HAWAIIAN HOLDINGS INC
Form 10-K
February 26, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

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, Hawaii	**96819**
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: **(808) 835-3700**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock ($.01 par value)	NASDAQ Stock Market, LLC (NASDAQ Global Market)

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 ý	Non-accelerated filer o	Smaller reporting company o

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

The aggregate market value of the voting and non-voting common equity stock held by non-affiliates of the registrant was approximately $330,691,258, computed by reference to the closing sale price of the Common Stock on the NASDAQ Stock Market, LLC, on June 30, 2008, the last business day of the registrant's most recently completed second fiscal quarter.

As of February 17, 2009, 51,521,827 shares of Common Stock of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for Annual Meeting of Stockholders to be held on May 27, 2009 will be incorporated by reference into Part III of this Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K 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. These forward-looking statements are and will be, as the case may be, subject to many risks, uncertainties and factors 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 cause actual results to differ materially from any future results, expressed or implied, in these forward-looking statements include, but are not limited to, the following:

- economic volatility and conditions generally;
- the price and availability of aviation fuel;
- our dependence on tourist travel;
- competition in the transpacific and interisland markets;
- the effects of seasonality and cyclicality;
- the concentration of our business in Hawaii;
- the competitive advantages held by network carriers in the transpacific markets;
- the effects of new entrants into the transpacific and interisland markets;
- competitive pressures on pricing (particularly from lower-cost competitors);
- demand for transportation in the markets in which we operate;
- our ability to negotiate amendments to labor agreements which are currently amendable;
- our dependence on satisfactory labor relations;
- the impact of our substantial financial and operating leverage;
- our ability to comply with financial covenants;

the competitiveness of our labor costs;

our substantial funding obligations under our defined benefit pension plans;

our ability to attract, motivate and retain key executives and other employees;

our increasing dependence on technologies to operate our business;

our reliance on other companies for facilities and services (including, without limitation, aircraft maintenance, code sharing, reservations, computer services, accounting, frequent flyer programs, passenger processing, ground facilities, baggage and cargo handling and personnel training);

our fleet concentration in out-of-production Boeing 717-200 aircraft;

our long-term commitments with aircraft and engine manufacturers and eventual financing arrangements;

delays in scheduled aircraft deliveries or other loss of fleet capacity;

the impact of indebtedness on our financial condition and results of operations;

the effects of any hostilities or act of war (in the Middle East or elsewhere) or any terrorist attack;

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- increases in aircraft maintenance costs due to the aging and increased utilization of our fleet, and the possible unavailability of other aircraft;
- bankruptcies in the airline industry and the possible negative impact such bankruptcies might have on fares and excess capacity;
- government legislation and regulation, including the Aviation and Transportation Security Act and other similar regulations;
- changes that may be required by the Federal Aviation Administration or other regulators to our aircraft or operations;
- the impact of possible aircraft incidents;
- the impact of possible outbreaks of disease;
- the impact of litigation, anticipated and unanticipated;
- the impact of possible disruptions due to unpredictable weather and environmental concerns;
- the potential impact of consolidation within the airline industry;
- increased airport rent rates and landing fees at the airports within the State of Hawaii;
- the cost and availability of insurance, including aircraft insurance;
- security-related costs and regulation;
- our ability to implement our growth strategy and related cost reduction goals;
- consumer perceptions of our services compared to other airlines; and
- other risks and uncertainties set forth from time to time in our reports to the Securities and Exchange Commission, included under "Risk Factors" in this annual report.

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 annual report.

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PART I

ITEM 1. BUSINESS.

Overview

Hawaiian Holdings, Inc. (the Company, Holdings, we, us and our) is a holding company whose primary asset is the sole ownership of all issued and outstanding shares of common stock of Hawaiian Airlines, Inc. (Hawaiian). Based on the total number of miles flown by revenue passengers in 2008, Hawaiian was the largest airline headquartered in Hawaii and the fourteenth largest domestic airline in the United States. Hawaiian offers the following services:

- Daily service on our transpacific routes between Hawaii and Los Angeles, Oakland, Sacramento, San Diego, San Francisco and San Jose, California; Las Vegas, Nevada; Phoenix, Arizona; Portland, Oregon and Seattle, Washington;
- Daily service on our interisland routes among the four major islands of the State of Hawaii;
- Scheduled service on our South Pacific/Australia/Asia routes between Hawaii and Pago Pago, American Samoa; Papeete, Tahiti; Sydney, Australia; and Manila, Philippines;
- Other ad hoc charters.

As of December 31, 2008, Hawaiian's fleet consisted of 15 Boeing 717-200 aircraft (the final one of which entered operational service in January 2009) for its interisland routes and 18 Boeing 767-300 aircraft for its transpacific, South Pacific/Australia/Asia and charter routes.

Hawaiian was originally incorporated in January 1929 under the laws of the Territory of Hawaii and became our indirect wholly-owned subsidiary pursuant to a corporate restructuring that was consummated in August 2002. Hawaiian became a Delaware corporation and our direct wholly-owned subsidiary in June 2005 pursuant to a short-form merger described in greater detail below under "Consummation of Hawaiian's Joint Plan of Reorganization."

General information about us, including the charters for the committees of our Board of Directors, can be found at *http://www.hawaiianair.com/about/*. Our Board of Directors has adopted a code of ethics entitled "Code of Business Ethics and Conduct" that applies to all of our employees, officers and directors. Our code of ethics can be found at *http://www.hawaiianair.com/about/*. 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 (SEC). Information on our website is not incorporated into this Annual Report on Form 10-K or our other securities filings and is not a part of such filings.

Significant Events

Aircraft fuel prices were extremely volatile during 2008. Although aircraft fuel prices have decreased from their peak levels set during July 2008, the overall impact of the increase in aircraft fuel prices to our 2008 operations was significant. Aircraft fuel expense increased over 45.6% from 2007 to 2008 and comprised approximately 36.2% of our total operating expenses in 2008 (excluding the effect of our litigation settlement discussed below).

As a result of record high fuel costs during the first half of 2008 and a significant deterioration in the U.S. and global economies, the airline industry experienced significant challenges during 2008. A number of airlines, including Aloha Airlines (Aloha), ATA Airlines (ATA), Skybus Airlines (Skybus) and Frontier Airlines, filed for bankruptcy protection during March or April of 2008, and Aloha, ATA and Skybus terminated their passenger service operations.

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Many U.S. domestic carriers restructured their operations by reconfiguring flight schedules, decreasing services and passenger capacity and reducing staff. Furthermore, many U.S. domestic carriers increased fares and implemented charges for various ancillary services such as baggage fees, ticketing fees and premium seating on the aircraft in order to partially offset the financial challenges faced by the industry.

Unlike many of the U.S. domestic carriers that decreased passenger capacity, cut routes and reduced staff during 2008, Hawaiian increased passenger capacity and increased staff as a direct result of the shutdown of Aloha and ATA in March 2008. Prior to its shutdown, Aloha provided approximately 40% of the total capacity of Hawaii's interisland market, as well as approximately 6% of the total seat capacity of flights from Hawaii to the West Coast. Aloha previously provided service between Hawaii and Sacramento, San Diego, Santa Ana and Oakland, California and Reno and Las Vegas, Nevada. ATA operated approximately 11 daily flights between Hawaii and the western United States, including Los Angeles and Oakland, California, Las Vegas, Nevada and Phoenix, Arizona.

Since Aloha ceased interisland passenger service operations in March 2008, Hawaiian has maintained an increased schedule in the interisland market, operating approximately 170 daily interisland flights between the islands of Oahu, Kauai, Maui and the Big Island, compared to approximately 120 daily interisland flights prior to March 2008. Expansion of our passenger flight capacity was initially accomplished by increasing utilization of the existing interisland aircraft fleet, as well as using our spare Boeing 767-300 for interisland operations on a limited basis. In August 2008, we received the first of four additional leased Boeing 717-200 aircraft which was placed into interisland revenue service in October 2008. The second and third Boeing 717-200 aircraft were received and placed into revenue service during the fourth quarter of 2008, and the fourth Boeing 717-200 aircraft was received during the fourth quarter of 2008 and placed into service in January 2009.

Starting in the third quarter of 2008, aircraft fuel expense gradually declined from record highs during the middle of 2008 to levels lower than 2007. As a result, during the fourth quarter, Hawaiian experienced some of the benefits to its overall operating costs. However, the price of crude oil and oil products including jet fuel remains historically volatile and it is difficult to predict the direction of fuel prices in the future. In addition, the decline in fuel prices from their peak in mid-2008 is generally attributable to a deterioration in economic activity in the United States and throughout the world which has had a negative impact on consumer demand for air travel in general and specifically in the markets we serve. We cannot determine the extent to which fuel prices will affect expenses and profits in 2009.

Litigation Settlement

In 2006, Hawaiian filed a complaint against Mesa Air Group, Inc. (Mesa) in the Bankruptcy Court for the District of Hawaii alleging that Mesa breached a confidentiality agreement by retaining and misusing confidential and proprietary information that had been provided by Hawaiian to Mesa in 2004, pursuant to a process that was established by the Bankruptcy Court to facilitate Hawaiian's efforts to solicit potential investment in connection with a Chapter 11 plan of reorganization. In 2007, following a trial, the Bankruptcy Court ruled in favor of Hawaiian, awarding Hawaiian $80 million for damages incurred to date, and ordering that Mesa pay Hawaiian post-judgment interest and reasonable attorney fees. Hawaiian and Mesa reached a settlement and Hawaiian received full payment of the $52.5 million settlement in 2008.

Aircraft Agreements

As part of our mission to grow our business, in January 2008, we signed a purchase agreement with Airbus to acquire six wide-body A330-200 aircraft and six A350XWB (Extra Wide Body) -800 aircraft. The purchase agreement gives us greater flexibility to expand our long-range fleet and enables

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us to open new routes to more distant markets on a nonstop basis from Hawaii. The decision to acquire Airbus aircraft provides for growth and allows replacement of certain aircraft in our current fleet. The purchase agreement provides for delivery, subject to certain extension rights, of two A330-200 aircraft in 2012; three A330-200 aircraft in 2013; one A330-200 aircraft in 2014; two A350XWB-800 aircraft in 2017; two A350XWB-800 aircraft in 2018; one A350XWB-800 aircraft in 2019; and one A350XWB-800 aircraft in 2020. The purchase agreement also provides Hawaiian with purchase rights for an additional six A330-200 aircraft, exercisable between 2010 and 2013, and an additional six A350XWB-800 aircraft, exercisable between 2018 and 2019. In conjunction with the purchase of the Airbus aircraft in October 2008, we also entered into purchase agreements with Rolls-Royce to purchase four spare engines. In October 2008, we signed leases for the delivery of two Airbus A330-200 aircraft in 2010 and one in 2011. Additionally, we extended two leases covering Boeing 767-300 aircraft to 2010 and 2011, respectively, and two leases covering other Boeing 767-300 aircraft for an additional six years to 2015.

Route Expansion

In April 2008, Hawaiian launched nonstop service to Manila, Philippines with four scheduled roundtrip flights per week between Manila and Honolulu. We are currently the only U.S. carrier providing nonstop service between Manila and Honolulu.

In May 2008, we commenced nonstop daily service between Honolulu and Oakland, California in response to Aloha's and ATA's cessation of operations to this West Coast city. Aloha and ATA had both previously provided direct daily service between Honolulu and Oakland.

Flight Operations

Our flight operations are based in Honolulu, Hawaii. At the end of 2008, we operated approximately 190 scheduled and charter flights per day with:

- Daily service on our transpacific routes between Hawaii and Los Angeles, Oakland, Sacramento, San Diego, San Francisco and San Jose, California; Las Vegas, Nevada; Phoenix, Arizona; Portland, Oregon and Seattle, Washington;

- Daily service on our interisland routes among the four major islands of the State of Hawaii;

- Scheduled service on our South Pacific/Australia/Asia routes between Hawaii and Pago Pago, American Samoa; Papeete, Tahiti; Sydney, Australia and Manila, Philippines;

- Other ad hoc charters.

Fuel

Our operations and financial results are significantly affected by the availability and price of jet fuel. The following table sets forth statistics about Hawaiian's aircraft fuel consumption and cost, including the impact of Hawaiian's fuel hedging program for SFAS 133 hedges as discussed below.

Year	Gallons consumed	Total cost, including taxes	Average cost per gallon	Percent of operating expenses
	(in thousands)			
2008(a)	134,140	$ 424,532	$ 3.17	36.2
2007	129,835	$ 291,636	$ 2.25	29.9
2006	114,236	$ 241,660	$ 2.12	27.3

(a) For 2008, the percent of operating expenses excludes the effect of the litigation settlement.

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As illustrated by the table above, fuel costs constitute a significant portion of our operating expenses. Approximately 57% of our fuel is based on Singapore jet fuel prices and 43% is based on U.S. West Coast jet fuel prices. Fuel prices are volatile; based on gallons expected to be consumed in 2009, for every one cent change in the cost per gallon of jet fuel, our annual fuel expense increases or decreases by approximately $1.4 million. Jet fuel costs represented 36.2% of our operating expenses in 2008, excluding the effect of the litigation settlement. During 2008, the majority of our fuel derivatives were not designated for hedge accounting under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) and were marked-to-market. As such, $16.1 million in net losses from our fuel hedging activities were not recorded as an increase to aircraft fuel expense in operating activities, but rather as nonoperating expense. The cost of jet fuel is influenced by international political and economic circumstances, such as unrest in Iraq and other conflicts in the Middle East, OPEC production curtailments, disruption of oil imports, increased demand by China, India and other developing countries, environmental concerns, weather, financial speculation, governmental action and other unpredictable events. Further increases in jet fuel prices or disruptions in fuel supplies, whether as a result of natural disasters or otherwise, could have a material adverse effect on our results of operations, financial position or liquidity.

We purchase aircraft fuel at prevailing market prices, but seek to manage market risk through execution of a hedging strategy. From time to time, we have entered into various derivative instruments to hedge a portion of our anticipated jet fuel requirements, including jet fuel, heating oil and crude oil future contracts.

Additional information regarding our fuel program and hedging position is included in Item 7A "Quantitative and Qualitative Disclosures about Market Risk" and in Note 5 to the consolidated financial statements.

Aircraft Maintenance

Our aircraft maintenance programs consist of a series of phased or continuous checks for each aircraft type. These checks are performed at specified intervals measured by calendar months, time flown or by the number of takeoffs and landings, or cycles operated. In addition, we perform inspections, repairs and modifications of our aircraft in response to Federal Aviation Administration (FAA) directives. Checks range from "walk around" inspections before each flight departure to major overhauls of the airframes which can take several weeks to complete. Aircraft engines are subject to phased maintenance programs designed to detect and remedy potential problems before they occur. The service lives of certain airframe and engine parts and components are time or cycle controlled, and such parts and components are replaced or refurbished prior to the expiration of their time or cycle limits.

Code Sharing and Other Alliances

We have marketing alliances with other airlines that provide reciprocal frequent flyer mileage accrual and redemption privileges and code sharing on certain flights (one carrier placing its name and flight numbers, or code, on flights operated by the other carrier). These programs enhance our revenue opportunities by:

- providing our customers more value by offering easier access to more travel destinations and better mileage accrual/redemption opportunities;
- gaining access to more connecting traffic from other airlines; and
- providing members of our alliance partners' frequent flyer programs an opportunity to travel on our system while earning mileage credit in the alliance partners' programs.

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Our marketing alliances with other airlines as of December 31, 2008 were as follows:

	HawaiianMiles Frequent Flyer Agreement	Other Airline Frequent Flyer Agreement	Codeshare Hawaiian Flight # on Flights Operated by Other Airline	Codeshare Other Airline Flight # on Flights Operated by Hawaiian
American Airlines (American)	No	Yes	No	Yes
American Eagle	No	Yes	Yes	No
Continental Airlines (Continental)	Yes	Yes	Yes	Yes
Delta Air Lines (Delta)	Yes	Yes	No	No
Island Air	No	No	Yes	No
Korean Air	No	No	No	Yes
Northwest Airlines (Northwest)*	Yes	Yes	No	Yes
United Airlines (United)	No	Yes	No	Yes
US Airways	No	Yes	No	Yes
Virgin Atlantic Airways (Virgin Atlantic)	Yes	Yes	No	No
Virgin Blue	No	Yes	No	No

* Northwest was acquired by Delta on October 29, 2008. There may be modifications to the marketing relationships in the future as a result of this merger.

Although these programs and services increase our ability to be more competitive, they also increase our reliance on third parties.

