

HAWAIIAN HOLDINGS INC
Form 10-Q
October 20, 2017

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 September 30, 2017
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 (I.R.S. Employer
Incorporation or Organization) 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company) Emerging growth company

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of October 13, 2017, 52,471,736 shares of the registrant's common stock were outstanding.

Hawaiian Holdings, Inc.
Form 10-Q
Quarterly Period ended September 30, 2017

Table of Contents

| | |
|--|-----------|
| <u>Part I. Financial Information</u> | <u>3</u> |
| <u>Item 1. Consolidated Financial Statements of Hawaiian Holdings, Inc. (Unaudited)</u> | <u>3</u> |
| <u>Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and 2016</u> | <u>3</u> |
| <u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2017 and 2016</u> | <u>4</u> |
| <u>Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016</u> | <u>5</u> |
| <u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016</u> | <u>6</u> |
| <u>Notes to Consolidated Financial Statements</u> | <u>7</u> |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>28</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | <u>39</u> |
| <u>Item 4. Controls and Procedures</u> | <u>40</u> |
| <u>Part II. Other Information</u> | <u>41</u> |
| <u>Item 1. Legal Proceedings</u> | <u>41</u> |
| <u>Item 1A. Risk Factors</u> | <u>41</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>41</u> |
| <u>Item 3. Defaults Upon Senior Securities</u> | <u>41</u> |
| <u>Item 4. Mine Safety Disclosures</u> | <u>41</u> |
| <u>Item 5. Other Information</u> | <u>41</u> |
| <u>Item 6. Exhibits</u> | <u>42</u> |
| <u>Signatures</u> | <u>43</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 September 30, 2017 | | Nine Months Ended September 30, 2017 | |
|--|---|-----------|--|-------------|
| | 2016 | 2017 | 2016 | 2017 |
| | (unaudited) | | | |
| Operating Revenue: | | | | |
| Passenger | \$634,475 | \$591,496 | \$1,765,275 | \$1,592,095 |
| Other | 85,084 | 80,341 | 243,804 | 225,512 |
| Total | 719,559 | 671,837 | 2,009,079 | 1,817,607 |
| Operating Expenses: | | | | |
| Wages and benefits | 161,059 | 136,356 | 466,772 | 395,718 |
| Aircraft fuel, including taxes and delivery | 110,111 | 94,818 | 316,423 | 248,516 |
| Maintenance, materials and repairs | 49,396 | 51,812 | 161,366 | 166,901 |
| Aircraft and passenger servicing | 36,360 | 33,971 | 104,569 | 93,245 |
| Aircraft rent | 35,195 | 32,891 | 102,883 | 92,345 |
| Commissions and other selling | 32,930 | 29,480 | 98,668 | 93,936 |
| Other rentals and landing fees | 30,989 | 28,926 | 86,763 | 78,338 |
| Depreciation and amortization | 28,447 | 27,495 | 83,787 | 81,629 |
| Purchased services | 24,736 | 25,614 | 79,428 | 72,889 |
| Special items | — | — | 23,450 | — |
| Other | 36,585 | 31,565 | 101,376 | 94,279 |
| Total | 545,808 | 492,928 | 1,625,485 | 1,417,796 |
| Operating Income | 173,751 | 178,909 | 383,594 | 399,811 |
| Nonoperating Income (Expense): | | | | |
| Other nonoperating special items | (50,202) | — | (50,202) | — |
| Interest expense and amortization of debt discounts and issuance costs | (7,578) | (8,539) | (23,292) | (28,453) |
| Gains (losses) on fuel derivatives | 3,282 | (3,601) | (10,228) | 15,421 |
| Other components of net periodic benefit cost | (3,792) | (5,054) | (13,293) | (15,218) |
| Interest income | 1,861 | 1,113 | 4,480 | 3,044 |
| Capitalized interest | 2,416 | 719 | 6,258 | 1,407 |
| Loss on extinguishment of debt | — | — | — | (9,993) |
| Other, net | (100) | 612 | 3,161 | 9,884 |
| Total | (54,113) | (14,750) | (83,116) | (23,908) |
| Income Before Income Taxes | 119,638 | 164,159 | 300,478 | 375,903 |
| Income tax expense | 45,072 | 61,705 | 108,567 | 142,413 |
| Net Income | \$74,566 | \$102,454 | \$191,911 | \$233,490 |
| Net Income Per Share | | | | |
| Basic | \$1.40 | \$1.92 | \$3.59 | \$4.37 |
| Diluted | \$1.39 | \$1.91 | \$3.57 | \$4.35 |

See accompanying Notes to Consolidated Financial Statements.

Hawaiian Holdings, Inc.
 Consolidated Statements of Comprehensive Income
 (in thousands)

| | Three Months Ended September 30, 2017 2016 (unaudited) | |
|--|---|-----------|
| Net Income | \$74,566 | \$102,454 |
| Other comprehensive income (loss), net: | | |
| Net change related to employee benefit plans, net of tax expense of \$15,247 and \$714 for 2017 and 2016, respectively | 25,042 | 1,293 |
| Net change in derivative instruments, net of tax benefit of \$198 and \$1,141 for 2017 and 2016, respectively | (326) | (1,858) |
| Net change in available-for-sale investments, net of tax expense of \$43 and net of tax benefit of \$150 for 2017 and 2016, respectively | 70 | (246) |
| Total other comprehensive income (loss) | 24,786 | (811) |
| Total Comprehensive Income | \$99,352 | \$101,643 |
| | | |
| | Nine Months Ended September 30, 2017 2016 (unaudited) | |
| Net Income | \$191,911 | \$233,490 |
| Other comprehensive income (loss), net: | | |
| Net change related to employee benefit plans, net of tax expense of \$17,040 and \$2,028 for 2017 and 2016, respectively | 27,900 | 3,448 |
| Net change in derivative instruments, net of tax benefit of \$3,756 and \$10,457 for 2017 and 2016, respectively | (6,162) | (17,166) |
| Net change in available-for-sale investments, net of tax expense of \$115 and \$266 for 2017 and 2016, respectively | 188 | 437 |
| Total other comprehensive income (loss) | 21,926 | (13,281) |
| Total Comprehensive Income | \$213,837 | \$220,209 |

See accompanying Notes to Consolidated Financial Statements.

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

| | September 30, 2017 (unaudited) | December 31, 2016 |
|--|--------------------------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$348,049 | \$325,991 |
| Restricted cash | 1,000 | 5,000 |
| Short-term investments | 270,697 | 284,075 |
| Accounts receivable, net | 118,622 | 96,067 |
| Spare parts and supplies, net | 26,560 | 20,363 |
| Prepaid expenses and other | 56,783 | 66,740 |
| Total | 821,711 | 798,236 |
| Property and equipment, less accumulated depreciation and amortization of \$533,964 and \$454,231 as of September 30, 2017 and December 31, 2016, respectively | 1,753,946 | 1,654,567 |
| Other Assets: | | |
| Long-term prepayments and other | 124,926 | 132,724 |
| Intangible assets, less accumulated amortization of \$21,301 and \$20,337 as of September 30, 2017 and December 31, 2016, respectively | 15,447 | 16,411 |
| Goodwill | 106,663 | 106,663 |
| Total Assets | \$2,822,693 | \$2,708,601 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$118,810 | \$116,507 |
| Air traffic liability | 573,373 | 482,496 |
| Other accrued liabilities | 157,760 | 172,214 |
| Current maturities of long-term debt and capital lease obligations | 58,585 | 58,899 |
| Total | 908,528 | 830,116 |
| Long-Term Debt and Capital Lease Obligations | 447,533 | 497,908 |
| Other Liabilities and Deferred Credits: | | |
| Accumulated pension and other post-retirement benefit obligations | 234,206 | 355,968 |
| Other liabilities and deferred credits | 172,792 | 173,613 |
| Deferred tax liability, net | 218,843 | 170,543 |
| Total | 625,841 | 700,124 |
| Commitments and Contingencies | | |
| Shareholders' Equity: | | |
| Special preferred stock, \$0.01 par value per share, three shares issued and outstanding as of September 30, 2017 and December 31, 2016 | — | — |
| Common stock, \$0.01 par value per share, 52,471,736 and 53,435,234 shares outstanding as of September 30, 2017 and December 31, 2016, respectively | 525 | 534 |
| Capital in excess of par value | 73,776 | 127,266 |
| Accumulated income | 848,057 | 656,146 |
| Accumulated other comprehensive loss, net | (81,567) | (103,493) |
| Total | 840,791 | 680,453 |
| Total Liabilities and Shareholders' Equity | \$2,822,693 | \$2,708,601 |

See accompanying Notes to Consolidated Financial Statements.

5

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

| | Nine Months Ended September 30, | |
|--|---------------------------------|------------|
| | 2017 | 2016 |
| | (unaudited) | |
| Net cash provided by Operating Activities | \$ 295,477 | \$ 434,922 |
| Cash flows from Investing Activities: | | |
| Additions to property and equipment, including pre-delivery payments | (212,535) | (104,250) |
| Proceeds from purchase assignment and leaseback transactions | — | 31,851 |
| Proceeds from disposition of property and equipment | 33,511 | — |
| Purchases of investments | (171,485) | (217,964) |
| Sales of investments | 183,930 | 208,075 |
| Net cash used in investing activities | (166,579) | (82,288) |
| Cash flows from Financing Activities: | | |
| Repayments of long-term debt and capital lease obligations | (52,463) | (205,532) |
| Repurchases and redemptions of convertible notes | — | (1,426) |
| Repurchases of common stock | (50,486) | (13,763) |
| Other | (7,891) | (7,702) |
| Net cash used in financing activities | (110,840) | (228,423) |

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

| | | |
|---|------------|------------|
| Net increase in cash and cash equivalents | 18,058 | 124,211 |
| Cash, cash equivalents, and restricted cash - Beginning of Period | 330,991 | 286,502 |
| Cash, cash equivalents, and restricted cash - End of Period | \$ 349,049 | \$ 410,713 |

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, 2016.

2. Significant Accounting Policies

Recently Adopted Accounting Pronouncements

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, requiring an employer to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. ASU 2017-07 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption only permitted in the first quarter of 2017. The Company early adopted this standard during the first quarter of 2017. The adoption of ASU 2017-07 resulted in a reclassification of \$5.1 million and \$15.2 million from wages and benefits to other components of net periodic benefit cost on the Company's consolidated statement of operations for the three and nine months ended September 30, 2016, respectively.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows, Restricted Cash, requiring restricted cash and restricted cash equivalents to be included with cash and cash equivalents on the statement of cash flows when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The guidance is effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted. The Company early adopted this standard during the first quarter of 2017. Restricted cash is now included as a component of cash, cash equivalents, and restricted cash on the Company's condensed consolidated statement of cash flows. The inclusion of restricted cash increased the beginning and ending balances of the condensed consolidated statement of cash flows by \$5.0 million for the nine months ended September 30, 2016.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, requiring all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. ASU 2016-09 will also allow an employer to withhold more shares for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016. The Company adopted this standard during

the first quarter of 2017. The primary impact of the adoption of the standard on the Company's consolidated financial statements was the recognition of excess tax benefits in the provision for income taxes rather than additional paid-in capital, which reduced income tax expense by \$0.3 million and \$5.8 million for the three and nine months ended September 30, 2017, respectively. The Company also reclassified \$17.6 million of excess tax benefits for share-based payments in the cash flow statement from financing activities to operating activities for the nine months ended September 30, 2016.

Recently Issued Accounting Pronouncements

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging, which better aligns a company's risk management activities and financial reporting for hedging relationships and is intended to simplify hedge accounting requirements. ASU 2017-12 is effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the components and options within ASU 2017-12.

In February 2016, the FASB issued ASU 2016-02, Leases, requiring a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018. ASU 2016-02 requires entities to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. Full retrospective application is prohibited. The Company is evaluating the impact the adoption of this standard will have on its consolidated financial statements and believes this ASU will have a significant impact on its consolidated balance sheet but does not expect that the ASU will have a material impact on the Company's results of operations or cash flows. The effect of adopting the new standard will be to record right-of-use assets and operating lease obligations for current operating leases on the Company's balance sheet. See Note 9 which discusses our lease obligations as of September 30, 2017.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, and created a new topic (ASC 606), 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. ASC 606 will replace most existing revenue recognition guidance in GAAP when it becomes effective. ASC 606 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company will elect to adopt the full retrospective transition method as of January 1, 2018, resulting in the restatement of certain prior periods on the date of adoption.

