

HAWAIIAN HOLDINGS INC  
Form 10-Q  
April 24, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2014**

**or**

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

**For the transition period from      to**

**Commission file number 1-31443**

**HAWAIIAN HOLDINGS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

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**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

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

**96819**  
(Zip Code)

**(808) 835-3700**

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

|   |   |
|---|---|
| Large accelerated filer <input type="checkbox"/>  | Accelerated filer <input checked="" type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/><br>(Do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/>    |

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 April 18, 2014, 53,203,436 shares of the registrant's common stock were outstanding.



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**Hawaiian Holdings, Inc.**

**Form 10-Q**

**Quarterly Period ended March 31, 2014**

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS.**

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

|  | <b>Three Months Ended</b> |                    |
|--|---------------------------|--------------------|
|  | <b>March 31,</b>          |                    |
|  | <b>2014</b>               | <b>2013</b>        |
|  | <b>(unaudited)</b>        |                    |
| <b>Operating Revenue:</b>  |                           |                    |
| Passenger  | \$ 468,013                | \$ 439,939         |
| Other  | 56,845                    | 50,815             |
| Total  | 524,858                   | 490,754            |
| <b>Operating Expenses:</b>   |                           |                    |
| Aircraft fuel, including taxes and delivery                            | 171,139                   | 174,489            |
| Wages and benefits   | 107,494                   | 102,735            |
| Aircraft rent  | 26,279                    | 26,019             |
| Maintenance materials and repairs                                      | 58,310                    | 55,259             |
| Aircraft and passenger servicing                                       | 30,221                    | 29,059             |
| Commissions and other selling  | 31,335                    | 33,811             |
| Depreciation and amortization  | 22,811                    | 19,113             |
| Other rentals and landing fees   | 20,562                    | 19,147             |
| Other  | 46,670                    | 43,048             |
| Total  | 514,821                   | 502,680            |
| <b>Operating Income (Loss)</b>   | <b>10,037</b>             | <b>(11,926)</b>    |
| <b>Nonoperating Income (Expense):</b>                                  |                           |                    |
| Interest expense and amortization of debt discounts and issuance costs | (15,010)                  | (11,377)           |
| Interest income  | 219                       | 127                |
| Capitalized interest   | 2,776                     | 3,440              |
| Losses on fuel derivatives   | (6,899)                   | (6,561)            |
| Other, net   | 585                       | (1,082)            |
| Total  | (18,329)                  | (15,453)           |
| <b>Loss Before Income Taxes</b>  | <b>(8,292)</b>            | <b>(27,379)</b>    |
| Income tax benefit   | (3,217)                   | (10,234)           |
| <b>Net Loss</b>  | <b>\$ (5,075)</b>         | <b>\$ (17,145)</b> |
| <b>Net Loss Per Common Stock Share:</b>                                |                           |                    |
| Basic  | \$ (0.10)                 | \$ (0.33)          |
| Diluted  | \$ (0.10)                 | \$ (0.33)          |

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See accompanying Notes to Consolidated Financial Statements.

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**Consolidated Statements of Comprehensive Loss**

(in thousands)

|   | <b>Three Months Ended March 31,</b> |                    |
|---|-------------------------------------|--------------------|
|   | <b>2014</b>                         | <b>2013</b>        |
|   | <b>(unaudited)</b>                  |                    |
| <b>Net Loss</b>   | \$ (5,075)                          | \$ (17,145)        |
| <b>Other comprehensive income (loss), net:</b>  |                                     |                    |
| Net change related to employee benefit plans, net of tax expense of \$125 and \$955 for 2014 and 2013, respectively | 205                                 | 1,095              |
| Net change in derivative instruments, net of tax benefit of \$3,303 for 2014 and tax expense of \$618 for 2013      | (5,435)                             | 1,000              |
| Net change in available-for-sale investments  | (21)                                |                    |
| Total other comprehensive income (loss), net  | (5,251)                             | 2,095              |
| <b>Total Comprehensive Loss, net</b>  | <b>\$ (10,326)</b>                  | <b>\$ (15,050)</b> |

See accompanying Notes to Consolidated Financial Statements.

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

|  | March 31,<br>2014   | (unaudited) | December 31,<br>2013 |
|--|---------------------|-------------|----------------------|
| <b>ASSETS</b>  |                     |             |                      |
| <b>Current Assets:</b>   |                     |             |                      |
| Cash and cash equivalents  | \$ 334,991          |             | \$ 423,384           |
| Restricted cash  | 20,379              |             | 19,434               |
| Short-term investments   | 143,702             |             |                      |
| Accounts receivable, net   | 97,715              |             | 74,245               |
| Spare parts and supplies, net  | 17,400              |             | 19,767               |
| Deferred tax assets, net   | 17,325              |             | 17,325               |
| Prepaid expenses and other   | 32,551              |             | 51,652               |
| Total  | 664,063             |             | 605,807              |
| <b>Property and equipment</b> , less accumulated depreciation and amortization of \$326,013 and \$327,102 as of March 31, 2014 and December 31, 2013, respectively | 1,484,453           |             | 1,334,332            |
| <b>Other Assets:</b>   |                     |             |                      |
| Long-term prepayments and other  | 94,117              |             | 91,953               |
| Restricted cash  |                     |             | 1,566                |
| Intangible assets, less accumulated amortization of \$32,454 and \$175,730 as of March 31, 2014 and December 31, 2013, respectively                                | 23,280              |             | 23,940               |
| Goodwill   | 106,663             |             | 106,663              |
| <b>Total Assets</b>  | <b>\$ 2,372,576</b> |             | <b>\$ 2,164,261</b>  |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |                     |             |                      |
| <b>Current Liabilities:</b>  |                     |             |                      |
| Accounts payable   | \$ 91,687           |             | \$ 89,787            |
| Air traffic liability  | 504,731             |             | 409,086              |
| Other accrued liabilities  | 88,331              |             | 97,571               |
| Current maturities of long-term debt, less discount, and capital lease obligations   | 153,346             |             | 62,187               |
| Total  | 838,095             |             | 658,631              |
| <b>Long-Term Debt and Capital Lease Obligations</b>  | <b>786,501</b>      |             | <b>744,286</b>       |
| <b>Other Liabilities and Deferred Credits:</b>   |                     |             |                      |
| Accumulated pension and other postretirement benefit obligations   | 265,815             |             | 264,106              |
| Other liabilities and deferred credits   | 57,045              |             | 59,424               |
| Deferred tax liability, net  | 36,088              |             | 40,950               |
| Total  | 358,948             |             | 364,480              |
| <b>Commitments and Contingencies</b>   |                     |             |                      |
| <b>Shareholders Equity:</b>  |                     |             |                      |
| Special preferred stock, \$0.01 par value per share, three shares issued and outstanding as of March 31, 2014 and December 31, 2013                                |                     |             |                      |
| Common stock, \$0.01 par value per share, 53,203,436 and 52,423,085 shares issued and outstanding as of March 31, 2014 and December 31, 2013, respectively         | 532                 |             | 524                  |
| Capital in excess of par value   | 272,370             |             | 269,884              |
| Accumulated income   | 164,067             |             | 169,142              |



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|   |                     |                     |
|---|---------------------|---------------------|
| Accumulated other comprehensive loss, net         | (47,937)            | (42,686)            |
| Total   | 389,032             | 396,864             |
| <b>Total Liabilities and Shareholders' Equity</b> | <b>\$ 2,372,576</b> | <b>\$ 2,164,261</b> |

See accompanying Notes to Consolidated Financial Statements.

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

|   | 2014 | Three Months Ended<br>March 31,<br>(unaudited) | 2013       |
|---|------|--|------------|
| <b>Net cash provided by Operating Activities</b>                          | \$   | 89,455   | \$ 72,541  |
| <b>Cash flows from Investing Activities:</b>                              |      |  |            |
| Additions to property and equipment, including pre-delivery payments, net |      | (170,240)                                      | (25,800)   |
| Net proceeds from disposition of equipment                                |      | 350  |            |
| Purchases of investments  |      | (147,978)                                      |            |
| Sales of investments  |      | 4,561  |            |
| Net cash used in investing activities                                     |      | (313,307)                                      | (25,800)   |
| <b>Cash flows from Financing Activities:</b>                              |      |  |            |
| Proceeds from exercise of stock options                                   |      | 2,449  | 1,411      |
| Long-term borrowings  |      | 147,750  |            |
| Repayments of long-term debt and capital lease obligations                |      | (15,361)                                       | (13,993)   |
| Debt issuance costs   |      |  | (1,818)    |
| Change in restricted cash   |      | 621  |            |
| Net cash provided by (used in) financing activities                       |      | 135,459  | (14,400)   |
| <b>Net increase (decrease) in cash and cash equivalents</b>               |      | (88,393)                                       | 32,341     |
| <b>Cash and cash equivalents - Beginning of Period</b>                    |      | 423,384  | 405,880    |
| <b>Cash and cash equivalents - End of Period</b>                          | \$   | 334,991  | \$ 438,221 |

See accompanying Notes to Consolidated Financial Statements.

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**Hawaiian Holdings, Inc.**

Notes to Consolidated Financial Statements (Unaudited)

**1. Business and Basis of Presentation**

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

**2. Significant Accounting Policies**

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

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

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

immediately as other revenue.

The impact of applying the new accounting method for the three months ended March 31, 2014 was immaterial to the Company's unaudited consolidated financial statements.

