

HAWAIIAN HOLDINGS INC
Form 10-Q
October 19, 2011
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

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)

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

96819
(Zip Code)

(808) 835-3700

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

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

As of October 10, 2011, 50,712,907 shares of the registrant's common stock were outstanding.

Table of Contents

Hawaiian Holdings, Inc.

Form 10-Q

Quarterly Period ended September 30, 2011

Table of Contents

<u>Part I.</u>	<u>Financial Information</u>	3
<u>Item 1.</u>	<u>Consolidated Financial Statements of Hawaiian Holdings, Inc. (Unaudited)</u>	<u>3</u>
	<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010</u>	<u>3</u>
	<u>Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010</u>	<u>4</u>
	<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010</u>	<u>5</u>
	<u>Notes to Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>14</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>24</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>26</u>
<u>Part II.</u>	<u>Other Information</u>	27
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>27</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>27</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>27</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>27</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>27</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>27</u>
	<u>Signatures</u>	<u>28</u>

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS.****Hawaiian Holdings, Inc.****Consolidated Statements of Operations**

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(unaudited)			
Operating Revenue:				
Passenger	\$ 412,771	\$ 310,044	\$ 1,091,450	\$ 851,147
Other	43,088	41,985	125,034	115,146
Total	455,859	352,029	1,216,484	966,293
Operating Expenses:				
Aircraft fuel, including taxes and oil	135,956	84,410	380,790	233,326
Wages and benefits	82,417	73,747	239,702	219,827
Aircraft rent	25,317	29,824	90,546	81,066
Maintenance materials and repairs	36,273	30,157	122,411	95,570
Aircraft and passenger servicing	22,283	16,497	60,326	44,690
Commissions and other selling	23,359	20,140	72,884	59,930
Depreciation and amortization	17,496	14,452	47,803	42,836
Other rentals and landing fees	19,830	15,310	53,495	41,692
Other	31,981	28,214	92,692	78,502
Lease termination charges			70,014	
Total	394,912	312,751	1,230,663	897,439
Operating Income (Loss)	60,947	39,278	(14,179)	68,854
Nonoperating Income (Expense):				
Interest expense and amortization of debt discounts and issuance costs	(7,737)	(1,934)	(15,820)	(11,909)
Interest income	638	399	1,333	3,137
Capitalized interest	2,647	785	5,807	1,308
Gains (losses) on fuel derivatives	(9,707)	2,111	(11,781)	(3,361)
Sale of long-term investments		1,168		1,168
Other, net	538	353	879	(757)
Total	(13,621)	2,882	(19,582)	(10,414)
Income (Loss) Before Income Taxes	47,326	42,160	(33,761)	58,440
Income tax (benefit) expense	21,709	11,693	(10,191)	18,764
Net Income (Loss)	\$ 25,617	\$ 30,467	\$ (23,570)	\$ 39,676

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

Net Income (Loss) Per Common Stock Share:

Basic	\$	0.50	\$	0.60	\$	(0.46)	\$	0.77
Diluted	\$	0.50	\$	0.59	\$	(0.46)	\$	0.75

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**Hawaiian Holdings, Inc.****Consolidated Balance Sheets**

(in thousands)

	September 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 286,846	\$ 285,037
Restricted cash	35,246	5,224
Total cash, cash equivalents and restricted cash	322,092	290,261
Accounts receivable, net of allowance for doubtful accounts of \$1,066 as of September 30, 2011 and \$744 as of December 31, 2010	77,339	59,887
Spare parts and supplies, net	25,549	18,354
Deferred tax assets, net	17,135	40,651
Prepaid expenses and other	38,575	37,367
Total	480,690	446,520
Property and equipment , less accumulated depreciation and amortization of \$169,047 as of September 30, 2011 and \$147,588 as of December 31, 2010	634,986	418,120
Other Assets:		
Long-term prepayments and other	45,946	38,629
Deferred tax assets, net	52,027	38,847
Intangible assets, net of accumulated amortization of \$148,465 as of September 30, 2011 and \$130,951 as of December 31, 2010	51,206	68,720
Goodwill	106,663	106,663
Total Assets	\$ 1,371,518	\$ 1,117,499
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 73,145	\$ 69,300
Air traffic liability	319,815	250,861
Other accrued liabilities	64,399	63,506
Current maturities of long-term debt and capital lease obligations	32,506	16,888
Total	489,865	400,555
Long-Term Debt, less discount, and Capital Lease Obligations	369,586	171,884
Other Liabilities and Deferred Credits:		
Accumulated pension and other postretirement benefit obligations	212,025	213,704
Other liabilities and deferred credits	31,704	53,487
Total	243,729	267,191
Commitments and Contingent Liabilities		
Shareholders' Equity:		
Special preferred stock, \$0.01 par value per share, three shares issued and outstanding at September 30, 2011 and December 31, 2010		
Common stock, \$0.01 par value per share, 52,783,121 shares issued and 50,712,907 shares outstanding as of September 30, 2011; 52,291,091 shares issued and 50,220,877 outstanding	528	522

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

as of December 31, 2010

Capital in excess of par value	259,672	245,947
Treasury stock, 2,070,214 shares at cost, at September 30, 2011 and December 31, 2010	(10,752)	(10,752)
Accumulated income	53,861	77,431
Accumulated other comprehensive loss, net	(34,971)	(35,279)
Total	268,338	277,869
Total Liabilities and Shareholders' Equity	\$ 1,371,518	\$ 1,117,499

See accompanying Notes to Consolidated Financial Statements.

Table of Contents
Hawaiian Holdings, Inc.
Condensed Consolidated Statements of Cash Flows

(in thousands)

	2011	Nine Months Ended September 30, (unaudited)	2010
Net cash provided by Operating Activities	\$	112,618	\$ 102,863
Cash flows from Investing Activities:			
Additions to property and equipment, including pre-delivery payments		(175,464)	(89,050)
Purchases of investments			(76,485)
Sales of investments			108,273
Net cash used in investing activities		(175,464)	(57,262)
Cash flows from Financing Activities:			
Proceeds from exercise of stock options		162	167
Purchase of call options and sale of common stock warrants, net		(7,556)	
Issuance of convertible notes		86,250	
Long-term borrowings		65,000	
Treasury stock repurchase			(9,998)
Repayments of long-term debt and capital lease obligations		(72,087)	(20,993)
Issuance costs		(7,114)	
Net cash provided by (used in) financing activities		64,655	(30,824)
Net increase in cash and cash equivalents		1,809	14,777
Cash and cash equivalents - Beginning of Period		285,037	300,738
Cash and cash equivalents - End of Period	\$	286,846	\$ 315,515

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

Hawaiian Holdings, Inc.

Notes to Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

Business and Basis of Presentation

Hawaiian Holdings, Inc. (the Company or Holdings) is a holding company incorporated in the State of Delaware. The Company's primary asset is its sole ownership of all issued and outstanding shares of common stock of Hawaiian Airlines, Inc. (Hawaiian). The accompanying unaudited financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X of the U.S. Securities and Exchange Commission (SEC). Accordingly, these interim financial statements do not include all of the information and footnotes required by GAAP for complete audited financial statements. In the opinion of management, the accompanying financial statements contain all adjustments, including normal recurring adjustments, necessary for the fair presentation of the Company's results of operations and financial position for the periods presented. Due to seasonal fluctuations common to the airline industry, the results of operations for the periods presented are not necessarily indicative of the results of operations to be expected for the entire year. Certain amounts in prior periods have been reclassified to conform to the current period's presentation. The accompanying unaudited consolidated financial statements should be read in conjunction with the financial statements and the notes of the Company included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

New accounting pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2009-13, *Multiple Deliverable Revenue Arrangements – A Consensus of the FASB Emerging Issues Task Force* (ASU 2009-13). This guidance defines whether multiple deliverables should be separated and how the consideration should be allocated to one or more units of accounting. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable is based on vendor-specific objective evidence, if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific nor third-party evidence is available. This accounting standard became effective for new and materially modified revenue arrangements entered into by the Company after January 1, 2011. During the three and nine months ended September 30, 2011, the Company did not have any significant new or materially modified agreements that were subject to this accounting standard, therefore, this accounting standard did not have an impact on its unaudited consolidated financial statements. The Company anticipates an impact from this standard when significant third party mileage sales agreements are executed or materially modified in future periods. Subsequent to September 30, 2011, the Company entered into a new significant revenue arrangement, effective January 1, 2012, to sell frequent flyer miles to a credit card partner. The Company will apply the provisions of ASU 2009-13 to the agreement effective January 1, 2012 and is currently evaluating the effect on its financial statements.

In May 2011, the FASB issued Accounting Standards Update 2011-04, *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). ASU 2011-04 amended Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures* (ASC 820), to converge the fair value measurement guidance in GAAP and International

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

Financial Reporting Standards (IFRSs). Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in ASC 820. In addition, ASU 2011-04 requires additional fair value disclosures. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. The Company is currently evaluating the effect that the provisions of ASU 2011-04 will have on its financial statements.

In June 2011, the FASB issued Accounting Standards Update 2011-05, *Comprehensive Income – Presentation of Comprehensive Income* (ASU 2011-05). This update changes the requirements for the presentation of other comprehensive income, eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity, amongst other things. ASU 2011-05 requires that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. These amendments are effective for fiscal years and interim periods beginning after December 15, 2011 and should be applied retrospectively. This ASU will not have a material effect on the Company's financial position or results of operations, but will change the Company's other comprehensive income disclosures.

Table of Contents**2. Earnings (Loss) Per Share**

Diluted earnings (loss) per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted earnings (loss) per share uses the treasury stock method for in-the-money stock options, deferred stock units, restricted stock, convertible notes and warrants. For further discussion on the convertible notes and warrants see Note 5 Debt.

