

HAWAIIAN HOLDINGS INC  
Form 10-Q  
October 23, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended September 30, 2014  
or

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

For the transition period from      to

Commission file number 1-31443  
HAWAIIAN HOLDINGS, INC.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

71-0879698  
(I.R.S. Employer  
Identification No.)

3375 Koapaka Street, Suite G-350  
Honolulu, HI  
(Address of Principal Executive Offices)

96819  
(Zip Code)

(808) 835-3700  
(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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.

Large accelerated filer

Accelerated filer

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

As of October 17, 2014, 54,023,742 shares of the registrant's common stock were outstanding.

---

Hawaiian Holdings, Inc.  
Form 10-Q  
Quarterly Period ended September 30, 2014

Table of Contents

|  |           |
|--|-----------|
| <u>Part I. Financial Information</u>   | <u>3</u>  |
| <u>Item 1. Consolidated Financial Statements of Hawaiian Holdings, Inc. (Unaudited)</u>                                | <u>3</u>  |
| <u>Consolidated Statements of Operations for the three and nine months ended September 30, 2014 and 2013</u>           | <u>3</u>  |
| <u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2014 and 2013</u> | <u>4</u>  |
| <u>Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013</u>                                      | <u>5</u>  |
| <u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013</u>           | <u>6</u>  |
| <u>Notes to Consolidated Financial Statements</u>  | <u>7</u>  |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                   | <u>31</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>  | <u>41</u> |
| <u>Item 4. Controls and Procedures</u>   | <u>42</u> |
| <u>Part II. Other Information</u>  | <u>43</u> |
| <u>Item 1. Legal Proceedings</u>   | <u>43</u> |
| <u>Item 1A. Risk Factors</u>   | <u>43</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>   | <u>43</u> |
| <u>Item 3. Defaults Upon Senior Securities</u>   | <u>43</u> |
| <u>Item 5. Other Information</u>   | <u>43</u> |
| <u>Item 6. Exhibits</u>  | <u>44</u> |
| <u>Signatures</u>  | <u>45</u> |

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

Hawaiian Holdings, Inc.  
 Consolidated Statements of Operations  
 (in thousands, except per share data)

|  | Three Months Ended<br>September 30,<br>2014 |           | 2013        |             | Nine Months Ended<br>September 30,<br>2014 |  | 2013 |  |
|--|---|-----------|-------------|-------------|--|--|------|--|
|  | (unaudited)                                 |           |             |             |  |  |      |  |
| Operating Revenue:   |   |           |             |             |  |  |      |  |
| Passenger  | \$566,985                                   | \$543,315 | \$1,541,795 | \$1,464,715 |  |  |      |  |
| Other  | 72,477                                      | 55,983    | 198,245     | 159,265     |  |  |      |  |
| Total  | 639,462                                     | 599,298   | 1,740,040   | 1,623,980   |  |  |      |  |
| Operating Expenses:  |   |           |             |             |  |  |      |  |
| Aircraft fuel, including taxes and delivery                            | 182,219                                     | 181,334   | 527,497     | 525,046     |  |  |      |  |
| Wages and benefits   | 114,469                                     | 112,150   | 334,441     | 318,269     |  |  |      |  |
| Aircraft rent  | 26,724                                      | 27,575    | 79,098      | 81,879      |  |  |      |  |
| Maintenance materials and repairs                                      | 51,293                                      | 51,705    | 168,002     | 160,000     |  |  |      |  |
| Aircraft and passenger servicing                                       | 31,848                                      | 31,080    | 92,929      | 89,367      |  |  |      |  |
| Commissions and other selling  | 32,015                                      | 32,288    | 94,123      | 98,285      |  |  |      |  |
| Depreciation and amortization  | 24,384                                      | 22,092    | 70,960      | 60,993      |  |  |      |  |
| Other rentals and landing fees   | 23,637                                      | 21,996    | 65,855      | 60,773      |  |  |      |  |
| Other  | 46,704                                      | 44,644    | 139,335     | 129,469     |  |  |      |  |
| Total  | 533,293                                     | 524,864   | 1,572,240   | 1,524,081   |  |  |      |  |
| Operating Income   | 106,169                                     | 74,434    | 167,800     | 99,899      |  |  |      |  |
| Nonoperating Income (Expense):   |   |           |             |             |  |  |      |  |
| Interest expense and amortization of debt discounts and issuance costs | (17,104)                                    | (13,479)  | (48,111)    | (37,019)    |  |  |      |  |
| Interest income  | 471   | 173       | 1,088       | 426         |  |  |      |  |
| Capitalized interest   | 1,834                                       | 3,005     | 6,584       | 9,336       |  |  |      |  |
| Gains (losses) on fuel derivatives                                     | (27,892)                                    | 2,536     | (28,506)    | (10,931)    |  |  |      |  |
| Other, net   | (5,114)                                     | 749       | (3,804)     | (3,457)     |  |  |      |  |
| Total  | (47,805)                                    | (7,016)   | (72,749)    | (41,645)    |  |  |      |  |
| Income Before Income Taxes   | 58,364                                      | 67,418    | 95,051      | 58,254      |  |  |      |  |
| Income tax expense   | 22,789                                      | 26,814    | 37,224      | 23,479      |  |  |      |  |
| Net Income   | \$35,575                                    | \$40,604  | \$57,827    | \$34,775    |  |  |      |  |
| Net Income Per Common Stock  |   |           | 0           |             |  |  |      |  |
| Basic  | \$0.66                                      | \$0.78    | \$1.08      | \$0.67      |  |  |      |  |
| Diluted  | \$0.56                                      | \$0.76    | \$0.94      | \$0.65      |  |  |      |  |

See accompanying Notes to Consolidated Financial Statements.

Hawaiian Holdings, Inc.  
 Consolidated Statements of Comprehensive Income  
 (in thousands)

|  | Three Months Ended<br>September 30, |          |
|--|-------------------------------------|----------|
|  | 2014                                | 2013     |
|  | (unaudited)                         |          |
| Net Income   | \$35,575                            | \$40,604 |
| Other comprehensive income (loss), net:  |                                     |          |
| Net change related to employee benefit plans, net of tax expense of \$3 and \$899 for 2014 and 2013, respectively              | 44                                  | 1,381    |
| Net change in derivative instruments, net of tax expense of \$4,308 and tax benefit of \$2,610 for 2014 and 2013, respectively | 7,081                               | (4,465 ) |
| Net change in available-for-sale investments, net of tax benefit of \$54 for 2014  | (90 )                               | —        |
| Total other comprehensive income (loss)  | 7,035                               | (3,084 ) |
| Total Comprehensive Income   | \$42,610                            | \$37,520 |
|  | Nine Months Ended<br>September 30,  |          |
|  | 2014                                | 2013     |
|  | (unaudited)                         |          |
| Net Income   | \$57,827                            | \$34,775 |
| Other comprehensive income (loss), net:  |                                     |          |
| Net change related to employee benefit plans, net of tax expense of \$213 and \$3,034 for 2014 and 2013, respectively          | 389                                 | 3,347    |
| Net change in derivative instruments, net of tax benefit of \$1,045 for 2014 and tax expense of \$1,942 for 2013, respectively | (1,726 )                            | 2,991    |
| Net change in available-for-sale investments, net of tax benefit of \$33 for 2014  | (55 )                               | —        |
| Total other comprehensive income (loss)  | (1,392 )                            | 6,338    |
| Total Comprehensive Income   | \$56,435                            | \$41,113 |

See accompanying Notes to Consolidated Financial Statements.

Hawaiian Holdings, Inc.  
Consolidated Balance Sheets  
(in thousands, except shares)

|  | September 30,<br>2014<br>(unaudited) | December 31,<br>2013 |
|--|--------------------------------------|----------------------|
| <b>ASSETS</b>  |                                      |                      |
| Current Assets:  |                                      |                      |
| Cash and cash equivalents  | \$ 328,255                           | \$ 423,384           |
| Restricted cash  | 6,566                                | 19,434               |
| Short-term investments   | 253,300                              | —                    |
| Accounts receivable, net   | 82,902                               | 74,245               |
| Spare parts and supplies, net  | 20,287                               | 19,767               |
| Deferred tax assets, net   | 17,325                               | 17,325               |
| Prepaid expenses and other   | 47,677                               | 51,652               |
| Total  | 756,312                              | 605,807              |
| Property and equipment, less accumulated depreciation and amortization of \$344,727 and \$327,102 as of September 30, 2014 and December 31, 2013, respectively | 1,630,978                            | 1,334,332            |
| Other Assets:  |                                      |                      |
| Long-term prepayments and other  | 99,323                               | 91,953               |
| Restricted cash  | —                                    | 1,566                |
| Intangible assets, less accumulated amortization of \$33,774 and \$175,730 as of September 30, 2014 and December 31, 2013, respectively                        | 21,960                               | 23,940               |
| Goodwill   | 106,663                              | 106,663              |
| Total Assets   | \$ 2,615,236                         | \$ 2,164,261         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                                      |                      |
| Current Liabilities:   |                                      |                      |
| Accounts payable   | \$ 78,350                            | \$ 89,787            |
| Air traffic liability  | 487,525                              | 409,086              |
| Other accrued liabilities  | 114,717                              | 97,571               |
| Current maturities of long-term debt, less discount, and capital lease obligations   | 171,054                              | 62,187               |
| Total  | 851,646                              | 658,631              |
| Long-Term Debt, less discount, and Capital Lease Obligations   | 885,486                              | 744,286              |
| Other Liabilities and Deferred Credits:  |                                      |                      |
| Accumulated pension and other postretirement benefit obligations   | 268,703                              | 264,106              |
| Other liabilities and deferred credits   | 70,129                               | 59,424               |
| Deferred tax liability, net  | 78,513                               | 40,950               |
| Total  | 417,345                              | 364,480              |
| Commitments and Contingencies  |                                      |                      |
| Shareholders' Equity:  |                                      |                      |
| Special preferred stock, \$0.01 par value per share, three shares issued and outstanding as of September 30, 2014 and December 31, 2013                        | —                                    | —                    |
| Common stock, \$0.01 par value per share, 54,007,425 and 52,423,085 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively | 540                                  | 524                  |
| Capital in excess of par value   | 277,328                              | 269,884              |
| Accumulated income   | 226,969                              | 169,142              |
| Accumulated other comprehensive loss, net  | (44,078)                             | (42,686)             |
| Total  | 460,759                              | 396,864              |

|  |             |             |
|--|-------------|-------------|
| Total Liabilities and Shareholders' Equity | \$2,615,236 | \$2,164,261 |
|--|-------------|-------------|

See accompanying Notes to Consolidated Financial Statements.

5

---

Hawaiian Holdings, Inc.  
Condensed Consolidated Statements of Cash Flows  
(in thousands)

|   | Nine months ended<br>September 30, |            |
|---|------------------------------------|------------|
|   | 2014                               | 2013       |
|   | (unaudited)                        |            |
| Net cash provided by Operating Activities                                 | \$252,163                          | \$207,475  |
| Cash flows from Investing Activities:                                     |                                    |            |
| Additions to property and equipment, including pre-delivery payments, net | (361,290                           | ) (232,717 |
| Net proceeds from disposition of equipment                                | 978                                | —          |
| Purchases of investments  | (346,010                           | ) —        |
| Sales of investments  | 92,103                             | —          |
| Net cash used in investing activities                                     | (614,219                           | ) (232,717 |
| Cash flows from Financing Activities:                                     |                                    |            |
| Proceeds from exercise of stock options                                   | 5,487                              | 2,376      |
| Long-term borrowings  | 293,430                            | 132,000    |
| Repayments of long-term debt and capital lease obligations                | (46,392                            | ) (45,200  |
| Debt issuance costs   | (32                                | ) (12,416  |
| Change in restricted cash   | 14,434                             | (16,000    |
| Net cash provided by financing activities                                 | 266,927                            | 60,760     |
| Net increase (decrease) in cash and cash equivalents                      | (95,129                            | ) 35,518   |
| Cash and cash equivalents - Beginning of Period                           | 423,384                            | 405,880    |
| Cash and cash equivalents - End of Period                                 | \$328,255                          | \$441,398  |

See accompanying Notes to Consolidated Financial Statements.



Hawaiian Holdings, Inc.

Notes to Consolidated Financial Statements (Unaudited)

## 1. Business and Basis of Presentation

Hawaiian Holdings, Inc. (the Company or Holdings) is a holding company incorporated in the State of Delaware. The Company's primary asset is its sole ownership of all issued and outstanding shares of common stock of Hawaiian Airlines, Inc. (Hawaiian). The accompanying unaudited financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X of the U.S. Securities and Exchange Commission (SEC). Accordingly, these interim financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying financial statements contain all adjustments, including normal recurring adjustments, necessary for the fair presentation of the Company's results of operations and financial position for the periods presented. Due to seasonal fluctuations, among other factors common to the airline industry, the results of operations for the periods presented are not necessarily indicative of the results of operations to be expected for the entire year. The accompanying unaudited Consolidated Financial Statements should be read in conjunction with the financial statements and the notes of the Company included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

## 2. Significant Accounting Policies

### Sale of Frequent Flyer Miles

In October 2013, Hawaiian entered into a co-branded credit card agreement, which provides for the sale of frequent flyer miles to Barclays Bank Delaware (Barclays) beginning in 2014. The agreement is a new multiple element arrangement subject to Accounting Standards Update 2009-13, Multiple Deliverable Revenue Arrangements — A consensus of the FASB Emerging Issues Task Force (ASU 2009-13), which is effective for new and materially modified revenue arrangements entered into by the Company after January 1, 2011. ASU 2009-13 requires the allocation of the overall consideration received to each deliverable using the estimated selling price. The objective of using estimated selling price based methodology is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis.

The following four deliverables or elements were identified in the agreement: (i) travel miles; (ii) use of the Hawaiian brand and access to member lists; (iii) advertising elements; and (iv) other airline benefits including checked baggage services and travel discounts. The Company determined the relative fair value of each element by estimating the selling prices of the deliverables by considering discounted cash flows using multiple inputs and assumptions, including: (1) the expected number of miles to be awarded and redeemed; (2) the estimated weighted average equivalent ticket value, adjusted by a fulfillment discount; (3) the estimated total annual cardholder spend; (4) an estimated royalty rate for the Hawaiian portfolio; and (5) the expected use of each of the airline benefits. The overall consideration received is allocated to the deliverables based on their relative selling prices. The transportation element will be deferred and recognized as passenger revenue over the period when the transportation is expected to be provided (22 months). The other elements will generally be recognized as other revenue when earned.

In the previous co-branded credit card agreement, the estimated fair value of the transportation element was deferred and recognized as passenger revenue over a period of 22 months. Amounts received in excess of the transportation's estimated fair value were recognized immediately as other revenue.

The impact of applying the new accounting method for the three and nine months ended September 30, 2014 was immaterial to the Company's unaudited consolidated financial statements.

#### Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (ASU 2014-09), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. Early adoption is not permitted. The amendments in ASU 2014-09 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The Company is currently evaluating the effect that the provisions of ASU 2014-09 will have on its consolidated financial statements and related disclosures.

### 3. Short-Term Investments

Debt securities that are not classified as cash equivalents are classified as available-for-sale investments and are stated at fair value. Realized gains and losses on sales of investments are reflected in nonoperating income (expense) in the unaudited consolidated statements of operations. Unrealized gains and losses on available-for-sale securities are reflected as a component of accumulated other comprehensive loss.