Marketing

In an effort to lower our distribution costs and reduce our reliance on travel agencies, we continued to pursue e-commerce initiatives during 2008. Since 2003, we have substantially increased the use of our website, *www.HawaiianAirlines.com*, as a distribution channel. During 2008, more than half of our passenger revenue originated through our website. In addition, we provide internet check-in and self-service kiosks to improve the customer check-in process. Our website offers our customers information on our flight schedules, our *HawaiianMiles* frequent flyer program, the ability to book reservations on our flights or connecting flights with any of our code share partners, the status of our flights as well as the ability to purchase tickets or travel packages. We also publish fares with web-based travel services such as Orbitz, Travelocity, Expedia, Hotwire and Priceline. These comprehensive travel planning websites provide customers with convenient online access to airline, hotel, car rental and other travel services.

Frequent Flyer Program

The *HawaiianMiles* frequent flyer program was initiated in 1983 to encourage and develop customer loyalty. *HawaiianMiles* allows passengers to earn mileage credits by flying with us and our partner carriers. In addition, members earn mileage credits for patronage with our other program partners, including credit card issuers, hotels, car rental firms and long distance telephone companies, pursuant to our exchange partnership agreements. We also sell mileage credits to other companies participating in the program.

HawaiianMiles members have a choice of various awards based on accumulated mileage credits, with most of the awards being for free air travel on Hawaiian. Travel awards range from a 7,500 mile award, which is redeemable for a SuperSaver one-way interisland flight, to a 210,000 mile award, which is redeemable for an anytime one-way first class travel between the mainland U.S. and Sydney, Australia.

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Hawaiian modified the award levels of its *HawaiianMiles* frequent flyer program for award travel on or after September 1, 2008, requiring an increased number of frequent flyer miles to be redeemed for free air travel on Hawaiian.

Competition

Transpacific

We face multiple competitors on our transpacific routes including major network carriers such as Alaska Airlines, American, Continental, Northwest, Delta, United and US Airways. Various charter companies also provide unscheduled service to Hawaii mostly under public charter arrangements.

South Pacific/Australia/Asia

Currently, we are the only provider of nonstop service between Honolulu and each of Pago Pago, American Samoa and Papeete, Tahiti. We also operate roundtrip flights between Honolulu and Sydney, Australia, competing directly against Qantas Airways and its low-cost affiliate Jetstar on this route, and between Honolulu and Manila, Philippines, competing directly against Philippine Airlines.

Interisland

Interisland routes are served by several carriers including Island Air, Mesa (through its *go!* operating division), Mokulele Airlines (Mokulele), Pacific Wings and a number of "air taxi" companies. In November 2008, Mokulele expanded its interisland service via a code share agreement with Republic Airways to include flights between Honolulu and Lihue and Honolulu and Kona. In February 2009, Mokulele began service between Honolulu and Kahului, Maui. In January 2009, we operated approximately 170 daily interisland flights.

Employees

As of December 31, 2008, Hawaiian had 3,707 active employees compared to 3,415 active employees as of December 31, 2007. Wages and benefits expense represented approximately 20.7% and 22.8% of our total operating expenses in 2008 and 2007, respectively. The 2008 percentages exclude the impact of the litigation settlement discussed previously. As of December 31, 2008, approximately 87% of our employees were covered by labor agreements with the following organized labor groups:

Employee Group	Represented by	Number of Employees	Agreement amendable on (*)
Flight deck crew members	Air Line Pilots Association (ALPA)	385	Currently Amendable (**)
Cabin crew members	Association of Flight Attendants (AFA)	1,023	Currently Amendable (**)
Maintenance and engineering personnel	International Association of Machinists and Aerospace Workers (IAM)	558	Currently Amendable (**)
Customer service representatives	IAM	1,224	Currently Amendable (**)
Flight dispatch personnel	Transport Workers Union (TWU)	29	Currently Amendable (***)

(*) Our relations with our labor organizations are governed by Title II of the Railway Labor Act of 1926, pursuant to which act the collective bargaining agreements between us and these organizations do not expire but instead become amendable as of a certain date if either party wishes to modify the terms of the agreement.

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(**)
Contract negotiations are currently ongoing. ALPA and the Company jointly filed for mediation with the National Labor Relations Board in September 2008. Thus far, the parties have had twelve days of mediation. More sessions are scheduled. AFA and IAM Clerical and Machinists continue to negotiate.

(***)
On November 21, 2008, the TWU filed a complaint in U.S. District Court, District of Hawaii seeking declaratory relief on the issue of whether a binding new agreement was reached with Hawaiian when the TWU membership ratified a revoked tentative agreement containing material errors of which the TWU negotiating team had been previously notified. Hawaiian has filed a counter claim asking the Court to order the TWU to resume negotiations. Trial is expected to be scheduled in late-2009; if Hawaiian prevails in its position that no contract was formed, negotiations will resume thereafter. Beginning February 23, 2009, the U.S. District Court, District of Hawaii (the Court) will hear TWU's Motion for Preliminary Injunction (the Motion). The Motion asks that the Court order Hawaiian to enforce the new pay scales prior to the Court's determination of whether a new contract exists.

Seasonality

Our operations and financial results are subject to substantial seasonal and cyclical volatility, primarily because of leisure and holiday travel patterns. Hawaii is a popular vacation destination for travelers. Demand levels are typically weaker in the first quarter of the year with stronger demand periods occurring during June, July, August and December. We may adjust our pricing or the availability of particular fares to obtain a profitable passenger load factor depending on seasonal demand differences.

Customers

Our business is not dependent upon a single customer, or a few customers, the loss of any one or more of which would have a material adverse effect on our business.

Regulation

Our business is subject to extensive and evolving federal, state, local and transportation laws and regulations in the destinations we serve. Many of these agencies regularly examine our operations to monitor compliance with applicable laws and regulations. Governmental authorities can enforce compliance with applicable laws and regulations and obtain injunctions or impose civil or criminal penalties or take actions against our operating certificates in case of violations.

We cannot guarantee that we will be able to obtain or maintain necessary governmental approvals. Once obtained, operating permits are subject to modification and revocation by the issuing agencies. Compliance with these and any future regulatory requirements could require us to make significant capital and operating expenditures. However, most of these expenditures are made in the normal course of business and do not place us at any competitive disadvantage. The primary U.S. federal statutes affecting our business are discussed below.

We are also subject to extensive international air transportation regulation. Our operating authority in international markets is subject to aviation agreements between the U.S. and the respective countries or governmental authorities in the markets we serve and is periodically subject to renegotiation. Any change in these agreements could require us to make significant capital and operating expenditures.

Industry Regulations

We are subject to the regulatory jurisdiction of the U.S. Department of Transportation (DOT) and the Federal Aviation Administration (FAA). We operate under a Certificate of Public Convenience and Necessity issued by the DOT (authorizing us to provide commercial aircraft service) as well as a Part 121 Scheduled Carrier Operating Certificate issued by the FAA. These certificates may be altered, amended, modified or suspended by the DOT if public convenience and necessity so require, or may be

revoked for intentional failure by the holder of the certificate to comply with the terms and conditions of a certificate. The DOT has jurisdiction over international routes and fares, consumer protection policies including baggage liability and denied-boarding compensation, and unfair competitive practices as set forth in the Airline Deregulation Act of 1978. The FAA has regulatory jurisdiction over flight operations generally, including equipment, ground facilities, security systems, maintenance and other safety matters. Pursuant to these regulations, we have established, and the FAA has approved, a maintenance program for each type of aircraft we operate that provides for the ongoing maintenance of our aircraft, ranging from frequent routine inspections to major overhauls. Current operators are now required to follow the New Aircraft Process Document which delineates the certification-related requirements to add a new aircraft type to the operating fleet. The FAA will assign a cross-functional team to assess the airline's readiness to operate the A330 aircraft. The bulk of the management effort will take place in 2009.

Maintenance Directives

The FAA approves all airline maintenance programs, including modifications to the programs. In addition, the FAA licenses the mechanics who perform the inspection, repairs and overhauls, as well as the inspectors who monitor the work.

The FAA frequently issues airworthiness directives, often in response to specific incidents or reports by operators or manufacturers, requiring operators of specified equipment types to perform prescribed inspections, repairs or modifications within stated time periods or numbers of cycles. In the last several years, the FAA has issued a number of maintenance directives and other regulations relating to, among other things, wiring requirements for aging aircraft, cargo compartment fire detection/suppression systems, collision avoidance systems, airborne windshear avoidance systems, noise abatement and increased inspection requirements. We cannot predict what new airworthiness directives will be issued and what new regulations will be adopted, or how our businesses will be affected by any such directives or regulations. We expect that we may incur expenses to comply with new airworthiness directives and regulations.

We believe we are in compliance with all requirements necessary to be in good standing with our air carrier operating certificate issued by the FAA and our certificate of Public Convenience and Necessity issued by the DOT. A modification, suspension or revocation of any of our FAA authorizations or certificates would have a material adverse impact on our operations.

Airport Security

The Aviation and Transportation Security Act (ATSA) mandates that the Transportation Security Administration (TSA) provide for the screening of all passengers and property, including mail, cargo, carry-on and checked baggage, and other articles that will be carried aboard a passenger aircraft. Under the ATSA, substantially all security screeners at airports are federal employees and significant other elements of airline and airport security are now overseen and performed by federal employees, including security managers, law enforcement officers and Federal Air Marshals. The ATSA also provided for increased security on flight decks of aircraft and required Federal Air Marshals to be present on certain flights, improved airport perimeter access security and airline crew security training, enhanced security screening of passengers, baggage, cargo, mail, employees and vendors, enhanced training and qualifications of security screening personnel, provided additional passenger data to U.S. Customs and Border Protection and enhanced background checks. Funding for airline and airport security under the law is primarily provided by a $2.50 per enplanement security service fee ($5.00 one-way maximum fee for multiple segments) which is collected from passengers by the air carriers and submitted to the government. The TSA also has the authority to impose additional fees on the air carriers, if necessary, to cover additional federal aviation security costs. Since 2002, the TSA has imposed an Aviation Security Infrastructure Fee on all airlines in operation prior to 2000 to assist in

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the cost of providing aviation security. The fees assessed are based on airlines' actual security costs for the year ended December 31, 2000. The TSA may increase these fees through rulemaking, but has not yet initiated such a proceeding. The existing fee structure will remain in place until further notice. Furthermore, because of significantly higher security and other costs incurred by airports since September 11, 2001, many airports have significantly increased their rates and charges to airlines, including us, and may do so again in the future. Most airports where we operate impose passenger facility charges of up to $4.50 per segment, subject to an $18 per roundtrip cap.

Environmental and Employee Safety and Health

We are subject to various laws and government regulations concerning environmental matters and employee safety and health in the U.S. and other countries in which we do business. Many aspects of airlines' operations are subject to increasingly stringent federal, state and local laws protecting the environment. U.S. federal laws that have a particular impact on us include the Airport Noise and Capacity Act of 1990, the Clean Air Act, the Resource Conservation and Recovery Act, the Clean Water Act, the Safe Drinking Water Act, and the Comprehensive Environmental Response, Compensation and Liability Act. Certain of our operations are also subject to the oversight of the Occupational Safety and Health Administration (OSHA) concerning employee safety and health matters. The U.S. Environmental Protection Agency (EPA), OSHA, and other federal agencies have been authorized to promulgate regulations that affect our operations. In addition to these federal activities, various states have been delegated certain authorities under the aforementioned federal statutes. Many state and local governments have adopted environmental and employee safety and health laws and regulations, some of which are similar to or stricter than federal requirements, such as California. Congress is considering environmental legislation that may impact the cost of operating aircraft within the United States by requiring the purchase of environmental credits to operate engines using carbon-based fuels, such as those used on our aircraft. The form and impact of such legislation cannot be predicted.

Noise Abatement

Under the Airport Noise and Capacity Act, the DOT allows local airport authorities to implement procedures designed to abate special noise problems, provided such procedures do not unreasonably interfere with interstate and foreign commerce, or the national transportation system. Certain airports, including the major airports at Los Angeles, San Diego, San Francisco, San Jose and Sydney, Australia, have established airport restrictions to limit noise, including restrictions on aircraft types to be used and limits on the number of hourly or daily operations or the time of such operations. Local authorities at other airports could consider adopting similar noise regulations. In some instances, these restrictions have caused curtailments in services or increases in operating costs, and such restrictions could limit our ability to expand our operations.

Taxes

The airline industry is subject to various passenger ticket, cargo and fuel taxes, which change from time to time. Certain of these taxes are assessed directly to the air carrier (e.g., excise taxes on fuel); while certain other of these taxes are pass-through taxes (e.g., excise taxes on air transportation of passengers and cargo). Pending in Congress is the reauthorization of the Federal Aviation Act, which may include, when enacted, restructuring of the taxes and fees that airlines, passengers and aircraft owners pay in order to operate the United States aviation system. In addition, Congress is considering how to upgrade the air traffic control system and reduce costly delays, which would require additional fees from all users of the air traffic control system and allow airports to increase their passenger facility charges (PFCs) from $4.50 per segment. In the interim, Congress has passed a series of short-term extensions of the existing law. We cannot predict what future actions Congress may take in response to the proposal or whether any such actions will have a material effect on our costs or revenue.

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Civil Reserve Air Fleet Program

The U.S. Department of Defense regulates the Civil Reserve Air Fleet (CRAF) and government charters. We have elected to participate in the CRAF program whereby we have agreed to make our Boeing 767 aircraft available to the federal government for use by the U.S. military under certain stages of readiness related to national emergencies. The program is a standby arrangement that lets the U.S. Department of Defense U.S. Transportation Command call on as many as four contractually committed Hawaiian aircraft and crews to supplement military airlift capabilities.

A "Stage 1" mobilization of the CRAF program is the lowest activation level and would require us to make one passenger aircraft available. Under the requirements of a Stage 2 mobilization, an additional passenger aircraft would be required. The remaining aircraft subject to the CRAF program would be mobilized under a Stage 3 mobilization, which for us would involve a total of four passenger aircraft. While the government would reimburse us for the use of these aircraft, the mobilization of aircraft under the CRAF program could have a significant adverse impact on our results of operations. None of our aircraft are presently mobilized under this program.

Other Regulations

The State of Hawaii is uniquely dependent upon air transportation. The recent bankruptcies and shutdowns of air carriers such as Aloha and ATA have profoundly affected the State, and its legislature has responded by enacting legislation that reflects and attempts to address its concerns. For example, House Bill 2250 HD1, now Act 1 of the 2008 Special Session, establishes a statutory scheme for the regulation of Hawaii interisland air carriers, provided that federal legislation is enacted to permit its implementation. Among other things, this new law establishes an air carrier commission of five unpaid members, appointed by Hawaii's governor, within the State Department of Transportation. The commission would examine and certify all interisland carriers and regulate fares, flight schedules, all property transfers and ownership transactions of certified carriers. Vetoed by Hawaii State Governor Linda Lingle and subsequently overridden by the Hawaii State Legislature on July 8, 2008, this new law is subject to enactment of federal legislation permitting its implementation. We are currently evaluating the impact this legislation would have on our operations if enacted. Additionally, several aspects of airline operations are subject to regulation or oversight by federal agencies other than the FAA and the DOT. The federal antitrust laws are enforced by the U.S. Department of Justice. The U.S. Postal Service has jurisdiction over certain aspects of the transportation of mail and related services provided by our cargo services. Labor relations in the air transportation industry are generally regulated under the Railway Labor Act. We and other airlines certificated prior to October 24, 1978 are also subject to preferential hiring rights granted by the Airline Deregulation Act to certain airline employees who have been furloughed or terminated (other than for cause). The Federal Communications Commission issues licenses and regulates the use of all communications frequencies assigned to us and the airlines. There is increased focus on consumer protection both on the federal and state level. We cannot predict the cost of such requirements on our operations.

Additional laws and regulations are proposed from time to time, which could significantly increase the cost of airline operations by imposing additional requirements or restrictions. U.S. law restricts the ownership of U.S. airlines to corporations where no more than 25% of the voting stock may be held by non-U.S. citizens and the airline must be under the actual control of U.S. citizens. The President and two thirds of the Board of Directors and other managing officers must also be U.S. citizens. Regulations also have been considered from time to time that would prohibit or restrict the ownership and/or transfer of airline routes or takeoff and landing slots. Also, the award of international routes to U.S. carriers (and their retention) is regulated by treaties and related agreements between the U.S. and foreign governments, which are amended from time to time. We cannot predict what laws and regulations will be adopted or what changes to international air transportation treaties will be adopted, if any, or how we will be affected by those changes.