The Company is completing its overall analysis for the provisions of ASC 606 specific to its consolidated financial statements and related disclosures. The Company is also designing and implementing controls and systems in anticipation of the adoption of the standard, effective January 1, 2018 which will have a material impact on its consolidated financial statements. The overall expected decrease in equity as of January 1, 2016 is expected to be up to \$125 million net of tax, with an offsetting change primarily in Other liabilities and deferred credits. The corresponding annual income statement effect is expected to be a decrease of approximately 1% of total revenue.

While the Company continues to assess all potential impacts of this new standard, it currently believes the most significant impact relates to the accounting for the Company's frequent flyer travel award program. This change as well as other less significant changes, is briefly described below:

Frequent flyer - The standard will require the Company to account for miles earned by passengers in the HawaiianMiles program through flight activity as a component of the passenger revenue ticket transaction at the estimated selling price of the miles (effectively eliminating the incremental cost accounting currently applied). Under ASC 606, ticket consideration received is allocated between the performance obligations, primarily travel and miles earned by passengers. The allocated value of the miles will be deferred until the free travel or other award is used by the passenger, at which time it will be included in passenger revenues. ASC 606 will result in a significant increase to the deferred revenue liability on the Company's balance sheet, as the estimated selling price of the miles significantly exceeds the value previously recorded for incremental cost.

Passenger revenue - Currently, passenger revenue is recognized either when the transportation is provided or when tickets expire unused. However, after the application of ASC 606, passenger revenue associated with unused tickets, which represent unexercised passenger rights, is expected to be recognized in proportion to the pattern of rights exercised by related passengers (e.g. scheduled departure dates). This will have the effect of accelerating the recognition of revenue and reducing the recorded balance in air traffic liability as compared to the current policy.

Other operating revenue - Other operating revenue includes checked baggage revenue, cargo revenue, ticket change and cancellation fees, charter revenue, ground handling fees, commissions and fees earned under certain joint marketing agreements with other companies, inflight revenue, and other incidental sales. Ticket change and cancellation fees are currently recognized at the time the fees are assessed. The Company expects to defer the recognition of ticket change fees as a component of air traffic liability until the related transportation is provided. Certain amounts currently classified in other revenue (e.g. bag and other ancillary fees) will be reclassified to

passenger revenue.

Selling Costs - Certain selling costs to issue passenger tickets (e.g. credit card and booking fees) are currently recognized when incurred. Consistent with the Company's current accounting for commissions, under ASC 606 the Company will capitalize selling costs associated with credit card and booking fees and recognize the associated expense at the ticketed flight date.

The adoption of the standard will require the implementation of new accounting processes and systems, which will change the Company's internal control over revenue recognition. Other items could be identified that will impact amounts ultimately recorded.

3. Accumulated Other Comprehensive Income (Loss)

Reclassifications out of accumulated other comprehensive income (loss) by component are as follows:

| Details about accumulated other comprehensive (income) loss components | Three months ended September 30, | | Nine months ended September 30, | | Affected line items in the statement where net income is presented |
|--|----------------------------------|----------|---------------------------------|-----------|--|
| | 2017 | 2016 | 2017 | 2016 | |
| | (in thousands) | | | | |
| Derivatives designated as hedging instruments under ASC 815 | | | | | |
| Foreign currency derivative losses (gains) | \$(449) | \$1,842 | \$(2,141) | \$(1,679) | Passenger revenue |
| Interest rate derivative losses, net | — | — | — | 944 | Interest expense |
| Total before tax | (449) | 1,842 | (2,141) | (735) | |
| Tax expense (benefit) | 170 | (701) | 811 | 272 | |
| Total, net of tax | \$(279) | \$1,141 | \$(1,330) | \$(463) | |
| Amortization of defined benefit plan items | | | | | |
| Actuarial loss | \$2,277 | \$1,950 | \$6,733 | \$5,780 | Other components of net periodic benefit cost |
| Prior service cost | 65 | 57 | 185 | 171 | Other components of net periodic benefit cost |
| Partial settlement and curtailment loss | 15,001 | — | 15,001 | — | Other nonoperating special items |
| Loss on plan termination | 35,201 | — | 35,201 | — | Other nonoperating special items |
| Total before tax | 52,544 | 2,007 | 57,120 | 5,951 | |
| Tax benefit | (19,883) | (714) | (21,648) | (2,207) | |
| Total, net of tax | \$32,661 | \$1,293 | \$35,472 | \$3,744 | |
| Short-term investments | | | | | |
| Realized gain on sales of investments, net | \$(6) | \$(129) | \$(26) | \$(189) | Other nonoperating income |
| Total before tax | (6) | (129) | (26) | (189) | |
| Tax expense | 2 | 49 | 10 | 69 | |
| Total, net of tax | \$(4) | \$(80) | \$(16) | \$(120) | |
| Total reclassifications for the period | \$32,378 | \$2,354 | \$34,126 | \$3,161 | |

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

A rollforward of the amounts included in accumulated other comprehensive income (loss), net of taxes, for the three and nine months ended September 30, 2017 and 2016 is as follows:

| Three months ended September 30, 2017 | Interest Rate Derivatives | Foreign Currency Derivatives | Defined Benefit Pension Plan Items | Short-Term Investments | Total |
|---|---------------------------|------------------------------|------------------------------------|------------------------|--------------|
| | (in thousands) | | | | |
| Beginning balance | \$ 1,235 | \$ (107,344) | \$ (244) | \$ (244) | \$ (106,353) |
| Other comprehensive income (loss) before reclassifications, net of tax | (47) | (7,619) | 74 | | (7,592) |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | (279) | 32,661 | (4) | | 32,378 |
| Net current-period other comprehensive income (loss) | (326) | 25,042 | 70 | | 24,786 |
| Ending balance | \$ 909 | \$ (82,302) | \$ (174) | \$ (174) | \$ (81,567) |

| Three months ended September 30, 2016 | Interest Rate Derivatives | Foreign Currency Derivatives | Defined Benefit Pension Plan Items | Short-Term Investments | Total |
|---|---------------------------|------------------------------|------------------------------------|------------------------|--------------|
| | (in thousands) | | | | |
| Beginning balance | \$ (10,348) | \$ (101,710) | \$ 311 | \$ 311 | \$ (111,747) |
| Other comprehensive loss before reclassifications, net of tax | (2,999) | — | (166) | (166) | (3,165) |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | (1,141) | 1,293 | (80) | (80) | 2,354 |
| Net current-period other comprehensive income (loss) | (1,858) | 1,293 | (246) | (246) | (811) |
| Ending balance | \$ (12,206) | \$ (100,417) | \$ 65 | \$ 65 | \$ (112,558) |

| Nine months ended September 30, 2017 | Interest Rate Derivatives | Foreign Currency Derivatives | Defined Benefit Pension Plan Items | Short-Term Investments | Total |
|---|---------------------------|------------------------------|------------------------------------|------------------------|--------------|
| | (in thousands) | | | | |
| Beginning balance | \$ 7,071 | \$ (110,202) | \$ (362) | \$ (362) | \$ (103,493) |
| Other comprehensive income (loss) before reclassifications, net of tax | (4,832) | (7,572) | 204 | 204 | (12,200) |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | (1,330) | 35,472 | (16) | (16) | 34,126 |
| Net current-period other comprehensive income (loss) | (6,162) | 27,900 | 188 | 188 | 21,926 |
| Ending balance | \$ 909 | \$ (82,302) | \$ (174) | \$ (174) | \$ (81,567) |

| Nine months ended September 30, 2016 | Interest Rate Derivatives | Foreign Currency Derivatives | Defined Benefit Pension Plan Items | Short-Term Investments | Total |
|---|---------------------------|------------------------------|------------------------------------|------------------------|-------------|
| | (in thousands) | | | | |
| Beginning balance | \$ 81 | \$ 4,879 | \$ (103,865) | \$ (372) | \$ (99,277) |
| Other comprehensive income (loss) before reclassifications, net of tax | (668) | (16,035) | (296) | 557 | (16,442) |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | 587 | (1,050) | 3,744 | (120) | 3,161 |

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

| | | | | | |
|--|-------|-------------|-------------|-------|-------------|
| Net current-period other comprehensive income (loss) | (81) | (17,085) | 3,448 | 437 | (13,281) |
| Ending balance | \$— | \$(12,206) | \$(100,417) | \$ 65 | \$(112,558) |

10

4. Earnings Per Share

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

Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For the three and nine months ended September 30, 2017 and 2016, anti-dilutive shares excluded from the calculation of diluted earnings per share were nil.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-----------|------------------------------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| | (in thousands, except for per share data) | | | |
| Numerator: | | | | |
| Net Income | \$74,566 | \$102,454 | \$191,911 | \$233,490 |
| Denominator: | | | | |
| Weighted average common stock shares outstanding - Basic | 53,185 | 53,427 | 53,456 | 53,488 |
| Assumed exercise of stock options and awards | 324 | 161 | 343 | 219 |
| Assumed conversion of convertible note premium | — | — | — | 8 |
| Weighted average common stock shares outstanding - Diluted | 53,509 | 53,588 | 53,799 | 53,715 |
| Net Income Per Share | | | | |
| Basic | \$1.40 | \$1.92 | \$3.59 | \$4.37 |
| Diluted | \$1.39 | \$1.91 | \$3.57 | \$4.35 |

Stock Repurchase Program and Dividends

In April 2017, the Company's Board of Directors approved the repurchase of up to \$100 million of its outstanding common stock over a two-year period through May 2019 via the open market, established plans or privately negotiated transactions in accordance with all applicable securities laws, rules and regulations. The stock repurchase program is subject to further modification or termination at any time.

The Company spent \$46.2 million and \$50.5 million to repurchase and retire approximately 1.1 million shares and 1.2 million shares of the Company's common stock in open market transactions during the three and nine months ended September 30, 2017, respectively. As of September 30, 2017, the Company had \$49.5 million remaining to spend under its stock repurchase program.

In October 2017, the Company announced that its Board of Directors declared a quarterly cash dividend of \$0.12 per share payable on November 30, 2017, to stockholders of record as of November 17, 2017.

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 Company's unaudited consolidated statements of operations. Unrealized gains and losses on available-for-sale securities are reflected as a component of accumulated other comprehensive income.

The following is a summary of short-term investments held as of September 30, 2017 and December 31, 2016:

| Amortized | Gross | Gross | Fair |
|-----------|------------|------------|-------|
| Cost | Unrealized | Unrealized | Value |

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

| | | Gains | Losses | |
|---------------------------------|----------------|-------|-----------|------------|
| September 30, 2017 | (in thousands) | | | |
| Corporate debt | \$ 167,407 | \$ 67 | \$ (170) | \$ 167,304 |
| U.S. government and agency debt | 50,515 | 1 | (131) | 50,385 |
| Municipal bonds | 19,839 | 27 | (30) | 19,836 |
| Other fixed income securities | 33,172 | 1 | (1) | 33,172 |
| Total short-term investments | \$ 270,933 | \$ 96 | \$ (332) | \$ 270,697 |

11

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---------------------------------|-------------------|------------------------------|-------------------------------|---------------|
| December 31, 2016 | (in thousands) | | | |
| Corporate debt | \$ 171,139 | \$ 84 | \$ (357) |) \$ 170,866 |
| U.S. government and agency debt | 53,916 | 8 | (134) |) 53,790 |
| Municipal bonds | 22,893 | 1 | (144) |) 22,750 |
| Other fixed income securities | 36,670 | — | (1) |) 36,669 |
| Total short-term investments | \$ 284,618 | \$ 93 | \$ (636) |) \$ 284,075 |

Contractual maturities of short-term investments as of September 30, 2017 are shown below.

| | Under 1 Year | 1 to 5 Years | Total |
|---------------------------------|----------------|--------------|------------|
| | (in thousands) | | |
| Corporate debt | \$ 72,879 | \$ 94,425 | \$ 167,304 |
| U.S. government and agency debt | 34,320 | 16,065 | 50,385 |
| Municipal bonds | 6,942 | 12,894 | 19,836 |
| Other fixed income securities | 24,535 | 8,637 | 33,172 |
| Total short-term investments | \$ 138,676 | \$ 132,021 | \$ 270,697 |

