

HAWAIIAN HOLDINGS INC
Form 10-Q
April 24, 2015

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, 2015

or

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

For the transition period from to

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

Delaware	71-0879698
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

3375 Koapaka Street, Suite G-350	
Honolulu, HI	96819
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

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

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

Large accelerated filer ☐

Accelerated filer ☒

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

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

Smaller reporting company ☐

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

As of April 17, 2015, 54,716,379 shares of the registrant's common stock were outstanding.

Hawaiian Holdings, Inc.
Form 10-Q
Quarterly Period ended March 31, 2015

Table of Contents

<u>Part I.</u>	<u>Financial Information</u>	<u>3</u>
<u>Item 1.</u>	<u>Consolidated Financial Statements of Hawaiian Holdings, Inc. (Unaudited)</u>	<u>3</u>
	<u>Consolidated Statements of Operations for the three months ended March 31, 2015 and 2014</u>	<u>3</u>
	<u>Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2015 and 2014</u>	<u>4</u>
	<u>Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014</u>	<u>5</u>
	<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014</u>	<u>6</u>
	<u>Notes to Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>35</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>36</u>
<u>Part II.</u>	<u>Other Information</u>	<u>37</u>
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>37</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>37</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>37</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>37</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>37</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>37</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>37</u>
	<u>Signatures</u>	<u>38</u>

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

	Three Months Ended March 31,	
	2015	2014
	(unaudited)	
Operating Revenue:		
Passenger	\$469,145	\$468,013
Other	71,135	56,845
Total	540,280	524,858
Operating Expenses:		
Aircraft fuel, including taxes and delivery	111,327	171,139
Wages and benefits	120,014	107,494
Aircraft rent	28,371	26,279
Maintenance materials and repairs	55,245	58,310
Aircraft and passenger servicing	28,316	30,221
Commissions and other selling	30,428	31,335
Depreciation and amortization	25,179	22,811
Other rentals and landing fees	22,831	20,562
Other	47,405	46,670
Total	469,116	514,821
Operating Income	71,164	10,037
Nonoperating Income (Expense):		
Interest expense and amortization of debt discounts and issuance costs	(15,518)	) (15,010)
Interest income	636	219
Capitalized interest	1,293	2,776
Losses on fuel derivatives	(5,687)	) (6,899)
Loss on extinguishment of debt	(6,955)) —
Other, net	(2,934)	) 585
Total	(29,165)	) (18,329)
Income (Loss) Before Income Taxes	41,999	(8,292)
Income tax expense (benefit)	16,116	(3,217)
Net Income (Loss)	\$25,883	\$(5,075)
Net Income (Loss) Per Share		
Basic	\$0.47	\$(0.10)
Diluted	\$0.40	\$(0.10)

See accompanying Notes to Consolidated Financial Statements.

Hawaiian Holdings, Inc.

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

	Three Months Ended March 31,	
	2015	2014
	(unaudited)	
Net Income (Loss)	\$25,883	\$(5,075)
Other comprehensive income (loss), net:		
Net change related to employee benefit plans, net of tax expense of \$1,009 and \$125 for 2015 and 2014, respectively	1,658	205
Net change in derivative instruments, net of tax benefit of \$488 and \$3,303 for 2015 and 2014, respectively	(802)	(5,435)
Net change in available-for-sale investments, net of tax expense of \$185 for 2015	304	(21)
Total other comprehensive income (loss)	1,160	(5,251)
Total Comprehensive Income (Loss)	\$27,043	\$(10,326)

See accompanying Notes to Consolidated Financial Statements.