	Three Months ended September 30,		Nine Months ended September 30,	
	2011	2010	2011	2010
	(in thousands, except for per share data)			
Denominator:				
Weighted average common stock shares outstanding				
- Basic	50,858	50,952	50,690	51,580
Assumed exercise of equity awards	572	709		1,094
Weighted average common stock shares outstanding				
- Diluted	51,430	51,661	50,690	52,674
Net income (loss) per common share:				
Basic	\$ 0.50	\$ 0.60	\$ (0.46)	\$ 0.77
Diluted	\$ 0.50	\$ 0.59	\$ (0.46)	\$ 0.75

The table below summarizes those common stock equivalents excluded from the computation of diluted earnings per share because the awards were antidilutive.

	Three Months ended September 30,		Nine Months ended September 30,	
	2011	2010	2011	2010
	(in thousands)			
Stock options	1,783	468	659	208
Deferred stock		282	1	94
Restricted stock	402	717	320	333
Convertible notes (1)	10,943		7,619	
Warrants (1)	10,943		7,619	1,991

(1) In March 2011, the Company entered into a Convertible Note transaction which included the sale of convertible notes, purchase of convertible note hedges and the sale of warrants as described in Note 5 Debt. These weighted common stock equivalents were excluded because their conversion price of \$7.8819 per share for the convertible notes and \$10.00 for the warrants exceeded the average market price of our common stock during these periods, and the effect of their inclusion would be antidilutive. These securities could be dilutive in future periods. The convertible note hedges will always be antidilutive and, therefore, will have no effect on diluted earnings per share.

3. Fair Value Measurements

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

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

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

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

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

Table of Contents

The tables below present the Company's financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2011 and December 31, 2010:

	Total	Fair Value Measurements as of September 30, 2011			Level 3
		Level 1	Level 2		
		(in thousands)			
Cash equivalents					
Money market securities	\$	201,177	\$	201,177	\$
Fuel derivative contracts, net*:					
Crude oil caps/call options		574		574	
Heating oil caps/call options		99		99	
Total assets measured at fair value	\$	201,850	\$	201,177	\$
Fuel derivative contracts, net*:					
Crude oil collars	\$	2,119	\$	2,119	\$
Heating oil collars		3,021		3,021	\$
Total liabilities measured at fair value	\$	5,140	\$	5,140	\$

* As of September 30, 2011, the net fuel derivative contract liabilities are reported in other accrued liabilities in the unaudited Consolidated Balance Sheets.

	Total	Fair Value Measurements as of December 31, 2010			Level 3
		Level 1	Level 2		
		(in thousands)			
Cash equivalents					
Money market securities	\$	94,659	\$	94,659	\$
U.S. government-sponsored enterprise notes		133,048		133,048	
Fuel derivative contracts, net*:					
Crude oil caps		6,609		6,609	
Crude oil collars		2,174		2,174	
Total assets measured at fair value	\$	236,490	\$	94,659	\$

* As of December 31, 2010, the net fuel derivative contract assets are reported in prepaid expenses and other assets in the unaudited Consolidated Balance Sheets.

Cash equivalents. The Company's cash equivalents consist of money market securities and U.S. government-sponsored enterprise notes. The money market securities are classified as Level 1 investments and are valued using inputs observable in markets for identical securities. The U.S. government-sponsored enterprise notes with contractual maturities less than three months are classified as Level 2 investments and valued using inputs observable in active markets for similar securities.

Fuel derivative contracts. The Company's fuel derivative contracts consist of heating oil and crude oil caps (or call options) and collars (a combination of call options and put options) which are not traded on a public exchange. The fair value of these instruments is determined based on inputs available from public markets; therefore, they are classified as Level 2 in the fair value hierarchy.

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

There were no assets measured at fair value on a recurring basis using unobservable inputs (Level 3) as of September 30, 2011 and December 31, 2010.

Nonfinancial Assets Measured at Fair Value on a Nonrecurring Basis

See Note 6 – Leases, for information related to fair value measurements of nonfinancial assets on a nonrecurring basis performed during the quarter ended June 30, 2011.

4. Financial Instruments and Risk Management

Financial Instruments

The fair value of the Company's debt (excluding obligations under capital leases) with a carrying value of \$401.6 million and \$146.4 million at September 30, 2011 and December 31, 2010, respectively, was approximately \$386.8 million and \$140.0 million. The Company's fair value estimates were based on either market prices or the discounted amount of future cash flows using its current incremental rate of borrowing for similar liabilities.

Table of Contents

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's operations are inherently dependent upon the price and availability of aircraft fuel. To manage economic risks associated with fluctuations in aircraft fuel prices, the Company periodically enters into derivative financial instruments such as heating oil and crude oil caps (or call options) and collars (a combination of call options and put options). During the three and nine months ended September 30, 2011, the Company primarily used heating oil and crude oil caps/call options and collars to hedge its aircraft fuel expense. As of September 30, 2011, the Company had outstanding fuel derivative contracts covering 64 million gallons of jet fuel that will be settled over the next 12 months. These derivative instruments were not designated as hedges under ASC Topic 815, *Derivatives and Hedging* (ASC 815) for hedge accounting treatment. As a result, changes in the fair value of these derivative instruments are adjusted through other nonoperating income (expense) in the period of change.

The following table shows the amount of realized and unrealized gains and losses that were recognized during the three and nine months ended September 30, 2011 and 2010, and where those gains and losses were recorded in the unaudited Consolidated Statements of Operations.

Fuel derivative contracts	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	(in thousands)			
Gains (losses) on fuel derivatives recorded in nonoperating income (expense):				
Mark-to-fair value gains (losses) on undesignated fuel hedges:				
Realized gain (losses):				
Gains (losses) realized at settlement	\$ (2,323)	\$ (1,167)	2,292	\$ (3,151)
Reversal of prior period unrealized amounts	977	1,323	(3,841)	(230)
Unrealized gains (losses) on contracts that will settle in future periods	(8,361)	1,955	(10,232)	20
Gains (losses) on fuel derivatives recorded as nonoperating expense	\$ (9,707)	\$ 2,111	\$ (11,781)	\$ (3,361)

ASC 815 requires a reporting entity to elect a policy of whether to offset rights to reclaim cash collateral or obligations to return cash collateral against derivative assets and liabilities executed with the same counterparty, or present such amounts on a gross basis. Based on the fair value of our fuel derivative contracts, our counterparties may require us to post collateral when the price of the underlying commodity decreases. The Company's accounting policy is to present its derivative assets and liabilities on a net basis including the collateral posted with the counterparty. As of September 30, 2011, the Company paid \$0.2 million in collateral to our counterparties.

The following table presents the fair value of the asset and liability as well as the location of the asset and liability balances within the unaudited Consolidated Balance Sheets.

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

	Balance Sheet Location	Fair Value of Derivatives			
		Assets as of	Assets as of	Liabilities as of	Liabilities as of
		September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
		(in thousands)			
Fuel derivative contracts - due within one year	Prepaid expenses and other	\$	\$	8,783	\$
Fuel derivative contracts - due within one year	Other accrued liabilities	\$	673	\$	5,140

5. Debt

Convertible Notes

On March 23, 2011, the Company issued \$86.25 million principal amount of convertible senior notes (the Convertible Notes) due March 15, 2016. The Convertible Notes were issued at par and bear interest at a rate of 5.00% per annum. Interest is paid semi-annually, in arrears, on March 15 and September 15 each year, beginning on September 15, 2011.

Table of Contents

Each \$1,000 of principal of the Convertible Notes is convertible under certain circumstances, at an initial conversion rate of 126.8730 shares of the Company's common stock (or a total of approximately 10.9 million shares), which is the equivalent of approximately \$7.8819 per share, subject to adjustment upon the occurrence of certain specified events as set forth in the indenture governing the terms of the Convertible Notes. Upon conversion, the Company will have the right, at the Company's election, to pay or deliver cash, shares of the Company's common stock or a combination thereof. Holders may convert their Convertible Notes at their option at any time prior to November 15, 2015, only if one of the following conditions has been met:

- During any calendar quarter after the calendar quarter ending June 30, 2011, and only during such calendar quarter, if the closing price of the Company's common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter exceeds 130% of the conversion price per share of common stock in effect on the last day of such preceding calendar quarter;
- During the five consecutive business days immediately after any 10 consecutive trading day period in which the average trading price per \$1,000 principal amount of the Convertible Notes during such period was less than 97% of the product of the closing sale price of the common stock and the conversion rate on such trading day;
- The Company makes specified distributions to holders of the Company's common stock or specified corporate transactions occur.

On or after November 15, 2015, and up through and including the second business day immediately preceding March 15, 2016, the Holders may convert their Convertible Notes into common stock.

Holders may require the Company to repurchase all or a portion of their Convertible Notes upon a fundamental change, primarily a change in control or termination of trading, at a cash repurchase price equal to 100% of the principal amount of the Convertible Notes plus accrued and unpaid interest, if any. The Company may not redeem the Convertible Notes prior to their maturity date.

When accounting for the Convertible Notes, the Company applied accounting guidance related to the accounting for convertible debt instruments that may be settled in cash upon conversion. This guidance required the Company to separately account for the liability and equity components of the Convertible Notes in a manner that reflects our nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This guidance required bifurcation of a component of the debt, classification of that component in equity, and then accretion of the resulting discount on the debt as part of interest expense reflected in the unaudited Consolidated Statements of Operations.