### **3. Short-term investments**

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

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The following is a summary of short-term investments held at March 31, 2014:

|                                     | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value        |
|-------------------------------------|-------------------|------------------------------|-------------------------------|-------------------|
|                                     | (in thousands)    |                              |                               |                   |
| U.S. government and agency debt     | \$ 22,461         | \$ 2                         | \$                            | \$ 22,463         |
| Corporate debt                      | 93,799            | 101                          | (49)                          | 93,851            |
| Other fixed income securities       | 27,386            | 6                            | (4)                           | 27,388            |
| <b>Total short-term investments</b> | <b>\$ 143,646</b> | <b>\$ 109</b>                | <b>\$ (53)</b>                | <b>\$ 143,702</b> |

Contractual maturities of short-term investments at March 31, 2014 are shown below.

|                                     | Under 1 Year     | 1 to 5 Years<br>(in thousands) | Total             |
|-------------------------------------|------------------|--------------------------------|-------------------|
| U.S. government and agency debt     | \$ 14,998        | \$ 7,465                       | \$ 22,463         |
| Corporate debt                      | 29,387           | 64,464                         | 93,851            |
| Other fixed income securities       | 26,623           | 765                            | 27,388            |
| <b>Total short-term investments</b> | <b>\$ 71,008</b> | <b>\$ 72,694</b>               | <b>\$ 143,702</b> |

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

#### 4. Accumulated Other Comprehensive Loss

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

| Details about accumulated other comprehensive loss components      | Three months ended March 31, |          | Affected line items<br>in the statement where<br>net loss<br>is presented |
|--|------------------------------|----------|---|
|  | 2014                         | 2013     |   |
| <b>Derivatives designated as hedging instruments under ASC 815</b> |                              |          |   |
| Foreign currency derivative gains, net                             | \$ (3,618)                   | \$ (267) | Passenger revenue   |
| Interest rate derivative losses, net                               | 211                          | -        | Interest expense  |
| Total before tax   | (3,407)                      | (267)    |   |
| Tax expense  | 1,285                        | 106      |   |
| Total, net of tax  | \$ (2,122)                   | \$ (161) |   |
| <b>Amortization of defined benefit pension items</b>               |                              |          |   |
| Actuarial loss   | \$ 226                       | \$ 2,051 | Wages and benefits  |
| Prior service credit   | (1)                          | (1)      | Wages and benefits  |
| Total before tax   | 225                          | 2,050    |   |

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|   |    |         |    |                           |
|---|----|---------|----|---------------------------|
| Tax benefit                                   |    | (125)   |    | (811)                     |
| Total, net of tax                             | \$ | 100     | \$ | 1,239                     |
| <b>Short-term investments</b>                 |    |         |    |                           |
| Realized gain on sales of investments, net    | \$ | (2)     | \$ | Other nonoperating income |
| Total before tax                              |    | (2)     |    |                           |
| Tax expense                                   |    |         |    |                           |
| Total, net of tax                             | \$ | (2)     | \$ |                           |
| <b>Total reclassifications for the period</b> | \$ | (2,024) | \$ | 1,078                     |

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A rollforward of the amounts included in accumulated other comprehensive loss, net of taxes, is as follows:

| Three Months ended March 31, 2014   | Interest<br>Rate<br>Derivatives | Foreign<br>Currency<br>Derivatives | Defined<br>Benefit<br>Pension<br>Items<br>(in thousands) | Short-Term<br>Investments | Total       |
|---|---------------------------------|------------------------------------|--|---------------------------|-------------|
| <b>Beginning balance</b>  | \$ 1,096                        | \$ 8,277                           | \$ (52,059)  | \$                        | \$ (42,686) |
| Other comprehensive income (loss) before reclassifications, net of tax              | (360)                           | (2,953)                            | 105  | (19)                      | (3,227)     |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | 129                             | (2,251)                            | 100  | (2)                       | (2,024)     |
| Net current-period other comprehensive income (loss)                                | (231)                           | (5,204)                            | 205  | (21)                      | (5,251)     |
| <b>Ending balance</b>   | \$ 865                          | \$ 3,073                           | \$ (51,854)  | \$ (21)                   | \$ (47,937) |

| Three Months ended March 31, 2013   | Interest<br>Rate<br>Derivatives | Foreign<br>Currency<br>Derivatives | Defined<br>Benefit<br>Pension<br>Items<br>(in thousands) | Total        |
|---|---------------------------------|------------------------------------|--|--------------|
| <b>Beginning balance</b>  | \$                              | \$                                 | \$ (114,054)   | \$ (114,054) |
| Other comprehensive income (loss) before reclassifications, net of tax              | (888)                           | 2,049                              | (144)  | 1,017        |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax |                                 | (161)                              | 1,239  | 1,078        |
| Net current-period other comprehensive income (loss)                                | (888)                           | 1,888                              | 1,095  | 2,095        |
| <b>Ending balance</b>   | \$ (888)                        | \$ 1,888                           | \$ (112,959)   | \$ (111,959) |

**5. Loss Per Share**

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

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

**Three Months ended March 31,**  
**2014    2013**  
(in thousands, except for per share data)

**Numerator:**

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|          |    |         |    |          |
|----------|----|---------|----|----------|
| Net Loss | \$ | (5,075) | \$ | (17,145) |
|----------|----|---------|----|----------|

**Denominator:**

|  |  |        |  |        |
|--|--|--------|--|--------|
| Weighted average common stock shares outstanding - Basic   |  | 52,686 |  | 51,665 |
| Weighted average common stock shares outstanding - Diluted |  | 52,686 |  | 51,665 |

**Net Loss per common share:**

|         |    |        |    |        |
|---------|----|--------|----|--------|
| Basic   | \$ | (0.10) | \$ | (0.33) |
| Diluted | \$ | (0.10) | \$ | (0.33) |

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

|                          | Three Months ended March 31, |        |
|--------------------------|------------------------------|--------|
|                          | 2014                         | 2013   |
|                          | (in thousands)               |        |
| Stock options            | 805                          | 825    |
| Deferred stock           | 79                           | 112    |
| Restricted stock         | 1,482                        | 1,740  |
| Convertible note premium | 10,943                       | 10,943 |
| Warrants                 | 10,943                       | 10,943 |



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In March 2011, the Company entered into a Convertible Note transaction which included the sale of convertible notes, purchase of call options and sale of warrants. The Company's 5% Convertible Notes due in 2016 with a current principal amount of \$86.25 million can be redeemed with either cash or the Company's common stock, or a combination thereof, at the Company's option. The 10.9 million shares into which the Convertible Notes could be converted will not impact the dilutive earnings per share calculation in the current and future periods under the if-converted method, as the Company has the intent and ability to redeem the principal amount of these notes with cash. Although the average share price of the Company's common stock during the quarter ended March 31, 2014 exceeded the conversion price of \$7.88 per share, shares related to the conversion premium of the Convertible Note (for which share settlement is assumed for EPS purposes) are not included in the Company's computation of diluted earnings per share as the Company is in a net loss position for the period and the effect would be antidilutive. However, the shares required to settle the conversion premium of the Convertible Note could be dilutive in future periods.

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

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

Although the average share price of the Company's common stock during the quarter ended March 31, 2014 exceeded the warrant strike price of \$10.00 per share, the assumed conversion of the warrants are not included in the Company's computation of diluted earnings per share as the Company is in a net loss position for the period and the effect would be antidilutive. However, the warrants could be dilutive in future periods.

## **6. Fair Value Measurements**

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

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

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

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



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

|   | Total             | Fair Value Measurements as of March 31, 2014 |                   |                 |
|---|-------------------|--|-------------------|-----------------|
|   |                   | Level 1                                      | Level 2           | Level 3         |
| (in thousands)                                  |                   |  |                   |                 |
| Cash equivalents                                | \$ 178,982        | \$ 160,149                                   | \$ 18,833         | \$              |
| Restricted cash                                 | 20,379            | 20,379                                       |                   |                 |
| Short-term investments                          | 143,702           |  | 143,702           |                 |
| Fuel derivative contracts:                      |                   |  |                   |                 |
| Crude oil call options                          | 3,048             |  | 3,048             |                 |
| Crude oil put options                           | 53                |  | 53                |                 |
| Heating oil put options                         | 302               |  | 302               |                 |
| Heating oil swaps                               | 350               |  | 350               |                 |
| Foreign currency derivatives                    | 5,255             |  | 5,255             |                 |
| Interest rate derivative                        | 775               |  | 775               |                 |
| <b>Total assets measured at fair value</b>      | <b>\$ 352,846</b> | <b>\$ 180,528</b>                            | <b>\$ 172,318</b> | <b>\$</b>       |
| Fuel derivative contracts:                      |                   |  |                   |                 |
| Crude oil call options                          | \$ 3,048          | \$   | \$ 3,048          | \$              |
| Crude oil put options                           | 53                |  | 53                |                 |
| Heating oil swaps                               | 4,189             |  | 4,189             |                 |
| Foreign currency derivatives                    | 1,829             |  | 1,829             |                 |
| Negative arbitrage derivative                   | 3,668             |  |                   | 3,668           |
| <b>Total liabilities measured at fair value</b> | <b>\$ 12,787</b>  | <b>\$</b>                                    | <b>\$ 9,119</b>   | <b>\$ 3,668</b> |

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

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

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

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

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

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

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

*Negative arbitrage derivative.* The Company's negative arbitrage derivative represents the net interest owed to the trusts that issued the Company's enhanced equipment trust certificates during the periods prior to the issuance of the related equipment notes, and is valued based primarily on the discounted amount of future cash flows using the appropriate rate of borrowing. Changes to those discount rates would be unlikely to cause material changes in the fair value of the negative arbitrage derivative (refer to Notes 7 and 10 for more information). The table below presents disclosures about the activity for the Company's Level 3 financial liability:

|  | <b>Three Months<br/>Ended<br/>March 31, 2014<br/>(in thousands)</b> |         |
|--|---|---------|
| Beginning balance  | \$  | 12,865  |
| Reduction of balance in connection with interest payment |   | (9,197) |
| Ending balance   | \$  | 3,668   |

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

| Carrying<br>Amount | Fair Value of Debt |                              |            |            | Carrying<br>Amount | Fair Value        |                              |         |         |
|--------------------|--------------------|------------------------------|------------|------------|--------------------|-------------------|------------------------------|---------|---------|
|                    | March 31, 2014     |                              | Level 3    | Level 3    |                    | December 31, 2013 |                              | Level 2 | Level 3 |
|                    | Total              | Fair Value<br>(in thousands) |            |            |                    | Total             | Fair Value<br>(in thousands) |         |         |
| \$ 831,378         | \$ 922,035         | \$ 143,520                   | \$ 778,515 | \$ 695,804 | \$ 738,563         | \$ 104,656        | \$ 633,907                   |         |         |

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

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

## 7. Financial Derivative Instruments

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

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

### Fuel Risk Management

The Company's operations are inherently dependent upon the price and availability of aircraft fuel. To manage economic risks associated with fluctuations in aircraft fuel prices, the Company periodically enters into derivative financial instruments. During the three months ended March 31, 2014, the Company primarily used heating oil puts and swaps to hedge its aircraft fuel expense. These derivative instruments were not designated as hedges under ASC Topic 815, *Derivatives and Hedging* (ASC 815), for hedge accounting treatment. As a result, any changes in fair value of these derivative instruments are adjusted through other nonoperating income (expense) in the period of change.

