HAWAIIAN HOLDINGS INC
Form 10-Q
October 21, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2015
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

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

Delaware (State or Other Jurisdiction of Incorporation or Organization)	71-0879698 (I.R.S. Employer Identification No.)
3375 Koapaka Street, Suite G-350 Honolulu, HI (Address of Principal Executive Offices)	96819 (Zip Code)

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

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

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

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

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

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

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

As of October 16, 2015, 53,214,218 shares of the registrant’s common stock were outstanding.

Hawaiian Holdings, Inc.
Form 10-Q
Quarterly Period ended September 30, 2015

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(unaudited)			
Operating Revenue:				
Passenger	$556,929	$566,985	$1,525,461	$1,541,795
Other	74,809	72,477	217,852	198,245
Total	631,738	639,462	1,743,313	1,740,040
Operating Expenses:				
Aircraft fuel, including taxes and delivery	105,483	182,219	329,329	527,497
Wages and benefits	125,884	114,469	369,875	334,441
Aircraft rent	29,544	26,724	86,732	79,098
Maintenance, materials and repairs	56,196	51,293	168,512	168,002
Aircraft and passenger servicing	30,284	31,848	87,948	92,929
Commissions and other selling	30,305	32,015	91,217	94,123
Depreciation and amortization	26,061	24,384	78,777	70,960
Other rentals and landing fees	24,728	23,637	70,807	65,855
Other	48,576	46,704	142,859	139,335
Total	477,061	533,293	1,426,056	1,572,240
Operating Income	154,677	106,169	317,257	167,800
Nonoperating Income (Expense):				
Interest expense and amortization of debt discounts and issuance costs	(13,506)	(17,104)	(42,742)	(48,111)
Interest income	691	471	2,052	1,088
Capitalized interest	698	1,834	2,966	6,584
Losses on fuel derivatives	(25,009)	(27,892)	(28,670)	(28,506)
Loss on extinguishment of debt	(54)	—	(7,296)	—
Other, net	(4,515)	(5,114)	(9,325)	(3,804)
Total	(41,695)	(47,805)	(83,015)	(72,749)
Income Before Income Taxes	112,982	58,364	234,242	95,051
Income tax expense	42,953	22,789	89,496	37,224
Net Income	$70,029	$35,575	$144,746	$57,827
Net Income Per Share				
Basic	$1.30	$0.66	$2.67	$1.08
Diluted	$1.15	$0.56	$2.32	$0.94

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,	
	2015	2014
	(unaudited)	
Net Income	$70,029	$35,575
Other comprehensive income (loss), net:		
Net change related to employee benefit plans, net of tax expense of $1,117 and $3 for 2015 and 2014, respectively	1,894	44
Net change in derivative instruments, net of tax benefit $1,628 for 2015 and tax expense of $4,308 for 2014	(2,681)	7,081
Net change in available-for-sale investments, net of tax expense of $35 for 2015 and tax benefit of $54 for 2014	59	(90)
Total other comprehensive income (loss)	(728)	7,035
Total Comprehensive Income	$69,301	$42,610

	Nine Months Ended September 30,	
	2015	2014
	(unaudited)	
Net Income	$144,746	$57,827
Other comprehensive income (loss), net:		
Net change related to employee benefit plans, net of tax expense of $3,163 and $213 for 2015 and 2014, respectively	5,251	389
Net change in derivative instruments, net of tax benefit of $3,014 and $1,045 for 2015 and 2014, respectively	(4,958)	(1,726)
Net change in available-for-sale investments, net of tax expense of $145 for 2015 and tax benefit of $33 for 2014	239	(55)
Total other comprehensive income (loss)	532	(1,392)
Total Comprehensive Income	$145,278	$56,435

See accompanying Notes to Consolidated Financial Statements.