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) defines fair value as 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 | | | |
|--|-------------------------------|------------|------------|---------|
| | September 30, 2017 | | | |
| | Total | Level 1 | Level 2 | Level 3 |
| | (in thousands) | | | |
| Cash equivalents | \$ 198,018 | \$ 171,936 | \$ 26,082 | \$ — |
| Restricted cash | 1,000 | 1,000 | — | — |
| Short-term investments | 270,697 | — | 270,697 | — |
| Fuel derivative contracts: | | | | |
| Crude oil call options | 8,184 | — | 8,184 | — |
| Jet fuel swaps | 566 | — | 566 | — |
| Foreign currency derivatives | 4,721 | — | 4,721 | — |
| Total assets measured at fair value | \$ 483,186 | \$ 172,936 | \$ 310,250 | \$ — |
| Fuel derivative contracts: | | | | |
| Jet fuel swaps | \$ 21 | \$ — | \$ 21 | \$ — |
| Foreign currency derivatives | 2,612 | — | 2,612 | — |
| Total liabilities measured at fair value | \$ 2,633 | \$ — | \$ 2,633 | \$ — |

| | Fair Value Measurements as of | | | |
|--|-------------------------------|------------|------------|---------|
| | December 31, 2016 | | | |
| | Total | Level 1 | Level 2 | Level 3 |
| | (in thousands) | | | |
| Cash equivalents | \$ 123,120 | \$ 104,113 | \$ 19,007 | \$ — |
| Restricted cash | 5,000 | 5,000 | — | — |
| Short-term investments | 284,075 | — | 284,075 | — |
| Fuel derivative contracts: | | | | |
| Crude oil call options | 8,489 | — | 8,489 | — |
| Heating oil swaps | 6,601 | — | 6,601 | — |
| Foreign currency derivatives | 12,906 | — | 12,906 | — |
| Total assets measured at fair value | \$ 440,191 | \$ 109,113 | \$ 331,078 | \$ — |
| Foreign currency derivatives | 1,469 | — | 1,469 | — |
| Total liabilities measured at fair value | \$ 1,469 | \$ — | \$ 1,469 | \$ — |

Cash equivalents. The Company's level 1 cash equivalents consist of money market securities and the level 2 cash equivalents consist of U.S. agency bonds, mutual funds, 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 consists of cash held as collateral by institutions that process our credit card transactions for advanced ticket sales, which is valued similarly to the money market securities held as cash equivalents.

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 crude oil call options and jet fuel 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 primarily based upon data available or derived from public markets.

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

13

Fair Value of Debt

September 30, 2017

December 31, 2016

Carrying Fair Value

Carrying Fair Value

Amount Total Level 1 Level 2 Level 3 Amount Total Level 1 Level 2 Level 3

(in thousands)

| | | | | | | | | | |
|-----------|-----------|----|-----|------------|-----------|-----------|----|-----|------------|
| \$438,843 | \$449,761 | \$ | —\$ | —\$449,761 | \$481,874 | \$484,734 | \$ | —\$ | —\$484,734 |
|-----------|-----------|----|-----|------------|-----------|-----------|----|-----|------------|

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

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 and nine months ended September 30, 2017, the Company primarily used crude oil call options and jet fuel 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 Company's unaudited Consolidated Statements of Operations.

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|--|-----------|------------------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| Fuel derivative contracts | (in thousands) | | | |
| Losses realized at settlement | \$(2,787) | \$(2,525) | \$(2,100) | \$(30,349) |
| Reversal of prior period unrealized amounts | 6,251 | (7,115) | (7,946) | 39,731 |
| Unrealized gains (losses) that will settle in future periods | (182) | 6,039 | (182) | 6,039 |
| Gains (losses) on fuel derivatives recorded as Nonoperating income (expense) | \$3,282 | \$(3,601) | \$(10,228) | \$15,421 |

Foreign Currency Exchange Rate Risk Management

The Company is subject to foreign currency exchange rate risk due to revenues and expenses that are 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 (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 expects to reclassify a net gain of approximately \$0.6 million into earnings over the next 12 months from AOCI based on the values at September 30, 2017.

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 Company's unaudited Consolidated Balance Sheets.

Derivative position as of September 30, 2017

| | 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 | | | | | | |
| Foreign currency derivatives | Prepaid expenses and other | 15,704,725 Japanese Yen 46,792 Australian Dollars | September 2018 | 3,594 | (2,340) | 1,254 |
| | Long-term prepayments and other | 4,812,000 Japanese Yen 8,247 Australian Dollars | September 2019 | 952 | (242) | 710 |
| Derivatives not designated as hedges | | | | | | |
| Foreign currency derivatives | Prepaid expenses and other | 924,350 Japanese Yen 3,776 Australian Dollars | December 2017 | 175 | (30) | 145 |
| Fuel derivative contracts | Prepaid expenses and other | 94,332 gallons | September 2018 | 8,750 | (21) | 8,729 |

Derivative position as of December 31, 2016

| | 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 | | | | | | |
| Foreign currency derivatives | Prepaid expenses and other | 16,121,500 Japanese Yen 41,917 Australian Dollars | December 2017 | 9,803 | (1,349) | 8,454 |
| | Long-term prepayments and other | 4,371,900 Japanese Yen 8,434 Australian Dollars | December 2018 | 2,632 | (59) | 2,573 |
| Derivatives not designated as hedges | | | | | | |
| | | | | 471 | (61) | 410 |

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

| | | | | | |
|------------------------------|----------------------------|--|---------------|--------|--------|
| Foreign currency derivatives | Prepaid expenses and other | 879,050 Japanese Yen 5,802 Australian Dollars | March 2017 | | |
| Fuel derivative contracts | Prepaid expenses and other | 17,850 gallons | December 2017 | 15,090 | 15,090 |

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

| | (Gain) loss recognized in AOCI from derivatives (effective portion) | | | | (Gain) loss recognized in nonoperating (income) expense (ineffective portion) | | | |
|------------------------------|---|---------|---------------------------------------|----------|---|------|---------------------------------------|------|
| | Three months ended September 30, 2017 | | Three months ended September 30, 2016 | | Three months ended September 30, 2017 | | Three months ended September 30, 2016 | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | (in thousands) | | | | | | | |
| Foreign currency derivatives | \$75 | \$4,841 | \$ (449) | \$ 1,842 | \$ | — | \$ | — |
| Interest rate derivatives | — | — | — | — | — | — | — | — |

| | (Gain) loss recognized in OCI (effective portion) | | (Gain) loss classified from AOCI (effective portion) | | (Gain) loss recognized in nonoperating (income) expense (ineffective portion) | |
|------------------------------|---|----------|--|-------------|---|------|
| | Nine months ended September 30, | | Nine months ended September 30, | | Nine months ended September 30, | |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Foreign currency derivatives | \$7,780 | \$24,996 | \$ (2,141) | \$ (1,679) | \$ — | \$ — |
| Interest rate derivatives | — | 923 | — | 944 | — | — |

Risk and Collateral

Financial derivative instruments expose the Company to possible credit loss in the event the counterparties 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) regularly 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.

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 September 30, 2017 and December 31, 2016.

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 September 30, 2017, the expected maturities of long-term debt for the remainder of 2017 and the next four years, and thereafter, were as follows (in thousands):

| | |
|--------------------------|-----------|
| Remaining months in 2017 | \$5,771 |
| 2018 | 48,244 |
| 2019 | 72,927 |
| 2020 | 21,413 |
| 2021 | 49,060 |
| Thereafter | 241,428 |
| | \$438,843 |

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.

As of September 30, 2017, the scheduled future minimum rental payments under operating leases with non-cancellable basic terms of more than one year were as follows:

| | Aircraft | Other |
|-------------------|----------------|-----------|
| | (in thousands) | |
| Remaining in 2017 | \$31,984 | \$1,643 |
| 2018 | 127,235 | 7,311 |
| 2019 | 118,070 | 6,939 |
| 2020 | 97,717 | 6,690 |
| 2021 | 64,730 | 6,768 |
| Thereafter | 222,227 | 107,760 |
| | \$661,963 | \$137,111 |

10. Employee Benefit Plans

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

| Components of Net Period Benefit Cost | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|----------|---------------------------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| | (in thousands) | | | |
| Service cost | \$3,296 | \$3,438 | \$10,922 | \$10,864 |
| Other cost: | | | | |
| Interest cost | 5,983 | 7,518 | 20,502 | 22,682 |
| Expected return on plan assets | (4,533) | (4,472) | (14,125) | (13,416) |
| Recognized net actuarial loss | 2,342 | 2,008 | 6,916 | 5,952 |
| Total other components of the net periodic benefit cost | 3,792 | 5,054 | 13,293 | 15,218 |
| Partial settlement and curtailment loss | 15,001 | — | 15,001 | — |
| Loss on plan termination | 35,201 | — | 35,201 | — |
| Net periodic benefit cost | \$57,290 | \$8,492 | \$74,417 | \$26,082 |

During the three and nine months ended September 30, 2017, the Company contributed \$14.2 million and \$28.6 million, respectively to its defined benefit and other post-retirement plans. These amounts are exclusive of the one-time contributions to the Hawaiian Airlines, Inc. Salaried & IAM Merged Pension Plan (the Merged Plan) and pilots' other post-retirement benefit plan, as discussed below. During the three and nine months ended September 30, 2016, the Company contributed \$15.6 million and \$26.9 million, respectively to its defined benefit and other post-retirement plans.

In 2016, the Hawaiian Airlines, Inc. Pension Plan for Salaried Employees (the Salaried Plan) was consolidated into the Hawaiian Airlines, Inc. Pension Plan for Employees Represented by the International Association of Machinists (IAM), which established the Merged Plan. At that time, the net liabilities of the Salaried Plan were transferred to the Merged Plan. In August 2017, the Company completed the termination of the plan by transferring the assets and liabilities to a third-party insurance company. The Company contributed a total of \$18.5 million in cash to fully fund the plan and recognized a one-time financial loss of \$35.2 million as an other nonoperating special item on the Company's Consolidated Statement of Operations. The Company no longer has any expected contributions to the Merged Plan due to the final settlement.

In March 2017, the Company announced the ratification of a 63-month contract amendment with its pilots as represented by the Air Line Pilots Association (ALPA). In connection with the ratification of the agreement, the parties agreed to eliminate the post-65 post-retirement medical benefit for all active pilots, and replace the benefit with

a health retirement account (HRA) managed by ALPA, which represented a curtailment and partial settlement of the pilots' other post-retirement benefit plan. In August 2017, the Company made a one-time cash payment of approximately \$101.9 million to fund the HRA and settle the post-65 post-retirement medical plan obligation. The cash contributed was distributed to the trust funding the individual health retirement notional accounts of the participants. In connection with the settlement of the liability, the discount rate was updated to 3.87%. The Company recognized a one-time settlement loss of \$15.0 million. The obligation recorded for the unsettled portion of this plan was \$83.4 million as of September 30, 2017. The Company has expected contributions of \$0.9 million to the pilots' other post-retirement benefit plan for the remainder of 2017.

11. Commitments and Contingent Liabilities

Commitments

As of September 30, 2017, 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 |
|--------------------------------|-------------|-----------------|-------------------------|
| A321neo aircraft | 16 | 9 | Between 2017 and 2020 |
| A330-800neo aircraft | 6 | 6 | Between 2019 and 2021 |
| Pratt & Whitney spare engines: | | | |
| A321neo spare engines | 3 | 2 | Between 2017 and 2019 |
| Rolls-Royce spare engines: | | | |
| A330-800neo spare engines | 2 | 2 | Between 2019 and 2026 |

Committed capital and operating expenditures include escalation amounts based on estimates. The gross committed expenditures and committed payments for those deliveries as of September 30, 2017 are detailed below:

| | Capital | Operating | Total Committed Expenditures |
|-------------------|----------------|------------|------------------------------|
| | (in thousands) | | |
| Remaining in 2017 | \$ 114,916 | \$ 23,089 | \$ 138,005 |
| 2018 | 454,848 | 73,242 | 528,090 |
| 2019 | 500,811 | 60,228 | 561,039 |
| 2020 | 242,152 | 58,708 | 300,860 |
| 2021 | 170,406 | 56,551 | 226,957 |
| Thereafter | 131,834 | 400,430 | 532,264 |
| | \$ 1,614,967 | \$ 672,248 | \$ 2,287,215 |

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 such contracts. 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 such parties' gross negligence or willful misconduct. Additionally, the lessee typically indemnifies such parties for any environmental liability that arises out of or relates to the lessee's use of the real estate leased premises. The Company believes that it is insured (subject to deductibles) for most of the tort liabilities and related indemnities described above with respect to the aircraft and real estate that it leases. The Company cannot reasonably 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 \$1.0 million at September 30, 2017 and \$5.0 million at December 31, 2016.

In the event of a material adverse change in the Company's 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's operations, business or financial condition.

