UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2007

or

o

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, Hawaii (Address of principal executive offices)	**96819** (Zip code)

Registrant's telephone number, including area code: **(808) 835-3700**

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

Title of each class	**Name of each exchange on which registered**
Common Stock ($.01 par value)	American Stock Exchange

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

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

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

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 ý No o

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

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 o	Accelerated filer ý	Non-accelerated filer o	Smaller reporting company o

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

The aggregate market value of the voting and non-voting common equity stock held by non-affiliates of the Registrant was approximately $170,867,982, computed by reference to the closing sale price of the Common Stock on the American Stock Exchange, on June 29, 2007, the last business day of the registrant's most recently completed second fiscal quarter.

As of January 31, 2008, 47,304,670 shares of Common Stock of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for Annual Meeting of Stockholders to be held on May 20, 2008 will be incorporated by reference into Part III of this Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K 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. These forward-looking statements are and will be, as the case may be, subject to many risks, uncertainties and factors relating to our operations and business environments which may cause our actual results to be materially different from any future results, expressed or implied, in these forward-looking statements.

Factors that could cause actual results to differ materially from any future results, expressed or implied, in these forward-looking statements include, but are not limited to, the following:

- aviation fuel costs;
- our dependence on tourist travel;
- competition in the interisland market;
- the effects of seasonality and cyclicality;
- the concentration of our business in Hawaii;
- the competitive advantages held by network carriers in the transpacific markets;
- the effects of new entrants into the transpacific and interisland markets;
- competitive pressures on pricing (particularly from lower-cost competitors);
- demand for transportation in the markets in which we operate;
- ability to negotiate amendments to labor agreements which are currently amendable or become amendable during 2008;
- the impact of our substantial financial and operating leverage;
- our ability to comply with financial covenants;
- the competitiveness of our labor costs;
- our relationship with our employees and possible work stoppages;
- our ability to attract, motivate and/or retain key executives and other employees;
- increasing dependence on technologies to operate our business;

our reliance on other companies for facilities and services (including, without limitation, aircraft maintenance, code sharing, reservations, computer services, accounting, frequent flyer programs, passenger processing, ground facilities, baggage and cargo handling and personnel training);

our fleet concentration in out-of-production Boeing 717-200 aircraft;

our new long-term commitments with aircraft and engine manufacturers and eventual financing arrangements;

the impact of indebtedness on our financial condition and results of operations;

the effects of any hostilities or act of war (in the Middle East or elsewhere) or any terrorist attack;

increases in aircraft maintenance costs due to the aging and increased utilization of our fleet, and the possible unavailability of aircraft;

- bankruptcies in the airline industry and the possible negative impact such bankruptcies might have on fares and excess capacity;
- government legislation and regulation, including the Aviation and Transportation Security Act (ATSA) and other such regulations;
- changes that may be required by the Federal Aviation Administration (FAA) or other regulators to Hawaiian's aircraft or operations;
- the impact of possible aircraft incidents;
- the impact of possible outbreaks of disease;
- the impact of possible disruptions due to unpredictable weather and environmental concerns;
- economic conditions generally;
- changes in competition in all of the markets we serve which may impact the level of fares and capacity that we are able to offer in order to remain competitive;
- the potential impact of consolidation within the airline industry;
- the cost and availability of insurance, including aircraft insurance;
- security-related costs and regulation;
- consumer perceptions of our services compared to other airlines; and
- other risks and uncertainties set forth from time to time in our reports to the Securities and Exchange Commission, included under "Risk Factors" in this annual report.

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 annual report.

PART I

ITEM 1. BUSINESS.

Overview

Hawaiian Holdings, Inc. (the Company, Holdings, we, us and our) is a holding company whose primary asset is the sole ownership of all issued and outstanding shares of common stock of Hawaiian Airlines, Inc. (Hawaiian). Based on the total number of miles flown by revenue passengers in 2007, Hawaiian was the largest airline headquartered in Hawaii and the sixteenth largest domestic airline in the United States. Hawaiian offers daily service on transpacific routes between Hawaii and Los Angeles, Sacramento, San Diego, San Francisco, San Jose, Las Vegas, Phoenix, Portland, and Seattle, as well as daily service among the Hawaiian Islands, and additional service to Australia, American Samoa and Tahiti. In April 2008, Hawaiian plans to initiate nonstop service between Hawaii and Manila in the Philippines. As of December 31, 2007, Hawaiian operated a fleet of 11 Boeing 717-200 aircraft for its interisland routes and 18 Boeing 767-300 aircraft for its transpacific, South Pacific and charter routes.

Hawaiian was originally incorporated in January 1929 under the laws of the Territory of Hawaii and became our indirect wholly-owned subsidiary pursuant to a corporate restructuring that was consummated in August 2002. Hawaiian became a Delaware corporation and our direct wholly-owned subsidiary in June 2005 pursuant to a short-form merger described in greater detail below under "Consummation of Hawaiian's Joint Plan of Reorganization."

General information about us, including our corporate governance guidelines and the charters for the committees of our Board of Directors, can be found at *http://www.hawaiianair.com/about/*. Our Board of Directors has adopted a code of ethics entitled "Code of Business Ethics and Conduct" that applies to all of our employees, officers and directors. Our code of ethics can be found at *http://www.hawaiianair.com/about/*. 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 Securities and Exchange Commission (SEC). Information on our website is not incorporated into this Annual Report on Form 10-K or our other securities filings and is not a part of such filings.

Consummation of Hawaiian's Joint Plan of Reorganization

On March 21, 2003, Hawaiian filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Hawaii. We did not file for relief under Chapter 11 of the Bankruptcy Code. On May 30, 2003, a bankruptcy trustee was selected to serve in connection with the Chapter 11 filing and operate Hawaiian, which thereafter operated its business under the jurisdiction of the bankruptcy court and in accordance with the applicable provisions of the bankruptcy code and orders of the bankruptcy court until June 2, 2005, the effective date of Hawaiian's joint plan of reorganization as discussed further below. The appointment of the bankruptcy trustee effectively served to divest operational and financial control of Hawaiian from our officers and directors, and severed the availability of funds needed to support our efforts to meet our ongoing financial and other obligations, including our reporting requirements under the Securities Exchange Act of 1934, as amended.

On March 11, 2005, we, together with the bankruptcy trustee, the unsecured creditors of Hawaiian, our wholly-owned subsidiary formerly known as HHIC, Inc., a Delaware corporation (HHIC), and RC Aviation LLC (RC Aviation), a principal stockholder of the Company, sponsored the Third Amended Joint Plan of Reorganization (the Joint Plan) to provide for Hawaiian to emerge from bankruptcy. The Joint Plan provided for payment in full of all allowed claims, including unsecured claims. The Joint Plan also provided for the merger of Hawaiian Airlines, Inc., a Hawaii corporation, with and into

HHIC, with HHIC as the surviving entity immediately changing its name to Hawaiian Airlines, Inc. As used in this report, the term Hawaiian refers to the predecessor company for all periods prior to the HHIC merger and the successor company for all periods subsequent to the merger. We retained our equity interest in Hawaiian; however, in connection with the Joint Plan, we issued shares of our common stock to creditors of Hawaiian to help fund the Joint Plan, resulting in a dilution of the ownership interest of our common stockholders.

The Joint Plan was consummated on June 2, 2005 (the Effective Date), at which point we regained control of Hawaiian. Except as otherwise provided in the Joint Plan, on such date, all property of the estate of Hawaiian as an entity in bankruptcy vested in Hawaiian. Hawaiian's emergence from bankruptcy was accounted for as a business combination, with the assets and liabilities of Hawaiian recorded in our consolidated financial statements at their fair values as of June 2, 2005 and the results of Hawaiian's operations included in our results of operations from that date.

The Joint Plan provided for the settlement of the allowed claims under Hawaiian's bankruptcy case by a combination of $126.4 million in cash payments and the issuance of approximately 14.1 million shares of our common stock. We also assumed long-term payment obligations of $32.9 million. We incurred substantial indebtedness to fund the Joint Plan including the issuance of $60.0 million of 5.0% unsecured subordinated convertible notes due June 1, 2010 (the Notes), a $50.0 million variable interest rate senior secured credit facility (of which $25.0 million was drawn in the form of a three-year term loan at June 2, 2005) and a $25.0 million 10.0% subordinated secured three-year term loan.

Recent Events

Mesa Litigation

In February 2006, Hawaiian filed a complaint against Mesa Air Group, Inc. (Mesa) in the Bankruptcy Court for the District of Hawaii alleging that Mesa misused confidential and proprietary information that was provided by Hawaiian to Mesa in April and May 2004, pursuant to a process that was established by the Bankruptcy Court to facilitate Hawaiian's efforts to solicit potential investment in connection with a Chapter 11 plan of reorganization. The case went to trial in September 2007, and the Court ruled that Mesa had failed to return or destroy the proprietary information it had received from Hawaiian, had misused that information, and had relied on that information as a substantial factor in its decision to enter the Hawaii market. In October 2007, the Bankruptcy Court ruled in favor of Hawaiian, awarding Hawaiian $80 million in damages incurred to date and ordering that Mesa pay Hawaiian post-judgment interest and its cost of litigation and reasonable attorneys' fees. In November 2007, Mesa filed a notice of appeal to this ruling, however, it was required to post a $90 million bond as security for the judgment and post judgment interest amount pending the outcome of the litigation. In January 2008, the Bankruptcy Court awarded Hawaiian approximately $3.9 million in attorney's fees and costs through trial, a ruling which Mesa is also appealing. There can be no assurance that Hawaiian will prevail, or that any damages or litigation costs will ultimately be recovered by Hawaiian.

Cost Structure Overhaul

Due to the record high fuel costs and the increasingly competitive environment within the airline industry, during 2007, we implemented measures to focus on and improve other controllable areas of our operating costs, including the areas of salaries and wages, maintenance, ground handling, catering and insurance. We reviewed our third-party contracts in these areas and were able to improve the economics and benefits through renegotiation or changes in vendors. In addition, we outsourced certain areas of our reservations, accounting and information technology functions to third party vendors in the Philippines and India.

Aircraft Purchase Agreement

As part of our mission to grow our business, in January 2008, we signed a purchase agreement with Airbus to acquire six wide-body A330-200 aircraft and six A350XWB (Extra Wide Body) -800 aircraft, with purchase rights for an additional six A330-200s and six A350XWB-800s. This agreement will allow us greater flexibility to expand our long-range fleet and enable us to open new routes to more distant markets on a nonstop basis from Hawaii. In addition, the agreement with Airbus allows us to lease additional aircraft for introduction into our fleet, providing for growth and the replacement of our aircraft in our current fleet as leases expire during this timeframe. The purchase agreement provides for delivery, subject to certain extension rights, of two A330-200 aircraft in calendar 2012; three A330-200 aircraft in calendar 2013; one A330-200 aircraft in calendar 2014; two A350XWB-800 aircraft in calendar 2017; two A350XWB-800 aircraft in calendar 2018; one A350XWB-800 aircraft in calendar 2019; and one A350XWB-800 aircraft in calendar 2020. The purchase agreement also provides Hawaiian with purchase rights with respect to an additional six A330-200 aircraft, exercisable until between calendar 2010 and calendar 2013, and six A350XWB-800 aircraft, exercisable until between calendar 2018 and calendar 2019. In connection with the agreement, Airbus agreed to provide stand-by financing for the acquisition of up to four aircraft, two of which may be A350XWB-800 aircraft if the entire amount of the financing is not used for A330-200 aircraft.

Introduction of Service to Asia

In January 2008, we announced new scheduled and nonstop service between Honolulu and Manila, Philippines. Manila will be our first gateway into Asia and will make us the only U.S. carrier providing nonstop service between Manila and Honolulu. Flights are expected to commence from Honolulu in April 2008, with four flights per week. We will operate the new nonstop route using our Boeing 767-300ER aircraft.

Flight Operations

Our flight operations are based in Honolulu, Hawaii. At the end of 2007, we operated approximately 153 scheduled and charter flights per day with:

- Daily service on our transpacific routes between Hawaii and Los Angeles, Sacramento, San Diego, San Jose, and San Francisco, California; Las Vegas, Nevada; Phoenix, Arizona; Portland, Oregon and Seattle, Washington;

- Daily service on our interisland routes among the four major islands of the State of Hawaii;

- Scheduled service on our South Pacific routes between Hawaii and Pago Pago, American Samoa, and Papeete, Tahiti and Sydney, Australia; and

- Other ad hoc charters.

Fuel

Our operations and financial results are significantly affected by the availability and price of jet fuel. The following table sets forth statistics about Hawaiian's aircraft fuel consumption and cost, including the impact of Hawaiian's fuel hedging program, for the years 2005 through 2007.

Year	Gallons consumed	Total cost, including taxes	Average cost per gallon	Percent of operating expenses
	(in thousands)			
2007	129,865	$ 291,636	$ 2.25	29.9
2006	114,236	$ 241,660	$ 2.12	27.3
2005	111,220	$ 201,212	$ 1.81	24.6

As illustrated by the table above, fuel costs constitute a significant portion of our operating expense. Approximately 50% of our fuel is based on Singapore jet fuel prices and 50% is based on U.S. West Coast jet fuel prices. Fuel prices are volatile; based on gallons expected to be consumed in 2008, for every one cent change in the cost per gallon of jet fuel, our annual fuel expense increases or decreases by approximately $1.3 million. Jet fuel costs represented 29.9% of our operating expenses in 2007. The cost of jet fuel is influenced by international political and economic circumstances, such as unrest in Iraq and other conflicts in the Middle East, OPEC production curtailments, disruption of oil imports, increased demand by China, India and other developing countries, environmental concerns, weather and other unpredictable events. Further increases in jet fuel prices or disruptions in fuel supplies, whether as a result of natural disasters or otherwise, could have a material adverse effect on our results of operations, financial position or liquidity.

We purchase aircraft fuel at prevailing market prices, but seek to manage market risk through execution of a hedging strategy. From time to time, we have entered into various derivative instruments to hedge a portion of our anticipated jet fuel requirements, including jet fuel and heating oil future contracts.

As of December 31, 2007, we hedged approximately 25%, 8% and 1% of our anticipated aircraft fuel needs for the first, second and third quarters of 2008, respectively, primarily utilizing heating oil future contracts. The heating oil future contracts had a weighted average contract price of $2.27 per gallon as of December 31, 2007 and was in a gain position of $3.3 million which is recorded in prepaid expenses and other in the Consolidated Balance Sheet.

Additional information regarding our fuel program is included in Item 7(A) Quantitative and Qualitative Disclosures about Market Risk and in Note 5 to the Consolidated Financial Statements.

Aircraft Maintenance

Our aircraft maintenance programs consist of a series of phased or continuous checks for each aircraft type. These checks are performed at specified intervals measured by calendar months, time flown or by the number of takeoffs and landings, or cycles operated. In addition, we perform inspections, repairs and modifications of our aircraft in response to Federal Aviation Administration (FAA) directives. Checks range from "walk around" inspections before each flight departure to major overhauls of the airframes which can take several weeks to complete. Aircraft engines are subject to phased maintenance programs designed to detect and remedy potential problems before they occur. The service lives of certain airframe and engine parts and components are time or cycle controlled, and such parts and components are replaced or refurbished prior to the expiration of their time or cycle limits.

Code Sharing and Other Alliances

We have marketing alliances with other airlines that provide reciprocal frequent flyer mileage accrual and redemption privileges and code sharing on certain flights (one carrier placing its name and flight numbers, or code, on flights operated by the other carrier). We have code sharing agreements with American Airlines (American), American Eagle, Continental Airlines (Continental), Island Air, Korean Air, Northwest Airlines (Northwest) and US Airways. We also participate in the frequent flyer programs of American, Continental, Northwest, US Airways, Virgin Atlantic Airways and Virgin Blue. American Eagle, Continental, Island Air, Northwest, and Virgin Atlantic participate in our frequent flyer program. These programs enhance our revenue opportunities by:

- providing our customers more value by offering easier access to more travel destinations and better mileage accrual/redemption opportunities;

- gaining access to more connecting traffic from other airlines; and providing members of our alliance partners' frequent flyer programs an opportunity to travel on our system while earning mileage credit in the alliance partners' programs.

Although these programs and services increase our ability to be more competitive, they also increase our reliance on third parties.

Marketing

In an effort to reduce our reliance on travel agencies and lower our distribution costs, we continue to pursue e-commerce initiatives. Since 2003 we have substantially increased the use of our website, *www.HawaiianAirlines.com*, as a distribution channel. During 2007, more than 50 percent of our passenger revenue originated through our website. In addition, we provide internet check-in and self-service kiosks to improve the customer check-in process. Our website offers our customers information on our flight schedules, our *HawaiianMiles* frequent flyer program, the ability to book reservations on our flights or connecting flights with any of our code share partners, the status of our flights as well as the ability to purchase tickets or travel packages. We also publish fares with web-based travel services such as Orbitz, Travelocity, Expedia, Hotwire and Priceline. These comprehensive travel planning websites provide customers with convenient online access to airline, hotel, car rental and other travel services.

Frequent Flyer Program

The *HawaiianMiles* frequent flyer program was initiated in 1983 to encourage and develop customer loyalty. *HawaiianMiles* allows passengers to earn mileage credits by flying with us and our partner carriers. In addition, members earn mileage credits for patronage with our other program partners, including hotels, car rental firms, credit card issuers and long distance telephone companies, pursuant to our exchange partnership agreements. We also sell mileage credits to other companies participating in the program.

HawaiianMiles members have a choice of various awards based on accumulated mileage credits, with most of the awards being for free air travel on Hawaiian. Travel awards range from a 5,000 mile award, which is redeemable for a SuperSaver one-way interisland flight, to a 105,500 mile award, which is redeemable for an anytime one-way first class travel between the mainland U.S. and Sydney, Australia.

Competition

Transpacific

We face multiple competitors on our transpacific routes including major network carriers such as American, Continental, Northwest, Delta Air Lines (Delta), United Airlines (United) and US Airways. ATA Airlines (ATA), a low-cost carrier, offers scheduled service to Hawaii with Southwest Airlines as a code share partner on its routes. In October 2007, Alaska Airlines initiated service to Hawaii. Aloha Airlines (Aloha) provides scheduled service to multiple mainland cities from Hawaii, and various charter companies also provide unscheduled service to Hawaii mostly under public charter arrangements. We believe that transpacific competition is primarily based on fare levels, flight frequency, on-time performance and reliability, name recognition, schedule, affiliations, frequent flyer programs, customer service, aircraft type and in-flight service.

South Pacific

Currently, we are the only provider of nonstop service between Honolulu and each of Pago Pago, American Samoa, and Papeete, Tahiti. We also operate roundtrip flights between Honolulu and Sydney, Australia, competing directly against Qantas Airways and its low-cost affiliate Jetstar on this route.

Interisland

Interisland routes are served by several carriers including Aloha, Island Air, Mesa Airlines (through its *go!* operating division), Pacific Wings and a number of "air taxi" companies. In January 2008, we operated approximately 120 daily interisland flights, which represented approximately 39% of the total daily interisland flights operated by all carriers in that month. We believe that interisland competition is primarily based on fare levels, flight frequency, on-time performance and reliability, name recognition, marketing affiliations, frequent flyer programs, customer service and aircraft type.

Employees

As of December 31, 2007, Hawaiian had 3,415 active employees, consisting of 1,278 flight deck and cabin crew members, 678 customer service representatives, 694 ground support personnel, 184 maintenance and engineering personnel and 581 general management, administrative and clerical personnel. Approximately 86% of our employees are covered by labor agreements with the following organized labor groups:

Represented by	**Employee Group**	**Agreement amendable on(*)**
Air Line Pilots Association (ALPA)	Flight deck crew members	Currently Amendable(**)
Association of Flight Attendants (AFA)	Cabin crew members	Currently Amendable(***)
International Association of Machinists and Aerospace Workers (IAM)	Maintenance and engineering personnel	March 31, 2008
IAM	Customer service representatives	March 31, 2008
Transport Workers Union (TWU)	Flight dispatch personnel	Currently Amendable(**)

(*) Our relations with our labor organizations are governed by Title II of the Railway Labor Act of 1926, pursuant to which act the collective bargaining agreements between us and these organizations do not expire but instead become amendable as of a certain date if either party wishes to modify the terms of the agreement.

(**) Contract negotiations are currently ongoing.

(***) Future meeting dates have been set through the summer of 2008.

Seasonality

Our operations and financial results are subject to substantial seasonal and cyclical volatility, primarily due to leisure and holiday travel patterns. Hawaii is a popular vacation destination for

travelers. Demand levels are typically weaker in the first quarter of the year with stronger demand periods occurring during June, July, August and December. We may adjust our pricing or the availability of particular fares to obtain a profitable passenger load factor depending on seasonal demand differences.

Customers

Our business is not dependent upon a single customer, or a few customers, the loss of any one or more of which would have a material adverse effect on our business.

Regulation

Our business is subject to extensive and evolving federal, state, local and transportation laws and regulations in the destinations we serve. Many of these agencies regularly examine our operations to monitor compliance with applicable laws and regulations. Governmental authorities can enforce compliance with applicable laws and regulations and obtain injunctions or impose civil or criminal penalties in case of violations.

We cannot guarantee that we will be able to obtain or maintain necessary governmental approvals. Once obtained, operating permits are subject to modification and revocation by the issuing agencies. Compliance with these and any future regulatory requirements could require us to make significant capital and operating expenditures. However, most of these expenditures are made in the normal course of business and do not place us at any competitive disadvantage. The primary U.S. federal statutes affecting our business are summarized below:

Industry Regulations

We are subject to the regulatory jurisdiction of the U.S. Department of Transportation (DOT) and the Federal Aviation Administration (FAA). We operate under a Certificate of Public Convenience and Necessity issued by the DOT (authorizing us to provide commercial aircraft service) as well as a Part 121 Scheduled Carrier Operating Certificate issued by the FAA. These certificates may be altered, amended, modified or suspended by the DOT if public convenience and necessity so require, or may be revoked for intentional failure by the holder of the certificate to comply with the terms and conditions of a certificate. The DOT has jurisdiction over international routes and fares, consumer protection policies including baggage liability and denied-boarding compensation, and unfair competitive practices as set forth in the Airline Deregulation Act of 1978. The FAA has regulatory jurisdiction over flight operations generally, including equipment, ground facilities, security systems, maintenance and other safety matters. Pursuant to these regulations, we have established, and the FAA has approved, a maintenance program for each type of aircraft we operate that provides for the ongoing maintenance of our aircraft, ranging from frequent routine inspections to major overhauls.

Maintenance Directives

The FAA approves all airline maintenance programs, including modifications to the programs. In addition, the FAA licenses the mechanics who perform the inspection, repairs and overhauls, as well as the inspectors who monitor the work.

The FAA frequently issues airworthiness directives, often in response to specific incidents or reports by operators or manufacturers, requiring operators of specified equipment types to perform prescribed inspections, repairs or modifications within stated time periods or numbers of cycles. In the last several years, the FAA has issued a number of maintenance directives and other regulations relating to, among other things, cargo compartment fire detection/suppression systems, collision avoidance systems, airborne windshear avoidance systems, noise abatement and increased inspection requirements. We cannot predict what new airworthiness directives will be issued and what new regulations will be adopted, or how our businesses will be affected by any such directives or regulations. We expect that we may incur expenses to comply with new airworthiness directives and regulations.

We believe we are in compliance with all requirements necessary to be in good standing with our air carrier operating certificate issued by the FAA. A modification, suspension or revocation of any of our FAA authorizations or certificates would have a material adverse effect on our operations.

Airport Security

The Aviation and Transportation Security Act (ATSA) mandates that the Transportation Security Administration (TSA) provide for the screening of all passengers and property, including mail, cargo, carry-on and checked baggage, and other articles that will be carried aboard a passenger aircraft. Under the ATSA, substantially all security screeners at airports are now federal employees and significant other elements of airline and airport security are now overseen and performed by federal employees, including security managers, law enforcement officers and federal air marshals. The ATSA also provides for increased security on flight decks of aircraft and requires federal air marshals to be present on certain flights, improved airport perimeter access security, airline crew security training, enhanced security screening of passengers, baggage, cargo, mail, employees and vendors, enhanced training and qualifications of security screening personnel, additional provision of passenger data to U.S. Customs and Border Protection and enhanced background checks. Funding for airline and airport security under the law is primarily provided by a $2.50 per enplanement security service fee ($5.00 one-way maximum fee for multiple segments) which is being collected from passengers by the air carriers and submitted to the government. The TSA also has the authority to impose additional fees on the air carriers if necessary to cover additional federal aviation security costs. Since 2002, the TSA has imposed an Aviation Security Infrastructure Fee on all airlines to assist in the cost of providing aviation security. The fees assessed are based on airlines' actual security costs for the year ended December 31, 2000. The TSA may increase these fees through a rulemaking, but has not yet initiated such a proceeding. The existing fee structure will remain in place until further notice. Furthermore, because of significantly higher security and other costs incurred by airports since September 11, 2001, many airports have significantly increased their rates and charges to airlines, including us, and may do so again in the future. Most airports where we operate impose passenger facility charges of up to $4.50 per segment, subject to an $18 per roundtrip cap.