Accordingly, the Company recorded an adjustment to reduce the carrying value of the Convertible Notes by \$19.5 million and recorded this amount in Shareholders' Equity. This adjustment was based on the calculated fair value of a similar debt instrument that did not have an associated equity component. The annual interest rate calculated for a similar debt instrument was 11.00%.

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

The total issuance costs for the Convertible Notes were \$3.3 million, of which \$2.5 million was allocated to the debt component and \$0.8 million was allocated to the equity component. The issuance costs allocated to debt were capitalized and are being amortized to interest expense over the term of the Convertible Notes. The issuance costs allocated to equity were recorded as a reduction of additional paid-in-capital.

The carrying value of the Convertible Notes is \$68.4 million at September 30, 2011. Interest expense for the three and nine months ended September 30, 2011 was \$1.2 million and \$2.5 million, respectively, and non-cash interest expense for the three and nine months ended September 30, 2011 was \$0.8 million and \$1.6 million, respectively, for the amortization of the discount allocated to the debt component.

Convertible Note Hedges and Warrants

In connection with the issuance of the Convertible Notes, the Company entered into separate convertible note hedge transactions (the Convertible Note Hedges) and separate warrant transactions (the Warrants) with certain financial investors to reduce the potential dilution of the Company's common stock and to offset potential payments by the Company to holders of the Convertible Notes in excess of the principal of the Convertible Notes upon conversion. The Convertible Note Hedges and Warrants are separate transactions, entered into by the Company with the financial institutions, and are not part of the Convertible Notes described above.

The Company paid \$19.5 million for the Convertible Note Hedges. Under the terms of the Convertible Note Hedges, the counterparties to the Convertible Note Hedges will generally deliver to the Company amounts in excess of the principal amount of the Convertible Notes delivered upon conversion by the Company to the holders of the Convertible Notes in the same form of consideration elected to be delivered by the Company to the holders of the Convertible Notes under the indenture for the Convertible

Table of Contents

Notes. The Company may elect to settle the conversion feature of the Convertible Notes in cash or shares of common stock or in any combination of cash or shares of common stock as determined in accordance with the provisions of the indenture. The Convertible Note Hedges are currently exercisable and expire on March 15, 2016.

Concurrent with the issuance of the Convertible Notes, the Company sold Warrants to certain financial institutions that permit such financial institutions to acquire shares of the Company's common stock. The Warrants are exercisable by the financial institutions for 10.9 million shares of the Company's common stock at a current exercise price of \$10.00 per share. The Company received \$12.0 million in proceeds for the sale of the Warrants. The Warrants expire at various dates beginning in June 2016 and ending in September 2016. The Warrants provide for net share settlement by the Company, subject to the option of the Company to deliver cash in lieu of shares if certain conditions under the Warrants have been met.

The Company determined that the Convertible Note Hedges and Warrants meet the requirements of the FASB's accounting guidance for accounting for derivative financial instruments indexed to, and potentially settled in, a Company's own stock and other relevant guidance and, therefore, are classified as equity transactions. As a result, the Company recorded the purchase of the Convertible Note Hedges as a reduction in additional paid-in-capital and the proceeds of the Warrants as an increase to additional paid-in-capital in the unaudited Consolidated Balance Sheets, and the Company will not recognize subsequent changes in the fair value of the agreements in the financial statements.

Revolving Credit Facility

In December 2010, Hawaiian, as borrower, with the Company as guarantor, entered into an Amended and Restated Credit Agreement with Wells Fargo Capital Finance, Inc., as arranger and administrative agent for the lenders, providing for a secured revolving credit facility (the Revolving Credit Facility) in an amount of up to \$75.0 million. The Company used the proceeds received from the issuance of the Convertible Notes to pay-off the outstanding revolving credit facility balance of \$54.7 million. As of September 30, 2011, the Company had no outstanding borrowings under the Revolving Credit Facility and \$50.8 million available (net of various outstanding letters of credit). At September 30, 2011, the Company is in compliance with its financial covenants under the Revolving Credit Facility.

Aircraft Facility Agreements

On June 27, 2011, Hawaiian borrowed \$192.8 million through fifteen separate secured loan agreements to finance a portion of the purchase price of fifteen Boeing 717-200 aircraft, each such aircraft including two Rolls-Royce BR700-715 engines, that Hawaiian previously leased under four capital and eleven operating leases. See additional discussion of the purchase agreement at Note 6 Leases. The loan agreements bear interest at 8% per annum and are subject to a balloon payment at the maturity date of June 2019.

On April 6, 2011, Hawaiian borrowed \$65 million through a secured loan agreement to finance a portion of the purchase price of an Airbus A330-200 aircraft that Hawaiian took delivery of on April 12, 2011. This loan agreement has a fixed interest rate of 6.461% with principal and interest payments due quarterly beginning in July 2011 and a maturity date of April 2023.

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

As of September 30, 2011, the scheduled maturities of long-term debt over the next five years were as follows (in thousands):

Remaining months in 2011	\$	7,921
2012		33,016
2013		86,443
2014		23,047
2015		24,510

6. Leases

On June 27, 2011, Hawaiian terminated lease agreements and concurrently entered into a purchase agreement with the lessor covering fifteen Boeing 717-200 aircraft, each such aircraft including two Rolls-Royce BR700-715 engines. These aircraft were previously operated by Hawaiian under four capital and eleven operating lease agreements. The purchase price for the fifteen Boeing 717-200 aircraft was \$230 million, comprised of financing of \$192.8 million through secured loan agreements with Boeing Capital, cash payment of \$25.0 million, and the non-cash application of maintenance and security deposits held by the previous lessor and current debt financier of \$12.2 million. This purchase price was reduced by certain previously recorded lease valuation adjustments related to these aircraft. The Company recognized the excess of the purchase price paid over the fair value of the aircraft under operating leases as a cost of terminating the leases under ASC 840 *Leases* (formerly FASB Interpretation No. 26, *Accounting for Purchase of a Leased Asset by the Lessee during the Term of the Lease*) and elected to apply the same accounting policy to the aircraft under capital

Table of Contents

leases. As a result, the Company reduced the value of the fifteen Boeing 717-200 to their fair value of \$135 million on its unaudited Consolidated Balance Sheets and recorded lease termination charges of \$70.0 million on the unaudited Consolidated Statements of Operations. The Company determined the valuation of the aircraft based on a third-party appraisal that considered multiple inputs, including market transactions for similar aircraft and information specific to the condition of each aircraft. As a result, this fair value measurement was considered a Level 3 measurement as described in Note 3 Fair Value Measurements. See additional information on the loan agreements at Note 5 Debt.

In February 2011, the Company renegotiated its operating lease for its general office space, extending the lease through 2026.

As of September 30, 2011, the scheduled future minimum rental payments under leases (adjusted for the changes discussed above) is approximately \$18 million for the remaining three months of 2011, \$85 million for 2012, \$79 million for 2013, \$75 million for 2014, \$74 million for 2015 and \$272 million thereafter.

7. Employee Benefit Plans

The components of net periodic benefit cost for the Company's defined benefit and other postretirement plans for the three and nine months ended September 30, 2011 and 2010, included the following:

Components of Net Periodic Benefit Cost	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	(in thousands)			
Service cost	\$ 2,254	\$ 2,174	\$ 6,974	\$ 6,873
Interest cost	6,523	6,262	19,557	18,914
Expected return on plan assets	(4,703)	(4,159)	(14,078)	(12,472)
Recognized net actuarial loss	129	105	309	310
Net periodic benefit cost	\$ 4,203	\$ 4,382	\$ 12,762	\$ 13,625

The Company made contributions of \$7.6 million and \$12.9 million to its defined benefit and other postretirement plans during the three and nine months ended September 30, 2011, respectively, satisfying the Company's required 2011 plan year contributions.

8. Income Taxes

The Company recorded income tax expense of \$21.7 million and an income tax benefit of \$10.2 million for the three and nine months ended September 30, 2011, respectively. The Company's effective tax rate for the three and nine months ended September 30, 2011 included a \$1.9 million adjustment to reduce our recorded deferred tax assets as a result of a reduction in certain of our state apportionment factors. The Company's effective tax for the nine months ended September 30, 2011 was also impacted by the forecasted permanent tax differences on the Company's full year 2011 financial projections. During the nine months ended September 30, 2011, the Company changed tax accounting

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

methods with the IRS. These tax accounting changes resulted in the recovery of approximately \$22.5 million of deferred tax assets.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some or all of the Company's deferred tax assets will not be realized. The ultimate realization of the Company's deferred tax assets is dependent upon its ability to generate future taxable income during the periods in which those temporary differences become deductible. The Company reversed its tax valuation allowance in 2010 because its projections of future taxable income were sufficient to support recognition of its deferred tax assets. The Company continues to believe its projections of future taxable income support the realizability of its deferred tax assets even though it recognized a net operating loss for the nine months ended September 30, 2011, as the loss was primarily due to non-recurring and non-cash lease termination charges that do not impact our ability to generate future taxable income.

Table of Contents**9. Comprehensive Income**

The components of comprehensive income included the following:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	(in thousands)			
Net income (loss)	\$ 25,617	\$ 30,467	\$ (23,570)	\$ 39,676
Other comprehensive income (loss):				
Change in unrealized net losses on short and long-term investments		563		(1,186)
Amortization of net actuarial losses on employee benefit plans	129	105	308	298
Total comprehensive income (loss)	\$ 25,746	\$ 31,135	\$ (23,262)	\$ 38,788

10. Commitments and Contingent Liabilities*Commitments*

As of September 30, 2011, Hawaiian had capital commitments consisting of firm aircraft orders for twelve wide-body Airbus A330-200 aircraft, six Airbus A350XWB-800 aircraft and five Rolls Royce spare engines scheduled for delivery through 2020. Subsequent to September 30, 2011, the Company took delivery of one of the A330-200 aircraft. Hawaiian has purchase rights for an additional four A330-200 aircraft and six A350XWB aircraft and can utilize these rights subject to production availability. Hawaiian also has operating commitments with a third-party to provide aircraft maintenance services which include fixed payments as well as variable payments based on flight hours for our Airbus fleet through 2027. The Company also has operating commitments with third-party service providers for reservations, IT and accounting services through 2017.