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

| Fuel derivative contracts  | Three months ended |           |            |
|--|--------------------|-----------|------------|
|  | 2014               | March 31, | 2013       |
|  | (in thousands)     |           |            |
| Gains (losses) realized at settlement                                | \$                 | 110       | \$ (2,696) |
| Reversal of prior period unrealized amounts                          |                    | (1,256)   | 2,796      |
| Unrealized losses on contracts that will settle in future periods    |                    | (5,753)   | (6,661)    |
| Losses on fuel derivatives recorded as Nonoperating income (expense) | \$                 | (6,899)   | \$ (6,561) |

**Interest Rate Risk Management**

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

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

The effective portion of the gain or loss is reported as a component of AOCI and reclassified into earnings in the same period in which interest is accrued. The effective portion of the interest rate swap represents the change in fair value of the hedge that offsets the change in the fair value of the hedged item. To the extent the change in the fair value of the hedge does not perfectly offset the change in the fair value of the hedged item, the ineffective portion of the hedge is immediately recognized in nonoperating income (expense).

The Company believes that its derivative contracts will continue to be effective in offsetting changes in cash flow attributable to the hedged risk. The Company reclassified net losses from AOCI to interest expense of \$0.2 million during the three months ended March 31, 2014. The Company expects to reclassify a net loss of approximately \$0.8 million into earnings over the next 12 months from AOCI based on the values at March 31, 2014.

**Foreign Currency Exchange Rate Risk Management**

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

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

The Company believes that its foreign currency forward contracts will continue to be effective in offsetting changes in cash flow attributable to the hedged risk. The Company reclassified gains from AOCI to passenger revenue of \$3.6 million during the three months ended March 31, 2014. The Company expects to reclassify a net gain of approximately \$4.7 million into earnings over the next 12 months from AOCI based on the values at March 31, 2014.

### **Negative Arbitrage Derivative**

In 2013, the Company created two pass-through trusts, which issued \$444.5 million aggregate principal amount of EETCs. See Note 10 for further information related to the EETCs. In accordance with the related agreements, the Company is obligated to pay the interest that accrues on the proceeds and is also entitled to the benefits of the income generated from the same proceeds. The difference between the interest owed to the pass-through trusts and the interest generated from the proceeds introduces an element of variability that could cause the associated cash flows to fluctuate. This variability requires the Company's obligation to the trusts to be recognized as a derivative in the Company's unaudited consolidated financial statements. During the three months ended March 31, 2014, approximately \$9.2 million of the derivative was reduced in connection with the first interest payment made to the trusts.



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

*Derivative position as of March 31, 2014*

|   | Balance Sheet Location                 | Notional Amount (in thousands)   | Final Maturity Date | Gross fair value of assets | Gross fair value of (liabilities) (in thousands) | Net derivative position |
|---|--|--|---------------------|----------------------------|--|-------------------------|
| <i>Derivatives designated as hedges</i>     |  |  |                     |                            |  |                         |
| Interest rate derivative                    | Prepaid expenses and other             | \$62,200 U.S. dollars  | April 2023          | \$ 91                      | \$   | \$ 91                   |
|   | Long-term prepayments and other (1)    |  |                     | 684                        |  | 684                     |
| Foreign currency derivatives                | Prepaid expenses and other             | 8,178,790 Japanese Yen<br>4,660,979 Korean Won<br>48,823 Australian Dollars<br>2,415 New Zealand Dollars | March 2015          | 2,769                      | (996)  | 1,773                   |
|   | Long-term prepayments and other        | 293,400 Japanese Yen<br>451 Australian Dollars   | August 2015         | 49                         | (15)   | 34                      |
|   | Other liabilities and deferred credits | 1,694,160 Japanese Yen<br>9,146 Australian Dollars   | August 2015         | 191                        | (346)  | (155)                   |
| <i>Derivatives not designated as hedges</i> |  |  |                     |                            |  |                         |
| Foreign currency derivatives                | Prepaid expenses and other             | 4,169,111 Japanese Yen<br>26,741 Australian Dollars  | March 2015          | 1,769                      | (177)  | 1,592                   |
|   | Other accrued liabilities              | 5,290 Japanese Yen<br>912 Australian Dollars   | March 2015          | 153                        | (277)  | (124)                   |
|   | Long-term prepayments and other        | 647,300 Japanese Yen<br>3,840 Australian Dollars   | July 2015           | 324                        |  | 324                     |
|   | Other liabilities and deferred credits | 648 Australian Dollars   | May 2015            |                            | (18)   | (18)                    |
| Fuel derivative contracts                   | Other accrued liabilities              | 94,114 gallons   | March 2015          | 3,753                      | (7,290)  | (3,537)                 |

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|                               |                           |                        |              |         |         |
|-------------------------------|---------------------------|------------------------|--------------|---------|---------|
| Negative arbitrage derivative | Other accrued liabilities | \$444,540 U.S. dollars | January 2015 | (3,668) | (3,668) |
|-------------------------------|---------------------------|------------------------|--------------|---------|---------|

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(1) Represents the noncurrent portion of the \$62.2 million interest rate derivative with final maturity in April 2023.

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Derivative position as of December 31, 2013

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

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

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

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

|                              | <b>(Gain) loss recognized in AOCI on derivatives (effective portion)</b> |             | <b>(Gain) loss reclassified from AOCI into income (effective portion)</b> |             | <b>(Gain) loss recognized in nonoperating (income) expense (ineffective portion)</b> |             |
|------------------------------|--|-------------|---|-------------|--|-------------|
|                              | <b>Three months ended March 31,</b>                                      |             | <b>Three months ended March 31,</b>                                       |             | <b>Three months ended March 31,</b>  |             |
|                              | <b>2014</b>  | <b>2013</b> | <b>2014</b>   | <b>2013</b> | <b>2014</b>  | <b>2013</b> |
| Foreign currency derivatives | \$ 4,528   | \$ (3,053)  | \$ (3,618)  | \$ (267)    | \$   | \$          |
| Interest rate derivatives    | 346  | 1,435       | 211   |             |  |             |

**Risk and Collateral**

The financial derivative instruments expose the Company to possible credit loss in the event the counterparties to the agreements fail to meet their obligations. To manage such credit risks, the Company (1) selects its counterparties based on past experience and credit ratings, (2) limits its exposure to any single counterparty, and (3) periodically monitors the market position and credit rating of each counterparty. Credit risk is deemed to have a minimal impact on the fair value of the derivative instruments as cash collateral would be provided to or by the counterparties based on the current market exposure of the derivative. The Company is also subject to market risk in the event these financial instruments become less valuable in the market. However, changes in the fair value of the derivative instruments will generally offset the change in the fair value of the hedged item, limiting the Company's overall exposure.

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

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As of March 31, 2014, the expected maturities of long-term debt over the next five years, and thereafter, were as follows (in thousands):

|                          |    |         |
|--------------------------|----|---------|
| Remaining months in 2014 | \$ | 126,444 |
| 2015                     |    | 76,663  |
| 2016                     |    | 71,259  |
| 2017                     |    | 72,390  |
| 2018                     |    | 79,147  |
| Thereafter               |    | 414,190 |
|                          | \$ | 840,093 |

During the quarter ended March 31, 2014 a condition for conversion of the Convertible Note was satisfied, which permits holders of the Convertible Notes to put their notes for conversion during the quarter ending June 30, 2014. Since the Company has the intent and ability to redeem the principal amount of these notes with cash, as of March 31, 2014, the carrying value of \$77.5 million is reflected as a current liability in the unaudited Consolidated Balance Sheets.

**9. Employee Benefit Plans**

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

| Components of Net Period Benefit Cost | Three Months Ended March 31, |          |
|---------------------------------------|------------------------------|----------|
|                                       | 2014                         | 2013     |
|                                       | (in thousands)               |          |
| Service cost                          | \$ 2,952                     | \$ 3,602 |
| Interest cost                         | 6,986                        | 6,300    |
| Expected return on plan assets        | (4,845)                      | (4,066)  |
| Recognized net actuarial loss         | 225                          | 2,050    |
| Net periodic benefit cost             | \$ 5,318                     | \$ 7,886 |

The Company made contributions of \$2.8 million to its defined benefit and other postretirement plans in each of the three months ended March 31, 2014 and 2013, and expects to make additional minimum required contributions of \$11.4 million during the remainder of 2014.

**10. Commitments and Contingent Liabilities***Commitments*

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As of March 31, 2014, the Company had the following capital commitments consisting of firm aircraft and engine orders and purchase rights:

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

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

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

|                     | Capital      | Operating  | Total Committed Expenditures<br>(in thousands) | Less: Committed Financing for Upcoming Aircraft Deliveries* | Net Committed Expenditures |
|---------------------|--------------|------------|--|---|----------------------------|
| Remaining months in |              |            |  |   |                            |
| 2014                | \$ 254,152   | \$ 46,650  | \$ 300,802                                     | \$ 220,680  | \$ 80,122                  |
| 2015                | 244,370      | 60,535     | 304,905  |   | 304,905                    |
| 2016                | 147,824      | 49,004     | 196,828  |   | 196,828                    |
| 2017                | 493,824      | 47,853     | 541,677  |   | 541,677                    |
| 2018                | 537,785      | 42,922     | 580,707  |   | 580,707                    |
| Thereafter          | 567,911      | 255,650    | 823,561  |   | 823,561                    |
|                     | \$ 2,245,866 | \$ 502,614 | \$ 2,748,480                                   | \$ 220,680  | \$ 2,527,800               |

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

*Enhanced Equipment Trust Certificates (EETC)*

In 2013, Hawaiian consummated an EETC financing, whereby it created two pass-through trusts, one of which issued \$328.2 million aggregate principal amount of Class A pass-through certificates with a stated interest rate of 3.9% and the second of which issued \$116.3 million aggregate principal amount of Class B pass-through certificates with a stated interest rate of 4.95%. The proceeds of the issuance of the Class A and Class B pass-through certificates were to be used to purchase equipment notes to be issued by Hawaiian to finance the purchase of six (6) new Airbus aircraft scheduled for delivery from November 2013 through October 2014. During the three months ended March 31, 2014, the Company received \$147.8 million in proceeds from the issuance of the equipment notes, which it used to fund a portion of the purchase price of two Airbus aircraft. The remaining proceeds will be used to purchase equipment notes to be issued by Hawaiian to finance the purchase of three (3) new Airbus aircraft scheduled for delivery through October 2014. The equipment notes are secured by a lien on the aircraft, and the payment obligations of Hawaiian under the equipment notes are fully and unconditionally guaranteed by the Company. The Company issues the equipment notes to the trusts as aircraft are delivered to Hawaiian. Hawaiian records the debt obligation upon issuance of the equipment notes rather than upon the initial issuance of the pass-through certificates. In connection with consummation of the EETC financing transaction, Hawaiian was required to deposit \$16.0 million into a collateral account, of which \$0.6 million was released during the quarter. The funds held in this account are under the control of a third party. Accordingly, these funds are classified as restricted cash in the Company's unaudited Consolidated Balance Sheets.

