HAWAIIAN HOLDINGS INC
Form 10-Q
October 20, 2017

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, 2017
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	71-0879698
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

3375 Koapaka Street, Suite G-350

Honolulu, HI	96819
(Address of Principal Executive Offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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, 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 x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
(Do not check if a smaller reporting company)	Emerging growth company o

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. 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 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

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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,	
	2017	2016	2017	2016
	(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.

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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.

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

	Nine Months Ended September 30, 2017 (unaudited)			2016		
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		)

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	

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 Plan Items	Short-Term Investments	Total
	(in thousands)				
Beginning balance	$—	$ 1,235	$(107,344)	$ (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)	$(81,567)

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

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

Nine months ended September 30, 2016	Interest Rate Derivatives	Foreign Currency Derivatives	Defined Benefit Pension 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

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

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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 Cost	Gross Unrealized	Gross Unrealized	Fair Value

		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

	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:

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,	
Fuel derivative contracts	2017	2016	2017	2016
	(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	Final Maturity Date	Gross fair value of assets	Gross fair value of (liabilities)	Net derivative position
		(in thousands)		(in thousands)		
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	Final Maturity Date	Gross fair value of assets	Gross fair value of (liabilities)	Net derivative position
		(in thousands)		(in thousands)		
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

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 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,	
	2017	2016	2017	2016	2017	2016
	(in thousands)					
Foreign currency derivatives	$75	$4,841	$ (449)	$ 1,842	$ —	$ —
Interest rate derivatives	—	—	—	—	—	—

	(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,	
	2017	2016	2017	2016	2017	2016
	(in thousands)					
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:

	Three months ended September 30,		Nine months ended September 30,	
Components of Net Period Benefit Cost	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 heath 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 September 30, 2017	2016	Nine months ended September 30, 2017	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, 2017	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

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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

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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

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

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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

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

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