12. Special Items

| | Three months ended | | Nine months ended | |
|---|--------------------|----|--------------------|------|
| | September 30, 2017 | | September 30, 2016 | |
| | (in thousands) | | | |
| Operating: | | | | |
| Loss on sale of aircraft | — | — | 4,771 | — |
| Collective bargaining charge | — | — | 18,679 | — |
| Special items | \$— | \$ | —\$23,450 | \$ — |
| Nonoperating: | | | | |
| Partial settlement and curtailment loss | 15,001 | — | 15,001 | — |
| Loss on plan termination | 35,201 | — | 35,201 | — |
| Other nonoperating special items | \$50,202 | \$ | —\$50,202 | \$ — |

As discussed in Note 10, in August 2017, the Company terminated the Merged Plan and settled a portion of its pilots' other post-retirement medical plan liability. In connection with the reduction of these liabilities the Company recorded one-time Other nonoperating special charges of \$35.2 million related to the Merged Plan termination and \$15.0 million related to the other post-retirement medical plan partial settlement.

In April 2017, the Company executed a sale leaseback transaction with an independent third party for three Boeing 767-300 aircraft. The lease terms for the three aircraft commenced in April 2017 and continues through November 2018, December 2018, and January 2019, respectively. During the nine months ended September 30, 2017, the Company recorded a loss on sale of aircraft of \$4.8 million.

In February 2017, the Company reached a tentative agreement with ALPA, covering the Company's pilots. In March 2017, the Company received notice from ALPA that the agreement was ratified by ALPA's members. The agreement became effective April 1, 2017 and has a term of 63 months. The agreement includes, among other various benefits, a pay adjustment and ratification bonus computed based on previous service. During the nine months ended September 30, 2017, the Company expensed \$18.7 million related to (1) a one-time payment to reduce the Company's future 401K employer contribution for certain pilot groups, which is not recoverable once paid and (2) a one-time true up of the pilot vacation accrual at the revised rates set forth in the agreement.

13. Supplemental Cash Flow Information

Non-cash investing and financing activities for the nine months ended September 30, 2017 and 2016 were as follows:

Nine
months
ended
September
30,
2016
(in
thousands)

Investing and Financing Activities Not Affecting Cash:

Property and equipment acquired through a capital lease \$—\$ 6,092

14. 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 14 as Subsidiary Issuer / Guarantor) of pass-through certificates, the Company (which is also referred to in this Note 14 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.

The Company's condensed consolidating financial statements are presented in the following tables:

Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)
Three months ended September 30, 2017

| | Parent Issuer / Guarantor | Subsidiary Issuer / Guarantor | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|------------------------------|-------------------------------------|-------------------------------|--------------|--------------|
| | (in thousands) | | | | |
| Operating Revenue | \$— | \$717,812 | \$ 1,853 | \$(106) | \$ 719,559 |
| Operating Expenses: | | | | | |
| Wages and benefits | — | 161,059 | — | — | 161,059 |
| Aircraft fuel, including taxes and delivery | — | 110,111 | — | — | 110,111 |
| Maintenance materials and repairs | — | 48,987 | 409 | — | 49,396 |
| Aircraft and passenger servicing | — | 36,360 | — | — | 36,360 |
| Commissions and other selling | 18 | 32,924 | 19 | (31) | 32,930 |
| Aircraft rent | — | 35,090 | 105 | — | 35,195 |
| Other rentals and landing fees | — | 30,989 | — | — | 30,989 |
| Depreciation and amortization | — | 27,491 | 956 | — | 28,447 |
| Purchased services | 117 | 24,428 | 206 | (15) | 24,736 |
| Other | 1,498 | 34,678 | 469 | (60) | 36,585 |
| Total | 1,633 | 542,117 | 2,164 | (106) | 545,808 |
| Operating Income (Loss) | (1,633) | 175,695 | (311) | — | 173,751 |
| Nonoperating Income (Expense): | | | | | |
| Undistributed net income of subsidiaries | 75,469 | — | — | (75,469) | — |
| Other nonoperating special items | — | (50,202) | — | — | (50,202) |
| Interest expense and amortization of debt discounts and issuance costs | — | (7,578) | — | — | (7,578) |
| Other components of net periodic pension cost | — | (3,792) | — | — | (3,792) |
| Interest income | 76 | 1,785 | — | — | 1,861 |
| Capitalized interest | — | 2,416 | — | — | 2,416 |
| Gains on fuel derivatives | — | 3,282 | — | — | 3,282 |
| Other, net | — | (100) | — | — | (100) |
| Total | 75,545 | (54,189) | — | (75,469) | (54,113) |
| Income (Loss) Before Income Taxes | 73,912 | 121,506 | (311) | (75,469) | 119,638 |
| Income tax expense (benefit) | (654) | 45,726 | — | — | 45,072 |
| Net Income (Loss) | \$74,566 | \$75,780 | \$ (311) | \$(75,469) | \$ 74,566 |
| Comprehensive Income (Loss) | \$99,352 | \$100,566 | \$ (311) | \$(100,255) | \$ 99,352 |

Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)

Three months ended September 30, 2016

| | Parent Issuer / Guarantor | Subsidiary Issuer / Guarantor | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|------------------------------|-------------------------------------|-------------------------------|--------------|--------------|
| | (in thousands) | | | | |
| Operating Revenue | \$— | \$670,115 | \$ 1,800 | \$(78) |) \$ 671,837 |
| Operating Expenses: | | | | | |
| Aircraft fuel, including taxes and delivery | — | 94,818 | — | — | 94,818 |
| Wages and benefits | — | 136,356 | — | — | 136,356 |
| Aircraft rent | — | 32,891 | — | — | 32,891 |
| Maintenance materials and repairs | — | 51,354 | 458 | — | 51,812 |
| Aircraft and passenger servicing | — | 33,971 | — | — | 33,971 |
| Commissions and other selling | — | 29,494 | 15 | (29) |) 29,480 |
| Depreciation and amortization | — | 26,496 | 999 | — | 27,495 |
| Other rentals and landing fees | — | 28,926 | — | — | 28,926 |
| Purchased services | 34 | 25,404 | 191 | (15) |) 25,614 |
| Other | 1,348 | 29,807 | 444 | (34) |) 31,565 |
| Total | 1,382 | 489,517 | 2,107 | (78) |) 492,928 |
| Operating Income (Loss) | (1,382) |) 180,598 | (307) |) — | 178,909 |
| Nonoperating Income (Expense): | | | | | |
| Undistributed net income of subsidiaries | 103,211 | — | — | (103,211) |) — |
| Interest expense and amortization of debt discounts and issuance costs | — | (8,539) |) — | — | (8,539) |
| Other components of net periodic pension cost | — | (5,054) |) — | — | (5,054) |
| Interest income | 71 | 1,042 | — | — | 1,113 |
| Capitalized interest | — | 719 | — | — | 719 |
| Losses on fuel derivatives | — | (3,601) |) — | — | (3,601) |
| Loss on extinguishment of debt | — | — | — | — | — |
| Other, net | — | 612 | — | — | 612 |
| Total | 103,282 | (14,821) |) — | (103,211) |) (14,750) |
| Income (Loss) Before Income Taxes | 101,900 | 165,777 | (307) | (103,211) |) 164,159 |
| Income tax expense (benefit) | (554) |) 62,259 | — | — | 61,705 |
| Net Income (Loss) | \$102,454 | \$103,518 | \$ (307) | \$(103,211) |) \$102,454 |
| Comprehensive Income (Loss) | \$101,643 | \$102,707 | \$ (307) | \$(102,400) |) \$101,643 |

Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)
 Nine months ended September 30, 2017

| | Parent Issuer / Guarantor | Subsidiary Issuer / Guarantor | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|------------------------------|-------------------------------------|-------------------------------|--------------|--------------|
| | (in thousands) | | | | |
| Operating Revenue | \$— | \$2,003,961 | \$ 5,436 | \$(318) | \$2,009,079 |
| Operating Expenses: | | | | | |
| Aircraft fuel, including taxes and delivery | — | 316,423 | — | — | 316,423 |
| Wages and benefits | — | 466,772 | — | — | 466,772 |
| Aircraft rent | — | 102,408 | 475 | — | 102,883 |
| Maintenance materials and repairs | — | 158,417 | 2,949 | — | 161,366 |
| Aircraft and passenger servicing | — | 104,569 | — | — | 104,569 |
| Commissions and other selling | 42 | 98,677 | 57 | (108) | 98,668 |
| Depreciation and amortization | — | 80,927 | 2,860 | — | 83,787 |
| Other rentals and landing fees | — | 86,763 | — | — | 86,763 |
| Purchased services | 400 | 78,428 | 645 | (45) | 79,428 |
| Special items | — | 23,450 | — | — | 23,450 |
| Other | 3,958 | 96,132 | 1,451 | (165) | 101,376 |
| Total | 4,400 | 1,612,966 | 8,437 | (318) | 1,625,485 |
| Operating Income (Loss) | (4,400) | 390,995 | (3,001) | — | 383,594 |
| Nonoperating Income (Expense): | | | | | |
| Undistributed net income of subsidiaries | 193,581 | — | — | (193,581) | — |
| Other nonoperating special items | — | (50,202) | — | — | (50,202) |
| Interest expense and amortization of debt discounts and issuance costs | — | (23,292) | — | — | (23,292) |
| Other components of net periodic pension cost | — | (13,293) | — | — | (13,293) |
| Interest income | 216 | 4,264 | — | — | 4,480 |
| Capitalized interest | — | 6,258 | — | — | 6,258 |
| Losses on fuel derivatives | — | (10,228) | — | — | (10,228) |
| Loss on extinguishment of debt | — | — | — | — | — |
| Other, net | — | 3,161 | — | — | 3,161 |
| Total | 193,797 | (83,332) | — | (193,581) | (83,116) |
| Income (Loss) Before Income Taxes | 189,397 | 307,663 | (3,001) | (193,581) | 300,478 |
| Income tax expense (benefit) | (2,514) | 111,081 | — | — | 108,567 |
| Net Income (Loss) | \$191,911 | \$196,582 | \$ (3,001) | \$(193,581) | \$191,911 |
| Comprehensive Income (Loss) | \$213,837 | \$218,508 | \$ (3,001) | \$(215,507) | \$213,837 |

Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)
 Nine months ended September 30, 2016

| | Parent Issuer / Guarantor | Subsidiary Issuer / Guarantor | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|------------------------------|-------------------------------------|-------------------------------|--------------|--------------|
| | (in thousands) | | | | |
| Operating Revenue | \$— | \$ 1,813,410 | \$ 4,478 | \$(281) | \$ 1,817,607 |
| Operating Expenses: | | | | | |
| Aircraft fuel, including taxes and delivery | — | 248,516 | — | — | 248,516 |
| Wages and benefits | — | 395,718 | — | — | 395,718 |
| Aircraft rent | — | 92,345 | — | — | 92,345 |
| Maintenance materials and repairs | — | 164,395 | 2,506 | — | 166,901 |
| Aircraft and passenger servicing | — | 93,245 | — | — | 93,245 |
| Commissions and other selling | 1 | 93,983 | 52 | (100) | 93,936 |
| Depreciation and amortization | — | 79,136 | 2,493 | — | 81,629 |
| Other rentals and landing fees | — | 78,338 | — | — | 78,338 |
| Purchased services | 121 | 72,363 | 450 | (45) | 72,889 |
| Other | 4,135 | 89,381 | 899 | (136) | 94,279 |
| Total | 4,257 | 1,407,420 | 6,400 | (281) | 1,417,796 |
| Operating Income (Loss) | (4,257) | 405,990 | (1,922) | — | 399,811 |
| Nonoperating Income (Expense): | | | | | |
| Undistributed net income of subsidiaries | 235,353 | — | — | (235,353) | — |
| Interest expense and amortization of debt discounts and issuance costs | 117 | (28,570) | — | — | (28,453) |
| Other components of net periodic pension cost | — | (15,218) | — | — | (15,218) |
| Interest income | 195 | 2,849 | — | — | 3,044 |
| Capitalized interest | — | 1,407 | — | — | 1,407 |
| Gains on fuel derivatives | — | 15,421 | — | — | 15,421 |
| Loss on extinguishment of debt | — | (9,993) | — | — | (9,993) |
| Other, net | — | 9,884 | — | — | 9,884 |
| Total | 235,665 | (24,220) | — | (235,353) | (23,908) |
| Income (Loss) Before Income Taxes | 231,408 | 381,770 | (1,922) | (235,353) | 375,903 |
| Income tax expense (benefit) | (2,082) | 144,495 | — | — | 142,413 |
| Net Income (Loss) | \$233,490 | \$237,275 | \$ (1,922) | \$(235,353) | \$233,490 |
| Comprehensive Income (Loss) | \$220,209 | \$223,994 | \$ (1,922) | \$(222,072) | \$220,209 |