ITEM 1A. RISK FACTORS.

In addition to the risks identified elsewhere in this report, the following risk factors apply to our business, results of operations and financial conditions:

Risks Relating to our Business

Our business is affected by economic volatility.

Economic conditions in the United States and globally significantly deteriorated during 2008, reducing demand for discretionary purchases in general, and air travel and vacations to Hawaii in particular. If this reduction in demand continues, it may result in a reduction in our passenger traffic and/or increased competitive pressure on fares in the markets we serve, either of which could negatively affect our revenue and liquidity and have a negative affect on our results of operations and financial condition. We can not assure that we would be able to offset such revenue reductions by reducing our costs.

Our business is highly dependent on the price and availability of fuel.

Aircraft fuel costs were our single largest operating expense during each of the past three years. Fuel costs represented 36.2%, 29.9% and 27.3% of Hawaiian's operating expenses for the years ended December 31, 2008, 2007 and 2006, respectively. The 2008 percentages exclude the impact of the litigation settlement discussed previously. Based on gallons expected to be consumed in 2009, for every one cent change in the cost per gallon of jet fuel, Hawaiian's annual fuel expense increases or decreases by approximately $1.4 million. Prices and availability of aviation fuel are subject to political, economic and market factors that are generally outside of our control. Prices may be affected by many factors including: the impact of political instability and crude oil production, unexpected changes in the availability of petroleum products due to disruptions at distribution systems or refineries, unpredicted increases in demand due to weather or the pace of global economic growth, inventory levels of crude oil and other petroleum products, the relative fluctuation between the U.S. dollar and other major currencies and the actions of speculators in commodity markets. Further increases in jet fuel prices or disruptions in fuel supplies, whether as a result of natural disasters or otherwise, could have a material adverse effect on our results of operations, financial position or liquidity.

We operate in an extremely competitive environment.

The domestic airline industry is characterized by low profit margins, high fixed costs and significant price competition. We currently compete with other airlines on our interisland, transpacific and South Pacific/Australia/Asia routes. The commencement of, or increase in, service on our routes by existing or new carriers could negatively impact our operating results. Many of our competitors are larger and have greater financial resources and name recognition than we do. Either aggressive marketing tactics or a prolonged fare war initiated by one or more of these competitors could adversely affect our financial resources and our ability to compete in these markets.

In recent years, many of our competitors have dramatically reduced operating costs through a combination of operational restructuring, business simplification and vendor and labor negotiations. Several airlines, including United, Delta, Northwest, and US Airways were able to reduce labor costs, restructure debt and lease agreements, and implement other financial improvements through the bankruptcy process. Other carriers, including American and Continental, have also reduced operating costs outside of the bankruptcy process. In October 2008, Delta completed its acquisition of Northwest. Through consolidation, carriers have the opportunity to achieve cost reductions by eliminating redundancy in their networks and their management structures. With reduced costs, these competitors are more capable of operating profitably in an environment of reduced fares and may, as a result, increase service in our primary markets or reduce fares to attract additional customers. Because airline

customers are price sensitive, we cannot assure that we will be able to attract a sufficient number of customers at sufficiently high fare levels to generate profitability, or that we will be able to reduce our operating costs sufficiently to remain competitive with these airlines.

Our interisland business faces low-fare competition following the entrance of *go!* (an operating division of Mesa) and Mokulele. Since airline markets have few natural barriers to entry, we also face the threat of new entrants in all of our markets, including low-cost carrier (LCC) competition. Furthermore, a more fundamental and immediate consequence for us of the proliferation of LCCs is the response from full service network carriers, which have met the competition from LCCs by significantly reducing costs and adjusting their route networks to divert resources to long-haul markets such as Hawaii, where LCC competition has been less severe. The result is that the network carriers have at the same time reduced their costs of operation and increased capacity in the Hawaii market. Additional capacity to Hawaii, whether from network carriers or LCCs, could result in a decrease in our share of the markets in which we operate, a decline in our yields, or both, which could have a material adverse effect on our results of operations and financial condition.

Our business is affected by the competitive advantages held by network carriers in the transpacific market.

In the transpacific market, most of our competition comes from network carriers such as United, Alaska, American, Continental, Delta, Northwest and US Airways. Network carriers have a number of competitive advantages relative to us that may enable them to obtain higher fares or attract higher customer traffic levels than us:

- Network carriers generate passenger traffic from throughout the U.S. mainland. In contrast, we lack a comparable network to feed passengers to our transpacific flights and are, therefore, more reliant on passenger demand in the specific cities we serve.

- Most network carriers operate from hubs, which can provide a built-in market of passengers, depending on the economic strength of the hub city and the size of the customer group that frequent the airline. For example, United flows sufficient passenger traffic throughout the U.S. mainland to schedule approximately 8 flights a day, depending on the time of year, between San Francisco and the Hawaiian islands, which gives San Francisco residents wishing to travel to Hawaii a large number of United nonstop flight choices to Oahu, Maui, Kauai and the Big Island, while we, without feed traffic, offer only one flight per day from San Francisco to Honolulu. In contrast, Honolulu, the hub of our operations, does not originate a large proportion of transpacific travel, nor does it have the city strength or potential customer franchise of a city such as Chicago or Dallas necessary to provide us with a built-in market. Passengers in the transpacific market, for the most part, do not originate in Honolulu, but rather on the mainland, making Honolulu primarily a destination rather than origin of passenger traffic.

The interisland market has recently experienced reduced fares and decreasing demand.

The demand for interisland service has reduced in recent years as other airlines have increased direct service from the mainland to Oahu's neighbor islands, obviating the need for interisland transfers and as the infrastructure, particularly the availability of goods and services, in the neighbor islands improves. A decline in the level of interisland passenger traffic could have a material adverse effect on our results of operations and financial condition.

In addition, Mesa through its operating division *go!*, entered the interisland market in June 2006. Following its entry into the market, the interisland market experienced significant downward pressure on interisland fares, including those charged by us. Price promotions initiated by *go!* resulted in a significant reduction in the revenue generated on our interisland routes from June 2006 through mid-2008 when the failure of Aloha Airlines resulted in a rebalancing of market supply and demand.

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Subsequently, Mokulele expanded its operations on our primary interisland routes in November 2008. We can offer no assurances that the competitive situation will not return to conditions of overcapacity and depressed fares, or that we will be able to achieve cost reductions sufficient to offset the decline in revenue that might accompany such a recurrence.

Our business is highly dependent on tourism, and our financial results could suffer if there is a downturn in tourism levels.

Our principal base of operations is in Hawaii and our revenue is linked primarily to the number of travelers (mostly tourists) to, from and among the Hawaiian Islands. Hawaii tourism levels are affected by, among other things, the political and economic climate in Hawaii's main tourism markets, the availability of hotel accommodations, promotional spending by competing destinations, the popularity of Hawaii as a tourist destination relative to other vacation destinations, and other global factors, including natural disasters, safety and security. From time to time, various events and industry specific problems such as strikes have had a negative impact on tourism in Hawaii. In addition, the potential or actual occurrence of terrorist attacks, wars such as those in Afghanistan and Iraq, and the threat of other negative world events have had and may in the future again have a material adverse effect on Hawaii tourism. No assurance can be given that the level of passenger traffic to Hawaii will not decline in the future. A decline in the level of Hawaii passenger traffic could have a material adverse effect on our results of operations and financial condition.

Our business is subject to substantial seasonal and cyclical volatility.

Our profitability and liquidity are sensitive to seasonal volatility primarily because of leisure and holiday travel patterns. Hawaii is a popular vacation destination. Demand is typically stronger during June, July, August and December and considerably weaker at other times of the year. Our results of operations generally reflect this seasonality, but are also affected by numerous other factors that are not necessarily seasonal. These factors include the extent and nature of fare changes and competition from other airlines, changing levels of operations, national and international events, fuel prices and general economic conditions, including inflation. Because a substantial portion of both personal and business airline travel is discretionary, the industry tends to experience adverse financial results in general economic downturns. Additionally, airlines generally require substantial liquidity to sustain continued operations under most conditions.

The concentration of our business in Hawaii, and between Hawaii and the western United States, provides little diversification of our revenue.

Most of our revenue is generated from air transportation between the islands of Hawaii and the western United States, or within the Hawaiian islands. Many of our competitors, particularly major network carriers with whom we compete in the transpacific business, enjoy greater geographical diversification of their revenue. A reduction in the level of demand for travel within Hawaii, or to Hawaii from the western United States or the U.S. mainland in general, or an increase in the level of industry capacity on these routes may reduce the revenue we are able to generate and adversely affect our financial results. As these routes account for a significantly higher proportion of our revenue than they do for many of our competitors, such a reduction would have a relatively more adverse impact on our financial results.

Our failure to successfully implement our growth strategy and related cost-reduction goals could harm our business.

Our growth strategy involves purchasing additional aircraft, expanding into new markets and increasing the frequency of flights to markets that we currently serve. It is critical that we achieve our growth strategy in order for our business to attain economies of scale and to sustain or improve our

results of operations. If we are unable to hire and retain skilled personnel or to secure the required equipment and facilities, or if we are not able to otherwise successfully implement our growth strategy, our business and operations could be adversely affected.

We continue to strive toward aggressive cost-reduction goals that are an important part of our business strategy of offering the best value to passengers through competitive fares while at the same time achieving acceptable profit margins and return on capital. We believe having a lower cost structure better positions us to be able to fund our growth strategy and take advantage of market opportunities. If we are unable to further reduce our non-fuel unit costs, we likely will not be able to achieve our growth plan and our financial results may suffer.

Our share price has been subject to extreme price fluctuations, and stockholders could have difficulty trading shares.

The market price for our common stock has been and may continue to be subject to significant price fluctuations. Price fluctuations could be in response to operating results, changes in the competitive environment in which we serve, changes in jet fuel prices, bankruptcy filings by other airlines, increased government regulation and general market conditions. Additionally, the stock market in recent years has experienced extreme price and volume fluctuations that often have been unrelated to the operating performance of individual companies. These market fluctuations, as well as general economic conditions, may affect the price of our common stock.

In the past, securities class action litigation has often been instituted against a company following periods of volatility in the company's stock price. This type of litigation, if filed against us, could result in substantial costs and divert our management's attention and resources. In addition, the future sale of a substantial number of shares of common stock by us or by our existing stockholders may have an adverse impact on the market price of the shares of common stock. There can be no assurance that the trading price of our common stock will remain at or near its current level.

We are increasingly dependent on technology to operate our business.

We depend heavily on computer systems and technology, such as flight operations systems, communications systems, airport systems and reservations systems to operate our business. Any substantial or repeated failures of our computer or communications systems could impact our customer service, compromise the security of customer information, result in the loss of important data, loss of revenue, and increased costs, and generally harm our business. Like all companies, our computer and communication systems may be vulnerable to disruptions due to events beyond our control, including natural disasters, power, equipment or software failures, terrorist attacks, computer viruses and hackers. There can be no assurance that the measures we have taken to reduce the adverse effects of certain potential failures or disruptions are adequate to prevent or remedy disruptions of our systems.

We are subject to various risks as a result of our fleet concentration in Boeing 717s and Boeing 767s.

Our fleet currently consists entirely of Boeing 717 and Boeing 767 aircraft. In 2006, Boeing Commercial Airplanes (Boeing) discontinued the production of the Boeing 717 aircraft model. In addition, the rate of production of Boeing 767 aircraft has significantly decreased. As a result, the availability of parts and maintenance support for Boeing 717 and Boeing 767 aircraft may become limited in future years. Additionally, we may experience increased costs in later years associated with parts acquisition for and/or maintenance support of these aircraft. Other carriers operating with a more diversified fleet may be better able to withstand such an event, if such an event occurred in the future.

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We are highly reliant on third-party contractors to provide certain facilities and services for our operations, and termination of our third-party agreements could have a potentially adverse effect on our financial results.

We have agreements with Air New Zealand, US Airways, American, Continental, Delta, Northwest, Island Air, and other contractors to provide certain facilities and services required for our operations. These facilities and services include aircraft maintenance, code sharing, reservations, computer services, accounting, frequent flyer programs, passenger processing, ground facilities, baggage and cargo handling and personnel training. Our reliance on these third parties to continue to provide these important aspects of our business impacts our ability to conduct our business effectively.

Maintenance agreements. We have maintenance agreements with Delta, Air New Zealand Engineering Services, the Pratt & Whitney division of United Technologies Corporation, Rolls-Royce, Honeywell and others to provide maintenance services for our aircraft, engines, parts and equipment. If one or more of our maintenance providers terminate their respective agreements, we would have to seek alternative sources of maintenance service or undertake the maintenance of these aircraft or components ourselves. We cannot assure you that we would be able to do so on a basis that is as cost-effective as our current maintenance arrangements.

Code sharing agreements. We have code sharing agreements with American, American Eagle, Continental, Island Air, Korean Air, Northwest, United and US Airways. We also participate in the frequent flyer programs of American, Continental, Delta, Northwest, United, US Airways, Virgin Atlantic and Virgin Blue. Continental, Island Air, Northwest, and Virgin Atlantic participate in our frequent flyer programs. Although these agreements increase our ability to be more competitive, they also increase our reliance on third parties.

Fuel agreements. We have entered into a jet fuel sale and purchase contract to provide us with a substantial amount of jet fuel, which we anticipate will be sufficient to meet all of our jet fuel needs for flights originating in Honolulu during 2009. If the fuel provider terminates its agreement with us, we would have to seek an alternative source of jet fuel. We cannot assure you that we would be able to do so on a basis that is as cost-effective as our current arrangement. We have agreements with vendors at all airports we serve to provide us with fuel. Should any of these vendors cease to provide service to us for whatever reason, our operations could be adversely affected.

Outsourcing agreements. We have entered into agreements with a third-party contractor in India to provide certain accounting and information technology services as well as with a third-party contractor in the Philippines to provide reservation call center functions. Our agreements may materially fail to meet our service level and performance standards and commitments to our customers. Any failure of these providers to adequately perform their service obligations, or other unexpected interruptions of services, may reduce our revenue and increase our expenses, or prevent us from operating our flights profitably and providing other services to our customers. In addition, our business and financial performance could be materially harmed if our customers believe that our services are unreliable or unsatisfactory. In addition, to the extent we are unable to maintain the outsourcing or subcontracting of certain services for our business, we would incur substantial costs, including costs associated with hiring new employees, in order to return these services in-house.

Information Technology agreements. We have agreements in place with a number of vendors including Sabre Holdings, ITA Software, NCR Corporation and Oracle Corporation to provide technology products and services that support various aspects of our business. If one or more of these vendors were to terminate these agreements, we would have to seek alternative partners. This transition would be lengthy, expensive, and may affect our operation adversely.

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Travel agency and wholesale agreements. In 2008, passenger ticket sales from travel agencies and wholesalers constituted approximately 25% of our total operating revenue. Travel agents and wholesalers generally have a choice between one or more airlines when booking a customer's flight. Accordingly, any effort by travel agencies or wholesalers to favor another airline or to disfavor us could adversely affect our revenue. Although we intend to maintain favorable relations with travel agencies and wholesalers, there can be no assurance that they will continue to do business with us. The loss of any one or several travel agencies and or wholesalers may have an adverse effect on operations.

We are dependent on satisfactory labor relations.

Labor costs are a significant component of airline expenses and can substantially impact an airline's results. Labor and related benefit costs represented approximately 20.7% and 22.8% of our operating expenses for the years ended December 31, 2008 and 2007, respectively. The 2008 percentages exclude the impact of the Mesa litigation settlement discussed previously. We may experience pressure to increase wages and benefits for our employees in the future. We may make strategic and operational decisions that require the consent of one or more of our labor unions. We cannot assure you that these labor unions will not require additional wages, benefits or other consideration in return for their consent. In addition, we have entered into collective bargaining agreements with our pilots, mechanical group employees, clerical group employees, flight attendants, dispatchers and network engineers which are currently amendable. We cannot assure you that future agreements with our employees' unions will be on terms in line with our expectations or comparable to agreements entered into by our competitors, and any future agreements may increase our labor costs or otherwise adversely affect us. We are currently in litigation with one of our labor unions regarding the validity of an agreement. If we are unable to reach an agreement with any unionized work group, we may be subject to future work interruptions and/or stoppages, which may hamper or halt operations.

Our operations may be adversely affected if we are unable to attract and retain key executives, including our Chief Executive Officer.

