations or how these laws and regulations may be interpreted or the effect changes in th New Roman" style="font-size:10.0pt;">

g. Death Benefits

Upon the death of a participant, the full value of the participant s vested account balance is payable as a death benefit to the participant s designated beneficiary.

h. Withdrawals While Employed

Prior to termination of employment, salary deferral and catch-up contributions (and income earned on such contributions prior to 1989) and certain other contributions may be withdrawn in the event of hardship. A participant who receives a hardship withdrawal is prohibited from making additional salary deferral contributions to the Plan for six months following the hardship withdrawal.

Upon request, a participant may withdraw certain contributions (and the associated investment earnings), including tax-deductible voluntary contributions and after-tax contributions no longer permitted under the Plan and after-tax and Roth rollover contributions.

Participants who elect to invest portions of their account balances in the HEI Common Stock Fund (the ESOP component of the Plan) may elect to receive cash distributions of periodic dividends attributable to such investments or may elect to have such dividends reinvested. If the dividends are reinvested, they are fully vested.

A participant who is age 59½ or older may elect to receive an in-service distribution from his or her vested account balance once per year, except that in-service distributions are not permitted from a participant s matching contribution subaccount.

i. Notes Receivable from Participants

Participants may borrow from their accounts. All loans must be on commercially reasonable terms and be evidenced by a note. The minimum note amount is $1,000, and the maximum amount of all notes under the Plan is limited to the lesser of $50,000, reduced by the highest outstanding note balance during the prior 12 months, or 50% of the participant s vested account balance. The term of a note generally may not exceed 5 years, except that a note used to purchase a principal residence may have a term of up to 15 years. The interest rate on a note is set at the time a participant applies for the note. The interest rate for 2015 was two percentage points above the Federal Reserve prime rate of interest as of the last working day of the month preceding the month the note was made. All outstanding notes are collateralized by 50% of the participant s vested account balance, determined when a note is approved. No allowance for credit losses has been recorded as of December 31, 2015 or 2014. If a participant ceases to make loan repayments and the Plan Administrator deems the participant loan to be in default, the default will be a deemed distribution. However, the participant s account will not be reduced until a distributable event occurs under the terms of the Plan. Notes outstanding at December 31, 2015 bear interest at various rates ranging from 3.50% to 9.25%. Principal and interest payments are made ratably through payroll

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Notes to Financial Statements

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deductions. Participants are allowed up to two notes outstanding at any one time from the Plan.

j. Vesting

Salary deferral contributions, including catch-up contributions, are fully vested when made. Matching contributions for participants first employed after April 30, 2011 are subject to a six-year graded vesting schedule as noted below, except that such amounts become fully vested when the participant attains age 65 if the participant is still employed by a Participating Employer or another subsidiary of HEI that is not a Participating Employer.

Years of Vesting Service	Vested Percentage
Less than 2 years	0%
2 years	20%
3 years	40%
4 years	60%
5 years	80%
6 or more years	100%

k. Forfeitures

Plan forfeitures are used to pay Plan administrative expenses and to reduce Participating Employers matching contributions. Forfeitures of terminated nonvested account balances used for the years ended December 31, 2015 and 2014 totaled $44,357 and $46,307, respectively. The ending balances in the forfeiture accounts at December 31, 2015 and 2014 were $44,605 and $32,731, respectively.

l. Collective Bargaining Agreement

As of December 31, 2015 and 2014, approximately 49% and 50%, respectively, of the electric utilities employees were members of the International Brotherhood of Electrical Workers, AFL-CIO, Local 1260, which is the only union representing employees of the electric utilities.