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

	March 31, 2015 (unaudited)	December 31, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	\$226,116	\$264,087
Restricted cash	5,000	6,566
Short-term investments	262,131	260,121
Accounts receivable, net	96,533	80,737
Spare parts and supplies, net	19,108	18,011
Deferred tax assets, net	22,703	21,943
Prepaid expenses and other	47,019	53,382
Total	678,610	704,847
Property and equipment, less accumulated depreciation and amortization of \$368,104 and \$367,507 as of March 31, 2015 and December 31, 2014, respectively	1,657,380	1,673,493
Other Assets:		
Long-term prepayments and other	92,801	96,225
Intangible assets, less accumulated amortization of \$35,094 and \$34,434 as of March 31, 2015 and December 31, 2014, respectively	20,640	21,300
Goodwill	106,663	106,663
Total Assets	\$2,556,094	\$2,602,528
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$104,353	\$97,260
Air traffic liability	523,112	424,336
Other accrued liabilities	125,967	141,919
Current maturities of long-term debt, less discount, and capital lease obligations	100,778	156,349
Total	854,210	819,864
Long-Term Debt and Capital Lease Obligations	861,632	893,288
Other Liabilities and Deferred Credits:		
Accumulated pension and other postretirement benefit obligations	401,264	407,864
Other liabilities and deferred credits	79,367	72,650
Deferred tax liability, net	55,953	41,629
Total	536,584	522,143
Commitments and Contingencies		
Shareholders' Equity:		
Special preferred stock, \$0.01 par value per share, three shares issued and outstanding as of March 31, 2015 and December 31, 2014	—	—
Common stock, \$0.01 par value per share, 54,716,379 and 54,455,568 shares issued and outstanding as of March 31, 2015 and December 31, 2014, respectively	547	545
Capital in excess of par value	160,822	251,432
Accumulated income	263,951	238,068
Accumulated other comprehensive loss, net	(121,652)	(122,812)

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

Total	303,668	367,233
Total Liabilities and Shareholders' Equity	\$2,556,094	\$2,602,528

See accompanying Notes to Consolidated Financial Statements.

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

	Three months ended March 31,	
	2015	2014
	(unaudited)	
Net cash provided by Operating Activities	\$ 161,688	\$ 89,455
Cash flows from Investing Activities:		
Additions to property and equipment, including pre-delivery payments	(49,633	) (170,240
Proceeds from purchase assignment and leaseback transaction	37,797	—
Net proceeds from disposition of equipment	908	350
Purchases of investments	(66,125	) (147,978
Sales of investments	63,640	4,561
Net cash used in investing activities	(13,413	) (313,307
Cash flows from Financing Activities:		
Long-term borrowings	—	147,750
Repayments of long-term debt and capital lease obligations	(28,459	) (15,361
Repurchase of convertible notes	(156,464) —
Other	(1,323	) 3,070
Net cash provided by (used in) financing activities	(186,246	) 135,459
Net decrease in cash and cash equivalents	(37,971	) (88,393
Cash and cash equivalents - Beginning of Period	264,087	423,384
Cash and cash equivalents - End of Period	\$ 226,116	\$ 334,991

See accompanying Notes to Consolidated Financial Statements.

Hawaiian Holdings, Inc.
Notes to Consolidated Financial Statements (Unaudited)

1. Business and Basis of Presentation

Hawaiian Holdings, Inc. (the Company or Holdings) is a holding company incorporated in the State of Delaware. The Company's primary asset is its sole ownership of all issued and outstanding shares of common stock of Hawaiian Airlines, Inc. (Hawaiian). The accompanying unaudited financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X of the U.S. Securities and Exchange Commission (SEC). Accordingly, these interim financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying financial statements contain all adjustments, including normal recurring adjustments, necessary for the fair presentation of the Company's results of operations and financial position for the periods presented. Due to seasonal fluctuations, among other factors common to the airline industry, the results of operations for the periods presented are not necessarily indicative of the results of operations to be expected for the entire year. The accompanying unaudited Consolidated Financial Statements should be read in conjunction with the financial statements and the notes of the Company included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

2. Significant Accounting Policies

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (ASU 2014-09), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. Early adoption is not permitted. The amendments in ASU 2014-09 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, and allow for either full retrospective or modified retrospective adoption. The Company is currently evaluating the effect that the provisions of ASU 2014-09 will have on its consolidated financial statements and related disclosures. We have determined that the new standard, once effective, will preclude the Company from accounting for miles earned under its HawaiianMiles customer loyalty program using the incremental cost method, and will require use of the deferred revenue method. This change could have a significant impact on the Company's financial statements.

3. Accumulated Other Comprehensive Income (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 in the statement where net income (loss) is presented
	2015	2014	
	(in thousands)		
Derivatives designated as hedging instruments under ASC 815			
Foreign currency derivative gains, net	\$(3,952	) \$(3,618	) Passenger revenue
Interest rate derivative losses, net	187	211	Interest expense
Total before tax	(3,765	) (3,407)
Tax expense	1,422	1,285	
Total, net of tax	\$(2,343	) \$(2,122)
Amortization of defined benefit pension items			
Actuarial loss	\$2,680	\$226	Wages and benefits
Prior service cost (credit)	57	(1	) Wages and benefits
Total before tax	2,737	225	
Tax benefit	(1,038	) (125)
Total, net of tax	\$1,699	\$100	
Short-term investments			
Realized gain on sales of investments, net	\$(10	) \$(2	) Other nonoperating income
Total before tax	(10	) (2)
Tax expense	1	—	
Total, net of tax	\$(9	) \$(2)
Total reclassifications for the period	\$(653	) \$(2,024)