The Company evaluated whether the pass-through trusts formed are variable interest entities ( VIEs ) required to be consolidated by the Company under applicable accounting guidance, and determined that the pass-through trusts are VIEs. The Company determined that it does not have a



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variable interest in the pass-through trusts. Neither the Company nor Hawaiian invested in or obtained a financial interest in the pass-through trusts. Rather, Hawaiian has an obligation to make interest and principal payments on its equipment notes held by the pass-through trusts, which will be fully and unconditionally guaranteed by the Company. Neither the Company nor Hawaiian intends to have any voting or non-voting equity interest in the pass-through trusts or to absorb variability from the pass-through trusts. Based on this analysis, the Company determined that it is not required to consolidate the pass-through trusts.

### *Litigation and Contingencies*

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

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*General Guarantees and Indemnifications*

In the normal course of business, the Company enters into numerous aircraft financing and real estate leasing arrangements that have various guarantees included in the contract. It is common in such lease transactions for the lessee to agree to indemnify the lessor and other related third-parties for tort liabilities that arise out of or relate to the lessee's use of the leased aircraft or occupancy of the leased premises. In some cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by their gross negligence or willful misconduct. Additionally, the lessee typically indemnifies such parties for any environmental liability that arises out of or relates to its use of the real estate leased premises. The Company believes that it is insured (subject to deductibles) for most tort liabilities and related indemnities described above with respect to the aircraft and real estate that it leases. The Company cannot estimate the potential amount of future payments, if any, under the foregoing indemnities and agreements.

*Credit Card Holdback*

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

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

**11. Condensed Consolidating Financial Information**

The following condensed consolidating financial information is presented in accordance with Regulation S-X paragraph 210.3-10 because, in connection with the issuance by two pass-through trusts formed by Hawaiian (which is also referred to in this Note 11 as Subsidiary Issuer / Guarantor) of pass-through certificates, as discussed in Note 10, the Company (which is also referred to in this Note 11 as Parent Issuer / Guarantor), is fully and unconditionally guaranteeing the payment obligations of Hawaiian, which is a 100% owned subsidiary of the Company, under equipment notes issued by Hawaiian to purchase new aircraft, and will fully and unconditionally guarantee those obligations in connection with the future issuance of equipment notes by Hawaiian.

Also, in accordance with Regulation S-X paragraph 210.5-04 (c), the Company is required to report condensed financial information as a result of limitations on the ability of Hawaiian to pay dividends or advances to the Company included in Hawaiian's debt agreements. The Company's condensed consolidating financial information satisfies this requirement.

Condensed consolidating financial statements are presented in the following tables:



Table of Contents**Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)****Three Months Ended March 31, 2014**

|  | <b>Parent Issuer /<br/>Guarantor</b> | <b>Subsidiary<br/>Issuer /<br/>Guarantor</b> | <b>Non-Guarantor<br/>Subsidiaries<br/>(in thousands)</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|--------------------------------------|--|--|---------------------|---------------------|
| <b>Operating Revenue</b>   | \$                                   | \$ 524,327                                   | \$ 631   | \$ (100)            | \$ 524,858          |
| <b>Operating Expenses:</b>   |                                      |  |  |                     |                     |
| Aircraft fuel, including taxes and delivery                            |                                      | 171,139                                      |  |                     | 171,139             |
| Wages and benefits   |                                      | 107,494                                      |  |                     | 107,494             |
| Aircraft rent  |                                      | 26,279                                       |  |                     | 26,279              |
| Maintenance materials and repairs                                      |                                      | 58,298                                       | 12   |                     | 58,310              |
| Aircraft and passenger servicing                                       |                                      | 30,221                                       |  |                     | 30,221              |
| Commissions and other selling  |                                      | 31,347                                       | 13   | (25)                | 31,335              |
| Depreciation and amortization  |                                      | 22,712                                       | 99   |                     | 22,811              |
| Other rentals and landing fees   |                                      | 20,562                                       |  |                     | 20,562              |
| Other  | 1,262                                | 45,136                                       | 347  | (75)                | 46,670              |
| <b>Total</b>   | <b>1,262</b>                         | <b>513,188</b>                               | <b>471</b>   | <b>(100)</b>        | <b>514,821</b>      |
| <b>Operating Income (Loss)</b>   | <b>(1,262)</b>                       | <b>11,139</b>                                | <b>160</b>   |                     | <b>10,037</b>       |
| <b>Nonoperating Income (Expense):</b>                                  |                                      |  |  |                     |                     |
| Undistributed net loss of subsidiaries                                 | (2,807)                              |  |  | 2,807               |                     |
| Interest expense and amortization of debt discounts and issuance costs | (2,180)                              | (12,830)                                     |  |                     | (15,010)            |
| Interest income  | 39                                   | 180  |  |                     | 219                 |
| Capitalized interest   |                                      | 2,776  |  |                     | 2,776               |
| Losses on fuel derivatives   |                                      | (6,899)                                      |  |                     | (6,899)             |
| Other, net   |                                      | 585  |  |                     | 585                 |
| <b>Total</b>   | <b>(4,948)</b>                       | <b>(16,188)</b>                              |  | <b>2,807</b>        | <b>(18,329)</b>     |
| <b>Income (Loss) Before Income Taxes</b>                               | <b>(6,210)</b>                       | <b>(5,049)</b>                               | <b>160</b>   | <b>2,807</b>        | <b>(8,292)</b>      |
| Income tax benefit   | (1,135)                              | (2,082)                                      |  |                     | (3,217)             |
| <b>Net Income (Loss)</b>   | <b>\$ (5,075)</b>                    | <b>\$ (2,967)</b>                            | <b>\$ 160</b>  | <b>\$ 2,807</b>     | <b>\$ (5,075)</b>   |
| <b>Comprehensive Income (Loss)</b>                                     | <b>\$ (10,326)</b>                   | <b>\$ (8,218)</b>                            | <b>\$ 160</b>  | <b>\$ 8,058</b>     | <b>\$ (10,326)</b>  |

Table of Contents**Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)****Three Months Ended March 31, 2013**

|  | <b>Parent Issuer /<br/>Guarantor</b> | <b>Subsidiary<br/>Issuer /<br/>Guarantor</b> | <b>Non-Guarantor<br/>Subsidiaries<br/>(in thousands)</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|--------------------------------------|--|--|---------------------|---------------------|
| <b>Operating Revenue</b>   | \$                                   | \$ 490,248                                   | \$ 615   | \$ (109)            | \$ 490,754          |
| <b>Operating Expenses:</b>   |                                      |  |  |                     |                     |
| Aircraft fuel, including taxes and delivery                            |                                      | 174,489                                      |  |                     | 174,489             |
| Wages and benefits   |                                      | 102,735                                      |  |                     | 102,735             |
| Aircraft rent  |                                      | 26,019                                       |  |                     | 26,019              |
| Maintenance materials and repairs                                      |                                      | 55,259                                       |  |                     | 55,259              |
| Aircraft and passenger servicing                                       |                                      | 29,059                                       |  |                     | 29,059              |
| Commissions and other selling  |                                      | 33,827                                       |  | (16)                | 33,811              |
| Depreciation and amortization  |                                      | 19,113                                       |  |                     | 19,113              |
| Other rentals and landing fees   |                                      | 19,147                                       |  |                     | 19,147              |
| Other  | 1,268                                | 41,804                                       | 69   | (93)                | 43,048              |
| <b>Total</b>   | <b>1,268</b>                         | <b>501,452</b>                               | <b>69</b>  | <b>(109)</b>        | <b>502,680</b>      |
| <b>Operating Income (Loss)</b>   | <b>(1,268)</b>                       | <b>(11,204)</b>                              | <b>546</b>   |                     | <b>(11,926)</b>     |
| <b>Nonoperating Income (Expense):</b>                                  |                                      |  |  |                     |                     |
| Undistributed net loss of subsidiaries                                 | (14,782)                             |  |  | 14,782              |                     |
| Interest expense and amortization of debt discounts and issuance costs | (2,110)                              | (9,267)                                      |  |                     | (11,377)            |
| Interest income  | 36                                   | 91   |  |                     | 127                 |
| Capitalized interest   |                                      | 3,440  |  |                     | 3,440               |
| Losses on fuel derivatives   |                                      | (6,561)                                      |  |                     | (6,561)             |
| Other, net   |                                      | (1,082)                                      |  |                     | (1,082)             |
| <b>Total</b>   | <b>(16,856)</b>                      | <b>(13,379)</b>                              |  | <b>14,782</b>       | <b>(15,453)</b>     |
| <b>Income (Loss) Before Income Taxes</b>                               | <b>(18,124)</b>                      | <b>(24,583)</b>                              | <b>546</b>   | <b>14,782</b>       | <b>(27,379)</b>     |
| Income tax benefit   | (979)                                | (9,255)                                      |  |                     | (10,234)            |
| <b>Net Income (Loss)</b>   | <b>\$ (17,145)</b>                   | <b>\$ (15,328)</b>                           | <b>\$ 546</b>  | <b>\$ 14,782</b>    | <b>\$ (17,145)</b>  |
| <b>Comprehensive Income (Loss)</b>                                     | <b>\$ (15,050)</b>                   | <b>\$ (13,233)</b>                           | <b>\$ 546</b>  | <b>\$ 12,687</b>    | <b>\$ (15,050)</b>  |