Committed capital and operating expenditures include escalation and variable amounts based on estimated forecasts. The gross committed expenditures for upcoming aircraft deliveries and committed financings for those deliveries for the next five years are detailed below as of the date of filing:

	Capital	Operating	Total Committed Expenditures	Less: Committed Financing for Upcoming Aircraft Deliveries *	Net Committed Expenditures
Remaining months in					
2011	\$ 70,118*	\$ 5,373	\$ 75,491	67,000	8,491
2012	274,247*	23,009	297,256	223,000	74,256
2013	287,389*	19,603	306,992	180,000	126,992
2014	234,489	20,050	254,539		254,539
2015	166,231	20,620	186,851		186,851

* See *Airbus Facility Commitments and Purchased Aircraft Lease Financing Agreement* for a detailed discussion of the committed financings Hawaiian has received for its upcoming capital commitments for aircraft deliveries.

Airbus A330-200 Facility Agreement Commitments

During June 2011, Hawaiian entered into three separate secured loan agreements totaling \$200 million (approximately \$67 million each) to finance a portion of the capital commitments for three Airbus A330-200 aircraft; one aircraft that was delivered subsequent to September 30, 2011 and two aircraft with upcoming deliveries in the first half of 2012. For the aircraft delivered subsequent to September 30, 2011, Hawaiian elected a fixed rate that is subject to a balloon payment at its maturity date of October 2023. The other two loan agreements will bear interest at Hawaiian's election, at either a floating rate based on a margin over LIBOR or a fixed rate with respective maturity dates of April 2022 and March 2024.

The anticipated future principal payments for these facility agreements are approximately \$0.4 million for the remaining months in 2011, \$13 million in 2012, \$14 million in 2013, \$15 million in 2014, \$15 million in 2015 and \$145 million thereafter.

Table of Contents

Purchased Aircraft Lease Financing Agreement and Aircraft Lease Commitments

Subsequent to September 30, 2011, Hawaiian entered into an agreement with a third-party aircraft lessor for the sale and leaseback of three Airbus A330-200 aircraft with scheduled delivery dates in the second quarter of 2012 and the first half of 2013 with total sale proceeds included in the commitments table above as committed financing for upcoming aircraft deliveries. These sale and leaseback transactions have initial lease terms of twelve years with the option to extend an additional twenty-four months. Rent under each lease is payable monthly at a fixed rate to be determined at delivery of each aircraft.

In addition to aircraft purchase commitments and related financing described above, Hawaiian also entered into three separate eight-year lease agreements in June 2011 for an additional three Boeing 717-200 aircraft, with expected delivery dates in the fourth quarter 2011 and first quarter of 2012 and in April 2011 entered into a twelve-year operating lease agreement for an Airbus A330-200 aircraft with an expected delivery date in the second quarter 2012. The Company will determine whether these leases will be classified as capital or operating, in the period it takes delivery of the aircraft.

The anticipated future payments for these leases are approximately \$0.6 million for the remaining three months in 2011, \$17 million in 2012, \$40 million in 2013, \$43 million in 2014, \$43 million in 2015 and \$349 million thereafter.

Litigation and Contingencies

The Company is subject to various legal proceedings arising in the normal course of its operations. Management does not anticipate that the disposition of such proceedings will have a material effect on the Company's financial statements.

General Guarantees and Indemnifications

The Company is the lessee under certain real estate leases. It is common in such commercial lease transactions for the lessee to agree to indemnify the lessor and other related third parties for tort liabilities that arise out of or relate to the lessee's use or occupancy of the leased premises. In some cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by their gross negligence or willful misconduct. Additionally, the lessee typically indemnifies such parties for any environmental liability that arises out of or relates to its use of the leased premises. The Company expects that it is covered by insurance (subject to deductible amounts) for most tort liabilities and related indemnities described above with respect to real estate that it leases. The Company cannot estimate the potential amount of future payments, if any, under the foregoing indemnities and agreements.

Credit Card Holdback

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

Under the Company's bank-issued credit card processing agreements, certain proceeds from advance ticket sales may be held back to serve as collateral to cover any possible chargebacks or other disputed charges that may occur. These holdbacks, which are included in restricted cash in the Company's unaudited Consolidated Balance Sheets, totaled \$35.2 million at September 30, 2011. The agreement with the Company's largest credit card processor also contains financial triggers for additional holdbacks, which are based on, among other things, the amount of unrestricted cash and short-term investments, the level of debt service coverage and operating income measured quarterly on a trailing 12-month basis. As of September 30, 2011, the holdback was 25% of the applicable credit card air traffic liability. No amounts were subject to this holdback at December 31, 2010. Under the terms of this credit card agreement, the level of credit card holdback is subject to adjustment based on actual performance relative to these specific financial triggers. Depending on the Company's performance relative to these financial triggers in the future, the holdback could incrementally increase to an amount up to 100% of the applicable credit card air traffic liability, which would also cause an increase in the level of restricted cash. If the Company is unable to obtain a waiver of, or otherwise mitigate the increase in restriction of cash, it could also cause a covenant violation under other debt or lease obligations and have a material adverse impact on the Company.

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that reflect our current views with respect to certain current and future events and financial performance. Such forward-looking statements include, without limitation: any expectations of operating expenses, deferred revenue, interest rates, income taxes, deferred tax assets, valuation allowance or other financial items; statements regarding factors that may affect our operating results; estimates of fair value measurements; statements related to aircraft maintenance and repair costs and deposits and timing of maintenance activities; statements related to cash flow from operations and seasonality; estimates of required funding of and

Table of Contents

contributions to our defined benefit pension and disability plan; estimates of annual fuel expenses and measure of the effects of fuel prices on our business; statements regarding the availability of fuel; statements regarding our wages and benefits and labor costs and agreements; statements regarding costs of compliance with regulations promulgated by the FAA and other regulatory agencies; statements related to airport rent rates and landing fees; statements regarding aircraft rent expense; statements regarding our total capacity and yields on routes; statements regarding compliance with potential environmental regulations; statements regarding potential dilution of our securities; statements regarding cost liability and deferred revenue estimates related to the frequent flyer program; statements related to our hedging program; statements concerning the impact of, and changes to, accounting principles, policies and estimates; statements regarding our tax valuation allowance; statements regarding credit card holdback; statements regarding the availability of financing; statements regarding our capital expenditures; statements regarding potential violations under the Company's debt or lease obligations; statements regarding our ability to comply with covenants under our financing arrangements; statements related to risk management, credit risks and air traffic liability; statements related to future U.S. and global economic conditions or performance; statements related to changes in our fleet plan and related cash outlays; statements related to expected delivery of new aircraft; statements related to potential route expansion; statements related to the effects of any litigation on our operations or business; and statements as to other matters that do not relate strictly to historical facts or statements of assumptions underlying any of the foregoing. Words such as expects, anticipates, projects, intends, plans, believes, estimates, variations of such words, and similar expressions are also intended to identify such forward-looking statements. These forward-looking statements are and will be, as the case may be, subject to many risks, uncertainties and factors relating to our operations and business environment, all of which may cause our actual results to be materially different from any future results, expressed or implied, in these forward-looking statements.

The risks, uncertainties and assumptions referred to above that could cause our results to differ materially from the results expressed or implied by such forward-looking statements also include the risks, uncertainties and assumptions discussed from time to time in our other public filings and public announcements, including our Annual Report on Form 10-K for the year ended December 31, 2010. All forward-looking statements included in this document are based on information available to us as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this quarterly report. The following discussion and analysis should be read in conjunction with our consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

Overview

Our Company

Hawaiian Holdings, Inc. (the Company, Holdings, we, us and our) is a holding company incorporated in the State of Delaware. The Company's primary asset is its sole ownership of all issued and outstanding shares of common stock of Hawaiian Airlines, Inc. (Hawaiian). Hawaiian was originally incorporated in January 1929 under the laws of the Territory of Hawaii and became the Company's indirect wholly-owned subsidiary pursuant to a corporate restructuring that was consummated in August 2002. Hawaiian became a Delaware corporation and the Company's direct wholly-owned subsidiary concurrent with its reorganization and reacquisition by the Company in June 2005.

Hawaiian is engaged in the scheduled air transportation of passengers and cargo amongst the Hawaiian Islands (the interisland routes), between the Hawaiian Islands and certain cities in the Western United States (the transpacific routes), and between the Hawaiian Islands and the South Pacific, Australia and Asia (the Pacific routes), collectively referred to as our Scheduled Operations. In addition, Hawaiian operates various charter flights. Hawaiian is the largest airline headquartered in Hawaii and the eleventh largest domestic airline in the United States based on revenue passenger miles reported by the Research and Innovative Technology Administration Bureau of Transportation Statistics as of June 30, 2011, the latest available data. At September 30, 2011 Hawaiian's operating fleet consisted of Boeing 717-200 aircraft for its interisland routes, Boeing 767-300 aircraft for its transpacific, Pacific and charter routes and Airbus A330-200 aircraft for its transpacific and Pacific routes as detailed below:

Aircraft Type	Leased	Owned	Total
A330-200			
(1)(4)	3	1	4
767-300ER/EM			
(2)(4)	10	7	17
717-200 (3)		15	15
Total	13	23	36

-
- (1) The Company took delivery of one owned A330-200 aircraft in April 2011.
- (2) The Company returned one Boeing 767-300ER in May 2011 due to the end of its lease term.
- (3) In June 2011, the Company purchased its existing fleet of fifteen Boeing 717-200 aircraft previously under lease agreements.