A rollforward of the amounts included in accumulated other comprehensive loss, net of taxes, for the three months ended March 31, 2015 and 2014 is as follows:

Three months ended March 31, 2015	Interest Rate Derivatives	Foreign Currency Derivatives	Defined Benefit Pension Items	Short-Term Investments	Total
	(in thousands)				
Beginning balance	\$254	\$12,708	\$(135,520)	\$(254)	\$(122,812)
Other comprehensive income (loss) before reclassifications, net of tax	(476)	2,017	(41)	313	1,813
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	114	(2,457)	1,699	(9)	(653)
Net current-period other comprehensive income (loss)	(362)	(440)	1,658	304	1,160
Ending balance	\$(108)	\$12,268	\$(133,862)	\$ 50	\$(121,652)

Three months ended March 31, 2014	Interest Rate Derivatives	Foreign Currency Derivatives	Defined Benefit Pension Items	Short-Term Investments	Total
	(in thousands)				
Beginning balance	\$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)
Ending balance	\$865	\$3,073	\$(51,854)	\$(21)	\$(47,937)

4. Earnings (Loss) Per Share

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

Diluted earnings (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, 2015 2014 (in thousands, except for per share data)	
Numerator:		
Net Income (Loss)	\$ 25,883	\$ (5,075)
Denominator:		
Weighted average common stock shares outstanding - Basic	54,614	52,686
Assumed exercise of stock options and awards	546	—
Assumed conversion of convertible note premium	3,958	—
Assumed conversion of warrants	5,808	—
Weighted average common stock shares outstanding - Diluted	64,926	52,686
Net Income (Loss) Per Share		
Basic	\$ 0.47	\$ (0.10)
Diluted	\$ 0.40	\$ (0.10)

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

	Three Months Ended March 31, 2015 2014 (in thousands)	
Stock options	—	805
Deferred stock	—	79
Restricted stock	6	1,482
Convertible note premium	—	10,943
Warrants	—	10,943

In March 2011, the Company entered into a convertible note transaction which included the sale of convertible notes, purchase of call options and sale of warrants. As of March 31, 2015, the Company's 5% Convertible Notes due in 2016 ("Convertible Notes") had an outstanding principal balance of \$8.1 million and can be redeemed with either cash or the Company's common stock, or a combination thereof, at the Company's option. In 2015, the Company repurchased \$63.1 million in principal of the Convertible Notes. The 1.0 million shares into which the currently outstanding Convertible Notes can be converted will not impact the dilutive earnings per share calculation in the current and future periods under the if-converted method, as the Company has the intent and ability to redeem the principal amount of the Convertible Notes with cash.

During the three months ended March 31, 2015 the average share price of the Company's common stock exceeded the conversion price of \$7.88 per share. Therefore, shares related to the conversion premium of the Convertible Notes (for which share settlement is assumed for earnings per share purposes) are included in the Company's computation of diluted earnings per share. 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 Notes were not included in the Company's computation of diluted earnings per share in such quarter as the Company was in a net loss position for that period and the effect would have been antidilutive.

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

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

During the three months ended March 31, 2015 the average share price of the Company's common stock exceeded the warrant strike price of \$10.00 per share. Therefore, the assumed conversion of the warrants is included in the Company's computation of diluted earnings per share. 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 was not included in the Company's computation of diluted earnings per share in such quarter as the Company was in a net loss position for that period and the effect would have been antidilutive.

5. Short-Term Investments

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

The following is a summary of short-term investments held as of March 31, 2015 and December 31, 2014:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2015	(in thousands)			
Corporate debt	\$176,125	\$162	\$(144)	) \$176,143
U.S. government and agency debt	44,872	59	(3)	) 44,928
Municipal bonds	25,035	15	(7)	) 25,043
Other fixed income securities	16,019	—	(2)	) 16,017
Total short-term investments	\$262,051	\$236	\$(156)	) \$262,131

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2014	(in thousands)			
Corporate debt	\$180,794	\$43	\$(394)	) \$180,443
U.S. government and agency debt	38,268	—	(40)	) 38,228
Municipal bonds	23,849	4	(16)	) 23,837
Other fixed income securities	17,618	—	(5)	) 17,613
Total short-term investments	\$260,529	\$47	\$(455)	) \$260,121

Contractual maturities of short-term investments as of March 31, 2015 are shown below.

