HAWAIIAN HOLDINGS INC
Form 10-Q
April 25, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

or

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

For the transition period from to

Commission file number 1-31443

HAWAIIAN HOLDINGS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**71-0879698** (I.R.S. Employer Identification No.)
3375 Koapaka Street, Suite G-350 **Honolulu, 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. x Yes o No

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

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

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

As of April 16, 2013, 51,920,647 shares of the registrant s common stock were outstanding.

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Hawaiian Holdings, Inc.

Form 10-Q

Quarterly Period ended March 31, 2013

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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, 2013	2012
	(unaudited)	
Operating Revenue:		
Passenger	$ 439,939	$ 390,926
Other	50,815	44,568
Total	490,754	435,494
Operating Expenses:		
Aircraft fuel, including taxes and oil	174,489	140,318
Wages and benefits	102,735	90,124
Aircraft rent	26,019	23,222
Maintenance materials and repairs	55,259	43,712
Aircraft and passenger servicing	29,059	21,346
Commissions and other selling	33,811	29,416
Depreciation and amortization	19,113	19,151
Other rentals and landing fees	19,147	19,748
Other	43,048	35,557
Total	502,680	422,594
Operating Income (Loss)	(11,926)	12,900
Nonoperating Income (Expense):		
Interest expense and amortization of debt discounts and issuance costs	(11,377)	(9,048)
Interest income	127	214
Capitalized interest	3,440	2,573
Gains (losses) on fuel derivatives	(6,561)	5,820
Other, net	(1,082)	(600)
Total	(15,453)	(1,041)
Income (Loss) Before Income Taxes	(27,379)	11,859
Income tax expense (benefit)	(10,234)	4,601
Net Income (Loss)	$ (17,145)	$ 7,258
Net Income (Loss) Per Common Stock Share:		
Basic	$ (0.33)	$ 0.14

Diluted	$	(0.33)	$	0.14

See accompanying Notes to Consolidated Financial Statements.

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Hawaiian Holdings, Inc.

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

	Three Months Ended, March 31, 2013	2012
	(unaudited)	
Net Income (Loss)	$ (17,145)	$ 7,258
Other comprehensive income, net:		
Net change related to employee benefit plans, net of tax of $955 and $668 for 2013 and 2012 respectively	1,095	1,068
Net change in derivative instruments, net of tax of $618 for 2013	1,000	
Total other comprehensive income, net	2,095	1,068
Total Comprehensive Income (Loss), net	$ (15,050)	$ 8,326

See accompanying Notes to Consolidated Financial Statements.

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Hawaiian Holdings, Inc.

Consolidated Balance Sheets

(in thousands)

	March 31, 2013 (unaudited)	December 31, 2012 (audited)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 438,221	$ 405,880
Restricted cash	5,000	5,000
Total cash, cash equivalents and restricted cash	443,221	410,880
Accounts receivable, net of allowance for doubtful accounts of $341 as of March 31, 2013 and $371 as of December 31, 2012	99,950	80,750
Spare parts and supplies, net	25,067	27,552
Deferred tax assets, net	17,675	17,675
Prepaid expenses and other	39,270	35,001
Total	625,183	571,858
Property and equipment, less accumulated depreciation and amortization of $268,227 as of March 31, 2013 and $249,495 as of December 31, 2012	1,076,396	1,068,718
Other Assets:		
Long-term prepayments and other	66,172	55,629
Deferred tax assets, net	45,321	36,376
Intangible assets, net of accumulated amortization of $173,750 as of March 31, 2013 and $173,090 as of December 31, 2012	25,920	26,580
Goodwill	106,663	106,663
Total Assets	$ 1,945,655	$ 1,865,824
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 97,550	$ 82,084
Air traffic liability	472,008	388,646
Other accrued liabilities	74,885	74,828
Current maturities of long-term debt and capital lease obligations	105,522	108,232
Total	749,965	653,790
Long-Term Debt, less discount, and Capital Lease Obligations	542,642	553,009
Other Liabilities and Deferred Credits:		
Accumulated pension and other postretirement benefit obligations	354,939	352,460
Other liabilities and deferred credits	42,907	37,963
Total	397,846	390,423
Commitments and Contingent Liabilities		
Shareholders Equity:		
Special preferred stock, $0.01 par value per share, three shares issued and outstanding at March 31, 2013 and December 31, 2012		
Common stock, $0.01 par value per share, 51,919,060 and 51,439,934 shares issued and outstanding as of March 31, 2013 and December 31, 2012, respectively	519	514

Capital in excess of par value		266,499		264,854
Accumulated income		100,143		117,288
Accumulated other comprehensive loss, net		(111,959)		(114,054)
Total		255,202		268,602
Total Liabilities and Shareholders Equity	$	1,945,655	$	1,865,824

See accompanying Notes to Consolidated Financial Statements.