The following is a summary of short-term investments held as of September 30, 2014:

|                                 | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value  |
|---------------------------------|-------------------|------------------------------|-------------------------------|-------------|
|                                 | (in thousands)    |                              |                               |             |
| Corporate debt                  | \$184,141         | \$91                         | \$(193)                       | ) \$184,039 |
| U.S. government and agency debt | 23,797            | 11                           | (2)                           | ) 23,806    |
| Municipal bonds                 | 22,924            | 7                            | (4)                           | ) 22,927    |
| Other fixed income securities   | 22,533            | —                            | (5)                           | ) 22,528    |
| Total short-term investments    | \$253,395         | \$109                        | \$(204)                       | ) \$253,300 |

Contractual maturities of short-term investments as of September 30, 2014 are shown below.

|                                 | Under 1 Year<br>(in thousands) | 1 to 5 Years | Total     |
|---------------------------------|--------------------------------|--------------|-----------|
| Corporate debt                  | \$80,081                       | \$103,958    | \$184,039 |
| U.S. government and agency debt | 16,325                         | 7,481        | 23,806    |
| Municipal bonds                 | 8,244                          | 14,683       | 22,927    |
| Other fixed income securities   | 22,528                         | —            | 22,528    |
| Total short-term investments    | \$127,178                      | \$126,122    | \$253,300 |

The Company classifies investments as current assets as these securities are available for use in its current operations.

### 4. Accumulated Other Comprehensive Loss

Reclassifications out of accumulated other comprehensive loss by component is as follows:

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

| Details about accumulated other comprehensive loss components | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |            | Affected line items<br>in the statement where<br>net income (loss) is<br>presented |
|---|-------------------------------------|------------|------------------------------------|------------|--|
|   | 2014                                | 2013       | 2014                               | 2013       |  |
|   | (in thousands)                      |            |                                    |            |  |
| Derivatives designated as hedging instruments under ASC 815   |                                     |            |                                    |            |  |
| Foreign currency derivative gains, net                        | \$(1,297 )                          | \$(3,005 ) | \$(6,523 )                         | \$(6,395 ) | Passenger revenue  |
| Interest rate derivative losses, net                          | 201                                 | 217        | 618                                | 440        | Interest expense   |
| Total before tax  | (1,096 )                            | (2,788 )   | (5,905 )                           | (5,955 )   |  |
| Tax expense   | 424                                 | 1,025      | 2,239                              | 2,226      |  |
| Total, net of tax   | \$(672 )                            | \$(1,763 ) | \$(3,666 )                         | \$(3,729 ) |  |
| Amortization of defined benefit pension items                 |                                     |            |                                    |            |  |
| Actuarial loss (gain)   | \$(64 )                             | \$2,281    | \$388                              | \$6,384    | Wages and benefits   |
| Prior service cost (credit)                                   | 113                                 | (1 )       | 111                                | (3 )       | Wages and benefits   |
| Total before tax  | 49                                  | 2,280      | 499                                | 6,381      |  |
| Tax benefit   | (5 )                                | (899 )     | (215 )                             | (3,034 )   |  |
| Total, net of tax   | \$44                                | \$1,381    | \$284                              | \$3,347    |  |
| Short-term investments  |                                     |            |                                    |            |  |
| Realized gain on sales of investments, net                    | \$(10 )                             | \$—        | \$(12 )                            | \$—        | Other nonoperating income  |
| Total before tax  | (10 )                               | —          | (12 )                              | —          |  |
| Tax expense   | 1                                   | —          | 1                                  | —          |  |
| Total, net of tax   | \$(9 )                              | \$—        | \$(11 )                            | \$—        |  |
| Total reclassifications for the period                        | \$(637 )                            | \$(382 )   | \$(3,393 )                         | \$(382 )   |  |

A rollforward of the amounts included in accumulated other comprehensive loss, net of taxes, for the three and nine months ended September 30, 2014 and 2013 is as follows:

| Three months ended September 30, 2014   | Interest<br>Rate<br>Derivatives | Foreign<br>Currency<br>Derivatives | Defined<br>Benefit<br>Pension<br>Items | Short-Term<br>Investments | Total       |
|---|---------------------------------|------------------------------------|--|---------------------------|-------------|
|   | (in thousands)                  |                                    |  |                           |             |
| Beginning balance   | \$471                           | \$95                               | \$(51,714 )                            | \$35                      | \$(51,113 ) |
| Other comprehensive income (loss) before reclassifications, net of tax              | 39                              | 7,714                              | —                                      | (81 )                     | 7,672       |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | 121                             | (793 )                             | 44                                     | (9 )                      | (637 )      |
| Net current-period other comprehensive income (loss)                                | 160                             | 6,921                              | 44                                     | (90 )                     | 7,035       |
| Ending balance  | \$631                           | \$7,016                            | \$(51,670 )                            | \$(55 )                   | \$(44,078 ) |

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

| Three months ended September 30, 2013   | Interest<br>Rate<br>Derivatives | Foreign<br>Currency<br>Derivatives | Defined<br>Benefit<br>Pension<br>Items | Total                     |            |
|---|---------------------------------|------------------------------------|--|---------------------------|------------|
|   | (in thousands)                  |                                    |  |                           |            |
| Beginning balance   | \$766                           | \$6,690                            | \$(112,088)                            | \$(104,632)               |            |
| Other comprehensive loss before reclassifications, net of tax                       | (220)                           | (2,482)                            | —                                      | (2,702)                   |            |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | 135                             | (1,898)                            | 1,381                                  | (382)                     |            |
| Net current-period other comprehensive income (loss)                                | (85)                            | (4,380)                            | 1,381                                  | (3,084)                   |            |
| Ending balance  | \$681                           | \$2,310                            | \$(110,707)                            | \$(107,716)               |            |
| Nine months ended September 30, 2014  | Interest<br>Rate<br>Derivatives | Foreign<br>Currency<br>Derivatives | Defined<br>Benefit<br>Pension<br>Items | Short-Term<br>Investments | Total      |
|   | (in thousands)                  |                                    |  |                           |            |
| Beginning balance   | \$1,096                         | \$8,277                            | \$(52,059)                             | \$—                       | \$(42,686) |
| Other comprehensive income (loss) before reclassifications, net of tax              | (844)                           | 2,784                              | 105                                    | (44)                      | 2,001      |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | 379                             | (4,045)                            | 284                                    | (11)                      | (3,393)    |
| Net current-period other comprehensive income (loss)                                | (465)                           | (1,261)                            | 389                                    | (55)                      | (1,392)    |
| Ending balance  | \$631                           | \$7,016                            | \$(51,670)                             | \$(55)                    | \$(44,078) |
| Nine months ended September 30, 2013  | Interest<br>Rate<br>Derivatives | Foreign<br>Currency<br>Derivatives | Defined<br>Benefit<br>Pension<br>Items | Total                     |            |
|   | (in thousands)                  |                                    |  |                           |            |
| Beginning balance   | \$—                             | \$—                                | \$(114,054)                            | \$(114,054)               |            |
| Other comprehensive income before reclassifications, net of tax                     | 409                             | 6,311                              | —                                      | 6,720                     |            |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | 272                             | (4,001)                            | 3,347                                  | (382)                     |            |
| Net current-period other comprehensive income                                       | 681                             | 2,310                              | 3,347                                  | 6,338                     |            |
| Ending balance  | \$681                           | \$2,310                            | \$(110,707)                            | \$(107,716)               |            |

## 5. Earnings Per Share

Basic earnings per share, which excludes dilution, is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period.

Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

|  | Three Months Ended                        |          | Nine Months Ended     |          |
|--|---|----------|-----------------------|----------|
|  | September 30,<br>2014                     | 2013     | September 30,<br>2014 | 2013     |
|  | (in thousands, except for per share data) |          |                       |          |
| Numerator:   |   |          |                       |          |
| Net Income   | \$35,575                                  | \$40,604 | \$57,827              | \$34,775 |
| Denominator:   |   |          |                       |          |
| Weighted average common stock shares outstanding - Basic   | 53,878                                    | 52,303   | 53,359                | 51,994   |
| Assumed exercise of stock options and awards               | 848                                       | 1,209    | 1,061                 | 1,166    |
| Assumed conversion of convertible note premium             | 4,965                                     | —        | 4,498                 | —        |
| Assumed conversion of warrants                             | 3,359                                     | —        | 2,767                 | —        |
| Weighted average common stock shares outstanding - Diluted | 63,050                                    | 53,512   | 61,685                | 53,160   |
| Net Income per common share                                |   |          |                       |          |
| Basic  | \$0.66                                    | \$0.78   | \$1.08                | \$0.67   |
| Diluted  | \$0.56                                    | \$0.76   | \$0.94                | \$0.65   |

The table below summarizes those common stock equivalents that could potentially dilute basic earnings per share in the future but were excluded from the computation of diluted earnings per share because the instruments were antidilutive.

|                          | Three Months Ended September |        | Nine months ended September |        |
|--------------------------|------------------------------|--------|-----------------------------|--------|
|                          | 30,<br>2014                  | 2013   | 30,<br>2014                 | 2013   |
|                          | (in thousands)               |        |                             |        |
| Stock options            | —                            | —      | —                           | 522    |
| Deferred stock           | —                            | —      | —                           | 58     |
| Restricted stock         | 7                            | 1,031  | 2                           | 1,494  |
| Convertible note premium | —                            | 10,943 | —                           | 10,943 |
| Warrants                 | —                            | 10,943 | —                           | 10,943 |

In March 2011, the Company entered into a convertible note transaction which included the sale of convertible notes, purchase of call options and sale of warrants. The Company's 5% Convertible Notes due in 2016 (the "Convertible Notes") with a current principal amount of \$86.25 million can be redeemed with either cash or the Company's common stock, or a combination thereof, at the Company's option. The 10.9 million shares into which the Convertible Notes could be converted will not impact the dilutive earnings per share calculation in the current and future periods under the if-converted method, as the Company has the intent and ability to redeem the principal amount of the Convertible Notes with cash. During the three and nine months ended September 30, 2014 the average share price of the Company's common stock exceeded the conversion price of \$7.88 per share, therefore shares related to the conversion premium of the Convertible Notes (for which share settlement is assumed for EPS purposes) are included in the Company's computation of diluted earnings per share.

In connection with the issuance of the Convertible Notes, the Company entered into separate call option transactions and separate warrant transactions with certain financial investors to reduce the potential dilution of the Company's common stock and to offset potential payments by the Company to holders of the Convertible Notes in excess of the principal of the Convertible Notes upon conversion.

The call options to repurchase the Company's common stock will always be antidilutive and, therefore, will have no effect on diluted earnings per share and are excluded from the table above.

During the three and nine months ended September 30, 2014 the average share price of the Company's common stock exceeded the warrant strike price of \$10.00 per share, therefore the assumed conversion of the warrants are included in the Company's computation of diluted earnings per share.

6. Fair Value Measurements

11

---

ASC Topic 820, Fair Value Measurement (ASC 820) clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 — Observable inputs such as quoted prices in active markets for identical assets or liabilities;

Level 2 — Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term for the assets or liabilities; and

Level 3 — Unobservable inputs for which there is little or no market data and that are significant to the fair value of the assets or liabilities.

The tables below present the Company's financial assets and liabilities measured at fair value on a recurring basis:

|  | Fair Value Measurements as of September 30, 2014 |           |           |         |
|--|--|-----------|-----------|---------|
|  | Total<br>(in thousands)                          | Level 1   | Level 2   | Level 3 |
| Cash equivalents                         | \$155,967  | \$152,967 | \$3,000   | \$—     |
| Restricted cash                          | 6,566  | 6,566     | —         | —       |
| Short-term investments                   | 253,300  | —         | 253,300   | —       |
| Fuel derivative contracts:               | 0  | —         | —         | —       |
| Crude oil call options                   | 50   | —         | 50        | —       |
| Crude oil put options                    | 4  | —         | 4         | —       |
| Heating oil put options                  | 845  | —         | 845       | —       |
| Foreign currency derivatives             | 11,851   | —         | 11,851    | —       |
| Interest rate derivative                 | 452  | —         | 452       | —       |
| Total assets measured at fair value      | \$429,035  | \$159,533 | \$269,502 | \$—     |
| Fuel derivative contracts:               |  |           |           |         |
| Crude oil call options                   | \$50   | \$—       | \$50      | \$—     |
| Crude oil put options                    | 4  | —         | 4         | —       |
| Heating oil swaps                        | 19,515   | —         | 19,515    | —       |
| Foreign currency derivatives             | 118  | —         | 118       | —       |
| Negative arbitrage derivative            | 500  | —         | —         | 500     |
| Total liabilities measured at fair value | \$20,187   | \$—       | \$19,687  | \$500   |



|  | Fair Value Measurements as of December 31, 2013 |           |          |          |
|--|---|-----------|----------|----------|
|  | Total<br>(in thousands)                         | Level 1   | Level 2  | Level 3  |
| Cash equivalents                         | \$269,384                                       | \$269,384 | \$—      | \$—      |
| Restricted cash                          | 21,000  | 21,000    | —        | —        |
| Fuel derivative contracts:               | 0   |           |          |          |
| Crude oil call options                   | 7,121   | —         | 7,121    | —        |
| Crude oil put options                    | 186   | —         | 186      | —        |
| Heating oil put options                  | 417   | —         | 417      | —        |
| Heating oil swaps                        | 5,863   | —         | 5,863    | —        |
| Foreign currency derivatives             | 12,494  | —         | 12,494   | —        |
| Interest rate derivative                 | 1,121   | —         | 1,121    | —        |
| Total assets measured at fair value      | \$317,586                                       | \$290,384 | \$27,202 | \$—      |
| Fuel derivative contracts:               |   |           |          |          |
| Crude oil call options                   | \$7,121   | \$—       | \$7,121  | \$—      |
| Crude oil put options                    | 186   | —         | 186      | —        |
| Heating oil swaps                        | 187   | —         | 187      | —        |
| Foreign currency derivatives             | 1,188   | —         | 1,188    | —        |
| Negative arbitrage derivative            | 12,865  | —         | —        | 12,865   |
| Total liabilities measured at fair value | \$21,547  | \$—       | \$8,682  | \$12,865 |

Cash equivalents. The Company's cash equivalents consist of money market securities, U.S. agency bonds, foreign and domestic corporate bonds, and commercial paper. The instruments classified as Level 2 are valued using quoted prices for similar assets in active markets.

Restricted cash. The Company's restricted cash consist of money market securities.

Short-term investments. Short-term investments include U.S. and foreign government notes and bonds, U.S. agency bonds, variable rate corporate bonds, asset backed securities, foreign and domestic corporate bonds, municipal bonds, and commercial paper. These instruments are valued using quoted prices for similar assets in active markets or other observable inputs.

Fuel derivative contracts. The Company's fuel derivative contracts consist of heating oil puts and swaps, and Brent crude oil call options and collars (a combination of purchased call options and sold put options of crude oil) which are not traded on a public exchange. The fair value of these instruments are determined based on inputs available or derived from public markets including contractual terms, market prices, yield curves and measures of volatility among others.

Foreign currency derivatives. The Company's foreign currency derivatives consist of Japanese Yen and Australian Dollar forward contracts and are valued based primarily on data available or derived from public markets.

Interest rate derivative. The Company's interest rate derivative consists of an interest rate swap and is valued based primarily on data available or derived from public markets.