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

	September 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	$345,174	$264,087
Restricted cash	5,000	6,566
Short-term investments	265,437	260,121
Accounts receivable, net	80,682	80,737
Spare parts and supplies, net	20,359	18,011
Deferred tax assets, net	22,102	21,943
Prepaid expenses and other	53,013	53,382
Total	791,767	704,847
Property and equipment, less accumulated depreciation and amortization of $415,194 and $367,507 as of September 30, 2015 and December 31, 2014, respectively	1,617,933	1,673,493
Other Assets:		
Long-term prepayments and other	90,108	96,225
Intangible assets, less accumulated amortization of $36,414 and $34,434 as of September 30, 2015 and December 31, 2014, respectively	19,320	21,300
Goodwill	106,663	106,663
Total Assets	$2,625,791	$2,602,528
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$101,863	$97,260
Air traffic liability	481,830	424,336
Other accrued liabilities	139,827	141,919
Current maturities of long-term debt, less discount, and capital lease obligations	95,805	156,349
Total	819,325	819,864
Long-Term Debt and Capital Lease Obligations	818,608	893,288
Other Liabilities and Deferred Credits:		
Accumulated pension and other postretirement benefit obligations	409,047	407,864
Other liabilities and deferred credits	84,285	72,650
Deferred tax liability, net	117,376	41,629
Total	610,708	522,143
Commitments and Contingencies		
Shareholders' Equity:		
Special preferred stock, $0.01 par value per share, three shares issued and outstanding as of September 30, 2015 and December 31, 2014	—	—
Common stock, $0.01 par value per share, 53,317,662 and 54,455,568 shares outstanding as of September 30, 2015 and December 31, 2014, respectively	533	545
Capital in excess of par value	116,083	251,432
Accumulated income	382,814	238,068
Accumulated other comprehensive loss, net	(122,280)	(122,812)
Total	377,150	367,233

Total Liabilities and Shareholders' Equity	$2,625,791	$2,602,528

See accompanying Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2015	2014
	(unaudited)	
Net cash provided by Operating Activities	$389,472	$252,163
Cash flows from Investing Activities:		
Additions to property and equipment, including pre-delivery payments	(105,329)	(361,290)
Proceeds from purchase assignment and leaseback transactions	86,033	—
Proceeds from disposition of equipment	3,606	978
Purchases of investments	(178,177)	(346,010)
Sales of investments	170,904	92,103
Net cash used in investing activities	(22,963)	(614,219)
Cash flows from Financing Activities:		
Long-term borrowings	—	293,430
Repayments of long-term debt and capital lease obligations	(74,719)	(46,392)
Repurchases of convertible notes	(171,598)	—
Repurchases of common stock	(37,622)	—
Other	(1,483)	19,889
Net cash provided by (used in) financing activities	(285,422)	266,927
Net increase (decrease) in cash and cash equivalents	81,087	(95,129)
Cash and cash equivalents - Beginning of Period	264,087	423,384
Cash and cash equivalents - End of Period	$345,174	$328,255

See accompanying Notes to Consolidated Financial Statements.

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

1. Business and Basis of Presentation

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

2. Significant Accounting Policies

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (ASU 2014-09), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. In July 2015, the FASB voted to defer the amendments in ASU 2014-09 by one year to December 15, 2017. The terms of ASU 2014-09 are effective for fiscal years, and interim periods within those fiscal years, beginning after the revised effective date, and allow for either full retrospective or modified retrospective adoption. Organizations are permitted to adopt the new revenue standard early, but not before December 15, 2016.
The Company is currently evaluating the effect that the provisions of ASU 2014-09 will have on its consolidated financial statements and related disclosures. We have determined that the new standard, once effective, will preclude the Company from accounting for miles earned under its HawaiianMiles customer loyalty program using the incremental cost method, and will require use of the deferred revenue method. This change could have a significant impact on the Company's financial statements.
In April 2015, the FASB issued Accounting Standards Update 2015-03, Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03), requiring an entity to present its debt issuance costs on the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge. It is effective for annual reporting periods beginning after December 15, 2015, but early adoption is permitted. We are currently evaluating the impact the adoption of this standard will have on the Company's financial statements.

3. Accumulated Other Comprehensive Loss

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

Details about accumulated other comprehensive loss components	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014	Affected line items in the statement where net income is presented
	(in thousands)				
Derivatives designated as hedging instruments under ASC 815					
Foreign currency derivative gains, net	$(5,003)	$(1,297)	$(13,415)	$(6,523)	Passenger revenue
Interest rate derivative losses, net	170	201	536	618	Interest expense
Total before tax	(4,833)	(1,096)	(12,879)	(5,905)	
Tax expense	1,826	424	4,866	2,239	
Total, net of tax	$(3,007)	$(672)	$(8,013)	$(3,666)	
Amortization of defined benefit pension items					
Actuarial loss (gains)	$2,955	$(64)	$8,315	$388	Wages and benefits
Prior service cost	57	113	171	111	Wages and benefits
Total before tax	3,012	49	8,486	499	
Tax benefit	(1,118)	(5)	(3,194)	(215)	
Total, net of tax	$1,894	$44	$5,292	$284	
Short-term investments					
Realized gain on sales of investments, net	$(1)	$(10)	$(36)	$(12)	Other nonoperating income
Total before tax	(1)	(10)	(36)	(12)	
Tax expense	—	1	7	1	
Total, net of tax	$(1)	$(9)	$(29)	$(11)	
Total reclassifications for the period	$(1,114)	$(637)	$(2,750)	$(3,393)	