Environmental and Employee Safety and Health

We are subject to various laws and government regulations concerning environmental matters and employee safety and health in the U.S. and other countries which we do business. Many aspects of airlines' operations are subject to increasingly stringent federal, state and local laws protecting the environment. U.S. federal laws that have a particular impact on us include the Airport Noise and Capacity Act of 1990, the Clean Air Act, the Resource Conservation and Recovery Act, the Clean Water Act, the Safe Drinking Water Act, and the Comprehensive Environmental Response, Compensation and Liability Act. Certain of our operations are also subject to the oversight of the Occupational Safety and Health Administration (OSHA) concerning employee safety and health matters. The U.S. Environmental Protection Agency (EPA), OSHA, and other federal agencies have been authorized to promulgate regulations that impact our operations. In addition to these federal activities, various states have been delegated certain authorities under the aforementioned federal statutes. Many state and local governments have adopted environmental and employee safety and health laws and regulations, some of which are similar to or stricter than federal requirements, such as California. Congress is considering environmental legislation that may impact the cost of operating aircraft within the United States by requiring the purchase of environmental credits to operate engines using carbon-based fuels, such as those used on our aircraft. The form and impact of such legislation cannot be predicted.

Noise Abatement

Under the Airport Noise and Capacity Act, the DOT allows local airport authorities to implement procedures designed to abate special noise problems, provided such procedures do not unreasonably interfere with interstate and foreign commerce, or the national transportation system. Certain airports, including the major airports at Los Angeles, San Diego, San Francisco, San Jose and Sydney, Australia, have established airport restrictions to limit noise, including restrictions on aircraft types to be used and limits on the number of hourly or daily operations or the time of such operations. Local authorities at other airports could consider adopting similar noise regulations. In some instances, these restrictions have caused curtailments in services or increases in operating costs, and such restrictions could limit our ability to expand our operations.

Taxes

The airline industry is subject to various passenger ticket, cargo and fuel taxes, which change from time to time. Certain of these taxes are assessed directly to the air carrier (e.g., excise taxes on fuel); while certain other of these taxes are pass-through taxes (e.g., excise taxes on air transportation of passengers and cargo). Pending in Congress is a proposal to change the current funding mechanism for the FAA air traffic control system and the airport improvement program, which involves the imposition of certain taxes and fees, by introducing a cost-based user fee to be collected from all users of the system, including additional fees charged to users of highly congested airports. In addition, Congress also proposed to authorize the FAA to borrow $5 billion to fund capital improvements necessary to upgrade the air traffic control system and reduce costly delays, which would require additional user fees between 2013 and 2017, and allow airports to increase their passenger facility charges from $4.50 to $6.00 per segment. Congress is considering alternate legislative proposals that will also alter the funding of the FAA and related services including increases in the passenger facility charge (PFC). In the interim, Congress has passed a series of short-term extensions of the existing law. We cannot predict what future actions Congress may take in response to the proposal or whether any such actions will have a material effect on our costs or revenue.

Civil Reserve Air Fleet Program

The U.S. Department of Defense regulates the Civil Reserve Air Fleet (CRAF) and government charters. We have elected to participate in the CRAF program whereby we have agreed to make our Boeing 767 aircraft available to the federal government for use by the U.S. military under certain stages of readiness related to national emergencies. The program is a standby arrangement that lets the U.S. Department of Defense U.S. Transportation Command call on as many as four contractually committed Hawaiian aircraft and crews to supplement military airlift capabilities.

A "Stage 1" mobilization of the CRAF program is the lowest activation level and would require us to make one passenger aircraft available. Under the requirements of a Stage 2 mobilization, an additional passenger aircraft would be required. The remaining aircraft subject to the CRAF program would be mobilized under a Stage 3 mobilization, which for us would involve a total of four passenger aircraft. While the government would reimburse us for the use of these aircraft, the mobilization of aircraft under the CRAF program could have a significant adverse impact on our results of operations. None of our aircraft are presently mobilized under this program.

Owing to the departure of certain key personnel who held the security clearances necessary for our participation in the program, our CRAF contract was temporarily suspended in October 2007. Since then, the necessary security clearances have cleared and our reinstatement into the CRAF program will occur upon final approval of our application package which is currently pending.

Other Regulations

Several aspects of airline operations are subject to regulation or oversight by federal agencies other than the FAA and the DOT. The federal antitrust laws are enforced by the U.S. Department of Justice. The U.S. Postal Service has jurisdiction over certain aspects of the transportation of mail and related services provided by our cargo services. Labor relations in the air transportation industry are generally regulated under the Railway Labor Act. We and other airlines certificated prior to October 24, 1978 are also subject to preferential hiring rights granted by the Airline Deregulation Act to certain airline employees who have been furloughed or terminated (other than for cause). The Federal Communications Commission issues licenses and regulates use of all communications frequencies assigned to us and the airlines generally. There is increased focus on consumer protection both on the federal and state level. The Inspector General of the Department of Transportation is investigating airlines to determine what contractual and other passenger rights airlines will be required to honor. The State of New York has recently passed and implemented a statute governing the rights of passengers encountering long-term on-board delays. We cannot predict the cost of such requirements on our operations.

Additional laws and regulations are proposed from time to time, which could significantly increase the cost of airline operations by imposing additional requirements or restrictions. Laws and regulations also have been considered from time to time that would prohibit or restrict the ownership and/or transfer of airline routes or takeoff and landing slots. Also, the award of international routes to U.S. carriers (and their retention) is regulated by treaties and related agreements between the U.S. and foreign governments, which are amended from time to time. We cannot predict what laws and regulations will be adopted or what changes to international air transportation treaties will be adopted, if any, or how we will be affected by those changes.

ITEM 1A. RISK FACTORS.

In addition to the risks identified elsewhere in this report, the following risk factors apply to our business, results of operations and financial conditions:

Risks Relating to our Business

Our business is highly dependent on the price and availability of fuel.

Aircraft fuel costs are at an all-time high and, for the second year in a row, represents our single largest operating expense. Fuel costs represented 29.9% and 27.3% of Hawaiian's operating expenses for the years ended December 31, 2007 and 2006, respectively. Based on gallons expected to be consumed in 2008, for every one cent change in the cost per gallon of jet fuel, Hawaiian's annual fuel expense increases or decreases by approximately $1.3 million. Prices and availability of aviation fuel are subject to political, economic and market factors that are generally outside of our control. Prices may be affected by many factors including: the impact of political instability and crude oil production, unexpected changes in the availability of petroleum products due to disruptions at distribution systems or refineries, unpredicted increases in demand due to weather or the pace of global economic growth, inventory levels of crude oil and other petroleum products, and the relative fluctuation between the U.S. dollar and other major currencies. Further increases in jet fuel prices or disruptions in fuel supplies, whether as a result of natural disasters or otherwise, could have a material adverse effect on our results of operations, financial position or liquidity.

We operate in an extremely competitive environment.

The domestic airline industry is characterized by low profit margins, high fixed costs and significant price competition. We currently compete with other airlines on our interisland, transpacific and South Pacific routes. The commencement of, or increase in, service on our routes by existing or new carriers could negatively impact our operating results. Many of our competitors are larger and have greater financial resources and name recognition than we do. Either aggressive marketing tactics or a prolonged fare war initiated by one or more of these competitors could adversely affect our financial resources and our ability to compete in these markets.

In recent years, many of our competitors have dramatically reduced operating costs through a combination of operational restructuring, business simplification and vendor and labor negotiations. Several airlines, including United, Delta Air Lines, Northwest, US Airways, ATA and Aloha were able to reduce labor costs, restructure debt and lease agreements, and implement other financial improvements through the bankruptcy process. Other carriers, including American and Continental, have also reduced operating costs outside of the bankruptcy process. With reduced costs, these competitors are more capable of operating profitably in an environment of reduced fares and may, as a result, increase service in our primary markets or reduce fares to attract additional customers. Because airline customers are price sensitive, we cannot assure that we will be able to attract a sufficient number of customers at sufficiently high fares levels to generate profitability, or that we will be able to reduce our operating costs sufficiently to remain competitive with these airlines.

In addition, the Hawaii market has seen growing competition from low-cost carriers (LCC) such as ATA. ATA offers service to Hawaii from a number of West Coast markets and enjoys a marketing and code sharing relationship with Southwest Airlines, providing access to Southwest's customer base and website. Our interisland business also faces low-fare competition following the entrance of *go!* (an operating division of Mesa Airlines) and from Aloha Airlines. We also face the threat of more LCC competition in the future. Furthermore, a more fundamental and immediate consequence for us of the proliferation of LCCs is the response from full service network carriers, which have met the competition from LCCs by significantly reducing costs and adjusting their route networks to divert resources to long-haul markets such as Hawaii, where LCC competition has been less severe. The result is that the network carriers have at the same time reduced their costs of operation and increased capacity in the Hawaii market. Additional capacity to Hawaii, whether from network carriers or LCCs, could result in a decrease in our share of the markets in which we operate, a decline in our yields, or both, which could have a material adverse effect on our results of operations and financial condition.

Our business is affected by the competitive advantages held by network carriers in the transpacific market.

In the transpacific market, most of our competition comes from network carriers such as United, American, Continental, Delta, Northwest and US Airways. Network carriers have a number of competitive advantages relative to Hawaiian that historically have enabled them to obtain higher fares or attract higher customer traffic levels than Hawaiian:

- Network carriers generate passenger traffic from throughout the U.S. mainland. In contrast, Hawaiian lacks a comparable network to feed passengers to its transpacific flights and is therefore more reliant on passenger demand in the cities we serve.

- Most network carriers operate from hubs, which can provide a built-in market of passengers, depending on the economic strength of the hub city and the size of the customer group that frequent the airline. For example, United flows sufficient passenger traffic throughout the U.S. mainland to schedule approximately 11 flights a day, depending on the time of year, between San Francisco and the Hawaiian islands, which gives San Francisco residents wishing to travel to Hawaii a large number of United nonstop flight choices to Oahu, Maui, Kauai and the Big Island, while Hawaiian, without feed traffic, offers only one flight per day. In contrast, Honolulu, the hub of our operations, does not originate much transpacific travel, nor does it have the city strength or potential customer franchise of a city such as Chicago or Dallas necessary to provide Hawaiian with a built-in market. Tickets to Hawaii are for the most part not sold in Honolulu, but rather on the mainland, making Honolulu primarily a destination rather than origin of passenger traffic.

The interisland market continues to experience reduced fares and decreasing demand.

The demand for interisland service has reduced in recent years as other airlines have increased direct service from the mainland to Oahu's neighbor islands, obviating the need for interisland transfers, and as the infrastructure, particularly the availability of goods and services, in the neighbor islands improves. A decline in the level of interisland passenger traffic could have a material adverse effect on our results of operations and financial condition.

In addition, Mesa Airlines, Inc. (Mesa) through its operating division go!, entered the interisland market in June 2006. Since their entry into the market, the interisland market has experienced significant downward pressure on interisland fares, including those charged by Hawaiian. The continued price promotions initiated by go! has resulted in a significant reduction in the revenue generated on our interisland routes since June 2006. We can offer no assurances that the competitive situation will change, or that we will be able to achieve cost reductions sufficient to offset the decline in revenue.

Our business is highly dependent on tourism, and our financial results could suffer if there is a downturn in tourism levels.

Our principal base of operations is in Hawaii and our revenue is linked primarily to the number of travelers (mostly tourists) to, from and among the Hawaiian Islands. Hawaii tourism levels are affected by, among other things, the political and economic climate in Hawaii's main tourism markets, the availability of hotel accommodations, promotional spending by competing destinations, the popularity of Hawaii as a tourist destination relative to other vacation destinations, and other global factors, including natural disasters, safety and security. From time to time, various events and industry specific problems such as strikes have had a negative impact on tourism in Hawaii. In addition, the potential or actual occurrence of terrorist attacks, the wars in Afghanistan and Iraq, and the threat of other negative world events has had and may in the future again have a material adverse effect on Hawaii tourism. No assurance can be given that the level of passenger traffic to Hawaii will not decline in the future. A decline in the level of Hawaii passenger traffic could have a material adverse effect on our results of operations and financial condition.

Our business is subject to substantial seasonal and cyclical volatility.

Our profitability and liquidity are sensitive to seasonal volatility primarily due to leisure and holiday travel patterns. Hawaii is a popular vacation destination. Demand is typically stronger during June, July, August and December and considerably weaker at other times of the year. Our results of operations generally reflect this seasonality, but are also affected by numerous other factors that are not necessarily seasonal. These factors include the extent and nature of fare changes and competition from other airlines, changing levels of operations, national and international events, fuel prices and general economic conditions, including inflation. Because a substantial portion of both personal and business airline travel is discretionary, the industry tends to experience adverse financial results in general economic downturns. Additionally, airlines generally require substantial liquidity to sustain continued operations under most conditions.

The concentration of our business in Hawaii, and between Hawaii and the western United States, provides little diversification of our revenue.

Most of our revenue is generated from air transportation between the islands of Hawaii and the western United States, or within the Hawaiian islands. Many of our competitors, particularly major network carriers with whom we compete in the transpacific business, enjoy greater geographical diversification of their revenue. A reduction in the level of demand for travel within Hawaii, or to Hawaii from the western United States or the U.S. mainland in general, or an increase in the level of industry capacity on these routes may reduce the revenue we are able to generate and adversely affect our financial results. As these routes account for a significantly higher proportion of our revenue than they do for many of our competitors, such a reduction would have a relatively more adverse impact on our financial results.

Our failure to successfully implement our growth strategy and related cost-reduction goals could harm our business.

Our growth strategy involves purchasing additional aircraft, expanding into new markets and increasing the frequency of flights to markets that we currently serve. It is critical that we achieve our growth strategy in order for our business to attain economies of scale and to sustain or improve our results of operations. If we are unable to hire and retain skilled personnel or to secure the required equipment and facilities, or if we are not able to otherwise successfully implement our growth strategy, our business and operations could be adversely affected.

We continue to strive toward aggressive cost-reduction goals that are an important part of our business strategy of offering the best value to passengers through competitive fares while at the same time achieving acceptable profit margins and return on capital. We believe having a lower cost structure better positions us to be able to fund our growth strategy and take advantage of market opportunities. If we are unable to further reduce our non-fuel unit costs, we likely will not be able to achieve our growth plan and our financial results may suffer.

Our share price could be subject to extreme price fluctuations, and stockholders could have difficulty trading shares.

The market price for our common stock has been and may continue to be subject to significant price fluctuations. Price fluctuations could be in response to operating results, changes in the competitive activity in the markets we serve, changes in jet fuel prices, additional bankruptcy filings by airlines, increased government regulation and general market conditions. Additionally, the stock market in recent years has experienced extreme price and volume fluctuations that often have been unrelated to the operating performance of individual companies. These market fluctuations, as well as general economic conditions, may affect the price of our common stock.

In the past, securities class action litigation has often been instituted against a company following periods of volatility in the company's stock price. This type of litigation, if filed against us, could result in substantial costs and divert our management's attention and resources. In addition, the future sale of a substantial number of shares of common stock by us or by our existing stockholders may have an adverse impact on the market price of the shares of common stock. There can be no assurance that the trading price of our common stock will remain at or near its current level.

We are increasingly dependent on technology to operate our business.

We depend heavily on computer systems and technology, such as flight operations systems, communications systems, airport systems and reservations systems to operate our business. Any substantial or repeated failures of our computer or communications systems could impact our customer service, compromise the security of customer information, result in the loss of important data, loss of revenue, and increased costs, and generally harm our business. Like all companies, our computer and communication systems may be vulnerable to disruptions due to events beyond our control, including natural disasters, power or equipment failures, terrorist attacks, equipment or software failures, computer viruses and hackers. There can be no assurance that the measures we have taken to reduce the adverse effects of certain potential failures or disruptions are adequate to prevent or remedy disruptions of our systems.

We are subject to various risks as a result of our fleet concentration in Boeing 717s and Boeing 767s.

Our fleet consists entirely of Boeing 717 and Boeing 767 aircraft. In 2006, Boeing Commercial Airplanes (Boeing) discontinued the production of the Boeing 717 aircraft model. In addition, the rate of production of Boeing 767 aircraft has significantly decreased. As a result, the availability of parts and maintenance support for Boeing 717 and Boeing 767 aircraft may become limited in future years. Additionally, we may experience increased costs in later years associated with parts acquisition for and/or maintenance support of these aircraft. Other carriers operating with a more diversified fleet may be better able to withstand such an event, if such an event occurred in the future.

We are highly reliant on third-party contractors to provide certain facilities and services for our operations, and termination of our third-party agreements could have a potentially adverse effect on our financial results.

We have agreements with Air New Zealand, US Airways, American, Continental, Delta, Northwest, Island Air, and certain other contractors, to provide certain facilities and services required for our operations. These facilities and services include aircraft maintenance, code sharing, reservations, computer services, accounting, frequent flyer programs, passenger processing, ground facilities, baggage and cargo handling and personnel training. Our reliance on these third parties to continue to provide these important aspects of our business impacts our ability to conduct our business effectively.

Maintenance agreements. We have maintenance agreements with Delta, Air New Zealand Engineering Services, the Pratt & Whitney division of United Technologies Corporation, Rolls Royce, Honeywell and others to provide maintenance services for our aircraft, engines, parts and equipment. If one or more of our maintenance providers terminate their respective agreements, we would have to seek alternative sources of maintenance service or undertake the maintenance of these aircraft or components ourselves. We cannot assure you that we would be able to do so on a basis that is as cost-effective as our current maintenance arrangements.

Code sharing agreements. We have code sharing agreements with American, American Eagle, Continental, Island Air, Korean Air, Northwest and US Airways. We also participate in the frequent flyer programs of American, Continental, Northwest, US Airways, Virgin Atlantic Airways and Virgin Blue. American Eagle, Continental, Island Air, Northwest, and Virgin Atlantic participate in our frequent flyer programs. Although these agreements increase our ability to be more competitive, they also increase our reliance on third parties.

Fuel agreements. We have entered into a jet fuel sale and purchase contract to provide us with a substantial amount of jet fuel, which we anticipate will be sufficient to meet all of our jet fuel needs for flights originating in Honolulu during 2008. If the fuel provider terminates its agreement with us, we would have to seek an alternative source of jet fuel. We cannot assure you that we would be able to do so on a basis that is as cost-effective as our current arrangement. We have agreements with vendors at all airports we serve to provide us with fuel. Should any of these vendors cease to provide service to Hawaiian for whatever reason, our operations could be adversely affected.

Outsourcing agreements. We have entered into agreements with a third-party contractor in India to provide certain accounting and information technology services as well as with a third-party contractor in the Philippines to provide reservation call center functions. Our agreements may materially fail to meet our service level and performance standards and commitments to our customers. Any failure of these providers to adequately perform their service obligations, or other unexpected interruptions of services, may reduce our revenue and increase our expenses, or prevent us from operating our flights profitably and providing other services to our customers. In addition, our business and financial performance could be materially harmed if our customers believe that our services are unreliable or unsatisfactory. In addition, to the extent we are unable to maintain the outsourcing or subcontracting of certain services for our business, we would incur substantial costs, including costs associated with hiring new employees, in order to return these services in-house.

Travel agency and wholesale agreements. In 2007, passenger ticket sales from travel agencies and wholesalers constituted approximately 27% of our total operating revenue. Travel agents and wholesalers generally have a choice between one or more airlines when booking a customer's flight. Accordingly, any effort by travel agencies or wholesalers to favor another airline or to disfavor us could adversely affect our revenue. Although we intend to maintain favorable relations with travel agencies and wholesalers, there can be no assurance that they will continue to do business with us. The loss of any one or several travel agencies and or wholesalers may have an adverse effect on operations.

We are dependent on satisfactory labor relations.

Labor costs are a significant component of airline expenses and can substantially impact an airline's results. Labor and related benefit costs represented approximately 22.8% and 25.8% of Hawaiian's operating expenses for the years ended December 31, 2007 and 2006, respectively. We may experience pressure to increase wages and benefits for our employees in the future. We may make strategic and operational decisions that require the consent of one or more of our labor unions. We cannot assure you that these labor unions will not require additional wages, benefits or other consideration in return for their consent. In addition, we have entered into collective bargaining agreements with our pilots, mechanical group employees, clerical group employees, flight attendants, dispatchers and network engineers which are either currently amendable or become amendable during 2008. We cannot assure you that future agreements with our employees' unions will be on terms in line with our expectations or comparable to agreements entered into by our competitors, and any future agreements may increase our labor costs or otherwise adversely affect us. If we are unable to reach an agreement with any unionized work group, we may be subject to future work interruptions and/or stoppages, which may hamper or halt operations.

Our operations may be adversely affected if we are unable to attract and retain key executives, including our Chief Executive Officer.

We are dependent on our ability to attract and retain key executives, particularly Mark B. Dunkerley, our Chief Executive Officer, whose employment agreement was recently amended to provide for a three-year term of employment ending on November 8, 2010. Competition for such personnel in the airline industry is highly competitive, and we cannot be certain that we will be able to retain our Chief Executive Officer or other key executives or that we can attract other qualified personnel in the future. Any inability to retain our Chief Executive Officer and other key executives, or attract and retain additional qualified executives, could have a negative impact on our operations.

Our substantial debt could adversely affect our financial condition.

As of December 31, 2007, we had substantial indebtedness, including $117.9 million of debt related to the acquisition in December 2006 of three previously leased Boeing 767-300ER aircraft, $45.0 million of the Term A Credit Facility scheduled to mature in December 2010, a $62.5 million Term B Credit Facility scheduled to mature in March 2011 and $18.3 million of notes payable to the Internal Revenue Service (IRS) that mature in June 2011. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources."

The requirement to service our debt makes us more vulnerable to general adverse economic conditions, requires us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing the availability of our cash flow for operations and other purposes, limits our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate, and places us at a competitive disadvantage compared to any other competitor that has less debt than we do.

Our agreement to purchase Airbus A330-200 and A350XWB-800 aircraft significantly increases our future financial commitments and operating costs and creates implementation risk associated with the change from our current Boeing 767-300 fleet.

In January 2008, we reached an agreement with Airbus to purchase six A330-200 aircraft beginning in 2012 and six A350XWB-800 aircraft beginning in 2017 with additional purchase rights to acquire an additional six aircraft of each type. These commitments substantially increase our future capital spending requirements and may require us to substantially increase our level of debt in future years. There can be no assurance that we will be able to raise capital to finance these requirements or that such financing can be obtained on favorable terms or at all.

The addition of the Airbus aircraft to our fleet will require us to incur additional costs related to training of crews and ground employees, the addition of these aircraft types to our operating certificate and other implementation activities. There can be no assurance that we will be able to recover these costs through the future operation of these aircraft in our fleet or that we will not experience delays in the implementation process which could adversely affect our operations or financial performance.

Delays in scheduled aircraft deliveries or other loss of fleet capacity may adversely impact our operations and financial results.

The success of our business depends on, among other things, the ability to operate a certain number and type of aircraft, including the introduction of the Airbus aircraft. If for any reason we were unable to secure deliveries of the Airbus aircraft on contractually scheduled delivery dates and successfully introduce these aircraft into our fleet, this could have a negative impact on our business, operations and financial performance. Our failure to integrate the Airbus aircraft into our fleet as planned might require us to seek extensions of the terms for some leased aircraft. Such unanticipated extensions may require us to operate existing aircraft beyond the point of which it is economically optimal to retire them, resulting in increased maintenance costs. Additionally, aircraft lease rates have increased subsequent to the rates applicable when several of our existing leases were established. If new aircraft orders are not filled on a timely basis, we could face higher monthly rental rates on our existing Boeing aircraft leases.

Certain of our financing agreements and our credit card processing agreement include financial covenants that impose substantial restrictions on our financial and business operations.

The terms of our Term A and Term B Credit Facilities with Wells Fargo Foothill, Inc. and Canyon Capital Advisors, LLC, respectively, restrict our ability to, among other things, incur additional indebtedness, pay dividends or make other payments on investments, consummate asset sales or similar transactions, create liens, merge or consolidate with any other person, or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of our assets. The terms of the agreements contain covenants that require us to meet certain financial tests to avoid a default that might lead to early termination of the facilities. Moreover, these agreements contain covenants that require us to meet certain financial tests. If we were not able to comply with these covenants, our outstanding obligations under these facilities could be accelerated and become due and payable immediately.

Under our bank-issued credit card processing agreements, our credit card processors hold back proceeds from advance ticket sales 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 consolidated balance sheet, totaled $38.7 million at December 31, 2007. Funds are subsequently made available to us as air travel is provided. The agreement with Hawaiian's largest credit card processor also contains financial triggers which provide, among other things, for the level of credit card holdback to be adjusted based on Hawaiian's level of unrestricted cash and short-term investments and levels of debt service coverage and operating income. As of December 31, 2007, the holdback was at the contractual level of 40% of the applicable credit card air traffic liability. If these specific financial triggers are not met in the future, the holdback could increase to an amount up to 100% of the applicable credit card air traffic liability, which would adversely affect our liquidity. Depending on our unrestricted cash balance at the time, the holdback of a significant amount of cash collateral could cause our unrestricted cash and short-term investments balance to fall below the minimum balance requirement under our Term A and Term B Credit Facilities, resulting in defaults under those facilities.