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Hawaiian Holdings, Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands)

	Three Months Ended March 31, 2013	2012
	(unaudited)	
Net cash provided by Operating Activities	$ 72,541	$ 119,464
Cash flows from Investing Activities:		
Additions to property and equipment, including pre-delivery payments, net	(25,800)	(102,847)
Net cash used in investing activities	(25,800)	(102,847)
Cash flows from Financing Activities:		
Proceeds from exercise of stock options	1,411	981
Long-term borrowings		66,000
Repayments of long-term debt and capital lease obligations	(13,993)	(9,748)
Debt issuance costs	(1,818)	(1,945)
Net cash provided by (used in) financing activities	(14,400)	55,288
Net increase in cash and cash equivalents	32,341	71,905
Cash and cash equivalents - Beginning of Period	405,880	304,115
Cash and cash equivalents - End of Period	$ 438,221	$ 376,020

See accompanying Notes to Consolidated Financial Statements.

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Hawaiian Holdings, Inc.

Notes to Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

Business and Basis of Presentation

Hawaiian Holdings, Inc. (the Company or Holdings) is a holding company incorporated in the State of Delaware. The Company s primary asset is its sole ownership of all issued and outstanding shares of common stock of Hawaiian Airlines, Inc. (Hawaiian). The accompanying unaudited financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X of the U.S. Securities and Exchange Commission (SEC). Accordingly, these interim financial statements do not include all of the information and footnotes required by GAAP for complete 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 current Report on Form 8-K filed on March 14, 2013.

Recently Adopted Accounting Pronouncements

In December 2011, the Financial Accounting Standards Bureau (FASB) issued Accounting Standards Update 2011-11, *Disclosures about Offsetting Assets and Liabilities* (ASU 2011-11). ASU 2011-11 requires entities to disclose both gross and net information about instruments and transactions eligible for offset on the statement of financial position, as well as instruments and transactions subject to an agreement similar to a master netting arrangement. Also, this standard requires the disclosure of collateral received and posted with counterparties in connection with master netting agreements or similar agreements. This amendment is effective for fiscal years and interim periods beginning on or after January 1, 2013 and should be applied retrospectively. The Company has adopted this standard in the quarter ended March 31, 2013 and reflected the required disclosures within the notes to the unaudited Consolidated Financial Statements.

In January 2013, the FASB issued Accounting Standards Update 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities* (ASU 2013-01). ASU 2013-01 further clarifies ASU 2011-11, narrowing the scope of derivative instruments, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions, eligible for offset under ASC 210 and ASC 815. This amendment is effective for fiscal years and interim periods beginning on or after January 1, 2013 and should be applied retrospectively. The Company has adopted this standard in the quarter ended March 31, 2013 and reflected the required disclosures within the notes to the unaudited Consolidated Financial Statements.

In February 2013, the FASB issued Accounting Standards Update 2013-02, *Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (ASU 2013-02). ASU 2013-02 requires entities to present current period reclassifications out of accumulated other comprehensive income and separately report the effect of significant reclassifications out of current period other comprehensive income by component, either on the face of the statement where net income is presented or in the notes. This amendment is effective for fiscal years and interim periods beginning after December 15, 2012 and should be applied prospectively. The Company has adopted this standard in the quarter ended March 31, 2013 and reflected the required disclosures within the notes to the unaudited Consolidated Financial Statements.