A rollforward of the amounts included in accumulated other comprehensive loss, net of taxes, for the three and nine months ended September 30, 2015 and 2014 is as follows:

Three months ended September 30, 2015	Interest Rate Derivatives	Foreign Currency Derivatives	Defined Benefit Pension Items	Short-Term Investments	Total
	(in thousands)				
Beginning balance	$262	$10,423	$(132,163)	$(74)	$(121,552)
Other comprehensive income (loss) before reclassifications, net of tax	(641)	967	—	60	386
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	104	(3,111)	1,894	(1)	(1,114)
Net current-period other comprehensive income (loss)	(537)	(2,144)	1,894	59	(728)
Ending balance	$(275)	$8,279	$(130,269)	$(15)	$(122,280)

Three months ended September 30, 2014	Interest Rate Derivatives	Foreign Currency Derivatives	Defined Benefit Pension Items	Short-Term Investments	Total
	(in thousands)				
Beginning balance	$471	$95	$(51,714)	$35	$(51,113)
Other comprehensive income (loss) before reclassifications, net of tax	39	7,714	—	(81)	7,672
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	121	(793)	44	(9)	(637)
Net current-period other comprehensive income (loss)	160	6,921	44	(90)	7,035
Ending balance	$631	$7,016	$(51,670)	$(55)	$(44,078)

Nine months ended September 30, 2015	Interest Rate Derivatives	Foreign Currency Derivatives	Defined Benefit Pension Items	Short-Term Investments	Total
	(in thousands)				
Beginning balance	$254	$12,708	$(135,520)	$(254)	$(122,812)
Other comprehensive income (loss) before reclassifications, net of tax	(857)	3,912	(41)	268	3,282
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	328	(8,341)	5,292	(29)	(2,750)
Net current-period other comprehensive income (loss)	(529)	(4,429)	5,251	239	532
Ending balance	$(275)	$8,279	$(130,269)	$(15)	$(122,280)

Nine months ended September 30, 2014	Interest Rate Derivatives	Foreign Currency Derivatives	Defined Benefit Pension Items	Short-Term Investments	Total
	(in thousands)				
Beginning balance	$1,096	$8,277	$(52,059)	$—	$(42,686)
Other comprehensive income (loss) before reclassifications, net of tax	(844)	2,784	105	(44)	2,001
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	379	(4,045)	284	(11)	(3,393)
Net current-period other comprehensive income (loss)	(465)	(1,261)	389	(55)	(1,392)
Ending balance	$631	$7,016	$(51,670)	$(55)	$(44,078)

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, 2015 and 2014, anti-dilutive shares excluded from the calculation of diluted earnings per share were not material.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands, except for per share data)			
Numerator:				
Net Income	$70,029	$35,575	$144,746	$57,827
Denominator:				
Weighted average common stock shares outstanding - Basic	53,731	53,878	54,266	53,359
Assumed exercise of stock options and awards	396	848	458	1,061
Assumed conversion of convertible note premium	350	4,965	1,618	4,498
Assumed conversion of warrants	6,351	3,359	6,139	2,767
Weighted average common stock shares outstanding - Diluted	60,828	63,050	62,481	61,685
Net Income Per Share				
Basic	$1.30	$0.66	$2.67	$1.08
Diluted	$1.15	$0.56	$2.32	$0.94

Convertible Note Transaction

In March 2011, the Company entered into a convertible note transaction which included the sale of convertible notes, purchase of call options and sale of warrants. As of September 30, 2015, the Company’s 5% Convertible Notes due in 2016 ("Convertible Notes") had an outstanding principal balance of $3.3 million and can be redeemed with either cash or the Company’s common stock, or a combination thereof, at the Company’s option. During the three and nine months ended September 30, 2015, the Company repurchased $1.0 million and $67.8 million in principal of the Convertible Notes, respectively. The 0.4 million shares into which the currently outstanding Convertible Notes can be converted will not impact the dilutive earnings per share calculation in the current and future periods under the if-converted method, as the Company has the intent and ability to redeem the principal amount of the Convertible Notes with cash.