Our business has substantial operating leverage.

The airline industry operates on low gross profit margins and revenue that varies substantially in relation to fixed operating costs. Due to high fixed costs, the expenses of each flight do not vary proportionately with the number of passengers carried, but the revenue generated from a particular flight is directly related to the number of passengers carried. Accordingly, a decrease in the number of passengers carried would cause a corresponding decrease in revenue (if not offset by higher fares), and it may result in a disproportionately greater decrease in profits. An increase in the number of passengers carried would have the opposite effect.

Our obligations for funding our defined benefit pension plans are significant and are affected by factors beyond our control.

Hawaiian sponsors three defined benefit pension plans, as well as a separate plan to administer the pilots' disability benefits. Two of the pension plans were frozen effective October 1, 1993 and Hawaiian's collective bargaining agreement with our pilots provides that pension benefit accruals for certain pilots will be frozen effective January 1, 2008. Nevertheless, our unfunded pension and disability obligation was $47.2 million as of December 31, 2007. Hawaiian made scheduled contributions of $11.6 million and $13.1 million for 2007 and 2006, respectively, and anticipates a minimum funding requirement of $5.7 million to the defined benefit pension and disability plans during 2008. The timing and amount of funding requirements depend upon a number of factors, including labor negotiations and changes to pension plan benefits as well as factors outside our control, such as asset returns, interest rates and changes in pension laws.

Airline strategic combinations or industry consolidation could have an impact on our competitive environment in ways yet to be determined.

The environment in the airline industry changes from time to time as carriers implement varying strategies in pursuit of profitability, including consolidation to expand operations and increase market strength and entering into global alliance arrangements. Similarly, the merger, bankruptcy or reorganization of one or more of our competitors may result in rapid changes to the identity of our competitors in particular markets, a substantial reduction in the operating costs of our competitors or the entry of new competitors into some or all of the markets we serve or currently are seeking to serve. We are unable to predict exactly what effect, if any, changes in the strategic landscape might have on our business, financial condition and results of operations.

Our reputation and financial results could be harmed in the event of adverse publicity.

Our customer base is broad and our business activities have significant prominence, particularly in the state of Hawaii and the other markets we serve. Consequently, negative publicity resulting from real or perceived shortcomings in our customer service, employee relations or business conduct could negatively affect the public image of our Company and the willingness of customers to purchase services from us, which could affect our revenue performance and financial results.

Our financial results may be negatively affected by increased airport rent rates and landing fees at the airports within the State of Hawaii as a result of the modernization plan.

The state of Hawaii has begun to implement a modernization plan encompassing the airports we serve within the state. As a result of the modernization plan, we expect our costs of operations to increase in future years (beginning in 2008) as landing fees and airport rent rates are increased to fund the modernization program. Additionally, we expect the costs for our interisland operations to increase proportionately more than the costs related to our transpacific and international operations because of phased adjustments to the airport's funding mechanism, which will result in the cost changes having a proportionately higher impact on us than our competitors which do not have significant interisland operations. We can offer no assurance that we will be successful in offsetting these cost increases through other cost reductions or increases in our revenue and therefore can offer no assurance that our future financial results will not be negatively affected by them.

Risks Relating to the Airline Industry

The continued threat of terrorist attacks may adversely impact our business.

Since the terrorist attacks of September 11, 2001, the airline industry has experienced profound changes, including substantial revenue declines and cost increases, which have resulted in industry-wide liquidity issues. Additional terrorist attacks, even if not made directly on the airline industry, or the fear of such attacks (including elevated national threat warnings or selective cancellation or redirection of flights due to terror threats such as the August 2006 terrorist plot targeting multiple U.S. airlines), could further adversely impact us and the airline industry. Increased regulation governing carry-on baggage and passenger travel may further increase passenger inconvenience and reduce the demand for air travel. In addition, other world events and developments may further decrease demand for air travel, and could result in further increased costs for us and the airline industry. We are currently unable to estimate the impact of any future terrorist attacks. However, any future terrorist attacks could have a material adverse impact on our business, financial condition and results of operations, and on the airline industry in general.

The airline industry is subject to extensive government regulation, and new regulations could have an adverse effect on our financial condition and results of operations.

Airlines are subject to extensive regulatory requirements that result in significant costs. Additional laws, regulations, taxes and airport rates and charges have been proposed from time to time that could significantly increase the cost of airline operations or reduce revenue. For example, the ATSA, which became law in November 2001, mandates the federalization of certain airport security procedures and imposes additional security requirements on airlines. The FAA from time to time issues directives and other regulations relating to the maintenance and operation of aircraft that require significant expenditures. Some FAA requirements cover, among other things, retirement of older aircraft, security measures, collision avoidance systems, airborne windshear avoidance systems, noise abatement and other environmental concerns, commuter aircraft safety and increased inspections and maintenance procedures to be conducted on older aircraft. We expect to continue incurring expenses to comply with the FAA's regulations.

Many aspects of airlines' operations also are subject to increasingly stringent federal, state, local and foreign laws protecting the environment. Governments globally are increasingly focusing on the environmental impact caused by the consumption of fossil fuels and as a result have proposed or enacted legislation which may increase the cost of providing airline service or restrict its provision. We expect the focus on environmental matters to increase. Future regulatory developments in the U.S. and abroad could adversely affect operations and increase operating costs in the airline industry. For example, potential future actions that may be taken by the U.S. government, foreign governments, or the International Civil Aviation Organization to limit the emission of greenhouse gases by the aviation sector are unknown at this time, but the effect on us and our industry is likely to be adverse and could be significant. In addition, the ability of U.S. carriers to operate international routes is subject to change because the applicable arrangements between the U.S. and foreign governments may be amended from time to time, or because appropriate slots or facilities are not available. We cannot predict the impact that future laws or regulations may have on our operations or that regulations enacted in the future will not adversely affect us.

Our operations may be adversely impacted by increased security measures mandated by regulatory authorities.

Because of significantly higher security and other costs incurred by airports since September 11, 2001, many airports significantly increased their rates and charges to air carriers, including us, and may do so again in the future. Additionally, since September 11, 2001, the Department of Homeland Security (DHS) and the TSA and other agencies within the DHS have implemented numerous security measures that affect airline operations and costs, and are likely to implement additional measures in the future. The DHS has announced greater use of passenger data for evaluating security measures to be taken with respect to individual passengers, expanded use of federal air marshals on flights (thus displacing revenue passengers), investigating a requirement to install aircraft security systems (such as active devices on commercial aircraft as countermeasures against portable surface to air missiles) and expanded cargo and baggage screening. The TSA has imposed additional measures affecting the contents of baggage that may be carried on an aircraft in response to the discovery in August 2006 of a terrorist plot targeting several U.S. airlines. The TSA and other security regulators may impose other measures as necessary to respond to future threats. A large part of the costs of these security measures is borne by the airlines and their passengers, and we believe that these and other security measures have the effect of increasing the inconvenience of air transportation and thus decreasing traffic. Security measures imposed by the U.S. and foreign governments subsequent to September 11, 2001 have increased our costs, and additional measures taken in the future may result in similar adverse effects. We cannot provide assurance that additional security requirements or security-related fees enacted in the future will not adversely affect us.

Our insurance costs are susceptible to significant increases, and further increases in insurance costs or reductions in coverage could have an adverse effect on our financial results.

We carry types and amounts of insurance customary in the airline industry, including coverage for general liability, passenger liability, property damage, aircraft loss or damage, baggage and cargo liability and workers' compensation. We are required by the DOT to carry liability insurance on each of our aircraft. We currently maintain commercial airline insurance with a major group of independent insurers that regularly participate in world aviation insurance markets including public liability insurance and coverage for losses resulting from the physical destruction or damage to our aircraft. However, there can be no assurance that the amount of such coverage will not be changed, or that we will not bear substantial losses from accidents. We could incur substantial claims resulting from an accident in excess of related insurance coverage that could have a material adverse effect on our results of operations and financial condition.

After the events of September 11, 2001, aviation insurers significantly reduced the maximum amount of insurance coverage available to commercial air carriers for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events (war-risk coverage). At the same time, they significantly increased the premiums for such coverage as well as for aviation insurance in general. As a result, war-risk insurance in amounts necessary for our operations, and at premiums that are not excessive, is not currently available in the commercial insurance market and we have therefore purchased from the U.S. government third-party war-risk insurance coverage. This coverage has been extended by the FAA under the Homeland Security Act to March 30, 2008, after which time it is anticipated that the federal policy will be extended unless insurance for war-risk coverage in necessary amounts is available from independent insurers or a group insurance program is instituted by the U.S. carriers and the DOT. However, there can be no assurance that the federal policy will be renewed or an alternative policy can be obtained in the commercial market at a reasonable cost. Although our overall hull and liability insurance costs have been reduced since the post-2001 increases, there can be no assurances that these reductions would be maintained in the event of future increases in the risk, or perceived risk, of air travel by the insurance industry, or a reduction of capital flows into the aviation insurance market.

We are at risk of losses and adverse publicity in the event of an aircraft accident.

We are exposed to potential losses that may be incurred in the event of an aircraft accident. Any such accident could involve not only the repair or replacement of a damaged aircraft and its consequential temporary or permanent loss of revenue, but also significant potential claims of injured passengers and others. In addition, any aircraft accident or incident could cause a public perception that we are less safe or reliable than other airlines, which would harm our business.

We are at risk of losses in the event of an outbreak of diseases.

Public health threats, such as avian influenza (the Bird Flu), Severe Acute Respiratory Syndrome (SARs) and other highly communicable diseases, outbreaks of which have already occurred in various parts of the world, could adversely impact our operations and the worldwide demand for air travel. In 2003, there was an outbreak of SARS, which primarily had an adverse impact on our Pacific operations. If there were another outbreak of a disease (such as SARS or the Bird Flu) that adversely affects travel behavior, it could have a material adverse impact on our operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

Aircraft

As of December 31, 2007, our operating fleet consisted of 14 Boeing 767-300ER and four Boeing 767-300 aircraft to service our transpacific, South Pacific and substantially all of our charter routes, and 11 Boeing 717-200 aircraft to service our interisland routes. The following table summarizes our total fleet as of December 31, 2007:

Aircraft Type	Leased	Owned	Seating Capacity (Per Aircraft)	Simple Average Age (In Years)
767-300ER	11	3	252 - 264	9
767-300		4	264	21
717-200	11		123	7
Total	22	7		

See Note 7 to our consolidated financial statements for additional information regarding our aircraft lease agreements.

In January 2008, we signed a purchase agreement with Airbus, providing for the delivery of twelve new aircraft over the next 13 years, with purchase rights for an additional twelve aircraft. Our firm orders consist of the following:

	A330-200 Aircraft	A350XWB-800 Aircraft
Delivery Year	**Firm Order**	**Firm Order**
2012	2	
2013	3	
2014	1	
2017		2
2018		2
2019		1
2020		1
	6	6

Ground Facilities

Hawaiian's principal terminal facilities, cargo facilities, hangar and maintenance facilities are located at the Honolulu International Airport (HNL). The majority of the facilities at HNL are leased on a month-to-month basis. Hawaiian is also charged for the use of terminal facilities at the five major interisland airports owned by the State of Hawaii. Some terminal facilities, including gates and holding rooms, are considered by the State of Hawaii to be common areas and thus are not exclusively controlled by Hawaiian. Other facilities, including station managers' offices, Premier Club lounges and operations support space, are considered exclusive-use space by the State of Hawaii.

Hawaiian has signatory agreements with the Port of Portland and McCarran International Airport, and a facilities sharing agreement with the City of Phoenix for terminal space, and operating agreements with the Port of San Diego, McCarran International Airport in Las Vegas, Nevada, the City of Los Angeles, the County of Sacramento and Societe D'Equipment De Tahiti Et Des Iles (SETIL) for Faa'a International Airport in Papeete, French Polynesia. Hawaiian has a right of entry agreement with the Ted Stevens Anchorage International Airport. Hawaiian is a shareholder in LAX Two in Los Angeles. Hawaiian has a License Agreement with Jet Blue Airlines in San Diego, California and Phoenix, Arizona, for the use of ticket counter space and other operational areas. Hawaiian has lease agreements with the Government of American Samoa in Pago Pago, and Sydney Airport Corporation, Limited, in Sydney, Australia. Hawaiian also has agreements in place for alternate landing sites with the Port of Moses Lake, King County (Boeing Field) in Seattle, Ontario International Airport in California and Fairbanks International Airport in Alaska.

The table below sets forth the airport locations Hawaiian utilizes pursuant to various lease agreements:

Name of Airport	Location	
Ted Stevens Anchorage International Airport	Anchorage	Alaska
Phoenix Sky Harbor International Airport	Phoenix	Arizona
Los Angeles International Airport	Los Angeles	California
Sacramento International Airport	Sacramento	California
San Diego International Airport	San Diego	California
San Francisco International Airport	San Francisco	California
Hilo International Airport	Hilo	Hawaii
Norman Y. Mineta San Jose International Airport	San Jose	California
Honolulu International Airport	Honolulu	Hawaii
Kahului Airport	Kahului	Hawaii
Kona International Airport	Kona	Hawaii
Lihue Airport	Lihue	Hawaii
McCarran International Airport	Las Vegas	Nevada
Portland International Airport	Portland	Oregon
Seattle-Tacoma International Airport	Seattle	Washington
Pago Pago International Airport	Pago Pago	American Samoa
Faa'a International Airport	Papeete	Tahiti
Sydney Airport	Sydney	Australia

Our corporate headquarters are located in leased premises adjacent to the Honolulu International Airport. The lease for this space expires in November 2016. In January 2006, Hawaiian terminated two ticket office leases in Hawaii, one on the island of Oahu and one on the island of Hawaii. In January 2007, we closed our Tokyo sales office. We also lease sales as well as cargo sales offices in San Francisco, Seattle, Los Angeles, Papeete and Tokyo. The leases for these offices expire during 2009.

ITEM 3. LEGAL PROCEEDINGS.

Mesa Air Group

On February 13, 2006, Hawaiian filed a complaint against Mesa Air Group, Inc. (Mesa) in the Bankruptcy Court for the District of Hawaii, Hawaiian Airlines, Inc. v. Mesa Air Group, Inc., Adversary Proceeding No. 06-90026 (Bankr. D. Haw.). The complaint alleged that Mesa misused confidential and proprietary information that was provided by Hawaiian to Mesa in April and May 2004, pursuant to a process that was established by the Bankruptcy Court to facilitate Hawaiian's efforts to solicit potential investment in connection with a Chapter 11 plan of reorganization. On September 25, 2007 the case went to trial. After two days of hearing, the Court ruled that Mesa had failed to return or destroy the proprietary information it had received from Hawaiian, had misused that information, and had relied on that information as a substantial factor in its decision to enter the Hawaii market. During the trial that followed, the remaining issues for Hawaiian to prove were that the information Mesa misused was confidential and not publicly-available, and the extent Hawaiian was damaged by Mesa's malfeasance. Hawaiian sought $173 million in damages, plus prejudgment interest and attorney's fees and costs, and injunctive relief. On October 30, 2007, the Bankruptcy Court ruled in favor of Hawaiian, awarding Hawaiian $80 million for damages incurred to date and ordering that Mesa pay Hawaiian post-judgment interest and its cost of litigation and reasonable attorneys' fees. In November 2007, Mesa filed a notice of appeal to this ruling and was required to post a $90 million bond as security for the judgment and post judgment interest amount pending the outcome of the litigation. In January 2008, the Bankruptcy Court ruled that Hawaiian was entitled to $3.9 million in attorney's fees and costs for services provided through trial. Mesa has since appealed that award. The appeal of the trial verdict is now pending before the U.S. District Court (District of Hawaii) with briefing to be completed by April 25, 2008 and oral arguments to be heard on May 12, 2008. There can be no assurance that Hawaiian will prevail or that any damages or litigation costs will ultimately be recovered by Hawaiian.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of the Company's security holders during the last quarter of its fiscal year ended December 31, 2007.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is traded on the American Stock Exchange (Amex) under the symbol "HA." The following table sets forth the range of high and low sales prices of our common stock as reported on the Amex for the periods indicated.

	High	Low
2007		
First Quarter	$ 6.45	$ 3.12
Second Quarter	4.15	2.97
Third Quarter	4.40	2.60
Fourth Quarter	5.30	4.02
2006		
First Quarter	$ 5.90	$ 3.50
Second Quarter	5.50	2.87
Third Quarter	4.75	2.73
Fourth Quarter	5.40	3.75

Holders

There were 1,139 shareholders of record of our common stock as of January 31, 2008, which does not reflect those shares held beneficially or those shares held in "street" name. On January 31, 2008, the closing price reported on the Amex for our common stock was $5.07 per share. Past price performance is not indicative of future price performance.

Dividends and Other Restrictions

We paid no dividends in 2006 or 2007. Restrictions contained in our financing agreements and certain of our aircraft lease agreements limit our ability to pay dividends on our common stock. Accordingly, we do not anticipate paying periodic cash dividends on our common stock for the foreseeable future. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources".

United States law prohibits non-U.S. citizens from owning more than 25% of the voting interest of a U.S. air carrier or controlling a U.S. air carrier. Our certificate of incorporation prohibits the ownership or control of more than 25% (to be increased or decreased from time to time, as permitted under the laws of the U.S.) of our issued and outstanding voting capital stock by persons who are not "citizens of the U.S." As of December 31, 2007, we believe we are in compliance with the law as it relates to voting stock held by non-U.S. citizens.

Stockholder Return Performance Graph

The following graph compares cumulative total stockholder return on our common stock, the S&P 500 Index and the AMEX Airline Index from December 31, 2002 to December 31, 2007. The comparison assumes $100 was invested on December 31, 2002 in our common stock and each of the foregoing indices and assumes reinvestment of dividends before consideration of income taxes. We have paid no dividends on our common stock.

	12/31/2002	12/31/2003	12/31/2004	12/31/2005	12/31/2006	12/31/2007
Hawaiian Holdings Common Stock	$ 100	$ 147	$ 335	$ 196	$ 240	$ 250
S & P 500 Index	100	129	143	150	173	183
AMEX Airline Index (1)	100	158	155	140	150	88

(1) As of December 31, 2007, the AMEX Airline Index consisted of AirTran Holdings Inc., Alaska Air Group Inc., AMR Corporation, Continental Airlines, Inc., Delta Airlines, Inc., ExpressJet Holdings Inc., Frontier Airlines Holdings Inc., JetBlue Airways Corporation, Mesa Air Group Inc., Northwest Airlines, Inc., Sky West Inc., Southwest Airlines Co., US Airways Group, Inc. and UAL Corporation.

The stock performance depicted in the graph above is not to be relied upon as indicative of future performance. The stock performance graph shall not be deemed to be incorporated by reference into any of our filings under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate the same by reference, nor shall it be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulations 14A or 14C or to the liabilities of Section 18 of the Exchange Act.

Equity Compensation Plan Information

The following table provides the specified information as of December 31, 2007 with respect to compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance, aggregated by all compensation plans previously approved by our security holders, and by all compensation plans not previously approved by our security holders:

Plan Category(1)	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders	3,196,432	$ 4.27	3,112,568
Equity compensation plans not approved by security holders	none		none
Total	3,196,432	$ 4.27	3,112,568

(1) Table does not include 1.5 million shares of our Common Stock which were distributed to Hawaiian's employees pursuant to the Hawaiian Airlines, Inc. Stock Bonus Plan in 2006 and 2007.

Hawaiian Airlines, Inc. Stock Bonus Plan

On June 2, 2005, we adopted the Hawaiian Airlines, Inc. Stock Bonus Plan, under which 1.5 million shares of our Common Stock were to be granted to certain Hawaiian employees as compensation for services rendered through December 31, 2006. On February 15, 2006, May 1, 2006, and May 1, 2007, 274,700, 608,100 and 617,200 shares, respectively, were distributed to Hawaiian's employees, which shares had a fair value of approximately $1.6 million, $2.4 million, and $3.5 million, respectively. The $1.6 million distributed on February 15, 2006 and the $3.5 million distributed on May 1, 2007 were based on the closing market price per share on June 2, 2005 and the $2.4 million distributed on May 1, 2006 was based on the closing market price on December 31, 2005. See further discussion in Note 10 to the Consolidated Financial Statements.

ITEM 6. SELECTED FINANCIAL DATA.

The Selected Financial Data should be read in conjunction with our accompanying audited consolidated financial statements and the notes related thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" below.

Hawaiian Holdings, Inc.
Selected Financial Data

	Year ended December 31,				
	2007	**2006**	**2005(a)**	**2004(b)**	**2003(c)**
	(in thousands, except per share data)				
Summary of Operations:					
Operating revenue	$ 982,555	$ 888,047	$ 508,767	$	$ 157,643
Operating expenses	975,721	887,541	506,737	7,266	172,736
Operating income (loss)(e)	6,834	506	2,030	(7,266)	(15,093)
Net income (loss)(d)	7,051	(40,547)	(12,366)	(7,262)	(16,998)
Net Income (Loss) Per Common Stock Share:					
Basic	$ 0.15	$ (0.86)	$ (0.31)	$ (0.24)	$ (0.60)
Diluted	0.15	(0.86)	(0.31)	(0.24)	(0.60)
Weighted Average Number of Common Stock Shares Outstanding:					
Basic	47,203	47,153	39,250	29,651	28,435
Diluted	47,460	47,153	39,250	29,651	28,435
Common Shares Outstanding at End of Year	47,241	46,584	45,349	30,751	28,459
Balance Sheet Items:					
Total assets	$ 823,399	$ 802,344	$ 666,520	$ 2,844	$ 862
Property and equipment, net	270,734	272,614	51,277		
Long-term debt and capital lease obligations, excluding current maturities	215,926	238,381	77,576		
Shareholders' equity (deficit)	133,339	83,637	48,067	(61,292)	(63,731)

(a) Includes the deconsolidated results of Holdings for the period January 1, 2005 through June 1, 2005, and the consolidated results of Holdings and Hawaiian for the period June 2, 2005 through December 31, 2005.

(b) Includes only the deconsolidated results of Holdings for the year ended December 31, 2004.

(c) Includes the consolidated results of Holdings and Hawaiian for the period January 1, 2003 through March 31, 2003, and the deconsolidated results of Holdings for the period April 1, 2003 through December 31, 2003.

(d) For 2005 and 2006, losses due to redemption, prepayment, extinguishment and modification of long-term debt and lease agreements were $4.2 million and $32.1 million, respectively.

(e) During 2007 we recorded approximately $5 million of favorable adjustments to operating income, primarily due to a change in estimate in our frequent flyer liability for miles that will not be redeemed.

Hawaiian Airlines, Inc.
Selected Financial Data

	Period January 1, 2005 through June 1, 2005	Year ended December 31, 2004	Year ended December 31, 2003
	(in thousands)		
Summary of Operations:			
Operating revenue(a)	$ 321,150	$ 769,294	$ 708,799
Operating expenses(a)	309,080	698,211	631,321
Operating income	12,070	71,083	77,478
Net loss	(2,706)	(75,440)	(49,513)
Balance Sheet Items:			
Total assets	$ 372,980	$ 334,205	$ 328,371
Property and equipment, net	59,844	51,539	45,991
Long-term debt and capital lease obligations, excluding current maturities	25,295	33	
Shareholders' deficit	(321,739)	(293,108)	(209,231)

(a) For 2003, operating expenses included a $17.5 million special credit for financial assistance received from the federal government under the Emergency Wartime Supplemental Appropriations Act for reimbursement of airline security fees.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

This discussion and analysis of our financial condition and results of operations contains forward-looking statements that involve risks and uncertainties. We have based these forward-looking statements on our current expectations and projections of future events. However, our actual results could differ materially from those discussed herein as a result of the risks that we face, including but not limited to those risks stated in "Risk Factors." In addition, the following discussion should be read in conjunction with the audited consolidated financial statements and the related notes thereto included elsewhere in this report.

Overview

During the year ended December 31, 2007, we recorded net income of $7.1 million ($0.15 per basic and diluted common share) compared to a net loss of $40.5 million (($0.86) per basic and diluted common share) during 2006. The improvement in results during 2007 compared to 2006 was primarily due to $35.7 million of losses recorded during the year ended December 31, 2006 related to the redemption, prepayment, extinguishment and modification of various long-term debt instruments and lease agreements. Of such $35.7 million, $3.6 million represents operating expenses while the remainder is reflected in nonoperating expense. In addition, during 2007, we recorded an income tax benefit of $9.1 million compared to a benefit of $0.5 million in 2006. This 2007 benefit is primarily due to tax operating losses that will be carried back to the 2005 tax year. We also recorded favorable adjustments to operating income of approximately $5.0 million during the fourth quarter of 2007, primarily a result of changes in estimates in our frequent flyer liability for miles that will not be redeemed. Operationally, during 2007, we increased our capacity by approximately 15% primarily due to the purchase of four Boeing 767 aircraft in 2006 which were placed into service in late 2006 and early 2007. We also recognized some improvement in our unit costs resulting from our cost savings initiatives which we initiated in 2006.