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

Condensed Consolidating Balance Sheets
September 30, 2017

| | Parent Issuer/ Guarantor | Subsidiary Issuer / Guarantor | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|-----------------------------|-------------------------------------|-------------------------------|----------------------|---------------------|
| | (in thousands) | | | | |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$63,745 | \$279,055 | \$ 5,249 | \$— | \$ 348,049 |
| Restricted cash | — | 1,000 | — | — | 1,000 |
| Short-term investments | — | 270,697 | — | — | 270,697 |
| Accounts receivable, net | 29 | 117,103 | 1,687 | (197) | 118,622 |
| Spare parts and supplies, net | — | 26,560 | — | — | 26,560 |
| Prepaid expenses and other | 145 | 56,409 | 229 | — | 56,783 |
| Total | 63,919 | 750,824 | 7,165 | (197) | 821,711 |
| Property and equipment at cost | — | 2,214,015 | 73,895 | — | 2,287,910 |
| Less accumulated depreciation and amortization | — | (523,089) | (10,875) | — | (533,964) |
| Property and equipment, net | — | 1,690,926 | 63,020 | — | 1,753,946 |
| Long-term prepayments and other | — | 124,874 | 52 | — | 124,926 |
| Deferred tax assets, net | 31,271 | — | — | (31,271) | — |
| Goodwill and other intangible assets, net | — | 120,839 | 1,271 | — | 122,110 |
| Intercompany receivable | — | 342,113 | — | (342,113) | — |
| Investment in consolidated subsidiaries | 1,077,365 | — | — | (1,077,365) | — |
| TOTAL ASSETS | \$1,172,555 | \$3,029,576 | \$ 71,508 | \$(1,450,946) | \$ 2,822,693 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$703 | \$117,454 | \$ 850 | \$(197) | \$ 118,810 |
| Air traffic liability | — | 569,638 | 3,735 | — | 573,373 |
| Other accrued liabilities | 131 | 157,383 | 246 | — | 157,760 |
| Current maturities of long-term debt, less discount, and capital lease obligations | — | 58,585 | — | — | 58,585 |
| Total | 834 | 903,060 | 4,831 | (197) | 908,528 |
| Long-term debt and capital lease obligations | — | 447,533 | — | — | 447,533 |
| Intercompany payable | 330,930 | — | 11,183 | (342,113) | — |
| Other liabilities and deferred credits: | | | | | =sum(C32:I32) |
| Accumulated pension and other post-retirement benefit obligations | — | 234,206 | — | — | 234,206 |
| Other liabilities and deferred credits | — | 171,937 | 855 | — | 172,792 |
| Deferred tax liabilities, net | — | 250,114 | — | (31,271) | 218,843 |
| Total | — | 656,257 | 855 | (31,271) | 625,841 |
| Shareholders' equity | 840,791 | 1,022,726 | 54,639 | (1,077,365) | 840,791 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$1,172,555 | \$3,029,576 | \$ 71,508 | \$(1,450,946) | \$ 2,822,693 |

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

Condensed Consolidating Balance Sheets
December 31, 2016

| | Parent Issuer / Guarantor | Subsidiary Issuer / Guarantor | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|------------------------------|-------------------------------------|-------------------------------|----------------------|--------------------|
| | (in thousands) | | | | |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$67,629 | \$249,985 | \$ 8,377 | \$— | \$ 325,991 |
| Restricted cash | — | 5,000 | — | — | 5,000 |
| Short-term investments | — | 284,075 | — | — | 284,075 |
| Accounts receivable, net | 28 | 94,852 | 1,392 | (205) | 96,067 |
| Spare parts and supplies, net | — | 20,363 | — | — | 20,363 |
| Prepaid expenses and other | 29 | 66,665 | 46 | — | 66,740 |
| Total | 67,686 | 720,940 | 9,815 | (205) | 798,236 |
| Property and equipment at cost | — | 2,038,931 | 69,867 | — | 2,108,798 |
| Less accumulated depreciation and amortization | — | (445,868) | (8,363) | — | (454,231) |
| Property and equipment, net | — | 1,593,063 | 61,504 | — | 1,654,567 |
| Long-term prepayments and other | — | 132,724 | — | — | 132,724 |
| Deferred tax assets, net | 28,757 | — | — | (28,757) | — |
| Goodwill and other intangible assets, net | — | 121,456 | 1,618 | — | 123,074 |
| Intercompany receivable | — | 277,732 | — | (277,732) | — |
| Investment in consolidated subsidiaries | 855,289 | — | — | (855,289) | — |
| TOTAL ASSETS | \$951,732 | \$2,845,915 | \$ 72,937 | \$(1,161,983) | \$2,708,601 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$492 | \$114,935 | \$ 1,285 | \$(205) | \$ 116,507 |
| Air traffic liability | — | 478,109 | 4,387 | — | 482,496 |
| Other accrued liabilities | 4,088 | 167,864 | 262 | — | 172,214 |
| Current maturities of long-term debt, less discount, and capital lease obligations | — | 58,899 | — | — | 58,899 |
| Total | 4,580 | 819,807 | 5,934 | (205) | 830,116 |
| Long-term debt and capital lease obligations | — | 497,908 | — | — | 497,908 |
| Intercompany payable | 266,699 | — | 11,033 | (277,732) | — |
| Other liabilities and deferred credits: | | | | | 0 |
| Accumulated pension and other post-retirement benefit obligations | — | 355,968 | — | — | 355,968 |
| Other liabilities and deferred credits | — | 172,783 | 830 | — | 173,613 |
| Deferred tax liabilities, net | — | 199,300 | — | (28,757) | 170,543 |
| Total | — | 728,051 | 830 | (28,757) | 700,124 |
| Shareholders' equity | 680,453 | 800,149 | 55,140 | (855,289) | 680,453 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$951,732 | \$2,845,915 | \$ 72,937 | \$(1,161,983) | \$2,708,601 |

Condensed Consolidating Statements of Cash Flows
 Nine months ended September 30, 2017

| | Parent Issuer / Guarantor | Subsidiary Issuer / Guarantor | Non- Guarantor Subsidiaries | Elimination | Consolidated |
|--|------------------------------|-------------------------------------|-----------------------------------|-------------|--------------|
| | (in thousands) | | | | |
| Net Cash Provided By (Used In) Operating Activities | \$(3,491) | \$300,820 | \$ (1,852) | \$ — | \$ 295,477 |
| Cash Flows From Investing Activities: | | | | | |
| Net payments to affiliates | (2,500) | (52,507) | — | 55,007 | — |
| Additions to property and equipment, including pre-delivery deposits | — | (208,759) | (3,776) | — | (212,535) |
| Proceeds from disposition of property and equipment | — | 33,511 | — | — | 33,511 |
| Purchases of investments | — | (171,485) | — | — | (171,485) |
| Sales of investments | — | 183,930 | — | — | 183,930 |
| Net cash used in investing activities | (2,500) | (215,310) | (3,776) | 55,007 | (166,579) |
| Cash Flows From Financing Activities: | | | | | |
| Repayments of long-term debt and capital lease obligations | — | (52,463) | — | — | (52,463) |
| Net payments from affiliates | 52,507 | — | 2,500 | (55,007) | — |
| Repurchases of common stock | (50,486) | — | — | — | (50,486) |
| Other | 86 | (7,977) | — | — | (7,891) |
| Net cash provided by (used in) financing activities | 2,107 | (60,440) | 2,500 | (55,007) | (110,840) |
| Net increase (decrease) in cash and cash equivalents | (3,884) | 25,070 | (3,128) | — | 18,058 |
| Cash, cash equivalents, & restricted cash - Beginning of Period | 67,629 | 254,985 | 8,377 | — | 330,991 |
| Cash, cash equivalents, & restricted cash - End of Period | \$63,745 | \$280,055 | \$ 5,249 | \$ — | \$ 349,049 |

Condensed Consolidating Statements of Cash Flows
 Nine months ended September 30, 2016

| | Parent Issuer / Guarantor | Subsidiary Issuer / Guarantor | Non- Guarantor Subsidiaries | Elimination | Consolidated |
|--|------------------------------|-------------------------------------|-----------------------------------|-------------|--------------|
| | (in thousands) | | | | |
| Net Cash Provided By (Used In) Operating Activities | \$(4,036) | \$438,596 | \$ 362 | \$ — | \$ 434,922 |
| Cash Flows From Investing Activities: | | | | | |
| Net payments to affiliates | — | (27,796) | — | 27,796 | — |
| Additions to property and equipment, including pre-delivery deposits | — | (92,185) | (12,065) | — | (104,250) |
| Proceeds from purchase assignment and leaseback transaction | — | 31,851 | — | — | 31,851 |
| Purchases of investments | — | (217,964) | — | — | (217,964) |
| Sales of investments | — | 208,075 | — | — | 208,075 |
| Net cash used in investing activities | — | (98,019) | (12,065) | 27,796 | (82,288) |
| Cash Flows From Financing Activities: | | | | | |
| Repayments of long-term debt and capital lease obligations | — | (205,532) | — | — | (205,532) |
| Repurchase of convertible notes | (1,426) | — | — | — | (1,426) |
| Net payments from affiliates | 16,763 | — | 11,033 | (27,796) | — |
| Repurchases of Common Stock | (13,763) | — | — | — | (13,763) |
| Other | 423 | (8,125) | — | — | (7,702) |
| Net cash provided by (used in) financing activities | 1,997 | (213,657) | 11,033 | (27,796) | (228,423) |
| Net increase (decrease) in cash and cash equivalents | (2,039) | 126,920 | (670) | — | 124,211 |
| Cash, cash equivalents, & restricted cash - Beginning of Period | 69,420 | 208,406 | 8,676 | — | 286,502 |
| Cash, cash equivalents, & restricted cash - End of Period | \$67,381 | \$335,326 | \$ 8,006 | \$ — | \$ 410,713 |

Income Taxes

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

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 that reflect our current views with respect to certain current and future events and financial performance. Such forward-looking statements include, without limitation, statements regarding: our expectations regarding our financial performance, available seat miles, operating revenue per available seat mile and operating cost per available seat mile for the fourth quarter of 2017; our expected fleet as of September 30, 2018; estimates of annual fuel expenses and measure of the effects of fuel prices on our business; the availability of financing; changes in our fleet plan and related cash outlays; committed capital expenditures; expected cash payments related to our post-retirement plan obligations; estimated financial charges; expected delivery of new aircraft; the impact of accounting standards on our financial statements; the effects of any litigation on our operations or business; the effects of our fuel and currency risk hedging policies; the fair value and expected maturity of our debt obligations; our estimated contractual obligations; and other matters that do not relate strictly to historical facts or statements of assumptions underlying any of the foregoing. Words such as "expects," "anticipates," "projects," "intends," "plans," "believes," "estimates," "could," "may," variations of such words, and similar expressions are also intended to identify such forward-looking statements. These forward-looking statements are and will be, as the case may be, subject to many risks, uncertainties and assumptions relating to our operations and business environment, all of which may cause our actual results to be materially different from any future results, expressed or implied, in these forward-looking statements.