2. Accumulated Other Comprehensive Income (Loss)

Comprehensive income (loss) includes amortization of defined benefit pension items and changes in the fair value of our interest rate derivatives and foreign currency derivatives, which qualify for hedge accounting under ASC 815. Reclassifications out of accumulated other comprehensive income (loss) by component is as follows:

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Details about accumulated other comprehensive loss components		Amount reclassified from accumulated other comprehensive loss (in thousands)	Affected line items in the statement where net income is presented
Derivatives designated as hedging instruments under ASC 815			
Foreign currency derivative gains	$	267	Passenger revenue
		267	Total before tax
		(106)	Tax expense
		161	Total net of tax
Amortization of defined benefit pension items			
Actuarial loss		(2,051)	Wages and benefits
Prior service credit		1	Wages and benefits
		(2,050)	Total before tax
		811	Tax benefit
	$	(1,239)	Total net of tax
Total reclassifications for the period	$	(1,078)	

A rollforward of the amounts included in accumulated other comprehensive income (loss), net of taxes, for the three months ended March 31, 2013 is as follows:

		Interest Rate Derivatives		Foreign Currency Derivatives		Defined Benefit Pension Items		Total
				(in thousands)				
Beginning balance	$		$		$	(114,054)	$	(114,054)
Other comprehensive income (loss) before reclassifications net of tax expense of $868		(888)		2,049		(144)		1,017
Amounts reclassified from accumulated other comprehensive income (loss), net of tax expense of $705				(161)		1,239		1,078
Net current-period other comprehensive income (loss)		(888)		1,888		1,095		2,095
Ending balance	$	(888)	$	1,888	$	(112,959)	$	(111,959)

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3. Earnings (Loss) Per Share

Basic earnings (loss) per share, which excludes dilution, is computed by dividing net income or loss available to common stockholders by the weighted average number of shares of common stock 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, 2013	2012
	(in thousands, except per share data)	
Numerator:		
Net Income (Loss)	$ (17,145)	$ 7,258
Denominator:		
Weighted average common stock shares outstanding - Basic	51,665	51,005
Assumed exercise of equity awards		1,298
Weighted average common stock shares outstanding - Diluted	51,665	52,303
Net Income (Loss) per common share:		
Basic	$ (0.33)	$ 0.14
Diluted	$ (0.33)	$ 0.14

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

	Three Months Ended March 31, 2013	2012
	(in thousands)	
Stock options	825	93
Deferred stock	112	
Restricted stock	1,740	775
Convertible notes (1)	10,943	10,943
Warrants	10,943	10,943

(1) The convertible note hedges will always be antidilutive and, therefore, will have no effect on diluted earnings per share.

4. Fair Value Measurements

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

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

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

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

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The tables below present the Company s financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2013 and December 31, 2012:

	Fair Value Measurements as of March 31, 2013			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Cash equivalents:				
Money market securities	$ 308,921	$ 308,921	$	$
Fuel derivative contracts:				
Crude oil call options	9,547		9,547	
Foreign currency derivatives	2,786		2,786	
Total assets measured at fair value	$ 321,254	$ 308,921	$ 12,333	$
Fuel derivative contracts:				
Crude oil put options	$ 138	$	$ 138	$
Interest rate derivatives	1,435		1,435	
Total liabilities measured at fair value	$ 1,573	$	$ 1,573	$

	Fair Value Measurements as of December 31, 2012			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Cash equivalents:				
Money market securities	$ 304,159	$ 304,159	$	$
Fuel derivative contracts:				
Crude oil call options	13,094		13,094	
Total assets measured at fair value	$ 317,253	$ 304,159	$ 13,094	$
Fuel derivative contracts:				
Crude oil put options	$ 397	$	$ 397	$
Total liabilities measured at fair value	$ 397	$	$ 397	$

Cash equivalents. The Company s cash equivalents consist of money market securities and are classified as Level 1 investments and are valued using inputs observable in markets for identical securities.

Fuel derivative contracts. The Company s fuel derivative contracts consist of 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.

Interest rate derivatives. The Company s interest rate derivatives consist of interest rate swaps and are valued based primarily on data available or derived from public markets.

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.

The fair value of the Company s debt (excluding obligations under capital leases) with a carrying value of $543.3 million and $554.6 million at March 31, 2013 and December 31, 2012, respectively, was approximately $555.6 million ($78.9 million as Level 2 and $476.7 million as Level 3 in the fair value hierarchy) and $547.9 million ($81.1 million as Level 2 and $466.8 million as Level 3 in the fair value hierarchy). The Company s fair value estimates 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 and cash equivalents, restricted cash, other receivables and accounts payable approximate their fair value due to their short-term nature.

5. 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.

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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, 2013, the Company primarily used Brent crude oil call options and collars (combinations of purchased call options and sold put options of crude oil). These derivative instruments were not designated as hedges under ASC Topic 815, *Derivatives and Hedging* (ASC 815), for hedge accounting treatment. As a result, changes in fair value of these derivative instruments are adjusted through other nonoperating income (expense) in the period of change.