2. Summary of Significant Accounting Policies

a. Basis of Accounting

The Plan prepares its financial statements under the accrual method of accounting.

b. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires the Plan Administrator to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

c. Investment Valuation and Income Recognition

The Plan s investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The PIC is responsible for the Plan s valuation principles and utilizes information provided by the Plan s investment advisers and custodian. See Note 3 for a discussion of fair value measurements. Net appreciation or depreciation in

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the fair value of investments includes realized and unrealized changes in the values of investments bought, sold, and held during the year.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

d. Notes Receivable From Participants

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Interest income is recorded on the accrual basis. Related fees are recorded as administrative expenses and are expensed when they are incurred. If a participant ceases to make loan repayments and the plan administrator deems the participant loan to be in default, the participant loan balance is treated as a deemed distribution and is recorded in distributions to participants.

e. Payment of Benefits

The Plan records benefits when they are paid.

f. Expenses

Certain expenses of maintaining the Plan, such as legal, audit, consulting and recordkeeping fees, are paid directly by the Participating Employers and are excluded from these financial statements. Fees related to the administration of notes receivable from participants are charged directly to the participant s account and are included in administrative expenses. Investment related expenses are included in net appreciation in fair value of investments.

g. Risks and Uncertainties

The Plan may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of net assets available for benefits.

On December 3, 2014, HEI and NextEra Energy, Inc. entered into an agreement and plan of merger. Failure to complete the merger could negatively impact the HEI common stock price and the future business and financial results of HEI. For more information, see HEI s Form 10-K filed with the Securities and Exchange Commission (SEC) on February 23, 2016 and the merger proxy statement filed on March 26, 2015.

Approximately 15% and 18% of the Plan s net assets at December 31, 2015 and 2014, respectively, consisted of HEI common stock.

h. **Recent Accounting Pronouncements**

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07: Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent). This guidance simplifies disclosure requirements relating to investments for which fair value is measured using the net asset value per share, or its equivalent. The update removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. Investments that calculate net asset value per share (or its equivalent), but for which the practical expedient is not applied, will continue to be included in the fair value hierarchy. The update removes the requirement to make certain disclosures for all

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investments that are eligible to be measured at fair value using the net asset value per share practical expedient. A reporting entity should continue to disclose information on investments for which fair value is measured at net asset value as a practical expedient to help users understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from net asset value. The ASU is effective for financial statements with fiscal years beginning on or after December 15, 2016, and interim periods within those fiscal years. The Plan has yet to adopt ASU 2015-07, and has not evaluated the impact of adopting the ASU on the Plan s financial statements.

On July 31, 2015, the FASB issued ASU 2015-12 Plan Accounting: Defined Benefit Pension Plans, Defined Contribution Pension Plans and Health and Welfare Benefit Plans. This ASU is comprised of three parts. Parts I and III of the update are not applicable to the Plan. Part II of the update eliminates the requirement for disclosure of: i) individual investments that represent 5% or more of net assets available for benefits; and ii) Net appreciation or depreciation for investments disaggregated by general type net appreciation or depreciation will only be required to be presented in the aggregate. Investments will only be grouped by general type (e.g., mutual funds, common stock, government securities, etc.), eliminating the need to disaggregate investments on the basis of nature, characteristics, and risks and provides for self-directed brokerage accounts as an investment type. For investments measured using net asset value per share (or its equivalent) as a practical expedient and if the investment is a direct filing entity, disclosure of the investment s strategy is no longer required. The provisions of ASU 2015-12 will be effective for fiscal years beginning after December 15, 2015 and early application is permitted. The guidance in Part II must be applied retrospectively when adopted by the Plan. The Plan early adopted ASU 2015-12 Part II, and the ASU did not have a material impact on the Plan s financial statements.

i. Subsequent Events

The Plan Administrator has evaluated subsequent events through the date the financial statements were issued.

3. Fair Value Measurements

a. Fair Value of Financial Instruments

The following is a description of the valuation methodologies used for assets measured at fair value:

Mutual Funds

Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

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Hawaiian Electric Industries, Inc. Common Stock Fund

Invests primarily in shares of HEI common stock with a fractional amount invested in interest-bearing cash equivalents. The HEI Common Stock Fund is valued at NAV. The underlying HEI common stock held by the HEI Common Stock Fund is valued at the closing price reported on the last business day of the Plan year on the active market on which the common stock is traded. The underlying cash equivalents include investments in money market mutual funds valued at the NAV. The HEI Common Stock Fund trades daily without any prior redemption notice period.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values, which may be materially affected by market conditions and other circumstances. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

b. Fair Value Hierarchy

Accounting Standards Codification 820, *Fair Value Measurements and Disclosures,* provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The following are the three levels of the fair value hierarchy under this standard:

Level 1 Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Plan has the ability to access at the measurement date.