Table of Contents

(4) Subsequent to September 30, 2011, we took delivery of one additional owned A330-200 aircraft and returned one Boeing 767-ER due to the end of its lease term.

Based in Honolulu, Hawaiian had 4,222 active employees as of September 30, 2011.

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

Third Quarter Financial Highlights

- **Net income of \$25.6 million or \$0.50 per diluted share.**
- **Operating revenue increased \$104 million to \$456 million during the third quarter of 2011 as compared to third quarter of 2010.**
- **Passenger revenue per available seat mile (PRASM) increased 14.6% from the same period last year.**
- **Offsetting the improvement in revenue was a 61% increase in fuel expense due to increase in both fuel costs and consumption in the third quarter of 2011 as compared to the third quarter of 2010.**
- **Unrestricted cash and cash equivalents of \$287 million at September 30, 2011.**

Third Quarter Operational Highlights

- **Ranked as the #1 carrier for punctuality and fewest flight cancellations as reported by the U.S. Department of Transportation Air Travel Consumer for the months of June, July and August 2011 (latest available information).**

- **Launched daily non-stop service to Kansai International Airport in Osaka, Japan in July 2011; Hawaiian's third route to Asia since November 2010.**
- **Announced plans to begin daily nonstop flights between Honolulu and Fukuoka, Japan beginning in April 2012.**

Results of Operations

In the three months ended September 30, 2011, we recorded net income of \$25.6 million, or \$0.50 per diluted share, as compared to \$30.5 million, or \$0.59 per diluted share in the same period last year. Our strong performance is primarily the result of higher unit revenues (passenger revenue per available seat mile) and increased passenger yield. The increases in operating revenue were partially offset by a significant year-over-year increase in fuel prices from \$2.28 per gallon in the three months ended September 30, 2010 to \$3.22 per gallon in the three months ended September 30, 2011, including the effects of fuel derivatives settling in the period and increases in other operating expenses due to the expansion of our fleet and new international routes.

In the nine months ended September 30, 2011, we recorded net loss of \$23.6 million, or \$0.46 per diluted share, as compared to net income of \$39.7 million, or \$0.75 per diluted share in the same period last year. The nine months ended September 30, 2011 includes the impact of a non-recurring, pre-tax lease termination expense of \$70.0 million related to the purchase of fifteen Boeing 717-200 aircraft previously under lease agreements that was partially offset by increases in operating revenue due to higher unit revenues (passenger revenue per available seat mile) and increased yields as compared to the same period last year.

Table of Contents
Statistical Data (unaudited)

	Three Months ended September 30,		Nine Months ended September 30,	
	2011	2010	2011	2010
	(in thousands, except as otherwise indicated)			
Scheduled Operations:				
Revenue passengers flown	2,267	2,249	6,507	6,324
Revenue passenger miles (RPM)	2,694,577	2,366,666	7,538,470	6,394,203
Available seat miles (ASM)	3,162,394	2,723,116	8,927,509	7,483,302
Passenger revenue per ASM (PRASM)	13.05¢	11.39¢	12.23¢	11.37¢
Passenger load factor (RPM/ASM)	85.2%	86.9%	84.4%	85.4%
Passenger revenue per RPM (Yield)	15.32¢	13.10¢	14.48¢	13.31¢
Total Operations:				
Operating revenue per ASM	14.40¢	12.89¢	13.61¢	12.90¢
Operating cost per ASM (CASM) (b)	12.47¢	11.46¢	13.77¢	11.98¢
Lease termination charges per ASM	¢	¢	0.78¢	¢
Aircraft fuel expense per ASM	4.29¢	3.09¢	4.26¢	3.12¢
Revenue passengers flown	2,269	2,252	6,511	6,327
Revenue block hours operated (actual)	32,511	30,082	93,503	84,200
RPM	2,696,892	2,371,092	7,543,668	6,398,670
ASM	3,166,417	2,730,030	8,935,101	7,490,257
Gallons of jet fuel consumed	42,895	37,513	121,717	104,322
Average cost per gallon of jet fuel (actual) (a)	\$ 3.17	\$ 2.25	\$ 3.13	\$ 2.24

(a) Includes applicable taxes and fees.

(b) Includes lease termination charges of \$70.0 million in the nine months ended September 30, 2011.

Operating Revenue

Operating revenue was \$455.9 million and \$1.2 billion for the three and nine months ended September 30, 2011, respectively, a 29.5% and 25.9% increase over operating revenue of \$352.0 million and \$966.3 million for the same three and nine month period in 2010, driven primarily by an increase in passenger revenue.

Passenger Revenue

Passenger revenue increased \$102.7 million or 33.1% and \$240.3 million or 28.2% for the three and nine months ended September 30, 2011, respectively, as compared to the same three and nine month period in 2010 primarily due to increased yields on our routes as well as an increase in the number of aircraft in our fleet and our expansion of our Pacific routes.

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

The detail of these changes are described in the tables below:

	Three months ended September 30, 2011 as compared to three months ended September 30, 2010				Nine months ended September 30, 2011 as compared to nine months ended September 30, 2010			
	Change in scheduled passenger revenue (millions)	Change in Yield	Change in RPM	Change in ASM	Change in scheduled passenger revenue (millions)	Change in Yield	Change in RPM	Change in ASM
Transpacific	\$ 8.3	13.2%	(7.7)%	(6.7)%	\$ 57.1	9.0%	2.3%	1.8%
Interisland	9.6	12.2	(2.2)	(3.8)	24.5	10.6	(1.7)	(0.5)
Pacific	84.8	42.0	184.0	188.5	158.7	27.1	141.1	146.0
Total scheduled	\$ 102.7	16.9%	13.9%	16.1%	\$ 240.3	8.9%	17.9%	19.3%

At September 30, 2011, we had one additional aircraft in our fleet as compared to September 30, 2010. The increase in the number of aircraft, as well as the introduction of the larger capacity Airbus A330-200 aircraft, allowed us to expand our routes and in July 2011, we added a new Pacific route to Osaka, Japan. For the remainder of 2011 compared to the prior year period we expect increased capacity due to the combination of additional aircraft for part of the period, increased availability of larger capacity Airbus A330-200 aircraft in our fleet and the addition of longer haul Pacific routes.

Table of Contents

Transpacific Transpacific revenue increased by \$8.3 million for the three months ended September 30, 2011, as compared to the same three month period in 2010, due to increased yield, partially offset by decreases in capacity due to the shift of fleet resources from the Transpacific routes to the new Pacific routes. Transpacific revenue increased by \$57.1 million for the nine months ended September 30, 2011 as compared to the nine month period in 2010, due to increased yield, and slight increases in our flown capacity due to the addition of the larger capacity Airbus A330-200 to our fleet.

Interisland Interisland revenue increased by \$9.6 million and \$24.5 million for the three and nine months ended September 30, 2011, respectively, as compared to the same three and nine month period in 2010, due to the increased yield on our interisland routes partially offset by decreases in capacity. The increased yield on our interisland routes reflects the continued reduction in availability of discounted fares during 2011.

Pacific Pacific revenue increased by \$84.8 million and \$158.7 million for the three and nine months ended September 30, 2011, respectively, as compared to the same three and nine month period in 2010, primarily due to increases in both yield and capacity with the expansion of our services in the fourth quarter of 2010 and throughout 2011 including two new routes to Japan, a new route to Korea and an increase in the number of flights to Australia.

Other Revenue

Other operating revenue increased by \$1.1 million or 2.6% in the three months ended September 30, 2011 as compared to the three months ended September 30, 2010, primarily due to increased cargo revenue from the introduction of the larger capacity Airbus A330-200 aircraft to our fleet that provided additional cargo capacity partially offset by a decrease in checked baggage revenue due to the reduction in capacity on our Transpacific and Interisland routes.

Other operating revenue increased by \$9.9 million or 8.6% in the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010, primarily due to increased cargo and checked bag revenue. These increases are primarily attributable to the induction of the larger passenger and cargo capacity Airbus A330-200 aircraft.

Operating Expense

Operating expenses were \$394.9 million and \$1.2 billion for the three and nine months ended September 30, 2011, respectively, and \$312.8 million and \$897.4 million for the three and nine months ended September 30, 2010, respectively. The change in operating expenses for the three and nine months ended September 30, 2011 as compared to the three and nine months ended September 30, 2010 is detailed below:

**Changes in operating expenses for the
three months ended September 30, 2011 as
compared to the three months ended
September 30, 2010**

**Changes in operating expenses for the
nine months ended September 30, 2011 as
compared to the nine months ended
September 30, 2010**

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

Operating expenses	\$ (in thousands)	%	\$ (in thousands)	%
Aircraft fuel, including taxes and oil	\$ 51,546	61.1%	\$ 147,464	63.2%
Wages and benefits	8,670	11.8	19,875	9.0
Aircraft rent	(4,507)	(15.1)	9,480	11.7
Maintenance materials and repairs	6,116	20.3	26,841	28.1
Aircraft and passenger servicing	5,786	35.1	15,636	35.0
Commissions and other selling	3,219	16.0	12,954	21.6
Depreciation and amortization	3,044	21.1	4,967	11.6
Other rentals and landing fees	4,520	29.5	11,803	28.3
Other	3,767	13.4	14,190	18.1
Lease termination charges		NM	70,014	NM
Total	\$ 82,161	26.3%	\$ 333,224	37.1%

Table of Contents

Our operations have expanded by approximately 16% and 19% (measured in ASMs) in the three and nine months ended September 30, 2011 as compared to the three and nine months ended September 30, 2010 primarily due to an additional aircraft in our fleet, as well as the introduction of the larger capacity Airbus A330-200 aircraft to our fleet. Our expansion is also due to two new international routes to Japan and one to South Korea since November 2010, as well as increased frequency on our Australia route. As a result of this expansion, we have experienced corresponding increases in our variable expenses such as aircraft fuel, wages and benefits, maintenance materials and repairs, aircraft and passenger servicing, commissions and other selling, other rentals and landing fees and other (which primarily consists of purchased services, professional and technical fees, and personnel).