The following table reflects the amount and location of realized and unrealized gains and losses that were recognized during the three months ended March 31, 2013 and 2012, and where those gains and losses were recorded in the unaudited Consolidated Statements of Operations.

Fuel derivative contracts	**Three Months Ended March 31, 2013**	**2012**
	(in thousands)	
Gains (losses) on fuel derivatives recorded in Nonoperating income (expense):		
Mark-to-fair value gains (losses) on undesignated fuel hedges:		
Realized gains (losses):		
Losses realized at settlement	$ (2,696)	$ (854)
Reversal of prior period unrealized amounts	2,796	1,755
Unrealized gains (losses) on contracts that will settle in future periods	(6,661)	4,919
Gains (losses) on fuel derivatives recorded as Nonoperating income (expense)	$ (6,561)	$ 5,820

Interest Rate Risk Management

The Company is exposed to market risk from adverse changes in interest rates associated with our long-term debt obligations. Market risk associated with our fixed 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.

During the quarter ended March 31, 2013, the Company entered into interest rate swap agreements to hedge interest rate risk inherent in debt agreements used to finance upcoming aircraft deliveries in the first half of 2013.

These interest rate swap agreements are designated as cash flow hedges 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 swaps 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 did not record any ineffectiveness during the quarter ended March 31, 2013. 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 has not reclassified any gains or losses from AOCI to interest expense for the quarter ended March 31, 2013. The net loss expected to be reclassified over the next 12 months from AOCI is not material based on the values at March 31, 2013.

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 both its international revenue and expense transactions in the same foreign currency to the extent practicable.

In addition, during the quarter ended March 31, 2013, the Company entered 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 in 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 in nonoperating income (expense).

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During the quarter ended March 31, 2013, the Company did not record any ineffectiveness on its foreign currency forward contracts. 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 has reclassified gains from AOCI to passenger revenue of $0.3 million in the quarter ended March 31, 2013. The Company expects to reclassify a net gain of approximately $3.0 million into earnings over the next 12 months from AOCI based on the values at March 31, 2013.

The following table summarizes the accounting treatment of our derivative contracts:

			Classification of Unrealized Gains (Losses)	
Accounting Designation	**Derivative Type**	**Classification of Gains and Losses**	**Effective Portion**	**Ineffective Portion**
Not designated as hedges	Fuel hedge contracts	Gains (losses) on fuel derivatives	Change in fair value of hedge is recorded in nonoperating income (expense)	
Designated as cash flow hedges	Interest rate contracts	Interest expense and amortization of debt discounts and issuance costs	AOCI	Nonoperating income (expense)
Designated as cash flow hedges	Foreign currency exchange contracts	Passenger revenue	AOCI	Nonoperating income (expense)

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 location of the asset and liability balances within the unaudited Consolidated Balance Sheets. The tables also present the net derivative position recorded in the unaudited Consolidated Balance Sheets.

Hedge position as of March 31, 2013

	Balance Sheet Location	**Notional Amount (in thousands)**	**Final Maturity Date**	**Gross fair value of assets**	**Gross fair value of (liabilities) (in thousands)**	**Hedge derivatives, net**
Derivatives designated as hedges						
Interest rate derivative	Other accrued liabilities	$65,000 U.S. dollars	June 2013	$	$ (257)	$ (257)
Interest rate derivative	Other accrued liabilities	$67,000 U.S. dollars	April 2023		(157)	(157)
	Other liabilities and deferred credits (1)				(1,021)	(1,021)
Foreign currency derivatives	Prepaid expenses and other	8,425,083 Japanese Yen	March 2014	3,058	(272)	2,786
		53,488 Australian Dollars	April 2014			

Derivatives not designated as hedges						
Fuel derivative contracts	Prepaid expenses and other	117,054 gallons	March 2014	7,199	(41)	7,158
Fuel derivative contracts	Long-term prepayments and other	26,250 gallons	December 2014	2,348	(97)	2,251

(1) Represents the noncurrent portion of the $67 million interest rate derivative with final maturity in April 2023.

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Hedge position as of December 31, 2012

	Balance Sheet Location	Notional Amount (in thousands)	Final Maturity Date	Gross fair value of assets	Gross fair value of (liabilities) (in thousands)	Hedge derivatives, net
Derivatives not designated as hedges						
Fuel derivative contracts	Prepaid expenses and other	126,924 gallons	June 2014	13,094	(397)	12,697

The following table reflects the impact of cash flow hedges and its location within the unaudited Consolidated Balance Sheets during the three months ended March 31, 2013 and 2012, and where those gains and losses were recorded in the unaudited Consolidated Statements of Operations.