Year in Review

- Reported net income of $7.1 million for the year.
- Expanded capacity on our transpacific routes by 18% with the addition of four Boeing 767-300 aircraft into service between late 2006 and mid 2007. We increased capacity to certain of the U.S. West Coast cities that we previously served.
- Decreased our cost per available seat mile by 4.0% year over year despite the high costs of fuel.
- Outsourced certain of our accounting, reservations and information technology processes to offshore third party providers.
- Announced plans to initiate service to Manila, Philippines in April 2008.
- Signed an agreement with Airbus to purchase six A330-200 aircraft and six 350XWB-800 aircraft with purchase rights for an additional six aircraft of each type.
- Extended our number one on-time performance record to four consecutive years.

Results of Operations

We recognized net income of $7.1 million ($0.15 per basic and diluted common stock share) on operating income of $6.8 million for the year ended December 31, 2007. During the year ended December 31, 2007, our total passenger revenue increased by 11.6%, primarily due to an increase in revenue on our transpacific routes with the addition of four aircraft for most of 2007. Transpacific revenue comprises approximately 70% of our total passenger revenue. We recognized slightly lower revenue on our interisland routes for the year ended December 31, 2007 compared to the same period in 2006, primarily due to a continuation of depressed fares on our interisland fares with 2007 being the first full year that *go!* was in service in Hawaii.

Our results of operations were significantly and adversely affected by increases in our cost of jet fuel, maintenance materials and repairs and depreciation expense. The cost of jet fuel is the single largest component of our operating expenses representing approximately 29.9% (or $291.6 million) of our total operating expenses for the year ended December 31, 2007. In addition, the cost of maintenance, materials and repairs increased by 33.9% or $23.6 million from 2006 to 2007 due to the aging and increased utilization of our fleet as well as the expansion of our fleet in 2006. We were able to offset these increases with improvements to our cost structure. In addition, our 2007 operating income included approximately $5.0 million of favorable adjustments, primarily due to a change in estimate in our frequent flyer liability for miles that will not be redeemed. During 2006, we initiated a top-to-bottom review of a variety of third party spending categories, including the areas of ground handling, catering and insurance. During 2007, we improved the economics and benefits of those contracts through renegotiation or a change in vendors. We signed a Letter of Agreement with the IAM during the summer of 2006 which enabled us to outsource certain functions of our reservations, accounting and information technology departments in return for providing job protection to the employees in those areas. We completed the outsourcing efforts during 2007 and currently have contracted third-parties in India and the Philippines to perform those functions. In addition, approximately 140 positions were eliminated during 2007 as a result of organizational restructuring, including 98 positions that were filled by non-union employees who held administrative positions throughout the Company. The remaining positions that were eliminated were unfilled at the time of the organization restructuring.

During the year ended December 31, 2006, we incurred nonoperating charges of $32.1 million related to our redemption in April 2006 of the Notes we issued in June 2005, the extinguishment and modification in March 2006 of the two secured credit facilities Hawaiian entered into in June 2005, and a prepayment in July 2006 under one of the credit facilities amended in March 2006. Additionally, our pretax loss was negatively impacted by amortization and other continuing effects associated with recording Hawaiian's assets and liabilities at their fair values upon our reacquisition of Hawaiian on June 2, 2005.

During the period January 1, 2005 through June 1, 2005, we deconsolidated Hawaiian as a result of Hawaiian's bankruptcy. On June 2, 2005, the effective date of Hawaiian's joint plan of reorganization, we reconsolidated Hawaiian for financial reporting purposes. Hawaiian's emergence from bankruptcy has been accounted for as a business combination (the acquisition of Hawaiian by us), with the assets and liabilities of Hawaiian recorded in our consolidated financial statements at their fair value as of June 2, 2005, and the results of operations of Hawaiian included in our consolidated results of operations from June 2, 2005. However, given the significance of Hawaiian's results of operations to our future results of operations and financial condition, as well as the extremely limited nature of our operations during the periods we deconsolidated Hawaiian, our historical results of operations and those of Hawaiian have been combined for the periods we did not consolidate Hawaiian and are discussed below with our consolidated results of operations for the periods we consolidated Hawaiian in order to provide a more informative comparison of results for those periods.

Hawaiian Holdings, Inc. and Hawaiian Airlines, Inc.
Consolidated and Combined Statements of Operations

	Year ended December 31,		
	2007(*)	2006(*)	2005(**)
		(in thousands)	
Operating Revenue:			
Passenger	$ 889,038	$ 796,821	$ 747,957
Cargo	30,916	32,181	31,022
Charter	11,842	9,486	11,931
Other	50,759	49,559	42,689
Total	982,555	888,047	833,599
Operating Expenses:			
Aircraft fuel, including taxes and oil	291,636	241,660	201,212
Wages and benefits	222,558	228,010	227,117
Aircraft rent	97,626	109,592	107,260
Maintenance materials and repairs	93,166	69,606	57,342
Aircraft and passenger servicing	53,877	52,655	48,283
Commissions and other selling	53,602	48,575	52,460
Depreciation and amortization	45,952	28,865	19,705
Other rentals and landing fees	27,897	25,720	23,819
Other	89,407	82,858	82,301
Total	975,721	887,541	819,499
Operating Income	6,834	506	14,100
Nonoperating Income (Expense):			
Reorganization items, net			887
Interest and amortization of debt discount and issuance costs	(25,510)	(17,476)	(9,495)
Losses due to redemption, prepayment, extinguishment and modification of long-term debt		(32,134)	(4,214)
Interest income	10,643	11,338	4,658
Capitalized interest	1,309	3,769	
Other, net	4,653	(7,013)	20,404
Total	(8,905)	(41,516)	12,240
Income (Loss) Before Income Taxes	(2,071)	(41,010)	26,340
Income tax expense (benefit)	(9,122)	(463)	41,412
Net Income (Loss)	$ 7,051	$ (40,547)	$ (15,072)

(*) Consolidated results of operations of Hawaiian Holdings, Inc.

(**) Combined results of operations of Hawaiian Holdings, Inc. and Hawaiian Airlines, Inc.

Hawaiian Holdings, Inc. and Hawaiian Airlines, Inc.
Selected Consolidated and Combined Statistical Data (unaudited)

	Year ended December 31,		
	2007(*)	2006(*)	2005(**)
	(in thousands, except as otherwise indicated)		
Scheduled Operations:			
Revenue passengers flown	7,051	6,156	5,781
Revenue passenger miles (RPM)	7,929,860	6,838,852	6,607,210
Available seat miles (ASM)	9,076,233	7,915,874	7,539,946
Passenger revenue per ASM (PRASM)	9.80¢	10.07¢	9.92¢
Passenger load factor (RPM/ASM)	87.4%	86.4%	87.6%
Passenger revenue per RPM (Yield)	11.21¢	11.65¢	11.32¢
Total Operations:			
Operating revenue per ASM	10.64¢	11.02¢	10.78¢
Operating cost per ASM (CASM)	10.57¢	11.01¢	10.59¢
Aircraft fuel expense per ASM	3.16¢	3.00¢	2.60¢
Revenue passengers flown	7,098	6,203	5,840
Revenue block hours operated (actual)	97,525	85,933	81,162
RPM	8,057,130	6,964,991	6,767,692
ASM	9,231,619	8,062,121	7,735,768
Gallons of jet fuel consumed	129,865	114,236	111,220

(*) Consolidated results of operations of Hawaiian Holdings, Inc.

(**) Combined results of operations of Hawaiian Holdings, Inc. and Hawaiian Airlines, Inc.

(a) Includes applicable taxes and fees.

Holdings' reacquisition of Hawaiian on June 2, 2005 was accounted for as a business combination, and the assets and liabilities of Hawaiian were recorded at fair value as of that date. The changes in the book values of Hawaiian's assets and liabilities as of June 2, 2005 affected consolidated income (loss) before income taxes for the year ended December 31, 2007 and 2006 and the period from June 2, 2005 through December 31, 2005, most significantly through an increase in depreciation and amortization of $17.4 million, $17.4 million and $10.1 million, respectively. For the purposes of the following discussion, the term "the combined entity" refers to the combined results of operations of Holdings and Hawaiian. As used in the context of this narrative, "Holdings" and "Hawaiian" refer to Hawaiian Holdings, Inc. and Hawaiian Airlines, Inc. in their individual capacities.

Year ended December 31, 2007 Compared to Year ended December 31, 2006

On a consolidated basis, we recognized net income of $7.1 million and our operating income was $6.8 million for the year ended December 31, 2007. This is compared to a net loss of $40.5 million and operating income of $0.5 million for the year ended December 31, 2006. Operating income increased by $6.3 million in 2007 compared to 2006, which included a favorable adjustment of approximately $5.0 million, primarily a result of a change in estimate in our frequent flyer liability for miles that will not be redeemed. Corresponding with our increased capacity, our operating expenses also increased, primarily in the areas of fuel, maintenance and depreciation. Our net income improved by $47.6 million from a net loss of $40.5 million in 2006. This was primarily due to $35.7 million of special charges incurred in 2006 related to the redemption, prepayment, extinguishment and modification of various long-term instruments. Of this $35.7 million, $3.6 million represented operating expenses, with the remainder reflected in nonoperating expense. Other significant differences between income and expense items for the years ended December 31, 2007 and 2006 are discussed below.

Operating Revenue. Operating revenue was $982.6 million for the year ended December 31, 2007, a 10.6% increase over operating revenue of $888.0 million in 2006. Significant year-over-year changes leading to the increase in 2007 operating revenue are discussed below.

Scheduled passenger revenue was $889.0 million in 2007 compared to scheduled passenger revenue of $796.8 million in 2006. This $92.2 million or 11.6% increase in scheduled passenger revenue was principally due to the increased capacity or available seat miles (ASMs) and traffic or revenue passenger miles (RPMs) in our transpacific market with the four additional Boeing 767-300 aircraft in service for a majority of the year. Those improvements more than offset the decline in our interisland yield which corresponded to the entry of a new market participant in June 2006 and the resultant fare discounting that has continued since this time which contributed to a reduction in interisland revenue from 2006 to 2007.

	Change in scheduled passenger revenue	Change in Yield	Change in RPM	Change in ASM
	(millions)			
Transpacific	$ 96.2	0.8%	17.4%	18.1%
Interisland	(8.6)	(14.8)	12.7	5.3
South Pacific	4.6	6.9	1.4	(8.0)
Total scheduled	$ 92.2	(3.8)%	16.0%	14.7%

Other operating revenue was $93.5 million for the year ended December 31, 2007, and $91.2 million for the comparable period in 2006. The $2.3 million, or 2.5%, increase in other operating revenue was primarily due to an increase in our charter revenue.

Operating Expenses. Operating expenses were $975.7 million for the year ended December 31, 2007, an $88.2 million increase from operating expenses of $887.5 million in 2006. The net increase in operating expenses in 2007 was primarily a result of operating four additional aircraft for most of the year on our transpacific routes, which provided for an additional 18% of capacity in that market. The transpacific routes are our longer range flights, which generally are operated with lower costs per ASM. As a result, we would expect that with a higher proportion of our growth represented by longer range flying, our cost per available seat miles would decrease. In addition, we have implemented several cost improvement programs throughout the year which has also contributed to the decrease in our cost per available seat mile (CASM).

	Year Ended December 31,		
	2007	2006	Percent Change
Operating expense:			
Aircraft fuel, including taxes and oil	$ 291,636	$ 241,660	20.7%(a)
Wages and benefits	222,558	228,010	(2.4)
Aircraft rent	97,626	109,592	(10.9)(b)
Maintenance materials and repairs	93,166	69,606	33.8(c)
Aircraft and passenger servicing	53,877	52,655	2.3
Commissions and other selling	53,602	48,575	10.3(d)
Depreciation and amortization	45,952	28,865	59.2(e)
Other rentals and landing fees	27,897	25,720	8.5
Other	89,407	82,858	7.9
Total	$ 975,721	$ 887,541	9.9%

(a)

The increase in the aircraft fuel expense of 20.7% was primarily due to increased consumption which is consistent with the increased operations. In addition, cost of jet fuel increased by 6.2% to an average of $2.25 per gallon in 2007 compared to an average of $2.12 per gallon in 2006. The increase in spot fuel prices was partially offset by $3.7 million of hedging gains recognized in fuel expense during 2007 compared to $0.9 million of hedging losses recognized in fuel expense during 2006.

As illustrated below, Hawaiian's average fuel expense per gallon of $2.25 for the year ended December 31, 2007 was a result of the following prevailing spot prices, taxes and the impact of jet fuel hedges designated for the year.

	Per Gallon Average	Aggregate
		(millions)
Spot Price (including delivery)	$ 2.18	$ 282.6
Taxes	0.10	12.7
Hedge Impact	(0.03)	(3.7)
Fuel Expense	$ 2.25	$ 291.6

(b)

The decrease in aircraft rent expense was a result of the purchase in late December 2006 of three Boeing 767-300ER aircraft that were previously leased. This decrease was partially offset by $4.6 million of aircraft rent expense recorded during 2007 due to supplemental rent charged for certain leased aircraft with non-refundable maintenance deposits. See our Critical Accounting Policies section for further discussion.

(c)

The increase in maintenance materials and repairs expense was primarily due to the addition of four Boeing 767-300 aircraft to our fleet during 2007, the aging of our fleet which corresponds to an increase in maintenance activity to be performed, the timing of certain periodic maintenance events, and rate escalations in our power-by-the-hour (PBH) contracts. The increase in expenses incurred under the PBH maintenance contracts was due in turn to the inclusion of additional Boeing 767 engines under our PBH agreements, increased hourly charges and increased utilization of our aircraft (approximately 12% more block hours were operated in 2007 compared to 2006). We expect aircraft maintenance expenses to continue to increase in subsequent years due to a variety of factors, including the aging of our fleet, additional fleet utilization, the growth of our fleet, including the introduction into our fleet of the four used Boeing 767-300 acquired in early 2006, the expiration of manufacturers' warranties on certain aircraft and increased costs for related materials and services. As more fully discussed in Note 2 to our consolidated financial statements and Critical Accounting Policies, we have made deposits to our aircraft lessors to cover a portion of our future maintenance costs. However, because these payments are recorded as a deposit, to the extent recoverable through future maintenance, and then recognized as maintenance expense when the underlying maintenance is performed, they do not affect the timing of our recognition of maintenance expense, which is recognized as expense when incurred. Maintenance deposits totaled $34.4 million ($30.8 million, net of unamortized fair value adjustments recorded in purchase accounting) as of December 31, 2007. The estimated maintenance reserve deposits to be paid to lessors and the estimated amounts to be reimbursed and charged to expense upon performance of the related maintenance, based on currently scheduled maintenance, are set forth in the following table (in thousands):

	2008	2009	2010	2011	2012
Deposits	$ 4,705	$ 4,703	$ 4,026	$ 3,222	$ 2,767
Reimbursements	4,408	3,046	5,824	2,940	2,253

These estimates are subject to significant variation, including, among others, the actual cost to complete the maintenance, timing and extent of the maintenance, aircraft cycles impacting the timing, and the imposition of potential new maintenance requirements.

(d)

Reflected in the 2007 commissions and other selling expense is approximately $5.0 million of reductions in expense primarily related to the estimate of frequent flyer miles that we expect will not be redeemed. Excluding the frequent flyer adjustment, commissions and other selling expenses increased by $10.1 million, primarily due to increases in credit card fees, booking fees, the cost of our frequent flyer program and commissions which is consistent with the increase in volume.

(f)

The increase in depreciation and amortization expense was attributable primarily to depreciation expense incurred following the acquisition of the three Boeing 767-300ER aircraft that were previously leased in late December 2006, as well as depreciation expense incurred on the four used Boeing 767-300 aircraft that were purchased in March 2006 and placed into service in September 2006 and January, March and June 2007.

Nonoperating Income and Expense. Net nonoperating expense was $8.9 million for the year ended December 31, 2007, compared to net nonoperating expense of $41.5 million for the same period in 2006. Nonoperating income and expense includes interest expense, interest income, special charges related to the redemption, prepayment, extinguishment and modification of various long-term instruments, and other gains and losses. The $32.6 million decrease in nonoperating expense is primarily due to the $32.1 million of special charges related to the redemption, prepayment, extinguishment and modification of various long-term instruments that was recognized in 2006 and an $11.7 million increase in other gains from 2006 to 2007. This was partially offset by an increase in interest expense of $8.0 million from 2006 to 2007, which was due to $126 million of additional debt that was borrowed in December 2006 and used to finance the purchase of three aircraft and a decrease of $2.5 million in capitalized interest

Other gains and losses primarily includes amounts recorded in accordance with the Company's hedging activities and Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). During 2007, the Company recorded $5.9 million of gains (of which $2.6 was realized) related to the increase in market value of heating oil future contracts that were not designated for hedge accounting under SFAS 133 and are simply marked to market. These gains were slightly offset by a $2.3 million loss related to the portion of the change in fair value of Hawaiian's jet fuel forward contracts excluded from hedge effectiveness. During 2006, the Company recorded $7.3 million of losses related to the portion of the change in fair value of Hawaiian's jet fuel forward contracts excluded from hedge effectiveness.

Income Tax Expense. The Company recorded an income tax benefit of $9.1 million for the year ended December 31, 2007, an $8.6 million increase from the income tax benefit of $0.5 million for the comparable period in 2006. The difference was primarily due to the tax benefit recognized for the year ended December 31, 2007 resulting from operating losses which will be fully recovered by the availability of carrybacks to year 2005. In addition, our taxable income for the year ended December 31, 2007 was less than the same period in 2006 because of higher deductible expenses triggered primarily by accelerated tax depreciation of aircraft that were acquired during 2006. We do not expect to record any significant additional tax benefits resulting from net operating losses, if any, realized in the future, as additional carrybacks are not available during the carryback period.

Year ended December 31, 2006 Compared to Year ended December 31, 2005

On a consolidated basis, we incurred a net loss of $40.5 million and had operating income of $0.5 million for the year ended December 31, 2006, compared to a net loss of $15.1 million and operating income of $14.1 million for the combined entity for the year ended December 31, 2005. Operating income decreased by $13.6 million in 2006, or 96%, compared to 2005 due primarily to increases in fuel, maintenance, and depreciation and amortization expenses. The net loss incurred in 2006 increased by $25.5 million compared to the net loss of $15.1 million in 2005 principally due to $35.7 million of special charges incurred in 2006 related to the redemption, prepayment, extinguishment and modification of various long-term instruments. Of the $35.7 million, $3.6 million represented operating expenses, with the remainder reflected in nonoperating expense. Special charges in 2005 totaled $4.2 million related to the redemption of debt. Other significant differences between income and expense items for the years ended December 31, 2006 and 2005 are discussed below.

Operating Revenue. Operating revenue was $888.0 million for the year ended December 31, 2006, a 6.5% increase over operating revenue of $833.6 million for the combined entity in 2005. Significant year-over-year changes leading to the increase in 2006 operating revenue are discussed below.

Scheduled passenger revenue was $796.8 million in 2006 compared to scheduled passenger revenue of $748.0 million in 2005. This $48.9 million or 6.5% increase in scheduled passenger revenue was principally due to improvements in the yields of our transpacific and South Pacific markets and traffic in our transpacific and interisland markets, which more than offset a decline in the yields in our interisland market brought about by the entry of *go!* into that market in June 2006 and the resultant fare discounting that occurred during subsequent months.

	Change in scheduled passenger revenue	Change in Yield	Change in RPM	Change in ASM
	(millions)			
Transpacific	$ 47.8	5.6%	4.2%	6.2%
South Pacific	3.8	11.8	(8.8)	(8.7)
Interisland	(2.7)	(9.7)	9.4	10.0
Total scheduled	$ 48.9	2.9%	3.5%	5.0%

Other operating revenue was $91.2 million for the year ended December 31, 2006, and $85.6 million for the comparable period in 2005. The $5.6 million, or 6.5%, increase in other operating revenue was due primarily to increases in ticket change fees, ground handling services provided to other airlines, and commissions and fees earned under certain joint marketing agreements with other companies.

Operating Expenses. Operating expenses were $887.5 million for the year ended December 31, 2006, a $68.0 million increase from operating expenses of $819.5 million in 2005. The net increase in operating expenses in 2006 was due primarily to increases in aircraft fuel and maintenance, depreciation and amortization and aircraft and passenger servicing expenses.

	Year Ended December 31, 2006	Year Ended December 31, 2005	Percent Change
Operating expense:			
Aircraft fuel, including taxes and oil	$ 241,660	$ 201,212	20.1%(a)
Wages and benefits	228,010	227,117	0.4
Aircraft rent	109,592	107,260	2.2
Maintenance materials and repairs	69,606	57,342	21.4(b)
Aircraft and passenger servicing	52,655	48,283	9.1
Commissions and other selling	48,575	52,460	(7.4)
Depreciation and amortization	28,865	19,705	46.5(c)
Other rentals and landing fees	25,720	23,819	8.0
Other	82,858	82,301	0.7
Total	$ 887,541	$ 819,499	8.3%

(a) The increase in aircraft fuel expense was primarily due to a 17.1% increase in the cost of jet fuel to an average of $2.12 per gallon in 2006 compared to an average of $1.81 per gallon in 2005. The average cost of jet fuel in 2006 and 2005 includes hedging losses of $0.9 million and $2.2 million, respectively, and fuel related taxes. Fuel consumption increased by less than 3.0% during the year ended December 31, 2006 even though we flew 4.2% more ASM's and operated 5.9% more revenue block hours compared to 2005. These efficiency improvements were due mostly to fuel conservation programs we initiated in 2006.

As illustrated below, Hawaiian's average fuel expense per gallon for the year ended December 31, 2006 was $2.12, as a result of prevailing spot prices, taxes and the impact of jet fuel hedges designated for the year.

	Per Gallon Average	Aggregate (millions)
Spot Price (including delivery)	$ 2.01	$ 229.9
Taxes	0.10	10.8
Hedge Impact	0.01	0.9
Fuel Expense	$ 2.12	$ 241.6

(b) The increase in maintenance materials and repairs expense was due primarily to increased costs incurred under power-by-the-hour (PBH) maintenance contracts for Boeing 767-300ER and Boeing 717-200 aircraft engines and other Boeing 767 and Boeing 717 aircraft components (e.g., auxiliary power units), and to increases in the number of Boeing 767 airframe and Boeing 717 landing gear overhauls performed during 2006 compared to 2005. The increase in expenses incurred under the PBH maintenance contracts was due in turn to the inclusion of additional Boeing 767 engines, increased hourly charges and increased utilization for our aircraft (approximately 5.9% more block hours were operated in 2006 compared to 2005). We expect aircraft maintenance expenses to continue to increase in subsequent years due to a variety of factors, including the aging of our fleet, additional fleet utilization, the growth of our fleet, including the introduction into our fleet of the four used Boeing 767-300 acquired in early 2006, the expiration of manufacturers' warranties on certain aircraft and increased costs for related materials and services. As more fully discussed in Note 2 to our consolidated financial statements and Critical Accounting Policies, we have made deposits to our aircraft lessors to cover a portion of our future maintenance costs. However, because these payments are recorded as a deposit, to the extent recoverable through future maintenance, and then recognized as maintenance expense when the underlying maintenance is performed, they do not impact the timing of our recognition of maintenance expense, which is recognized as expense when incurred. Maintenance deposits totaled $32.5 million ($28.1 million, net of unamortized fair value adjustments recorded in purchase accounting) as of December 31, 2006.

(c)

The increase in depreciation and amortization expense was primarily attributable to the amortization of certain intangible assets recorded upon the reacquisition of Hawaiian by Holdings at June 2, 2005. Future depreciation expense will increase due to the purchase of three previously-leased Boeing 767-300ER aircraft from AWMS I, an affiliate of AWAS (formerly Ansett Aviation Services, Inc. and, along with its affiliates, including AWMS I, collectively referred to herein as "AWAS") in late December 2006 and the placement into service in early 2007 of three additional Boeing 767-300 aircraft purchased in 2006. The three Boeing 767-300 aircraft purchased from AWAS were previously leased and therefore, future aircraft rent expense will decrease.

Nonoperating Income and Expense. Net nonoperating expense was $41.5 million for the year ended December 31, 2006, compared to net nonoperating income of $12.2 million for the same period in 2005. The year ended December 31, 2006 included $32.1 million of special charges related to the redemption, prepayment, extinguishment and modification of various long-term instruments, $17.5 million of interest expense and amortization of debt discounts and issuance costs, and a $7.3 million loss related to the portion of the change in fair value of Hawaiian's jet fuel forward contracts excluded from hedge effectiveness, offset by interest income of $11.3 million and $3.8 million of capitalized interest. The year ended December 31, 2005 included realized and unrealized gains of $19.2 million related to jet fuel forward contracts that were not designated for hedge accounting, a $2.5 million gain related to the portion of the change in fair value of Hawaiian's jet fuel forward contracts excluded from hedge effectiveness, and interest income of $4.7 million, offset by interest expense of $9.5 million due primarily to the indebtedness incurred to fund the Joint Plan and a special charge of $4.2 million on the repurchase of $7.7 million of the Notes.