We are dependent on our ability to attract and retain key executives, particularly Mark B. Dunkerley, our Chief Executive Officer, whose amended employment agreement provides for a three-year term of employment ending on November 8, 2010. Competition for such personnel in the airline industry is highly competitive, and we cannot be certain that we will be able to retain our Chief Executive Officer or other key executives or that we can attract other qualified personnel in the future. Any inability to retain our Chief Executive Officer and other key executives, or attract and retain additional qualified executives, could have a negative impact on our operations.

Our substantial debt could adversely affect our financial condition.

As of December 31, 2008, we had substantial indebtedness, including $109.1 million of debt related to the acquisition in December 2006 of three previously leased Boeing 767-300ER aircraft, a $35.0 million term A credit facility scheduled to mature in December 2010, a $55.2 million term B credit facility scheduled to mature in March 2011, and $12.9 million of notes payable to the Internal Revenue Service (IRS) that mature in June 2011. As of December 31, 2008, we had capital lease obligations of $47.1 million related primarily to our Boeing 717-200 aircraft leases. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources."

The requirement to service our debt makes us more vulnerable to general adverse economic conditions, requires us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing the availability of our cash flow for operations and other purposes, limits our flexibility in planning for, or reacting to, changes in our business and the industry in which we

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operate, and places us at a competitive disadvantage compared to any other competitor that has less debt than we do.

Our financial liquidity could be adversely affected by credit market conditions.

Our business requires access to capital markets to finance equipment purchases, including aircraft, and to provide liquidity in seasonal or cyclical periods of weaker revenue generation. Additionally, we will face specific funding challenges upon the expiration of our term A and term B loans (in 2010 and 2011, respectively), the expiration of indebtedness related to the purchase of three previously leased Boeing 767-300 aircraft in 2013, and our obligation under a purchase agreement with Airbus to acquire six wide-body A330-200 aircraft and six A350XWB (Extra Wide Body) -800 aircraft. Credit market conditions deteriorated globally in 2008, severely reducing the availability of financing and increasing the cost of financing that can be acquired. We can offer no assurance that the financing we need will be available when required or that the economic terms on which it is available do not adversely affect our financial condition.

Our agreement to purchase Airbus A330-200 and A350XWB-800 aircraft significantly increases our future financial commitments and operating costs and creates implementation risk associated with the change from our current Boeing 767-300 fleet.

In January 2008, we reached an agreement with Airbus to purchase six A330-200 aircraft beginning in 2012 and six A350XWB-800 aircraft beginning in 2017 with additional purchase rights to acquire an additional six aircraft of each type. Additionally, we have agreed to acquire three additional A330-200 aircraft beginning in 2010 and 2011, which are currently subject to operating leases. These commitments substantially increase our future capital spending requirements and may require us to substantially increase our level of debt in future years. There can be no assurance that we will be able to raise capital to finance these requirements or that such financing can be obtained on favorable terms or at all.

The addition of the Airbus aircraft to our fleet will require us to incur additional costs related to the acquisition of spare engines, training of crews and ground employees, the addition of these aircraft types to our operating certificate and other implementation activities. There can be no assurance that we will be able to recover these costs through the future operation of these aircraft in our fleet or that we will not experience delays in the implementation process which could adversely affect our operations or financial performance.

Delays in scheduled aircraft deliveries or other loss of fleet capacity may adversely impact our operations and financial results.

The success of our business depends on, among other things, the ability to operate a certain number and type of aircraft, including the introduction of the Airbus aircraft. If for any reason we were unable to secure deliveries of the Airbus aircraft on contractually scheduled delivery dates and successfully introduce these aircraft into our fleet, this could have a negative impact on our business, operations and financial performance. Our failure to integrate the Airbus aircraft into our fleet as planned might require us to seek extensions of the terms for some leased aircraft. Such unanticipated extensions may require us to operate existing aircraft beyond the point at which it is economically optimal to retire them, resulting in increased maintenance costs. Additionally, aircraft lease rates have increased subsequent to the rates applicable when several of our existing leases were established. If new aircraft orders are not filled on a timely basis, we could face higher monthly rental rates on our existing Boeing aircraft leases.

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Certain of our financing agreements and our credit card processing agreements include financial covenants that impose substantial restrictions on our financial and business operations.

The terms of our term A and term B credit facilities restrict our ability to, among other things, incur additional indebtedness, pay dividends or make other payments on investments, consummate asset sales or similar transactions, create liens, merge or consolidate with any other person, or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of our assets. The terms of the agreements contain covenants that require us to meet certain financial tests to avoid a default that might lead to early termination of the facilities. If we were not able to comply with these covenants, our outstanding obligations under these facilities could be accelerated and become due and payable immediately.

Under our bank-issued credit card processing agreements, our credit card processors hold back proceeds from advance ticket sales to serve as collateral to cover any possible chargebacks or other disputed charges that may occur. These holdbacks, which are included in restricted cash in our Consolidated Balance Sheets, totaled $28.0 million at December 31, 2008. Funds are subsequently made available to us as air travel is provided. The agreement with our largest credit card processor also contains financial triggers which provide, among other things, for the level of credit card holdback to be adjusted based on the level of our unrestricted cash and short-term investments and levels of debt service coverage and operating income. As of December 31, 2008, the holdback was at the contractual level of 25% of the applicable credit card air traffic liability. If these specific financial triggers are not met in the future, the holdback could increase to an amount up to 100% of the applicable credit card air traffic liability, which would adversely affect our liquidity. Depending on our unrestricted cash balance at the time, the holdback of a significant amount of cash collateral could cause our unrestricted cash and short-term investments balance to fall below the minimum balance requirement under our term A and term B credit facilities, resulting in defaults under those facilities.

Our business has substantial operating leverage.

The airline industry operates on low gross profit margins and revenue that varies substantially in relation to fixed operating costs. Due to high fixed costs, the expenses of each flight do not vary proportionately with the number of passengers carried, but the revenue generated from a particular flight is directly related to the number of passengers carried and the level of average fares. Accordingly, a decrease in the number of passengers carried would cause a corresponding decrease in revenue (if not offset by higher fares), and it may result in a disproportionately greater decrease in profits. An increase in the number of passengers carried would have the opposite effect.

Our obligations for funding our defined benefit pension plans are significant and are affected by factors beyond our control.

We sponsor three defined benefit pension plans, as well as a separate plan to administer the pilots' disability benefits. Two of the pension plans were frozen effective October 1, 1993, and our collective bargaining agreement with our pilots provides that pension benefit accruals for certain pilots became frozen effective January 1, 2008. Nevertheless, our unfunded pension and disability obligation was $170.8 million as of December 31, 2008. We made scheduled contributions of $5.7 million and $11.6 million for 2008 and 2007, respectively, and anticipate a minimum funding requirement of $2.6 million to the defined benefit pension and disability plans during 2009. During 2008, asset returns on our pension plans declined in conjunction with the decline in global financial markets, resulting in a deterioration of our funding levels. The timing and amount of funding requirements depend upon a number of factors, including labor negotiations and changes to pension plan benefits as well as factors outside our control, such as asset returns, interest rates and changes in pension laws. Our 2010 funding requirement is likely to significantly exceed 2009 requirements.

Airline strategic combinations or industry consolidation could have an impact on our competitive environment in ways yet to be determined.

The environment in the airline industry changes from time to time as carriers implement varying strategies in pursuit of profitability, including consolidation to expand operations and increase market strength and entering into global alliance arrangements. Similarly, the merger, bankruptcy or reorganization of one or more of our competitors may result in rapid changes to the identity of our competitors in particular markets, a substantial reduction in the operating costs of our competitors, or the entry of new competitors into some or all of the markets we serve or currently are seeking to serve. We are unable to predict exactly what effect, if any, changes in the strategic landscape might have on our business, financial condition and results of operations.

Our reputation and financial results could be harmed in the event of adverse publicity.

Our customer base is broad and our business activities have significant prominence, particularly in the state of Hawaii and the other markets we serve. Consequently, negative publicity resulting from real or perceived shortcomings in our customer service, employee relations or business conduct could negatively affect the public image of our Company and the willingness of customers to purchase services from us, which could affect our revenue performance and financial results.

Our financial results may be negatively affected by increased airport rent rates and landing fees at the airports within the State of Hawaii as a result of the modernization plan.

The State of Hawaii has begun to implement a modernization plan encompassing the airports we serve within the state. As a result of the modernization plan, we expect our costs of operations to increase as landing fees and airport rent rates are increased to fund the modernization program. Additionally, we expect the costs for our interisland operations to increase proportionately more than the costs related to our transpacific and international operations because of phased adjustments to the airport's funding mechanism, which will result in the cost changes having a proportionately higher impact on us than our competitors which do not have significant interisland operations. We can offer no assurance that we will be successful in offsetting these cost increases through other cost reductions or increases in our revenue and, therefore, can offer no assurance that our future financial results will not be negatively affected by them.

The State of Hawaii, which is uniquely dependent upon and affected by air transportation, now seeks to impose new state laws and regulations on the airline industry that could have an adverse effect on our financial condition and results of operations.

Hawaii is uniquely dependent upon and affected by air transportation. The recent bankruptcies and shutdowns of air carriers such as Aloha and ATA have profoundly affected the State, and its legislature has responded by enacting legislation that reflects and attempts to address its concerns. For example, House Bill 2250 HD1, now Act 1 of the 2008 Special Session, establishes a statutory scheme for the regulation of Hawaii interisland air carriers, provided that federal legislation is enacted to permit its implementation. Among other things, this new law establishes an air carrier commission of five unpaid members, appointed by Hawaii's Governor, within the State Department of Transportation. The commission would examine and certify all interisland carriers and regulate fares, flight schedules, all property transfers and ownership transactions of certified carriers. Vetoed by Hawaii State Governor Linda Lingle and subsequently overridden by the Hawaii State Legislature on July 8, 2008, this new law is subject to the enactment of federal legislation permitting its implementation.

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Risks Relating to the Airline Industry

The continued threat of terrorist attacks may adversely impact our business.

Since the terrorist attacks of September 11, 2001, the airline industry has experienced profound changes, including substantial revenue declines and cost increases, which have resulted in industry-wide liquidity issues. Additional terrorist attacks, even if not made directly on the airline industry, or the fear of such attacks (including elevated national threat warnings or selective cancellation or redirection of flights due to terror threats such as the August 2006 terrorist plot targeting multiple U.S. airlines), could further adversely impact us and the airline industry. Increased regulation governing carry-on baggage and passenger travel may further increase passenger inconvenience and reduce the demand for air travel. In addition, other world events and developments may further decrease demand for air travel, and could result in further increased costs for us and the airline industry. We are currently unable to estimate the impact of any future terrorist attacks. However, any future terrorist attacks could have a material adverse impact on our business, financial condition and results of operations, and on the airline industry in general.

The airline industry is subject to extensive government regulation, and new regulations could have an adverse effect on our financial condition and results of operations.

Airlines are subject to extensive regulatory requirements that result in significant costs. Additional laws, regulations, taxes and airport rates and charges have been proposed from time to time that could significantly increase the cost of airline operations or reduce revenue. For example, the ATSA, which became law in November 2001, mandates the federalization of certain airport security procedures and imposes additional security requirements on airlines. The FAA from time to time issues directives and other regulations relating to the maintenance and operation of aircraft that require significant expenditures. Some FAA requirements cover, among other things, retirement of older aircraft, security measures, collision avoidance systems, airborne windshear avoidance systems, noise abatement and other environmental concerns, commuter aircraft safety and increased inspections and maintenance procedures to be conducted on older aircraft. We expect to continue incurring expenses to comply with the FAA's regulations.

Many aspects of airlines' operations also are subject to increasingly stringent federal, state, local and foreign laws protecting the environment. Governments globally are increasingly focusing on the environmental impact caused by the consumption of fossil fuels and as a result have proposed or enacted legislation which may increase the cost of providing airline service or restrict its provision. We expect the focus on environmental matters to increase. Future regulatory developments in the U.S. and abroad could adversely affect operations and increase operating costs in the airline industry. For example, potential future actions that may be taken by the U.S. government, foreign governments, or the International Civil Aviation Organization to limit the emission of greenhouse gases by the aviation sector are unknown at this time, but the effect on us and our industry is likely to be adverse and could be significant. In addition, the ability of U.S. carriers to operate international routes is subject to change because the applicable arrangements between the U.S. and foreign governments may be amended from time to time, or because appropriate slots or facilities are not available. We cannot predict the impact that future laws or regulations may have on our operations or that regulations enacted in the future will not adversely affect us.

Our operations may be adversely impacted by increased security measures mandated by regulatory authorities.

Because of significantly higher security and other costs incurred by airports since September 11, 2001, many airports significantly increased their rates and charges to air carriers, including us, and may do so again in the future. Additionally, since September 11, 2001, the Department of Homeland Security (DHS) and the TSA and other agencies within the DHS have implemented numerous security

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measures that affect airline operations and costs, and are likely to implement additional measures in the future. The DHS has announced greater use of passenger data for evaluating security measures to be taken with respect to individual passengers, expanded use of Federal Air Marshals on flights (thus displacing revenue passengers), investigating a requirement to install aircraft security systems (such as active devices on commercial aircraft as countermeasures against portable surface-to-air missiles) and expanded cargo and baggage screening. The TSA has imposed additional measures affecting the contents of baggage that may be carried on an aircraft in response to the discovery in August 2006 of a terrorist plot targeting several U.S. airlines. The TSA and other security regulators may impose other measures as necessary to respond to future threats. A large part of the costs of these security measures is borne by the airlines and their passengers, and we believe that these and other security measures have the effect of increasing the inconvenience of air transportation and thus decreasing traffic. Security measures imposed by the U.S. and foreign governments subsequent to September 11, 2001 have increased our costs, and additional measures taken in the future may result in similar adverse effects. We cannot provide assurance that additional security requirements or security-related fees enacted in the future will not adversely affect us.

Our insurance costs are susceptible to significant increase, and further increases in insurance costs or reductions in coverage could have an adverse effect on our financial results.

We carry types and amounts of insurance customary in the airline industry, including coverage for general liability, passenger liability, property damage, aircraft loss or damage, baggage and cargo liability and workers' compensation. We are required by the DOT to carry liability insurance on each of our aircraft. We currently maintain commercial airline insurance with a major group of independent insurers that regularly participate in world aviation insurance markets, including public liability insurance and coverage for losses resulting from the physical destruction or damage to our aircraft. However, there can be no assurance that the amount of such coverage will not be changed or that we will not bear substantial losses from accidents. We could incur substantial claims resulting from an accident in excess of related insurance coverage that could have a material adverse effect on our results of operations and financial condition.

After the events of September 11, 2001, aviation insurers significantly reduced the maximum amount of insurance coverage available to commercial air carriers for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events (war-risk coverage). At the same time, they significantly increased the premiums for such coverage as well as for aviation insurance in general. As a result, war-risk insurance in amounts necessary for our operations, and at premiums that are not excessive, is not currently available in the commercial insurance market and we have therefore purchased from the U.S. government third-party war-risk insurance coverage. This coverage has been extended to March 31, 2009 by the FAA under the Homeland Security Act, after which time it is anticipated that the federal policy will be extended unless insurance for war-risk coverage in necessary amounts is available from independent insurers or a group insurance program is instituted by the U.S. carriers and the DOT. However, there can be no assurance that the federal policy will be renewed or an alternative policy can be obtained in the commercial market at a reasonable cost. Although our overall hull and liability insurance costs have been reduced since the post-2001 increases, there can be no assurance that these reductions would be maintained in the event of future increases in the risk, or perceived risk, of air travel by the insurance industry, or a reduction of capital flows into the aviation insurance market.

We are at risk of losses and adverse publicity in the event of an aircraft accident.

We are exposed to potential losses that may be incurred in the event of an aircraft accident. Any such accident could involve not only the repair or replacement of a damaged aircraft and its consequential temporary or permanent loss of revenue, but also significant potential claims of injured

passengers and others. In addition, any aircraft accident or incident could cause a public perception that we are less safe or reliable than other airlines, which would harm our business.

We are at risk of losses in the event of an outbreak of diseases.