We expect operating expenses to increase with the continued expansion of our services and the increase in the number of aircraft in our fleet.

Other explanations of the variances in our operating expenses for the three and nine months ended September 30, 2011 as compared to the three and nine months ended September 30, 2010 are described below.

Aircraft Fuel

Aircraft fuel expense increased in the three and nine months ended September 30, 2011 as compared to September 30, 2010 by \$51.5 million and \$147.5 million, respectively. The variance is attributable to the increase in the cost of aircraft fuel as well as an increase in consumption, illustrated in the following table:

	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	Change	2011	2010	Change
	(in thousands, except per-gallon amounts)			(in thousands, except per-gallon amounts)		
Fuel gallons consumed	42,895	37,513	14.3%	121,717	104,322	16.7%
Fuel price per gallon, including taxes and delivery	\$ 3.17	\$ 2.25	40.9%	\$ 3.13	\$ 2.24	39.7%
Aircraft fuel expense	\$ 135,956	\$ 84,410	61.1%	\$ 380,790	\$ 233,326	63.2%

During the three and nine months ended September 30, 2011 and 2010, our fuel derivatives were not designated for hedge accounting under ASC 815 and were marked to fair value through nonoperating income (expense) in the unaudited Consolidated Statements of Operations. We recorded losses on fuel derivatives of \$9.7 million and \$11.8 million for the three and nine months ended September 30, 2011, compared to gains of \$2.1 million and losses of \$3.4 million for the three and nine months ended September 30, 2010.

We believe *economic fuel expense* is the best measure of the effect of fuel prices on our business as it most closely approximates the net cash outflow associated with the purchase of fuel for our operations in a period. We define *economic fuel expense* as raw fuel expense plus (gains)/losses realized through actual cash payments to/(receipts from) hedge counterparties for fuel derivatives settled in the period. *Economic fuel expense* for the three and nine months ended September 30, 2011 and 2010 is calculated as follows:

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

	Three months ended September 30,				Nine months ended September 30,		
	2011	2010	Change		2011	2010	Change
	(in thousands, except per-gallon amounts)				(in thousands, except per-gallon amounts)		
Aircraft fuel expense	\$ 135,956	\$ 84,410	61.1%	\$	380,790	\$ 233,326	63.2%
Realized (gains) losses on settlement of fuel derivative contracts	2,323	1,167	99.1%		(2,292)	3,151	(172.7)%
Economic fuel expense	\$ 138,279	\$ 85,577	61.6%	\$	378,498	\$ 236,477	60.1%
Gallons of jet fuel consumed	42,895	37,513	14.3%		121,717	104,322	16.7%
Economic fuels costs per gallon	\$ 3.22	\$ 2.28	41.2%	\$	3.11	\$ 2.27	37.0%

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

Lease Termination

On June 27, 2011, we entered into a purchase agreement with the lessor for the purchase of fifteen Boeing 717-200 aircraft, each such aircraft including two Rolls-Royce BR700-715 engines, previously held through four capital and eleven operating lease agreements. The purchase price for the fifteen Boeing 717-200 aircraft was \$230 million, comprised of financing of \$192.8 million through secured loan agreements, cash payment of \$25.0 million, and non-cash application of maintenance and security deposits held by the previous lessor and current debt financier of \$12.2 million. See additional information on the loan agreements at Note 5 Debt and

Table of Contents

the purchase agreements at Note 6 - Leases. We recognized the excess of the purchase price paid over the fair value of the aircraft under operating leases as a cost of terminating the leases under ASC 840 - *Leases* (formerly FASB Interpretation No. 26, *Accounting for Purchase of a Leased Asset by the Lessee during the Term of the Lease*) and elected to apply the same accounting policy to the aircraft under capital leases. We recorded the fifteen Boeing 717-200 at their fair value of \$135 million on the unaudited Consolidated Balance Sheets and lease termination charges of \$70.0 million on the nine months ended September 30, 2011 unaudited Consolidated Statements of Operations.

The purchase of the fifteen Boeing 717-200 aircraft will result in lower aircraft rent expense in future periods that will be partially offset by increases in depreciation and amortization and interest expense in future periods.

Aircraft Rent

Aircraft rent expense decreased for the three months ended September 30, 2011 by \$4.5 million or 15.1% as compared to the three months ended September 30, 2010, primarily due to the purchase of its existing fleet of Boeing 717-200 aircraft in June 2011 that were previously under lease agreements. This decrease was partially offset by an additional leased Airbus A330-200 aircraft in the fleet at September 30, 2011 as compared to the same period in the prior year.

The increase of \$9.5 million or 11.7% for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010 is due to the entire year-to-date recognition of aircraft rent expense for three leased Airbus A330-200 aircraft (leases commenced in April, May and November 2010). This increase was partially offset by the purchase of our fleet of Boeing 717-200 aircraft in June 2011 that were previously under lease agreements.

Maintenance materials and repairs

Maintenance materials and repairs expense increased by \$6.1 million or 20.3% and \$26.8 million or 28.1% for the three and nine months ended September 30, 2011 as compared to the three and nine months ended September 30, 2010, primarily due to additional expenses under power-by-hour (PBH) arrangements for our Airbus A330-200 fleet additions in the period ended September 30, 2011 as compared to the period ended September 30, 2010 and increases in our PBH rates for our Boeing 767s and 717s.

We expect maintenance materials and repairs expense to increase in future periods as we continue to take delivery of additional Airbus aircraft and integrate them into revenue service, the expansion of our Boeing 717-200 aircraft fleet, and price escalations in certain of our PBH contracts.

Aircraft and passenger servicing

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

Aircraft and passenger servicing expense increased by \$5.8 million or 35.1% and \$15.6 million or 35.0% for the three and nine months ended September 30, 2011 as compared to the three and nine months ended September 30, 2010, primarily due to volume related increases and increased service costs for our international routes. We expect aircraft and passenger servicing to increase in future periods as we continue to expand our fleet and increase the number of international routes.

Commissions and other selling

Commissions and other selling expenses increased \$3.2 million or 16.0% and \$13.0 million or 21.6% for the three and nine months ended September 30, 2011 as compared to the three and nine months ended September 30, 2010, primarily due to increased travel agency commissions for ticket sales on our international routes and increases in the volume of ticket sales through credit cards and the global distribution system. We expect commissions and other selling expenses to increase in future periods as we continue to expand our fleet and increase the number of international routes.

Other rentals and landing fees

Other rentals and landings fees increased \$4.5 million or 29.5% and \$11.8 million or 28.3% for the three and nine months ended September 30, 2011 as compared to the three and nine months ended September 30, 2010, primarily due to increased joint use and space rent at our Hawaii airports effective July 2011, as well as an increase in both rent expense and landing fees for our three new international routes since November 2010. We expect other rentals and landing fees to continue to increase as we continue to add new routes.

Nonoperating Income and Expense

For the three and nine months ended September 30, 2011, we recorded nonoperating expense, net, of \$13.6 million and \$19.6 million, respectively, compared to nonoperating income, net, of \$2.9 million and nonoperating expense, net, of \$10.4 million for the three and nine months ended September 30, 2010, respectively. The nonoperating expense recognized for the three and nine months ended

Table of Contents

September 30, 2011 is primarily related to losses recognized on our fuel derivatives and an increase in interest expense and amortization of debt discounts and issuance costs due to the additional financings we entered into in 2011.

Income Tax Expense (Benefit)

We had an effective tax rate of 45.9% in the three months ended September 30, 2011 as compared to 27.7% in comparable prior year period. The higher effective tax rate in the third quarter 2011 was due to adjustments related to the finalization of the 2010 income tax return and an adjustment to reduce our recorded deferred tax assets as a result of a reduction in our state apportionment factors as compared to the third quarter ended September 30, 2010 where we had a lower effective tax rate due to the release of uncertain tax positions as a result of the expiration of applicable statute of limitations during the period.

We had effective rates of 30.2% and 32.1% for the nine months ended September 30, 2011 and 2010, which differed from the statutory rate due to the impact that forecasted permanent tax differences have on the Company's full year 2011 financial projections.

See Note 8 Income Taxes to the notes to the unaudited Consolidated Financial Statements for further discussion.

Liquidity and Capital Resources

Our liquidity is dependent on the cash we generate from operating activities and our debt financing arrangements. As of September 30, 2011, we had \$286.8 million in cash and cash equivalents, representing an increase of \$1.8 million from December 31, 2010. As of September 30, 2011 our restricted cash balance, which consisted almost entirely of cash held as collateral by entities that process our credit card transactions for advance ticket sales, increased to \$35.2 million from \$5.2 million as of December 31, 2010 due to an increase in cash holdback on our primary credit card processing agreement.