Income Tax Expense. On a consolidated basis, the Company recorded an income tax benefit of $0.5 million for the year ended December 31, 2006, a $41.9 million, or 101.1%, decrease from combined income tax expense of $41.4 million for the comparable period in 2005. The unusual effective rate for the year ended December 31, 2006 was primarily due to the non-deductibility of certain expenses we incurred in connection with the redemption of the remainder of the Notes in April 2006. The tax provision and unusual effective tax rate we experienced in 2005 were due to a significant increase in book-tax timing differences, which resulted in higher taxable income on the Company's tax returns, while the offsetting deferred tax asset (representing the value of the future tax deduction when the timing differences "turn" and are recognized in our tax returns) must be fully offset by a valuation allowance given our history of operating losses and Hawaiian's recent bankruptcy. The impact of these book-tax timing differences was dramatically increased by the application of purchase accounting upon Hawaiian's emergence from bankruptcy on June 2, 2005, which resulted in fair value adjustments to the book basis of Hawaiian's assets and liabilities, but had no impact on the corresponding tax basis in those assets and liabilities. Furthermore, while the consummation of the Joint Plan triggered significant tax deductions related to the payment of the lease deficiency claims of Hawaiian, the benefit of those deductions was recorded as a reduction to goodwill, not the provision for income taxes, because the deductions related to transactions originally occurring prior to the point at which Hawaiian was consolidated by the Company.

Liquidity and Capital Resources

Our liquidity is dependent on the operating results and cash flows of Hawaiian, along with our significant debt financings, including the loan agreements entered into in December 2006 to finance the purchase of three previously leased Boeing 767-300ER aircraft and the two credit facilities entered into in June 2005 in connection with Hawaiian's plan of reorganization and subsequently amended in March 2006. These financial arrangements are described in more detail below and in Note 6, "Debt and Common Stock Warrants", to our consolidated financial statements included in this Annual Report on Form 10-K.

Cash, cash equivalents and short term investments were $144.5 million and $114.5 million as of December 31, 2007 and 2006, respectively. We also had restricted cash on those dates of $38.7 million and $53.7 million, respectively, which consisted almost entirely of cash held as collateral by entities that process our credit card transactions for advance ticket sales. Substantially all of the cash held as collateral for credit card sales transactions earns interest for our benefit and is released to us as the related travel is provided to our passengers. The decrease in restricted cash from 2006 to 2007 was primarily a result of an amendment, effective January 1, 2007, to Hawaiian's largest credit card processing contract, which reduced the cash collateral required by the credit card processor subject to certain adjustments based on the level of advanced ticket sales and Hawaiian's performance relative to specific financial measures. Hawaiian's cash flow from operations is typically higher in the second and third quarters, while the first and fourth quarters traditionally reflect reduced travel demand except for specific periods around holidays and spring break.

On June 2, 2005, Hawaiian, as borrower, and the Company, as guarantor, entered into a credit agreement with Wells Fargo Foothill, Inc., as agent, and the lenders named therein (the Term A Credit Facility). The Term A Credit Facility is secured by liens on substantially all of Hawaiian's assets. On June 2, 2005, Hawaiian, as borrower, and the Company, as guarantor, also entered into a credit agreement with Canyon Capital Advisors, LLC, as agent, and the lenders named therein (the Term B Credit Facility). The Term B Credit Facility is secured by liens on substantially all of Hawaiian's assets, subordinate to the prior liens granted to the lenders under the Term A Credit Facility. In March 2006, we incurred approximately $86.8 million, net of debt issuance costs, in additional debt by amending the Term A and Term B Credit Facilities. We used such additional borrowings to redeem the outstanding balance of the Notes issued in June 2005 to help fund the Joint Plan and to partially fund the acquisition of four used 767-300 aircraft acquired by Hawaiian during the first quarter of 2006. On July 11, 2006, $10.0 million of such additional borrowings, then held in escrow, was released to the Term B Credit Facility lenders, and our total obligation under that facility was reduced commensurately. The release of the $10.0 million to the Term B Credit Facility lenders was accounted for as an early repayment of the $72.5 million non-amortizing term loan we incurred under that credit facility in March 2006, which resulted in a nonoperating charge of $1.0 million due principally to the accelerated amortization of a portion of the debt discount associated with that loan. Since the Term A Credit Facility was amended in March 2006, we have made principal payments totaling $17.5 million. As of December 31, 2007, the Term A Credit Facility consisted of a $45 million, 9.42% variable interest rate amortizing term loan due December 10, 2010 and a $25 million revolving line of credit. Hawaiian had issued $4.8 million of letters of credit and had $16.8 million of remaining availability under the revolving line of credit as of December 31, 2007. As of December 31, 2007, the Term B Credit Facility consisted of a $62.5 million, 9.0% fixed interest rate non-amortizing term loan due March 11, 2011.

During December 2006, we borrowed a total of $126 million from a third-party lender to help finance the purchase of three previously-leased Boeing 767-300ER aircraft. The purchase of these three aircraft from AWAS was done in conjunction with the lease modification of four other Boeing 767-300ER aircraft also leased from AWAS in order to remove a provision of the previous agreements that allowed AWAS to exercise early termination options beginning in 2007. As of December 31, 2007, this indebtedness consisted of a $117.9 million, 8.32% variable interest rate amortizing term loan due December 2013.

Cash Flows

Due to the significance of the operating cash flows of Hawaiian to our future liquidity, our historical sources and uses of cash and those of Hawaiian have been combined for the periods we did not consolidate Hawaiian and are discussed below with our consolidated sources and uses of cash for the periods we consolidated Hawaiian in order to provide a more informative comparison of cash flows for those periods.

Hawaiian Holdings, Inc. and Hawaiian Airlines, Inc.
Condensed Consolidated and Combined Statements of Cash Flows

	Year ended December 31,		
	2007(*)	**2006(*)**	**2005(**)**
		(in thousands)	
Cash Flows From Operating Activities:			
Net cash provided by operating activities before reorganization activities	$ 81,552	$ 63,143	$ 78,715
Net cash used in reorganization activities			(4,491)
Net cash provided by operating activities	81,552	63,143	74,224
Cash Flows From Investing Activities:			
Additions to property and equipment	(28,571)	(236,335)	(20,352)
Net sales (purchases) of short-term investments	(2,697)	(24,397)	(18,247)
Net cash used in investing activities	(31,268)	(260,732)	(38,599)
Cash Flows From Financing Activities:			
Tax benefit from stock option exercise	23	191	
Proceeds on notes receivable from sales of common stock			20
Proceeds from exercise of stock options	110	951	1,212
Long-term borrowings		217,250	
Repurchase of subordinated convertible notes and warrants		(54,891)	(7,722)
Repayments of long-term debt and capital lease obligations	(22,995)	(24,321)	(6,810)
Debt issuance costs	(178)	(4,894)	
Net cash provided by (used in) financing activities	(23,040)	134,286	(13,300)
Net increase (decrease) in cash and cash equivalents	27,244	(63,303)	22,325
Cash and cash equivalents Beginning of Period	66,852	130,155	107,830
Cash and cash equivalents End of Period	$ 94,096	$ 66,852	$ 130,155

(*) Consolidated cash flows of Hawaiian Holdings, Inc.

(**) Combined cash flows of Hawaiian Holdings, Inc. and Hawaiian Airlines, Inc.

Net cash provided by operating activities was $81.6 million for 2007, an increase of $18.4 million over 2006. The increase was primarily due to increased ticket sales and a decrease in the holdback level required by our largest credit card processing contract pursuant to an amendment which was effective January 1, 2007.

Net cash used in investing activities was $31.3 million for 2007 compared to $260.7 million for 2006. The significant decrease in cash used during 2006 compared to 2007 is primarily due to the acquisition of a total of seven Boeing 767 aircraft in 2006. During 2007, additions to property and equipment totaled $25.0 million which consisted primarily of modifications to the four used Boeing 767-300 aircraft that were purchased in 2006. Other additions included purchases of various ground assets and purchases for various information technology projects.

Financing activities used net cash of $23.0 million for 2007, primarily for repayments of long-term debt and capital lease obligations. Financing activities provided net cash of approximately $134.3 million during 2006, primarily due to the approximate $217.3 million of additional debt we incurred during 2006 (net of associated issuance costs) less $54.9 million used to redeem in April 2006 the Notes we had issued in June 2005 and $24.3 million of other principal repayments made during 2006.

Capital Expenditures

During 2006, Hawaiian purchased four used Boeing 767-300 aircraft for a total purchase price of approximately $32.0 million. In addition to the purchase of these four aircraft, our capital expenditures during 2006 and 2007 to ready the aircraft for service were approximately $47.0 million and $13.2 million, respectively. The first aircraft was placed into service in September 2006. The second, third and fourth aircraft were fully modified and placed into service in January, March and June 2007, respectively. During 2006, the Company also purchased three Boeing 767-300ER aircraft from AWAS for a total purchase price of $150.8 million. These aircraft were previously leased and continued to operate in our fleet without any modifications.

In November 2007, we signed a Memorandum of Understanding with Airbus and Rolls Royce to acquire six wide-body A330-200 aircraft and six A350XWB-800 aircraft, with purchase rights for an additional six A330-200 and six A350XWB-800 aircraft. We paid an initial deposit in 2007 as well as additional deposits upon signing the purchase agreement with Airbus in January 2008. Following execution of the agreement, the combined deposit became non-refundable. Aircraft purchase contracts typically require the purchaser to make pre-delivery deposits to the manufacturer. These prepayments are included in our Contractual Obligations table below, however, no significant additional deposits are required until 2011. The manufacturer has provided backstop financing at customary terms on up to four aircraft. In order to complete the purchase of these aircraft, we must secure acceptable aircraft financing. The amount of financing required will depend on the number of aircraft purchase rights we exercise and the amount of cash we generate through operations prior to delivery of the aircraft. We will explore 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 a material adverse effect on us.

Financial Covenants

The terms of our Term A and Term B Credit Facilities restrict our ability to, among other things, incur additional indebtedness, pay dividends or make other payments on investments, consummate asset sales or similar transactions, create liens, merge or consolidate with any other person, or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of our assets. The terms of the agreements contain covenants that require us to meet certain financial tests to avoid a default that might lead to early termination of the facilities. These financial tests include maintaining a minimum amount of unrestricted cash and achieving certain levels of debt service coverage. As of December 31, 2007, we were in compliance with these covenants. If we were not able to comply with these covenants, our outstanding obligations under these facilities could be accelerated and become due and payable immediately.

Under our bank-issued credit card processing agreements, certain proceeds from advance ticket sales are 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 Consolidated Balance Sheets, totaled $38.7 million at December 31, 2007. The funds are interest-bearing and are subsequently made available to us as air travel is provided. The agreement with our largest credit card processor (Credit Card Agreement) also contains financial triggers which require, among other things, that we maintain a minimum amount of unrestricted cash and short-term investments (Unrestricted Cash Trigger), and maintain certain levels of debt service coverage and operating income. Under the terms of this Credit Card Agreement, the level of credit card holdback is subject to adjustment based on these specific financial triggers. As of December 31, 2007, the holdback was the contractual level of 40% of the applicable credit card air traffic liability. However, given continued downward pressure on passenger yields and volatility of fuel prices, we cannot guarantee that our financial performance in future periods will not require increases in the holdback level up to 100%, and that restricted cash will not be commensurately increased. The additional holdback of restricted cash may increase the likelihood of failing to comply with other credit facility financial covenants and, if we did not take steps to obtain a waiver of, or otherwise mitigate the increase in restriction of cash, it could also cause a covenant violation under other debt or lease obligations and have a material adverse impact on us.

Auction Rate Securities

We invest in auction rate securities, which are long-term bonds that resemble short term instruments because their interest rates are reset periodically through an auction process every 7 days. The underlying bonds have heretofore been considered relatively liquid, short-term investments because of the auction process. In February 2008, we held approximately $42.9 million in AAA/Aaa rated tax-exempt municipal auction rate securities. We first experienced a failed auction on our municipal auction rate securities on February 13, 2008. For the securities that experienced a failed auction, the issuer will pay interest at premium rates (i.e., default rates) on the future regular auction dates until the earlier of the occurrence of a successful auction, the date the securities are redeemed or the maturity date. These default rates may increase if there is a downgrade in the current rating of the securities. In February 2008, after we began experiencing the auction rate failures described above, we obtained a letter supplement to the Credit Card Agreement which enables us to continue to include the failed auction rate securities in the calculation of the Unrestricted Cash Trigger through the term of the agreement ending December 31, 2008, provided that the AAA rating from S&P assigned to such securities is maintained as of the quarter ended immediately preceding the measurement date, regardless of their classification on our consolidated balance sheet. The current rating of the security is AAA, which is comprised of an A+ rating for the issuer and a bond insurance supplement which increases the rating to AAA. Generally if the AAA rating from S&P is not maintained then the qualifying value of these securities is reduced by up to 10% of their then par value for purposes of the calculation of the Unrestricted Cash Trigger, until such rating falls below an A level rating, at which point the securities would no longer qualify for inclusion in the calculation of the Unrestricted Cash Trigger. We believe the likelihood of these securities falling below an A level rating is remote, although there can be no assurance as to this outcome. If the auction rate securities no longer qualified for inclusion in the calculation of the Unrestricted Cash Trigger and we did not take steps to obtain a waiver of, or otherwise mitigate the increase in restriction of cash, it could also cause a covenant violation under other debt or lease obligations and have a material adverse impact on us.

Pension and Postemployment Benefit Plan Funding

Hawaiian sponsors three tax-qualified defined benefit pension plans covering its ALPA, IAM, TWU, NEG and certain non-contract employees, as well as a separate plan to administer the pilots' disability benefits. In the aggregate, these plans are underfunded. As of December 31, 2007, the excess of the projected benefit obligations over the fair value of plan assets was approximately $47.2 million. Hawaiian made scheduled contributions of $11.6 million, $13.1 million and $23.3 million during 2007, 2006 and 2005, respectively, to its defined benefit pension and disability plans, and anticipates contributing $5.7 million during 2008. Future funding requirements are dependent upon many factors such as interest rates, funded status, applicable regulatory requirements for funding purposes and the level and timing of asset returns.

As a result of a recent technical correction to the Pension Protection Act of 2006, the timing of our minimum required contributions to our defined benefit pension plans has changed significantly and will have the effect of delaying previously required minimum contributions to future periods. The legislation did not change our total future contributions.

Off-Balance Sheet Arrangements

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which a company has (i) made guarantees, (ii) retained a contingent interest in transferred assets, (iii) an obligation under derivative instruments classified as equity or (iv) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company, or that engages in leasing, hedging or research and development arrangements with the Company. We have no arrangements of the types described in the first three categories that we believe may have a current or future material effect on our financial condition, liquidity or results of operations. We do have obligations arising out of variable interests in unconsolidated entities related to certain airport leases. Our airport leases are typically with municipalities or other governmental entities. To the extent our leases and related guarantees are with a separate legal entity other than a governmental entity, we are not the primary beneficiary because the lease terms are consistent with market terms at the inception of the lease, and the lease does not include a residual value guarantee, fixed price purchase option or similar feature.

Contractual Obligations

Our estimated contractual obligations as of December 31, 2007 are summarized in the following table (in thousands):

Contractual Obligations

Contractual Obligations	Total	2008	2009-2010	2011-2012	2013 and Thereafter
Fixed-rate debt(1)	$ 82,146	$ 5,724	$ 11,406	$ 65,016	$
Variable-rate debt(1)	238,043	32,905	81,422	46,986	76,730
Notes payable to IRS	20,118	5,748	11,496	2,874	
Capital lease obligations	1,086	227	222	204	433
Operating leases aircraft and related equipment(2)	684,807	90,886	150,266	114,954	328,701
Operating leases non-aircraft(2)	28,345	3,705	6,654	6,146	11,840
Purchase commitments(3)	1,289,627	18,145	29,456	289,264	952,762
Projected employee benefit contributions(4)	7,280	5,700	1,580		
Total contractual obligations(5)	$ 2,351,452	$ 163,040	$ 292,502	$ 525,444	$ 1,370,466

(1) Amounts represent contractual amounts due, including interest. Interest on variable-rate debt was estimated using rates in effect as of December 31, 2007.

(2) Amounts represent minimum lease payments due under the respective lease agreements. Rentals for aircraft parts are based on actual usage and have been estimated using forecasted usage. Certain engine rentals reset every six months based on changes in LIBOR and has been estimated using the rates in effect in December 2007.

(3) Represents contractual commitments for firm order aircraft, net of previously paid purchase deposits, and noncancelable commitments to purchase services, primarily, reservations, information technology and business process services at current operating levels. Future payments for aircraft include estimated amounts for price escalation. Additional information about the Company's purchase commitments are included in Note 11 to the Consolidated Financial Statements.

(4)

Amount includes our estimated contributions to our pension plans and our pilot's disability plan. The pension contributions represent our estimate of the minimum funding requirements under the ERISA. The contribution to the pilot's disability plan represents our 2008 contribution. 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 2009.

(5)

Total contractual obligations do not include long-term contracts where the commitment is variable in nature, 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.

Critical Accounting Policies and Estimates

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, revenue and expenses, and related disclosure of contingent assets and liabilities as of the date of the financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies and estimates are defined as those accounting policies and accounting estimates that are reflective of significant judgments and uncertainties, and that potentially result in materially different results under different assumptions and conditions. For a detailed discussion of the application of these and other accounting policies, see Note 2, "Summary of Significant Accounting Policies", in the notes to our consolidated financial statements included in this Form 10-K.

Revenue Recognition. Passenger revenue is recognized either when the transportation is provided or when the related ticket expires unused. The value of unused passenger tickets is included as air traffic liability. Any adjustments resulting from periodic evaluations of this estimated liability, which can be significant, are included in results of operations for the periods in which the evaluations are completed. Cargo and charter revenue are recognized when the transportation is provided. Other revenue includes revenue from the sale of frequent flyer miles, ticket change fees and other incidental services.

Pension and Other Postretirement and Postemployment Benefits. We account for our defined benefit pension and other postretirement and postemployment plans in accordance with Statement of Financial Accounting Standards (SFAS) No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)" (SFAS 158). SFAS 158 requires companies to measure their plans' assets and obligations that determine their funded status at fiscal year end, recognize the funded status of their benefit plans in the statement of financial position as an asset or liability, and recognize changes in the funded status of the plans in comprehensive income during the year which the changes occur. SFAS 158 does not change the amount of net periodic benefit expense recognized in our results of operations; net periodic benefit expense continues to be accounted for in accordance with SFAS No. 87, "Employer's Accounting for Pensions" (SFAS 87) and SFAS No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pension" (SFAS 106). Pension and other postretirement and postemployment benefit expense are recognized on an accrual basis over employees' approximate service periods. Pension expense is generally independent of funding decisions or requirements.

The calculation of pension and other postretirement and postemployment benefit expense and their corresponding liabilities requires the use of a number of important assumptions, including the expected long-term rate of return on plan assets and the assumed discount rate. Changes in these assumptions can result in different expense and liability amounts, and future actual experience can differ from these assumptions. These assumptions as of December 31 were:

	2007	2006	2005
Pension:			
Discount rate to determine projected benefit obligation	6.16%	5.86%	5.50%
Expected return on plan assets	7.90%	7.90%	7.90%
Postretirement:			
Discount rate to determine projected benefit obligation	6.25%	5.90%	5.50%
Expected return on plan assets	N/A	N/A	N/A
Expected health care cost trend rate:			
Initial	8.00%	9.00%	9.50%
Ultimate	5.00%	5.00%	5.00%
Disability*			
Discount rate to determine projected benefit obligation	6.05%	N/A	N/A
Expected return on plan assets	7.50%	N/A	N/A

* The disability plan was established upon Hawaiian's emergence from bankruptcy on June 2, 2005. The plan was initially accounted for as a defined contribution plan. However, because the plan does not include individual participant accounts, it is required to be accounted for as a defined benefit plan in accordance with Financial Accounting Standards No. 112, "Employer's Accounting for Postemployment Benefits". This correction was made during 2007. See further discussion in Note 9 of the Consolidated Financial Statements.

The expected long-term rate of return assumption is developed by evaluating input from the trustee managing the plans' assets, including the trustee's review of asset class return expectations by several consultants and economists as well as long-term inflation assumptions. Our expected long-term rate of return on plan assets is based on a target allocation of assets, which is based on our goal of earning the highest rate of return while maintaining risk at acceptable levels. The plan strives to have assets sufficiently diversified so that adverse or unexpected results from one security class will not have an unduly detrimental impact on the entire portfolio. Our allocation of assets was as follows at December 31, 2007:

	Percent of Total	Expected Long-Term Rate of Return
U.S. equities	25.9%	9.6%
International equities	35.5%	10.8%
Fixed income	29.1%	4.7%
Other	9.5%	6.7%
Total	100.0%	

We believe that our long-term asset allocation on average will approximate the targeted allocation. We regularly review our actual asset allocation and periodically rebalance the pension plan's investments to our targeted allocation when considered appropriate. Pension expense increases as the expected rate of return on plan assets decreases. Lowering the expected long-term rate of return on our plan assets by one percent (from 7.9% to 6.9%) would increase our estimated 2008 pension expense by approximately $2.6 million.

We determine the appropriate discount rate for each of our plans based on current rates on high quality corporate bonds that would generate the cash flow necessary to pay plan benefits when due.

The pension and other post retirement benefit liabilities and future expense both increase as the discount rate is reduced. Lowering the discount rate by one percent would increase our pension and other post retirement benefit liabilities at December 31, 2007 by approximately $40.2 million and $7.7 million, respectively, and would increase our estimated 2008 pension and other postretirement benefit expense by approximately $3.3 and $0.9 million, respectively.

The health care cost trend rate is based upon an evaluation of the Company's historical trends and experience taking into account current and expected market conditions. A one percent increase in the assumed health care cost trend rate would increase the other postretirement benefit obligation as of December 31, 2007 by approximately $8.0 million and our estimated 2008 other post retirement benefit expense by approximately $1.5 million. A one percent decrease in the assumed health care cost trend rate would decrease the other postretirement benefit obligation as of December 31, 2007 by approximately $6.5 million and our estimated 2008 other postretirement benefit expense by approximately $1.4 million.

On December 13, 2007, Congress signed a new law, effective immediately, that extended the mandatory retirement age for U.S. commercial airline pilots from age 60 to age 65. It is the our assumption that some of Hawaiian's pilots will work beyond age 60 as a result of this change in law, therefore, we elected to change our retirement assumption from a single retirement age at age 60 to a graded schedule of expected retirements between ages 60 and 65, which resulted in an average retirement age of 63.5 as of December 31, 2007. As a result, our projected future benefit obligation decreased and the funded status of the plans improved.

Future changes in plan asset returns, plan provisions, assumed discount rates, pilot estimated retirement age, pension funding legislation and various other factors related to the participants in our pension plans will impact our future retirement benefit expense and liabilities. We cannot predict with certainty what these factors will be in the future.

Embedded financial instruments. Warrants issued in connection with debt financings are accounted for in accordance with Accounting Principles Board (APB) Opinion No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants", where the portion of the proceeds allocable to the warrants is treated as additional paid-in capital. The allocation between the debt and additional paid-in capital is based on the relative fair values of the two securities at time of issuance. The resulting debt discount is amortized using the effective interest rate method to interest expense over the life of the debt instrument. For purposes of valuing the common stock warrants issued in connection with the Notes in June 2005 and the Term B Credit Facility in March 2006, we utilized the Black-Scholes-Merton option pricing model. The most critical assumption used in developing the fair value of the warrants is the expected volatility of our stock. Because the historic volatility of our common stock is not a reliable indicator of future volatility due to Hawaiian's bankruptcy and the thin liquidity for our common stock during that period, we utilized a stock volatility factor based on a peer comparison group for a period of time approximating the term of the warrants, which resulted in an expected volatility of 58% and 47% for the warrants issued in June 2005 and March 2006, respectively. The value ascribed to the common stock warrants as capital in excess of par value in the accompanying balance sheet as of December 31, 2006 and 2005 was $6.3 million and $12.6 million, respectively, after giving effect to the cancellation of 882,301 warrants associated with the repurchases in the fourth quarter of 2005 of $7.7 million par value of the Notes. Additionally, convertibility features within debt instruments are evaluated under Emerging Issues Task Force Consensus 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios", whereby an "in-the-money" nondetachable conversion feature at the commitment date (a *beneficial conversion feature*) is recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that beneficial conversion feature to additional paid-in capital. The intrinsic value of the beneficial conversion is calculated as the difference between the conversion price, adjusted for the fair value allocated to warrants described above, and the fair value of the common stock (or other securities into which the security is convertible) multiplied by the number of shares into which the security is convertible. The amount recorded as additional capital in excess of par value in the accompanying balance sheet at December 31, 2005 for the beneficial conversion feature in the Notes was $27.8 million and was not affected by the $7.7 million of repurchases of the Notes in the fourth quarter of 2005 as the per share market prices of our common stock as of the dates of such repurchases was less than the $4.35 per share conversion price provided for in the Notes. The resulting debt discount associated with the beneficial conversion feature is amortized to interest expense using the effective interest rate method over the life of the debt instrument. As a result of the amounts ascribed to the beneficial conversion feature in the Notes and the common stock warrants issued in connection therewith, the Notes were recorded at a substantial discount, which was being amortized to interest expense over the remaining life of the Notes. The carrying value of the Notes at December 31, 2005 was $18.1 million, and the effective interest rate on the Notes was 33.5% over the remaining life of the Notes. On April 21, 2006, we redeemed all of the then outstanding Notes for $55.9 million, inclusive of a $2.6 million prepayment premium and $1.0 million of accrued and unpaid interest to that date. We incurred a $28.0 million nonoperating loss on the redemption of the Notes due principally to the accelerated amortization of the remaining discount associated with the Notes when they were initially issued in June 2005. Warrants to acquire approximately 6.0 million shares of the Company's common stock issued to the former holders of these notes remain outstanding under their original terms until June 1, 2010.