Derivatives in ASC 815 Cash Flow Hedging Relationships	Effective portion recognized in other comprehensive loss		Effective portion reclassified from accumulated other comprehensive loss to Earnings (1)		Ineffective portion recognized in other (expense) income	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	March 31, 2012
Interest rate derivatives	$ (1,435)	$	$	$	$	$
Foreign currency derivatives	3,053		267			

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. However, the Company has not experienced any significant credit losses by its counterparties due to nonperformance in the past. 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. 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.

ASC 815 requires a reporting entity to elect a policy of whether to offset rights to reclaim cash collateral or obligations to return cash collateral against derivative assets and liabilities executed with the same counterparty, or present such amounts on a gross basis. Based on the fair value of our financial derivative agreements, our counterparties may require us to post collateral when the price of the underlying financial derivative decreases. The Company s accounting policy is to present its derivative assets and liabilities on a net basis including the collateral posted with the counterparty. The Company had no collateral posted with counterparties as of March 31, 2013 and December 31, 2012.

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6. Debt

As of March 31, 2013, the scheduled maturities of long-term debt over the next five years and thereafter were as follows (in thousands):

Remaining months in 2013	88,318
2014	37,515
2015	39,435
2016	125,911
2017	41,790
Thereafter	223,013

7. 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, training centers, and general offices. Certain leases include escalation clauses and renewal options. When lease renewals are considered to be reasonably assured, the rental payments that will be due during the renewal periods are included in the determination of rent expense over the life of the lease.

In the first quarter of 2013, the Company took delivery of an Airbus A330-200 aircraft under an operating lease with a lease term of 12 years with an option to extend an additional two years.

As of March 31, 2013, the scheduled future minimum rental payments under capital leases and operating leases with noncancelable basic terms of more than one year were as follows:

	Capital Leases		Operating Leases	
	Aircraft	**Other**	**Aircraft**	**Other**
		(in thousands)		
Remaining months in 2013	$ 10,351	$ 76	$ 69,170	$ 3,667
2014	13,803	102	88,398	5,055
2015	13,803	102	87,792	5,080
2016	13,803	102	71,082	5,140
2017	13,803	24	70,560	4,684
Thereafter	73,347		253,671	23,321
	138,910	406	$ 640,673	$ 46,947
Less amounts representing interest	34,418	59		
Present value of minimum capital lease payments	$ 104,492	$ 347		

(*) At March 31, 2013, the Company had three aircraft under capital leases (two Boeing 717-200 aircraft and one A330-200 aircraft) that were included in property and equipment on the unaudited Consolidated Balance Sheets.

8. Employee Benefit Plans

The components of net periodic benefit cost for the Company s defined benefit and other post-retirement plans for the three months ended March 31, 2013 and 2012 included the following:

Components of Net Period Benefit Cost	**Three Months Ended March 31, 2013**	**2012**
	(in thousands)	
Service cost	$ 3,602	$ 3,324
Interest cost	6,300	6,855
Expected return on plan assets	(4,066)	(4,013)
Recognized net actuarial loss	2,050	1,737
Net periodic benefit cost	$ 7,886	$ 7,903

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The Company made contributions of $2.8 million to its defined benefit and other postretirement plans during the three months ended March 31, 2013, and expects to make additional minimum required contributions of $12.0 million during the remainder of 2013.

9. Commitments and Contingent Liabilities

Commitments

As of March 31, 2013, the Company had capital commitments consisting of firm aircraft and engine orders for 12 wide-body Airbus A330-200 aircraft, six Airbus A350XWB-800 aircraft, 16 narrow-body Airbus A321neo aircraft and four Rolls Royce spare engines (two for its A330-200 aircraft and two for its A350XWB-800 aircraft) scheduled for delivery through 2020. The Company has purchase rights for an additional three A330-200 aircraft, six A350XWB-800 aircraft, and nine A321neo aircraft and can utilize these rights subject to production availability.

During April 2013, the Company executed a purchase agreement for two Pratt and Whitney spare engines (for its A321neo aircraft), and has purchase options for two additional spare engines.

The Company has operating commitments with a third-party to provide aircraft maintenance services which include fixed payments as well as variable payments based on flight hours for its Airbus fleet through 2027. The Company also has operating commitments with third-party service providers for reservations, IT, and accounting services through 2017.