Table of Contents**Condensed Consolidating Balance Sheets**

March 31, 2014

|  | Parent Issuer /<br>Guarantor | Subsidiary<br>Issuer /<br>Guarantor | Non-Guarantor<br>Subsidiaries<br>(in thousands) | Eliminations        | Consolidated        |
|--|------------------------------|-------------------------------------|---|---------------------|---------------------|
| <b>ASSETS</b>  |                              |                                     |   |                     |                     |
| <b>Current assets:</b>   |                              |                                     |   |                     |                     |
| Cash and cash equivalents  | \$ 42,057                    | \$ 288,597                          | \$ 4,337  | \$                  | \$ 334,991          |
| Restricted cash  |                              | 20,379                              |   |                     | 20,379              |
| Short-term investments   |                              | 143,702                             |   |                     | 143,702             |
| Accounts receivable, net   | 1,096                        | 96,680                              | 108   | (169)               | 97,715              |
| Spare parts and supplies, net  |                              | 17,400                              |   |                     | 17,400              |
| Deferred tax assets, net   |                              | 17,325                              |   |                     | 17,325              |
| Prepaid expenses and other   | 13                           | 32,538                              |   |                     | 32,551              |
| Total  | 43,166                       | 616,621                             | 4,445   | (169)               | 664,063             |
| Property and equipment at cost   |                              | 1,776,970                           | 33,496  |                     | 1,810,466           |
| Less accumulated depreciation and amortization                                     |                              | (325,915)                           | (98)  |                     | (326,013)           |
| Property and equipment, net  |                              | 1,451,055                           | 33,398  |                     | 1,484,453           |
| Long-term prepayments and other  | 1,040                        | 93,077                              |   |                     | 94,117              |
| Deferred tax assets, net   | 15,902                       |                                     |   | (15,902)            |                     |
| Goodwill and other intangible assets, net  |                              | 129,943                             |   |                     | 129,943             |
| Intercompany receivable  | 66,180                       |                                     |   | (66,180)            |                     |
| Investment in consolidated subsidiaries  | 341,155                      |                                     |   | (341,155)           |                     |
| <b>TOTAL ASSETS</b>  | <b>\$ 467,443</b>            | <b>\$ 2,290,696</b>                 | <b>\$ 37,843</b>                                | <b>\$ (423,406)</b> | <b>\$ 2,372,576</b> |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |                              |                                     |   |                     |                     |
| <b>Current liabilities:</b>  |                              |                                     |   |                     |                     |
| Accounts payable   | \$ 578                       | \$ 90,926                           | \$ 352  | \$ (169)            | \$ 91,687           |
| Air traffic liability  |                              | 502,745                             | 1,986   |                     | 504,731             |
| Other accrued liabilities  | 214                          | 87,972                              | 145   |                     | 88,331              |
| Current maturities of long-term debt, less discount, and capital lease obligations | 77,535                       | 75,811                              |   |                     | 153,346             |
| Total  | 78,327                       | 757,454                             | 2,483   | (169)               | 838,095             |
| <b>Long-term debt and capital lease obligations</b>                                |                              | 786,501                             |   |                     | 786,501             |
| Intercompany payable   |                              | 66,180                              |   | (66,180)            |                     |
| <b>Other liabilities and deferred credits:</b>                                     |                              |                                     |   |                     |                     |
| Accumulated pension and other postretirement benefit obligations                   |                              | 265,815                             |   |                     | 265,815             |
| Other liabilities and deferred credits   | 84                           | 56,461                              | 500   |                     | 57,045              |
| Deferred tax liabilities, net  |                              | 51,990                              |   | (15,902)            | 36,088              |
| Total  | 84                           | 374,266                             | 500   | (15,902)            | 358,948             |
| Shareholders equity  | 389,032                      | 306,295                             | 34,860  | (341,155)           | 389,032             |

|  |    |         |    |           |    |        |    |           |    |           |
|--|----|---------|----|-----------|----|--------|----|-----------|----|-----------|
| <b>TOTAL LIABILITIES AND<br/>SHAREHOLDERS EQUITY</b> | \$ | 467,443 | \$ | 2,290,696 | \$ | 37,843 | \$ | (423,406) | \$ | 2,372,576 |
|--|----|---------|----|-----------|----|--------|----|-----------|----|-----------|

Table of Contents**Condensed Consolidating Balance Sheets**

December 31, 2013

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



**TOTAL LIABILITIES AND  
SHAREHOLDERS EQUITY**

Table of Contents**Condensed Consolidating Statements of Cash Flows****Three Months Ended March 31, 2014**

|   | <b>Parent Issuer /<br/>Guarantor</b> | <b>Subsidiary<br/>Issuer /<br/>Guarantor</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries<br/>(in thousands)</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|--------------------------------------|--|---|---------------------|---------------------|
| <b>Net Cash Provided By (Used In)</b>                                   |                                      |  |   |                     |                     |
| <b>Operating Activities:</b>  | \$ (3,099)                           | \$ 91,561                                    | \$ 993  | \$                  | \$ 89,455           |
| <b>Cash Flows From Investing Activities:</b>                            |                                      |  |   |                     |                     |
| Net payments to subsidiaries  | (42,090)                             |  |   | 42,090              |                     |
| Additions to property and equipment,<br>including pre-delivery deposits |                                      | (168,660)                                    | (1,580)   |                     | (170,240)           |
| Net proceeds from disposition of<br>property and equipment              |                                      | 350  |   |                     | 350                 |
| Purchases of investments  |                                      | (147,978)                                    |   |                     | (147,978)           |
| Sales of investments  |                                      | 4,561  |   |                     | 4,561               |
| Net cash used in investing activities                                   | (42,090)                             | (311,727)                                    | (1,580)   | 42,090              | (313,307)           |
| <b>Cash Flows From Financing Activities:</b>                            |                                      |  |   |                     |                     |
| Proceeds from exercise of stock options                                 | 2,449                                |  |   |                     | 2,449               |
| Long-term borrowings  |                                      | 147,750                                      |   |                     | 147,750             |
| Repayments of long-term debt and<br>capital lease obligations           |                                      | (15,361)                                     |   |                     | (15,361)            |
| Net payments from parent company  |                                      | 42,090                                       |   | (42,090)            |                     |
| Change in restricted cash   |                                      | 621  |   |                     | 621                 |
| Net cash provided by financing<br>activities                            | 2,449                                | 175,100                                      |   | (42,090)            | 135,459             |
| <b>Net decrease in cash and cash<br/>equivalents</b>                    | (42,740)                             | (45,066)                                     | (587)   |                     | (88,393)            |
| <b>Cash and cash equivalents -<br/>Beginning of Period</b>              | 84,797                               | 333,663                                      | 4,924   |                     | 423,384             |
| <b>Cash and cash equivalents - End of<br/>Period</b>                    | \$ 42,057                            | \$ 288,597                                   | \$ 4,337  | \$                  | \$ 334,991          |

Table of Contents**Condensed Consolidating Statements of Cash Flows****Three Months Ended March 31, 2013**

|   | <b>Parent Issuer /<br/>Guarantor</b> | <b>Subsidiary<br/>Issuer /<br/>Guarantor</b> | <b>Non-<br/>Guarantor<br/>Subsidiaries<br/>(in thousands)</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|--------------------------------------|--|---|---------------------|---------------------|
| <b>Net Cash Provided By (Used In)</b>                                   |                                      |  |   |                     |                     |
| <b>Operating Activities:</b>  | \$ (3,055)                           | \$ 75,933                                    | \$ (337)  | \$                  | \$ 72,541           |
| <b>Cash Flows From Investing<br/>Activities:</b>                        |                                      |  |   |                     |                     |
| Net payments from subsidiaries  | 3,167                                |  |   | (3,167)             |                     |
| Additions to property and equipment,<br>including pre-delivery deposits |                                      | (25,401)                                     | (399)   |                     | (25,800)            |
| Net cash provided by (used in)<br>investing activities                  | 3,167                                | (25,401)                                     | (399)   | (3,167)             | (25,800)            |
| <b>Cash Flows From Financing<br/>Activities:</b>                        |                                      |  |   |                     |                     |
| Proceeds from exercise of stock options                                 | 1,411                                |  |   |                     | 1,411               |
| Long-term borrowings  |                                      |  |   |                     |                     |
| Repayments of long-term debt and<br>capital lease obligations           |                                      | (13,993)                                     |   |                     | (13,993)            |
| Debt issuance costs   |                                      | (1,818)                                      |   |                     | (1,818)             |
| Net payments to parent company  |                                      | (3,167)                                      |   | 3,167               |                     |
| Net cash provided by (used in)<br>financing activities                  | 1,411                                | (18,978)                                     |   | 3,167               | (14,400)            |
| <b>Net increase (decrease) in cash and<br/>cash equivalents</b>         | <b>1,523</b>                         | <b>31,554</b>                                | <b>(736)</b>  |                     | <b>32,341</b>       |
| <b>Cash and cash equivalents -<br/>Beginning of Period</b>              | <b>83,626</b>                        | <b>303,967</b>                               | <b>18,287</b>   |                     | <b>405,880</b>      |
| <b>Cash and cash equivalents - End of<br/>Period</b>                    | <b>\$ 85,149</b>                     | <b>\$ 335,521</b>                            | <b>\$ 17,551</b>  | <b>\$</b>           | <b>\$ 438,221</b>   |

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*Certain Restrictions on Subsidiary Distributions, Dividends and Repurchases*

The Company and Hawaiian are party to an Amended and Restated Credit Agreement (Credit Agreement), dated as of December 10, 2010, that provides for a Revolving Credit Facility. See further discussion of the Revolving Credit Facility at Note 7 to the Consolidated Financial Statements included in the Company's Annual Report on form 10-K for the year ended December 31, 2013. The Credit Agreement provides that, subject to certain exceptions, neither Hawaiian nor any other subsidiary of the Company will make any distribution or other payment on account of, or declare or pay any dividend on, or purchase, acquire, redeem or retire any stock issued by Hawaiian or any other subsidiary of the Company. The exceptions include (i) distributions by Hawaiian to the Company for the purpose of allowing the Company to pay federal and state income and franchise taxes, (ii) distributions by Hawaiian to the Company to pay customary costs and expenses of operating a publicly-traded company in an aggregate amount in any year not to exceed \$10.0 million, and (iii) so long as no event of default has occurred and is continuing or would result therefrom, distributions by Hawaiian to the Company for the purpose of making regularly scheduled interest payments on specified indebtedness of the Company. In addition, the Credit Agreement restricts the ability of Hawaiian and the other subsidiaries of the Company from making loans or advances to the Company. The net assets of Hawaiian restricted under the Credit Agreement, defined as shareholders' equity, totaled \$306.3 million and \$313.3 million as of March 31, 2014 and December 31, 2013, respectively.