Level 2 Inputs are quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level of input that is significant to the fair value measurement in its entirety.

4. Interest in Master Trust

All of the assets of the HEIRS Plan are held together with all of the assets of the American Savings Bank 401(k) Plan in a master trust (the Master Trust) pursuant to a Master Trust Agreement between HEI and American Savings Bank, F.S.B. (ASB) and Fidelity Management Trust Company (the Trustee) that was amended and restated in its entirety as of September 4, 2012. Each participating plan has an undivided interest in the Master Trust determined by the specific interest each participant has in their account.

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The value of the Plan s interest in the Master Trust is based on the beginning of the year value of the Plan s interest in the Master Trust plus actual contributions, transfers and allocated investment income or loss less actual distributions and allocated administrative expenses. At both December 31, 2015 and 2014, the Plan s interest in the assets of the Master Trust was approximately 81%. Investment income and administrative expenses relating to the Master Trust are allocated to the individual plans based upon the daily valuation of the balances invested by each plan.

The following table presents the assets of the Master Trust and the Plan s interest in the Master Trust:

		2015		2014
Investments				
Mutual funds	$	451,825,542	$	435,062,485
HEI Common Stock Fund		75,212,413		89,253,599
Total investments		527,037,955		524,316,084
Notes receivable from participants		10,851,986		10,438,442
Participant contributions receivable		508,126		807,120
Employer contributions receivable		1,811,636		1,608,707
Due from Fidelity		12,088		26,376
Accounts payable		(12,689)		(9,571)
Total net assets	$	540,209,102	$	537,187,158
Plan interest in Master Trust				
Investments	$	428,195,142	$	426,933,212
Notes receivable from participants		7,510,554		7,245,146

The following table presents the income of the Master Trust and the Plan s interest in the income of the Master Trust:

		2015		2014
Net (depreciation) appreciation in fair value of investments				
Mutual funds	$	(12,182,507)	$	6,525,933
HEI Common Stock Fund		(11,655,719)		19,537,154
Dividends and interest		22,736,036		24,212,492
Total investment (loss) income	$	(1,102,190)	$	50,275,579
Interest from participants notes receivable	$	513,288	$	470,795
Plan interest in Master Trust				
Investment (loss) income	$	(962,805)	$	41,825,664
Interest from participants notes receivable		360,205		333,334

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Retirement Savings Plan

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December 31, 2015 and 2014

The following table presents the changes in net assets of the Master Trust:

		2015		2014
Net (depreciation) appreciation in fair value of investments	$	(23,838,226)	$	26,063,087
Dividends and interest		22,736,036		24,212,492
Net investment (loss) income		(1,102,190)		50,275,579
Net transfers		4,124,134		3,416,738
Increase in net assets		3,021,944		53,692,317
Net assets				
Beginning of year		537,187,158		483,494,841
End of year	$	540,209,102	$	537,187,158

The following tables set forth by level, within the fair value hierarchy, the Master Trust s investments at fair value as of December 31, 2015 and 2014. There are no Level 3 investments held by the Master Trust. Also included is the Plan s percentage interest in each investment type.

		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		December 31, 2015	Plan s Interest
Investments							
Mutual funds	$	451,825,542			$	451,825,542	80%
HEI Common Stock Fund				75,212,413		75,212,413	86%
	$	451,825,542	$	75,212,413	$	527,037,955	

		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		December 31, 2014	Plan s Interest
Investments							
Mutual funds	$	435,062,485			$	435,062,485	80%
HEI Common Stock Fund				89,253,599		89,253,599	86%
[redacted]							

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The Trustee has the power and authority to borrow funds from a bank not affiliated with the Trustee in order to provide sufficient liquidity to process Plan transactions in the HEI Common Stock Fund in a timely fashion; provided that the cost of such borrowing shall be allocated to the HEI Common Stock Fund. In 2015 and 2014, there were no such transactions for the Plan. There were no outstanding amounts as of year end 2015 and 2014.

5. Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time or to terminate the Plan, and each Participating Employer has the right to discontinue its contributions or terminate its participation. In the event of Plan termination, affected participants become 100% vested in their accounts to the extent then funded.

6. Federal Income Taxes

The Plan and Master Trust are qualified under the Internal Revenue Code (Code) and are exempt from federal income taxes under Sections 401(a) and 501(a) of the Code. On January 16, 2015, the Internal Revenue Service (IRS) issued the latest favorable determination letter covering the Plan. This latest determination letter does not cover amendments made to the Plan since January 1, 2013. The Company and its outside ERISA/tax counsel believe that the amendments made since January 1, 2013 meet applicable federal tax law requirements.

The Company is not aware of any Code or ERISA violations that would jeopardize the Plan s tax exempt status and, as of December 31, 2015 and 2014, has concluded that there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Plan is periodically audited by the IRS and the U.S. Department of Labor (DOL); however, there are currently no audits in progress. The Company believes that the Plan is no longer subject to income tax examinations for tax years prior to 2012.

7. Related-Party Transactions

Certain Plan investments represent shares of mutual funds managed by Fidelity Management and Research Company (FMR). Fidelity Management Trust Company (FMTC), an affiliate of FMR, is the Trustee of the Plan, and therefore, transactions with FMR qualify as party-in-interest transactions for which a prohibited transaction exemption exists.

Effective January 1, 2012, a revenue credit program for the Plan was implemented by FMTC. Certain recordkeeping, legal and consulting fees incurred by the Plan are included in the statements of changes in net assets available for benefits because they are paid through the revenue credit program (RCP). These RCP payments amounted to approximately $58,000 and $108,000 for the years ended December 31, 2015 and 2014, respectively. Fees for recordkeeping services provided by Fidelity Investments Institutional Operations Company, Inc., an affiliate of both FMR and FMTC, amounted to approximately $49,000 and $40,000 for the years ended December 31, 2015 and 2014, respectively, and were paid directly by the Participating Employers and/or through the RCP.

Plan participants may also elect to invest in the HEI Common Stock Fund, which consists of shares of HEI common stock and short-term liquid investments. Since HEI is the Plan sponsor, investments in the HEI Common Stock Fund are party-in-interest transactions under the prohibited transaction rules of ERISA for which a statutory exemption exists. During the year ended December 31, 2015, the Master Trust made purchases of 74,832 shares of HEI common stock for

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a total purchase price of $1.9 million and sales of 174,978 shares of HEI common stock for total sales proceeds of $4.5 million. During the year ended December 31, 2014, the Master Trust made purchases of 69,124 shares of HEI common stock for a total purchase price of $1.5 million and sales of 313,268 shares of HEI common stock for total sales proceeds of $7.0 million.

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Hawaiian Electric Industries Retirement Savings Plan

EIN: 99-0208097, Plan: 003

Schedule H, Line 4i

Schedule of Assets (Held at End of Year)

December 31, 2015

(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value		(e) Current Value
*	Plan interest in HEIRS Plan and ASB 401(k) Plan Master Trust	Master Trust	$	428,195,142
*	Participant Loans	666 loans with interest rates from 3.5% to 9.25%, maturing 2016 through 2030		7,510,554
			$	435,705,696

*Party in interest

NOTE:

Participant loans are legally held by the Hawaiian Electric Industries Retirement Savings Plan and American Savings Bank 401(k) Plan Master Trust (DFE), however Form 5500 Instructions and the Department of Labor s electronic filing system require that the participant loans be reported at the individual plan level. As such, the participant loans and attendant interest are reported in the individual plans Form 5500 and not in the DFE s Form 5500.