Factors that could affect such forward-looking statements include, but are not limited to: our ability to accurately forecast quarterly and annual results; global economic volatility; macroeconomic developments; political developments; our dependence on the tourism industry; the price and availability of fuel; foreign currency exchange rate fluctuations; our competitive environment; including the potential impact of rising industry capacity between North America and Hawai'i; fluctuations in demand for transportation in the markets in which we operate; maintenance of privacy and security of customer-related information and compliance with applicable federal and foreign privacy or data security regulations or standards; our dependence on technology and automated systems; our reliance on third-party contractors; satisfactory labor relations; our ability to attract and retain qualified personnel and key executives; successful implementation of growth strategy and cost reduction goals; adverse publicity; risks related to the airline industry; our ability to obtain and maintain adequate facilities and infrastructure; seasonal and cyclical volatility; the effect of applicable state, federal and foreign laws and regulations; increases in insurance costs or reductions in coverage; the limited number of suppliers for aircraft, aircraft engines and parts; our existing aircraft purchase agreements; delays in aircraft deliveries or other loss of fleet capacity; fluctuations in our share price; and our financial liquidity. The risks, uncertainties, and assumptions referred to above that could cause our results to differ materially from the results expressed or implied by such forward-looking statements also include the risks, uncertainties, and assumptions discussed from time to time in our public filings and public announcements, including, but not limited to, our risk factors set out in the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. All forward-looking statements included in this Report are based on information available to us as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this quarterly report. The following discussion and analysis should be read in conjunction with our unaudited Consolidated Financial Statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

Our Business

We are engaged in the scheduled air transportation of passengers and cargo amongst the Hawaiian Islands (the “Neighbor Island” routes), between the Hawaiian Islands and certain cities in the U.S. mainland (the “North America” routes and collectively with the Neighbor Island routes, referred to as our “Domestic” routes), and between the Hawaiian Islands and the South Pacific, Australia, and Asia (the “International” routes), collectively referred to as our “Scheduled Operations.” In addition, we operate various charter flights. We are the largest airline headquartered in the State of Hawai‘i and the tenth largest domestic airline in the United States based on revenue passenger miles reported by the Research and Innovative Technology Administration Bureau of Transportation Statistics for the month of July 2017, the latest available data. As of September 30, 2017, we had 6,491 active employees.

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

Financial Highlights

GAAP net income in the third quarter of \$74.6 million, or \$1.39 per diluted share.

Adjusted net income in the third quarter of \$102.6 million, or \$1.92 per diluted share.

Unrestricted cash and cash equivalents and short-term investments of \$618.7 million.

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

Outlook

We expect our revenue performance to remain consistent in the fourth quarter of 2017 compared to the prior year period. We expect available seat miles during the quarter ending December 31, 2017 to increase by 4.0% to 6.0% from the prior year period, while we expect operating revenue per available seat mile to range from down 1.0% to up 2.0% from the prior year period. We expect operating cost per available seat mile, during the quarter ending December 31, 2017 to decrease by 10.3% to 13.5% from the prior year period, due to an expected decrease in special charges for the quarter ending December 31, 2017, compared to the prior year period.

Fleet Summary

The table below summarizes our total fleet as of September 30, 2016 and 2017, and expected fleet as of September 30, 2018 (based on existing agreements):

| Aircraft Type | September 30, 2016 | | | September 30, 2017 | | | September 30, 2018 | | |
|-------------------|--------------------|-----------|-------|--------------------|-----------|-------|--------------------|-----------|-------|
| | Leased (2) | Owned (1) | Total | Leased (2) | Owned (1) | Total | Leased (2) | Owned (1) | Total |
| A330-200 | 11 | 12 | 23 | 11 | 13 | 24 | 11 | 13 | 24 |
| 767-300 | 4 | 4 | 8 | 7 | 1 | 8 | 7 | — | 7 |
| 717-200 | 3 | 15 | 18 | 5 | 15 | 20 | 5 | 15 | 20 |
| ATR turboprop (1) | — | 6 | 6 | — | 6 | 6 | — | 7 | 7 |
| A321neo | — | — | — | — | — | — | 2 | 8 | 10 |
| Total | 18 | 37 | 55 | 23 | 35 | 58 | 25 | 43 | 68 |

(1) The ATR turboprop aircraft are owned by Airline Contract Maintenance & Equipment, Inc., a wholly-owned subsidiary of the Company.

(2) Leased aircraft include aircraft under both capital and operating leases.

Results of Operations

For the three months ended September 30, 2017, we generated net income of \$74.6 million, or \$1.39 per diluted share, compared to net income of \$102.5 million, or \$1.91 per diluted share, for the same period in 2016. For the nine months ended September 30, 2017, we generated net income of \$191.9 million, or \$3.57 per diluted share, compared to net income of \$233.5 million, or \$4.35 per diluted share, for the same period in 2016.

Selected Consolidated Statistical Data (unaudited)

| | Three months ended | | Nine months ended | |
|---|---|-----------|-----------------------|------------|
| | September 30, 2017 | 2016 | September 30, 2017 | 2016 |
| | (in thousands, except as otherwise indicated) | | | |
| Scheduled Operations (a) : | | | | |
| Revenue passengers flown | 3,000 | 2,916 | 8,588 | 8,317 |
| Revenue passenger miles (RPM) | 4,290,499 | 4,166,487 | 12,187,344 | 11,554,522 |
| Available seat miles (ASM) | 4,946,678 | 4,887,608 | 14,203,112 | 13,805,563 |
| Passenger revenue per RPM (Yield) | 14.79 ¢ | 14.20 ¢ | 14.48 ¢ | 13.78 ¢ |
| Passenger load factor (RPM/ASM) | 86.7 % | 85.2 % | 85.8 % | 83.7 % |
| Passenger revenue per ASM (PRASM) | 12.83 ¢ | 12.10 ¢ | 12.43 ¢ | 11.53 ¢ |
| Total Operations (a) : | | | | |
| Revenue passengers flown | 3,001 | 2,918 | 8,592 | 8,321 |
| RPM | 4,293,095 | 4,170,671 | 12,190,846 | 11,559,795 |
| ASM | 4,950,800 | 4,894,768 | 14,208,642 | 13,813,955 |
| Operating revenue per ASM (RASM) | 14.53 ¢ | 13.73 ¢ | 14.14 ¢ | 13.16 ¢ |
| Operating cost per ASM (CASM) | 11.02 ¢ | 10.07 ¢ | 11.44 ¢ | 10.26 ¢ |
| CASM excluding aircraft fuel and special items (b) | 8.80 ¢ | 8.13 ¢ | 9.04 ¢ | 8.46 ¢ |
| Aircraft fuel expense per ASM (c) | 2.22 ¢ | 1.94 ¢ | 2.23 ¢ | 1.80 ¢ |
| Revenue block hours operated | 49,384 | 47,534 | 141,955 | 134,627 |
| Gallons of aircraft fuel consumed | 67,160 | 64,918 | 193,404 | 182,471 |
| Average cost per gallon of aircraft fuel (actual) (c) | \$ 1.64 | \$ 1.46 | \$ 1.64 | \$ 1.36 |

(a) Includes the operations of our contract carrier under a capacity purchase agreement.

(b) Represents adjusted unit costs, a non-GAAP measure. We believe this is a useful measure because it better reflects our controllable costs. See "Non-GAAP Financial Measures" below for a reconciliation of non-GAAP measures.

(c) Includes applicable taxes and fees.

Operating Revenue

During the three and nine months ended September 30, 2017, operating revenue increased by \$47.7 million, or 7.1%, and \$191.5 million or 10.5%, respectively, as compared to the prior year periods, driven by increased passenger revenue.

Passenger revenue

For the three and nine months ended September 30, 2017, passenger revenue increased by \$42.9 million, or 7.3%, and \$173.2 million or 10.9%, respectively, as compared to the prior year periods. Details of these changes are described in the table below:

| Three months ended September 30, 2017 as compared to three months ended September 30, 2016 | | | | Nine months ended September 30, 2017 as compared to nine months ended September 30, 2016 | | | |
|---|-----------------------|---------------------|---------------------|---|-----------------------|---------------------|---------------------|
| Change in scheduled passenger | Change in Yield | Change in RPM | Change in ASM | Change in scheduled passenger | Change in Yield | Change in RPM | Change in ASM |

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

| | revenue (in millions) | | | | revenue (in millions) | | | | | | | | | |
|-----------------|-----------------------------|-----|---|--------|-----------------------------|--------|-----|---------|--------|--------|-----|---|-----|---|
| Domestic | \$11.1 | 4.3 | % | (1.7)% | (2.7)% | \$63.8 | 6.9 | % | (1.6)% | (4.1)% | | | | |
| International | 31.8 | 7.8 | | 14.2 | 9.7 | 109.4 | 7.2 | | 23.3 | 18.7 | | | | |
| Total scheduled | \$42.9 | 4.2 | % | 3.0 | % | 1.2 | % | \$173.2 | 5.1 | % | 5.5 | % | 2.9 | % |

30

Domestic

For the three and nine months period ended September 30, 2017, revenue on our domestic routes increased by \$11.1 million, or 2.5%, and \$63.8 million, or 5.1%, respectively, as compared to the prior year periods. The increase was due to improved yields within our North America routes of approximately 4.3% and 6.9% for the three and nine month periods ended September 30, 2017, respectively as compared to the prior year periods.

International

For the three and nine months period ended September 30, 2017, revenue on our international routes increased by \$31.8 million, or 23.1%, and \$109.4 million, or 32.2%, respectively, as compared to the prior year periods. The increase was due to improved yields within our international routes of approximately 7.8% and 7.2% for the three and nine month periods ended September 30, 2017, respectively as compared to the prior year periods. Another contributing factor for the increased revenue (period over period) was our expanded Hawai'i to Tokyo, Japan service. This included the introduction of service from Honolulu to Narita, Japan (July 2016), Kona to Tokyo Haneda Airport (December 2016), and expansion of existing Honolulu to Haneda service (December 2016).

Other operating revenue

For the three and nine months ended September 30, 2017, other operating revenue increased by \$4.7 million or 5.9%, and \$18.3 million, or 8.1%, respectively, as compared to the prior year periods. The increase was primarily due to an increase in cargo revenue during the respective periods of approximately 26.4% and 27.7% offset by a reduction in baggage revenue of approximately 3.7% and 3.2% for the three and nine months ended September 30, 2017, respectively.

The new revenue standard ASC 606, once effective, will affect our accounting policies and processes (including systems) regarding frequent flyer revenue, passenger revenue, other operating revenue, and selling costs. The adoption of the standard will have a significant impact on our financial statements. See Note 2 to the Consolidated Financial Statements for additional information.

Operating Expense

Operating expenses were \$545.8 million and \$1,625.5 million for the three and nine months ended September 30, 2017, respectively, and \$492.9 million and \$1,417.8 million for the three and nine months ended September 30, 2016, respectively. Increases (decreases) in operating expenses for the three and nine months ended September 30, 2017 as compared to the prior year periods are detailed below:

| | Increase / (decrease) for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 | Increase / (decrease) for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 |
|--------------------|---|---|
| | \$ % | \$ % |
| | (in thousands) | (in thousands) |
| Operating expenses | | |

Edgar Filing: HAWAIIAN HOLDINGS INC - Form 10-Q

| | | | | |
|---|----------|--------|-----------|--------|
| Wages and benefits | \$24,703 | 18.1 % | \$71,054 | 18.0 % |
| Aircraft fuel, including taxes and delivery | 15,293 | 16.1 | 67,907 | 27.3 |
| Maintenance, materials and repairs | (2,416) | (4.7) | (5,535) | (3.3) |
| Aircraft and passenger servicing | 2,389 | 7.0 | 11,324 | 12.1 |
| Commissions and other selling | 3,450 | 11.7 | 4,732 | 5.0 |
| Aircraft rent | 2,304 | 7.0 | 10,538 | 11.4 |
| Other rentals and landing fees | 2,063 | 7.1 | 8,425 | 10.8 |
| Depreciation and amortization | 952 | 3.5 | 2,158 | 2.6 |
| Purchased services | (878) | (3.4) | 6,539 | 9.0 |
| Special items | — | — | 23,450 | 100.0 |
| Other | 5,020 | 15.9 | 7,097 | 7.5 |
| Total | \$52,880 | 10.7 % | \$207,689 | 14.6 % |

31

Wages and benefits

Wages and benefits expense for the third quarter increased by \$24.7 million or 18.1%, and \$71.1 million or 18.0% for the three and nine months ended September 30, 2017, respectively. The increase was primarily due to the recent signing of the Air Line Pilots Association (ALPA) contract amendment effective April 1, 2017 as well as an increase in employee benefits (such as health insurance) expenses. We have also increased the number of flight crew personnel and training to prepare for the induction of our A321neo fleet, resulting in higher wages and benefits expense, in addition to an overall increase in employee headcount by approximately 6.8% as compared to September 30, 2016 which includes flight attendants, machinist, and non-contract employees.