	Under 1 Year (in thousands)	1 to 5 Years	Total
Corporate debt	\$70,669	\$105,474	\$176,143
U.S. government and agency debt	17,188	27,740	44,928
Municipal bonds	6,381	18,662	25,043
Other fixed income securities	15,514	503	16,017
Total short-term investments	\$109,752	\$152,379	\$262,131

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

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.

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

	Fair Value Measurements as of March 31, 2015			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Cash equivalents	\$25,248	\$5,666	\$19,582	\$—
Restricted cash	5,000	5,000	—	—
Short-term investments	262,131	—	262,131	—
Fuel derivative contracts:	0			
Heating oil put options	20,720	—	20,720	—
Heating oil swaps	710	—	710	—
Foreign currency derivatives	16,342	—	16,342	—
Total assets measured at fair value	\$330,151	\$10,666	\$319,485	\$—
Fuel derivative contracts:				
Heating oil swaps	\$50,929	\$—	\$50,929	\$—
Foreign currency derivatives	45	—	45	—
Interest rate derivative	686	—	686	—
Total liabilities measured at fair value	\$51,660	\$—	\$51,660	\$—

	Fair Value Measurements as of December 31, 2014			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Cash equivalents	\$55,072	\$35,913	\$19,159	\$—
Restricted cash	6,566	6,566	—	—
Short-term investments	260,121	—	260,121	—
Fuel derivative contracts:	0			
Heating oil put options	32,637	—	32,637	—
Foreign currency derivatives	19,746	—	19,746	—
Total assets measured at fair value	\$374,142	\$42,479	\$331,663	\$—
Fuel derivative contracts:				
Heating oil swaps	\$71,447	\$—	\$71,447	\$—
Interest rate derivative	129	—	129	—
Negative arbitrage derivative	500	—	—	500
Total liabilities measured at fair value	\$72,076	\$—	\$71,576	\$500

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

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

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

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

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

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

The table below presents disclosures about the activity for the Company's "Level 3" financial liability during the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Beginning balance	\$500	\$12,865
Reduction of balance in connection with interest payment	(500)	(9,197)
Ending balance	\$—	\$3,668

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

Fair Value of Debt					Fair Value of Debt				
March 31, 2015					December 31, 2014				
Carrying Amount	Fair Value Total	Level 1	Level 2	Level 3	Carrying Amount	Fair Value Total	Level 1	Level 2	Level 3
	(in thousands)					(in thousands)			
\$862,773	\$886,293	\$—	\$8,140	\$878,153	\$947,897	\$956,811	\$—	\$69,766	\$887,045

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

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

7. Financial Derivative Instruments

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

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, 2015, the Company primarily used heating oil puts and swaps to hedge its aircraft fuel expense. These derivative instruments were not designated as hedges under ASC Topic 815, Derivatives and Hedging (ASC 815), for hedge accounting treatment. As a result, any changes in fair value of these derivative instruments are adjusted through other nonoperating income (expense) in the period of change.

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

	Three months ended March 31,	
	2015	2014
	(in thousands)	
Fuel derivative contracts		
Gains (losses) realized at settlement	\$(14,591)	\$110
Reversal of prior period unrealized amounts	14,413	(1,256)
Unrealized losses on contracts that will settle in future periods	(5,509)	(5,753)
Losses on fuel derivatives recorded as Nonoperating income (expense)	\$(5,687)	\$(6,899)

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

The Company believes that its foreign currency forward contracts that are designated as cash flow hedges will continue to be effective in offsetting changes in cash flow attributable to the hedged risk. The Company reclassified \$4.0 million in gains from AOCI to passenger revenue during the three months ended March 31, 2015. The Company expects to reclassify a net gain of approximately \$14.9 million into earnings over the next 12 months from AOCI based on the values at March 31, 2015.