During the three and nine months ended September 30, 2015 and 2014 the average share price of the Company’s common stock exceeded the conversion price of $7.88 per share. Therefore, shares related to the conversion premium of the Convertible Notes (for which share settlement is assumed for earnings per share purposes) are included in the Company's computation of diluted earnings per share.

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

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

During the three and nine months ended September 30, 2015 and 2014 the average share price of the Company's common stock exceeded the warrant strike price of $10.00 per share. Therefore, the assumed conversion of the warrants is included in the Company's computation of diluted earnings per share.

Stock Repurchase Program

In April 2015, the Company's Board of Directors approved a stock repurchase program under which the Company may repurchase up to $100 million of its outstanding common stock over a two-year period through 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. The Company spent $20.0 million and $37.7 million to repurchase approximately 0.9 million and 1.6 million shares of the Company's common stock in open market transactions during the three and nine months ended September 30, 2015, respectively. As of September 30, 2015, the Company has $62.3 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.

5. Short-Term Investments

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

The following is a summary of short-term investments held as of September 30, 2015 and December 31, 2014:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2015	(in thousands)			
Corporate debt	$169,615	$84	$(205)	$169,494
U.S. government and agency debt	47,990	84	(2)	48,072
Municipal bonds	23,982	18	(1)	23,999
Other fixed income securities	23,875	—	(3)	23,872
Total short-term investments	$265,462	$186	$(211)	$265,437

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

Contractual maturities of short-term investments as of September 30, 2015 are shown below.

	Under 1 Year	1 to 5 Years	Total
	(in thousands)		
Corporate debt	$72,807	$96,687	$169,494
U.S. government and agency debt	12,441	35,631	48,072
Municipal bonds	16,961	7,038	23,999
Other fixed income securities	22,371	1,501	23,872
Total short-term investments	$124,580	$140,857	$265,437

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

6. Fair Value Measurements

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

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

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

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

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

	Fair Value Measurements as of September 30, 2015			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Cash equivalents	$150,388	$133,602	$16,786	$—
Restricted cash	5,000	5,000	—	—
Short-term investments	265,437	—	265,437	—
Fuel derivative contracts:	0			
Heating oil put options	3,480	—	3,480	—
Heating oil swaps	12	—	12	—
Foreign currency derivatives	10,620	—	10,620	—
Total assets measured at fair value	$434,937	$138,602	$296,335	$—
Fuel derivative contracts:				
Heating oil swaps	$27,165	$—	$27,165	$—
Foreign currency derivatives	368	—	368	—
Interest rate derivatives	3,175	—	3,175	—
Total liabilities measured at fair value	$30,708	$—	$30,708	$—

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

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

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

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

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

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

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

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

Fair Value of Debt

September 30, 2015					December 31, 2014				
Carrying Amount	Fair Value Total	Level 1	Level 2	Level 3	Carrying Amount	Fair Value Total	Level 1	Level 2	Level 3
(in thousands)					(in thousands)				
$816,897	$815,578	$—	$3,224	$812,354	$947,897	$956,811	$—	$69,766	$887,045

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

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

7. Financial Derivative Instruments

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

Fuel Risk Management

The Company's operations are inherently dependent upon the price and availability of aircraft fuel. To manage economic risks associated with fluctuations in aircraft fuel prices, the Company periodically enters into derivative financial instruments. During the three and nine months ended September 30, 2015, the Company primarily used heating oil puts and swaps to hedge its aircraft fuel expense. These derivative instruments were not designated as hedges under ASC Topic 815, Derivatives and Hedging (ASC 815), for hedge accounting treatment. As a result, any changes in fair value of these derivative instruments are adjusted through other nonoperating income (expense) in the period of change.