We have a significant amount of fixed obligations including debt and lease obligations. At September 30, 2011, Hawaiian had approximately \$402 million of debt and capital lease obligations, including approximately \$33 million that will become due in the next 12 months. Hawaiian has a \$75 million secured revolving credit facility, and as of September 30, 2011, we had no outstanding borrowings under the revolving credit facility and \$50.8 million available (net of various outstanding letters of credit).

Cash Flows

Net cash provided by operating activities was \$112.6 million for the nine months ended September 30, 2011, an increase of \$9.8 million compared to the same period in 2010. The increase in cash provided is primarily due to an increase in our air traffic liability balance for increased future bookings related to advance ticket sales and a decrease in contributions to our pension and disability plans that was partially

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

offset by increases in prepaid expenses and other and accounts receivable.

Net cash used in investing activities was \$175.5 million for the nine months ended September 30, 2011 compared to \$57.3 million for the same period in 2010. During the nine months ended September 30, 2011, the cash used in investing activities is comprised of approximately \$25 million related to the purchase of the fifteen Boeing 717-200 aircraft, \$54 million for the acquisition of the Airbus A330-200 aircraft in April 2011, \$3 million for the purchase of an additional Rolls-Royce spare engine, \$26.5 million for other property and equipment and \$67 million related to pre-delivery payments for the upcoming deliveries of Airbus A330-200 aircraft. During the nine months ended September 30, 2010, we used \$89 million for purchases of property and equipment including pre-delivery payments offset by \$32 million of proceeds from the net sale of investments.

Net cash provided by financing activities was \$64.7 million for the nine months ended September 30, 2011 as compared to net cash used of \$30.8 million for the nine months ended September 30, 2010. In the nine months ended September 30, 2011, we received \$65.0 million from a term loan for a portion of the purchase price of the Airbus A330-200 aircraft that we took delivery of in April 2011, \$78.7 million in net cash proceeds from the issuance of the Convertible Notes and related transactions, which was partially offset by cash repayments of long-term debt and capital lease obligations totaling \$72.1 million and debt issuance costs of \$7.1 million. During the nine months ended September 30, 2010, we made cash repayments of long-term debt and capital lease obligations totaling \$21.0 million and repurchased stock under our stock repurchase program totaling \$10.0 million.

Capital Commitments

As of September 30, 2011, Hawaiian's firm aircraft orders consisted of twelve wide-body Airbus A330-200 aircraft, six Airbus A350XWB-800 aircraft and five Rolls Royce spare engines scheduled for delivery through 2020. In addition, Hawaiian has purchase rights for an additional four A330-200 aircraft and six A350-XWB aircraft. Committed expenditures for these aircraft, engines and related flight equipment approximates \$70 million in the remaining three months of 2011, \$274 million in 2012, \$287 million in 2013, \$234 million in 2014 and \$166 million in 2015.

Table of Contents

We expect our other capital expenditure commitments which include software, improvements, and ramp and maintenance equipment, for the remainder of 2011 to total approximately \$4 to \$6 million.

In order to complete the purchase of these aircraft and fund related costs, we must secure acceptable financing. We are currently exploring various financing alternatives and, while we believe that such financing will be available to us, there can be no assurance that financing will be available when required, or on acceptable terms, or at all. The inability to secure such financing could have a material adverse effect on us. We have secured financing commitments of \$470 million for a portion of the purchase price of six upcoming A330-200 aircraft deliveries, one that we took delivery of subsequent to September 30, 2011 and the remaining five deliveries expected in 2012 and 2013.

Airbus A330-200 Facility Agreement Commitments

During June 2011, Hawaiian entered into three separate secured loan agreements totaling \$200 million (approximately \$67 million each) to finance a portion of its capital commitments for three Airbus A330-200 aircraft; one aircraft delivered subsequent to September 30, 2011 and two aircraft with upcoming deliveries in the first half of 2012. For the aircraft delivered subsequent to September 30, 2011, Hawaiian elected a fixed rate that is subject to a balloon payment at its maturity date of October 2023. The other two loan agreements will bear interest at Hawaiian's election, at either a floating rate based on a margin over LIBOR or a fixed rate with respective maturity dates of April 2022 and March 2024.

The anticipated future payments for these facility agreements are approximately \$0.4 million for the remaining months in 2011, \$13 million in 2012, \$14 million in 2013, \$15 million in 2014, \$15 million in 2015 and \$145 million thereafter.

Purchased Aircraft Lease Financing Agreement and Aircraft Lease Commitments

Subsequent to September 30, 2011, Hawaiian entered into an agreement with a third-party aircraft lessor for the sale and leaseback of three Airbus A330-200 aircraft with scheduled delivery dates in the second quarter of 2012 and the first half of 2013 with total sale proceeds included in the capital commitments section above. These sale and leaseback transactions have initial lease terms of twelve years with the option to extend an additional twenty-four months. Rent under each lease is payable monthly at a fixed rate to be determined at delivery of each aircraft.

In addition to aircraft purchase commitments and related financing described above, Hawaiian also entered into three separate eight-year lease agreements in June 2011 for an additional three Boeing 717-200 aircraft, with expected delivery dates in the fourth quarter 2011 and first quarter 2012 and in April 2011 entered into a twelve-year operating lease agreement for an Airbus A330-200 aircraft with an expected delivery date in the second quarter 2012. The Company will determine whether these leases will be classified as capital or operating in the period it takes delivery of the aircraft.

The anticipated future payments for these leases are approximately \$0.6 million for the remaining three months in 2011, \$17 million in 2012, \$40 million in 2013, \$43 million in 2014, \$43 million in 2015 and \$349 million thereafter.

Covenants under our Financing Arrangements

The terms of certain of our financing agreements restrict our ability to, among other things, incur additional indebtedness, grant liens, merge or consolidate, dispose of assets, prepay indebtedness, make investments, make acquisitions, enter into certain transactions with affiliates, pay dividends or make distributions to our parent company and repurchase stock. These agreements also require us to meet certain financial covenants. These financial tests include maintaining a minimum amount of unrestricted cash and achieving certain levels of fixed charge coverage. As of September 30, 2011, we were in compliance with these covenants. If we are 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 may be held back to serve as collateral to cover any possible chargebacks or other disputed charges that may occur. These holdbacks, which are included in restricted cash in our unaudited Consolidated Balance Sheets, totaled \$35.2 million at September 30, 2011. The agreement with our largest credit card processor also contains financial triggers for additional holdbacks, which are based on, among other things, the amount of unrestricted cash and short-term investments, the level of debt service coverage and operating income measured quarterly on a trailing 12-month basis. As of September 30, 2011, we were subject to a 25% holdback as we met the operating income financial trigger with our primary credit card processing arrangement. No amounts were subject to this holdback at December 31, 2010. Under the terms of this credit card agreement, the level of credit card holdback is subject to adjustment based on actual performance relative to these specific financial triggers. Depending on our performance relative to these financial triggers in the future, the holdback could incrementally

Table of Contents

increase to an amount up to 100% of the applicable credit card air traffic liability, which would also cause an increase in the level of restricted cash. If we are unable 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

We contributed \$7.6 million and \$12.9 million to our defined benefit and other postretirement plans during the three and nine months ended September 30, 2011, respectively, satisfying our minimum 2011 plan year contributions. Future funding requirements for our defined benefit and other postretirement plans are dependent upon many factors such as interest rates, funded status, applicable regulatory requirements and the level and timing of asset returns.

Contractual Obligations

Our estimated contractual obligations as of September 30, 2011 are summarized in the following table:

Contractual Obligations	Total	Three months remaining in 2011	2012-2013 (in thousands)	2014-2015	2016 and Thereafter
Debt and capital lease obligations (1)	\$ 545,068	\$ 14,926	\$ 170,308	\$ 83,433	\$ 276,401
Operating leases aircraft and related equipment (2)	552,539	16,920	155,242	138,604	241,773
Operating leases non-aircraft	49,252	815	7,802	10,388	30,247
Purchase commitments - Capital (3)	1,835,339	70,118	561,636	400,720	802,865
Purchase commitments - Operating (4)	297,487	5,373	42,612	40,670	208,832
Projected employee benefit contributions (5)	23,309		23,309		
Total contractual obligations	\$ 3,302,994	\$ 108,152	\$ 960,909	\$ 673,815	\$ 1,560,118

(1) Amounts represent contractual amounts due, including interest. Interest on variable rate debt was estimated using rates in effect as of September 30, 2011.

(2) Amounts reflect leases for three Airbus A330-200 aircraft, nine Boeing 767 aircraft and aircraft-related equipment as of September 30, 2011.

(3) Amounts include our firm aircraft orders consisting of twelve wide-body Airbus A330-200 aircraft (one aircraft we have taken delivery of subsequent to September 30, 2011), six Airbus A350XWB-800 aircraft and five Rolls Royce spare engines scheduled for delivery through 2020. We have also received committed financing for six of these upcoming deliveries, including the aircraft that we took delivery of subsequent to September 30, 2011, of \$67 million in the three months remaining in 2011, \$223 million in 2012 and \$180 million in 2013.

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

- (4) Amounts include commitments for services provided by third-parties for aircraft maintenance for our Airbus fleet, accounting, IT and reservations. Total contractual obligations do not include long-term contracts where the 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.
- (5) Amount includes our estimated contributions to our pension plans based on actuarially determined estimates and our pilot's disability plan. Amounts are subject to change based on numerous factors, including interest rate levels, the amount and timing of asset returns and the impact of future legislation. We are currently unable to estimate the projected contributions beyond 2013.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon financial statements that have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and

Table of Contents

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

Critical accounting policies and estimates are defined as those accounting policies and accounting estimates that are reflective of significant judgments and uncertainties that potentially could result in materially different results under different assumptions and conditions. For a detailed discussion of the application of our critical accounting policies, see *Critical Accounting Policies* and Note 2, *Summary of Significant Accounting Policies*, to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2010.