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, 2015

	Balance Sheet Location	Notional Amount (in thousands)	Final Maturity Date	Gross fair value of assets (in thousands)	Gross fair value of (liabilities) (in thousands)	Net derivative position
Derivatives designated as hedges						
Interest rate derivative	Other accrued liabilities	\$55,800 U.S. dollars	April 2023	\$—	\$ (142)	\$ (142)
	Other liabilities and deferred credits (1)			—	(544)	(544)
Foreign currency derivatives	Prepaid expenses and other	7,338,390 Japanese Yen 40,664 Australian Dollars	March 2016	12,695	(24)	12,671
	Long-term prepayments and other	3,666,500 Japanese Yen 8,189 Australian Dollars	February 2017	2,995	(13)	2,982
Derivatives not designated as hedges						0
Foreign currency derivatives	Prepaid expenses and other	5,787,200 Japanese Yen 27,747 Australian	March 2016	645	(8)	637

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

		Dollars					
	Long-term prepayments and other	1,820,000 Japanese Yen	August 2016	7	—	7	
Fuel derivative contracts	Other accrued liabilities	89,799 gallons	March 2016	21,430	(50,929)	(29,499)	

(1) Represents the noncurrent portion of the \$55.8 million interest rate derivative with final maturity in April 2023.

Derivative position as of December 31, 2014

	Balance Sheet Location	Notional Amount (in thousands)	Final Maturity Date	Gross fair value of assets (in thousands)	Gross fair value of (liabilities)	Net derivative position
Derivatives designated as hedges						
Interest rate derivative	Other accrued liabilities	\$57,400 U.S. dollars	April 2023	\$—	\$ (26)	\$(26)
	Other liabilities and deferred credits(1)			—	(103)	(103)
Foreign currency derivatives	Prepaid expenses and other	6,909,050 Japanese Yen 51,380 Australian Dollars	December 2015	13,921	—	13,921
	Long-term prepayments and other	3,758,500 Japanese Yen 13,080 Australian Dollars	November 2016	4,565	—	4,565
Derivatives not designated as hedges						
Foreign currency derivatives	Prepaid expenses and other	7,714,291 Japanese Yen 43,546 Australian Dollars	December 2015	1,191	—	1,191
	Long-term prepayments and other	2,762,000 Japanese Yen 3,500 Australian Dollars	August 2016	69	—	69
Fuel derivative contracts	Other accrued liabilities	90,994 gallons	December 2015	32,637	(71,447)	(38,810)
Negative arbitrage derivative	Other accrued liabilities	\$444,540 U.S. dollars	January 2015	—	(500)	(500)

(1) Represents the noncurrent portion of the \$57 million interest rate derivative with final maturity in April 2023.

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

	(Gain) loss recognized in AOCI derivatives (effective portion)		(Gain) loss reclassified from AOCI into income (effective portion)		(Gain) loss recognized in nonoperating (income) expense (ineffective portion)	
	Three months ended March 31, 2015	2014	Three months ended March 31, 2015	2014	Three months ended March 31, 2015	2014
	(in thousands)					
Foreign currency derivatives	\$(3,245)	\$4,528	\$ (3,952)	\$ (3,618)	\$—	\$—
Interest rate derivatives	557	346	187	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 by the counterparties based on the current market exposure of the derivative.

The Company's agreements with its counterparties also requires the posting of cash collateral in the event the aggregate value of the Company's positions exceeds certain exposure thresholds that are based upon certain liquidity metrics of the Company. The aggregate fair value of the Company's derivative instruments that contain credit-risk related contingent features that are in a net liability position as of March 31, 2015 was \$29.5 million.

ASC 815 requires a reporting entity to elect a policy of whether to offset rights to reclaim cash collateral or obligations to return cash collateral against derivative assets and liabilities executed with the same counterparty under a master netting agreement, or present such amounts on a gross basis. The Company's accounting policy is to present its derivative assets and liabilities on a net basis, including any collateral posted with the counterparty. The Company had no collateral posted with counterparties as of March 31, 2015 and \$0.6 million in collateral posted with counterparties as of December 31, 2014.

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

8. Debt

As of March 31, 2015, the expected maturities of long-term debt for the remainder of 2015 and the next four years, and thereafter, were as follows (in thousands):

Remaining months in 2015	\$62,318
2016	82,861
2017	82,092
2018	87,425
2019	99,070
Thereafter	449,317
	\$863,083

Convertible Notes

During the three months ended March 31, 2015 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, 2015. Therefore, the principal balance is classified accordingly in the table above. As of March 31, 2015, the carrying value of \$7.8 million is reflected as a current liability in the unaudited Consolidated Balance Sheets.

During the three months ended March 31, 2015, the Company repurchased \$63.1 million in principal of its Convertible Notes for an aggregate repurchase price of \$156.5 million. The cash consideration was allocated to the fair value of the liability component immediately before extinguishment and the remaining consideration was allocated to the equity component and recognized as a reduction of shareholders' equity.