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

	Three months ended September 30,		Nine months ended September 30,	
Fuel derivative contracts	2015	2014	2015	2014
	(in thousands)			
Losses realized at settlement	$(13,777)	$(4,632)	$(44,921)	$(6,530)
Reversal of prior period unrealized amounts	9,953	56	38,293	(1,816)
Unrealized losses on contracts that will settle in future periods	(21,185)	(23,316)	(22,042)	(20,160)
Losses on fuel derivatives recorded as Nonoperating income (expense)	$(25,009)	$(27,892)	$(28,670)	$(28,506)

Foreign Currency Exchange Rate Risk Management

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

The Company enters into foreign currency forward contracts to further manage the effects of fluctuating exchange rates. The effective portion of the gain or loss of designated cash flow hedges is reported as a component of accumulated other comprehensive income (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 $12.0 million into earnings over the next 12 months from AOCI based on the values at September 30, 2015.

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

Derivative position as of September 30, 2015

	Balance Sheet Location	Notional Amount (in thousands)	Final Maturity Date	Gross fair value of assets (in thousands)	Gross fair value of (liabilities)	Net derivative position
Derivatives designated as hedges						
Interest rate derivative	Other accrued liabilities	$52,600 U.S. dollars	April 2023	$—	$ (197)	$ (197)
	Other liabilities and deferred credits (1)			—	(711)	(711)
Foreign currency derivatives	Prepaid expenses and other	6,723,830 Japanese Yen 38,257 Australian Dollars	September 2016	10,088	(196)	9,892
	Long-term prepayments and other	3,728,050 Japanese Yen 7,349 Australian Dollars	August 2017	509	(160)	349
Derivatives not designated as hedges						0
Interest rate derivative	Other accrued liabilities	$87,400 U.S. dollars	November 2015	—	(2,267)	(2,267)
Foreign currency derivatives	Prepaid expenses and other	3,849,000 Japanese Yen 9,443 Australian Dollars	August 2016	23	(12)	11
Fuel derivative contracts	Other accrued liabilities	81,832 gallons	September 2016	3,492	(27,165)	(23,673)

(1) Represents the noncurrent portion of the $52.6 million interest rate derivative with final maturity in April 2023.

Derivative position as of December 31, 2014

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

(1) Represents the noncurrent portion of the $57.4 million interest rate derivative with final maturity in April 2023.

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

	(Gain) loss recognized in AOCI on derivatives (effective portion)		(Gain) loss reclassified from AOCI into income (effective portion)		(Gain) loss recognized in nonoperating (income) expense (ineffective portion)	
	Three months ended September 30,		Three months ended September 30,		Three months ended September 30,	
	2015	2014	2015	2014	2015	2014
	(in thousands)					
Foreign currency derivatives	$ (1,558)	$ (12,428)	$ (5,003)	$ (1,297)	$ —	$ —
Interest rate derivatives	840	(283)	170	201	—	—

	(Gain) loss recognized in AOCI on derivatives (effective portion)	(Gain) loss reclassified from AOCI into income (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,	
	2015	2014	2015	2014	2015	2014
	(in thousands)					
Foreign currency derivatives	$(6,295)	$(4,720)	$ (13,415)	$ (6,523)	$—	$—
Interest rate derivatives	778	668	536	618	—	—

Risk and Collateral

The financial derivative instruments expose the Company to possible credit loss in the event the counterparties to the agreements fail to meet their obligations. To manage such credit risks, the Company (1) selects its counterparties based on past experience and credit ratings, (2) limits its exposure to any single counterparty, and (3) periodically monitors the market position and credit rating of each counterparty. Credit risk is deemed to have a minimal impact on the fair value of the

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derivative instruments as cash collateral would be provided by the counterparties based on the current market exposure of the derivative.

The Company's agreements with its counterparties also requires the posting of cash collateral in the event the aggregate value of the Company's positions exceeds certain exposure thresholds that are based upon certain liquidity metrics of the Company. The aggregate fair value of the Company's derivative instruments that contain credit-risk related contingent features that are in a net liability position as of September 30, 2015 was $26.8 million.

ASC 815 requires a reporting entity to elect a policy of whether to offset rights to reclaim cash collateral or obligations to return cash collateral against derivative assets and liabilities executed with the same counterparty under a master netting agreement, or present such amounts on a gross basis. The Company’s accounting policy is to present its derivative assets and liabilities on a net basis, including any collateral posted with the counterparty. The Company had no collateral posted with counterparties as of September 30, 2015 and $0.6 million in collateral posted with counterparties as of December 31, 2014.