Negative arbitrage derivative. The Company's negative arbitrage derivative represents the net interest owed to the trusts that issued the Company's enhanced equipment trust certificates during the periods prior to the issuance of the related equipment notes, and is valued based primarily on the discounted amount of future cash flows using the appropriate rate of borrowing. Changes to those discount rates would be unlikely to cause material changes in the fair value of the negative arbitrage derivative (refer to Notes 7 and 10 for more information).



The table below presents disclosures about the activity for the Company’s “Level 3” financial liability during the three and nine months ended September 30, 2014 and 2013:

|  | Three Months Ended |          | Nine Months Ended |          |
|--|--------------------|----------|-------------------|----------|
|  | September 30,      |          | September 30,     |          |
|  | 2014               | 2013     | 2014              | 2013     |
|  | (in thousands)     |          |                   |          |
| Beginning balance  | \$3,668            | \$12,865 | \$12,865          | \$—      |
| Issuance of enhanced equipment trust certificates        | —                  | —        | —                 | 12,865   |
| Reduction of balance in connection with interest payment | (3,168             | ) —      | (12,365           | ) —      |
| Ending balance   | \$500              | \$12,865 | \$500             | \$12,865 |

The table below presents the Company’s debt (excluding obligations under capital leases) measured at fair value:

| Fair Value of Debt |             |         |           |                   |            |           |         |           |           |  |  |
|--------------------|-------------|---------|-----------|-------------------|------------|-----------|---------|-----------|-----------|--|--|
| September 30, 2014 |             |         |           | December 31, 2013 |            |           |         |           |           |  |  |
| Carrying           | Fair Value  |         |           | Carrying          | Fair Value |           |         |           |           |  |  |
| Amount             | Total       | Level 1 | Level 2   | Level 3           | Amount     | Total     | Level 1 | Level 2   | Level 3   |  |  |
| (in thousands)     |             |         |           |                   |            |           |         |           |           |  |  |
| \$952,467          | \$1,030,224 | \$—     | \$142,071 | \$888,153         | \$695,804  | \$738,563 | \$—     | \$104,656 | \$633,907 |  |  |

The fair value estimates of the Company’s debt were based on either market prices or the discounted amount of future cash flows using the Company’s current incremental rate of borrowing for similar liabilities.

The carrying amounts of cash, other receivables and accounts payable approximate fair value due to the short-term nature of these financial instruments.

## 7. Financial Derivative Instruments

The Company uses derivatives to manage risks associated with certain assets and liabilities arising from the potential adverse impact of fluctuations in global fuel prices, interest rates and foreign currencies.

In addition, in 2013, the Company recognized in its Consolidated Balance Sheets the financial effect of the net interest owed to the trusts that issued the Company’s enhanced equipment trust certificates. The characteristics of the net interest obligation resulted in the obligation meeting the definition of a derivative instrument under ASC Topic 815, Derivatives and Hedging (ASC 815).

### Fuel Risk Management

The Company’s operations are inherently dependent upon the price and availability of aircraft fuel. To manage economic risks associated with fluctuations in aircraft fuel prices, the Company periodically enters into derivative financial instruments. During the three and nine months ended September 30, 2014, the Company primarily used heating oil puts and swaps to hedge its aircraft fuel expense. These derivative instruments were not designated as hedges under ASC Topic 815, Derivatives and Hedging (ASC 815), for hedge accounting treatment. As a result, any changes in fair value of these derivative instruments are adjusted through other nonoperating income (expense) in the period of change.

The following table reflects the amount of realized and unrealized gains and losses recorded as nonoperating income (expense) in the unaudited Consolidated Statements of Operations.

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

| Fuel derivative contracts  | Three months ended    |             | Nine months ended     |              |
|--|-----------------------|-------------|-----------------------|--------------|
|  | September 30,<br>2014 | 2013        | September 30,<br>2014 | 2013         |
|  | (in thousands)        |             |                       |              |
| Losses realized at settlement  | \$ (4,632             | ) \$ (3,790 | ) \$ (6,530           | ) \$ (11,226 |
| Reversal of prior period unrealized amounts                                  | 56                    | 4,278       | (1,816                | ) 5,472      |
| Unrealized gains (losses) that will settle in future periods                 | (23,316               | ) 2,048     | (20,160               | ) (5,177     |
| Gains (losses) on fuel derivatives recorded as Nonoperating income (expense) | \$ (27,892            | ) \$ 2,536  | \$ (28,506            | ) \$ (10,931 |

14

---

### Interest Rate Risk Management

The Company is exposed to market risk from adverse changes in interest rates associated with its long-term debt obligations. Market risk associated with fixed-rate and variable-rate long-term debt relates to the potential reduction in fair value and negative impact to future earnings, respectively, from an increase in interest rates.

To limit the Company's exposure to interest rate risk inherent in one of its variable-rate debt instruments, which was used to finance an aircraft delivered in 2013, the Company entered into a forward starting interest rate swap agreement. The interest rate swap agreement is designated as a cash flow hedge under ASC 815.

The Company believes that its interest rate derivative contract will continue to be effective in offsetting changes in cash flow attributable to the hedged risk. The Company reclassified \$0.2 million and \$0.6 million in net losses from AOCI to interest expense during the three and nine months ended September 30, 2014, respectively. The Company expects to reclassify a net loss of approximately \$0.7 million into earnings over the next 12 months from AOCI based on the values at September 30, 2014.

### Foreign Currency Exchange Rate Risk Management

The Company is subject to foreign currency exchange rate risk due to revenues and expenses denominated in foreign currencies, with the primary exposures being the Japanese Yen and Australian Dollar. To manage exchange rate risk, the Company executes its international revenue and expense transactions in the same foreign currency to the extent practicable.

The Company enters into foreign currency forward contracts, certain of which are designated as cash flow hedges under ASC 815, to further manage the effects of fluctuating exchange rates. The effective portion of the gain or loss of designated cash flow hedges is reported as a component of AOCI and reclassified into earnings in the same period in which the related sales are recognized as passenger revenue. The effective portion of the foreign currency forward contracts represents the change in fair value of the hedge that offsets the change in the fair value of the hedged item. To the extent the change in the fair value of the hedge does not perfectly offset the change in the fair value of the hedged item, the ineffective portion of the hedge is immediately recognized as nonoperating income (expense). Foreign currency forward contracts that are not designated as cash flow hedges are recorded at fair value, and any changes in fair value are recognized as other nonoperating income (expense) in the period of change.

The Company believes that its foreign currency forward contracts that are designated as cash flow hedges will continue to be effective in offsetting changes in cash flow attributable to the hedged risk. The Company reclassified \$1.3 million and \$6.5 million in gains from AOCI to passenger revenue during the three and nine months ended September 30, 2014, respectively. The Company expects to reclassify a net gain of approximately \$8.1 million into earnings over the next 12 months from AOCI based on the values at September 30, 2014.

### Negative Arbitrage Derivative

In 2013, the Company created two pass-through trusts, which issued \$444.5 million aggregate principal amount of EETCs. See Note 10 for further information related to the EETCs. In accordance with the related agreements, the Company is obligated to pay the interest that accrues on the proceeds and is also entitled to the benefits of the income generated from the same proceeds. The difference between the interest owed to the pass-through trusts and the interest generated from the proceeds introduces an element of variability that could cause the associated cash flows to fluctuate. This variability requires the Company's obligation to the trusts to be recognized as a derivative in the Company's unaudited consolidated financial statements. During the three and nine months ended September 30, 2014,

approximately \$3.2 million and \$12.4 million of the derivative was reduced in connection with the interest payments made to the trusts, respectively.

The following tables present the gross fair value of asset and liability derivatives that are designated as hedging instruments under ASC 815 and derivatives that are not designated as hedging instruments under ASC 815, as well as the net derivative positions and location of the asset and liability balances within the unaudited Consolidated Balance Sheets.

Derivative position as of September 30, 2014

15

---

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

|                                      | Balance Sheet Location              | Notional Amount<br>(in thousands)                   | Final Maturity Date | Gross fair value of assets<br>(in thousands) | Gross fair value of (liabilities) | Net derivative position |
|--------------------------------------|-------------------------------------|---|---------------------|--|-----------------------------------|-------------------------|
| Derivatives designated as hedges     |                                     |   |                     |  |                                   |                         |
| Interest rate derivative             | Prepaid expenses and other          | \$59,000 U.S. dollars                               | April 2023          | \$73   | \$ —                              | \$73                    |
|                                      | Long-term prepayments and other (1) |   |                     | 379  | —                                 | 379                     |
| Foreign currency derivatives         | Prepaid expenses and other          | 7,218,469 Japanese Yen<br>52,209 Australian Dollars | September 2015      | 7,448  | (14 )                             | 7,434                   |
|                                      | Long-term prepayments and other     | 3,384,130 Japanese Yen<br>9,707 Australian Dollars  | August 2016         | 2,514  | —                                 | 2,514                   |
| Derivatives not designated as hedges |                                     |   |                     |  |                                   |                         |
| Foreign currency derivatives         | Prepaid expenses and other          | 9,415,313 Japanese Yen<br>48,981 Australian Dollars | September 2015      | 1,529  | (104 )                            | 1,425                   |
|                                      | Long-term prepayments and other     | 3,910,000 Japanese Yen<br>9,700 Australian Dollars  | August 2016         | 360  | —                                 | 360                     |
| Fuel derivative contracts            | Other accrued liabilities           | 93,211 gallons                                      | September 2015      | 899  | (19,569 )                         | (18,670 )               |
| Negative arbitrage derivative        | Other accrued liabilities           | \$444,540 U.S. dollars                              | January 2015        | —  | (500 )                            | (500 )                  |

(1) Represents the noncurrent portion of the \$59.0 million interest rate derivative with final maturity in April 2023.

Derivative position as of December 31, 2013

|                                      | Balance Sheet Location                     | Notional Amount<br>(in thousands)  | Final Maturity Date | Gross fair value of assets<br>(in thousands) | Gross fair value of (liabilities) | Net derivative position |
|--------------------------------------|--|--|---------------------|--|-----------------------------------|-------------------------|
| Derivatives designated as hedges     |  |  |                     |  |                                   |                         |
| Interest rate derivative             | Prepaid expenses and other                 | \$63,800 U.S. dollars  | April 2023          | \$ 196                                       | \$ —                              | \$ 196                  |
|                                      | Long-term prepayments and other (1)        |  |                     | 925  | —                                 | 925                     |
| Foreign currency derivatives         | Prepaid expenses and other                 | 10,500,321 Japanese Yen<br>10,895,370 Korean Won<br>62,659 Australian Dollars<br>4,821 New Zealand Dollars | December 2014       | 9,946  | (450 )                            | 9,496                   |
|                                      | Long-term prepayments and other            | 1,980,949 Japanese Yen<br>16,681 Australian Dollars  | May 2015            | 1,673  | —                                 | 1,673                   |
| Derivatives not designated as hedges |  |  |                     |  |                                   |                         |
| Foreign currency derivatives         | Prepaid expenses and other                 | 6,180 Japanese Yen<br>58 Australian Dollars  | December 2014       | 577  | (229 )                            | 348                     |
|                                      | Other accrued liabilities                  |  |                     | 298  | (509 )                            | (211 )                  |
| Fuel derivative contracts            | Prepaid expenses and other                 | 84,714 gallons   | December 2014       | 13,587                                       | (7,494 )                          | 6,093                   |
| Negative arbitrage derivative        | Other accrued liabilities                  | \$444,540 U.S. dollars   | January 2015        | —  | (12,250 )                         | (12,250 )               |
|                                      | Other liabilities and deferred credits (2) |  |                     | —  | (615 )                            | (615 )                  |

(1) Represents the noncurrent portion of the \$64 million interest rate derivative with final maturity in April 2023.

(2) Represents the noncurrent portion of the \$445 million negative arbitrage derivative with final maturity in January 2015.

The following table reflects the impact of cash flow hedges designated for hedge accounting treatment and their location within the unaudited Consolidated Statements of Comprehensive Income.

| (Gain) loss recognized in AOCI in derivatives (effective portion) | (Gain) loss reclassified from AOCI into income (effective portion) | (Gain) loss recognized in nonoperating (income) expense (ineffective portion) |
|---|--|---|
| Three months ended September 30, 2014                             | Three months ended September 30, 2013                              | Three months ended September 30, 2014   |
| \$ (12,428 )  | \$ 3,960   | \$ —  |
|   | \$ (1,297 )  | \$ —  |
|   | \$ (3,005 )  | \$ —  |



Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

|                              |  |              |  |             |   |          |
|------------------------------|--|--------------|--|-------------|---|----------|
| Foreign currency derivatives |  |              |  |             |   |          |
| Interest rate derivatives    | (283   | ) 82         | 201  | 217         | —   | —        |
|                              | (Gain) loss recognized in AOCI derivatives (effective portion) |              | (Gain) loss reclassified from AOCI to income (effective portion) |             | (Gain) loss recognized in nonoperating (income) expense (ineffective portion) |          |
|                              | Nine months ended September 30, 2014                           |              | Nine months ended September 30, 2013                             |             | Nine months ended September 30, 2014  |          |
|                              | 2013   |              | 2014   |             | 2013  |          |
|                              | (in thousands)   |              |  |             |   |          |
| Foreign currency derivatives | \$ (4,720  | ) \$ (10,204 | ) \$ (6,523  | ) \$ (6,395 | ) \$ —  | ) \$ (61 |
| Interest rate derivatives    | 668  | (929         | ) 618  | 440         | —   | —        |

17

## Risk and Collateral

The financial derivative instruments expose the Company to possible credit loss in the event the counterparties to the agreements fail to meet their obligations. To manage such credit risks, the Company (1) selects its counterparties based on past experience and credit ratings, (2) limits its exposure to any single counterparty, and (3) periodically monitors the market position and credit rating of each counterparty. Credit risk is deemed to have a minimal impact on the fair value of the derivative instruments as cash collateral would be provided by the counterparties based on the current market exposure of the derivative.

The Company's agreements with its counterparties also requires the posting of cash collateral in the event the aggregate value of the Company's positions exceeds certain exposure thresholds that are based upon certain liquidity metrics of the Company. The aggregate fair value of the Company's derivative instruments that contain credit-risk related contingent features that are in a net liability position as of September 30, 2014 was \$18.7 million.

ASC 815 requires a reporting entity to elect a policy of whether to offset rights to reclaim cash collateral or obligations to return cash collateral against derivative assets and liabilities executed with the same counterparty under a master netting agreement, or present such amounts on a gross basis. The Company's accounting policy is to present its derivative assets and liabilities on a net basis, including any collateral posted with the counterparty. The Company had \$7.0 million of collateral posted with one of its counterparties as of September 30, 2014, and no collateral posted with counterparties as of December 31, 2013.

The Company is also subject to market risk in the event these financial instruments become less valuable in the market. However, changes in the fair value of the derivative instruments will generally offset the change in the fair value of the hedged item, limiting the Company's overall exposure.

## 8. Debt

As of September 30, 2014, the expected maturities of long-term debt for the remainder of 2014 and the next four years, and thereafter, were as follows (in thousands):

|                          |           |
|--------------------------|-----------|
| Remaining months in 2014 | \$99,810  |
| 2015                     | 82,965    |
| 2016                     | 81,267    |
| 2017                     | 81,266    |
| 2018                     | 87,212    |
| Thereafter               | 526,618   |
|                          | \$959,138 |

## Revolving Credit Facilities

In September 2014, the Company terminated its secured revolving credit facility with Wells Fargo Capital Finance LLC, which provided for a secured revolving credit facility of up to \$75 million.