Committed capital and operating expenditures include escalation and variable amounts based on estimates. The gross committed expenditures for upcoming aircraft deliveries and committed financings for those deliveries during the remainder of 2013 and the next four years and thereafter are detailed below:

	Capital	Operating	Total Committed Expenditures	Less: Committed Financing for Upcoming Aircraft Deliveries*	Net Committed Expenditures
			(in thousands)		
Remaining months in 2013	$ 357,770*	$ 29,484	$ 387,254	$ 222,000	$ 165,254
2014	429,058	30,575	459,633		459,633
2015	246,264	30,872	277,136		277,136
2016	147,824	31,813	179,637		179,637
2017	493,824	32,081	525,905		525,905
Thereafter	1,105,696	232,430	1,338,126		1,338,126

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

Airbus A330-200 Facility Agreement Commitments

Hawaiian has commitments for two separate secured loan agreements entered into during the second half of 2012, totaling $132 million to finance a portion of the capital commitments for two upcoming Airbus A330-200 aircraft deliveries during the quarter ended June 2013 (one A330-200 aircraft with committed financings of $67 million was delivered in April 2013). Both the gross capital commitment for the cost of the aircraft and the committed financings are shown in the table above. These loan agreements have a term of ten years with quarterly principal and interest payments. One of the loan agreements will bear interest under a variable-rate with a $7 million balloon payment due at maturity, and the other will bear interest under a fixed-rate with a $10 million balloon payment due at maturity.

The anticipated future principal payments and commitment fees for this facility agreement, not included in the table above or in the debt maturities table in Note 6, are approximately $8.2 million for the remaining months in 2013, $10.8 million in 2014, $11.0 million in 2015, $11.3 million in 2016, $11.6 million in 2017 and $80.4 million thereafter.

Purchase Aircraft Lease Financing Agreement

In April 2013, Hawaiian took delivery, assigned its purchase of and simultaneously entered into a lease agreement for an Airbus A330-200 aircraft, with total committed lease financing of $90 million. Both the gross capital commitment for the cost of the aircraft and the committed financing are shown in the table above. The lease agreement has an initial lease term of 12 years with the option to extend an additional two years. Rent under the lease is payable monthly at a fixed rate determined at delivery of the aircraft. The Company will determine whether this lease will be classified as a capital or operating lease during the three months ended June 30, 2013.

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The anticipated future minimum payments for this lease, not included in the table above or in the future minimum rental payments table in Note 7, are $6.9 million for the remaining months in 2013 and approximately $9.2 million in 2014, $9.2 million in 2015, $9.2 million in 2016, $9.2 million in 2017 and $66.6 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 covered by insurance (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, 2013 and December 31, 2012.

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.

10. Condensed Consolidating Financial Information

The following condensed consolidating financial information is presented in accordance with Regulation S-X paragraph 210.3-10 because under a registration statement on Form S-3 that was declared effective on April 18, 2013, Hawaiian Airlines, Inc. (Hawaiian or Subsidiary Issuer / Guarantor), a wholly owned subsidiary of Hawaiian Holdings, Inc. (the Company or Parent Issuer / Guarantor), may fully and unconditionally guarantee any securities issued by Hawaiian Holdings, Inc. under the registration statement, and Hawaiian Holdings, Inc. will fully and unconditionally guarantee any securities issued by Hawaiian Airlines, Inc. under the registration statement.

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 restrictions 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:

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Condensed Consolidating Balance Sheets