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

8. Debt

As of September 30, 2015, the expected maturities of long-term debt for the remainder of 2015 and the next four years, and thereafter, were as follows (in thousands):

Remaining months in 2015	$16,186
2016	82,861
2017	82,092
2018	87,425
2019	99,070
Thereafter	449,317
	$816,951

Convertible Notes

During the three and nine months ended September 30, 2015 a condition for conversion of the Convertible Notes was satisfied, which permits holders of the Convertible Notes to surrender their notes for conversion during the quarter ending December 31, 2015. Therefore, the principal balance is classified accordingly in the table above.

During the three and nine months ended September 30, 2015, the Company repurchased $1.0 million and $67.8 million, respectively, in principal of its Convertible Notes for an aggregate repurchase price of $3.2 million and $171.6 million, respectively. The cash consideration was allocated to the fair value of the liability component immediately before extinguishment and the remaining consideration was allocated to the equity component and recognized as a reduction of shareholders' equity.

The repurchase of the Convertible Notes resulted in a loss on extinguishment of $0.1 million and $7.3 million for the three and nine months ended September 30, 2015, respectively, which is reflected in nonoperating income (expense) in the unaudited Consolidated Statement of Operations.

Convertible Note Hedges and Warrants

The convertible note hedges and warrants described in Note 8 of the Company's Form 10-K for the year ended December 31, 2014 were outstanding as of September 30, 2015. Under the terms of the convertible note hedges, the counterparties will deliver to the Company an amount equal to the excess of the Company's stock price on the settlement date and the exercise price of $7.88 per share multiplied by 10.9 million shares. The convertible note hedges are currently exercisable and expire in March 2016.

Under the terms of the warrants, if the Company elects to deliver cash in lieu of shares, the Company will deliver to the counterparties an amount equal to the excess of the Company's stock price on the settlement date and the exercise price of

$10.00 per share multiplied by 10.9 million shares. The convertible note hedge transaction and the warrant transactions may settle on different dates. The warrants expire at various dates beginning in June 2016.

9. Employee Benefit Plans

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

	Three months ended September 30,		Nine months ended September 30,	
Components of Net Period Benefit Cost	2015	2014	2015	2014
	(in thousands)			
Service cost	$4,006	$3,162	$12,456	$9,066
Interest cost	7,454	6,839	22,232	20,811
Expected return on plan assets	(4,702)	(4,842)	(14,134)	(14,532)
Recognized net actuarial loss	3,012	49	8,486	499
Net periodic benefit cost	$9,770	$5,208	$29,040	$15,844

The Company contributed $3.2 million and $16.7 million to its defined benefit and other postretirement plans during the three and nine months ended September 30, 2015, respectively, including $7.3 million above the minimum funding requirements. The Company contributed $2.3 million and $8.9 million to its defined benefit and other postretirement plans during the three and nine months ended September 30, 2014, respectively.

10. Commitments and Contingent Liabilities

Commitments

As of September 30, 2015, the Company had the following capital commitments consisting of firm aircraft and engine orders and purchase rights:

Aircraft Type	Firm Orders	Purchase Rights	Expected Delivery Dates
A330-200 aircraft	1	—	In 2015
A330-800neo aircraft	6	6	Between 2019 and 2021
A321neo aircraft	16	9	Between 2017 and 2020
Rolls-Royce spare engines:			
A330-800neo spare engines	2	—	Between 2019 and 2020
Pratt & Whitney spare engines:			
A321neo spare engines	2	—	Between 2017 and 2018

The Company has operating commitments with a third-party to provide aircraft maintenance services which require fixed payments as well as variable payments based on flight hours for its Airbus fleet through 2027. The Company also has operating commitments with third-party service providers for reservations, IT, and accounting services through 2025.