## Convertible Notes

During the three months ended September 30, 2014 a condition for conversion of the Convertible Note was satisfied, which permits holders of the Convertible Notes to surrender their notes for conversion during the quarter ending December 31, 2014. Therefore, the principal balance could be settled in as early as 2014 and is classified accordingly in the table above. As of September 30, 2014, the carrying value of \$79.6 million is reflected as a current liability in

the unaudited Consolidated Balance Sheets.

#### Debt Extinguishment

In October 2014, Hawaiian extinguished \$54.2 million of existing debt under a secured financing agreement, which was originally scheduled to mature in October 2023.

#### 9. Employee Benefit Plans

18

---

The components of net periodic benefit cost for the Company's defined benefit and other postretirement plans included the following:

| Components of Net Period Benefit Cost | Three months ended September 30, |          | Nine months ended September 30, |           |
|---------------------------------------|----------------------------------|----------|---------------------------------|-----------|
|                                       | 2014                             | 2013     | 2014                            | 2013      |
|                                       | (in thousands)                   |          |                                 |           |
| Service cost                          | \$3,162                          | \$4,473  | \$9,066                         | \$11,676  |
| Interest cost                         | 6,839                            | 6,340    | 20,811                          | 18,939    |
| Expected return on plan assets        | (4,842                           | ) (4,065 | ) (14,532                       | ) (12,196 |
| Recognized net actuarial loss         | 49                               | 2,280    | 499                             | 6,381     |
| Net periodic benefit cost             | \$5,208                          | \$9,028  | \$15,844                        | \$24,800  |

The Company made contributions of \$2.3 million and \$8.9 million to its defined benefit and other postretirement plans during the three and nine months ended September 30, 2014, respectively. The Company made contributions of \$11.9 million and \$18.6 million to its defined benefit and other postretirement plans during the three and nine months ended September 30, 2013, respectively.

#### 10. Commitments and Contingent Liabilities

##### Commitments

As of September 30, 2014, the Company had the following capital commitments consisting of firm aircraft and engine orders and purchase rights:

| Aircraft Type                  | Firm Orders | Purchase Rights | Expected Delivery Dates |
|--------------------------------|-------------|-----------------|-------------------------|
| A330-200 aircraft              | 4           | 3               | Between 2014 and 2015   |
| A350XWB-800 aircraft           | 6           | 6               | Between 2017 and 2020   |
| A321neo aircraft               | 16          | 9               | Between 2017 and 2020   |
| Rolls-Royce spare engines:     |             |                 |                         |
| A330-200 spare engine          | 1           | —               | In 2014                 |
| A350XWB-800 spare engines      | 2           | —               | Between 2017 and 2020   |
| Pratt & Whitney spare engines: |             |                 |                         |
| A321neo spare engines          | 2           | —               | Between 2017 and 2018   |

In July 2014, the Company signed a memorandum of understanding (MOU) with Airbus for the conversion of the existing order for six new A350XWB-800 aircraft for delivery between 2017 and 2020 into the purchase of six new Airbus A330neo aircraft for delivery between 2019 and 2021, with rights to purchase an additional six new Airbus A330neo aircraft. The changes in the dates of delivery and in the model of the aircraft being delivered are not included in the tables below as definitive agreements relating to these commitments have yet to be finalized.

The Company has operating commitments with a third-party to provide aircraft maintenance services which require fixed payments as well as variable payments based on flight hours for its Airbus fleet through 2027. The Company also has operating commitments with third-party service providers for reservations, IT, and accounting services through 2018.

Committed capital and operating expenditures include escalation and variable amounts based on estimates. The gross committed expenditures and committed financings for those deliveries as of September 30, 2014 are detailed below:



|                          | Capital        | Operating | Total Committed Expenditures | Less: Committed Financing for Upcoming Aircraft Deliveries* | Net Committed Expenditures |
|--------------------------|----------------|-----------|------------------------------|---|----------------------------|
|                          | (in thousands) |           |                              |   |                            |
| Remaining months in 2014 | \$84,346       | \$15,550  | \$ 99,896                    | \$ 75,000   | \$ 24,896                  |
| 2015                     | 253,246        | 60,535    | 313,781                      | —   | 313,781                    |
| 2016                     | 147,824        | 49,004    | 196,828                      | —   | 196,828                    |
| 2017                     | 493,824        | 47,853    | 541,677                      | —   | 541,677                    |
| 2018                     | 547,118        | 42,922    | 590,040                      | —   | 590,040                    |
| Thereafter               | 558,578        | 255,650   | 814,228                      | —   | 814,228                    |
|                          | \$2,084,936    | \$471,514 | \$ 2,556,450                 | \$ 75,000   | \$ 2,481,450               |

\*See below for a detailed discussion of the committed financings Hawaiian has received for its upcoming capital commitments for aircraft deliveries.

#### Enhanced Equipment Trust Certificates (EETC)

In 2013, Hawaiian consummated an EETC financing, whereby it created two pass-through trusts, one of which issued \$328.2 million aggregate principal amount of Class A pass-through certificates with a stated interest rate of 3.9% and the second of which issued \$116.3 million aggregate principal amount of Class B pass-through certificates with a stated interest rate of 4.95%. The proceeds of the issuance of the Class A and Class B pass-through certificates were used to purchase equipment notes that were issued by Hawaiian to finance the purchase of six (6) new Airbus aircraft. During the nine months ended September 30, 2014, the Company received \$293.4 million in proceeds from the issuance of the equipment notes, which it used to fund a portion of the purchase price of four Airbus aircraft. The remaining proceeds were used to purchase equipment notes that were issued by Hawaiian to finance the purchase of an Airbus aircraft delivered in October 2014. The equipment notes are secured by a lien on the aircraft, and the payment obligations of Hawaiian under the equipment notes are fully and unconditionally guaranteed by the Company. The Company issued the equipment notes to the trusts as aircraft were delivered to Hawaiian. Hawaiian recorded the debt obligation upon issuance of the equipment notes rather than upon the initial issuance of the pass-through certificates. In connection with the consummation of the EETC financing transaction, Hawaiian was required to deposit \$16.0 million into a collateral account, of which \$14.4 million was released during the nine months ended September 30, 2014. The funds held in this account are under the control of a third party. Accordingly, these funds are classified as restricted cash in the Company's unaudited Consolidated Balance Sheets.

The Company evaluated whether the pass-through trusts formed are variable interest entities ("VIEs") required to be consolidated by the Company under applicable accounting guidance, and determined that the pass-through trusts are VIEs. The Company determined that it does not have a variable interest in the pass-through trusts. Neither the Company nor Hawaiian invested in or obtained a financial interest in the pass-through trusts. Rather, Hawaiian has an obligation to make interest and principal payments on its equipment notes held by the pass-through trusts, which are fully and unconditionally guaranteed by the Company. Neither the Company nor Hawaiian intends to have any voting or non-voting equity interest in the pass-through trusts or to absorb variability from the pass-through trusts. Based on this analysis, the Company determined that it is not required to consolidate the pass-through trusts.

#### Litigation and Contingencies

The Company is subject to legal proceedings arising in the normal course of its operations. Management does not anticipate that the disposition of any currently pending proceeding will have a material effect on the Company's operations, business or financial condition.

General Guarantees and Indemnifications

In the normal course of business, the Company enters into numerous aircraft financing and real estate leasing arrangements that have various guarantees included in the contract. It is common in such lease transactions for the lessee to agree to indemnify the lessor and other related third-parties for tort liabilities that arise out of or relate to the lessee's use of the leased aircraft or occupancy of the leased premises. In some cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by their gross negligence or willful misconduct. Additionally, the lessee typically indemnifies such parties for any environmental liability that arises out of or relates to its use of the real estate leased premises. The Company believes that it is insured (subject to deductibles) for most tort liabilities and related

indemnities described above with respect to the aircraft and real estate that it leases. The Company cannot estimate the potential amount of future payments, if any, under the foregoing indemnities and agreements.

#### Credit Card Holdback

Under the Company's bank-issued credit card processing agreements, certain proceeds from advance ticket sales may be held back to serve as collateral to cover any possible chargebacks or other disputed charges that may occur. These holdbacks, which are included in restricted cash in the Company's unaudited Consolidated Balance Sheets, totaled \$5.0 million at September 30, 2014 and December 31, 2013.

In the event of a material adverse change in the business, the holdback could increase to an amount up to 100% of the applicable credit card air traffic liability, which would also cause an increase in the level of restricted cash. If the Company is unable to obtain a waiver of, or otherwise mitigate the increase in the restriction of cash, it could have a material adverse impact on the Company.

#### 11. Supplemental Cash flow Information

Non-cash investing and financing activities for the nine months ended September 30, 2014 and 2013 were as follows:

|   | Nine months ended<br>September 30, |          |
|---|------------------------------------|----------|
|   | 2014                               | 2013     |
|   | (in thousands)                     |          |
| Investing and Financing Activities Not Affecting Cash:  |                                    |          |
| Property and equipment acquired through a capital lease | \$—                                | \$11,840 |

#### 12. Condensed Consolidating Financial Information

The following condensed consolidating financial information is presented in accordance with Regulation S-X paragraph 210.3-10 because, in connection with the issuance by two pass-through trusts formed by Hawaiian (which is also referred to in this Note 12 as Subsidiary Issuer / Guarantor) of pass-through certificates, as discussed in Note 10, the Company (which is also referred to in this Note 12 as Parent Issuer / Guarantor), is fully and unconditionally guaranteeing the payment obligations of Hawaiian, which is a 100% owned subsidiary of the Company, under equipment notes issued by Hawaiian to purchase new aircraft, and will fully and unconditionally guarantee those obligations in connection with the future issuance of equipment notes by Hawaiian.



Condensed consolidating financial statements are presented in the following tables:

Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)  
Three months ended September 30, 2014

|  | Parent Issuer /<br>Guarantor | Subsidiary<br>Issuer /<br>Guarantor | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|------------------------------|-------------------------------------|-------------------------------|--------------|--------------|
|  | (in thousands)               |                                     |                               |              |              |
| Operating Revenue  | \$—                          | \$638,414                           | \$ 1,145                      | \$(97 )      | \$639,462    |
| Operating Expenses:  |                              |                                     |                               |              |              |
| Aircraft fuel, including taxes and delivery                            | —                            | 182,219                             | —                             | —            | 182,219      |
| Wages and benefits   | —                            | 114,469                             | —                             | —            | 114,469      |
| Aircraft rent  | —                            | 26,724                              | —                             | —            | 26,724       |
| Maintenance materials and repairs                                      | —                            | 51,029                              | 264                           | —            | 51,293       |
| Aircraft and passenger servicing                                       | —                            | 31,848                              | —                             | —            | 31,848       |
| Commissions and other selling  | —                            | 32,024                              | 11                            | (20 )        | 32,015       |
| Depreciation and amortization  | —                            | 23,654                              | 730                           | —            | 24,384       |
| Other rentals and landing fees   | 5                            | 23,632                              | —                             | —            | 23,637       |
| Other  | 1,246                        | 45,291                              | 244                           | (77 )        | 46,704       |
| Total  | 1,251                        | 530,890                             | 1,249                         | (97 )        | 533,293      |
| Operating Income (Loss)  | (1,251 )                     | 107,524                             | (104 )                        | —            | 106,169      |
| Nonoperating Income (Expense):   |                              |                                     |                               |              |              |
| Undistributed net income of subsidiaries                               | 37,900                       | —                                   | —                             | (37,900 )    | —            |
| Interest expense and amortization of debt discounts and issuance costs | (2,260 )                     | (14,844 )                           | —                             | —            | (17,104 )    |
| Interest income  | 47                           | 424                                 | —                             | —            | 471          |
| Capitalized interest   | —                            | 1,834                               | —                             | —            | 1,834        |
| Losses on fuel derivatives   | —                            | (27,892 )                           | —                             | —            | (27,892 )    |
| Other, net   | —                            | (5,114 )                            | —                             | —            | (5,114 )     |
| Total  | 35,687                       | (45,592 )                           | —                             | (37,900 )    | (47,805 )    |
| Income (Loss) Before Income Taxes                                      | 34,436                       | 61,932                              | (104 )                        | (37,900 )    | 58,364       |
| Income tax expense (benefit)   | (1,139 )                     | 23,928                              | —                             | —            | 22,789       |
| Net Income (Loss)  | \$35,575                     | \$38,004                            | \$(104 )                      | \$(37,900 )  | \$35,575     |
| Comprehensive Income (Loss)  | \$42,610                     | \$45,039                            | \$(104 )                      | \$(44,935 )  | \$42,610     |

## Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)

Three months ended September 30, 2013

|   | Parent Issuer /<br>Guarantor | Subsidiary<br>Issuer /<br>Guarantor | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |   |
|---|------------------------------|-------------------------------------|-------------------------------|--------------|--------------|---|
|   | (in thousands)               |                                     |                               |              |              |   |
| Operating Revenue   | \$—                          | \$599,361                           | \$ (3                         | ) \$(60      | ) \$599,298  |   |
| Operating Expenses:   |                              |                                     |                               |              |              |   |
| Aircraft fuel, including taxes and delivery                               | —                            | 181,334                             | —                             | —            | 181,334      |   |
| Wages and benefits  | —                            | 112,150                             | —                             | —            | 112,150      |   |
| Aircraft rent   | —                            | 27,575                              | —                             | —            | 27,575       |   |
| Maintenance materials and repairs   | —                            | 51,705                              | —                             | —            | 51,705       |   |
| Aircraft and passenger servicing  | —                            | 31,080                              | —                             | —            | 31,080       |   |
| Commissions and other selling   | —                            | 32,302                              | —                             | (14          | ) 32,288     |   |
| Depreciation and amortization   | —                            | 22,092                              | —                             | —            | 22,092       |   |
| Other rentals and landing fees  | —                            | 21,996                              | —                             | —            | 21,996       |   |
| Other   | 1,072                        | 43,530                              | 88                            | (46          | ) 44,644     |   |
| Total   | 1,072                        | 523,764                             | 88                            | (60          | ) 524,864    |   |
| Operating Income (Loss)   | (1,072                       | ) 75,597                            | (91                           | ) —          | 74,434       |   |
| Nonoperating Income (Expense):  |                              |                                     |                               |              |              |   |
| Undistributed net income of subsidiaries                                  | 42,686                       | —                                   | —                             | (42,686      | ) —          |   |
| Interest expense and amortization of debt<br>discounts and issuance costs | (2,207                       | ) (11,272                           | ) —                           | —            | (13,479      | ) |
| Interest income   | 27                           | 146                                 | —                             | —            | 173          |   |
| Capitalized interest  | —                            | 3,005                               | —                             | —            | 3,005        |   |
| Gains on fuel derivatives   | —                            | 2,536                               | —                             | —            | 2,536        |   |
| Other, net  | —                            | 749                                 | —                             | —            | 749          |   |
| Total   | 40,506                       | (4,836                              | ) —                           | (42,686      | ) (7,016     | ) |
| Income (Loss) Before Income Taxes   | 39,434                       | 70,761                              | (91                           | ) (42,686    | ) 67,418     |   |
| Income tax expense (benefit)  | (1,170                       | ) 27,984                            | —                             | —            | 26,814       |   |
| Net Income (Loss)   | \$40,604                     | \$42,777                            | \$ (91                        | ) \$(42,686  | ) \$40,604   |   |
| Comprehensive Income (Loss)   | \$37,520                     | \$39,693                            | \$ (91                        | ) \$(39,602  | ) \$37,520   |   |

## Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)

Nine months ended September 30, 2014

|   | Parent Issuer /<br>Guarantor | Subsidiary<br>Issuer /<br>Guarantor | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated   |
|---|------------------------------|-------------------------------------|-------------------------------|--------------|----------------|
|   | (in thousands)               |                                     |                               |              |                |
| Operating Revenue   | \$—                          | \$ 1,737,520                        | \$ 2,801                      | \$(281)      | ) \$ 1,740,040 |
| Operating Expenses:   |                              |                                     |                               |              |                |
| Aircraft fuel, including taxes and delivery                               | —                            | 527,497                             | —                             | —            | 527,497        |
| Wages and benefits  | —                            | 334,441                             | —                             | —            | 334,441        |
| Aircraft rent   | —                            | 79,098                              | —                             | —            | 79,098         |
| Maintenance materials and repairs   | —                            | 167,499                             | 503                           | —            | 168,002        |
| Aircraft and passenger servicing  | —                            | 92,929                              | —                             | —            | 92,929         |
| Commissions and other selling   | —                            | 94,149                              | 43                            | (69)         | ) 94,123       |
| Depreciation and amortization   | —                            | 69,496                              | 1,464                         | —            | 70,960         |
| Other rentals and landing fees  | 5                            | 65,850                              | —                             | —            | 65,855         |
| Other   | 4,015                        | 134,729                             | 803                           | (212)        | ) 139,335      |
| Total   | 4,020                        | 1,565,688                           | 2,813                         | (281)        | ) 1,572,240    |
| Operating Income (Loss)   | (4,020)                      | ) 171,832                           | (12)                          | ) —          | 167,800        |
| Nonoperating Income (Expense):  |                              |                                     |                               |              |                |
| Undistributed net income of subsidiaries                                  | 64,787                       | —                                   | —                             | (64,787)     | ) —            |
| Interest expense and amortization of debt<br>discounts and issuance costs | (6,650)                      | ) (41,461)                          | ) —                           | —            | (48,111)       |
| Interest income   | 126                          | 962                                 | —                             | —            | 1,088          |
| Capitalized interest  | —                            | 6,584                               | —                             | —            | 6,584          |
| Losses on fuel derivatives  | —                            | (28,506)                            | ) —                           | —            | (28,506)       |
| Other, net  | —                            | (3,804)                             | ) —                           | —            | (3,804)        |
| Total   | 58,263                       | (66,225)                            | ) —                           | (64,787)     | ) (72,749)     |
| Income (Loss) Before Income Taxes   | 54,243                       | 105,607                             | (12)                          | ) (64,787)   | ) 95,051       |
| Income tax expense (benefit)  | (3,584)                      | ) 40,808                            | —                             | —            | 37,224         |
| Net Income (Loss)   | \$57,827                     | \$64,799                            | \$ (12)                       | ) \$(64,787) | ) \$57,827     |
| Comprehensive Income (Loss)   | \$56,435                     | \$63,407                            | \$ (12)                       | ) \$(63,395) | ) \$56,435     |

Condensed Consolidating Statements of Operations and Comprehensive Income  
 Nine months ended September 30, 2013

|   | Parent Issuer /<br>Guarantor | Subsidiary<br>Issuer /<br>Guarantor | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated   |
|---|------------------------------|-------------------------------------|-------------------------------|--------------|----------------|
|   | (in thousands)               |                                     |                               |              |                |
| Operating Revenue   | \$—                          | \$ 1,623,602                        | \$ 634                        | \$(256)      | ) \$ 1,623,980 |
| Operating Expenses:   |                              |                                     |                               |              |                |
| Aircraft fuel, including taxes and delivery                               | —                            | 525,046                             | —                             | —            | 525,046        |
| Wages and benefits  | —                            | 318,269                             | —                             | —            | 318,269        |
| Aircraft rent   | —                            | 81,879                              | —                             | —            | 81,879         |
| Maintenance materials and repairs   | —                            | 160,000                             | —                             | —            | 160,000        |
| Aircraft and passenger servicing  | —                            | 89,367                              | —                             | —            | 89,367         |
| Commissions and other selling   | —                            | 98,333                              | —                             | (48)         | ) 98,285       |
| Depreciation and amortization   | —                            | 60,993                              | —                             | —            | 60,993         |
| Other rentals and landing fees  | —                            | 60,773                              | —                             | —            | 60,773         |
| Other   | 6,557                        | 122,837                             | 283                           | (208)        | ) 129,469      |
| Total   | 6,557                        | 1,517,497                           | 283                           | (256)        | ) 1,524,081    |
| Operating Income (Loss)   | (6,557)                      | ) 106,105                           | 351                           | —            | 99,899         |
| Nonoperating Income (Expense):  |                              |                                     |                               |              |                |
| Undistributed net income of subsidiaries                                  | 43,310                       | —                                   | —                             | (43,310)     | ) —            |
| Interest expense and amortization of debt<br>discounts and issuance costs | (6,475)                      | ) (30,544)                          | ) —                           | —            | (37,019)       |
| Interest income   | 91                           | 335                                 | —                             | —            | 426            |
| Capitalized interest  | —                            | 9,336                               | —                             | —            | 9,336          |
| Losses on fuel derivatives  | —                            | (10,931)                            | ) —                           | —            | (10,931)       |
| Other, net  | —                            | (3,457)                             | ) —                           | —            | (3,457)        |
| Total   | 36,926                       | (35,261)                            | ) —                           | (43,310)     | ) (41,645)     |
| Income Before Income Taxes  | 30,369                       | 70,844                              | 351                           | (43,310)     | ) 58,254       |
| Income tax expense (benefit)  | (4,406)                      | ) 27,885                            | —                             | —            | 23,479         |
| Net Income (Loss)   | \$ 34,775                    | \$ 42,959                           | \$ 351                        | \$(43,310)   | ) \$ 34,775    |
| Comprehensive Income  | \$ 41,113                    | \$ 49,297                           | \$ 351                        | \$(49,648)   | ) \$ 41,113    |

Condensed Consolidating Balance Sheets  
September 30, 2014

|  | Parent Issuer /<br>Guarantor | Subsidiary<br>Issuer /<br>Guarantor | Non-Guarantor<br>Subsidiaries | Eliminations        | Consolidated       |
|--|------------------------------|-------------------------------------|-------------------------------|---------------------|--------------------|
|  | (in thousands)               |                                     |                               |                     |                    |
| <b>ASSETS</b>  |                              |                                     |                               |                     |                    |
| Current assets:  |                              |                                     |                               |                     |                    |
| Cash and cash equivalents  | \$48,982                     | \$275,773                           | \$ 3,500                      | \$—                 | \$ 328,255         |
| Restricted cash  | —                            | 6,566                               | —                             | —                   | 6,566              |
| Short-term investments   | —                            | 253,300                             | —                             | —                   | 253,300            |
| Accounts receivable, net   | 236                          | 82,743                              | 51                            | (128 )              | 82,902             |
| Spare parts and supplies, net  | —                            | 19,359                              | 928                           | —                   | 20,287             |
| Deferred tax assets, net   | —                            | 17,325                              | —                             | —                   | 17,325             |
| Prepaid expenses and other   | 3                            | 47,557                              | 117                           | —                   | 47,677             |
| Total  | 49,221                       | 702,623                             | 4,596                         | (128 )              | 756,312            |
| Property and equipment at cost   | —                            | 1,941,036                           | 34,669                        | —                   | 1,975,705          |
| Less accumulated depreciation and amortization                                     | —                            | (343,263 )                          | (1,464 )                      | —                   | (344,727 )         |
| Property and equipment, net  | —                            | 1,597,773                           | 33,205                        | —                   | 1,630,978          |
| Long-term prepayments and other  | 777                          | 98,546                              | —                             | —                   | 99,323             |
| Deferred tax assets, net   | 18,462                       | —                                   | —                             | (18,462 )           | —                  |
| Goodwill and other intangible assets, net  | —                            | 128,623                             | —                             | —                   | 128,623            |
| Intercompany receivable  | 58,518                       | —                                   | —                             | (58,518 )           | —                  |
| Investment in consolidated subsidiaries  | 414,702                      | —                                   | —                             | (414,702 )          | —                  |
| <b>TOTAL ASSETS</b>  | <b>\$541,680</b>             | <b>\$2,527,565</b>                  | <b>\$ 37,801</b>              | <b>\$(491,810 )</b> | <b>\$2,615,236</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                              |                                     |                               |                     |                    |
| Current liabilities:   |                              |                                     |                               |                     |                    |
| Accounts payable   | \$596                        | \$77,565                            | \$ 317                        | \$(128 )            | \$ 78,350          |
| Air traffic liability  | —                            | 485,624                             | 1,901                         | —                   | 487,525            |
| Other accrued liabilities  | 420                          | 114,152                             | 145                           | —                   | 114,717            |
| Current maturities of long-term debt, less discount, and capital lease obligations | 79,579                       | 91,475                              | —                             | —                   | 171,054            |
| Total  | 80,595                       | 768,816                             | 2,363                         | (128 )              | 851,646            |
| Long-term debt and capital lease obligations                                       | —                            | 885,486                             | —                             | —                   | 885,486            |
| Intercompany payable   | —                            | 58,518                              | —                             | (58,518 )           | —                  |
| Other liabilities and deferred credits:  |                              |                                     |                               |                     | 0                  |
| Accumulated pension and other postretirement benefit obligations                   | —                            | 268,703                             | —                             | —                   | 268,703            |
| Other liabilities and deferred credits   | 326                          | 69,053                              | 750                           | —                   | 70,129             |
| Deferred tax liabilities, net  | —                            | 96,975                              | —                             | (18,462 )           | 78,513             |
| Total  | 326                          | 434,731                             | 750                           | (18,462 )           | 417,345            |
| Shareholders' equity   | 460,759                      | 380,014                             | 34,688                        | (414,702 )          | 460,759            |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                  | <b>\$541,680</b>             | <b>\$2,527,565</b>                  | <b>\$ 37,801</b>              | <b>\$(491,810 )</b> | <b>\$2,615,236</b> |



Condensed Consolidating Balance Sheets  
December 31, 2013

|  | Parent Issuer/<br>Guarantor | Subsidiary<br>Issuer /<br>Guarantor | Non-Guarantor<br>Subsidiaries | Eliminations        | Consolidated       |
|--|-----------------------------|-------------------------------------|-------------------------------|---------------------|--------------------|
|  | (in thousands)              |                                     |                               |                     |                    |
| <b>ASSETS</b>  |                             |                                     |                               |                     |                    |
| Current assets:  |                             |                                     |                               |                     |                    |
| Cash and cash equivalents  | \$84,797                    | \$333,663                           | \$4,924                       | \$—                 | \$423,384          |
| Restricted cash  | —                           | 19,434                              | —                             | —                   | 19,434             |
| Accounts receivable, net   | 1,192                       | 73,241                              | 31                            | (219 )              | 74,245             |
| Spare parts and supplies, net                                      | —                           | 19,767                              | —                             | —                   | 19,767             |
| Deferred tax assets, net   | —                           | 17,325                              | —                             | —                   | 17,325             |
| Prepaid expenses and other   | —                           | 51,613                              | 39                            | —                   | 51,652             |
| Total  | 85,989                      | 515,043                             | 4,994                         | (219 )              | 605,807            |
| Property and equipment at cost                                     | —                           | 1,629,517                           | 31,917                        | —                   | 1,661,434          |
| Less accumulated depreciation and amortization                     | —                           | (327,102 )                          | —                             | —                   | (327,102 )         |
| Property and equipment, net  | —                           | 1,302,415                           | 31,917                        | —                   | 1,334,332          |
| Long-term prepayments and other                                    | 1,171                       | 90,782                              | —                             | —                   | 91,953             |
| Restricted cash  | —                           | 1,566                               | —                             | —                   | 1,566              |
| Deferred tax assets, net   | 14,767                      | —                                   | —                             | (14,767 )           | —                  |
| Goodwill and other intangible assets, net                          | —                           | 130,603                             | —                             | —                   | 130,603            |
| Intercompany receivable  | 25,286                      | —                                   | —                             | (25,286 )           | —                  |
| Investment in consolidated subsidiaries                            | 348,040                     | —                                   | —                             | (348,040 )          | —                  |
| <b>TOTAL ASSETS</b>  | <b>\$475,253</b>            | <b>\$2,040,409</b>                  | <b>\$36,911</b>               | <b>\$(388,312 )</b> | <b>\$2,164,261</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                        |                             |                                     |                               |                     |                    |
| Current liabilities:   |                             |                                     |                               |                     |                    |
| Accounts payable   | \$532                       | \$88,990                            | \$484                         | \$(219 )            | \$89,787           |
| Air traffic liability  | —                           | 407,359                             | 1,727                         | —                   | 409,086            |
| Other accrued liabilities  | 1,307                       | 96,264                              | —                             | —                   | 97,571             |
| Current maturities of long-term debt and capital lease obligations | —                           | 62,187                              | —                             | —                   | 62,187             |
| Total  | 1,839                       | 654,800                             | 2,211                         | (219 )              | 658,631            |
| Long-term debt, less discount, and capital lease obligations       | 76,550                      | 667,736                             | —                             | —                   | 744,286            |
| Intercompany payable   | —                           | 25,286                              | —                             | (25,286 )           | —                  |
| Other liabilities and deferred credits:                            |                             |                                     |                               |                     | 0                  |
| Accumulated pension and other postretirement benefit obligations   | —                           | 264,106                             | —                             | —                   | 264,106            |
| Other liabilities and deferred credits                             | —                           | 59,424                              | —                             | —                   | 59,424             |
| Deferred tax liabilities, net                                      | —                           | 55,717                              | —                             | (14,767 )           | 40,950             |
| Total  | —                           | 379,247                             | —                             | (14,767 )           | 364,480            |
| Shareholders' equity   | 396,864                     | 313,340                             | 34,700                        | (348,040 )          | 396,864            |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                  | <b>\$475,253</b>            | <b>\$2,040,409</b>                  | <b>\$36,911</b>               | <b>\$(388,312 )</b> | <b>\$2,164,261</b> |