Public health threats, such as avian influenza (the Bird Flu), Severe Acute Respiratory Syndrome (SARS) and other highly communicable diseases, outbreaks of which have already occurred in various parts of the world, could adversely impact our operations and the worldwide demand for air travel. In 2003, there was an outbreak of SARS, which primarily had an adverse impact on our Pacific operations. If there were another outbreak of a disease (such as SARS or the Bird Flu) that adversely affects travel behavior, it could have a material adverse impact on our operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

Aircraft

As of December 31, 2008, our total fleet consisted of 14 Boeing 767-300ER and four Boeing 767-300 aircraft to service our transpacific, South Pacific and substantially all of our charter routes, and 15 Boeing 717-200 aircraft to service our interisland routes. The following table summarizes our total fleet as of December 31, 2008:

Aircraft Type	Leased	Owned	Total	Seating Capacity (Per Aircraft)	Simple Average Age (In Years)
767-300ER	11	3	14	252-264	9.6
767-300		4	4	264	22.0
717-200	15*		15	118-123	7.5
Total	26	7	33		

* Included in this total is a 717-200 aircraft which was delivered on December 24, 2008 and which was placed into service on January 1, 2009.

See Note 8 to our consolidated financial statements for additional information regarding our aircraft lease agreements.

In January 2008, we signed a purchase agreement with Airbus, providing for the delivery of twelve new aircraft between 2012 and 2020, with purchase rights for an additional twelve aircraft. In addition, during 2008, we executed lease agreements for three additional Airbus A330-200 aircraft that will

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accelerate the transition of our existing fleet to the new Airbus fleet to begin in 2010. Our firm orders and executed lease agreements consist of the following deliveries:

	A330-200 Aircraft		A350XWB-800 Aircraft	
Delivery Year	Leases	Firm Order	Firm Order	Total
2010	2			2
2011	1			1
2012		2		2
2013		3		3
2014		1		1
2017			2	2
2018			2	2
2019			1	1
2020			1	1
	3	6	6	15

The Airbus aircraft deliveries will replace retiring Boeing 767-300 and expiring leased Boeing 767-300ER aircraft and provide for incremental growth opportunity for our fleet. We have twelve purchase rights to purchase Airbus aircraft, and can utilize these rights subject to production availability.

Ground Facilities

Our principal terminal facilities, cargo facilities, hangar and maintenance facilities are located at the Honolulu International Airport (HNL). The majority of the facilities at HNL are leased on a month-to-month basis. We are also charged for the use of terminal facilities at the five major interisland airports owned by the State of Hawaii. Some terminal facilities, including gates and holding rooms, are considered by the State of Hawaii to be common areas and thus are not exclusively controlled by us. Other facilities, including station managers' offices, Premier Club lounges and operations support space, are considered exclusive-use space by the State of Hawaii.

We are party to signatory agreements with the Port of Portland and McCarran International Airport (Las Vegas), and a facilities sharing agreement with the City of Phoenix for terminal space, and operating agreements with the Port of San Diego, McCarran International Airport in Las Vegas, Nevada, the City of Los Angeles, the County of Sacramento, the City of Oakland and Societe D'Equipment De Tahiti Et Des Iles (SETIL) for Faa'a International Airport in Papeete, French Polynesia. We are a shareholder in LAX Two in Los Angeles. We are party to a License Agreement with Jet Blue Airlines in San Diego, California and Phoenix, Arizona, for the use of ticket counter space and other operational areas. We are party to lease agreements with the Government of American Samoa in Pago Pago, and Sydney Airport Corporation, Limited, in Sydney, Australia. We also have agreements in place for alternate landing sites with the Port of Moses Lake, King County (Boeing Field) in Seattle, Ontario International Airport in California and Fairbanks International Airport in Alaska.

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The table below sets forth the airport locations we utilize pursuant to various lease agreements:

Name of Airport	Location	
Phoenix Sky Harbor International Airport	Phoenix	Arizona
Los Angeles International Airport	Los Angeles	California
Sacramento International Airport	Sacramento	California
San Diego International Airport	San Diego	California
San Francisco International Airport	San Francisco	California
Hilo International Airport	Hilo	Hawaii
Norman Y. Mineta San Jose International Airport	San Jose	California
Honolulu International Airport	Honolulu	Hawaii
Kahului Airport	Kahului	Hawaii
Kona International Airport	Kona	Hawaii
Lihue Airport	Lihue	Hawaii
McCarran International Airport	Las Vegas	Nevada
Portland International Airport	Portland	Oregon
Seattle-Tacoma International Airport	Seattle	Washington
Pago Pago International Airport	Pago Pago	American Samoa
Faa'a International Airport	Papeete	Tahiti
Sydney Airport	Sydney	Australia

Our corporate headquarters are located in leased premises adjacent to the Honolulu International Airport. The lease for this space expires in November 2016. We also lease sales as well as cargo sales offices in San Francisco, Seattle, Los Angeles, Papeete and Tokyo. The leases for these offices expire during 2009.

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of the Company's security holders during the last quarter of its fiscal year ended December 31, 2008.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is traded on the NASDAQ Stock Market, LLC (NASDAQ) under the symbol "HA." The following table sets forth the range of high and low sales prices of our common stock as reported on the NASDAQ for the periods indicated.

	High	Low
2008		
First Quarter	$ 6.45	$4.35
Second Quarter	8.90	5.95
Third Quarter	11.10	6.60
Fourth Quarter	9.36	3.50
2007		
First Quarter	$ 6.45	$3.12
Second Quarter	4.15	2.97
Third Quarter	4.40	2.60
Fourth Quarter	5.30	4.02

Holders

There were 1,151 shareholders of record of our common stock as of February 17, 2009, which does not reflect those shares held beneficially or those shares held in "street" name. On February 17, 2009, the closing price reported on the NASDAQ for our common stock was $3.83 per share. Past price performance is not indicative of future price performance.

Dividends and Other Restrictions

We paid no dividends in 2007 or 2008. Restrictions contained in our financing agreements and certain of our aircraft lease agreements limit our ability to pay dividends on our common stock. Accordingly, we do not anticipate paying periodic cash dividends on our common stock for the foreseeable future. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources."

United States law prohibits non-U.S. citizens from owning more than 25% of the voting interest of a U.S. air carrier or controlling a U.S. air carrier. Our certificate of incorporation prohibits the ownership or control of more than 25% (to be increased or decreased from time to time, as permitted under the laws of the U.S.) of our issued and outstanding voting capital stock by persons who are not "citizens of the U.S." As of December 31, 2008, we believe we are in compliance with the law as it relates to voting stock held by non-U.S. citizens.

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Stockholder Return Performance Graph

The following graph compares cumulative total stockholder return on our common stock, the S&P 500 Index and the AMEX Airline Index from December 31, 2003 to December 31, 2008. The comparison assumes $100 was invested on December 31, 2003 in our common stock and each of the foregoing indices and assumes reinvestment of dividends before consideration of income taxes. We have paid no dividends on our common stock.

	12/31/2003	12/31/2004	12/31/2005	12/31/2006	12/31/2007	12/31/2008
Hawaiian Holdings Common Stock	$ 100	$ 228.43	$ 133.44	$ 163.88	$ 170.57	$ 213.38
S & P 500 Index	100	110.88	116.33	134.70	142.09	89.52
AMEX Airline Index(1)	100	97.90	88.69	94.98	55.89	39.53

(1) As of December 31, 2008, the AMEX Airline Index consisted of Alaska Air Group Inc., AMR Corporation, Continental Airlines, Inc., Delta Air Lines, Inc., GOL Linhas Aereas Inteligentes S.A., JetBlue Airways Corporation, LAN Airlines S.A., Ryanair Holdings PLC, SkyWest Inc., Southwest Airlines Co., TAM S.A., US Airways Group, Inc. and UAL Corporation.

The stock performance depicted in the graph above is not to be relied upon as indicative of future performance. The stock performance graph shall not be deemed to be incorporated by reference into any of our filings under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate the same by reference, nor shall it be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulations 14A or 14C or to the liabilities of Section 18 of the Exchange Act.

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Equity Compensation Plan Information

The following table provides the specified information as of December 31, 2008, with respect to compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance, aggregated by all compensation plans previously approved by our security holders, and by all compensation plans not previously approved by our security holders:

Plan Category(1)	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders	2,930,737	$ 4.63	2,582,734
Equity compensation plans not approved by security holders	none		none
Total	2,930,737	$ 4.63	2,582,734

(1) Table does not include 1.5 million shares of our Common Stock which were distributed to Hawaiian's employees pursuant to the Hawaiian Airlines, Inc. Stock Bonus Plan in 2006 and 2007.

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ITEM 6. SELECTED FINANCIAL DATA.

The Selected Financial Data should be read in conjunction with our accompanying audited consolidated financial statements and the notes related thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" below.

Hawaiian Holdings, Inc.
Selected Financial Data

	Year ended December 31,				
	2008	**2007**	**2006**	**2005(a)**	**2004(b)**
	(in thousands, except per share data)				
Summary of Operations:					
Operating revenue	$1,210,865	$982,555	$888,047	$508,767	$
Operating expenses(c)	1,118,967	975,721	887,541	506,737	7,266
Operating income (loss)(c)	91,898	6,834	506	2,030	(7,266)
Net income (loss)(d)(e)	28,586	7,051	(40,547)	(12,366)	(7,262)
Net Income (Loss) Per Common Stock Share:					
Basic	$ 0.59	$ 0.15	$ (0.86)	$ (0.31)	$ (0.24)
Diluted	0.57	0.15	(0.86)	(0.31)	(0.24)
Weighted Average Number of Common Stock Shares Outstanding:					
Basic	48,555	47,203	47,153	39,250	29,651
Diluted	50,527	47,460	47,153	39,250	29,651
Common Shares Outstanding at End of Year	51,517	47,241	46,584	45,349	30,751
Balance Sheet Items:					
Total assets	$ 929,134	$823,399	$802,344	$666,520	$ 2,844
Property and equipment, net	315,469	270,734	272,614	51,277	
Long-term debt and capital lease obligations, excluding current maturities	232,218	215,926	238,381	77,576	
Shareholders' equity (deficit)(f)	53,313	133,339	83,637	48,067	(61,292)

(a) Includes the deconsolidated results of Holdings for the period January 1, 2005 through June 1, 2005, and the consolidated results of Holdings and Hawaiian for the period June 2, 2005 through December 31, 2005.

(b) Includes only the deconsolidated results of Holdings for the year ended December 31, 2004.

(c) During 2008, we recorded a $52.5 million litigation settlement for which we received payment from Mesa in May 2008. This amount is reflected as a separate line item in our operating expenses.

(d) 2008 operating income includes recognition of the litigation settlement of $52.5 million received from Mesa. In 2008, we recognized $7.8 million associated with the recognition of an-other-than temporary impairment of our auction rate securities. Net hedging losses of $16.1 million on fuel derivatives were recognized as nonoperating expense in 2008.

(e) For 2005 and 2006, losses due to redemption, prepayment, extinguishment and modification of long-term debt and lease agreements were $4.2 million and $32.1 million, respectively.

(f)

Shareholders' equity amounts include significant changes in our pension liability recorded in accumulated other comprehensive income (loss) shown in the Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss). See footnote 10 to the consolidated financial statements.

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Hawaiian Airlines, Inc.
Selected Financial Data

	Period January 1, 2005 through June 1, 2005	Year ended December 31, 2004
	(in thousands)	
Summary of Operations:		
Operating revenue	$ 321,150	$ 769,294
Operating expenses	309,080	698,211
Operating income	12,070	71,083
Net loss	(2,706)	(75,440)
Balance Sheet Items:		
Total assets	$ 372,980	$ 334,205
Property and equipment, net	59,844	51,539
Long-term debt and capital lease obligations, excluding current maturities	25,295	33
Shareholders' deficit	(321,739)	(293,108)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

This discussion and analysis of our financial condition and results of operations contains forward-looking statements that involve risks and uncertainties. We have based these forward-looking statements on our current expectations and projections of future events. However, our actual results could differ materially from those discussed herein as a result of the risks that we face, including but not limited to those risks stated in "Risk Factors." In addition, the following discussion should be read in conjunction with the audited consolidated financial statements and the related notes thereto included elsewhere in this report.

Overview

During the year ended December 31, 2008, we recorded net income of $28.6 million ($0.57 per diluted common share) compared to $7.1 million ($0.15 per diluted common share) during 2007. The significant increase in results during 2008 compared with 2007 was primarily due to the recognition of a favorable litigation settlement of $52.5 million, before taxes, related to Hawaiian's settlement of its lawsuit filed against Mesa. In addition, we benefited from increased operating revenue due to increased interisland capacity as a result of the shutdown of Aloha partially offset by significantly increased fuel costs.

Year in Review

- **Reported $28.6 million in net income for the year.**

- **Recognized as Top-Rated Airline serving Hawaii and the fourth-highest ranked airline nationwide according to the 2008 Reader's Choice Survey published by Condé Nast Traveler magazine.**

- **Recognized as the nation's most on-time airline for the fifth straight year according to the Department of Transportation's Air Travel Consumer Report.**

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- **Received $52.5 million litigation settlement from Mesa in May 2008.**
- **Initiated service to Manila, Philippines in April 2008.**
- **Began trading on NASDAQ in June 2008 allowing greater trading visibility and liquidity.**
- **Expanded fleet of Boeing 717 aircraft to increase interisland capacity to respond to the shutdown of Aloha.**
- **Executed purchase agreements with Airbus to purchase six A330-200 aircraft and six A350XWB-800 aircraft with purchase rights for an additional six aircraft of each type.**
- **Executed lease agreements with respect to three Airbus A330-200 aircraft.**

Results of Operations

We recognized net income of $28.6 million ($0.57 per diluted common stock share) on operating income of $91.9 million for the year ended December 31, 2008. The operating results include $52.5 million received in 2008 from the litigation settlement with Mesa. During the year ended December 31, 2008, our total passenger revenue increased by 24.4%, due to the expansion of our interisland operations following the shutdown of Aloha in March 2008 and a general increase in airline fares in 2008 in response to substantially higher fuel prices.

Our results of operations were significantly and adversely affected by increases in our cost of jet fuel, maintenance materials and repairs and depreciation expense. The cost of jet fuel is the single largest component of our operating expenses representing approximately 36.2% (or $424.5 million) of our total operating expenses for the year ended December 31, 2008 compared to 29.9% (or $291.6 million) in 2007. The 2008 percentage excludes the impact of the litigation settlement discussed previously. During 2008, our fuel derivatives were not designated for hedge accounting under SFAS 133 and were marked-to-market with unrealized gains and losses recorded through the income statement. As such, $16.1 million in net losses from our fuel hedging activities were not recorded as an increase to aircraft fuel expense in operating activities, but rather as nonoperating expense. Aircraft fuel expense was the main contributor to the increase in our operating cost per available seat mile (CASM) of 11% from 2007 to 2008. Aircraft fuel expense per available seat mile increased by 41% from 2007 to 2008. In addition, the cost of maintenance, materials and repairs increased by 15.7% or $14.6 million from 2007 to 2008 due to the aging and increased utilization of our fleet as well as the expansion of our fleet in 2007 and 2008.

We were able to offset some of the impact of the increased fuel prices by realizing higher average fares (including fuel surcharges) and implementing charges for certain ancillary services.

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Hawaiian Holdings, Inc.
Selected Consolidated Statistical Data (unaudited)

	Year ended December 31,		
	2008	2007	2006
	(in thousands, except as otherwise indicated)		
Scheduled Operations:			
Revenue passengers flown	7,848	7,051	6,156
Revenue passenger miles (RPM)	7,839,722	7,929,860	6,838,852
Available seat miles (ASM)	9,479,198	9,076,233	7,915,874
Passenger revenue per ASM (PRASM)	11.66¢	9.80¢	10.07¢
Passenger load factor (RPM/ASM)	82.7%	87.4%	86.4%
Passenger revenue per RPM (Yield)	14.10¢	11.21¢	11.65¢
Total Operations:			
Operating revenue per ASM	12.73¢	10.64¢	11.02¢
Operating cost per ASM (CASM)	11.77¢	10.57¢	11.01¢
Aircraft fuel expense per ASM	4.47¢	3.16¢	3.00¢
Litigation settlement per ASM	(0.55)¢	¢	¢
Revenue passengers flown	7,857	7,098	6,203
Revenue block hours operated (actual)	104,568	97,525	85,933
RPM	7,858,765	8,057,130	6,964,991
ASM	9,508,596	9,231,619	8,062,121
Gallons of jet fuel consumed	134,140	129,835	114,236
Average cost per gallon of jet fuel (actual)(a)	$ 3.16	$ 2.25	$ 2.12

(a) Includes applicable taxes and fees.