Committed capital and operating expenditures include escalation and variable amounts based on estimates. The gross committed expenditures and committed financings for those deliveries as of September 30, 2015 are detailed below:

	Capital	Operating	Total Committed Expenditures	Less: Committed Financing for Upcoming Aircraft Deliveries*	Net Committed Expenditures
	(in thousands)				

Remaining months in 2015	$54,051	$17,878	$ 71,929	$ 48,138	$23,791
2016	78,018	59,901	137,919	—	137,919
2017	220,806	58,637	279,443	—	279,443
2018	399,953	51,942	451,895	—	451,895
2019	488,553	47,362	535,915	—	535,915
Thereafter	442,888	264,181	707,069	—	707,069
	$1,684,269	$499,901	$ 2,184,170	$ 48,138	$2,136,032

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

Purchase Assignment and Lease Financing Agreement

Hawaiian has a commitment to assign its purchase of an Airbus A330-200 aircraft at delivery and simultaneously enter into a lease agreement for the aircraft with scheduled delivery in October 2015 with total committed lease financing of $48 million. Both the gross capital commitment for the cost of the aircraft and the committed financing are reflected in the table above. The agreement has an initial lease term of 12 years and fixed monthly rental payments that will be determined upon delivery of the aircraft.

The anticipated future minimum payments for this lease are $2.2 million for the remainder of 2015, $8.4 million in each of the years 2016 through 2019, and $65.4 million thereafter.

Aircraft Lease Commitment

Hawaiian entered into a six-year lease agreement for an Airbus A330-200 aircraft with an expected delivery date in the second quarter of 2016, which is not included in the table above. The Company will determine whether this lease will be classified as a capital or operating lease in the period it takes delivery of the aircraft.

The anticipated future minimum payments for this lease are $5.1 million in 2016, $8.9 million in each of the years 2017 through 2019, and $21.5 million thereafter.

Litigation and Contingencies

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

General Guarantees and Indemnifications

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

Credit Card Holdback

Under the Company's bank-issued credit card processing agreements, certain proceeds from advance ticket sales may be held back to serve as collateral to cover any possible chargebacks or other disputed charges that may occur. These holdbacks, which are included in restricted cash in the Company's unaudited Consolidated Balance Sheets, totaled $5.0 million at September 30, 2015 and December 31, 2014.

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

11. Supplemental Cash Flow Information

Non-cash investing and financing activities for the nine months ended September 30, 2015 and 2014 were as follows:

	Nine months ended September 30,	
	2015	2014
	(in thousands)	
Investing and Financing Activities Not Affecting Cash:		
Property and equipment acquired through a capital lease	$2,791	$—

12. Condensed Consolidating Financial Information

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

Condensed consolidating financial statements are presented in the following tables:

Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)
Three months ended September 30, 2015

	Parent Issuer / Guarantor	Subsidiary Issuer / Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Operating Revenue	$—	$630,657	$ 1,162	$(81)	$631,738
Operating Expenses:					
Aircraft fuel, including taxes and delivery	—	105,483	—	—	105,483
Wages and benefits	—	125,884	—	—	125,884
Aircraft rent	—	29,544	—	—	29,544
Maintenance materials and repairs	—	56,021	175	—	56,196
Aircraft and passenger servicing	—	30,284	—	—	30,284
Commissions and other selling	1	30,314	15	(25)	30,305
Depreciation and amortization	—	25,307	754	—	26,061
Other rentals and landing fees	—	24,728	—	—	24,728
Other	1,510	46,874	248	(56)	48,576
Total	1,511	474,439	1,192	(81)	477,061
Operating Income (Loss)	(1,511)	156,218	(30)	—	154,677
Nonoperating Income (Expense):					
Undistributed net income of subsidiaries	71,067	—	—	(71,067)	—
Interest expense and amortization of debt discounts and issuance costs	(100)	(13,406)	—	—	(13,506)
Interest income	53	638	—	—	691
Capitalized interest	—	698	—	—	698
Losses on fuel derivatives	—	(25,009)	—	—	(25,009)
Loss on extinguishment of debt	(54)	—	—	—	(54)
Other, net	—	(4,515)	—	—	(4,515)

Total	70,966	(41,594)	—	(71,067)	(41,695)
Income (Loss) Before Income Taxes	69,455	114,624	(30)	(71,067)	112,982
Income tax expense (benefit)	(574)	43,527	—	—	42,953
Net Income (Loss)	$70,029	$71,097	$(30)	$(71,067)	$70,029
Comprehensive Income (Loss)	$69,301	$70,369	$(30)	$(70,339)	$69,301

Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)
Three months ended September 30, 2014