Derivative Financial Instruments. We have adopted a fuel hedging program that provides us with flexibility of utilizing certain derivative financial instruments, such as heating oil future contracts and jet fuel forward contracts to manage market risks and hedge our financial exposure to fluctuations in our aircraft fuel costs. Heating oil future contracts and/or jet fuel forward contracts are utilized to hedge a portion of our anticipated aircraft fuel needs. At December 31, 2007, we had hedged approximately 25%, 8% and 1% of our anticipated aircraft fuel needs for the first, second and third quarters of 2008, respectively. We do not hold or issue derivative financial instruments for trading purposes. Such instruments are accounted for under SFAS 133, which requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. To the extent a company complies with the hedge documentation requirements and can demonstrate a highly effective hedge, both at the designation of the hedge and throughout the life of the hedge, such derivatives are recorded at fair value with the offset to accumulated other comprehensive income (loss), net of hedge ineffectiveness. Such amounts are recognized as a component of fuel expense when the underlying fuel being hedged is used. The ineffective portion of a change in the fair value of the forward contracts is immediately recognized in earnings as a component of nonoperating income (loss). We designated the effectiveness of our jet fuel forward contracts based on the changes in fair value attributable to changes in spot prices; the change in fair value related to the changes in the difference between the spot price and the forward price (i.e., the spot-forward difference) are excluded from the assessment of hedge effectiveness. As a result, any changes in the spot-forward difference are immediately recognized into earnings as a component of other nonoperating income (expense). For the year ended December 31, 2007 and 2006, we recognized $2.3 million and $7.3 million of nonoperating losses, respectively, related to spot-forward changes. We measure fair value of our derivatives based on quoted values provided by counterparties or market participants. Starting in August 2007, we began purchasing heating oil future contracts to hedge our fuel expense. However, these derivatives were not designed to qualify for financial hedge accounting under SFAS 133. As a result, during 2007, we recorded $5.9 million of gain (of which $2.6 million was realized) in nonoperating income related to the increase in market value of heating oil future contracts.

Aircraft maintenance and repair costs. Maintenance and repair costs for owned and leased flight equipment, including the overhaul of aircraft components, are charged to operating expenses as incurred. Engine overhaul costs covered by power-by-the-hour arrangements are paid and expensed as incurred, on the basis of hours flown per contract. Under the terms of our power-by-the-hour agreements, we pay a set dollar amount per engine hour flown on a monthly basis and the third-party vendor assumes the obligation to repair the engines at no additional cost to us, subject to certain specified exclusions.

Additionally, although our aircraft lease agreements specifically provide that we, as lessee, are responsible for maintenance of the leased aircraft, we do, under our existing aircraft lease agreements, pay maintenance reserves to aircraft lessors that are to be applied towards the cost of future maintenance events. These reserves are calculated based on a performance measure, such as flight hours, and are available for reimbursement to us upon the completion of the maintenance of the leased aircraft. If there are sufficient funds on deposit to reimburse us for the invoices initially paid by Hawaiian and then submitted to the lessor, they are reimbursed to us. However, reimbursements are limited to the available deposits associated with the specific maintenance activity for which we are requesting reimbursement. Under certain of our existing aircraft lease agreements, if there are excess amounts on deposit at the expiration of the lease, the lessor is entitled to retain any excess amounts; whereas at the expiration of certain other of our existing aircraft lease agreements any such excess amounts are returned to us, provided that we have fulfilled all of our obligations under the lease agreements. The maintenance reserves paid under our lease agreements do not transfer either the obligation to maintain the aircraft or the cost risk associated with the maintenance activities to the aircraft lessor. In addition, we maintain the right to select any third-party maintenance provider. Therefore, we record these amounts as a deposit on our balance sheet and then recognize maintenance expense when the underlying maintenance is performed, in accordance with our maintenance accounting policy. Because we recognize expense when the underlying maintenance is performed, as opposed to expensing the deposits when paid to the lessor, and because the cost of maintaining an aircraft increases as the aircraft gets older, we will recognize significantly less maintenance expense in the earlier years of the leases than in the later years, even though our use of and benefit from the aircraft does not vary correspondingly over the term of the lease, and our current and past results of operations may not be indicative of our future results as a result of our expectation of expensing the deposits in the future. Hawaiian's maintenance reserve activity for the past three years is as follows (in thousands):

	Beginning Balance	Payments	Reimbursements	Ending Balance
Year ended December 31:				
2005	$ 25,338	$ 12,593	$ (7,542)	$ 30,389
2006	30,389	14,604	(8,504)	36,489
2007	36,489	12,663	(5,413)	43,739
Fair value adjustments(1)				(3,644)
Deposits not considered probable of recovery(2)				(9,344)
Recorded balance at December 31, 2007				$ 30,751

(1) The Company recorded Hawaiian's maintenance deposits at fair value upon Hawaiian's emergence from bankruptcy on June 2, 2005. The individual line items in the table do not reflect the fair value adjustments recorded by the Company (which related primarily to recording the deposits at their net present value as of June 2, 2005, based on the anticipated dates the underlying maintenance would be performed).

(2) Deposits made by Hawaiian prior to its emergence from bankruptcy that were not considered probable of recovery as of June 2, 2005 and certain spare engine deposits discussed below.

Any non-refundable amounts that are not probable of being used to fund future maintenance expense would be recognized as additional aircraft rental expense. In determining whether it is probable that maintenance deposits will be used to fund the cost of maintenance events, we conduct the following analysis:

- We evaluate the aircraft's condition, including the airframe, the engines, the auxiliary power unit and the landing gear.

- We then project future usage of the aircraft during the term of the lease based on our business and fleet plan.

- We also estimate the cost of performing all required maintenance during the lease term. These estimates are based on the experience of our maintenance personnel and industry available data, including historical fleet operating statistic reports published by the aircraft and engine manufacturers.

Our assessment of the recoverability of our maintenance deposits is subject to change in the event that key estimates and assumptions supporting it change over time. Those key estimates and assumptions include the Company's fleet plan and the projected total cost and, to a lesser extent, anticipated timing of the major maintenance activities covered by the maintenance reserves. In December 2006, as described more fully in the notes to our consolidated financial statements, we amended certain of our aircraft and spare engine leases. These amendments, among other things, reduced the respective lease terms and amended certain provisions with regard to the maintenance deposits. In addition, during 2007, we contracted with a new third-party maintenance provider resulting in projected cost savings for major maintenance activities for certain leased aircraft with non-refundable maintenance deposits. As a result of these types of events, we assess the recoverability of our maintenance deposits and adjust them to our best estimate of future maintenance events.

Based on current market conditions we believe that further significant changes in our fleet plan are unlikely. Furthermore, based on historical trends and future projections, including those published by the manufacturers of our aircraft and engines, we believe it is unlikely that future maintenance costs for our aircraft will decline to such an extent that the maintenance deposits currently recorded on our consolidated balance sheet would not be used to fund the cost of future maintenance events and therefore not be recoverable.

Impairment of Long-Lived Assets. We record impairment losses on long-lived assets used in operations, primarily property and equipment and intangible assets subject to amortization, when events and circumstances indicate, in management's judgment, that the assets may be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. Cash flow estimates are based on historical results adjusted to reflect the best estimate of future market and operating conditions. The net carrying value of assets not recoverable is reduced to fair value. Estimates of fair value represent management's best estimate based on market trends, recent transactions involving sales of similar assets and, if necessary, estimates of future discounted cash flows.

Goodwill and Indefinite-Lived Purchased Intangible Assets. We review goodwill and purchased intangible assets with indefinite lives, all of which relate to the acquisition of Hawaiian, for impairment annually and/or whenever events or changes in applicable circumstances indicate the carrying value of an asset may not be recoverable in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). The provisions of SFAS 142 require that a two-step impairment test be performed on goodwill. In the first step, the fair value of the Hawaiian reporting unit is compared to its carrying value. If the fair value of the Hawaiian reporting unit exceeds the carrying value of its net assets, goodwill is not impaired and no further testing is required to be performed. If the carrying value of the net assets of the Hawaiian reporting unit exceeds its fair value, then the second step of the impairment test must be performed in order to determine the implied fair value of the Hawaiian reporting unit's goodwill. If the carrying value of the goodwill exceeds its implied fair value, then an impairment loss is recorded equal to the difference. SFAS 142 also requires that the fair value of the purchased intangible assets with indefinite lives be estimated and compared to the carrying value. We recognize an impairment loss when the estimated fair value of the intangible asset is less than the carrying value. Determining the fair value of a reporting unit or an indefinite-lived purchased intangible asset is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and determination of appropriate market comparables. We base our fair value estimates on assumptions management believes to be reasonable but are unpredictable and inherently uncertain. Actual future results may differ from these estimates. We have reviewed the carrying values of goodwill and the intangible asset associated with the fair value of Hawaiian's trade name pursuant to the applicable provisions of SFAS No. 142 and have concluded that such carrying values were not impaired as of December 31, 2007.

Frequent Flyer Accounting. We utilize a number of estimates in accounting for the *HawaiianMiles* frequent flyer program that are consistent with industry practices. We record a liability for the estimated incremental cost of providing travel awards that are expected to be redeemed on Hawaiian or the contractual rate of expected redemption on partner airlines. During 2007, we performed an analysis of our frequent flyer accounting estimates and as a result, adopted a change in the estimate used to calculate our frequent flyer liability. The most significant change was to estimate the number of miles that will not be redeemed ("breakage") in its incremental cost calculation. Previously, breakage estimates were not included due to a lack of availability of acceptable data. During 2007, we determined that 20% of miles in the incremental cost calculation will never be redeemed and applied this adjustment as of December 31, 2007, principally resulting in a favorable adjustment to operating income of approximately $5.0 million. Our breakage assumptions are reasonable in light of historical experience and future expectations. Actual breakage could differ significantly from our estimate.

Incremental cost includes the costs of fuel, meals and beverages, insurance and certain other passenger traffic related costs, but does not include any costs for aircraft ownership and maintenance. A change to these cost estimates, the actual redemption activity, or the amount of redemptions on partner airlines could have a significant impact on our liability in the period of change as well as future years.

The liability is adjusted periodically based on awards earned, awards redeemed, changes in the incremental costs and changes in the *HawaiianMiles* frequent flyer program, and is included in the accompanying consolidated balance sheets as air traffic liability. Changes in the liability are recognized in the period of change.

Hawaiian also sells mileage credits in the *HawaiianMiles* frequent flyer program to participating companies such as hotels, car rental agencies and credit card companies. A portion of the revenue from the sale of mileage credits is deferred and amortized as passenger revenue over the estimated period when the transportation is expected to be provided. Amounts in excess of the fair value of the transportation to be provided are recognized immediately as other operating income.

The estimated period over which the transportation is expected to be provided is based on the historical average time taken by our members to accumulate mileage credits and fly using the miles redeemed (currently 15 months). Under the programs of certain participating companies, credits are accumulated in accounts maintained by the participating company and then transferred into a member's *HawaiianMiles* account for immediate redemption for a free travel award. For those transactions, revenue is amortized over the historical period of time between when a member redeems mileage credits for a free travel award and when the resulting free travel is provided (currently five months). On a periodic basis, we review and update the amortization periods. A change to the amortization periods, the actual redemption activity or our estimate of the amount or fair value of expected transportation could have a significant impact on our revenue in the year of change as well as future years.

Stock Compensation. Effective January 1, 2006, we account for stock options in accordance with Financial Accounting Standards Board No. 123 (revised 2004), "Share Based Payment" (SFAS 123R), which replaces SFAS 123 "Accounting for Stock-Based Compensation" (SFAS 123), and supersedes Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). SFAS 123R requires that all stock-based payments to employees, including grants of employee stock options, be recognized as compensation expense in the financial statements based on their fair values. SFAS 123R also requires that tax benefits associated with these stock-based payments be classified as financing activities in the statement of cash flows rather than operating activities.

Prior to its adoption of SFAS 123R, the Company accounted for its stock option and stock bonus plans pursuant to APB 25 and related Interpretations, and the pro forma disclosure provisions of SFAS 123, as amended by SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure".

SFAS 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of such awards on the dates they are granted. The fair value of the awards is estimated using option-pricing models for grants of stock options, Monte Carlo simulations for restricted stock units with a market condition or the fair value at the measurement date (usually the grant date) for awards of stock. The resultant cost is recognized as compensation expense over the period of time during which an employee is required to provide services to the company (the service period) in exchange for the award, the service period generally being the vesting period of the award. Under APB 25, no compensation expense was recognized for grants of stock options if on the date the option was granted its exercise price was equal to or more than the fair value of the underlying stock. Although SFAS 123, as amended, encouraged the recognition of expense associated with the fair value of grants of stock options, SFAS 123 allowed for the presentation in the notes to financial statements of pro forma net income (loss) as if a company had accounted for granted employee stock options using the fair value method prescribed by SFAS 123.

We account for all stock options granted on and after January 1, 2006 pursuant to SFAS 123R. For stock option awards granted prior to January 1, 2006, but for which the vesting periods were not complete, we adopted the modified prospective transition method permitted by SFAS 123R. Under this method, we account for unvested awards on a prospective basis over their remaining vesting periods as of January 1, 2006, with expense being recognized in the statement of operations using the grant-date fair values previously calculated for the SFAS 123 pro forma disclosures presented below and for other applicable periods ended prior to January 1, 2006. We estimate the fair values of our options using the Black-Scholes-Merton option-pricing model. This option-pricing model requires us to make several assumptions regarding the key variables used in the model to calculate the fair value of its stock options. The risk-free interest rate used by us is based on the U.S. Treasury yield curve in effect for the expected lives of the options at their dates of grant. We use a dividend yield of zero as we have never paid nor do we intend to pay dividends on our common stock. The expected lives of stock options granted on and subsequent to January 1, 2006 were determined using the "simplified" method prescribed in the SEC's Staff Accounting Bulletin No. 107. The most critical assumption used in calculating the fair value of stock options is the expected volatility of the entity's common stock. Due to Hawaiian's bankruptcy and the thin liquidity of our common stock during the period April 1, 2003 through June 1, 2005, we believe that the historic volatility of our common stock during that period is not a reliable indicator of future volatility. Accordingly, we used a blended stock volatility factor based on our stock volatility factor from the period post-emergence (starting on June 2, 2005) and a peer comparison group prior to June 2, 2005. The total period covered by the blended volatility is commensurate with the expected term of the stock options.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are subject to certain market risks, including commodity price risk (i.e., jet fuel prices) and interest rate risk. We have market sensitive instruments in the forms of financial derivative instruments used to hedge Hawaiian's exposure to increases in jet fuel prices and a variable interest rate debt. We have market risk for the changes in the fair value of our fixed-rate debt resulting from movements in interest rates. 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 its exposure to such adverse changes. Actual results may differ. See the discussion of critical accounting policies above for other information related to these financial instruments.

Aircraft Fuel Costs

Aircraft fuel costs was the largest component of Hawaiian's operating expenses for the year ended December 31, 2007, representing 29.9% of total operating expenses. Based on gallons expected to be consumed in 2008, for every one-cent change in the cost per gallon of jet fuel, Hawaiian's annual fuel expense will increase or decrease by approximately $1.3 million.

During 2007, Hawaiian had entered into jet fuel and heating oil future contracts to hedge a portion of its aircraft fuel expense. Jet fuel forward contracts are not traded on commodities exchanges due to the limited market for such instruments; however, they tend to have a higher level of effectiveness than do heating oil future contracts. The fair value of jet fuel forward contracts as of December 31, 2007 related to Hawaiian's fuel hedging program was $0.4 million, which hedged approximately 2% of its anticipated aircraft fuel needs for 2008. As of December 31, 2006, the fair value of our obligation related to the jet fuel forward contracts was $1.1 million and was included in other current liabilities. We measure the fair value of the derivative instruments based on quoted values provided by an affiliate of the counterparty.

Effective August 2007, Hawaiian entered into heating oil future contracts and started phasing out its jet fuel forward contracts. Heating oil, commonly referred to as kerosene, is a distillate of crude oil. Jet fuel represents a specific grade of heating oil and while jet fuel is heating oil, the opposite is not quite true. Our heating oil future contracts are traded on the New York Mercantile Exchange (NYMEX) and therefore, the fair value of these contracts are based on their quoted market prices. These heating oil future contracts do not meet the requirements of SFAS 133 and are not considered derivative financial instruments for financial reporting purposes. As of December 31, 2007, the fair value of our heating oil future contracts totaled $3.3 million and is reflected in prepaid expenses and other in the Consolidated Balance Sheet.

As of February 22, 2008, Hawaiian had entered into heating oil future contracts to hedge approximately 28%, 19% and 10% of its first, second and third quarter 2008 consumption, respectively. Certain of these contracts have settled as of this date. Additionally, Hawaiian had entered into jet fuel forward contracts to hedge approximately 2% of its first quarter consumption. Hawaiian's future contracts as of February 22, 2008 are outlined in the table below:

HEATING OIL FUTURES

	Average Heating Oil Contract Price per Gallon	Gallons Hedged (thousands)	Percentage of Quarterly Consumption Hedged
First Quarter 2008	$ 2.28	9,156	28%
Second Quarter 2008	$ 2.39	6,090	19%
Third Quarter 2008	$ 2.41	3,192	10%

JET FUEL FORWARDS

	Average Jet Fuel Contract Price per Gallon	Gallons Hedged (thousands)	Percentage of Quarterly Consumption Hedged
First Quarter 2008	$ 2.21	714	2%

We do not hold or issue derivative financial instruments for trading purposes. We are exposed to credit risks in the event the above counterparty fails to meet its obligations; however, we do not expect this counterparty to fail to meet its obligations.

Interest Rates

Our results of operations are affected by fluctuations in interest rates due to our variable-rate debt and interest income earned on certain of our cash deposits and short-term investments. The Company's debt agreements include the Term A Credit Facility, Term B Credit Facility and the Boeing 767-300ER financing agreements, the terms of which are discussed in Note 6 to our consolidated financial statements included in this Form 10-K.

At December 31, 2007, we had approximately $81.6 million of fixed rate debt including capital lease obligations of $0.8 million, and $162.9 million of variable rate debt indexed to the Wells Fargo Bank Prime Rate and the one-month London Interbank Bank Offered Rate (LIBOR) and six-month LIBOR. Interest rates on the LIBOR indexed loans adjust either monthly or semi-annually. The Wells Fargo Bank Prime Rate was 8.75% and one-month LIBOR and six-month LIBOR were 4.60% on such date. We do not mitigate our exposure to variable-rate debt by entering into interest rate swaps. Therefore, changes in market interest rates have a direct and corresponding effect on our pre-tax earnings and cash flows associated with our floating rate debt and interest-bearing cash accounts and short-term investments. However, based on the balances of our cash and cash equivalents, restricted cash, short term investments, and variable-rate debt as of December 31, 2007, a change in interest rates would not have a material impact on our results of operations because the level of our variable-rate interest-bearing cash deposits and investments approximates the level of our variable-rate liabilities. Should that relationship change in the future, our exposure to changes in interest rate fluctuations would likely increase.

Market risk for fixed-rate long-term debt and capitalized lease obligations is estimated as the potential increase in fair value resulting from a hypothetical 10 percent decrease in interest rates, and amounted to approximately $2.7 million as of December 31, 2007.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Hawaiian Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Hawaiian Holdings, Inc. and Subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of operations, shareholders' equity (deficit) and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 10 to the consolidated financial statements, the Company adopted, effective January 1, 2006, Statement of Financial Accounting Standards No. 123 (revised 2004), "Share Based Payment", and, as discussed in Note 9 to the consolidated financial statements, the Company adopted, effective December 31, 2006, Statement of Financial Accounting Standards No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)".

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Hawaiian Holdings, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2008, expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Honolulu, Hawaii
February 28, 2008

Hawaiian Holdings, Inc.

Consolidated Statements of Operations

For the Years ended December 31, 2007, 2006 and 2005

	Year ended December 31,		
	2007	**2006**	**2005(*)**
	(in thousands, except per share data)		
Operating Revenue:			
Passenger	$ 889,038	$ 796,821	$ 458,117
Cargo	30,916	32,181	19,252
Charter	11,842	9,486	6,017
Other	50,759	49,559	25,381
Total	982,555	888,047	508,767
Operating Expenses:			
Aircraft fuel, including taxes and oil	291,636	241,660	131,426
Wages and benefits	222,558	228,010	134,335
Aircraft rent	97,626	109,592	63,392
Maintenance materials and repairs	93,166	69,606	33,327
Aircraft and passenger servicing	53,877	52,655	29,093
Commissions and other selling	53,602	48,575	25,246
Depreciation and amortization	45,952	28,865	15,937
Other rentals and landing fees	27,897	25,720	14,182
Other	89,407	82,858	59,799
Total	975,721	887,541	506,737
Operating Income	6,834	506	2,030
Nonoperating Income (Expense):			
Interest expense and amortization of debt discount and issuance costs	(25,510)	(17,476)	(9,030)
Losses due to redemption, prepayment, extinguishment and modification of long-term debt		(32,134)	(4,214)
Interest income	10,643	11,338	4,658
Capitalized interest	1,309	3,769	
Other, net	4,653	(7,013)	17,030
Total	(8,905)	(41,516)	8,444
Income (Loss) Before Income Taxes	(2,071)	(41,010)	10,474
Income tax expense (benefit)	(9,122)	(463)	22,840
Net Income (Loss)	$ 7,051	$ (40,547)	$ (12,366)
Net Income (Loss) Per Common Stock Share:			
Basic	$ 0.15	$ (0.86)	$ (0.31)
Diluted	$ 0.15	$ (0.86)	$ (0.31)

	Year ended December 31,		
Weighted Average Number of Common Stock Shares Outstanding:			
Basic	47,203	47,153	39,250
Diluted	47,460	47,153	39,250

(*) Includes the deconsolidated results of operations of Hawaiian Holdings, Inc. from January 1, 2005 through June 1, 2005, and the consolidated results of operations of Hawaiian Holdings, Inc. and Hawaiian Airlines, Inc. from June 2, 2005 through December 31, 2005.

See accompanying Notes to Consolidated Financial Statements.

Hawaiian Holdings, Inc.

Consolidated Balance Sheets

December 31, 2007 and 2006

	December 31, 2007	December 31, 2006
	(in thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 94,096	$ 66,852
Restricted cash	38,720	53,719
Short term investments	50,388	47,630
Total cash, restricted cash and short term investments	183,204	168,201
Accounts receivable, net of allowance for doubtful accounts of $608 and $498 as of December 31, 2007 and 2006, respectively	40,622	39,304
Spare parts and supplies, net	19,035	15,462
Prepaid expenses and other	24,522	19,120
Total	267,383	242,087
Property and equipment, net		
Flight equipment	251,332	237,685
Other property and equipment	63,692	52,096
	315,024	289,781
Less accumulated depreciation and amortization	(44,290)	(17,167)
Total	270,734	272,614
Other Assets:		
Long-term prepayments and other	41,491	31,454
Intangible assets, net of accumulated amortization of $60,562 and $37,110 as of December 31, 2007 and 2006, respectively	139,109	162,560
Goodwill	104,682	93,629
Total Assets	$ 823,399	$ 802,344
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 37,239	$ 51,918
Air traffic liability	215,581	180,539
Other accrued liabilities	42,391	38,402
Current maturities of long-term debt and capital lease obligations	23,905	22,992
Total	319,116	293,851
Long-Term Debt and Capital Lease Obligations	215,926	238,381
Other Liabilities and Deferred Credits:		
Accumulated pension and other postretirement benefit obligations	94,020	127,280
Other liabilities and deferred credits	60,998	59,195
Total	155,018	186,475

	December 31,	
Commitments and Contingent Liabilities		
Shareholders' Equity:		
Special preferred stock, $0.01 par value per share, three shares issued and outstanding at December 31, 2007 and 2006		
Common stock, $0.01 par value per share, 47,241,100 shares and 46,583,914 shares issued and outstanding at December 31, 2007 and 2006, respectively	472	466
Capital in excess of par value	213,200	210,892
Accumulated deficit	(177,217)	(184,268)
Accumulated other comprehensive income (loss):		
Funded status of pension and postretirement benefits	96,439	56,743
Unrealized gain (loss) on hedge instruments and short-term investments	445	(196)
Total	133,339	83,637
Total Liabilities and Shareholders' Equity	$ 823,399	$ 802,344

See accompanying Notes to Consolidated Financial Statements.