Condensed Consolidating Statements of Cash Flows  
 Nine months ended September 30, 2014

|  | Parent Issuer /<br>Guarantor | Subsidiary<br>Issuer /<br>Guarantor | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|------------------------------|-------------------------------------|-----------------------------------|--------------|--------------|
|  | (in thousands)               |                                     |                                   |              |              |
| Net Cash Provided By (Used In) Operating Activities                  | \$ (6,859 )                  | \$ 257,694                          | \$ 1,328                          | \$ —         | \$ 252,163   |
| Cash Flows From Investing Activities:                                |                              |                                     |                                   |              |              |
| Net payments to subsidiaries   | (34,443 )                    | —                                   | —                                 | 34,443       | —            |
| Additions to property and equipment, including pre-delivery deposits | —                            | (358,538 )                          | (2,752 )                          | —            | (361,290 )   |
| Net proceeds from disposition of property and equipment              | —                            | 978                                 | —                                 | —            | 978          |
| Purchases of investments   | —                            | (346,010 )                          | —                                 | —            | (346,010 )   |
| Sales of investments   | —                            | 92,103                              | —                                 | —            | 92,103       |
| Net cash used in investing activities                                | (34,443 )                    | (611,467 )                          | (2,752 )                          | 34,443       | (614,219 )   |
| Cash Flows From Financing Activities:                                |                              |                                     |                                   |              |              |
| Proceeds from exercise of stock options                              | 5,487                        | —                                   | —                                 | —            | 5,487        |
| Long-term borrowings   | —                            | 293,430                             | —                                 | —            | 293,430      |
| Repayments of long-term debt and capital lease obligations           | —                            | (46,392 )                           | —                                 | —            | (46,392 )    |
| Debt issuance costs  | —                            | (32 )                               | —                                 | —            | (32 )        |
| Net payments from parent company                                     | —                            | 34,443                              | —                                 | (34,443 )    | —            |
| Change in restricted cash  | —                            | 14,434                              | —                                 | —            | 14,434       |
| Net cash provided by financing activities                            | 5,487                        | 295,883                             | —                                 | (34,443 )    | 266,927      |
| Net decrease in cash and cash equivalents                            | (35,815 )                    | (57,890 )                           | (1,424 )                          | —            | (95,129 )    |
| Cash and cash equivalents - Beginning of Period                      | 84,797                       | 333,663                             | 4,924                             | —            | 423,384      |
| Cash and cash equivalents - End of Period                            | \$ 48,982                    | \$ 275,773                          | \$ 3,500                          | \$ —         | \$ 328,255   |

Condensed Consolidating Statements of Cash Flows  
 Nine months ended September 30, 2013

|  | Parent Issuer /<br>Guarantor | Subsidiary<br>Issuer /<br>Guarantor | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|------------------------------|-------------------------------------|-----------------------------------|--------------|--------------|
|  | (in thousands)               |                                     |                                   |              |              |
| Net Cash Provided By (Used In) Operating Activities                  | \$(7,244 )                   | \$215,589                           | \$(870 )                          | \$ —         | \$ 207,475   |
| Cash Flows From Investing Activities:                                |                              |                                     |                                   |              |              |
| Net payments from subsidiaries                                       | 5,553                        | —                                   | —                                 | (5,553 )     | —            |
| Additions to property and equipment, including pre-delivery deposits | —                            | (220,272 )                          | (12,445 )                         | —            | (232,717 )   |
| Net cash provided by (used in) investing activities                  | 5,553                        | (220,272 )                          | (12,445 )                         | (5,553 )     | (232,717 )   |
| Cash Flows From Financing Activities:                                |                              |                                     |                                   |              |              |
| Proceeds from exercise of stock options                              | 2,376                        | —                                   | —                                 | —            | 2,376        |
| Long-term borrowings   | —                            | 132,000                             | —                                 | —            | 132,000      |
| Repayments of long-term debt and capital lease obligations           | —                            | (45,200 )                           | —                                 | —            | (45,200 )    |
| Debt issuance costs  | —                            | (12,416 )                           | —                                 | —            | (12,416 )    |
| Net payments to parent company                                       | —                            | (5,553 )                            | —                                 | 5,553        | —            |
| Change in restricted cash  | —                            | (16,000 )                           | —                                 | —            | (16,000 )    |
| Net cash provided by financing activities                            | 2,376                        | 52,831                              | —                                 | 5,553        | 60,760       |
| Net increase (decrease) in cash and cash equivalents                 | 685                          | 48,148                              | (13,315 )                         | —            | 35,518       |
| Cash and cash equivalents - Beginning of Period                      | 83,626                       | 303,967                             | 18,287                            | —            | 405,880      |
| Cash and cash equivalents - End of Period                            | \$84,311                     | \$352,115                           | \$4,972                           | \$ —         | \$ 441,398   |

### Long-Term Debt

The long-term debt included in the Parent Issuer / Guarantor column represents the Convertible Notes described in Note 7 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

### Income Taxes

The income tax expense (benefit) is presented as if each entity that is part of the consolidated group files a separate return.

30

---

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

### Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 that reflect our current views with respect to certain current and future events and financial performance. Such forward-looking statements include, without limitation: any expectations of operating expenses, deferred revenue, interest rates, income taxes, deferred tax assets, valuation allowance or other financial items or financial performance; statements regarding areas of strategic focus, statements regarding factors that may affect our ability to fund our working capital, capital expenditures or other general purpose needs; estimates of fair value measurements; statements related to aircraft maintenance and repair costs and deposits and timing of maintenance activities; statements related to cash flow from operations and seasonality; estimates of required funding of and contributions to our defined benefit pension and disability plan; estimates of annual fuel expenses and measure of the effects of fuel prices on our business; statements regarding the availability and cost of fuel; statements regarding our total capacity and yields on routes; statements related to our hedging program; statements concerning the impact of, and changes to, accounting principles, policies and estimates; statements regarding credit card holdback; statements regarding the availability of financing; statements regarding our capital expenditures; statements regarding potential violations under the Company's debt or lease obligations; statements regarding our ability to comply with covenants under our financing arrangements; statements related to risk management, credit risks and air traffic liability; statements related to future U.S. and global economic conditions or performance; statements related to changes in our fleet plan and related cash outlays; statements related to expected delivery of new aircraft; statements related to potential route expansion; statements related to the increase in frequency on existing routes; statements related to expected maturation of existing networks; statements regarding the use of proceeds of the EETC financing; statements related to the expected timing of entering into a revolving credit facility agreement; statements related to the effects of any litigation on our operations or business; and statements as to other matters that do not relate strictly to historical facts or statements of assumptions underlying any of the foregoing. Words such as "expects," "anticipates," "projects," "intends," "plans," "believes," "estimates," variations of such words, and similar expressions are also intended to identify such forward-looking statements. These forward-looking statements are and will be, as the case may be, subject to many risks, uncertainties and assumptions relating to our operations and business environment, all of which may cause our actual results to be materially different from any future results, expressed or implied, in these forward-looking statements.

The risks, uncertainties and assumptions referred to above that could cause our results to differ materially from the results expressed or implied by such forward-looking statements also include the risks, uncertainties and assumptions discussed from time to time in our public filings and public announcements, including, but not limited to, our risk factors set out in the "Risk Factors" sections of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013. All forward-looking statements included in this Report are based on information available to us as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this quarterly report. The following discussion and analysis should be read in conjunction with our unaudited Consolidated Financial Statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

### OVERVIEW

Hawaiian Holdings, Inc. (the "Company," "Holdings," "we," "us" and "our") is a holding company incorporated in the State of Delaware. The Company's primary asset is its sole ownership of all issued and outstanding shares of common stock of Hawaiian Airlines, Inc. ("Hawaiian"). Hawaiian was originally incorporated in January 1929 under the laws of the Territory of Hawai'i and became the Company's indirect 100% owned subsidiary pursuant to a corporate restructuring

that was consummated in August 2002. Hawaiian became a Delaware corporation and the Company's direct wholly-owned subsidiary concurrent with its reorganization in June 2005.

#### Our Business

We are engaged in the scheduled air transportation of passengers and cargo amongst the Hawaiian Islands (the Neighbor Island routes), between the Hawaiian Islands and certain cities in the U.S. mainland (the North America routes), and between the Hawaiian Islands and the South Pacific, Australia and Asia (the International routes), collectively referred to as our Scheduled Operations. In addition, we operate various charter flights. We are the largest airline headquartered in the State of Hawai'i and the eleventh largest domestic airline in the United States based on revenue passenger miles reported by the Research and Innovative Technology Administration Bureau of Transportation Statistics for the month of June 2014, the latest available data.

As of September 30, 2014, Hawaiian had 5,331 active employees.

General information about us is available at <http://www.hawaiianairlines.com/aboutus>. Information contained on our website is not incorporated by reference into, or otherwise to be regarded as part of, this Quarterly Report on Form 10-Q unless expressly noted. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments and exhibits to those reports, are available free of charge through our website as soon as reasonably practicable after we file them with, or furnish them to, the SEC.

### THIRD QUARTER REVIEW

#### Financial Highlights

GAAP net income in the third quarter of \$35.6 million or \$0.56 per diluted share.

Adjusted net income, reflecting economic fuel expense, in the third quarter of \$49.5 million or \$0.79 per diluted share compared to \$36.8 million in the prior year period of \$0.69 per diluted share.

- Operating revenue per available seat mile (RASM) increase of 4.6% and passenger revenue per available seat mile (PRASM) increase of 2.2% from the prior year period.

Unrestricted cash and cash equivalents and short-term investments of \$582 million.

See “Results of Operations” below for further discussion of changes in revenue and operating expense. See “Non-GAAP Financial Measures” below for our reconciliation of non-GAAP measures.

#### Outlook

We expect our financial performance to improve through the fourth quarter as result of continued strength in our revenue generation on our North America and Neighbor Island routes, the positive effects of network changes implemented earlier this year, the maturation of our new routes, and favorable fuel prices. We expect available seat miles during the quarter ending December 31, 2014 to increase by 1% to 3% from the same prior year period, while operating revenue per available seat mile is expected to increase by 4.5% to 7.5% from the same prior year period. We expect operating cost per available seat mile, excluding fuel, for the quarter ending December 31, 2014 to increase by 5.5% to 8.5% from the same prior year period.

#### Fleet Summary

The table below summarizes our total fleet as of September 30, 2013 and 2014, and expected fleet as of September 30, 2015 (based on existing agreements):

| Aircraft Type | September 30, 2013 |       |       | September 30, 2014 |       |       | September 30, 2015 |       |       |
|---------------|--------------------|-------|-------|--------------------|-------|-------|--------------------|-------|-------|
|               | Leased<br>(3)      | Owned | Total | Leased<br>(3)      | Owned | Total | Leased<br>(3)      | Owned | Total |
| A330-200 (1)  | 7                  | 6     | 13    | 7                  | 11    | 18    | 7                  | 14    | 21    |
| 767-300 (2)   | 7                  | 7     | 14    | 6                  | 5     | 11    | 6                  | 4     | 10    |
| 717-200       | 3                  | 15    | 18    | 3                  | 15    | 18    | 3                  | 15    | 18    |
| ATR42 (4)     | —                  | 3     | 3     | —                  | 3     | 3     | —                  | 3     | 3     |
| Total         | 17                 | 31    | 48    | 16                 | 34    | 50    | 16                 | 36    | 52    |

- (1) The increase in the number of owned Airbus A330-200 aircraft from September 30, 2014 to 2015 is due to the planned delivery of three aircraft, one of which has been financed in part through proceeds from our

EETC financing transaction. See Note 10 for further discussion regarding the EETC financing.

- (2) The decrease in the number of owned Boeing 767-300 aircraft from 2014 to 2015 is due to the planned retirement of an aircraft at the end of its estimated useful life.
- (3) Leased aircraft include both aircraft under capital and operating leases.
- (4) The ATR42 aircraft are owned by Airline Contract Maintenance & Equipment, Inc., a wholly-owned subsidiary of the Company.

## Results of Operations

For the three months ended September 30, 2014, we generated net income of \$35.6 million, or \$0.56 per diluted share, compared to net income of \$40.6 million, or \$0.76 per diluted share, for the same period in 2013. For the nine months ended September 30, 2014, we generated net income of \$57.8 million, or \$0.94 per diluted share, compared to net income of \$34.8 million, or \$0.65 per diluted share, for the same period in 2013.

## Selected Consolidated Statistical Data (unaudited)

|  | Three months ended September 30, |           | Nine months ended September 30, |            |   |
|--|----------------------------------|-----------|---------------------------------|------------|---|
|  | 2014                             | 2013      | 2014                            | 2013       |   |
| (in thousands, except as otherwise indicated)    |                                  |           |                                 |            |   |
| Scheduled Operations (c) :                       |                                  |           |                                 |            |   |
| Revenue passengers flown                         | 2,707                            | 2,644     | 7,638                           | 7,523      |   |
| Revenue passenger miles (RPM)                    | 3,780,301                        | 3,668,535 | 10,402,081                      | 10,279,673 |   |
| Available seat miles (ASM)                       | 4,499,108                        | 4,406,504 | 12,795,342                      | 12,578,342 |   |
| Passenger revenue per RPM (Yield)                | 15.00                            | ¢ 14.81   | ¢ 14.82                         | ¢ 14.25    | ¢ |
| Passenger load factor (RPM/ASM)                  | 84.0                             | % 83.3    | % 81.3                          | % 81.7     | % |
| Passenger revenue per ASM (PRASM)                | 12.60                            | ¢ 12.33   | ¢ 12.05                         | ¢ 11.64    | ¢ |
| Total Operations (c) :                           |                                  |           |                                 |            |   |
| Revenue passengers flown                         | 2,709                            | 2,647     | 7,641                           | 7,528      |   |
| RPM  | 3,783,584                        | 3,675,222 | 10,410,466                      | 10,294,818 |   |
| ASM  | 4,502,856                        | 4,415,096 | 12,804,599                      | 12,596,765 |   |
| Operating revenue per ASM (RASM)                 | 14.20                            | ¢ 13.57   | ¢ 13.59                         | ¢ 12.89    | ¢ |
| Operating cost per ASM (CASM)                    | 11.84                            | ¢ 11.89   | ¢ 12.28                         | ¢ 12.10    | ¢ |
| CASM excluding aircraft fuel (b)                 | 7.80                             | ¢ 7.78    | ¢ 8.16                          | ¢ 7.93     | ¢ |
| Aircraft fuel expense per ASM (a)                | 4.04                             | ¢ 4.11    | ¢ 4.12                          | ¢ 4.17     | ¢ |
| Revenue block hours operated                     | 43,688                           | 42,205    | 124,012                         | 121,777    |   |
| Gallons of jet fuel consumed                     | 60,232                           | 59,265    | 172,333                         | 169,824    |   |
| Average cost per gallon of jet fuel (actual) (a) | \$3.03                           | \$3.06    | \$3.06                          | \$3.09     |   |

(a) Includes applicable taxes and fees.

(b) Represents adjusted unit costs, a non-GAAP measure. We believe this is a useful measure because it better reflects our controllable costs. See "Non-GAAP Financial Measures" below for our reconciliation of non-GAAP measures.

(c) Includes the operations of our contract carrier under a capacity purchase agreement.

## Operating Revenue

Operating revenue increased \$40.2 million, or 6.7%, and \$116.1 million, or 7.1%, for the three and nine months ended September 30, 2014, respectively, as compared to the prior year periods, driven primarily by an increase in passenger revenue.

## Passenger Revenue

For the three and nine months ended September 30, 2014, passenger revenue increased \$23.7 million, or 4.4%, and \$77.1 million, or 5.3%, respectively, as compared to the prior year periods. Details of these changes are described in the table below:





Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

|                 | Three months ended September 30, 2014 as compared to three months ended September 30, 2013 |                 |               |               | Nine months ended September 30, 2014 as compared to nine months ended September 30, 2013 |                 |               |               |   |
|-----------------|--|-----------------|---------------|---------------|--|-----------------|---------------|---------------|---|
|                 | Change in scheduled passenger revenue (in millions)  | Change in Yield | Change in RPM | Change in ASM | Change in scheduled passenger revenue (in millions)                                      | Change in Yield | Change in RPM | Change in ASM |   |
| North America   | \$34.3   | 1.2             | % 12.0        | % 15.7        | % \$88.1   | 7.3             | % 5.4         | % 8.9         | % |
| Neighbor Island | 3.8  | 2.8             | 0.2           | 4.9           | 24.6   | 6.5             | 0.6           | 2.4           |   |
| International   | (14.4 )  | 3.4             | (12.0 )       | (18.3 )       | (35.7 )  | (2.1 )          | (6.1 )        | (8.5 )        | ) |
| Total scheduled | \$23.7   | 1.3             | % 3.0         | % 2.1         | % \$77.0   | 4.0             | % 1.2         | % 1.7         | % |

#### North America

For the three months ended September 30, 2014, North America revenue increased by \$34.3 million as compared to the prior period primarily due to increased traffic on our North America routes commensurate with the increase in our capacity during the current period.