Tax Valuation Allowance

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some or all of our deferred tax assets will not be realized. The ultimate realization of our deferred tax assets is dependent upon our ability to generate future taxable income during the periods in which those temporary differences become deductible. We reversed our tax valuation allowance in 2010 because our projections of future taxable income were sufficient to support recognition of our deferred tax assets. We continue to believe our projections of future taxable income support the realizability of our deferred tax assets even though we recognized a net operating loss for the nine months ended September 30, 2011. The net operating loss recognized for the nine months ended September 30, 2011 was primarily due to non-recurring and non-cash lease termination charges that do not impact our ability to generate future taxable income.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are subject to certain market risks, including commodity price risk (i.e. jet fuel prices) and interest rate risk. We have market-sensitive instruments in the form of variable rate debt instruments and financial derivative instruments used to hedge Hawaiian's exposure to jet fuel price increases. The adverse effects of potential changes in these market risks are discussed below. The sensitivity analyses presented do not consider the effects that such adverse changes may have on overall economic activity nor do they consider additional actions we might undertake to mitigate our exposure to such changes. Actual results may differ.

Aircraft Fuel Costs

Aircraft fuel costs constitute a significant portion of our operating expense. Fuel costs represented 34.4% and 30.9% of our operating expenses for the three and nine months ended September 30, 2011. Based on gallons expected to be consumed in 2011, for every one-cent increase in the cost of jet fuel, our annual fuel expense would increase by approximately \$1.6 million.

We use derivative contracts to manage our exposure to changes in the prices of jet fuel. During 2011, our fuel hedge program primarily consists of heating oil and crude oil caps (or call options) and collars (a combination of call options and put options). Caps are call option contracts that provide for a settlement in favor of the holder in the event that prices exceed a predetermined contractual level during a particular time period. We have combined some of our call option contracts with put option contract sales to create collars whereby a settlement may occur in our favor

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

in the event prices for the underlying commodity exceed a predetermined contractual level (the call option strike price) during a particular time period or a settlement may be required from us in favor of our counterparty in the event that prices of the commodity fall below a predetermined contractual level (the put option strike price). Certain of these collar agreements have been entered into contemporaneously and set so that the call option premium and put option premium offset, creating a costless collar.

The aforementioned fuel derivative agreements were not designated as hedges under ASC 815. As of September 30, 2011, the fair value of these fuel derivative agreements reflected a net liability of \$4.5 million which is reflected in other accrued liabilities in the unaudited Consolidated Balance Sheets.

Table of Contents

Hawaiian's future contracts and other fuel derivative agreements as of October 13, 2011 are outlined in the table below:

Fuel Derivative Contract Summary

	Weighted Average Contract Strike Price		Percentage of Projected Fuel Requirements Hedged	Fuel Barrels Hedged	
<u>Fourth Quarter 2011</u>					
Heating Oil	<i>(in gallons)</i>				
Call Options	\$	2.93	6%	61,000	
Collars	<i>Cap</i>	<i>Floor</i>			
	\$	3.08	\$ 2.76	6%	63,000
Crude Oil	<i>(in barrels)</i>				
Call Options	\$	105.94	40%	392,000	
Collars	<i>Cap</i>	<i>Floor</i>			
	\$	83.99	\$ 73.02	4%	40,000
Total			56 %	556,000	
<u>First Quarter 2012</u>					
Heating Oil	<i>(in gallons)</i>				
Collars	<i>Cap</i>	<i>Floor</i>			
	\$	3.08	\$ 2.72	15%	150,000
Crude Oil	<i>(in barrels)</i>				
Call Options	\$	113.53	23%	236,000	
Collars	<i>Cap</i>	<i>Floor</i>			
	\$	80.38	68.65	5%	48,000
Total			43 %	434,000	
<u>Second Quarter 2012</u>					
Heating Oil	<i>(in gallons)</i>				
Collars	<i>Cap</i>	<i>Floor</i>			
	\$	3.03	\$ 2.64	14%	164,000
Crude Oil	<i>(in barrels)</i>				
Call Options	\$	114.93	9%	103,000	
Collars	<i>Cap</i>	<i>Floor</i>			
	\$	81.58	\$ 68.78	4%	48,000
Total			27 %	315,000	
<u>Third Quarter 2012</u>					
Heating Oil	<i>(in gallons)</i>				
Collars	<i>Cap</i>	<i>Floor</i>			
	\$	3.05	\$ 2.66	11%	138,000
Crude Oil	<i>(in barrels)</i>				
Call Options	\$	112.56	1%	7,000	
Collars	<i>Cap</i>	<i>Floor</i>			
	\$	78.19	\$ 65.76	2%	28,000
Total			14 %	173,000	
<u>Fourth Quarter 2012</u>					
Heating Oil	<i>(in gallons)</i>				

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

Collars	\$	<i>Cap</i>	3.05	\$	<i>Floor</i>	2.64	3%	41,000
---------	----	------------	------	----	--------------	------	----	--------

25

Table of Contents

We expect to continue our program of hedging some of our future fuel consumption with a combination of futures contracts, swaps, caps, collars and synthetic collars.

We do not hold or issue derivative financial instruments for trading purposes. We are exposed to credit risks in the event our heating oil and crude oil caps counterparties fail to meet their obligations; however, we do not expect these counterparties to fail to meet their 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 our cash deposits and short-term investments. Our variable-rate debt agreements include the Revolving Credit Facility and secured loan agreements, the terms of which are discussed in Note 7 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010.

At September 30, 2011, we had \$80.3 million of variable-rate debt indexed to the following interest rates:

Index	Rate
One-month LIBOR	0.2309%

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. Based on the balances of our cash and cash equivalents, restricted cash, and variable rate debt as of September 30, 2011, 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 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.

At September 30, 2011, we had \$321.3 million of fixed rate debt including the Convertible Notes and Aircraft Facility Agreements. Market risk for fixed rate long-term debt is estimated as the potential increase in fair value resulting from a hypothetical 10 percent decrease in interest rates, and amounted to approximately \$2.3 million as of September 30, 2011.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

Our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), performed an evaluation of our disclosure controls and procedures, which have been designed to permit us to effectively identify and timely disclose important information. Based on that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures were effective as of September 30, 2011 and provide reasonable assurance that the information required to be disclosed by the Company in reports it files under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the third quarter ended September 30, 2011 which materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

ITEM 1A. RISK FACTORS.

There have been no material changes to the risk factors disclosed in Item 1A., Risk Factors, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 other than as set forth in our Form 10-Q for the quarter ended June 30, 2011.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 5. OTHER INFORMATION.

On October 14, 2011, Hawaiian Airlines, Inc. (Hawaiian), a Delaware corporation and wholly-owned subsidiary of Hawaiian Holdings, Inc. (the Registrant), entered into sale and leaseback transactions (the Transactions) with Wilmington Trust Company, not in its individual capacity, but solely as owner trustee (Owner Trustee) for the benefit of HKAC Leasing Limited, a private Irish limited company (Owner Participant), and Owner Participant, pursuant to which Hawaiian has agreed to assign to Owner Trustee Hawaiian's right to purchase three Airbus A330-200 aircraft including two Rolls-Royce Model Trent 772B-60 engines which are slated to be delivered to Hawaiian in second quarter 2012 and the first half of 2013 (the Assigned Aircraft), and Owner Trustee has agreed to lease to Hawaiian the Assigned Aircraft at delivery.

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

The Registrant previously announced, in February 2008, the execution of an agreement with Airbus S.A.S. (and amendments to such agreement have subsequently been disclosed) for, among other things, the purchase of a number of aircraft, including the Assigned Aircraft (the Airbus Purchase Agreement).

Under the terms of the Transactions, Hawaiian, Owner Trustee and Owner Participant have entered into a purchase agreement with respect to each Assigned Aircraft, pursuant to which Owner Trustee will purchase the Assigned Aircraft directly from Airbus S.A.S. under the Airbus Purchase Agreement pursuant to a purchase agreement assignment between Hawaiian and Owner Trustee and consented to by Airbus S.A.S. Hawaiian, Owner Trustee and Owner Participant have also concurrently entered into separate lease agreements with respect to each Assigned Aircraft pursuant to which immediately following the consummation of the purchase of each Assigned Aircraft, Owner Trustee will lease such Assigned Aircraft to Hawaiian. The initial lease term for each of the Assigned Aircraft is twelve years commencing on the date the applicable Assigned Aircraft is delivered to Owner Trustee pursuant to the Airbus Purchase Agreement. Hawaiian has the option to extend the term of each lease for up to an additional twenty four months. Rent under each lease is payable monthly in advance at a fixed rate to be determined on or about the delivery date for each Assigned Aircraft. The leases also obligate Hawaiian, under certain circumstances, to make monthly maintenance reserve deposits to Owner Trustee. The obligations of the Owner Trustee and the Owner Participant under the transaction documents are guaranteed by HNA Group (Hong Kong) Co., Limited, a limited liability company incorporated under the laws of the Hong Kong Special Administrative Region of the People's Republic of China.

ITEM 6.

EXHIBITS.

Exhibit No.	Description
12	Computation of ratio of earning to fixed charges for the three and nine months ended September 30, 2011, and 2010.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Table of Contents

SIGNATURES

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

HAWAIIAN HOLDINGS, INC.

October 19, 2011

By

/s/ Peter R. Ingram
Peter R. Ingram
Executive Vice President, Chief Financial Officer and
Treasurer