Hawaiian Holdings, Inc.

Consolidated Statements of Shareholders' Equity (Deficit) and Comprehensive Income (Loss)

For the Years ended December 31, 2007, 2006 and 2005

	Common Stock(*)	Special Preferred Stock(**)	Capital In Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
			(in thousands, except share data)			
Balance at December 31, 2004	307		69,756	(131,355)		(61,292)
Net loss				(12,366)		(12,366)
Unrealized loss on hedge instruments					(12,144)	(12,144)
Comprehensive loss						(24,510)
Issuance of 14,123,873 shares pursuant to the Joint Plan	141		91,664			91,805
Exercise of options to acquire 474,000 shares	5		1,208			1,213
Intrinsic value of beneficial conversion feature of 5% subordinated convertible notes			27,750			27,750
Fair value of warrants issued with 5% subordinated convertible notes			13,540			13,540
Repurchases of warrants issued with 5% subordinated convertible notes			(902)			(902)
Non-employee stock option compensation			356			356
Excess tax benefit from exercise of stock options			107			107
Balance at December 31, 2005	453		203,479	(143,721)	(12,144)	48,067
Net loss				(40,547)		(40,547)
Unrealized income on hedge instruments					11,948	11,948
Comprehensive loss						(28,599)
Exercise of options to acquire 352,000 shares of common stock	3		948			951
Distribution of 882,814 shares of common stock pursuant to stock bonus plan	10		4,000			4,010
Adjustment to beneficial conversion feature resulting from the redemption of the 5% subordinated convertible notes			(9,054)			(9,054)
Fair value of warrants issued with long-term debt			6,280			6,280
Share-based compensation expense			5,048			5,048
Excess tax benefits from exercise of stock options			191			191
Impact of adoption of SFAS 158					56,743	56,743
Balance at December 31, 2006	$ 466	$	$ 210,892	$ (184,268)	$ 56,547	$ 83,637
Net income				7,051		7,051
Net change related to employee benefit plans					39,696	39,696
Unrealized income on hedge instruments and short-term investments					641	641
Comprehensive income						47,388
Exercise of options to acquire 40,000 shares of common stock			110			110
Distribution of 617,186 shares of common stock pursuant to stock bonus plan	6		884			890
Share-based compensation expense			1,291			1,291

	Common Stock(*)	Special Preferred Stock(**)	Capital In Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Excess tax benefits from exercise of stock options			23			23
Balance at December 31, 2007	$ 472	$	$ 213,200	$ (177,217)	$ 96,884	$ 133,339

(*) Common Stock $0.01 par value; 118,000,000 authorized as of December 31, 2007 and 2006.

(**) Special Preferred Stock $0.01 par value; 2,000,000 shares authorized as of December 31, 2007 and 2006.

See accompanying Notes to Consolidated Financial Statements.

Hawaiian Holdings, Inc.

Consolidated Statements of Cash Flows

For the Years ended December 31, 2007, 2006 and 2005

	Year ended December 31,		
	2007	2006	2005(*)
	(in thousands)		
Cash Flows From Operating Activities:			
Net income (loss)	$ 7,051	$ (40,547)	$ (12,366)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Amortization of intangible assets	23,451	23,839	13,936
Depreciation and amortization of property and equipment	28,564	11,477	5,794
Deferred income taxes			24,865
Stock compensation	2,181	5,048	4,396
Losses due to redemption, prepayment, extinguishment and modification of long-term debt		34,798	4,223
Amortization of debt discounts and issuance costs	2,414	3,543	3,771
Pension and postretirement benefit cost	10,301	14,435	7,337
Other, net	(2,720)	(3,090)	(2,226)
Changes in operating assets and liabilities:			
Restricted cash	14,999	(299)	4,528
Accounts receivable	(1,478)	(2,701)	21,214
Spare parts and supplies	(4,834)	(2,302)	(3,087)
Prepaid expenses and other current assets	(4,822)	14,501	(2,788)
Accounts payable	(14,679)	13,121	(9,026)
Air traffic liability	35,042	17,901	9,709
Other accrued liabilities	3,955	(19,671)	(4,264)
Other assets and liabilities, net	(17,873)	(6,910)	(8,090)
Net cash provided by operating activities	81,552	63,143	57,926
Cash Flows From Investing Activities:			
Acquisition of Hawaiian Airlines, Inc			91,280
Additions to property and equipment	(28,571)	(236,335)	(7,374)
Purchases of short-term investments	(62,020)	(51,097)	(10,746)
Sales of short-term investments	59,323	26,700	9,918
Net cash provided by (used in) investing activities	(31,268)	(260,732)	83,078
Cash Flows From Financing Activities:			
Tax benefit from stock option exercise	23	191	
Proceeds from exercise of stock options	110	951	1,212
Long-term borrowings		217,250	
Repayments of long-term debt and capital lease obligations	(22,995)	(24,321)	(6,508)
Repurchase of subordinated convertible notes and warrants		(54,891)	(7,722)
Debt issuance costs	(178)	(4,894)	
Net cash provided by (used in) financing activities	(23,040)	134,286	(13,018)
Net increase (decrease) in cash and cash equivalents	27,244	(63,303)	127,986
Cash and cash equivalents Beginning of Period	66,852	130,155	2,169

	Year ended December 31,		
Cash and cash equivalents End of Period	$ 94,096	$ 66,852	$ 130,155

(*) Includes the deconsolidated cash flows of Hawaiian Holdings, Inc. from January 1, 2005 through June 1, 2005, and the consolidated cash flows of Hawaiian Holdings, Inc. and Hawaiian Airlines, Inc. from June 2, 2005 through December 31, 2005.

See accompanying Notes to Consolidated Financial Statements.

Hawaiian Holdings, Inc.

Notes to Consolidated Financial Statements

1. Business and Organization

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). Hawaiian was incorporated in January 1929 under the laws of the Territory of Hawaii. Hawaiian is engaged primarily in the scheduled air transportation of passengers and cargo. Hawaiian provides passenger and cargo service from Hawaii, principally Honolulu, to nine Western United States cities (transpacific). Hawaiian also provides daily direct service to all six of the major islands, including those that are serviced by a code share arrangement with Island Air (interisland) and weekly service to each of Pago Pago, American Samoa and Papeete, Tahiti in the South Pacific (South Pacific) and Sydney, Australia. Charter service is also provided from Honolulu to Anchorage, Alaska (Charter). As of December 31, 2007, Hawaiian operated a fleet of 11 Boeing 717-200 aircraft for its interisland routes and a fleet of 18 Boeing 767-300 aircraft for its transpacific, South Pacific and charter routes.

On March 21, 2003 (the Petition Date), Hawaiian filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code (the Bankruptcy Code) in the U.S. Bankruptcy Court for the District of Hawaii (the Bankruptcy Court). On April 1, 2003, following Hawaiian's bankruptcy filing, the Company deconsolidated Hawaiian for financial reporting purposes and accounted for its ownership of Hawaiian using the cost method of accounting. On March 11, 2005, the Company, together with the bankruptcy trustee, the Official Committee of Unsecured Creditors of Hawaiian, a wholly-owned subsidiary of the Company formerly known as HHIC, Inc. (HHIC), A Delaware corporation, and RC Aviation, LLC (RC Aviation), which is currently the Company's largest shareholder, sponsored the Third Amended Joint Plan of Reorganization (the Joint Plan) to provide for Hawaiian to emerge from bankruptcy. As further discussed in Note 3, on June 2, 2005, the effective date of Hawaiian's joint plan of reorganization and its emergence from bankruptcy (the Effective Date), the Company reconsolidated Hawaiian in a transaction accounted for as a business combination. As a result, for financial reporting purposes, the Company was a holding company with no business operations for the period from January 1, 2005 through June 1, 2005. Accordingly, as used in this report, the terms "Company", "we", "our", and "us" refer to (i) Hawaiian Holdings, Inc. only, with respect to the period from January 1, 2005 through June 1, 2005; and (ii) Hawaiian Holdings, Inc. and its consolidated subsidiaries, including Hawaiian Airlines, Inc., with respect to the periods from and after June 2, 2005.

2. Summary of Significant Accounting Policies

Basis of Presentation

Prior to Hawaiian's bankruptcy, the Company consolidated Hawaiian pursuant to Statement of Financial Accounting Standards (SFAS) No. 94, "Consolidation of All Majority-Owned Subsidiaries", because the Company controlled Hawaiian through its ownership of all of the voting stock of Hawaiian. After the bankruptcy, the Company deconsolidated Hawaiian and prospectively accounted for its ownership of Hawaiian using the cost method of accounting until the Company regained control of Hawaiian on June 2, 2005. The Company accounted for Hawaiian's emergence from bankruptcy as a business combination, with the assets and liabilities of Hawaiian recorded in the Company's consolidated financial statements at their fair values as of June 2, 2005, and the results of operations of Hawaiian included in the Company's consolidated results of operations since June 2, 2005.

Hawaiian Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Summary Financial Information of Hawaiian Airlines

Hawaiian is a predecessor of the Company, as defined in Rule 405 of Regulation C under the Securities Act, and as a result separate financial statements of Hawaiian, prepared in accordance with Article 10 of Regulation S-X of the Securities and Exchange Commission (SEC), up until the point at which Hawaiian was reacquired by the Company, are included in this Annual Report on Form 10-K. Summary financial information of Hawaiian, up until the point at which it emerged from bankruptcy and was reacquired by the Company, is presented below.

	Period January 1, 2005 through June 1, 2005
	(in thousands)
Operating revenue	$ 321,150
Operating expenses	309,080
Operating income	12,070
Reorganization items, net	887
Other nonoperating income	2,909
Income before income tax expense	15,866
Income tax expense	18,572
Net loss	$ (2,706)

Hawaiian's financial statements, from which the above summarized financial information was derived, were prepared in accordance with American Institute of Certified Public Accountants' Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" (SOP 90-7), and on a going concern basis, which assumes continuity of operations, realization of assets and satisfaction of liabilities in the ordinary course of business. SOP 90-7 requires that the financial statements for periods subsequent to a Chapter 11 filing separate transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, all transactions (including, but not limited to, professional fees, realized gains and losses, and provisions for losses) directly associated with Hawaiian's reorganization and restructuring are reported separately as reorganization items in its statements of operations. Hawaiian's financial statements do not give effect to any adjustments to the carrying values of the assets or the amounts of liabilities of Hawaiian resulting from and occurring subsequent to the consummation of the Joint Plan.

Cash Equivalents

The Company considers all investments with an original maturity of three months or less at the date of purchase to be cash equivalents.

Restricted Cash

At December 31, 2007 and 2006, restricted cash consisted primarily of cash deposits held by institutions that process credit card transactions for advance ticket sales (which funds are subsequently made available to Hawaiian as the related air travel is provided).

Hawaiian Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Spare Parts and Supplies

Spare parts and supplies consist primarily of expendable parts for flight equipment and other supplies that are valued at average cost. An allowance for obsolescence for expendable parts is provided over the estimated useful lives of the related aircraft and engines for spare parts expected to be on hand at the date the aircraft are retired from service. An allowance is also provided to reduce the carrying costs of excess spare parts to the lower of amortized cost or net realizable value. These allowances are based on management's estimates and are subject to change.

Property and Equipment

Owned property and equipment are stated at cost and depreciated on a straight-line basis over the following estimated useful lives:

Aircraft and engines	7 - 20 years, 0% - 15% residual value
Major rotable parts	12 years, 15% residual value
Improvements to leased flight equipment	Shorter of lease term or useful life
Facility leasehold improvements	Shorter of lease term, including assumed lease renewals when renewal is economically compelled at key airports or useful life
Furniture, fixtures and other equipment	3 - 7 years, no residual value
Capitalized software	3 - 7 years, no residual value

Modifications that significantly enhance the operating performance and/or extend the useful lives of property and equipment are capitalized and amortized over the lesser of the remaining life of the asset or the lease term, as applicable. Costs associated with aircraft modifications that enhance the usefulness of the aircraft are capitalized and depreciated over the estimated remaining useful life of the aircraft or modification, whichever is less.

Aircraft Maintenance and Repair Costs

Aircraft maintenance and repairs are charged to operations as incurred, except for charges for maintenance and repairs incurred under power-by-the-hour maintenance contracts that are accrued and expensed when a contractual obligation exists, generally on the basis of hours flown.

Maintenance reserves paid to certain aircraft lessors in advance of the performance of major maintenance activities are recorded as a deposit, to the extent recoverable through future maintenance, and then recognized as maintenance expense when the underlying maintenance is performed. Any non-refundable amounts that are not probable of being used to fund future maintenance expense are recognized as additional aircraft rental expense. In determining whether it is probable that maintenance deposits will be used to fund the cost of maintenance events, management considers the condition, including the airframe, the engines, the auxiliary power unit and the landing gear, of the related aircraft, the projected future usage of the aircraft during the term of the lease based on the Company's business and fleet plan, and the estimated cost of performing all required maintenance during the lease term. These estimates are based on the experience of the Company's maintenance personnel and industry

Hawaiian Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

available data, including historical fleet operating statistics reports published by the aircraft and engine manufacturers. As of December 31, 2007, based on this assessment, management determined that it was probable that all maintenance deposits recorded as an asset in the accompanying Consolidated Balance Sheet will be used to fund the cost of maintenance events and are therefore recoverable.

Impairment of Long-Lived Assets

Goodwill and intangible assets with indefinite lives are not amortized, but are tested for impairment at least annually using a "two-step process." In the first step, the fair value of the Company's reporting unit is compared to its carrying value. If the fair value of the Company's reporting unit exceeds the carrying value of its net assets, goodwill is not impaired and no further testing is required to be performed. If the carrying value of the net assets of the Company's reporting unit exceeds its fair value, then the second step of the impairment test must be performed in order to determine the implied fair value of the Company's reporting unit's goodwill. If the carrying value of the goodwill exceeds its implied fair value, then an impairment loss is recorded equal to the difference. Management reviewed the carrying values of goodwill and intangible assets pursuant to the applicable provisions of SFAS No. 142 and has concluded that as of December 31, 2007 such carrying values were not impaired nor was there any need to adjust the remaining useful lives for those intangible assets subject to amortization. In the event that the Company determines that the values of goodwill or intangible assets with indefinite lives have become impaired, the Company will incur an accounting charge during the period in which such determination is made. Changes in the estimated useful lives of intangible assets, if any, will be accounted for prospectively over such revised useful lives.

Long-lived assets used in operations, consisting principally of property and equipment, and intangible assets subject to amortization are tested for impairment when events or changes in circumstances indicate, in management's judgment, that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. The net carrying value of assets not recoverable is reduced to fair value if lower than carrying value. In determining the fair market value of the assets, the Company considers market trends, recent transactions involving sales of similar assets and, if necessary, estimates of future discounted cash flows.

Revenue Recognition

Passenger revenue is recognized either when the transportation is provided or when tickets expire unused. The value of passenger tickets for future travel is included as air traffic liability. Charter and cargo revenue is recognized when the transportation is provided.

Various taxes and fees assessed on the sale of tickets to end customers are collected by the Company as an agent and remitted to taxing authorities. These taxes and fees have been presented on a net basis in the accompanying Consolidated Statements of Operations and recorded as a liability until remitted to the appropriate taxing authority.

Other components of other operating revenue include ticket change fees, ground handling fees, commissions and fees earned under certain joint marketing agreements with other companies and other incidental sales that are recognized as revenue when the related goods and services are provided.

The Company's receivables primarily consist of airline traffic (including credit card) receivables, amounts from customers, mileage plan partners, government tax authorities, and other miscellaneous

Hawaiian Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

amounts due to the Company, and are net of an allowance for doubtful accounts. Management determines the allowance for doubtful accounts based on known troubled accounts and historical experience applied to an aging of accounts.

Frequent Flyer Program

HawaiianMiles, Hawaiian's frequent flyer travel award program, provides a variety of awards to program members based on accumulated mileage. The estimated cost of providing free travel on Hawaiian or on certain other airlines, and for goods and services provided by other participating partners, is recognized as a liability and charged to operations as program members accumulate mileage. The incremental cost for travel provided by Hawaiian includes the cost of fuel, passenger meals, beverages and other in-flight supplies, passenger liability insurance, reservations and ticketing, but does not include any costs for aircraft ownership, maintenance, labor or overhead allocation. The liability is adjusted periodically based on awards earned, awards redeemed, changes in the incremental costs and changes in the *HawaiianMiles* program.

During 2007, we performed an analysis of our frequent flyer accounting estimates and as a result, adopted a change in the estimate used to calculate our frequent flyer liability. The most significant change was to estimate the number of miles that will not be redeemed ("breakage") in its incremental cost calculation. Previously, breakage estimates were not included due to a lack of availability of acceptable data. During 2007, we determined that 20% of miles in the incremental cost calculation will never be redeemed and applied this adjustment as of December 31, 2007, principally resulting in a favorable adjustment to operating income of approximately $5.0 million. Our breakage assumptions are reasonable in light of historical experience and future expectations. Actual breakage could differ significantly from our estimate. A change to the cost estimates, the actual redemption activity, or the amount of redemptions on partner airlines could have a significant impact on the frequent flyer liability in the period of change as well as in future years.

Hawaiian sells mileage credits in its *HawaiianMiles* frequent flyer program to participating companies such as hotels, car rental agencies and credit card companies. A portion of the revenue from the sale of mileage credits is deferred and recognized as passenger revenue when transportation is likely to be provided, based on the fair value of the transportation to be provided. Amounts in excess of the fair value of the transportation to be provided are recognized immediately as other operating revenue.

Commissions and Other Selling Expenses

Commissions and other selling expenses include credit card commissions, the costs of free travel earned on flights, and other awards provided by *HawaiianMiles*, advertising and promotional expenses and computer reservation systems charges, as well as commissions paid to outside agents for the sales of passenger and cargo traffic. Sales commissions are deferred when paid and are subsequently recognized as expense when the related revenue is recognized. Prepaid sales commissions are included in prepaid expenses and other current assets in the accompanying balance sheets. All other components of commissions and other selling expenses, including advertising costs, are expensed when incurred. Advertising expense was $8.3 million, $8.8 million and $4.9 million, for the years ended December 31, 2007, 2006 and 2005, respectively, during those periods in which the Company consolidated Hawaiian.

Hawaiian Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Capitalized Interest

Interest is capitalized on aircraft acquisition and significant modifications of the aircraft as part of the cost of the related asset, and is depreciated over the estimated useful life of the asset. The capitalized interest is based on the Company's weighted-average borrowing rate.

Basic Earnings Per Share

Net income or loss per share is reported in accordance with SFAS No. 128, "Earnings Per Share" (SFAS 128). Under SFAS 128, basic earnings per share, which excludes dilution, is computed by dividing net income or loss available to common shareholders by the weighted average number of common shares outstanding for the period. The following table sets forth the components of basic earnings (loss) per share (in thousands, except per share data):

	Year Ended December 31,		
	2007	2006	2005
Net income (loss)	$ 7,051	$ (40,547)	$ (12,366)
Less: amount allocated to participating warrants			210
Net income (loss) available to common shareholders Basic	7,051	(40,547)	(12,156)
Weighted average common shares outstanding	47,203	47,153	39,250
Basic income (loss) per share	$ 0.15	$ (0.86)	$ (0.31)

Diluted Earnings Per Share

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. Diluted earnings per share uses the treasury stock method for in-the-money stock options, warrants and restricted stock (in thousands, except per share data).

	Year Ended December 31, 2007
Net income available to common shareholders Diluted	$ 7,051
Weighted average common shares outstanding	47,203
Assumed exercise of stock options	257
Adjusted weighted average shares Diluted	47,460
Diluted income per share	$ 0.15

Approximately 2.2 million, 2.6 million, and 2.8 million of shares related to options to purchase the Company's common stock and other awards were not included in the computation of diluted earnings per share for the years ended December 31, 2007, 2006, and 2005, respectively, because the awards would have been antidilutive. In addition, 9.5 million, 9.0 million and 3.9 million potential common shares related to common stock warrants were excluded from the computation of diluted earnings per share for the year ended December 31, 2007, 2006 and 2005, respectively, and 3.6 million and 7.7 million potential common shares related to convertible debt securities, were excluded from the computation of diluted earnings per share for the year ended December 31, 2006 and 2005, respectively, because they were antidilutive.

Hawaiian Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

Stock Compensation Plans

The Company has a stock compensation plan for its officers and non-employee directors. The Company also had a stock bonus plan, for which all of the stock was distributed to the Company's eligible employees in 2006 and 2007 (see Note 10). Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share Based Payment" (SFAS 123R) to account for grants and awards made under these plans. SFAS 123R supersedes Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and replaces SFAS 123, "Accounting for Stock-Based Compensation" (SFAS 123). Prior to its adoption of SFAS 123R, the Company accounted for its stock option and stock bonus plans pursuant to APB 25 and related Interpretations, and the pro forma disclosure provisions of SFAS 123, as amended by SFAS No. 148. See Note 10.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ significantly from those estimates.

Reclassifications

During 2007, the Company determined that $2.7 million of expense recorded during 2006 related to the write-off of lease-related intangible assets and unfavorable lease liabilities, should be reflected as other operating expense instead of non-operating expense. As a result, this amount was reclassified and is reflected as other operating expense for the year ended December 31, 2006.

Segment Information

The Company has no other significant operations other than the operations of its wholly-owned subsidiary, Hawaiian. Principally all operations of Hawaiian either originate and/or end in the State of Hawaii. The management of such operations is based on a system-wide approach due to the interdependence of Hawaiian's route structure in its various markets. As Hawaiian offers only one significant line of business (i.e., air transportation), management has concluded that it has only one segment.

Recently Issued Accounting Pronouncement

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements," (SFAS 157), which defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements; rather it specifies valuation methods and disclosures to be applied when fair value measurements are required under existing or future accounting pronouncements. The provisions of this statement are to be applied prospectively as of the beginning of the fiscal year in which this statement is initially applied, with any transition adjustment recognized as a cumulative-effect adjustment to the opening balance of retained earnings. The provisions of SFAS 157, as issued, are effective for the fiscal years beginning after November 15, 2007. On February 6, 2008 the FASB issued a final FASB Staff Position (FSP) No. 157-b, "Effective Date of FASB Statement No. 157". This FSP delays

Hawaiian Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

the effective date for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). The effective date of SFAS 157 for nonfinancial assets and liabilities has been delayed to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company adopted the required provision of SFAS 157 as of January 1, 2008. The Company does not expect the adoption of SFAS 157 to have a material impact on the Consolidated Financial Statements.

3. Business Combination

As discussed in Note 1, from the period January 1, 2005 through June 1, 2005, during which time the Company did not control Hawaiian, the Company deconsolidated Hawaiian for financial reporting purposes and accounted for its ownership of Hawaiian using the cost method of accounting. In connection with Hawaiian's reorganization and emergence from bankruptcy, the Company issued debt and equity securities to holders of certain claims in Hawaiian's bankruptcy case in order to consummate the Joint Plan and to regain control of Hawaiian at the Effective Date. The Company's reacquisition of Hawaiian was accounted for as a business combination, and Hawaiian's results of operations are included in the Company's results of operations since June 2, 2005.

The Joint Plan provided for payment in full of all allowed claims, including unsecured claims, and was financed through the issuance of approximately 14.1 million shares of the Company's common stock, a private placement by the Company of $60.0 million of 5% subordinated convertible notes, and by two secured credit facilities undertaken by Hawaiian for $75 million of variable rate and fixed rate debt (the Term A and Term B Credit Facility, respectively), as discussed further in Note 6. The Joint Plan also provided for the merger of Hawaiian Airlines, Inc., a Hawaii corporation, with and into HHIC, Inc., a Delaware corporation and wholly-owned subsidiary of the Company (HHIC), with HHIC as the surviving entity immediately changing its name to Hawaiian Airlines, Inc. As used hereinafter in this report, the term "Hawaiian" refers to the predecessor company for all periods prior to the merger with HHIC, and the successor company for all periods subsequent to the merger with HHIC.