Year ended December 31, 2008 Compared to Year ended December 31, 2007

On a consolidated basis, we recognized net income of $28.6 million and our operating income was $91.9 million for the year ended December 31, 2008. This compares to net income of $7.1 million and operating income of $6.8 million for the year ended December 31, 2007. Operating income increased by $85.1 million in 2008 compared to 2007, which included the recognition of $52.5 million related to our litigation settlement with Mesa in May 2008. During 2008 we increased our interisland operations due to the shutdown of Aloha. Corresponding with our increased capacity, our operating expenses also increased, primarily in the areas of fuel, maintenance and depreciation. Our net income improved by $21.5 million from net income of $7.1 million in 2007. This improvement was primarily due to the litigation settlement and increased interisland operations discussed previously, partially offset by significantly increased fuel costs and an increase in our 2008 tax provision compared with a tax benefit in 2007. Other significant differences between income and expense items for the years ended December 31, 2008 and 2007 are discussed below.

Operating Revenue. Operating revenue was $1.2 billion for the year ended December 31, 2008, a 23.2% increase over operating revenue of $982.6 million in 2007. Significant year-over-year changes leading to the increase in 2008 operating revenue are discussed below.

Passenger revenue was $1.1 billion in 2008 compared to passenger revenue of $889.0 million in 2007. This $216.5 million or 24.4% increase in passenger revenue was principally due to the increased

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capacity or available seat miles (ASMs) in our interisland routes due to the shutdown of Aloha and our revenue from the South Pacific/Australia/Asia routes with the addition of flights to Manila.

	Change in passenger revenue (millions)	Change in Yield	Change in RPM	Change in ASM
Transpacific	$ 63.7	17.2%	(5.9)%	(2.1)%
Interisland	128.3	32.4	21.7	21.4
South Pacific/Australia/Asia	24.5	2.1	38.1	62.4
Total	$ 216.5	25.8%	(1.1)%	4.4%

Other operating revenue was $105.3 million for the year ended December 31, 2008, and $93.5 million for the comparable period in 2007. The $11.8 million, or 12.6%, increase in other operating revenue was primarily due to increased cargo pounds carried, increased revenue on change fees, the implementation of fees for certain ancillary services, and increased revenue from new ground handling agreements. Partially offsetting these increases was a decrease to charter revenue due to the discontinuance of our Anchorage charter services in January 2008.

Operating Expenses. Operating expenses were $1.1 billion for the year ended December 31, 2008, a $143.2 million increase from operating expenses of $975.7 million in 2007. The net increase in operating expenses in 2008 was primarily a result of significantly increased fuel costs and additional operating costs associated with increased interisland operations related to the shutdown of Aloha.

	Year Ended December 31, 2008	Change from Year Ended December 31, 2007	
		$	%
Operating expense:			
Aircraft fuel, including taxes and oil	$ 424,532	$ 132,896	45.6%(a)
Wages and benefits	242,798	20,240	9.1(b)
Aircraft rent	99,803	2,177	2.2
Maintenance materials and repairs	107,809	14,643	15.7(c)
Aircraft and passenger servicing	55,962	2,085	3.9(b)
Commissions and other selling	56,574	2,972	5.5(b)
Depreciation and amortization	48,678	2,726	5.9(b)
Other rentals and landing fees	39,067	11,170	40.0(b)
Litigation settlement	(52,500)	(52,500)	NM(d)
Other	96,244	6,837	7.6(b)
Total	$ 1,118,967	$ 143,246	14.7%

NM Not Meaningful

(a) The increase in the aircraft fuel expense of 45.6% was due primarily to the significant increases in the cost of jet fuel in 2008.

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Aircraft fuel expense increased $132.9 million, or 45.6%, compared to 2007. The elements of the change are illustrated in the following table:

	Year Ended December 31,		
	2008	2007	% Change
	(in thousands, except per-gallon amounts)		
Fuel gallons consumed	134,140	129,835	3.3%
Raw price per gallon, including taxes and delivery	$ 3.17	$ 2.28	39.3%
Total raw fuel expense	$424,916	$295,334	43.9%
Realized (gains) from settled SFAS 133 hedges	(384)	(3,698)	(89.6)%
Aircraft fuel expense	$424,532	$291,636	45.6%

During 2008, the majority of our fuel derivatives were not designated for hedge accounting under SFAS 133 and were marked-to-fair value with unrealized gains and losses recorded through the income statement. As a result, $16.1 million in net losses from our fuel hedging programs were recorded as nonoperating expense. During 2008, we realized losses on settled fuel derivative contracts of $1.1 million and recorded unrealized losses of $11.6 million on contracts that will settle in future periods and reversed $3.3 million in gains which were recognized in previous years on a fair value basis. The fair value of our fuel hedge derivatives as of December 31, 2008 was a liability of $10.0 million and is recorded net of its related cash collateral of $17.5 million in prepaid expenses and other in the Consolidated Balance Sheets. Excess collateral amounts relate primarily to payables settled after year end.

We believe *economic fuel expense* is the best measure of the effect of fuel prices on our business as it most closely approximates the net cash outflow associated with the purchase of fuel for our operations in a period. We define *economic fuel expense* as raw fuel expense plus losses (less gains) realized through actual cash receipts paid to (received from) hedge counterparties for fuel hedge derivatives settled in the period, offset by any premium expense we recognized. *Economic fuel expense* for 2008 and 2007 is calculated as follows:

	Year Ended December 31,		
	2008	2007	% Change
	(in thousands, except per-gallon amounts)		
Raw fuel expense	$424,916	$295,334	43.9%
Realized losses (gains) on settlement of fuel derivative contracts	1,096	(2,565)	(142.7)%
Realized (gains) from settled SFAS 133 hedges	(384)	(3,698)	(89.6)%
Economic fuel expense	$425,628	$289,071	47.2%
Fuel gallons consumed	134,140	129,835	3.3%
Economic fuel costs per gallon	$ 3.17	$ 2.23	42.5%

(b)

Operating expenses increased due to increased interisland operations related to the shutdown of Aloha. The increase in volume affected wages and benefits for pilots, flight attendants and other operational personnel, booking fees and credit card fees, and other rentals and landing fees. The latter was also affected by increased rates for landing fees and space rent at airports in Hawaii.

(c)

The increase in maintenance materials and repairs expense was primarily due to the expansion of our operations including the addition of three Boeing 717-200 aircraft to our fleet in 2008, the aging of our fleet which corresponds to an increase in maintenance activity to be performed, the

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timing of certain periodic maintenance events, and increases in our power-by-the-hour (PBH) maintenance contract expenses. The increase in expenses incurred under the PBH maintenance contracts was due in turn to the inclusion of additional Boeing 767 engines and Boeing 717 engines under our PBH agreements, increased hourly charges and increased utilization of our aircraft (approximately 7% more block hours were operated in 2008 compared to 2007). We expect aircraft maintenance expenses to continue to increase in subsequent years due to a variety of factors, including the aging of our fleet, additional fleet utilization, the growth of our fleet, including the introduction into our fleet of the four used Boeing 767-300 acquired in early 2006, the expiration of manufacturers' warranties on certain aircraft and increased costs for related materials and services. As more fully discussed in Note 2 to our consolidated financial statements and Critical Accounting Policies, we have made deposits to our aircraft lessors to cover a portion of our future maintenance costs. However, because these payments are recorded as a deposit, to the extent recoverable through future maintenance, and then recognized as maintenance expense when the underlying maintenance is performed, they do not affect the timing of our recognition of maintenance expense, which is recognized as expense when incurred. Maintenance deposits totaled $37.0 million ($34.0 million, net of unamortized fair value adjustments recorded in purchase accounting) as of December 31, 2008. The estimated maintenance reserve deposits to be paid to lessors and the estimated amounts to be reimbursed and charged to expense upon performance of the related maintenance, based on currently scheduled maintenance, are set forth in the following table (in thousands):

	2009	2010	2011	2012	2013
Deposits	$11,597	$13,397	$14,930	$10,069	$7,455
Reimbursements	2,490	15,218	15,761	5,414	709

These estimates are subject to significant variation, including, among others, the actual cost to complete the maintenance, timing and extent of the maintenance, aircraft cycles impacting the timing, and the imposition of potential new maintenance requirements.

(d)

The $52.5 million credit reflects the cash settlement that was received on May 5, 2008 related to our litigation settlement with Mesa. See Note 3 in the Notes to consolidated financial statements.

Nonoperating Income and Expense. Nonoperating expense, net, was $38.7 million for the year ended December 31, 2008, as compared to $8.9 million for the year ended December 31, 2007. The $29.8 million increase from 2007 to 2008 was primarily due to the recognition of losses on our fuel derivative instruments including $11.6 million in unrealized losses related to fuel derivative contracts settling in future periods. We realized losses of $1.1 million on contracts that settled during the period, as well as a reversal of $3.3 million of gains which were recognized in previous years on a fair value basis. We also recognized $7.8 million in unrealized losses on our auction rate securities that were deemed to be other-than-temporarily impaired as of December 31, 2008.

Income Tax Expense. The Company recorded income tax expense of $24.6 million for the year ended December 31, 2008, a $33.7 million increase compared to the income tax benefit of $9.1 million for the comparable period in 2007. The difference was primarily due to an increase in taxable income for the year ended December 31, 2008 primarily due to the receipt of a $52.5 million litigation settlement from Mesa and the improvement in our operating results driven in part by the expansion of our interisland operations.

Year ended December 31, 2007 Compared to Year ended December 31, 2006

On a consolidated basis, we recognized net income of $7.1 million and our operating income was $6.8 million for the year ended December 31, 2007. This is compared to a net loss of $40.5 million and operating income of $0.5 million for the year ended December 31, 2006. Operating income increased

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by $6.3 million in 2007 compared to 2006, which included a favorable adjustment of approximately $5.0 million, primarily as a result of a change in estimate in our frequent flyer liability for miles that will not be redeemed. Corresponding with our increased capacity, our operating expenses also increased, primarily in the areas of fuel, maintenance and depreciation. Our net income improved by $47.6 million from a net loss of $40.5 million in 2006. This was primarily due to $35.7 million of special charges incurred in 2006 related to the redemption, prepayment, extinguishment and modification of various long-term instruments. Of this $35.7 million, $3.6 million represented operating expenses, with the remainder reflected in nonoperating expense. Other significant differences between income and expense items for the years ended December 31, 2007 and 2006 are discussed below.

Operating Revenue. Operating revenue was $982.6 million for the year ended December 31, 2007, a 10.6% increase over operating revenue of $888.0 million in 2006. Significant year-over-year changes leading to the increase in 2007 operating revenue are discussed below.

Passenger revenue was $889.0 million in 2007 compared to passenger revenue of $796.8 million in 2006. This $92.2 million or 11.6% increase in passenger revenue was principally due to the increased capacity or available seat miles (ASMs) and traffic or revenue passenger miles (RPMs) in our transpacific market with the four additional Boeing 767-300 aircraft placed in service for a majority of the year in 2007. Those improvements more than offset the decline in our interisland yield which corresponded to the entry of a new market participant in June 2006 and the resultant fare discounting that has continued since this time which contributed to a reduction in interisland revenue from 2006 to 2007.

	Change in passenger revenue (millions)	Change in Yield	Change in RPM	Change in ASM
Transpacific	$ 96.2	0.8%	17.4%	18.1%
Interisland	(8.6)	(14.8)	12.7	5.3
South Pacific/Australia/Asia	4.6	6.9	1.4	(8.0)
Total	$ 92.2	(3.8)%	16.0%	14.7%

Other operating revenue was $93.5 million for the year ended December 31, 2007, and $91.2 million for the comparable period in 2006. The $2.3 million, or 2.5%, increase in other operating revenue was primarily due to an increase in our charter revenue.

Operating Expenses. Operating expenses were $975.7 million for the year ended December 31, 2007, an $88.2 million increase from operating expenses of $887.5 million in 2006. The net increase in operating expenses in 2007 was primarily a result of operating four additional aircraft for most of the year on our transpacific routes, which provided for an additional 18% of capacity in that market. The transpacific routes are our longer range flights, which generally are operated with lower costs per ASM.

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In addition, we implemented several cost improvement programs throughout the year which has also contributed to the decrease in our cost per available seat mile (CASM).

	Year Ended December 31, 2007	Change from Year Ended December 31, 2006	
		$	%
Operating expense:			
Aircraft fuel, including taxes and oil	$ 291,636	$ 49,976	20.7%(a)
Wages and benefits	222,558	(5,452)	(2.4)
Aircraft rent	97,626	(11,966)	(10.9)(b)
Maintenance materials and repairs	93,166	23,560	33.8(c)
Aircraft and passenger servicing	53,877	1,222	2.3
Commissions and other selling	53,602	5,027	10.3(d)
Depreciation and amortization	45,952	17,087	59.2(e)
Other rentals and landing fees	27,897	2,177	8.5
Other	89,407	6,549	7.9
Total	$ 975,721	$ 88,180	9.9%

(a)

The increase in the aircraft fuel expense of 20.7% was primarily due to increased consumption which is consistent with the increased operations. In addition, cost of jet fuel increased by 6.2% to an average of $2.25 per gallon in 2007 compared to an average of $2.12 per gallon in 2006. The increase in spot fuel prices was partially offset by $3.7 million of hedging gains recognized in fuel expense during 2007 compared to $0.9 million of hedging losses recognized in fuel expense during 2006.

As illustrated below, Hawaiian's average fuel expense per gallon of $2.25 for the year ended December 31, 2007 was a result of the following prevailing spot prices, taxes and the impact of jet fuel hedges designated for the year.

	Per Gallon Average	Aggregate (millions)
Spot Price (including delivery)	$ 2.18	$ 282.6
Taxes	0.10	12.7
Hedge Impact	(0.03)	(3.7)
Fuel Expense	$ 2.25	$ 291.6

(b)

The decrease in aircraft rent expense was a result of the purchase in late December 2006 of three Boeing 767-300ER aircraft that were previously leased. This decrease was partially offset by $4.6 million of aircraft rent expense recorded during 2007 due to supplemental rent charged for certain leased aircraft with non-refundable maintenance deposits. See our Critical Accounting Policies section for further discussion.

(c)

The increase in maintenance materials and repairs expense was primarily due to the addition of four Boeing 767-300 aircraft to our fleet during 2007, the aging of our fleet which corresponds to an increase in maintenance activity to be performed, the timing of certain periodic maintenance events, and rate escalations in our power-by-the-hour (PBH) contracts. The increase in expenses incurred under the PBH maintenance contracts was due in turn to the inclusion of additional Boeing 767 engines under our PBH agreements, increased hourly charges and increased utilization of our aircraft (approximately 12% more block hours were operated in 2007 compared to 2006). As more fully discussed in Note 2 to our consolidated financial statements and Critical Accounting

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Policies, we made deposits to our aircraft lessors to cover a portion of our future maintenance costs. However, because these payments are recorded as a deposit, to the extent recoverable through future maintenance, and then recognized as maintenance expense when the underlying maintenance is performed, they do not affect the timing of our recognition of maintenance expense, which is recognized as expense when incurred. Maintenance deposits totaled $34.4 million ($30.8 million, net of unamortized fair value adjustments recorded in purchase accounting) as of December 31, 2007.

(d)

Reflected in the 2007 commissions and other selling expense is approximately $5.0 million of reductions in expense primarily related to the estimate of frequent flyer miles that we expect will not be redeemed. Excluding the frequent flyer adjustment, commissions and other selling expenses increased by $10.1 million, primarily due to increases in credit card fees, booking fees, the cost of our frequent flyer program and commissions which is consistent with the increase in volume.

(e)

The increase in depreciation and amortization expense was attributable primarily to depreciation expense incurred following the acquisition of the three Boeing 767-300ER aircraft that were previously leased in late December 2006, as well as depreciation expense incurred on the four used Boeing 767-300 aircraft that were purchased in March 2006 and placed into service in September 2006 and January, March and June 2007.

Nonoperating Income and Expense. Net nonoperating expense was $8.9 million for the year ended December 31, 2007, compared to net nonoperating expense of $41.5 million for the same period in 2006. Nonoperating income and expense includes interest expense, interest income, special charges related to the redemption, prepayment, extinguishment and modification of various long-term instruments, and other gains and losses. The $32.6 million decrease in nonoperating expense is primarily due to the $32.1 million of special charges related to the redemption, prepayment, extinguishment and modification of various long-term instruments that was recognized in 2006 and an $11.7 million increase in other gains from 2006 to 2007. This was partially offset by an increase in interest expense of $8.0 million from 2006 to 2007, which was due to $126 million of additional debt that was borrowed in December 2006 and used to finance the purchase of three aircraft and a decrease of $2.5 million in capitalized interest.