Aircraft fuel

Aircraft fuel expense increased during the three and nine months ended September 30, 2017, as compared to the prior year periods, primarily due to the increase in the average fuel price per gallon and an increase in consumption as illustrated in the following table:

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|---|---|----------|-------------|---|-----------|-------------|
| | 2017 | 2016 | % Change | 2017 | 2016 | % Change |
| | (in thousands, except per-gallon amounts) | | | (in thousands, except per-gallon amounts) | | |
| Aircraft fuel expense, including taxes and delivery | \$110,111 | \$94,818 | 16.1 % | \$316,423 | \$248,516 | 27.3 % |
| Fuel gallons consumed | 67,160 | 64,918 | 3.5 % | 193,404 | 182,471 | 6.0 % |
| Average fuel price per gallon, including taxes and delivery | \$1.64 | \$1.46 | 12.3 % | \$1.64 | \$1.36 | 20.6 % |

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

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|--|---|----------|-------------|---|-----------|-------------|
| | 2017 | 2016 | % Change | 2017 | 2016 | % Change |
| | (in thousands, except per-gallon amounts) | | | (in thousands, except per-gallon amounts) | | |
| Aircraft fuel expense, including taxes and delivery | \$110,111 | \$94,818 | 16.1 % | \$316,423 | \$248,516 | 27.3 % |
| Realized losses on settlement of fuel derivative contracts | 2,787 | 2,525 | 10.4 % | 2,100 | 30,349 | (93.1) % |
| Economic fuel expense | \$112,898 | \$97,343 | 16.0 % | \$318,523 | \$278,865 | 14.2 % |
| Fuel gallons consumed | 67,160 | 64,918 | 3.5 % | 193,404 | 182,471 | 6.0 % |
| Economic fuel costs per gallon | \$1.68 | \$1.50 | 12.0 % | \$1.65 | \$1.53 | 7.8 % |

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

Aircraft and passenger servicing

Aircraft and passenger servicing increased by \$2.4 million, or 7.0%, and \$11.3 million, or 12.1%, for the three and nine months ended September 30, 2017, respectively, as compared to the prior year periods. The increase was a direct result of our higher passenger counts, which resulted in an increase in various aircraft and passenger servicing expenses such as our food and beverage and ground handling costs.

Commissions and other selling

Commission and other selling increased by \$3.5 million, or 11.7%, and \$4.7 million, or 5.0%, for the three and nine months ended September 30, 2017, respectively, as compared to the prior year periods. The increase was primarily due to increases in credit card fees and advertising and promotion expenses.

Aircraft rent

Aircraft rent increased by \$2.3 million, or 7.0%, and \$10.5 million, or 11.4%, for the three and nine months ended September 30, 2017, respectively, as compared to the prior year periods. The increase was primarily due to a sale leaseback transaction for three Boeing 767-300 aircraft in April 2017, the addition of two leased Boeing 717-200 aircraft, and an Airbus A330-200 aircraft.

Other rentals and landing fees

Other rentals and landing fees increased by \$2.1 million, or 7.1%, and \$8.4 million, or 10.8%, for the three and nine months ended September 30, 2017, respectively, as compared to the prior year periods. The increase was primarily due to increases in landing fee rates, landing frequencies, and airport rental fees.

Purchased services

Purchased services decreased by \$0.9 million, or 3.4%, and increased by \$6.5 million, or 9.0%, for the three and nine months ended September 30, 2017, respectively, as compared to the prior year periods. The increase was primarily due to an increase in third-party vendor IT services during the nine month period ended September 30, 2017.

Special items

Below is a summary of our special item charges for the three and nine months ended September 30, 2017:

| | Three months ended September 30, 2016 | Nine months ended September 30, 2017 | 2016 |
|------------------------------|--|---|------|
| | (in thousands) | | |
| Loss on sale of aircraft | \$— | \$4,771 | \$— |
| Collective bargaining charge | — | 18,679 | — |
| Total Special items | \$— | \$23,450 | \$— |

In March 2017, we announced the ratification of a 63-month contract amendment with our pilots as represented by the ALPA. The agreement became effective April 1, 2017 and has a term of 63 months. The agreement includes, among other various benefits, a pay adjustment and ratification bonus computed based on previous service. During the first two quarters of 2017, we expensed \$18.7 million related to (1) a one-time payment to reduce the future 401K employer contribution for certain pilot groups, which is not recoverable once paid and (2) a one-time true-up of the pilot vacation accrual at the revised rates set forth in the agreement.

In April 2017, we executed a sale leaseback transaction with an independent third-party for three Boeing 767-300 aircraft. The lease terms for the three aircraft commenced in April 2017 and continue through November 2018, December 2018, and January 2019, respectively. During the nine months ended September 30, 2017, we recorded a

loss on sale of aircraft of \$4.8 million.

Nonoperating Income (Expense)

Net nonoperating expense increased by \$39.4 million, or 266.9% and \$59.2 million, or 247.6%, for the three and nine months ended September 30, 2017, as compared to the prior year periods. The increase was primarily due to a partial settlement and curtailment loss as well as a loss on plan termination, recorded in Other nonoperating special items in the period.

In 2016, the Hawaiian Airlines, Inc. Pension Plan for Salaried Employees (the Salaried Plan) was consolidated into the Hawaiian Airlines, Inc. Pension Plan for Employees Represented by the International Association of Machinists (IAM), which established the Hawaiian Airlines, Inc. Salaried & IAM Merged Pension Plan (the Merged Plan). At that time, the net liabilities of the Salaried Plan were transferred to the Merged Plan. In August 2017, we completed the termination of the Merged Plan by

transferring the assets and liabilities to a third-party insurance company. We contributed a total of \$18.5 million in cash to fully fund the plan and recognized a one-time financial loss of \$35.2 million as an other nonoperating special item on our Consolidated Statement of Operations.

During the three-months ended September 30, 2017, we recognized a one-time settlement loss of \$15.0 million related to the settlement of a portion of our pilots' other post-retirement medical plan liability, pursuant to which the parties agreed to eliminate the post-65 post-retirement medical benefit for all active pilots and to replace the benefit with a health retirement account (HRA) managed by ALPA. This transaction represented a curtailment and partial settlement of the pilots' other post-retirement benefit plan. In August 2017, we made a one-time cash payment of approximately \$101.9 million to fund the HRA and settle the post-65 post-retirement medical plan obligation. The cash contributed was distributed to the trust funding the individual health retirement notional accounts of the participants.

| | Three months ended September 30, 2017 | | Nine months ended September 30, 2016 | |
|---|---|------|--|------|
| | 2017 | 2016 | 2017 | 2016 |
| | (in thousands) | | | |
| Partial settlement and curtailment loss | \$ 15,001 | \$ — | -\$ 15,001 | \$ — |
| Loss on plan termination | 35,201 | — | 35,201 | — |
| Total special items | \$ 50,202 | \$ — | -\$ 50,202 | \$ — |

Also, during the three-months ended September 30, 2017, there was a fluctuation in gains/losses of fuel derivatives of \$6.9 million and an increase in capitalized interest of \$1.7 million.

During the nine-months ended September 30, 2017, net nonoperating expense increased by \$59.2 million, or 247.6%, as compared to the prior year period. The increase was primarily due to the nonoperating special items as described above as well as a period over period fluctuation in gains/losses of fuel derivatives of \$25.6 million partially offset by a \$10.0 million fluctuation in losses related to extinguishment of debt.

Income Taxes

Our effective tax rate was 37.7% and 37.6% for the three months ended September 30, 2017 and 2016, respectively, and 36.1% and 37.9% for the nine months ended September 30, 2017 and 2016, respectively. We consider a variety of factors in determining our effective tax rate, including our forecasted full-year pretax results, the U.S. federal statutory rate, expected nondeductible expenses, and estimated state taxes.

Liquidity and Capital Resources

Our liquidity is dependent on the cash we generate from operating activities and our debt financing arrangements. As of September 30, 2017, we had \$348.0 million in cash and cash equivalents and \$270.7 million in short-term investments, an increase of \$8.7 million from December 31, 2016.

We have been able to generate sufficient funds from our operations to meet our working capital requirements and periodically finance our aircraft through secured debt and lease financings. At September 30, 2017, we had approximately \$506.1 million of debt and capital lease obligations, including approximately \$58.6 million classified as a current liability in our unaudited Consolidated Balance Sheets. See the Contractual Obligations table below for a description of our estimated contractual obligations as of September 30, 2017.

We also have access to a secured revolving credit and letter of credit facility in an amount of up to \$225 million, maturing in December 2019. As of September 30, 2017, we had no outstanding borrowings under the revolving credit facility.

Cash Flows

Net cash provided by operating activities was \$295.5 million and \$434.9 million for the nine months ended September 30, 2017 and 2016, respectively. The decrease was primarily due to a reduction in net income as well as cash expenditures during the period relating to the terminated Merged Plan and partial settlement of our pilots' other post-retirement medical plan (as discussed in Note 10).

Net cash used in investing activities was \$166.6 million for the nine months ended September 30, 2017 due to purchases of property and equipment, and pre-delivery payments for future aircraft deliveries, partially offset by a net cash inflow related to investment activity.

Net cash used in financing activities was \$110.8 million for the nine months ended September 30, 2017, primarily due to the repurchases of our common stock in the period along with repayments of the Company's long-term debt and lease obligations.

Capital Commitments

As of September 30, 2017, we had the following capital commitments consisting of firm aircraft and engine orders and purchase rights:

| Aircraft Type | Firm Orders | Purchase Rights | Expected Delivery Dates |
|--------------------------------|-------------|-----------------|-------------------------|
| A321neo aircraft | 16 | 9 | Between 2017 and 2020 |
| A330-800neo aircraft | 6 | 6 | Between 2019 and 2021 |
| Pratt & Whitney spare engines: | | | |
| A321neo spare engines | 3 | 2 | Between 2017 and 2019 |
| Rolls-Royce spare engines: | | | |
| A330-800neo spare engines | 2 | 2 | Between 2019 and 2026 |

Committed expenditures for these aircraft, engines and related flight equipment approximates \$115 million for the remainder of 2017, \$455 million in 2018, \$501 million in 2019, \$242 million in 2020, \$170 million in 2021 and \$132 million thereafter.

In order to complete the purchase of these aircraft and fund related costs, we may need to secure acceptable financing. We have backstop financing available from aircraft and engine manufacturers, subject to certain customary conditions. We are also currently exploring various financing alternatives, and while we believe that such financing will be available to us, there can be no assurance that financing will be available when required, or on acceptable terms, or at all. The inability to secure such financing could have an impact on our ability to fulfill our existing purchase commitments and a material adverse effect on our operations.

Stock Repurchase Program and Dividends

In April 2017, our Board of Directors approved a modification to our stock repurchase program under which we may repurchase up to \$100 million of our outstanding common stock. The stock repurchase program is subject to further modification or termination at any time.

We spent \$46.2 million and \$50.5 million to repurchase and retire approximately 1.1 million shares and 1.2 million shares of our common stock in open market transactions during the three and nine months ended September 30, 2017, respectively. As of September 30, 2017, we had \$49.5 million remaining to spend under the stock repurchase program. See Part II, Item 2, "Unregistered Sales of Equity Securities and Use of Proceeds" of this report for additional information on the stock repurchase program.

In October 2017, we announced that our Board of Directors declared a quarterly cash dividend of \$0.12 per share payable on November 30, 2017, to stockholders of record as of November 17, 2017.

Credit Card Holdbacks

Under our bank-issued credit card processing agreements, certain proceeds from advance ticket sales may be held back to serve as collateral to cover any possible chargebacks or other disputed charges that may occur. These holdbacks, which are included in restricted cash in our unaudited Consolidated Balance Sheets set forth in our unaudited Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q, totaled \$1.0 million and \$5.0 million as of September 30, 2017 and December 31, 2016, respectively.

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

Pension and Postemployment Benefit Plan Funding

We contributed \$14.2 million and \$28.6 million (excluding the one-time special charge transactions discussed in this Part I. Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Nonoperating Income (Expense)") to our defined benefit and other post-retirement plans during the three and nine months ended September 30, 2017, respectively. Future funding requirements for our defined benefit plans are dependent upon many factors such as interest rates, funded status, applicable regulatory requirements and the level and timing of asset returns. See the discussion in this Part I. Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Nonoperating Income (Expense)" concerning special charges for a description of one-time cash payments made into the Merged Plan and our pilots' other post-retirement medical plan which are not included in the amounts above.