The repurchase of the Convertible Notes resulted in a loss on extinguishment of \$7.0 million, which is reflected in nonoperating income (expense) in the unaudited Consolidated Statement of Operations.

9. Leases

The Company leases aircraft, engines and other assets under long-term lease arrangements. Other leased assets include real property, airport and terminal facilities, maintenance facilities, and general offices. Certain leases include escalation clauses and renewal options. When lease renewals are considered to be reasonably assured, the rental payments that will be due during the renewal periods are included in the determination of rent expense over the life of the lease.

During the three months ended March 31, 2015, the Company took delivery of an Airbus A330-200 aircraft under an operating lease with a lease term of 12 years.

As of March 31, 2015, the scheduled future minimum rental payments under operating leases with non-cancellable basic terms of more than one year were as follows:

	Aircraft (in thousands)	Other
Remaining months in 2015	\$83,198	\$4,176
2016	94,422	5,380
2017	90,150	4,693
2018	89,401	4,623
2019	89,257	4,331
Thereafter	230,064	26,345
	\$676,492	\$49,548

10. 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, 2015 2014 (in thousands)	
Service cost	\$4,225	\$2,952
Interest cost	7,389	6,986
Expected return on plan assets	(4,716)	(4,845)
Recognized net actuarial loss	2,737	225
Net periodic benefit cost	\$9,635	\$5,318

The Company contributed \$12.8 million to its defined benefit and other postretirement plans during the three months ended March 31, 2015, including \$7.3 million above the minimum funding requirements. The Company contributed \$2.8 million to its defined benefit and other postretirement plans during the three months ended March 31, 2014.

11. Commitments and Contingent Liabilities

Commitments

As of March 31, 2015, the Company had the following capital commitments consisting of firm aircraft and engine orders and purchase rights:

Aircraft Type	Firm Orders	Purchase Rights	Expected Delivery Dates
A330-200 aircraft	2	3	In 2015
A330-800neo aircraft	6	6	Between 2019 and 2021
A321neo aircraft	16	9	Between 2017 and 2020
Rolls-Royce spare engines:			
A330-800neo spare engines	2	—	Between 2019 and 2020
Pratt & Whitney spare engines:			
A321neo spare engines	2	—	Between 2017 and 2018

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 2020.

Committed capital and operating expenditures include escalation and variable amounts based on estimates. The gross committed expenditures and committed financings for those deliveries as of March 31, 2015 are detailed below:

	Capital	Operating	Total Committed Expenditures	Less: Committed Financing for Upcoming Aircraft Deliveries*	Net Committed Expenditures
	(in thousands)				
Remaining months in 2015	\$ 107,555	\$ 52,892	\$ 160,447	\$ 96,276	\$ 64,171
2016	67,381	58,719	126,100	—	126,100
2017	234,250	58,637	292,887	—	292,887
2018	411,406	51,942	463,348	—	463,348
2019	497,018	47,362	544,380	—	544,380
Thereafter	434,841	264,181	699,022	—	699,022
	\$ 1,752,451	\$ 533,733	\$ 2,286,184	\$ 96,276	\$ 2,189,908

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

Purchase Assignment and Lease Financing Agreement

Hawaiian has a commitment to assign its purchase of two Airbus A330-200 aircraft at delivery and simultaneously enter into a lease agreement for each respective aircraft with scheduled delivery in April 2015 and October 2015 with total committed lease financing of \$96 million. Both the gross capital commitment for the cost of the aircraft and the committed financing are reflected in the table above. The agreement has an initial lease term of 12 years and fixed monthly rental payments that will be determined upon delivery of the aircraft.

The anticipated future minimum payments for these leases, which are not included in the operating lease table at Note 9, are \$8.4 million for the remainder of 2015, \$16.9 million in each of the years 2016 through 2019, and \$126.5 million thereafter.

Litigation and Contingencies

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

General Guarantees and Indemnifications

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

Credit Card Holdback

Under the Company's bank-issued credit card processing agreements, certain proceeds from advance ticket sales may be held back to serve as collateral to cover any possible chargebacks or other disputed charges that may occur. These holdbacks, which are included in restricted cash in the Company's unaudited Consolidated Balance Sheets, totaled \$5.0 million at March 31, 2015 and December 31, 2014.

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

12. Condensed Consolidating Financial Information

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

Condensed consolidating financial statements are presented in the following tables:

Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)

Three months ended March 31, 2015

Parent Issuer / Guarantor	Subsidiary Issuer / Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
------------------------------	-------------------------------------	-------------------------------	--------------	--------------