*Long-Term Debt*

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

*Income Taxes*

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

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**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 areas of strategic focus, statements regarding factors that may affect our ability to fund our working capital, capital expenditures or other general purpose needs; estimates of fair value measurements; statements related to aircraft maintenance and repair costs and deposits and timing of maintenance activities; statements related to cash flow from operations and seasonality; estimates of required funding of and contributions to our defined benefit pension and disability plan; estimates of annual fuel expenses and measure of the effects of fuel prices on our business; statements regarding the availability and cost of fuel; statements regarding our wages and benefits and labor costs and agreements; statements related to airport rent rates and landing fees; statements regarding aircraft rent expense; statements regarding our total capacity and yields on routes; statements related to our hedging program; statements concerning the impact of, and changes to, accounting principles, policies and estimates; statements regarding credit card holdback; statements regarding the availability of financing; statements regarding our capital expenditures; statements regarding potential violations under the Company's debt or lease obligations; statements regarding our ability to comply with covenants under our financing arrangements; statements related to risk management, credit risks and air traffic liability; statements related to future U.S. and global economic conditions or performance; statements related to changes in our fleet plan and related cash outlays; statements related to expected delivery of new aircraft; statements related to potential route expansion; statements related to the increase in frequency on existing routes; statements regarding the use of proceeds of the EETC financing and the issuance dates of equipment notes; statements related to the effects of any litigation on our operations or business; and statements as to other matters that do not relate strictly to historical facts or statements of assumptions underlying any of the foregoing. Words such as expects, anticipates, projects, intends, plans, believes, estimates, variations of such words, and similar expressions are also intended to identify such forward-looking statements. These forward-looking statements are and will be, as the case may be, subject to many risks, uncertainties and assumptions relating to our operations and business environment, all of which may cause our actual results to be materially different from any future results, expressed or implied, in these forward-looking statements.

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

**OVERVIEW**

Hawaiian Holdings, Inc. (the Company, Holdings, we, us and our ) is a holding company incorporated in the State of Delaware. The Company's primary asset is its sole ownership of all issued and outstanding shares of common stock of Hawaiian Airlines, Inc. ( Hawaiian ). Hawaiian was originally incorporated in January 1929 under the laws of the Territory of Hawai i and became the Company's indirect 100% owned subsidiary pursuant to a corporate restructuring that was consummated in August 2002. Hawaiian became a Delaware corporation and the Company's direct wholly-owned subsidiary concurrent with its reorganization in June 2005.

*Our Business*

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

As of March 31, 2014, Hawaiian had 5,339 active employees.

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

**FIRST QUARTER REVIEW**

***Financial Highlights***

- **Operating income grew to \$10.0 million in the first quarter compared to an operating loss of \$11.9 million in the prior year period.**
- **GAAP net loss in the first quarter of \$5.1 million or \$0.10 per diluted share compared to a loss of \$17.1 million in the prior year period or \$0.33 per diluted share.**
- **Adjusted net loss, reflecting economic fuel expense, in the first quarter of \$0.9 million or \$0.02 per diluted share compared to \$14.8 million in the prior year period of \$0.29 per diluted share.**
- **Unrestricted cash and cash equivalents and short-term investments of \$479 million compared to \$438 million in the prior year period.**

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

During the quarter, we launched our **Ohana by Hawaiian** turboprop operations with three times daily service to Molokai and twice daily service to Lana'i further expanding our Neighbor Island network. Also during the quarter we announced the suspension of our Taipei, Taiwan and Fukuoka, Japan routes with final flights in April and June 2014, respectively.

***Outlook***

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We continue to expect our financial performance to improve in future periods as a result of increasing yields on our North America and Neighbor Island routes, the maturation of our international network, and our cost control efforts. Despite the announced suspension of our Taipei, Taiwan and Fukuoka, Japan routes, the Company expects available seat miles during the quarter ending June 30, 2014 to increase by 0.5% to 2.5% from the same prior year period, while passenger revenue per available seat mile is expected to increase by 3% to 6% from the same prior year period. The Company expects operating cost per available seat mile, excluding fuel, for the quarter ending June 30, 2014 to increase by 4% to 7% from the same prior year period.

### *Fleet Summary*

The table below summarizes our total fleet as of March 31, 2013 and 2014, and expected fleet as of March 31, 2015 (based on existing agreements):

| Aircraft Type | March 31, 2013 |           |           | March 31, 2014 |           |           | March 31, 2015 |           |           |
|---------------|----------------|-----------|-----------|----------------|-----------|-----------|----------------|-----------|-----------|
|               | Leased<br>(3)  | Owned     | Total     | Leased<br>(3)  | Owned     | Total     | Leased<br>(3)  | Owned     | Total     |
| A330-200 (1)  | 6              | 4         | 10        | 7              | 9         | 16        | 7              | 13        | 20        |
| 767-300 (2)   | 9              | 7         | 16        | 6              | 6         | 12        | 6              | 4         | 10        |
| 717-200       | 3              | 15        | 18        | 3              | 15        | 18        | 3              | 15        | 18        |
| ATR42 (4)     |                | 2         | 2         |                | 3         | 3         |                | 3         | 3         |
| <b>Total</b>  | <b>18</b>      | <b>28</b> | <b>46</b> | <b>16</b>      | <b>33</b> | <b>49</b> | <b>16</b>      | <b>35</b> | <b>51</b> |

(1) During the quarter ended March 2014, we took delivery of and placed into revenue service two Airbus A330-200 aircraft for service on our North America and International routes. Both of these aircraft were financed in part through proceeds from our EETC financing transaction. The increase in the number of owned Airbus A330-200 aircraft from 2014 to 2015 is due to



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the planned delivery of four aircraft, three of which will be financed in part through proceeds from our EETC financing transaction. See Note 10 for further discussion regarding the EETC financing transaction.

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

**Results of Operations**

For the three months ended March 31, 2014, we recorded a net loss of \$5.1 million, or \$0.10 per diluted share, compared to a net loss of \$17.1 million, or \$0.33 per diluted share, for the same period in 2013.

**Selected Consolidated Statistical Data (unaudited)**

|  | <b>Three Months ended March 31,</b>                  |             |
|--|--|-------------|
|  | <b>2014</b>  | <b>2013</b> |
|  | <b>(in thousands, except as otherwise indicated)</b> |             |
| <b>Scheduled Operations (c) :</b>                |  |             |
| Revenue passengers flown                         | 2,405  | 2,397       |
| Revenue passenger miles (RPM)                    | 3,228,609  | 3,205,482   |
| Available seat miles (ASM)                       | 4,035,674  | 3,960,295   |
| Passenger revenue per RPM (Yield)                | 14.50¢   | 13.72¢      |
| Passenger load factor (RPM/ASM)                  | 80.0%  | 80.9%       |
| Passenger revenue per ASM (PRASM)                | 11.60¢   | 11.11¢      |
| <b>Total Operations (c) :</b>                    |  |             |
| Revenue passengers flown                         | 2,406  | 2,399       |
| RPM  | 3,231,721  | 3,210,632   |
| ASM  | 4,038,973  | 3,965,778   |
| Operating revenue per ASM (RASM)                 | 12.99¢   | 12.37¢      |
| Operating cost per ASM (CASM)                    | 12.75¢   | 12.68¢      |
| CASM excluding aircraft fuel (b)                 | 8.51¢  | 8.28¢       |
| Aircraft fuel expense per ASM (a)                | 4.24¢  | 4.40¢       |
| Revenue block hours operated                     | 39,213   | 38,867      |
| Gallons of jet fuel consumed                     | 55,163   | 53,935      |
| Average cost per gallon of jet fuel (actual) (a) | \$ 3.10  | \$ 3.24     |

- 
- (a) Includes applicable taxes and fees.
  - (b) Represents adjusted unit costs, a non-GAAP measure. We believe this is a useful measure because it better reflects our controllable costs. See Non-GAAP Financial Measures below for our reconciliation of non-GAAP measures.
  - (c) Includes the operations of our contract carrier under a capacity purchase agreement.

***Operating Revenue***

Operating revenue increased \$34.1 million, or 6.9%, for the three months ended March 31, 2014, as compared to the prior year period, driven primarily by an increase in passenger revenue.

Table of Contents*Passenger Revenue*

For the three months ended March 31, 2014, passenger revenue increased \$28.1 million, or 6.4%, as compared to the prior year periods. Details of these changes are described in the table below:

|                 |    | Change in<br>scheduled<br>passenger revenue<br>(millions) | Change in<br>Yield | Change in<br>RPM | Change in<br>ASM |
|-----------------|----|---|--------------------|------------------|------------------|
| North America   | \$ | 27.4  | 13.4%              | 0.8%             | 2.7%             |
| Neighbor Island |    | 9.4   | 9.5                | (0.6)            | 0.3              |
| International   |    | (8.7)   | (6.9)              | 0.8              | 1.1              |
| Total scheduled | \$ | 28.1  | 5.7%               | 0.7%             | 1.9%             |

*North America*

For the three months ended March 31, 2014, North America revenue increased by \$27.4 million, as compared to the prior year period. Industry capacity growth stabilized from the prior year period and we experienced increased demand which resulted in an increase in average fares on these routes.

*Neighbor Island*

For the three months ended March 31, 2014, Neighbor Island revenue increased by \$9.4 million, as compared to the prior year period, primarily due to higher average fares.

*International*

For the three months ended March 31, 2014, International revenue decreased by \$8.7 million, as compared to the prior year period, primarily due to a decrease in yield. The average fares on these routes decreased due to unfavorable changes in the Japanese Yen and Australian Dollar exchange rates and the dilutive impact of certain new routes in their early stages of development.

*Other Operating Revenue*

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Other operating revenue increased by \$6.0 million, or 11.9%, for the three months ended March 31, 2014, as compared to the prior year period, primarily due to increased cargo revenue which was generated from an increase in the volume of cargo transported during the period. The increase in volume was the result of additional cargo capacity, the expansion of our network, and improved revenue generation on our existing routes.