In accordance with EITF Consensus 99-12, "Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination", the common stock was valued at $6.50 per share for accounting purposes. This price represents the average closing price per share for the five-day period prior to and including November 2, 2004, the date upon which the number of shares of the Company's common stock issued under the Joint Plan was finalized. The Company's total purchase price for Hawaiian was as follows (in thousands):

Common stock	$	91,805
Issuance of subordinated convertible notes		60,000
Cash payments made to holders of claims against Hawaiian		48,257
Accruals for estimated unpaid claims		18,246
Total estimated purchase price	$	218,308

Hawaiian Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

3. Business Combination (Continued)

The reacquisition of Hawaiian was accounted for under the purchase method of accounting in accordance with SFAS No. 141, "Business Combinations" (SFAS 141). Accordingly, the total purchase price was allocated to the net tangible and intangible assets of Hawaiian based on their fair values as of the date of acquisition. The following table summarizes the fair values initially allocated to Hawaiian's assets and liabilities at the date of acquisition, which fair values were determined by management with the assistance of independent valuation specialists for certain of the significant acquired assets and assumed liabilities (in thousands).

Assets	
Cash and cash equivalents	$ 113,685
Restricted cash	57,448
Accounts receivable	51,433
Spare parts and supplies	13,130
Deferred taxes, net	13,576
Prepaid expenses and other	30,984
Property and equipment	49,530
Long-term prepayments and other	24,928
Intangible assets	205,560
Goodwill	105,823
Liabilities	
Accounts payable	$ 47,623
Air traffic liability	152,929
Accrued liabilities	47,013
Debt and capital lease obligations	78,352
Accumulated pension and other postretirement benefit obligations	200,777
Other liabilities	50,321

Of the total estimated purchase price, $192.1 million was ultimately allocated to amortizable intangible assets, and $13.0 million was allocated to intangible assets with indefinite lives. The Company ultimately recorded goodwill representing the estimated purchase price in excess of the fair value of the tangible and intangible assets acquired and the liabilities assumed. Intangible assets with indefinite lives consist of the estimated fair value allocated to the Hawaiian Airlines trade name, which was determined to have an indefinite useful life due to several factors and considerations, including the length of time that the Hawaiian Airlines trade name has been in use, the Hawaiian Airlines brand awareness and market position, and the assumed continued use of the Hawaiian Airlines trade name.

As of December 31, 2007, the Company's goodwill was $104.7 million which reflects adjustments recorded during 2006 and 2007 as a result of corrections to their pension accounting that substantially offset each other. See Note 9 for further discussion of the pension adjustments.

Hawaiian Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

4. Intangible Assets

The following table summarizes the gross carrying values of intangible assets less accumulated amortization as of December 31, 2007 and 2006, and the useful lives assigned to each asset.

	As of December 31, 2007			
	Gross carrying value	Accumulated amortization	Net book value	Approximate useful life (years)
	(in thousands)			
Frequent flyer program marketing relationships	$ 119,900	$ (41,292)	$ 78,608	7.5
Favorable aircraft and engine leases	32,710	(12,298)	20,412	8.5(*)
Favorable aircraft maintenance contracts	18,200	(3,345)	14,855	14(*)
Frequent flyer program customer relations	12,200	(2,852)	9,348	11
Hawaiian Airlines trade name	13,000		13,000	Indefinite
Operating certificates	3,660	(775)	2,885	12
Total intangible assets	$ 199,670	$ (60,562)	$ 139,108	

	As of December 31, 2006		
	Gross carrying value	Accumulated amortization	Net book value
	(in thousands)		
Frequent flyer program marketing relationships	$ 119,900	$ (25,308)	$ 94,592
Favorable aircraft and engine leases	32,710	(7,530)	25,180
Favorable aircraft maintenance contracts	18,200	(2,049)	16,151
Frequent flyer program customer relations	12,200	(1,748)	10,452
Hawaiian Airlines trade name	13,000		13,000
Operating certificates	3,660	(475)	3,185
Total intangible assets	$ 199,670	$ (37,110)	$ 162,560

(*) Weighted average based on gross carrying values and estimated useful lives as of June 2, 2005. The range of useful lives was from approximately 16 years for a favorable aircraft lease to approximately six years for a favorable aircraft maintenance contract.

During the year ended December 31, 2006, the Company reduced the aircraft and engine lease intangible asset and accumulated amortization by $5.5 million and $0.7 million, respectively, related to certain aircraft and engine leases with AWMS I, an affiliate of AWAS (formerly Ansett Worldwide Aviation Services, Inc., along with its affiliates, including AWMS I, referred to herein as "AWAS") that the Company terminated and modified in December 2006 (see Note 7).

Amortization expense related to the above intangible assets were $23.5 million, $23.8 million and $13.9 million, respectively for the years ended December 31, 2007, 2006, and the period from June 2, 2005 through December 31, 2005. Amortization of the favorable aircraft and engine leases and the favorable aircraft maintenance contracts is included in aircraft rent and maintenance materials and repairs, respectively, in the accompanying consolidated statement of operations for the years ended

Hawaiian Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

4. Intangible Assets (Continued)

December 31, 2007, 2006 and 2005. The estimated future amortization expense as of December 31, 2007 of the intangible assets subject to amortization is as follows (in thousands):

2008	$ 23,448
2009	23,448
2010	23,448
2011	23,347
2012	18,755
Thereafter	13,662
	$ 126,108

5. Financial Instruments and Fuel Risk Management

Financial Instruments

Short term investments as of December 31, 2007 and 2006 recorded at fair value consisted of (in thousands):

	December 31,	
	2007	2006
Auction rate securities	$ 42,944	$ 27,975
Foreign bonds	3,488	9,184
U.S. government agency mortgages	1,032	6,486
U.S. government agency notes		3,985
Corporate and bank notes	2,924	
	$ 50,388	$ 47,630

Short term investments at December 31, 2007, by contractual maturity included (in thousands):

Due in one year or less	$ 4,064
Due between one and two years	2,348
Due after two years	43,976
	$ 50,388

All short term investments are classified as available-for-sale and stated at fair value. Gross realized and unrealized gains and losses are not material for all periods presented.

The Company invests in auction rate securities, which are long-term bonds that resemble short-term instruments because their interest rates are reset periodically through an auction process every 7 days. The underlying bonds have heretofore been considered relatively liquid, short-term investments because of the auction process. In February 2008, we held approximately $42.9 million in AAA/Aaa rated tax-exempt municipal auction rate securities. The Company first experienced a failed auction on our municipal auction rate securities on February 13, 2008. For the securities that experienced a failed auction, the issuer will pay interest at premium rates (i.e., default rates) on the future regular auction dates until the earlier of the occurrence of a successful auction, the date the securities are redeemed or

5. Financial Instruments and Fuel Risk Management (Continued)

the maturity date. These default rates may increase if there is a downgrade in the current rating of the securities. We believe that the securities were stated at fair value as of December 31, 2007, based on the existence of subsequent successful auctions in 2008.

The fair value of the Company's debt with a carrying value of $239.0 million and $260.4 million at December 31, 2007 and 2006, respectively, was approximately $221.0 million and $261.8 million. These estimates were based on the discounted amount of future cash flows using the Company's estimated incremental rate of borrowing for similar liabilities as comparable market prices were not available.

The carrying amounts of cash and cash equivalents, restricted cash, other receivables and accounts payable approximate their fair value due to their short-term nature.

Fuel Risk Management

The Company has adopted a comprehensive fuel hedging program that provides it with the flexibility of utilizing certain derivative financial instruments, such as heating oil future and jet fuel forward contracts to manage market risks and hedge its financial exposure to fluctuations in its aircraft fuel costs. Heating oil future contracts and/or jet fuel forward contracts are utilized to hedge a portion of Hawaiian's anticipated aircraft fuel needs. Jet fuel forward contracts are recorded as cash flow hedges in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). Heating oil future contracts were not designated as cash flow hedges.

Under SFAS 133, all derivatives designated as hedges that meet certain requirements are granted special hedge accounting treatment. Generally, utilizing the special hedge accounting, all periodic changes in fair value of the derivatives designated as hedges that are considered to be effective are recorded in accumulated other comprehensive income until the underlying jet fuel is consumed, and recognized as a component of fuel expense when the underlying fuel being hedged is consumed. Ineffectiveness results when the change in the fair value of the derivative instrument exceeds the change in the value of the Company's expected future cash outlay to purchase and consume jet fuel. Any ineffective portion of a change in fair value is immediately recognized into earnings as a component of other nonoperating income (expense).

The Company's jet fuel forward contracts meet the requirements under SFAS 133 for hedge accounting treatment. The last jet fuel forward contracts were purchased in October 2007 and are designated to hedge January 2008 fuel expense. These contracts are in a gain position and are reflected in other accumulated other comprehensive income in the Consolidated Balance Sheet. The $0.4 million gain will be reflected in Aircraft Fuel expense in January 2008.

Effective August 2007, the Company entered into heating oil future contracts and started phasing out its jet fuel forward contracts. The heating oil future contracts were not designated as hedges under SFAS 133. As such, any changes in fair value of the derivative instruments are marked to market through earnings in the period of change. As of December 31, 2007, the fair value of these heating oil future contracts totaled $3.3 million and is reflected in prepaid expenses and other in the Consolidated Balance Sheet.

Hawaiian Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

5. Financial Instruments and Fuel Risk Management (Continued)

The following table presents the location of pre-tax gains and/or losses on derivative instruments within the Consolidated Statement of Income:

	2007	2006	2005
		(in thousands)	
Fuel hedge (gains) losses (in Aircraft fuel expense)	$ (3,698)	$ 943	$ 4,204
Other nonoperating (income) expense(a)	(3,564)	7,348	(17,519)

(a) During 2007, the Company recorded $5.9 million of gains (of which $2.6 was realized) related to the increase in market value of heating oil future contracts that were not designated for hedge accounting under SFAS 133 and are simply marked to market. These gains were slightly offset by a $2.3 million loss related to the portion of the change in fair value of Hawaiian's jet fuel forward contracts excluded from hedge effectiveness.

As of December 31, 2007, the Company had hedged approximately 25%, 8% and 1% for the first, second and third quarters of 2008, respectively, using primarily heating oil future contracts. The jet fuel forward contracts only comprised approximately 2% of the derivatives hedging the first quarter of 2008. These jet fuel forward contracts had a weighted average contract price of $2.21 per gallon and were in a gain position of $0.4 million as of December 31, 2007. The heating oil future contracts had a weighted average contract price of $2.27 per gallon as of December 31, 2007. At December 31, 2006, the Company's fuel hedges outstanding were in a loss position. The fair value of the Company's obligation related to these contracts was $1.1 million and is included in other current liabilities in the Consolidated Balance Sheet. The Company does not require collateral or other security to support its derivative financial instruments. Therefore, the Company is exposed to credit risks to the extent of the positive fair value of its jet fuel forward contracts in the event the counterparty fails to meet its obligations; however, the Company does not expect this counterparty to fail to meet its obligations.

Hawaiian Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

6. Debt and Common Stock Warrant

Long-term debt as of December 31, 2007 and 2006 consisted of the following obligations:

	2007	2006
	(in thousands)	
Term A Credit Facility, level quarterly principal payments of $2.5 million each plus interest through December 10, 2010 with the remaining balance due at maturity	$ 45,000	$ 55,000
Term B Credit Facility loan due March 11, 2011, interest at 9%, interest only quarterly payments	62,500	62,500
Secured loans, variable interest rate of 8.32% at December 31, 2007 (LIBOR rate loans), monthly payments of principal and interest through December 2013 with the remaining balance of $52.2 million due at maturity	117,893	126,000
Notes payable, interest at 5.0%, level quarterly principal and interest payments through June 1, 2011	18,339	23,016
Capital lease obligations (see Note 7)	792	976
Other	5	30
Total long-term debt and capital lease obligations	244,529	267,522
Less unamortized discounts on debt:		
9% term loan due March 11, 2011	(3,803)	(4,737)
5% notes payable due June 1, 2011	(895)	(1,412)
	(4,698)	(6,149)
Less current maturities	(23,905)	(22,992)
	$ 215,926	$ 238,381

Subordinated Convertible Notes

On the Effective Date, the Company sold Series A Subordinated Convertible Notes due June 1, 2010 (the Series A Notes) and Series B Subordinated Convertible Notes due June 1, 2010 (the Series B Notes and, together with the Series A Notes, the Notes), in the aggregate principal amount of $60.0 million. The Notes were convertible into the Company's common stock at an initial conversion price of $4.35 per share, subject to adjustment upon the occurrence of certain dilutive events. The Series A Notes and the Series B Notes were convertible into 8,933,000 shares and 4,860,103 shares, respectively, of the Company's common stock at any time after the first anniversary of the issuance thereof. The Notes were to become due in five years from the issue date, if not prepaid or converted prior to such date. The Company had the right, and had covenanted to use its best efforts, to redeem the Notes at 105% of the aggregate principal amount, plus all accrued and unpaid interest due and payable thereunder, at any time prior to the first anniversary of issuance. On June 2, 2005, RC Aviation also received a warrant to purchase shares of the Company's newly designated Series E Preferred Stock of the Company. In July 2005, such warrant was automatically exchanged, upon the occurrence of certain events (including stockholder approval), for a warrant to purchase up to 10% of the fully-diluted shares of the Company's common stock (6,855,685 shares) at an exercise price of $7.20 per share (the Common Stock Warrant). In connection with the issuance of the Notes and the granting of the Common Stock Warrant, the Company and RC Aviation also entered into a Registration Rights Agreement relating to the registration of shares of Common Stock issuable upon conversion of the Notes and exercise of the Common Stock Warrant.

Hawaiian Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

6. Debt and Common Stock Warrant (Continued)

At issuance, the Notes were convertible into common stock of the Company at a price per share that was lower than the closing share price of the Company's common stock as of the date, which difference constituted a beneficial conversion feature. In accordance with EITF Consensus 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" (EITF 98-5), the intrinsic value of the beneficial conversion feature as of June 1, 2005 of $27.8 million was recorded as and is included in capital in excess of par value in the consolidated balance sheet as of December 31, 2005. The fair value of the Common Stock Warrant of $13.5 million was also recorded to capital in excess of par value. As a result of the amounts ascribed to the beneficial conversion feature and the Common Stock Warrant, the Notes were recorded at a substantial discount, which was amortized using the effective interest rate method to interest expense over the stated lives of the Notes. The initial carrying value of the Notes was $18.7 million and the initial effective interest rate on the Notes was 33.5%.

During the fourth quarter of 2005, the Company repurchased $7.7 million in principal amount of the Notes at their face amount, plus accrued interest, and corresponding portions of the Common Stock Warrant. The Company recognized losses of $4.2 million as a result of these repurchases. These losses are included in losses due to redemption, prepayment, extinguishment and modification of long-term debt in the consolidated statement of operations for the year ended December 31, 2005.

On April 21, 2006, the Company redeemed all of the then outstanding Notes for $55.9 million, inclusive of a $2.6 million prepayment premium and $1.0 million of accrued and unpaid interest to that date. The Company incurred a $28.0 million nonoperating loss on the redemption of the Notes due principally to the accelerated amortization of the remaining discount associated with the Notes when they were initially issued in June 2005. Warrants to acquire approximately 6.0 million shares of the Company's common stock issued to the former holders of these Notes remain outstanding under their original terms until June 1, 2010.

Term A and B Credit Facilities

On June 2, 2005, Hawaiian, as borrower, entered into a credit agreement with the Company, as guarantor, the lenders named therein and Wells Fargo Foothill, Inc., as agent for the lenders (the Term A Credit Facility). Indebtedness under the Term A Credit Facility is secured by substantially all Hawaiian's tangible and certain of its intangible assets. Upon inception, the Term A Credit Facility provided Hawaiian with a variable interest rate $50.0 million senior secured credit facility comprised of: (i) a revolving line of credit in the maximum amount of $25.0 million, subject to availability under a borrowing base formula based on certain of Hawaiian's eligible assets (as defined in the agreement), with $15.0 million sub-limits for letters of credit and $5.0 million in swing loans; and (ii) a three-year $25.0 million term loan. Indebtedness under the Term A Credit Facility bears interest, in the case of base rate loans, at a per annum rate equal to the Wells Fargo Bank N.A. published prime rate plus 150 basis points, and in the case of LIBOR rate loans, at a per annum rate equal to the LIBOR rate plus 400 basis points, subject to certain adjustments as defined in the Term A Credit Facility. However, at no time during the term of the Term A Credit Facility will the interest rate be less than 5.0% per annum.

On June 2, 2005, Hawaiian, as borrower, entered into a credit agreement with the Company, as guarantor, the lenders named therein and Canyon Capital Advisors, LLC, as agent for the lenders (the Term B Credit Facility). The Term B Credit Facility was secured by liens on substantially all of the assets of Hawaiian, subordinate to the prior liens granted to the lenders under the Term A Credit Facility. As of December 31, 2005, the Term B Credit Facility provided Hawaiian with an additional

Hawaiian Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

6. Debt and Common Stock Warrant (Continued)

$25.0 million term loan at an interest rate of 10.0% per annum, with interest payable quarterly in arrears.

On March 13, 2006, the Company, as guarantor, and Hawaiian, as borrower, amended the Term A and Term B Credit Facilities to cumulatively increase the facilities by $91.3 million. Proceeds from the additional borrowings were used to redeem the Notes and fund a portion of the purchase price and modification costs of four used Boeing 767-300 aircraft acquired by the Company during the first quarter of 2006. The amendment of the Term A Credit Facility was accounted for as a modification, and the Company expensed $1.4 million of legal and other professional fees paid to third parties in connection with amending that facility. The amendment of the Term B Credit Facility was accounted for as an extinguishment, and the Company incurred a nonoperating loss of $1.7 million in connection with amending that facility. The cumulative $3.1 million of losses related to these transactions was recorded in losses due to redemption, prepayment, extinguishment and modification of long-term debt in the consolidated statement of operations for the year ended December 31, 2006. In connection with the amendment of the Term B Credit Facility, the Company also issued warrants to the Term B Credit Facility lenders and another party to acquire 4,050,000 shares of its common stock (the Term B Warrants).

The Company determined the fair value of the Term B Warrants utilizing Black-Scholes-Merton option-pricing models. The option-pricing models used in the valuation of the Term B Warrants included the following assumptions: a risk-free interest rate based on the U.S. Treasury yield curve in effect for the expected three-year life of the Term B Warrants; a dividend yield of zero; and a stock volatility factor based on a peer comparison group for a period of time approximating the three-year term of the Term B Warrants, which resulted in an expected volatility of 47%. The resulting $6.3 million warrant fair value was accounted as additional paid in capital and a discount to the Term B Credit Facility amortized using the effective interest rate method to interest expense over the life of the note.

On July 11, 2006, Hawaiian made a $10.0 million prepayment of the 9.0% non-amortizing term loan outstanding under the amended Term B Credit Facility. This prepayment resulted in a $1.0 million nonoperating loss due principally to the accelerated amortization of a portion of the debt discount associated with the Term B Credit Facility when it was amended in March 2006. Additionally, Term B Warrants to acquire approximately 500,000 shares of the Company's common stock expired pursuant to their terms on July 11, 2006. The remaining Term B Warrants to acquire approximately 3.55 million shares of the Company's common stock are exercisable for a period of three years from the date of issuance, have an exercise price of $5.00 per share, and contain a feature whereby the Company can force the exercise of the Term B Warrants at anytime after the closing price of the Company's common stock is at or above $9.00 per share for 30 consecutive calendar days.

As of December 31, 2007, the Term A Credit Facility consisted of a $45 million, 9.42% variable interest rate amortizing term loan due December 10, 2010 and a $25 million revolving line of credit under which Hawaiian had issued approximately $4.8 million in letters of credit as of December 31, 2007. The Term B Credit Facility consisted of a $62.5 million, 9.0% fixed interest rate non-amortizing term loan due March 11, 2011. The remaining debt discount on the Term B Credit Facility at December 31, 2007 of $3.8 million is being amortized using the effective interest method (at approximately 11.3%) through March 2011. The terms of the Term A and Term B Credit Facilities restrict the Company's ability to, among other things, incur additional indebtedness, pay dividends or make other payments on investments, consummate asset sales or similar transactions, create liens, merge or consolidate with any other person, or sell, assign, transfer, lease, convey or otherwise dispose

6. Debt and Common Stock Warrant (Continued)

of all or substantially all of the Company's assets. The terms of the Term A and Term B Credit Facilities also restrict the ability of Hawaiian to make dividends or advances to the Company. The Term A and Term B Credit Facilities include customary covenants for lending transactions of this type, including minimum EBITDA, excess availability and leverage ratio financial covenants. The Company was in compliance with the covenants of these facilities as of December 31, 2007.

Other notes payable

In December 2006, Hawaiian, as borrower, entered into three loan agreements to finance the purchase of three Boeing 767-300ER aircraft, previously leased from AWAS. Each of the loans provided Hawaiian with $42 million, for a total of $126 million. The loans are secured by the three aircraft and related property (engines, records, warranties, etc.), and bear interest at a per annum rate equal to the one-month LIBOR rate plus 337 basis points. Principal and interest payments are due monthly, with a balloon payment equal to 41.4% of the original principal amount of the loan due upon maturity in December 2013.

In May 2005, Hawaiian issued two, 5.00% unsecured notes payable to the Internal Revenue Service (IRS) totaling $29.5 million for the settlement of certain pre-petition and administrative tax claims (see Note 8). The notes were subsequently discounted by approximately $2.4 million after adjustment to their fair values at June 2, 2005. As of December 31, 2007 and 2006, the unamortized carrying values of the notes were approximately $17.4 million and $21.6 million, respectively. As of December 31, 2007 and 2006, the unamortized discounts were $0.9 million and $1.4 million, respectively.

The maturities of long-term debt over the next five years as of December 31, 2007 were as follows (in thousands):

2008	$	23,905
2009		24,907
2010		41,050
2011		76,914
2012		12,640
Thereafter		65,113
		244,529
Less current maturities		23,905
Long-term debt	$	220,624

Interest payments were $22.4 million and $12.3 million in 2007 and 2006, respectively.

7. Leases

The Company leases aircraft and other assets under long-term lease arrangements. Other leased assets include real property, airport and terminal facilities, sales offices, maintenance facilities, training centers and general offices. Certain leases include escalation clauses and renewal options. When lease renewals are considered to be reasonably assured, the rental payments that will be due during the renewal periods are included in the determination of rent expense over the life of the lease. Leasehold improvements are amortized over the shorter of the lease term, as defined, or the useful life of the asset. In December 2006, Hawaiian purchased three of the seven Boeing 767 aircraft previously leased

7. Leases (Continued)

from AWAS, and modified the leases on the remaining four Boeing 767 aircraft. The amended aircraft leases removed a provision of the previous agreements that allowed AWAS to exercise early termination options beginning in 2007, shortened the term of the leases and modified the monthly rent due under the lease agreements. Concurrent with the aircraft transactions, the Company and AWAS also amended the leases for three spare engines. Other operating expense includes a net expense of $2.7 million to write-off lease-related intangible assets and unfavorable lease liabilities related to the terminated and modified leases. In addition, solely a result of the reductions in the lease terms of the spare engines, the Company expensed $0.9 million of maintenance deposits that the Company had previously determined to be recoverable through future maintenance activities, and began expensing certain maintenance deposits as they become due, as it is no longer probable that those deposits will be recoverable through future maintenance activities prior to the end of the lease.

As of December 31, 2007, the Company had 11 Boeing 767-300ER aircraft and 11 Boeing 717-200 aircraft under operating leases with remaining basic lease terms ranging from approximately two years to 14 years. Under these lease agreements, Hawaiian is required to pay monthly specified amounts of rent plus maintenance reserves based on utilization of the aircraft. Maintenance reserves are amounts paid by Hawaiian to the aircraft lessor as a deposit for certain future scheduled airframe, engine and landing gear overhaul costs. Maintenance reserves are reimbursable once Hawaiian successfully completes such qualified scheduled airframe, engine and/or landing gear overhauls.

As of December 31, 2007, the scheduled future minimum rental payments under capital leases and operating leases with noncancelable basic terms of more than one year were as follows (in thousands):

		Operating Leases	
	Capital Leases	Aircraft (*)	Other
2008	$ 227	$ 90,886	$ 3,705
2009	120	85,911	3,581
2010	102	64,355	3,073
2011	102	63,297	3,073
2012	102	51,657	3,073
Thereafter	433	328,701	11,840
	1,086	$ 684,807	$ 28,345
Less amounts representing interest	294		
Present value of minimum capital lease payments	$ 792		

(*) Includes rentals due under operating leases for spare aircraft engines and certain aircraft parts, which corresponding expenses are classified as aircraft rent at the accompanying consolidated statements of operations.

Certain of Hawaiian's lease agreements contain customary prohibitive and restrictive covenants similar to the Company's borrowings.

Rent expense was $113.5 million, $125.1 million and $71.8 million, respectively, during the years ended December 31, 2007, 2006 and 2005 (during the period in which the Company consolidated Hawaiian).

Hawaiian Holdings, Inc.

Notes to Consolidated Financial Statements (Continued)

8. Income Taxes

The components of the income tax expense (benefit) for the years ended December 31, 2007, 2006 and 2005 were as follows (in thousands):

	2007	2006	2005
Current			
Federal	$ (8,311)	$ (517)	$ (2,036)
State	(811)	54	11