	Parent Issuer / Guarantor	Subsidiary Issuer / Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Operating Revenue	$—	$638,414	$ 1,145	$(97)	$639,462
Operating Expenses:					
Aircraft fuel, including taxes and delivery	—	182,219	—	—	182,219
Wages and benefits	—	114,469	—	—	114,469
Aircraft rent	—	26,724	—	—	26,724
Maintenance materials and repairs	—	51,029	264	—	51,293
Aircraft and passenger servicing	—	31,848	—	—	31,848
Commissions and other selling	—	32,024	11	(20)	32,015
Depreciation and amortization	—	23,654	730	—	24,384
Other rentals and landing fees	5	23,632	—	—	23,637
Other	1,246	45,291	244	(77)	46,704
Total	1,251	530,890	1,249	(97)	533,293
Operating Income (Loss)	(1,251)	107,524	(104)	—	106,169
Nonoperating Income (Expense):					
Undistributed net income of subsidiaries	37,900	—	—	(37,900)	—
Interest expense and amortization of debt discounts and issuance costs	(2,260)	(14,844)	—	—	(17,104)
Interest income	47	424	—	—	471
Capitalized interest	—	1,834	—	—	1,834
Losses on fuel derivatives	—	(27,892)	—	—	(27,892)
Other, net	—	(5,114)	—	—	(5,114)
Total	35,687	(45,592)	—	(37,900)	(47,805)
Income (Loss) Before Income Taxes	34,436	61,932	(104)	(37,900)	58,364
Income tax expense (benefit)	(1,139)	23,928	—	—	22,789
Net Income (Loss)	$35,575	$38,004	$ (104)	$(37,900)	$35,575
Comprehensive Income (Loss)	$42,610	$45,039	$ (104)	$(44,935)	$42,610

Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)
Nine months ended September 30, 2015

	Parent Issuer / Guarantor	Subsidiary Issuer / Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Operating Revenue	$—	$1,740,118	$3,503	$(308)	$1,743,313
Operating Expenses:					
Aircraft fuel, including taxes and delivery	—	329,329	—	—	329,329
Wages and benefits	—	369,875	—	—	369,875
Aircraft rent	—	86,732	—	—	86,732
Maintenance materials and repairs	—	167,489	1,023	—	168,512
Aircraft and passenger servicing	—	87,948	—	—	87,948
Commissions and other selling	5	91,260	46	(94)	91,217
Depreciation and amortization	—	76,529	2,248	—	78,777
Other rentals and landing fees	—	70,807	—	—	70,807
Other	4,747	137,617	709	(214)	142,859
Total	4,752	1,417,586	4,026	(308)	1,426,056
Operating Income (Loss)	(4,752)	322,532	(523)	—	317,257
Nonoperating Income (Expense):					
Undistributed net income of subsidiaries	153,389	—	—	(153,389)	—
Interest expense and amortization of debt discounts and issuance costs	(1,692)	(41,050)	—	—	(42,742)
Interest income	162	1,890	—	—	2,052
Capitalized interest	—	2,966	—	—	2,966
Losses on fuel derivatives	—	(28,670)	—	—	(28,670)
Loss on extinguishment of debt	(7,296)	—	—	—	(7,296)
Other, net	—	(9,325)	—	—	(9,325)
Total	144,563	(74,189)	—	(153,389)	(83,015)
Income (Loss) Before Income Taxes	139,811	248,343	(523)	(153,389)	234,242
Income tax expense (benefit)	(4,935)	94,431	—	—	89,496
Net Income (Loss)	$144,746	$153,912	$(523)	$(153,389)	$144,746
Comprehensive Income (Loss)	$145,278	$154,444	$(523)	$(153,921)	$145,278

Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)
Nine months ended September 30, 2014

	Parent Issuer / Guarantor	Subsidiary Issuer / Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)				
Operating Revenue	$—	$1,737,520	$2,801	$(281)	$1,740,040
Operating Expenses:					
Aircraft fuel, including taxes and delivery	—	527,497	—	—	527,497
Wages and benefits	—	334,441	—	—	334,441
Aircraft rent	—	79,098	—	—	79,098
Maintenance materials and repairs	—	167,499	503	—	168,002
Aircraft and passenger servicing	—	92,929	—	—	92,929
Commissions and other selling	—	94,149	43	(69)	94,123
Depreciation and amortization	—	69,496	1,464	—	70,960
Other rentals and landing fees	5	65,850	—	—	65,855
Other	4,015	134,729	803	(212)	139,335
Total	4,020	1,565,688	2,813	(281)	1,572,240
Operating Income (Loss)	(4,020)	171,832	(12)		