Table of Contents**Operating Expense**

Operating expenses were \$514.8 million and \$502.7 million for the three months ended March 31, 2014 and 2013, respectively. Increases (decreases) in operating expenses for the three months ended March 31, 2014 as compared to the prior year period are detailed below:

|   | <b>Increase / (decrease) in operating<br/>expenses for the three months ended<br/>March 31, 2014 compared to the three<br/>months ended March 31, 2013</b> |             |
|---|--|-------------|
|   | \$   | %           |
|   | (in thousands)   |             |
| <b>Operating expenses</b>                   |  |             |
| Aircraft fuel, including taxes and delivery | \$ (3,350)   | (1.9)%      |
| Wages and benefits                          | 4,759  | 4.6         |
| Aircraft rent                               | 260  | 1.0         |
| Maintenance materials and repairs           | 3,051  | 5.5         |
| Aircraft and passenger servicing            | 1,162  | 4.0         |
| Commissions and other selling               | (2,476)  | (7.3)       |
| Depreciation and amortization               | 3,698  | 19.3        |
| Other rentals and landing fees              | 1,415  | 7.4         |
| Other                                       | 3,622  | 8.4         |
| <b>Total</b>                                | <b>\$ 12,141</b>   | <b>2.4%</b> |

**Aircraft Fuel**

Aircraft fuel expense decreased during the three months ended March 31, 2014 as compared to the prior year period, primarily due to a decrease in the average fuel price per gallon, partially offset by an increase in fuel consumption as illustrated in the following table:

|   | <b>Three months ended March 31,</b>       |            |        |
|---|---|------------|--------|
|   | 2014                                      | 2013       | Change |
|   | (in thousands, except per-gallon amounts) |            |        |
| Aircraft fuel expense, including taxes and delivery         | \$ 171,139                                | \$ 174,489 | (1.9)% |
| Fuel gallons consumed                                       | 55,163                                    | 53,935     | 2.3%   |
| Average fuel price per gallon, including taxes and delivery | \$ 3.10                                   | \$ 3.24    | (4.3)% |

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

**Three months ended March 31,**

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|  | 2014                                      | 2013       | Change   |
|--|---|------------|----------|
|  | (in thousands, except per-gallon amounts) |            |          |
| Aircraft fuel expense, including taxes and delivery                | \$ 171,139                                | \$ 174,489 | (1.9)%   |
| Realized (gains) losses on settlement of fuel derivative contracts | (110)                                     | 2,696      | (104.1)% |
| Economic fuel expense  | \$ 171,029                                | \$ 177,185 | (3.5)%   |
| Fuel gallons consumed  | 55,163                                    | 53,935     | 2.3%     |
| Economic fuel costs per gallon                                     | \$ 3.10                                   | \$ 3.29    | (5.8)%   |

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

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*Wages and Benefits*

Wages and benefits expense increased by \$4.8 million, or 4.6%, for the three months ended March 31, 2014, as compared to the prior year period, primarily due to a 7.6% increase in the number of employees as we continued to expand our operations with additional aircraft and new routes.

*Maintenance materials and repairs*

Maintenance materials and repairs expense increased by \$3.1 million, or 5.5%, for the three months ended March 31, 2014, as compared to the prior year period, due to the increase in the number and utilization of Airbus A330-200 aircraft in our fleet.

*Depreciation and Amortization*

Depreciation and amortization expense increased by \$3.7 million, or 19.3%, for the three months ended March, 31, 2014, as compared to the prior year period, primarily due to the increase in the number of owned aircraft.

*Other rentals and landing fees*

Other rentals and landing fees expense increased by \$1.4 million, or 7.4%, for the three months ended March 31, 2014, as compared to the prior year period, due to increased rates and landing frequencies on existing routes.

*Other expense*

Other expense increased by \$3.6 million, or 8.4%, for the three months ended March 31, 2014, as compared to the prior year period, primarily due to costs incurred in connection with our new turboprop operations that began in March 2014.

*Nonoperating Expense*

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Net nonoperating expense increased by \$2.9 million, or 18.6%, for the three months ended March 31, 2014, as compared to the prior year period, primarily due to increased interest and amortization of debt discounts and issuance costs of \$3.7 million, due to the additional financings we entered into subsequent to March 31, 2013.

In 2013, Hawaiian consummated an EETC financing, whereby it created two pass-through trusts, one of which issued \$328.2 million aggregate principal amount of Class A pass-through certificates with a stated interest rate of 3.9% and the second of which issued \$116.3 million aggregate principal amount of Class B pass-through certificates with a stated interest rate of 4.95%. We expect that the issuance of these equipment notes will significantly increase our interest expense in 2014, which is when all equipment notes are expected to be issued and outstanding.

### *Income Tax Benefit*

We had effective tax rates of 38.8% and 37.4% for the three months ended March 31, 2014 and 2013, respectively. We consider a variety of factors in determining the effective tax rate, including our forecasted full-year pretax results, the U.S. federal statutory rate of 35%, expected nondeductible expenses and estimated state taxes.

### **Liquidity and Capital Resources**

Our liquidity is dependent on the cash we generate from operating activities and our debt financing arrangements. As of March 31, 2014, we had \$335.0 million in cash and cash equivalents and \$143.7 million in short-term investments, representing an increase of \$55.3 million from December 31, 2013. Our restricted cash balance of \$20.4 million and \$19.4 million as of March 31, 2014 and December 31, 2013, respectively, consisted of cash held as collateral by entities that process our credit card transactions for advanced ticket sales and cash held as collateral for future interest payments owed in connection with the EETC financing which closed in 2013.

We have been able to generate sufficient funds from our operations to meet our working capital requirements and typically finance our aircraft through secured debt and lease financings. At March 31, 2014, Hawaiian had approximately \$939.8 million of debt and capital lease obligations, including approximately \$153.3 million classified as a current liability in the unaudited Consolidated Balance Sheets. During the quarter ended March 31, 2014 a condition for conversion of the Convertible Notes was satisfied, which permits holders of the Convertible Notes to put their notes for conversion during the quarter ending June 30, 2014. Since we have the intent and ability to redeem the principal amount of these notes with cash, as of March 31, 2014, the carrying value of \$77.5 million is reflected as a current liability in the unaudited Consolidated Balance Sheets.



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Hawaiian has a secured revolving credit facility (the Revolving Credit Facility) in an amount of up to \$75.0 million, and as of March 31, 2014, we had no outstanding borrowings under the Revolving Credit Facility and \$69.5 million available (net of various outstanding letters of credit).

See Note 10 for additional information on the EETC financing which closed in 2013. In addition, we have backstop financing available from aircraft and engine manufacturers, subject to certain customary conditions. Financing will be necessary to satisfy the Company's capital commitments for its firm order aircraft and other related capital expenditures. The Company can provide no assurance that any financing not already in place for aircraft and spare engine deliveries will be available to the Company on acceptable terms when necessary or at all.

*Cash Flows*

Net cash provided by operating activities was \$89.5 million and \$72.5 million for the three months ended March 31, 2014 and 2013, respectively. The increase in cash provided by operating activities was primarily due to our improved financial performance from the prior year period, as we recorded a net loss of \$5.1 million for the three months ended March 31, 2014 compared to a net loss of \$17.1 million for the three months ended March 31, 2013.

Net cash used in investing activities was \$313.3 million and \$25.8 million for the three months ended March 31, 2014 and 2013, respectively. The increase during the three months ended March 31, 2014 was due to an increase in purchases of property and equipment of \$144.4 million and purchases of investments of \$148.0 million.

Net cash provided by (used in) financing activities was \$135.5 million and \$(14.4) million for the three months ended March 31, 2014 and 2013, respectively. The increase during the three months ended March 31, 2014 was primarily due to increases in long-term borrowings of \$147.8 million.

In 2013, Hawaiian consummated an EETC financing, whereby it created two pass-through trusts, one of which issued \$328.2 million aggregate principal amount of Class A pass-through certificates with a stated interest rate of 3.9% and the second of which issued \$116.3 million aggregate principal amount of Class B pass-through certificates with a stated interest rate of 4.95%. During the three months ended March 31, 2014, \$147.8 million of the proceeds from the EETC financing was used to finance a portion of the purchase price of two new Airbus aircraft. The remaining proceeds of the issuance of the Class A and Class B pass-through certificates will be used to purchase equipment notes to be issued by Hawaiian to finance the purchase of three (3) new Airbus aircraft scheduled for delivery through October 2014. Hawaiian issues the equipment notes to the trusts as aircraft are delivered to Hawaiian. Hawaiian records the debt obligation upon issuance of the equipment notes rather than upon the initial issuance of the pass-through certificates.

*Capital Commitments*

As of March 31, 2014, we had the following capital commitments consisting of firm aircraft and engine orders and purchase rights:

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

Committed expenditures for these aircraft, engines and related flight equipment approximates \$254 million for the remainder of 2014, \$244 million in 2015, \$148 million in 2016, \$494 million in 2017, \$538 million in 2018 and \$568 million thereafter.

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For the remainder of 2014, we expect our other non-aircraft related capital expenditures, which include software, improvements and ramp and maintenance equipment to total approximately \$45 million to \$55 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 an impact on our ability to fulfill our existing purchase commitments and a material adverse effect on our operations.

We secured financing for a portion of the purchase price of three (3) upcoming Airbus A330-200 aircraft deliveries through October 2014 through the EETC financing which closed in 2013. In addition, we have backstop financing available from aircraft and engine manufacturers, subject to certain customary conditions. See Note 10 for further detail regarding the EETC financing.

*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, repurchase stock and, in the case of Hawaiian, pay dividends or make distributions to the Company. 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 March 31, 2014, we were in compliance with these covenants. If we are not able to comply with these covenants in the future, 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 set forth in the unaudited Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q, totaled \$5.0 million as of March 31, 2014 and December 31, 2013.

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

*Pension and Postemployment Benefit Plan Funding*

We contributed \$2.8 million to our defined benefit and other postretirement plans during the three months ended March 31, 2014, and expect to contribute an additional required minimum of \$11.4 million during the remainder of 2014. Future funding requirements for our defined benefit plans are dependent upon many factors such as interest rates, funded status, applicable regulatory requirements and the level and timing of asset returns.