March 31, 2013

	March 31, 2013				
	Parent Issuer / Guarantor	Subsidiary Issuer / Guarantor	Non-Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 85,149	$ 335,521	$ 17,551	$	$ 438,221
Restricted cash		5,000			5,000
Accounts receivable, net	2,001	98,055	16	(122)	99,950
Spare parts and supplies, net		25,067			25,067
Deferred tax assets, net	704	16,971			17,675
Prepaid expeness and other	12	39,226	32		39,270
Total	87,866	519,840	17,599	(122)	625,183
Property and equipment:		1,325,768	18,855		1,344,623
Less accumulated depreciation and amortization		(268,227)			(268,227)
Property and equipment, net		1,057,541	18,855		1,076,396
Long-term prepayments and other	1,564	64,608			66,172
Deferred tax assets, net	9,418	35,903			45,321
Goodwill and other intangible assets, net		132,583			132,583
Intercompany receivable	29,268			(29,268)	
Investment in consolidated subsidiaries	201,520			(201,520)	
TOTAL ASSETS	$ 329,636	$ 1,810,475	$ 36,454	$ (230,910)	$ 1,945,655
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities:					
Accounts payable	$ 623	$ 96,915	$ 134	$ (122)	$ 97,550
Air traffic liability		470,743	1,265		472,008
Other accrued liabilities	218	74,667			74,885
Current maturities of long-term debt and capital lease obligations		105,522			105,522
Total	841	747,847	1,399	(122)	749,965
Long-term debt, less discount, and capital lease obligations	73,593	469,049			542,642
Intercompany payable		29,268		(29,268)	
Other liabilities and deferred credits:					
Accumulated pension and other postretirement benefit obligations		354,939			354,939
Other liabilities and deferred credits		42,907			42,907
Total		397,846			397,846
Shareholders Equity	255,202	166,465	35,055	(201,520)	255,202
TOTAL LIABILITIES AND SHAREHOLDER S EQUITY	$ 329,636	$ 1,810,475	$ 36,454	$ (230,910)	$ 1,945,655

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Condensed Consolidating Balance Sheets

December 31, 2012

	December 31, 2012				
	Parent Issuer / Guarantor	Subsidiary Issuer / Guarantor	Non-Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 83,626	$ 303,967	$ 18,287	$	$ 405,880
Restricted cash		5,000			5,000
Accounts receivable, net	2,032	78,949	13	(244)	80,750
Spare parts and supplies, net		27,552			27,552
Deferred tax assets, net	704	16,971			17,675
Prepaid expenses and other		35,001			35,001
Total	86,362	467,440	18,300	(244)	571,858
Property and equipment at cost		1,299,757	18,456		1,318,213
Less accumulated depreciation and amortization		(249,495)			(249,495)
Property and equipment, net		1,050,262	18,456		1,068,718
Long-term prepayments and other	1,695	53,934			55,629
Deferred tax assets, net	8,439	27,937			36,376
Goodwill and other intangible assets, net		133,243			133,243
Intercompany receivable	33,110			(33,110)	
Investment in consolidated subsidiaries	213,275			(213,275)	
TOTAL ASSETS	$ 342,881	$ 1,732,816	$ 36,756	$ (246,629)	$ 1,865,824
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities:					
Accounts payable	$ 292	$ 81,758	$ 278	$ (244)	$ 82,084
Air traffic liability		386,677	1,969		388,646
Other accrued liabilities	1,310	73,518			74,828
Current maturities of long-term debt and capital lease obligations		108,232			108,232
Total	1,602	650,185	2,247	(244)	653,790
Long-term debt, less discount, and capital lease obligations	72,677	480,332			553,009
Intercompany payable		33,110		(33,110)	
Other liabilities and deferred credits:					
Accumulated pension and other postretirement benefit obligations		352,460			352,460
Other liabilities and deferred credits		37,963			37,963
Total		390,423			390,423
Shareholders equity	268,602	178,766	34,509	(213,275)	268,602
TOTAL LIABILITIES AND SHAREHOLDER S EQUITY	$ 342,881	$ 1,732,816	$ 36,756	$ (246,629)	$ 1,865,824

The Company reduced the Parent Issuer / Guarantor s Investment in consolidated subsidiaries and Shareholders equity by $29,015 (in thousands) as of December 31, 2012 to correctly classify the Parent Issuer / Guarantor s Investment in consolidated subsidiaries (the same accounts will be reduced by $24,239 (in thousands) as of December 31, 2011).

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Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)

Three Months Ended March 31, 2013

	Three months ended March 31, 2013				
	Parent Issuer / Guarantor	Subsidiary Issuer / Guarantor	Non-Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Operating Revenue	$	$ 490,248	$ 615	$ (109)	$ 490,754
Operating Expenses:					
Aircraft fuel, including taxes and oil		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
Total	1,268	501,452	69	(109)	502,680
Operating Income (Loss)	(1,268)	(11,204)	546		(11,926)
Nonoperating Income (Expense):					
Undistributed net income 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)
Total	(16,856)	(13,379)		14,782	(15,453)
Income (Loss) Before Income Taxes	(18,124)	(24,583)	546	14,782	(27,379)
Income tax expense (benefit)	(979)	(9,255)			(10,234)
Net Income (Loss)	$ (17,145)	$ (15,328)	$ 546	$ 14,782	$ (17,145)
Comprehensive Income (Loss)	$ (15,050)	$ (13,233)	$ 546	$ 12,687	$ (15,050)