Contractual Obligations

Our estimated contractual obligations as of September 30, 2017 are summarized in the following table:

| Contractual Obligations | Total | Remaining in 2017 | 2018 - 2019 | 2020 - 2021 | 2022 and thereafter |
|---|----------------|----------------------|--------------|-------------|------------------------|
| | (in thousands) | | | | |
| Debt and capital lease obligations (1) | \$625,737 | \$ 11,882 | \$ 192,341 | \$ 119,008 | \$302,506 |
| Operating leases—aircraft and related equipment (2) | 661,964 | 31,984 | 245,306 | 162,447 | 222,227 |
| Operating leases—non-aircraft | 137,112 | 1,643 | 14,250 | 13,459 | 107,760 |
| Purchase commitments - Capital (3) | 1,614,967 | 114,916 | 955,659 | 412,558 | 131,834 |
| Purchase commitments - Operating (4) | 672,248 | 23,089 | 133,470 | 115,259 | 400,430 |
| Projected employee benefit contributions (5) | 30,710 | 1,510 | 29,200 | — | — |
| Total contractual obligations | \$3,742,738 | \$ 185,024 | \$ 1,570,226 | \$ 822,731 | \$ 1,164,757 |

(1) Amounts reflect capital lease obligations for one Airbus A330-200 aircraft, two Boeing 717-200 aircraft, one A330 flight simulator, and aircraft and IT related equipment.

(2) Amounts reflect leases for ten Airbus A330-200 aircraft, seven Boeing 767-300 aircraft, and three Boeing 717-200 aircraft.

(3) Amounts include our firm commitments for aircraft and aircraft related equipment.

(4) Amounts include commitments for services provided by third-parties for aircraft maintenance for our Airbus fleet, accounting, IT, capacity purchases, and the estimated rental payments for a cargo and maintenance hangar. Total contractual obligations do not include long-term contracts where the commitment is variable in nature (with no minimum guarantee), such as aircraft maintenance deposits due under operating leases and fees due under certain other agreements such as aircraft maintenance power-by-the-hour, computer reservation systems and credit card processing agreements, or when the agreements contain short-term cancellation provisions.

(5) Amounts include our estimated minimum contributions to our pension plans (based on actuarially determined estimates) and contributions to our pilots' disability plan. Amounts are subject to change based on numerous factors, including interest rate levels, the amount and timing of asset returns and the impact of future legislation. We are currently unable to estimate the projected contributions beyond 2019.

Non-GAAP Financial Measures

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

- We believe it is the basis by which we are evaluated by industry analysts and investors;
- These measures are often used in management and board of directors decision making analysis;
 - It improves a reader's ability to compare our results to those of other airlines;
 - and
- It is consistent with how we present information in our quarterly earnings press releases.

See table below for reconciliation between GAAP consolidated net income to adjusted consolidated net income, including per share amounts (in thousands unless otherwise indicated). The adjustments are described below:

Changes in fair value of derivative contracts, net of tax, are based on market prices for open contracts as of the end of the reporting period. This line item includes the unrealized amounts of fuel and interest rate derivatives (not designated as hedges) that will settle in future periods and the reversal of prior period unrealized amounts. We believe that excluding the impact of these derivative adjustments helps investors analyze our operational performance and compare our results to other airlines in the periods presented below.

Loss on extinguishment of debt, net of tax, is excluded to help investors analyze our operational performance and compare our results to other airlines in the periods presented below.

The collective bargaining charge related to (1) a one-time payment to reduce the future 401K employer contribution for certain pilot groups, and (2) a one-time true up of the pilot vacation accrual at the revised rates set forth in an agreement with our pilots represented by ALPA. The loss on sale of aircraft was a result of a sale-leaseback transaction covering three Boeing 767 aircraft as part of the planned exit from our 767 fleet. In August 2017, we terminated the Merged Plan and settled a portion of the pilots other post-retirement medical plan liability. In connection with the reduction of these liabilities we recorded one-time special charges of \$35.2 million related to the Merged Plan termination and \$15.0 million related to the settlement of a portion of our outstanding other post-retirement medical plan obligation with our pilots. These one-time charges are considered special items by us and are not expected to represent ongoing expenses. We believe that excluding such special items helps investors analyze our operational performance and compare our results to other airlines in the periods presented below.

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|----------------------------------|-------------------|-----------|-------------------|---------------------------------|-------------------|-----------|-------------------|
| | 2017 | | 2016 | | 2017 | | 2016 | |
| | Total | Diluted Per Share | Total | Diluted Per Share | Total | Diluted Per Share | Total | Diluted Per Share |
| GAAP net income, as reported | \$74,566 | \$1.39 | \$102,454 | \$1.91 | \$191,911 | \$3.57 | \$233,490 | \$4.35 |
| Add (deduct): changes in fair value of derivative contracts | (6,069) | (0.11) | 1,076 | 0.02 | 8,128 | 0.15 | (45,770) | (0.85) |
| Add: loss on extinguishment of debt | — | — | — | — | — | — | 9,993 | 0.19 |
| Add: special items | — | — | — | — | 23,450 | \$0.44 | — | \$— |
| Add: other nonoperating special items | 50,202 | 0.94 | — | — | 50,202 | 0.93 | — | — |
| Add (deduct): tax effect of adjustments | (16,091) | (0.30) | (409) | (0.01) | (29,817) | (0.55) | 13,595 | 0.25 |
| Adjusted net income | \$102,608 | \$1.92 | \$103,121 | \$1.92 | \$243,874 | \$4.54 | \$211,308 | \$3.94 |

Operating Costs per Available Seat Mile (CASM)

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

CASM and CASM - excluding aircraft fuel and special items, are summarized in the table below:

| | Three months ended | | Nine months ended | |
|---|---|-----------|-------------------|-------------|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| | (in thousands, except as otherwise indicated) | | | |
| GAAP operating expenses | \$545,808 | \$492,928 | \$1,625,485 | \$1,417,796 |
| Less: aircraft fuel, including taxes and delivery | (110,111) | (94,818) | (316,423) | (248,516) |
| Less: special items | \$— | \$— | \$(23,450) | \$— |
| Adjusted operating expenses - excluding aircraft fuel and special items | \$435,697 | \$398,110 | \$1,285,612 | \$1,169,280 |
| Available Seat Miles | 4,950,800 | 4,894,768 | 14,208,642 | 13,813,955 |
| CASM - GAAP | 11.02 ¢ | 10.07 ¢ | 11.44 ¢ | 10.26 ¢ |
| Less: aircraft fuel | (2.22) | (1.94) | (2.23) | (1.80) |
| Less: special items | — | — | (0.17) | — |
| CASM - excluding aircraft fuel and special items | 8.80 ¢ | 8.13 ¢ | 9.04 ¢ | 8.46 ¢ |

Critical Accounting Policies

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

Critical accounting policies and estimates are defined as those accounting policies and accounting estimates that are reflective of significant judgments and uncertainties that potentially result in materially different results under different assumptions and conditions. For a detailed discussion of the application of our critical accounting policies, see Note 2 herein, "Significant Accounting Policies," Note 10 herein, "Employee Benefits Plans," and the section, titled "Critical Accounting Policies and Estimates," and Note 1, "Summary of Significant Accounting Policies," to our Consolidated Financial Statements for the year ended December 31, 2016 each included in our Annual Report on Form 10-K.

The new revenue standard (ASU 2014-09), once effective, will affect our accounting policies and processes (including systems) regarding frequent flyer, ticket breakage, credit card fees, booking fees, and upgrade fee accounting. The adoption of the standard will have a significant impact on our financial statements, and we are currently in the process of quantifying the effects of the new standard on our financial statements. See Note 2 to our Consolidated Financial Statements for additional information.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

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

Aircraft Fuel Costs

Aircraft fuel costs constitute a significant portion of our operating expense. Fuel costs represented 20% and 19% of our operating expenses for the three and nine months ended September 30, 2017, respectively, and 19% and 18% for the three and nine months ended September 30, 2016, respectively. Approximately 72% of our fuel was based on Singapore jet fuel prices, 27% was based on U.S. West Coast jet fuel prices, and 1% on other jet fuel prices. Based on the amount of fuel expected to be consumed for the remainder of 2017, for every one cent increase in the cost of a gallon of jet fuel, our fuel expense would increase by approximately \$0.7 million, excluding the impact of our fuel hedge program.

We periodically enter into derivative financial instruments to manage our exposure to changes in the price of jet fuel. During the three and nine months ended September 30, 2017, our fuel hedge program primarily consisted of crude oil call options and jet fuel swaps. Swaps provide for a settlement in our favor in the event the prices exceed a predetermined contractual level and are unfavorable in the event prices fall below a predetermined contractual level. With call options, we are hedged against spikes in crude oil prices and during a period of decline in crude oil prices we only forfeit cash previously paid for hedge premiums.

As of September 30, 2017, we hedged approximately 51% of our projected fuel requirements for the remainder of 2017 with crude oil call options and jet fuel swaps. As of September 30, 2017, the fair value of these fuel derivative agreements reflected a net asset of \$8.7 million which is recorded as a prepaid expense and other asset in our unaudited Consolidated Balance Sheet.

We expect to continue our program of offsetting some of our exposure to future changes in the price of jet fuel with a combination of fixed forward pricing contracts, swaps, calls, collars and other option-based structures. We do not hold or issue derivative financial instruments for trading purposes.

Interest Rates

Changes in market interest rates have a direct and corresponding effect on our pre-tax earnings and cash flows associated with interest-bearing cash accounts. Based on the balances of our cash and cash equivalents and restricted cash as of September 30, 2017, a change in interest rates is unlikely to have a material impact on our results of operations.

At September 30, 2017, we had \$518.1 million of fixed-rate debt including capital lease obligations, facility agreements for aircraft purchases, and the outstanding equipment notes related to our 2013 EETC financing. Market risk for fixed-rate long-term debt is estimated as the potential increase in fair value resulting from a hypothetical 10% decrease in interest rates, and amounted to approximately \$7.2 million as of September 30, 2017.

Foreign Currency

We generate revenues and incur expenses in foreign currencies. Changes in foreign currency exchange rates impact our results of operations through changes in the dollar value of foreign currency-denominated operating revenues and expenses. Our most significant foreign currency exposures are the Japanese Yen and Australian Dollar. Based on expected remaining 2017 revenues and expenses denominated in Japanese Yen and Australian Dollars, a 10% strengthening in value of the U.S. dollar, relative to the Japanese Yen and Australian Dollar, would result in a decrease in operating income of approximately \$6.8 million and \$4.4 million, respectively, which excludes the offset of the hedges discussed below. This potential impact to the results of our operation is driven by the inherent nature of our international operations, which requires us to accept a large volume of sales transactions denominated in foreign currencies while few expense transactions are settled in foreign currencies. This disparity is the primary factor in our exposure to foreign currencies.

As of September 30, 2017, the fair value of our foreign currency forwards reflected a net asset of \$1.4 million and \$0.7 million recorded in prepaid expenses and other, and long-term prepayments and other, respectively, in our unaudited Consolidated Balance Sheets.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), performed an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), which have been designed to permit us to effectively identify and timely disclose important information. Based on that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures were effective as of September 30, 2017 to provide reasonable assurance that the information required to be disclosed by the Company in reports it files under the Exchange Act, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2017 which materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

ITEM 1A. RISK FACTORS.

See Part I, Item 1A., “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 for a detailed discussion of the risk factors affecting our business, results of operations and financial condition.

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

The following table displays information with respect to our repurchases of shares of our common stock during the three months ended September 30, 2017:

| Period | Total number of shares purchased (i) | Average price paid per share (ii) | Total number of shares purchased as part of publicly announced plans or programs (i) | Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions) (i) |
|--|--------------------------------------|-----------------------------------|--|--|
| July 1, 2017 - July 31, 2017 | 89,092 | \$ 43.48 | 89,092 | |
| August 1, 2017 - August 31, 2017 | 417,878 | 41.54 | 417,878 | |
| September 1, 2017 - September 30, 2017 | 620,559 | 40.21 | 620,559 | |
| Total | 1,127,529 | | 1,127,529 | \$ 49.5 |

In April 2017, our Board of Directors approved the repurchase of up to \$100 million of our outstanding common stock over a two-year period through May 2019 via the open market, established plans or privately negotiated transactions in accordance with all applicable securities laws, rules and regulations. The stock repurchase program is subject to modification or termination at any time.

We spent \$46.2 million and \$50.5 million to repurchase and retire approximately 1.1 million shares and 1.2 million shares of our common stock in open market transactions during the three and nine months ended September 30, 2017, respectively. As of September 30, 2017, we had \$49.5 million remaining to spend under the stock repurchase program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5.

OTHER INFORMATION.

None.

41

ITEM 6. EXHIBITS.

Exhibit No. Description

- 12 Computation of ratio of earnings to fixed charges for the nine months ended September 30, 2017 and years ended December 31, 2016, 2015, 2014, 2013 and 2012.
- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Valuation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

42

SIGNATURES

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

HAWAIIAN HOLDINGS, INC.

Date: October 20,
2017

By: /s/ Shannon L. Okinaka

Shannon L. Okinaka

Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)