**Contractual Obligations**

Our estimated contractual obligations as of March 31, 2014 are summarized in the following table:

| <b>Contractual Obligations</b>                         | <b>Total</b>        | <b>Remaining<br/>months in<br/>2014</b> | <b>2015 - 2016<br/>(in thousands)</b> | <b>2017 - 2018</b>  | <b>2019 and<br/>thereafter</b> |
|--|---------------------|---|---------------------------------------|---------------------|--------------------------------|
| Debt and capital lease obligations<br>(1) (2)          | \$ 1,202,904        | \$ 166,009                              | \$ 248,855                            | \$ 235,567          | \$ 552,473                     |
| Operating leases aircraft and related<br>equipment (3) | 666,525             | 76,708                                  | 186,637                               | 160,635             | 242,545                        |
| Operating leases non-aircraft                          | 42,288              | 3,526                                   | 8,796                                 | 7,147               | 22,819                         |
| Purchase commitments - Capital (4)                     | 2,245,866           | 254,152                                 | 392,194                               | 1,031,609           | 567,911                        |
| Purchase commitments - Operating<br>(5)                | 502,614             | 46,650                                  | 109,539                               | 90,775              | 255,650                        |
| Projected employee benefit<br>contributions (6)        | 26,107              | 10,638                                  | 15,469                                |                     |                                |
| <b>Total contractual obligations</b>                   | <b>\$ 4,686,304</b> | <b>\$ 557,683</b>                       | <b>\$ 961,490</b>                     | <b>\$ 1,525,733</b> | <b>\$ 1,641,398</b>            |

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(1) Amounts represent contractual amounts due, including interest. Interest on variable-rate debt was estimated using rates in effect as of March 31, 2014. Amount reflects capital lease obligations for one Airbus A330-200 aircraft, two Boeing 717 aircraft and one A330 flight simulator.

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

(3) Amounts reflect leases for six Airbus A330-200 aircraft, six Boeing 767 aircraft, one Boeing 717 aircraft, three turbo-prop aircraft and aircraft-related equipment as of March 31, 2014.

(4) Amounts include our firm commitments for aircraft and aircraft related equipment including aircraft orders consisting of six wide-body Airbus A330-200 aircraft, 16 narrow-body Airbus A321neo aircraft, six Airbus A350XWB-800 aircraft, four Rolls Royce spare engines and two Pratt and Whitney spare engines. We have secured financing in the amount of \$220.7 million from the EETC financing for a portion of the purchase price of three Airbus A330-200 aircraft deliveries through October 2014.

(5) 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 (with no minimum guarantee), such as aircraft maintenance deposits due under operating leases and fees due under certain other agreements such as aircraft maintenance power-by-the-hour, computer reservation systems and credit card processing agreements, or when the agreements contain short-term cancellation provisions.

(6) Amount includes our estimated contributions to our pension plans (based on actuarially determined estimates) and our pilots disability plan. Amounts are subject to change based on numerous factors, including interest rate levels, the amount and timing of asset returns and the impact of future legislation. We are currently unable to estimate the projected contributions beyond 2016.

**Non-GAAP Financial Measures**

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

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

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- These measures are often used in management and board of directors decision making analysis;
  
- It improves a reader's ability to compare our results to those of other airlines; and
  
- It is consistent with how we present information in our quarterly earnings press releases.

### *Economic Fuel Expense*

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

|   | Three Months ended March 31, |                                  |             |                                  |
|---|------------------------------|----------------------------------|-------------|----------------------------------|
|   | 2014                         | Diluted net<br>loss<br>per share | 2013        | Diluted net<br>loss<br>per share |
|   | Net loss                     |                                  | Net loss    |                                  |
| As reported - GAAP  | \$ (5,075)                   | \$ (0.10)                        | \$ (17,145) | \$ (0.33)                        |
| Add: unrealized losses on fuel derivative contracts, net of tax | 4,205                        | 0.08                             | 2,319       | 0.04                             |
| Reflecting economic fuel expense                                | \$ (870)                     | \$ (0.02)                        | \$ (14,826) | \$ (0.29)                        |

Table of Contents*Operating Costs per Available Seat Mile (CASM)*

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

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

|   | <b>Three Months ended March 31,</b>                  |             |
|---|--|-------------|
|   | <b>2014</b>  | <b>2013</b> |
|   | <b>(in thousands, except as otherwise indicated)</b> |             |
| GAAP operating expenses                               | \$ 514,821   | \$ 502,680  |
| Less: aircraft fuel, including taxes and delivery     | (171,139)  | (174,489)   |
| Adjusted operating expenses - excluding aircraft fuel | \$ 343,682   | \$ 328,191  |
| <br>  |  |             |
| Available Seat Miles                                  | 4,038,973  | 3,965,778   |
| <br>  |  |             |
| CASM - GAAP   | 12.75¢   | 12.68¢      |
| Less: aircraft fuel                                   | (4.24)   | (4.40)      |
| CASM - excluding aircraft fuel                        | 8.51¢  | 8.28¢       |

**Critical Accounting Policies**

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

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

*Frequent Flyer Accounting*

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

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

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



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

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

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

*Aircraft Fuel Costs*

Aircraft fuel costs constitute a significant portion of our operating expense. Fuel costs represented 33% of our operating expense for the three months ended March 31, 2014. Approximately 72% of our fuel is based on Singapore jet fuel prices, 27% is based on U.S. West Coast jet fuel prices and 1% on other jet fuel prices. Based on gallons expected to be consumed for the remainder of 2014, for every one cent increase in the cost of a gallon of jet fuel, our fuel expense would increase by approximately \$2.0 million, excluding the results of our fuel hedge program.

We periodically enter into derivative financial instruments to manage our exposure to changes in the price of jet fuel. During the three months ended March 31, 2014, our fuel hedge program primarily consisted of heating oil puts and swaps. Put option contracts provide for a settlement in favor of the holder in the event the prices fall below a predetermined contractual level during a particular time period. Swaps provide for a settlement in our favor in the event the prices exceed a predetermined contractual level and are unfavorable in the event prices fall below a predetermined contractual level.

As of March 31, 2014, the Company hedged approximately 47% of its projected fuel requirements for the remainder of 2014 with heating oil puts and swaps. As of March 31, 2014, the fair value of these fuel derivative agreements reflected a net liability of \$3.5 million that is recorded in other accrued liabilities in the unaudited Consolidated Balance Sheets.

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

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

*Interest Rates*

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Our results of operations are affected by fluctuations in interest rates due to our variable-rate debt and interest income earned on our cash deposits. Our variable-rate debt agreements 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, 2013.

At March 31, 2014, we had \$95.9 million of variable-rate debt indexed to the following interest rate:

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

Changes in market interest rates have a direct and corresponding effect on our pre-tax earnings and cash flows associated with our variable-rate debt and interest-bearing cash accounts. Based on the balances of our cash and cash equivalents, restricted cash, and variable-rate debt as of March 31, 2014, a change in interest rates is unlikely to have a material impact on our results of operations.

At March 31, 2014, we had \$843.9 million of fixed-rate debt including aircraft capital lease obligations, a convertible note, facility agreements for aircraft purchases, and the outstanding equipment notes related to the EETC financing. Market risk for fixed-rate long-term debt is estimated as the potential increase in fair value resulting from a hypothetical 10% decrease in interest rates, and amounted to approximately \$15.9 million as of March 31, 2014.

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

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*Foreign Currency*

We generate revenues and incur expenses in foreign currencies. Changes in foreign currency exchange rates impact our results of operations through changes in the dollar value of foreign currency-denominated operating revenues and expenses. Our most significant foreign currency exposures are the Japanese Yen and Australian Dollar. Based on expected remaining 2014 revenues and expenses denominated in Japanese Yen and Australian Dollars, a 10% strengthening in value of the U.S. dollar, relative to the Japanese Yen and Australian Dollar, would result in a decrease in operating income of approximately \$14.0 million and \$11.4 million, respectively, which excludes the offset of the hedges discussed below. This potential impact to the results of our operation is driven by the inherent nature of our international operations, which requires us to accept a large volume of sales transactions denominated in foreign currencies while few expense transactions are settled in foreign currencies. This disparity is the primary factor in our exposure to foreign currencies.

As of March 31, 2014, the fair value of our foreign currency forwards reflected a net asset of \$3.4 million that is recorded in prepaid expenses and other, and \$0.4 million recorded in long-term prepayments and other, and a net liability of \$0.1 million recorded in other accrued liabilities and \$0.2 million recorded in other liabilities and deferred credits reflected in the unaudited Consolidated Balance Sheets.

**ITEM 4. CONTROLS AND PROCEDURES.**

**Evaluation of Disclosure Controls and Procedures**

Our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), performed an evaluation of our disclosure controls and procedures, which have been designed to permit us to effectively identify and timely disclose important information. Based on that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures were effective as of March 31, 2014 to provide reasonable assurance that the information required to be disclosed by the Company in reports it files under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

Except as set forth below, there were no changes in our internal control over financial reporting during the quarter ended March 31, 2014 which materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

During the quarter ended March 31, 2014, we implemented new control activities in connection with the commencement of a new co-branded credit card agreement, which provides for the sale of frequent flyer miles to Barclays beginning in 2014. This new agreement required us to apply Accounting Standards Update 2009-13, Multiple Deliverable Revenue Arrangements. A consensus of the FASB Emerging Issues Task Force to a material new agreement for the first time.

**Inherent Limitations on Effectiveness of Controls**

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

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS.**

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

**ITEM 1A. RISK FACTORS.**

See Part I, Item 1A., Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 for a detailed discussion of the risk factors affecting our business, results of operations and financial condition.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

**ITEM 5. OTHER INFORMATION.**

None.

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**ITEM 6. EXHIBITS.**

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 12                 | Computation of ratio of earning to fixed charges for the three months ended March 31, 2014 and 2013.   |
| 31.1               | Rule 13a-14(a) Certification of Chief Executive Officer.   |
| 31.2               | Rule 13a-14(a) Certification of Chief Financial Officer.   |
| 32.1               | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2               | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS            | XBRL Instance Document   |
| 101.SCH            | XBRL Taxonomy Extension Schema Document  |
| 101.CAL            | XBRL Taxonomy Extension Valuation Linkbase Document  |
| 101.DEF            | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB            | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE            | XBRL Taxonomy Extension Presentation Linkbase Document   |

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**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.**

April 24, 2014

By

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