Other gains and losses primarily includes amounts recorded in accordance with the Company's hedging activities and Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). During 2007, the Company recorded $5.9 million of gains (of which $2.6 million was realized) related to the increase in market value of heating oil future contracts that were not designated for hedge accounting under SFAS 133 and are simply marked to market. These gains were slightly offset by a $2.3 million loss related to the portion of the change in fair value of Hawaiian's jet fuel forward contracts excluded from hedge effectiveness. During 2006, the Company recorded $7.3 million of losses related to the portion of the change in fair value of Hawaiian's jet fuel forward contracts excluded from hedge effectiveness.

Income Tax Expense. The Company recorded an income tax benefit of $9.1 million for the year ended December 31, 2007, an $8.6 million increase from the income tax benefit of $0.5 million for the comparable period in 2006. The difference was primarily due to the tax benefit recognized for the year ended December 31, 2007 resulting from operating losses which will be fully recovered by the availability of carrybacks to year 2005. In addition, our taxable income for the year ended December 31, 2007 was less than the same period in 2006 because of higher deductible expenses triggered primarily by accelerated tax depreciation of aircraft that were acquired during 2006. We do not expect to record any significant additional tax benefits resulting from net operating losses, if any, realized in the future, as additional carrybacks are not available during the carryback period.

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Liquidity and Capital Resources

Our liquidity is dependent on the cash we generate from operating activities and our debt financing arrangements. These financing arrangements are described in more detail below and in Note 7, "Debt and Common Stock Warrants," to our consolidated financial statements included in this Annual Report on Form 10-K.

As of December 31, 2008, we had $205.9 million in cash, cash equivalents and short-term investments, which is $61.5 million higher than at December 31, 2007. This increase was primarily due to a $52.5 million cash receipt from our litigation settlement with Mesa, $13.0 million of cash received upon exercise of outstanding warrants, (See "Conversion of Warrants" below) and a significant increase in sales following the shutdown of Aloha. Offsetting those increases was the reclassification of $42.9 million of auction rate securities from short-term investments to long-term investments in 2008. See further discussion below under the caption "Auction Rate Securities". We also had restricted cash of $28.0 million and $38.7 million as of December 31, 2008 and 2007, respectively, which consisted almost entirely of cash held as collateral by entities that process our credit card sales transactions for advance ticket sales. Substantially all of the cash held as collateral for credit card sales transactions earns interest for our benefit and is released to us as the related travel is provided to our passengers. Our cash flow from operations is typically higher in the second and third quarters, while the first and fourth quarters traditionally reflect reduced travel demand except for specific periods around holidays and spring break.

On June 2, 2005, Hawaiian, as borrower, and the Company, as guarantor, entered into a credit agreement with Wells Fargo Foothill, Inc., as agent, and the lenders named therein (the Term A Credit Facility). The Term A Credit Facility is secured by liens on substantially all of Hawaiian's assets. On June 2, 2005, Hawaiian, as borrower, and the Company, as guarantor, also entered into a credit agreement with Canyon Capital Advisors, LLC, as agent, and the lenders named therein (the Term B Credit Facility). The Term B Credit Facility is secured by liens on substantially all of Hawaiian's assets, subordinate to the prior liens granted to the lenders under the Term A Credit Facility. In March 2006, we incurred approximately $86.8 million, net of debt issuance costs, in additional debt by amending the Term A and Term B Credit Facilities. We used such additional borrowings to redeem the outstanding balance of the Notes issued in June 2005 to help fund the Joint Plan and to partially fund the acquisition of four used Boeing 767-300 aircraft acquired by Hawaiian during the first quarter of 2006. On July 11, 2006, $10.0 million of such additional borrowings, then held in escrow, was released to the Term B Credit Facility lenders, and our total obligation under that facility was reduced commensurately. As of December 31, 2008, the Term A Credit Facility consisted of a $35.0 million, 5.0% variable interest rate amortizing term loan due December 10, 2010 and a $25 million revolving line of credit. As of December 31, 2008, Hawaiian had no outstanding borrowings under this line of credit and $19.7 million available for future borrowing. As of December 31, 2008, the Term B Credit Facility consisted of a $55.2 million, 9.0% fixed interest rate non-amortizing term loan due March 11, 2011.

During December 2006, we borrowed a total of $126 million from a third-party lender to help finance the purchase of three previously-leased Boeing 767-300ER aircraft. The purchase of these three aircraft from AWAS was done in conjunction with the lease modification of four other Boeing 767-300ER aircraft also leased from AWAS in order to remove a provision of the previous agreements that allowed AWAS to exercise early termination options beginning in 2007. As of December 31, 2008, this indebtedness consisted of a $109.1 million, 3.95% variable interest rate amortizing term loan due December 2013.

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Cash Flows

Net cash provided by operating activities was $134.5 million for 2008, an increase of $52.9 million over 2007. The increase was primarily due to the $52.5 million cash receipt from our litigation settlement with Mesa as well as a significant increase in operating results after the shutdown of Aloha and ATA's passenger operations in March 2008, offset by higher fuel expenses related to increased fuel prices.

Net cash used in investing activities was $15.9 million for 2008 compared to $31.3 million for 2007. We used net cash of $13.8 million during 2008 for progress payments related to the purchase of the Airbus aircraft and Rolls-Royce engines for the Airbus fleet discussed below under the caption "Capital Expenditures". During 2008, additions to property and equipment totaled $14.9 million which consisted primarily of modifications and overhauls of the used Boeing 767-300 aircraft that were purchased in March 2006. In 2008, sales of short-term investments exceeded purchases of short-term investments by approximately $12.8 million.

Financing activities used net cash of approximately $8.8 million during 2008, primarily related to repayments on our long-term debt and capital lease obligations, which was partially offset by $13.0 million of proceeds received upon exercise of the warrants and $8.0 million in long-term borrowings. Financing activities used net cash of $23.0 million for 2007, primarily for repayments of long-term debt and capital lease obligations.

Capital Expenditures

In January 2008, we executed a purchase agreement with Airbus to acquire six wide-body A330-200 aircraft and six A350XWB-800 aircraft, with purchase rights for an additional six A330-200 and six A350XWB-800 aircraft. We paid an initial deposit in 2007, as well as additional deposits in 2008 upon signing the purchase agreement. Following execution of the agreement, the combined deposit became non-refundable. Aircraft purchase contracts typically require the purchaser to make pre-delivery deposits to the manufacturer. Our next pre-delivery deposits are due in 2010. In order to complete the purchase of these aircraft, we must secure acceptable aircraft financing. The amount of financing required will depend on the number of aircraft purchase rights we exercise and the amount of cash we generate through operations prior to delivery of the aircraft. We will explore various financing alternatives and, while we believe that such financing will be available to us, there can be no assurance that financing will be available when required, or on acceptable terms, or at all. The inability to secure such financing could have a material adverse effect on us. In conjunction with the purchase of the Airbus aircraft, we also entered into purchase agreements with Rolls-Royce in October 2008 to purchase four spare engines, for which we paid a deposit of $3.4 million during the second quarter of 2008.

Mesa Settlement

On April 30, 2008, Hawaiian and Mesa reached a settlement of its lawsuit regarding Mesa's misuse of confidential and proprietary information obtained during Hawaiian's Chapter 11 plan of reorganization in 2004. Under the terms of the settlement agreement, Hawaiian received a cash payment of $52.5 million and Mesa withdrew its appeal of the $80 million judgment (plus interest, attorney's fees and costs) awarded against Mesa by the United States Bankruptcy Court in October 2007. Hawaiian received full payment of the $52.5 million settlement on May 5, 2008 and recognized a gain equal to the proceeds received, during the second quarter of 2008.

Conversion of Warrants

In September 2008, the Company issued an aggregate of 3,549,998 shares of its common stock upon the exercise of outstanding warrants at an exercise price of $5.00 per share. The warrants were

originally issued to certain of the Company's lenders in connection with the provision of additional credit in 2006. The Company became entitled to force the exercise of the warrants pursuant to their terms because the average closing price of the Company's common stock was equal to or greater than $9.00 per share for a period of 30 consecutive calendar days ended September 15, 2008. Pursuant to the terms of the warrants, the holders were permitted to make payment to the Company (i) in cash, (ii) by reducing the principal amount of the term B loan due to such holder, if applicable, or (iii) any combination thereof. As a result of the exercise of the warrants, the Company received proceeds of $13.0 million in cash, and $4.8 million in aggregate principal amount of tendered term B loan securities.

Covenants under our Financing Arrangements

The terms of our Term A and Term B Credit Facilities restrict our ability to, among other things, incur additional indebtedness, pay dividends or make other payments on investments, consummate asset sales or similar transactions, create liens, merge or consolidate with any other person, or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of our assets. The terms of the agreements contain covenants that require us to meet certain financial tests to avoid a default that might lead to early termination of the facilities. These financial tests include maintaining a minimum amount of unrestricted cash and achieving certain levels of debt service coverage. As of December 31, 2008, we were in compliance with these covenants. If we were not able to comply with these covenants, our outstanding obligations under these facilities could be accelerated and become due and payable immediately.

Under our bank-issued credit card processing agreements, certain proceeds from advance ticket sales are held back to serve as collateral to cover any possible chargebacks or other disputed charges that may occur. These holdbacks, which are included in restricted cash in our Consolidated Balance Sheets, totaled $28.0 million at December 31, 2008. The funds are interest-bearing and are subsequently made available to us as air travel is provided. The agreement with our largest credit card processor (Credit Card Agreement) also contains financial triggers which provide for adjustment in the holdback percentage based on our balance of unrestricted cash and short-term investments (Unrestricted Cash Trigger), and levels of debt service coverage and operating income. As of December 31, 2008, the holdback was at the contractual level of 25% of the applicable credit card air traffic liability. Given the volatility of fuel prices and continued pressure on passenger yields due to competitive and market circumstances, we cannot guarantee that our financial performance in future periods will not require increases in the holdback level up to 100%, and that restricted cash will not be commensurately increased.

Auction Rate Securities

At December 31, 2007, we had investments in then-rated AAA/Aaa tax-exempt municipal auction rate securities, which were included in short-term investments. These auction rate securities are long-term bonds that resemble short-term instruments because their interest rates are reset periodically through an auction process every seven days. Typically, the fair value of auction rate security investments approximates par value due to the frequent interest rate resets and liquidation opportunities offered by the auction process. However, starting in the first quarter of 2008, the auction events for these instruments experienced failures and continued to fail through the end of the year. While we continue to earn interest on our auction rate security investments at the maximum contractual rate, these investments are not currently auctioning on a regular basis and, therefore, do not currently have a readily available market or valuation. Based on an assessment of fair value, and because we may not have the ability to hold these investments until their eventual recovery or maturity, $7.8 million was recognized in nonoperating expenses as an other-than-temporary impairment as of December 31, 2008. We continue to believe that the market for these instruments may take in excess of

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twelve months to fully recover. Therefore, we continue to classify the remaining investments of $27.7 million as long-term investments in the Consolidated Balance Sheets at December 31, 2008.

Pension and Postemployment Benefit Plan Funding

Hawaiian sponsors three tax-qualified defined benefit pension plans covering its ALPA, IAM, TWU, NEG and certain non-contract employees, as well as a separate plan to administer the pilots' disability benefits. In the aggregate, these plans are underfunded. As of December 31, 2008, the excess of the projected benefit obligations over the fair value of plan assets was approximately $170.8 million. Hawaiian made scheduled contributions of $5.7 million, $11.6 million and $13.1 million during 2008, 2007 and 2006, respectively, to its defined benefit pension and disability plans, and anticipates contributing $2.6 million during 2009. During 2008, asset returns on our pension plans declined in conjunction with the decline in global financial markets resulting in a deterioration of our funding levels. Future funding requirements are dependent upon many factors such as interest rates, funded status, applicable regulatory requirements for funding purposes and the level and timing of asset returns. However, based on December 31, 2008 valuations, our 2010 funding requirement is likely to significantly exceed 2009 requirements.

Off-Balance Sheet Arrangements

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which a company has (i) made guarantees, (ii) retained a contingent interest in transferred assets, (iii) an obligation under derivative instruments classified as equity or (iv) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company, or that engages in leasing, hedging or research and development arrangements with the Company. We have no arrangements of the types described in the first three categories that we believe may have a current or future material effect on our financial condition, liquidity or results of operations. We do have obligations arising out of variable interests in unconsolidated entities related to certain airport leases. Our airport leases are typically with municipalities or other governmental entities. To the extent our leases and related guarantees are with a separate legal entity other than a governmental entity, we are not the primary beneficiary because the lease terms are consistent with market terms at the inception of the lease, and the lease does not include a residual value guarantee, fixed price purchase option or similar feature.

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Contractual Obligations

Our estimated contractual obligations as of December 31, 2008 are summarized in the following table (in thousands):

	Total	2009	2010-2011	2012-2013	2014 and Thereafter
Debt and capital lease obligations(1)	$ 344,800	$ 47,241	$148,249	$101,694	$ 47,616
Operating leases aircraft and related equipment(2)	1,066,551	91,711	218,897	194,576	561,367
Operating leases non-aircraft	26,767	3,852	6,688	6,688	9,539
Purchase commitments(3)	1,364,304	15,755	149,013	350,853	848,683
Projected employee benefit contributions(4)	43,609	2,609	7,483	8,369	25,148
Total contractual obligations	$2,846,031	$161,168	$530,330	$662,180	$1,492,353

(1) Represents contractual amounts due, including interest. Interest on variable rate debt was estimated using rates in effect as of December 31, 2008.

(2) Represents lease payment amounts for three Airbus A330-200 aircraft, including estimated amounts for price escalation and lease modifications for four Boeing 767-300 aircraft.

(3) Total contractual obligations do not include long-term contracts where the commitment is variable in nature, such as aircraft maintenance deposits due under operating leases and fees due under certain other agreements such as aircraft maintenance power-by-the-hour, computer reservation systems and credit card processing agreements, or when the agreements contain short-term cancelation provisions.

(4) Amount includes our estimated contributions to our pension plans and our pilot's disability plan. The pension contributions represent our estimate of the minimum pension funding requirements under ERISA. Amounts are subject to change based on numerous factors, including interest rate levels, the amount and timing of asset returns and the impact of future legislation.

Critical Accounting Policies and Estimates

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

Critical accounting policies and estimates are defined as those accounting policies and accounting estimates that are reflective of significant judgments and uncertainties, and that potentially result in materially different results under different assumptions and conditions. For a detailed discussion of the application of these and other accounting policies, see Note 2, "Summary of Significant Accounting Policies," in the notes to our consolidated financial statements included in this Form 10-K.

Revenue Recognition. Passenger revenue is recognized either when the transportation is provided or when the related ticket expires unused. The value of unused passenger tickets is included as air traffic liability. Any adjustments resulting from periodic evaluations of this estimated liability, which can be significant, are included in results of operations for the periods in which the evaluations are completed. Cargo and charter revenue are recognized when the transportation is provided. Other revenue includes revenue from the sale of frequent flyer miles, ticket change fees and other incidental services.

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Frequent Flyer Accounting. We utilize a number of estimates in accounting for the *HawaiianMiles* frequent flyer program that are consistent with industry practices. We record a liability for the estimated incremental cost of providing travel awards that are expected to be redeemed on Hawaiian or the contractual rate of expected redemption on partner airlines.

Incremental cost includes the costs of fuel, meals and beverages, insurance and certain other passenger traffic-related costs, but does not include any costs for aircraft ownership and maintenance. Effective September 1, 2008, the Company modified the award levels of its *HawaiianMiles* frequent flyer program, requiring an increased number of frequent flyer miles to be redeemed for free air travel on Hawaiian. As a result of this modification, the Company decreased its frequent flyer liability by approximately $5.0 million which was recorded as a reduction in Commissions and other selling expense. A change to the cost estimates, the actual redemption activity, or the amount of redemptions on partner airlines could have a significant impact on the frequent flyer liability in the period of change as well as in future years.

Hawaiian also sells mileage credits as well as related services to companies participating in our frequent flyer program. A portion of the proceeds related to the sale of mileage credits represents revenue for air transportation sold. The revenue is calculated at its fair value and is deferred and amortized as passenger revenue over the estimated period of time it takes for a member to accumulate enough miles to redeem and fly using the awards. Breakage of sold miles is recognized over the estimated period of usage. The remaining portion of the proceeds, representing the marketing services sold and administrative costs associated with operating the *HawaiianMiles* program, is recognized immediately upon sale as a component of passenger revenues. We recognize this as passenger revenue as a result of us providing the services to the partner at the time of sale.