For the nine months ended September 30, 2014, North America revenue increased by \$88.1 million as compared to the prior year period primarily due to an increase in yield and capacity on these routes. The increases in capacity on our North America routes were absorbed by strong demand.

#### Neighbor Island

For the three and nine months ended September 30, 2014, Neighbor Island revenue increased by \$3.8 million and \$24.6 million, respectively, as compared to the prior year periods, due to higher average fares and the launching of our turboprop operations in March 2014.

#### International

For the three and nine months ended September 30, 2014, International revenue decreased by \$14.4 million and \$35.7 million, respectively, as compared to the prior year periods. The decreases were primarily due to a decrease in our international capacity during the three and nine months ended September 30, 2014, the result of changes to our network.

#### Other Operating Revenue

Other operating revenue increased by \$16.5 million, or 29.5%, and \$39.0 million, or 24.5%, for the three and nine months ended September 30, 2014, respectively, as compared to the prior year periods. Our co-branded credit card agreement increased other operating revenue by \$7.3 million and \$17.0 million for the three and nine months ended September 30, 2014, respectively. Also, an increase in the volume of cargo transported increased other operating revenue by \$3.4 million and \$9.9 million during the three and nine months ended September 30, 2014, respectively, as compared to the prior year periods. The increase in volume was the result of additional cargo capacity and improved revenue generation on our existing routes.

### Operating Expense

Operating expenses were \$533.3 million and \$1,572.2 million for the three and nine months ended September 30, 2014, respectively, and \$524.9 million and \$1,524.1 million for the three and nine months ended September 30, 2013, respectively. Increases (decreases) in operating expenses for the three and nine months ended September 30, 2014 as compared to the prior year periods are detailed below:

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

|   | Increase / (decrease) in operating expenses for the three months ended September 30, 2014 compared to the three months ended September 30, 2013 |       |   | Increase / (decrease) in operating expenses for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 |       |   |
|---|---|-------|---|---|-------|---|
|   | \$  | %     |   | \$  | %     |   |
| Operating expenses                          |   |       |   |   |       |   |
| Aircraft fuel, including taxes and delivery | \$885   | 0.5   | % | \$2,451   | 0.5   | % |
| Wages and benefits                          | 2,319   | 2.1   |   | 16,172  | 5.1   |   |
| Aircraft rent                               | (851)   | (3.1) | ) | (2,781)   | (3.4) | ) |
| Maintenance materials and repairs           | (412)   | (0.8) | ) | 8,002   | 5.0   |   |
| Aircraft and passenger servicing            | 768   | 2.5   |   | 3,562   | 4.0   |   |
| Commissions and other selling               | (273)   | (0.8) | ) | (4,162)   | (4.2) | ) |
| Depreciation and amortization               | 2,292   | 10.4  |   | 9,967   | 16.3  |   |
| Other rentals and landing fees              | 1,641   | 7.5   |   | 5,082   | 8.4   |   |
| Other                                       | 2,060   | 4.6   |   | 9,866   | 7.6   |   |
| Total                                       | \$8,429   | 1.6   | % | \$48,159  | 3.2   | % |

Aircraft Fuel

Aircraft fuel expense during the three and nine months ended September 30, 2014 and 2013 did not change significantly from the prior year periods, due to the offsetting effects of the increase in consumption and decrease in the average fuel price per gallon as illustrated in the following table:

|   | Three months ended September 30, 2014 |           |       | Change | Nine months ended September 30, 2014 |           |       |    |
|---|---------------------------------------|-----------|-------|--------|--------------------------------------|-----------|-------|----|
|   | 2013                                  | Change    |       |        | 2013                                 | Change    |       |    |
| Aircraft fuel expense, including taxes and delivery         | \$182,219                             | \$181,334 | 0.5   | %      | \$527,497                            | \$525,046 | 0.5   | %  |
| Fuel gallons consumed                                       | 60,232                                | 59,265    | 1.6   | %      | 172,333                              | 169,824   | 1.5   | %  |
| Average fuel price per gallon, including taxes and delivery | \$3.03                                | \$3.06    | (1.0) | )%     | \$3.06                               | \$3.09    | (1.0) | )% |

We believe economic fuel expense is the best measure of the effect of fuel prices on our business as it most closely approximates the net cash outflow associated with the purchase of fuel for our operations in a period and is consistent with how management manages our business and assesses our operating performance. We define economic fuel expense as raw fuel expense plus (gains)/losses realized through actual cash payments to/(receipts from) hedge counterparties for fuel hedge derivatives settled in the period inclusive of costs related to hedging premiums.

Economic fuel expense is calculated as follows:

|   | Three months ended September 30, 2014 |           |      | Change | Nine months ended September 30, 2014 |           |        |    |
|---|---------------------------------------|-----------|------|--------|--------------------------------------|-----------|--------|----|
|   | 2013                                  | Change    |      |        | 2013                                 | Change    |        |    |
| Aircraft fuel expense, including taxes and delivery | \$182,219                             | \$181,334 | 0.5  | %      | \$527,497                            | \$525,046 | 0.5    | %  |
|   | 4,632                                 | 3,790     | 22.2 | %      | 6,530                                | 11,226    | (41.8) | )% |

Realized losses on settlement of fuel derivative contracts

|                                |           |           |       |    |           |           |       |    |
|--------------------------------|-----------|-----------|-------|----|-----------|-----------|-------|----|
| Economic fuel expense          | \$186,851 | \$185,124 | 0.9   | %  | \$534,027 | \$536,272 | (0.4) | )% |
| Fuel gallons consumed          | 60,232    | 59,265    | 1.6   | %  | 172,333   | 169,824   | 1.5   | %  |
| Economic fuel costs per gallon | \$3.10    | \$3.12    | (0.6) | )% | \$3.10    | \$3.16    | (1.9) | )% |

See Item 3, "Quantitative and Qualitative Disclosures About Market Risk" for additional discussion of our jet fuel costs and related hedging program.

Wages and Benefits

Wages and benefits expense increased by \$2.3 million, or 2.1%, and \$16.2 million, or 5.1%, for the three and nine months ended September 30, 2014, respectively, as compared to the prior year periods, primarily due to a 2% increase in the number of employees from September 30, 2013, as we continued to expand our operations with additional aircraft.

#### Maintenance materials and repairs

Maintenance materials and repairs expense decreased by \$0.4 million, or 0.8%, and increased by \$8.0 million, or 5.0%, for the three and nine months ended September 30, 2014, respectively, as compared to the prior year periods. The increase for the nine months ended September 30, 2014 was primarily due to the increase in the number and utilization of Airbus A330-200 aircraft in our fleet and was partially offset by a decrease in the number and utilization of Boeing 767-300 aircraft in our fleet.

#### Depreciation and amortization

Depreciation and amortization expense increased by \$2.3 million, or 10.4%, and \$10.0 million, or 16.3% for the three and nine months ended September 30, 2014, respectively, as compared to the prior year periods, primarily due to the increase in the number of owned aircraft.

#### Other rentals and landing fees

Other rentals and landing fees expense increased by \$1.6 million, or 7.5%, and \$5.1 million, or 8.4% for the three and nine months ended September 30, 2014, respectively, as compared to the prior year periods, due to increased rates and landing frequencies.

#### Other expense

Other expense increased by \$2.1 million, or 4.6%, and \$9.9 million, or 7.6%, for the three and nine months ended September 30, 2014, respectively, as compared to the prior year periods, primarily due to costs incurred in connection with our turboprop operations that began in March 2014.

#### Nonoperating Expense

Net nonoperating expense increased by \$40.8 million, or 581.4%, for the three months ended September 30, 2014, as compared to the prior year period. The increase is primarily due to our fuel hedge portfolio generating \$27.9 million in losses in the current period compared to \$2.5 million in gains in the prior year period.

Net nonoperating expense increased by \$31.1 million, or 74.7%, for the nine months ended September 30, 2014, as compared to the prior year period. The increase is due to our fuel hedge portfolio generating \$28.5 million in losses in the current period compared to \$10.9 million in losses in the prior year period. The interest expense incurred in connection with the equipment notes under the EETC financing also contributed to the increase in nonoperating expense for the period.

#### Income Taxes

We had effective tax rates of 39.0% and 39.8% for the three months ended September 30, 2014 and 2013, respectively, and 39.2% and 40.3% for the nine months ended September 30, 2014 and 2013, respectively. We consider a variety of factors in determining the effective tax rate, including our forecasted full-year pretax results, the U.S. federal statutory rate, expected nondeductible expenses and estimated state taxes.

## Liquidity and Capital Resources

Our liquidity is dependent on the cash we generate from operating activities and our debt financing arrangements. As of September 30, 2014, we had \$328.3 million in cash and cash equivalents and \$253.3 million in short-term investments, an increase of \$158.2 million from December 31, 2013. Our restricted cash balance of \$6.6 million and \$19.4 million as of September 30, 2014 and December 31, 2013, respectively, consisted of cash held as collateral by entities that process our credit card transactions for advanced ticket sales and cash held as collateral for future interest payments owed in connection with the EETC financing.

We have been able to generate sufficient funds from our operations to meet our working capital requirements and typically finance our aircraft through secured debt and lease financings. At September 30, 2014, Hawaiian had approximately \$1,056.5 million of debt and capital lease obligations, including approximately \$171.1 million classified as a current liability in the

unaudited Consolidated Balance Sheets. During the three and nine months ended September 30, 2014 a condition for conversion of the Convertible Notes was satisfied, which permits holders of the Convertible Notes to surrender their notes for conversion during the quarter ending December 31, 2014. Therefore, the principal balance could be settled in as early as 2014. As of September 30, 2014, the carrying value of \$79.6 million is reflected as a current liability in the unaudited Consolidated Balance Sheets.

In September 2014, we terminated our secured revolving credit facility with Wells Fargo Capital Finance LLC, which provided for a secured revolving credit facility of \$75 million. As of September 30, 2014, we did not have a revolving credit facility in place for our working capital needs. As of September 30, 2014 we had \$581.6 million in unrestricted cash, cash equivalents and short-term investments, which is an increase of \$158.2 million from December 31, 2013, and for the nine months ended September 30, 2014, we generated \$252.2 million in cash flows from our operating activities. We are in negotiations with a financial institution to finalize the terms on a revolving credit facility agreement that is expected to be executed in 2014.

We have backstop financing available from aircraft and engine manufacturers, subject to certain customary conditions. Financing will be necessary to satisfy the Company's capital commitments for its firm order aircraft and other related capital expenditures. The Company can provide no assurance that any financing not already in place for aircraft and spare engine deliveries will be available to the Company on acceptable terms when necessary or at all.

#### Cash Flows

Net cash provided by operating activities was \$252.2 million and \$207.5 million for the nine months ended September 30, 2014 and 2013, respectively. The increase in cash provided by operating activities was due to our improved financial performance and increased air traffic liability balance from the prior year period. For the nine months ended September 30, 2014, we recorded net income of \$57.8 million compared to net income of \$34.8 million for the prior year period. The increase was also due to a larger increase in our air traffic liability as of September 30, 2014 compared to September 30, 2013.

Net cash used in investing activities was \$614.2 million and \$232.7 million for the nine months ended September 30, 2014 and 2013, respectively. The increase was due to purchases of investments of \$346.0 million and the acquisition of five Airbus A330-200 aircraft.

Net cash provided by financing activities was \$266.9 million and \$60.8 million for the nine months ended September 30, 2014 and 2013, respectively. The increase was primarily due to the issuance of equipment notes to finance the acquisition of four Airbus A330-200 aircraft.

In 2013, Hawaiian consummated an EETC financing, whereby it created two pass-through trusts, one of which issued \$328.2 million aggregate principal amount of Class A pass-through certificates with a stated interest rate of 3.9% and the second of which issued \$116.3 million aggregate principal amount of Class B pass-through certificates with a stated interest rate of 4.95%. During the nine months ended September 30, 2014, \$293.4 million of the proceeds from the EETC financing was used to finance a portion of the purchase price of four new Airbus aircraft. The remaining proceeds of the issuance of the Class A and Class B pass-through certificates were used to purchase equipment notes that were issued by Hawaiian to finance the purchase of an Airbus aircraft delivered in October 2014. Hawaiian issued the equipment notes to the trusts as aircraft were delivered to Hawaiian. Hawaiian recorded the debt obligation upon issuance of the equipment notes rather than upon the initial issuance of the pass-through certificates.

#### Capital Commitments



As of September 30, 2014, we had the following capital commitments consisting of firm aircraft and engine orders and purchase rights:

37

---

| Aircraft Type                  | Firm Orders | Purchase Rights | Expected Delivery Dates |
|--------------------------------|-------------|-----------------|-------------------------|
| A330-200 aircraft              | 4           | 3               | Between 2014 and 2015   |
| A350XWB-800 aircraft           | 6           | 6               | Between 2017 and 2020   |
| A321neo aircraft               | 16          | 9               | Between 2017 and 2020   |
| Rolls-Royce spare engines:     |             |                 |                         |
| A330-200 spare engine          | 1           | —               | In 2014                 |
| A350XWB-800 spare engines      | 2           | —               | Between 2017 and 2020   |
| Pratt & Whitney spare engines: |             |                 |                         |
| A321neo spare engines          | 2           | —               | Between 2017 and 2018   |

Committed expenditures for these aircraft, engines and related flight equipment approximates \$84 million for the remainder of 2014, \$253 million in 2015, \$148 million in 2016, \$494 million in 2017, \$547 million in 2018 and \$559 million thereafter.

For the remainder of 2014, we expect our other non-aircraft related capital expenditures, which include software, improvements and ramp and maintenance equipment to total approximately \$5 million to \$15 million.

In July 2014, we signed a memorandum of understanding (MOU) with Airbus for the conversion of an existing order for six new A350XWB-800 aircraft for delivery between 2017 and 2020 into the purchase of six new Airbus A330neo aircraft for delivery between 2019 and 2021, with rights to purchase an additional six new Airbus A330neo aircraft. This change in the dates of delivery and in the model of the aircraft being delivered are not included in the table above as definitive agreements relating to these commitments have yet to be finalized.

In order to complete the purchase of these aircraft and fund related costs, we must secure acceptable financing. We have backstop financing available from aircraft and engine manufacturers, subject to certain customary conditions. We are also currently exploring various financing alternatives, and while we believe that such financing will be available to us, there can be no assurance that financing will be available when required, or on acceptable terms, or at all. The inability to secure such financing could have an impact on our ability to fulfill our existing purchase commitments and a material adverse effect on our operations.

#### Covenants under our Financing Arrangements

Under our bank-issued credit card processing agreements, certain proceeds from advance ticket sales may be held back to serve as collateral to cover any possible chargebacks or other disputed charges that may occur. These holdbacks, which are included in restricted cash in our unaudited Consolidated Balance Sheets set forth in the unaudited Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q, totaled \$5.0 million as of September 30, 2014 and December 31, 2013.

In the event of a material adverse change in the business, the holdback could increase to an amount up to 100% of the applicable credit card air traffic liability, which would also result in an increase in the required level of restricted cash. If we are unable to obtain a waiver of, or otherwise mitigate the increase in the restriction of cash, it could have a material adverse impact on our operations.