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Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)

Three Months Ended March 31, 2012

	Three months ended March 31, 2012				
	Parent Issuer / Guarantor	Subsidiary Issuer / Guarantor	Non-Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Operating Revenue	$	$ 435,556	$ 13	$ (75)	$ 435,494
Operating Expenses:					
Aircraft fuel, including taxes and oil		140,318			140,318
Wages and benefits		90,124			90,124
Aircraft rent		23,222			23,222
Maintenance materials and repairs		43,712			43,712
Aircraft and passenger servicing		21,346			21,346
Commissions and other selling		29,430		(14)	29,416
Depreciation and amortization		19,151			19,151
Other rentals and landing fees		19,748			19,748
Other	1,260	34,332	26	(61)	35,557
Total	1,260	421,383	26	(75)	422,594
Operating Income (Loss)	(1,260)	14,173	(13)		12,900
Nonoperating Income (Expense):					
Undistributed net income of subsidiaries	9,377			(9,377)	
Interest expense and amortization of debt discounts and issuance costs	(2,036)	(7,012)			(9,048)
Interest income	29	185			214
Capitalized interest		2,573			2,573
Gains on fuel derivatives		5,820			5,820
Other, net		(600)			(600)
Total	7,370	966		(9,377)	(1,041)
Income (Loss) Before Income Taxes	6,110	15,139	(13)	(9,377)	11,859
Income tax expense (benefit)	(1,148)	5,749			4,601
Net Income (Loss)	$ 7,258	$ 9,390	$ (13)	$ (9,377)	$ 7,258
Comprehensive Income (Loss)	$ 8,326	$ 10,458	$ (13)	$ (10,445)	$ 8,326

Condensed Consolidating Statements of Cash Flows

Three Months Ended March 31, 2013

	Three months ended March 31, 2013				
	Parent Issuer / Guarantor	Subsidiary Issuer / Guarantor	Non-Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Net Cash Provided By (Used In) Operating Activities:	$ (3,055)	$ 75,933	$ (337)	$	$ 72,541
Cash Flows From Investing Activities:					

Net payments from subsidiaries	3,167			(3,167)	
Additions to property and equipment, including pre-delivery deposits		(25,401)	(399)		(25,800)
Net cash provided by (used in) investing activities	3,167	(25,401)	(399)	(3,167)	(25,800)
Cash Flows From Financing Activities:					
Proceeds from exercise of stock options	1,411				1,411
Long-term borrowings					
Repayments of long-term debt and capital lease obligations		(13,993)			(13,993)
Debt issuance costs		(1,818)			(1,818)
Net payments to parent company		(3,167)		3,167	
Other					
Net cash provided by (used in) financing activities	1,411	(18,978)		3,167	(14,400)
Net increase (decrease) in cash and cash equivalents	1,523	31,554	(736)		32,341
Cash and cash equivalents - Beginning of Year	83,626	303,967	18,287		405,880
Cash and cash equivalents - End of Year	$ 85,149	$ 335,521	$ 17,551	$	$ 438,221

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Condensed Consolidating Statements of Cash Flows

Three Months Ended March 31, 2012

	Three months ended March 31, 2012				
	Parent Issuer / Guarantor	Subsidiary Issuer / Guarantor	Non-Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Net Cash Provided By (Used In) Operating Activities:	$ (3,178)	$ 122,781	$ (139)	$	$ 119,464
Cash Flows From Investing Activities:					
Net payments from subsidiaries	4,377			(4,377)	
Additions to property and equipment, including pre-delivery deposits		(102,847)			(102,847)
Net cash provided by (used in) investing activities	4,377	(102,847)		(4,377)	(102,847)
Cash Flows From Financing Activities:					
Proceeds from exercise of stock options	981				981
Long-term borrowings		66,000			66,000
Repayments of long-term debt and capital lease obligations		(9,748)			(9,748)
Debt issuance costs		(1,945)			(1,945)
Net payments to parent company		(4,377)		4,377	
Net cash provided by financing activities	981	49,930		4,377	55,288
Net increase (decrease) in cash and cash equivalents	2,180	69,864	(139)		71,905
Cash and cash equivalents - Beginning of Year	97,219	205,656	1,240		304,115
Cash and cash equivalents - End of Year	$ 99,399	$ 275,520	$ 1,101		