Under the programs of certain participating companies, credits are accumulated in accounts maintained by the participating company and then transferred into a member's *HawaiianMiles* account for immediate redemption for a free travel award. For those transactions, revenue is amortized over the historical period of time between when a member redeems mileage credits for a free travel award and when the resulting free travel is provided. On a periodic basis, we review and update the amortization periods. A change to the amortization periods, the actual redemption activity, or our estimate of the amount or fair value of expected transportation could have a significant impact on our revenue in the year of change as well as future years.

Pension and Other Postretirement and Postemployment Benefits. We account for our defined benefit pension and other postretirement and postemployment plans in accordance with Statement of Financial Accounting Standards (SFAS) No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)" (SFAS 158). SFAS 158 requires companies to measure their plans' assets and obligations that determine their funded status at fiscal year end, recognize the funded status of their benefit plans in the statement of financial position as an asset or liability, and recognize changes in the funded status of the plans in comprehensive income during the year which the changes occur. SFAS 158 does not change the amount of net periodic benefit expense recognized in our results of operations; net periodic benefit expense continues to be accounted for in accordance with SFAS No. 87, "Employer's Accounting for Pensions" (SFAS 87) and SFAS No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pension" (SFAS 106). Pension and other postretirement and postemployment benefit expenses are recognized on an accrual basis over employees' approximate service periods. Pension expense is generally independent of funding decisions or requirements.

The calculation of pension and other postretirement and postemployment benefit expenses and their corresponding liabilities requires the use of a number of important assumptions, including the expected long-term rate of return on plan assets and the assumed discount rate. Changes in these

assumptions can result in different expense and liability amounts, and future actual experience can differ from these assumptions. These assumptions as of December 31 were:

	2008	2007	2006
Pension:			
Discount rate to determine projected benefit obligation	6.09%	6.16%	5.86%
Expected return on plan assets	7.90%	7.90%	7.90%
Postretirement:			
Discount rate to determine projected benefit obligation	6.13%	6.25%	5.90%
Expected return on plan assets	N/A	N/A	N/A
Expected health care cost trend rate:			
Initial	9.00%	8.00%	9.00%
Ultimate	5.00%	5.00%	5.00%
Disability			
Discount rate to determine projected benefit obligation	6.05%	6.05%	N/A
Expected return on plan assets	7.50%	7.50%	N/A

N/A Not Applicable

The expected long-term rate of return assumption is developed by evaluating input from the trustee managing the plans' assets, including the trustee's review of asset class return expectations by several consultants and economists, as well as long-term inflation assumptions. Our expected long-term rate of return on plan assets is based on a target allocation of assets, which is based on our goal of earning the highest rate of return while maintaining risk at acceptable levels. The plan strives to have assets sufficiently diversified so that adverse or unexpected results from one security class will not have an unduly detrimental impact on the entire portfolio. Our allocation of assets was as follows at December 31, 2008:

	Percent of Total	Expected Long-Term Rate of Return
U.S. equities	25.9%	9.6%
International equities	29.1%	10.8%
Fixed income	35.5%	4.7%
Other	9.5%	6.7%
Total	100.0%	

We believe that our long-term asset allocation on average will approximate the targeted allocation. We regularly review our actual asset allocation and periodically rebalance the pension plan's investments to our targeted allocation when considered appropriate. Pension expense increases as the expected rate of return on plan assets decreases. Lowering the expected long-term rate of return on our plan assets by one percent (from 7.9% to 6.9%) would increase our estimated 2009 pension expense by approximately $1.5 million.

We determine the appropriate discount rate for each of our plans based on current rates on high quality corporate bonds that would generate the cash flow necessary to pay plan benefits when due. The pension and other postretirement benefit liabilities and future expense both increase as the discount rate is reduced. Lowering the discount rate by one percent would increase our pension and other postretirement benefit liabilities at December 31, 2008 by approximately $41.8 million and $9.4 million, respectively, and would increase our estimated 2009 pension and other postretirement benefit expense by approximately $2.1 and $0.9 million, respectively.

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The health care cost trend rate is based upon an evaluation of the Company's historical trends and experience taking into account current and expected market conditions. A one percent increase in the assumed health care cost trend rate would increase the other postretirement benefit obligation as of December 31, 2008 by approximately $9.6 million and our estimated 2009 other postretirement benefit expense by approximately $1.6 million. A one percent decrease in the assumed health care cost trend rate would decrease the other postretirement benefit obligation as of December 31, 2008 by approximately $7.8 million and our estimated 2009 other postretirement benefit expense by approximately $1.6 million.

On December 13, 2007, Congress signed a new law, effective immediately, that extended the mandatory retirement age for U.S. commercial airline pilots from age 60 to age 65. It is our assumption that some of Hawaiian's pilots will work beyond age 60 as a result of this change in law. Therefore, we elected to change our retirement assumption from a single retirement age at age 60 to a graded schedule of expected retirements between ages 60 and 65, which resulted in an average retirement age of 63.5 as of December 31, 2007. As a result, our projected future benefit obligation decreased and the funded status of the plans improved.

Future changes in plan asset returns, plan provisions, assumed discount rates, pilot estimated retirement age, pension funding legislation and various other factors related to the participants in our pension plans will impact our future retirement benefit expense and liabilities. We cannot predict with certainty what these factors will be in the future.

Derivative Financial Instruments. We have adopted a fuel hedging program that provides us with flexibility of utilizing certain derivative financial instruments to manage market risks and hedge our financial exposure to fluctuations in our aircraft fuel costs. At December 31, 2008, we had hedged approximately 49%, 29% and 9% of our anticipated aircraft fuel needs for the first, second and third quarters of 2009, respectively, with a combination of call options and collars (a combination of call options and put option contracts) based on crude oil and/or heating oil futures contracts. We do not hold or issue derivative financial instruments for trading purposes. Such instruments are accounted for under SFAS 133, which requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. To the extent a company complies with the hedge documentation requirements and can demonstrate a highly effective hedge, both at the designation of the hedge and throughout the life of the hedge, such derivatives are recorded at fair value with the offset to accumulated other comprehensive income (loss), net of hedge ineffectiveness. Such amounts are recognized as a component of fuel expense when the underlying fuel being hedged is used. The ineffective portion of a change in the fair value of the forward contracts is immediately recognized in earnings as a component of nonoperating income (loss). We designated the effectiveness of our jet fuel forward contracts based on the changes in fair value attributable to changes in spot prices; the change in fair value related to the changes in the difference between the spot price and the forward price (i.e., the spot-forward difference) are excluded from the assessment of hedge effectiveness. As a result, any changes in the spot-forward difference are immediately recognized into earnings as a component of other nonoperating income (expense). For the years ended December 31, 2007 and 2006, we recognized $2.3 million and $7.3 million of nonoperating losses, respectively, related to spot-forward changes. We measure fair value of our derivatives based on quoted values provided by counterparties or market participants. Starting in 2007, we began purchasing heating oil future contracts to hedge our fuel expense and starting in 2008 we began purchasing crude oil and/or heating oil call options and collars. However, these derivatives were not designated to qualify for financial hedge accounting under SFAS 133. As a result, we recorded $16.1 million of losses and $5.9 million of gains in nonoperating income during 2008 and 2007, respectively, related to the increase in market value of heating oil and crude oil derivative contracts.

Aircraft maintenance and repair costs. Maintenance and repair costs for owned and leased flight equipment, including the overhaul of aircraft components, are charged to operating expenses as

incurred. Engine overhaul costs covered by power-by-the-hour arrangements are paid and expensed as incurred, on the basis of hours flown per contract. Under the terms of our power-by-the-hour agreements, we pay a set dollar amount per engine hour flown on a monthly basis and the third-party vendor assumes the obligation to repair the engines at no additional cost to us, subject to certain specified exclusions.

Additionally, although our aircraft lease agreements specifically provide that we, as lessee, are responsible for maintenance of the leased aircraft, we do, under our existing aircraft lease agreements, pay maintenance reserves to aircraft lessors that are to be applied towards the cost of future maintenance events. These reserves are calculated based on a performance measure, such as flight hours, and are available for reimbursement to us upon the completion of the maintenance of the leased aircraft. If there are sufficient funds on deposit to reimburse us for the invoices initially paid by Hawaiian and then submitted to the lessor, they are reimbursed to us. However, reimbursements are limited to the available deposits associated with the specific maintenance activity for which we are requesting reimbursement. Under certain of our existing aircraft lease agreements, if there are excess amounts on deposit at the expiration of the lease, the lessor is entitled to retain any excess amounts; whereas at the expiration of certain other of our existing aircraft lease agreements any such excess amounts are returned to us, provided that we have fulfilled all of our obligations under the lease agreements. The maintenance reserves paid under our lease agreements do not transfer either the obligation to maintain the aircraft or the cost risk associated with the maintenance activities to the aircraft lessor. In addition, we maintain the right to select any third-party maintenance provider. Therefore, we record these amounts as a deposit on our balance sheet and then recognize maintenance expense when the underlying maintenance is performed, in accordance with our maintenance accounting policy. Because we recognize expense when the underlying maintenance is performed, as opposed to expensing the deposits when paid to the lessor, and because the cost of maintaining an aircraft increases as the aircraft gets older, we will recognize significantly less maintenance expense in the earlier years of the leases than in the later years, even though our use of and benefit from the aircraft does not vary correspondingly over the term of the lease, and our current and past results of operations may not be indicative of our future results as a result of our expectation of expensing the deposits in the future. Hawaiian's maintenance reserve activity for the past three years is as follows (in thousands):

	Beginning Balance	Payments	Reimbursements	Ending Balance
Year ended December 31:				
2006	$ 30,389	$ 14,604	$ (8,504)	$ 36,489
2007	36,489	12,663	(5,413)	43,739
2008	43,739	13,138	(4,599)	52,278
Fair value adjustments(1)				(3,032)
Deposits not considered probable of recovery(2)				(15,292)
Recorded balance at December 31, 2008				$ 33,954

(1) The Company recorded Hawaiian's maintenance deposits at fair value upon Hawaiian's emergence from bankruptcy on June 2, 2005. The individual line items in the table do not reflect the fair value adjustments recorded by the Company (which related primarily to recording the deposits at their net present value as of June 2, 2005, based on the anticipated dates the underlying maintenance would be performed).

(2) Deposits made by Hawaiian prior to its emergence from bankruptcy that were not considered probable of recovery as of June 2, 2005 and certain spare engine deposits discussed below.

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Any non-refundable amounts that are not probable of being used to fund future maintenance expense would be recognized as additional aircraft rental expense. In determining whether it is probable that maintenance deposits will be used to fund the cost of maintenance events, we conduct the following analysis:

- We evaluate the aircraft's condition, including the airframe, the engines, the auxiliary power unit and the landing gear.
- We then project future usage of the aircraft during the term of the lease based on our business and fleet plan.
- We also estimate the cost of performing all required maintenance during the lease term. These estimates are based on the experience of our maintenance personnel and industry available data, including historical fleet operating statistic reports published by the aircraft and engine manufacturers.

Our assessment of the recoverability of our maintenance deposits is subject to change in the event that key estimates and assumptions supporting it change over time. Those key estimates and assumptions include the Company's fleet plan and the projected total cost and, to a lesser extent, anticipated timing of the major maintenance activities covered by the maintenance reserves. In December 2006, as described more fully in the notes to our consolidated financial statements, we amended certain of our aircraft and spare engine leases. These amendments, among other things, reduced the respective lease terms and amended certain provisions with regard to the maintenance deposits. In addition, during 2007, we contracted with a new third-party maintenance provider resulting in projected cost savings for major maintenance activities for certain leased aircraft with non-refundable maintenance deposits. As a result of these types of events, we assess the recoverability of our maintenance deposits and adjust them to our best estimate of future maintenance events.

Based on current market conditions, we believe that further significant changes in our fleet plan are unlikely. Furthermore, based on historical trends and future projections, including those published by the manufacturers of our aircraft and engines, we believe it is unlikely that future maintenance costs for our aircraft will decline to such an extent that the maintenance deposits currently recorded on our Consolidated Balance Sheets would not be used to fund the cost of future maintenance events and, therefore, not be recoverable.

Impairment of Long-Lived Assets. We record impairment losses on long-lived assets used in operations, primarily property and equipment and intangible assets subject to amortization, when events and circumstances indicate, in management's judgment, that the assets may be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. Cash flow estimates are based on historical results adjusted to reflect the best estimate of future market and operating conditions. The net carrying value of assets not recoverable is reduced to fair value. Estimates of fair value represent management's best estimate based on market trends, recent transactions involving sales of similar assets and, if necessary, estimates of future discounted cash flows.

Goodwill and Indefinite-Lived Purchased Intangible Assets. We review goodwill and purchased intangible assets with indefinite lives, all of which relate to the acquisition of Hawaiian, for impairment annually and/or whenever events or changes in applicable circumstances indicate the carrying value of an asset may not be recoverable in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). The provisions of SFAS 142 require that a two-step impairment test be performed on goodwill. In the first step, the fair value of the Hawaiian reporting unit is compared to its carrying value. If the fair value of the Hawaiian reporting unit exceeds the carrying value of its net assets, goodwill is not impaired and no further testing is required to be performed. If the carrying value of the net assets of the Hawaiian reporting unit exceeds its fair value, then the second step of the impairment test must be performed in order to determine the implied fair value of the Hawaiian reporting unit's

goodwill. If the carrying value of the goodwill exceeds its implied fair value, then an impairment loss is recorded equal to the difference. SFAS 142 also requires that the fair value of the purchased intangible assets with indefinite lives be estimated and compared to the carrying value. We recognize an impairment loss when the estimated fair value of the intangible asset is less than the carrying value. Determining the fair value of a reporting unit or an indefinite-lived purchased intangible asset is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and determination of appropriate market comparables. We base our fair value estimates on assumptions management believes to be reasonable but are unpredictable and inherently uncertain. Actual future results may differ from these estimates. We have reviewed the carrying values of goodwill and the intangible asset associated with the fair value of Hawaiian's trade name pursuant to the applicable provisions of SFAS No. 142 and have concluded that such carrying values were not impaired as of December 31, 2008.

Stock Compensation. Effective January 1, 2006, we account for stock options in accordance with SFAS No. 123 (revised 2004), "Share Based Payment" (SFAS 123R), which replaced SFAS 123 "Accounting for Stock-Based Compensation" (SFAS 123), and superseded Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). SFAS 123R requires that all stock-based payments to employees, including grants of employee stock options, be recognized as compensation expense in the financial statements based on their fair values. SFAS 123R also requires that tax benefits associated with these stock-based payments be classified as financing activities in the statement of cash flows rather than operating activities.

SFAS 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of such awards on the dates they are granted. The fair value of the awards is estimated using option-pricing models for grants of stock options, Monte Carlo simulations for restricted stock units with a market condition, or the fair value at the measurement date (usually the grant date) for awards of stock. The resultant cost is recognized as compensation expense over the period of time during which an employee is required to provide services to the company (the service period) in exchange for the award, the service period generally being the vesting period of the award.

We account for all stock options granted on and after January 1, 2006 pursuant to SFAS 123R. For stock option awards granted prior to January 1, 2006, but for which the vesting periods were not complete, we adopted the modified prospective transition method permitted by SFAS 123R. Under this method, we account for unvested awards on a prospective basis over their remaining vesting periods as of January 1, 2006, with expense being recognized in the statement of operations using the grant-date fair values previously calculated for the SFAS 123 pro forma disclosures presented below and for other applicable periods ended prior to January 1, 2006. We estimate the fair values of our options using the Black-Scholes-Merton option-pricing model. This option-pricing model requires us to make several assumptions regarding the key variables used in the model to calculate the fair value of its stock options. The risk-free interest rate used is based on the U.S. Treasury yield curve in effect for the expected lives of the options at their dates of grant. We use a dividend yield of zero as we have never paid, nor do we intend to pay, dividends on our common stock. The expected lives of stock options granted on and subsequent to January 1, 2006 were determined using the "simplified" method prescribed in the SEC's Staff Accounting Bulletin No. 107. The most critical assumption used in calculating the fair value of stock options is the expected volatility of the entity's common stock. Due to Hawaiian's bankruptcy and the thin liquidity of our common stock during the period April 1, 2003 through June 1, 2005, we believe that the historic volatility of our common stock during that period is not a reliable indicator of future volatility. Accordingly, we used a blended stock volatility factor based on our stock volatility factor from the period post-emergence (starting on June 2, 2005) and a peer

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comparison group prior to June 2, 2005. The total period covered by the blended volatility is commensurate with the expected term of the stock options.

Fair value measurements. We adopte