#### Pension and Postemployment Benefit Plan Funding

We contributed \$2.3 million and \$8.9 million to our defined benefit and other postretirement plans during the three and nine months ended September 30, 2014, respectively. Future funding requirements for our defined benefit plans are dependent upon many factors such as interest rates, funded status, applicable regulatory requirements and the level

and timing of asset returns.

#### Contractual Obligations

Our estimated contractual obligations as of September 30, 2014 are summarized in the following table:

38

---

| Contractual Obligations                                | Total          | Remaining<br>months in<br>2014 | 2015 - 2016 | 2017 - 2018 | 2019 and<br>thereafter |
|--|----------------|--------------------------------|-------------|-------------|------------------------|
|  | (in thousands) |                                |             |             |                        |
| Debt and capital lease obligations (1) (2)             | \$1,338,658    | \$111,205                      | \$276,919   | \$262,748   | \$687,786              |
| Operating leases—aircraft and related<br>equipment (3) | 615,368        | 25,569                         | 186,633     | 160,631     | 242,535                |
| Operating leases—non-aircraft                          | 45,026         | 1,157                          | 9,663       | 8,129       | 26,077                 |
| Purchase commitments - Capital (4)                     | 2,084,936      | 84,346                         | 401,070     | 1,040,942   | 558,578                |
| Purchase commitments - Operating (5)                   | 471,514        | 15,550                         | 109,539     | 90,775      | 255,650                |
| Projected employee benefit contributions<br>(6)        | 21,893         | —                              | 14,129      | 7,764       | —                      |
| Total contractual obligations                          | \$4,577,395    | \$237,827                      | \$997,953   | \$1,570,989 | \$1,770,626            |

Amounts represent contractual amounts due, including interest. Interest on variable-rate debt was estimated using (1) rates in effect as of September 30, 2014. Amount reflects capital lease obligations for one Airbus A330-200 aircraft, two Boeing 717 aircraft and one A330 flight simulator.

During the period ended September 30, 2014 a condition for conversion of the Convertible Note was satisfied, (2) which permits holders of the Convertible Notes to surrender their notes for conversion during the quarter ending December 31, 2014. Therefore, the principal balance could be settled in as early as 2014 and is classified accordingly in the above table. However, the 5% interest-only, semiannual payments are excluded from the table.

(3) Amounts reflect leases for six Airbus A330-200 aircraft, six Boeing 767 aircraft, one Boeing 717 aircraft, three turbo-prop aircraft and aircraft-related equipment as of September 30, 2014.

Amounts include our firm commitments for aircraft and aircraft related equipment including aircraft orders consisting of three wide-body Airbus A330-200 aircraft, 16 narrow-body Airbus A321neo aircraft, six Airbus A350XWB-800 aircraft, three Rolls Royce spare engines and two Pratt and Whitney spare engines. The amounts in (4) the table above exclude the effects of the transactions contemplated by the MOU we have entered into with Airbus as of July 22, 2014 relating to the conversion of our existing order for the purchase of six Airbus A350XWB-800 aircraft into an order for the purchase of six Airbus A330neo aircraft, pending the finalization of definitive agreements relating thereto.

Amounts include commitments for services provided by third-parties for aircraft maintenance for our Airbus fleet, accounting, IT and reservations. Total contractual obligations do not include long-term contracts where the (5) commitment is variable in nature (with no minimum guarantee), such as aircraft maintenance deposits due under operating leases and fees due under certain other agreements such as aircraft maintenance power-by-the-hour, computer reservation systems and credit card processing agreements, or when the agreements contain short-term cancellation provisions.

Amount includes our estimated contributions to our pension plans (based on actuarially determined estimates) and (6) our pilots' disability plan. Amounts are subject to change based on numerous factors, including interest rate levels, the amount and timing of asset returns and the impact of future legislation. We are currently unable to estimate the projected contributions beyond 2017.

#### Non-GAAP Financial Measures

We believe the disclosure of non-GAAP financial measures is useful information to readers of our financial statements because:

• We believe it is the basis by which we are evaluated by industry analysts and investors;

• These measures are often used in management and board of directors decision making analysis;

- It improves a reader's ability to compare our results to those of other airlines;  
and

• It is consistent with how we present information in our quarterly earnings press releases.

Economic Fuel Expense

See table below for reconciliation between GAAP consolidated net income to adjusted consolidated net income, including per share amounts (in thousands unless otherwise indicated).

|  | Three months ended September 30, |         |          |         | Nine months ended September 30, |         |          |         |
|--|----------------------------------|---------|----------|---------|---------------------------------|---------|----------|---------|
|  | 2014                             | Diluted | 2013     | Diluted | 2014                            | Diluted | 2013     | Diluted |
|  | Net                              | Net     | Net      | Net     | Net                             | Net     | Net      | Net     |
|  | Income                           | Income  | Income   | Income  | Income                          | Income  | Income   | Income  |
|  |                                  | Per     |          | Per     |                                 | Per     |          | Per     |
|  |                                  | Share   |          | Share   |                                 | Share   |          | Share   |
| As reported - GAAP                                 | \$35,575                         | \$0.56  | \$40,604 | \$0.76  | \$57,827                        | \$0.94  | \$34,775 | \$0.65  |
| Add: unrealized losses (gains) on fuel derivatives | 13,956                           | 0.23    | (3,796 ) | (0.07 ) | 13,185                          | 0.21    | (177 )   | —       |
| Reflecting economic fuel expense                   | \$49,531                         | \$0.79  | \$36,808 | \$0.69  | \$71,012                        | \$1.15  | \$34,598 | \$0.65  |

#### Operating Costs per Available Seat Mile (CASM)

We have listed separately in the table below our fuel costs per ASM and our non-GAAP unit costs, excluding fuel. These amounts are included in CASM, but for internal purposes we consistently use unit cost metrics that exclude fuel and non-recurring items (if applicable) to measure and monitor our costs.

CASM and CASM, excluding fuel, are summarized in the table below:

|   | Three months ended September 30,              |            | Nine months ended September 30, |             |
|---|---|------------|---------------------------------|-------------|
|   | 2014  | 2013       | 2014                            | 2013        |
|   | (in thousands, except as otherwise indicated) |            |                                 |             |
| GAAP operating expenses                               | \$533,293                                     | \$524,864  | \$1,572,240                     | \$1,524,081 |
| Less: aircraft fuel, including taxes and delivery     | (182,219 )                                    | (181,334 ) | (527,497 )                      | (525,046 )  |
| Adjusted operating expenses - excluding aircraft fuel | \$351,074                                     | \$343,530  | \$1,044,743                     | \$999,035   |
| Available Seat Miles                                  | 4,502,856                                     | 4,415,096  | 12,804,599                      | 12,596,765  |
| CASM - GAAP   | 11.84   | ¢ 11.89    | ¢ 12.28                         | ¢ 12.10     |
| Less: aircraft fuel                                   | (4.04 )                                       | (4.11 )    | (4.12 )                         | (4.17 )     |
| CASM - excluding aircraft fuel                        | 7.80  | ¢ 7.78     | ¢ 8.16                          | ¢ 7.93      |

#### Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon financial statements that have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities as of the date of the financial statements. Actual results may differ from these estimates under different assumptions and/or conditions.

Critical accounting policies and estimates are defined as those accounting policies and accounting estimates that are reflective of significant judgments and uncertainties that potentially result in materially different results under different assumptions and conditions. For a detailed discussion of the application of our critical accounting policies, see “Critical Accounting Policies” and Note 2, “Summary of Significant Accounting Policies,” to our Consolidated Financial Statements for the year ended December 31, 2013 included in our Annual Report on Form 10-K.

#### Frequent Flyer Accounting

In October 2013, we entered into a co-branded credit card agreement, which provides for the sale of frequent flyer miles to Barclays Bank Delaware beginning in 2014. The agreement is a new multiple element arrangement subject to Accounting Standards Update 2009-13, Multiple Deliverable Revenue Arrangements - A consensus of the FASB Emerging Issues Task Force (ASU 2009-13), which is effective for new and materially modified revenue arrangements entered into after January 1, 2011. ASU 2009-13 requires the allocation of the overall consideration received to each deliverable using the estimated selling price. The following four deliverables or elements were identified in the agreement: (i) travel miles; (ii) use of our brand and access to member lists; (iii) advertising elements; and (iv) other airline benefits including checked baggage services and travel

discounts. The objective of using estimated selling price based methodology is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis.

We are required to allocate the total arrangement consideration to each of the elements based on the relative fair values. We determined the relative fair value of each element by estimating the selling prices of the deliverables by considering discounted cash flows using multiple inputs and assumptions, including: (1) the expected number of miles to be awarded and redeemed; (2) the estimated weighted average equivalent ticket value that is adjusted by a fulfillment discount; (3) the estimated total annual cardholder spend; (4) an estimated royalty rate for our portfolio; and (5) the expected use of each of the airline benefits.

The assumptions used to determine the estimated selling prices of the deliverables are considered critical accounting estimates due to the level of subjectivity and judgment surrounding these assumptions, and the impact that these assumptions will have on the comparability of our financial results.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are subject to certain market risks, including commodity price risk (i.e. jet fuel prices), interest rate risk and foreign currency risk. We have market-sensitive instruments in the form of variable-rate debt and financial derivatives used to offset Hawaiian's exposure to jet fuel price increases, and financial hedge instruments used to hedge Hawaiian's exposure to variable interest rate risk and foreign currency exchange risk. The adverse effects of potential changes in these market risks are discussed below.

The sensitivity analyses presented do not consider the effects that such adverse changes may have on overall economic activity nor do they consider additional actions we might undertake to mitigate our exposure to such changes. Actual results may differ.

#### Aircraft Fuel Costs

Aircraft fuel costs constitute a significant portion of our operating expense. Fuel costs represented 34.2% and 33.6% of our operating expense for the three and nine months ended September 30, 2014, respectively, and 34.5% of our operating expenses for the three and nine months ended September 30, 2013. Approximately 70% of our fuel is based on Singapore jet fuel prices, 29% is based on U.S. West Coast jet fuel prices and 1% on other jet fuel prices. Based on gallons expected to be consumed for the remainder of 2014, for every one cent increase in the cost of a gallon of jet fuel, our fuel expense would increase by approximately \$0.6 million, excluding the results of our fuel hedge program.

We periodically enter into derivative financial instruments to manage our exposure to changes in the price of jet fuel. During the three and nine months ended September 30, 2014, our fuel hedge program primarily consisted of heating oil puts and swaps. Put option contracts provide for a settlement in favor of the holder in the event the prices fall below a predetermined contractual level during a particular time period. Swaps provide for a settlement in our favor in the event the prices exceed a predetermined contractual level and are unfavorable in the event prices fall below a predetermined contractual level.

As of September 30, 2014, we hedged approximately 65% of our projected fuel requirements for the remainder of 2014 with heating oil puts and swaps. As of September 30, 2014, the fair value of these fuel derivative agreements reflected a net liability of \$18.7 million that is recorded in other accrued liabilities in the unaudited Consolidated Balance Sheets.

We expect to continue our program of offsetting some of our exposure to future changes in the price of jet fuel with a combination of fixed forward pricing contracts, swaps, calls, collars and other option-based structures.



We do not hold or issue derivative financial instruments for trading purposes.

#### Interest Rates

Our results of operations are affected by fluctuations in interest rates due to our variable-rate debt and interest income earned on our cash deposits. Our variable-rate debt agreements are discussed in Note 7 to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2013.

At September 30, 2014, we had \$90.2 million of variable-rate debt indexed to the following interest rate:

| Index           | Rate |   |
|-----------------|------|---|
| One-month LIBOR | 0.15 | % |

Changes in market interest rates have a direct and corresponding effect on our pre-tax earnings and cash flows associated with our variable-rate debt and interest-bearing cash accounts. Based on the balances of our cash and cash equivalents, restricted cash, and variable-rate debt as of September 30, 2014, a change in interest rates is unlikely to have a material impact on our results of operations.

At September 30, 2014, we had \$963.6 million of fixed-rate debt including aircraft capital lease obligations, a convertible note, facility agreements for aircraft purchases, and the outstanding equipment notes related to the EETC financing. Market risk for fixed-rate long-term debt is estimated as the potential increase in fair value resulting from a hypothetical 10% decrease in interest rates, and amounted to approximately \$18.8 million as of September 30, 2014.

In 2013, we issued variable-rate debt to finance a portion of the purchase price of another Airbus A330-200 aircraft. The interest rate associated with this debt is based on a market index rate that resets every three months. To limit our exposure to significant increases in the applicable market index rates for this debt, we entered into a forward starting interest swap agreement.

#### Foreign Currency

We generate revenues and incur expenses in foreign currencies. Changes in foreign currency exchange rates impact our results of operations through changes in the dollar value of foreign currency-denominated operating revenues and expenses. Our most significant foreign currency exposures are the Japanese Yen and Australian Dollar. Based on expected remaining 2014 revenues and expenses denominated in Japanese Yen and Australian Dollars, a 10% strengthening in value of the U.S. dollar, relative to the Japanese Yen and Australian Dollar, would result in a decrease in operating income of approximately \$4.4 million and \$3.4 million, respectively, which excludes the offset of the hedges discussed below. This potential impact to the results of our operation is driven by the inherent nature of our international operations, which requires us to accept a large volume of sales transactions denominated in foreign currencies while few expense transactions are settled in foreign currencies. This disparity is the primary factor in our exposure to foreign currencies.

As of September 30, 2014, the fair value of our foreign currency forwards reflected a net asset of \$8.9 million and \$2.9 million recorded in prepaid expenses and other and long-term prepayments and other, respectively, in the unaudited Consolidated Balance Sheets.

#### ITEM 4. CONTROLS AND PROCEDURES.

##### Evaluation of Disclosure Controls and Procedures

Our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), performed an evaluation of our disclosure controls and procedures, which have been designed to permit us to effectively identify and timely disclose important information. Based on that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures were effective as of September 30, 2014 to provide reasonable assurance that the information required to be disclosed by the Company in reports it files under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

##### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2014 which materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



Inherent Limitations on Effectiveness of Controls

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, will be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are not a party to any litigation that is expected to have a significant effect on our operations or business.

ITEM 1A. RISK FACTORS.

See Part I, Item 1A., "Risk Factors," of our 2013 Annual Report and Part II, Item 1A, "Risk Factors," of our Form 10-Q for the quarter ended June 30, 2014 for a detailed discussion of the risk factors affecting our business, results of operations and financial condition.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

| Exhibit No. | Description  |
|-------------|--|
| 12          | Computation of ratio of earning to fixed charges for the three and nine months ended September 30, 2014 and 2013.                                  |
| 31.1        | Rule 13a-14(a) Certification of Chief Executive Officer.   |
| 31.2        | Rule 13a-14(a) Certification of Chief Financial Officer.   |
| 32.1        | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2        | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS     | XBRL Instance Document   |
| 101.SCH     | XBRL Taxonomy Extension Schema Document  |
| 101.CAL     | XBRL Taxonomy Extension Valuation Linkbase Document  |
| 101.DEF     | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB     | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE     | XBRL Taxonomy Extension Presentation Linkbase Document   |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HAWAIIAN HOLDINGS, INC.

Date: October 23, 2014

By: /s/ Scott E. Topping  
Scott E. Topping  
Executive Vice President, Chief Financial Officer and  
Treasurer