de Sade Danial
Form DFRN14A
February 05, 2009

AMENDED DFRN14A

Page 1 – effective date – date of filing prior to Nov. 9, 2008

Page 3 – type of filing: Definitive additional materials Amendment to DFAN-14 filed 5-15-06

Name of person filing document: Danial de Sade (Mr. de Sade did not write, consent to, or authorize any person to file the 5-15-06 DFAN-14 amended by this filing. Mr. de Sade's name was placed on the filing without his knowledge or consent.

Skye International, Inc

Page 4 – The DFRN14 dated 5-15-06 was written and filed without the consent, authority or knowledge of Mr. de Sade. The e-mail referenced in that filing was written without the consent, authority or knowledge of Mr. de Sade. The web site referenced was created without the consent, authority or knowledge of Mr. de Sade. Mr. de Sade did not file the referenced DFRN14, did not represent shareholders or management of Skye at the time of filing and had no knowledge of the facts alleged in the e-mail or the web site.

Mr. de Sade owned at the time of the filing, 0 (zero) shares of Skye stock only. Mr. de Sade did not agree to aggregate his shares with Jeffery Stebbins for purposes of filing the DFRN14, did not participate in the decision to file the DFRN14, and did not at that time intend that his interest in Skye be used in the manner reflected in the filing.

At the time of the filing, Mr. de Sade was engaged in soliciting investors to purchase Skye shares, but did not solicit shareholders with knowledge of any facts alleged in the 5-15-06 DFRN14.

As of the date of this filing, Mr. de Sade has no knowledge that the facts stated in the 5-15-06 DFRN14 were or were not true and expresses no opinion as to their truth or falsity in this amended filing.

ALL STOCKHOLDERS ARE STRONGLY URGED TO READ THIS SUPPLEMENTAL DFAN-14 AND TO COMPARE THE FACTS STATED HEREIN BY THOSE ALLEGEDLY STATED BY THE MR. DE SADE.

Page 5 – Mr. de Sade did not author the e-mail referenced on this page, nor did Mr. de Sade give any third party authority or consent to write or send the e-mail under Mr. de Sade's name. As of today's date, Mr. de Sade has no knowledge that the facts stated on this page of the 5-15-06 DFRN14 were or were not true and expresses no opinion as to their truth or falsity in this amended filing.

Mr. de Sade did not create the content of the web site referenced on this page, nor did Mr. de Sade give any third party authority or his consent to write or send the e-mail under Mr. de Sade's name. As of today's date, Mr. de Sade has no knowledge that the facts stated on this page of the 5-15-06 DFRN14 were or were not true and expresses no opinion as to their truth or falsity in this amended filing.

Mr. de Sade did not write the list of "associations" found on this page of the 5-15-06 DFRN14, nor did Mr. de Sade give any third party authority or his consent to write, send or file these "Questions" under Mr. de Sade's name. As of today's date, Mr. de Sade has no knowledge that the facts stated on this page of the 5-15-06 DFRN14 were or were not true and expresses no opinion as to their truth or falsity in this amended filing.

Mr. de Sade did not any of the content found on this page of the 5-15-06 DFRN-14, nor did Mr. de Sade give any third party authority or his consent to write, send or file these "Questions" under Mr. de Sade's name. As of today's date, Mr. de Sade has no knowledge that the facts stated on this page of the 5-15-06 DFRN14 were or were not true and expresses no opinion as to their truth or falsity in this amended filing.

Page 7 - Mr. de Sade did not write the list of "associations" found on this page of the 5-15-06 DFRN-14, nor did Mr. de Sade give any third party authority or his consent to write, send or file these "Questions" under Mr. de Sade's name. As of today's date, Mr. de Sade has no knowledge that the facts stated on this page of the 5-15-06 DFAN-14 were or were not true and expresses no opinion as to their truth or falsity in this amended filing.

Page 8 - Mr. de Sade did not write the list of "Questions" referenced on this page, nor did Mr. de Sade give any third party authority or his consent to write, send or file these "Questions" under Mr. de Sade's name. As of today's date, Mr. de Sade has no knowledge that the facts stated on this page of the 5-15-06 DFRN14 were or were not true and expresses no opinion as to their truth or falsity in this amended filing.

Page 9 - Mr. de Sade did not write the list of "documents" referenced on this page, nor did Mr. de Sade give any third party authority or his consent to write, send or file this list of "documents" under Mr. de Sade's name. As of today's date, Mr. de Sade has no knowledge that the facts stated on this page of the 5-15-06 DFRN14 were or were not true and expresses no opinion as to their truth or falsity in this amended filing.

Page 10 – Mr. de Sade did not give anyone by the name of "Joe Householder" permission to send or receive e-mails relating to Skye at the e-mail address "joe@skyetellus.com", nor did Mr. de Sade give this person, or any other person, permission to create the web site "skyetellus.com". As of today's date, Mr. de Sade has no knowledge that the e-mail address or web site contained accurate facts. Mr. de Sade has no knowledge that any facts stated in the web site referenced on this page of the 5-15-06 DFRN14 were or were not true and expresses no opinion as to their truth or falsity in this amended filing. Mr. de Sade did not receive, review or respond to any e-mail sent to "joe@skyetellus.com". No such e-mail was forwarded to Mr. de Sade. Mr. de Sade has no knowledge whether any e-mail written by any person having access to "joe@skyetellus.com" contained true or false facts. Any such e-mails were sent without the knowledge, consent or authority of Mr. de Sade.

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(132,051

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71,058

See Accompanying Notes to Consolidated Financial Statements.

**Hawaiian Holdings, Inc.**

**Consolidated Statements of Cash Flows (in thousands) (unaudited)**

| | Six Months Ended June 30, 2005* | 2004** |
|---|---|---|
| Cash Flows From Operating Activities: | | |
| Net loss | $ (696) | $ (3,851) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation | 753 | |
| Amortization | 1,503 | |
| Stock compensation | 2,871 | |
| Accretion of debt discount | 298 | |
| Net periodic postretirement benefit cost | 486 | |
| Increase in accounts payable | 2,045 | 487 |
| Increase in air traffic liability | 14,472 | |
| Increase in other current liabilities | 2,884 | 135 |
| Other, net | 2,092 | (434) |
| Net cash provided by (used in) operating activities | 26,708 | (3,663) |
| Cash flows provided by investing activities: | | |
| Acquisition of Hawaiian Airlines, Inc. | 113,685 | |
| Additions to property and equipment | (1,900) | |
| Net cash provided by investing activities | 111,785 | |
| Cash flows provided by (used in) financing activities: | | |
| Proceeds from issuance of common stock | | 4,120 |
| Repayment of capital lease obligations | (54) | |
| Net cash provided by (used in) financing activities | (54) | 4,120 |
| Net increase in cash and cash equivalents | 138,439 | 457 |
| Cash and cash equivalents - Beginning of Period | 2,169 | 1 |
| Cash and cash equivalents - End of Period | $ 140,608 | $ 458 |

* Includes the cash flows of Hawaiian Holdings, Inc. only from January 1, 2005 through June 1, 2005 and the consolidated cash flows of Hawaiian Holdings, Inc. and Hawaiian Airlines, Inc. from June 2, 2005 through June 30, 2005.

** Includes the cash flows of Hawaiian Holdings, Inc. only for the entire period.

See Accompanying Notes to Consolidated Financial Statements.

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**Hawaiian Holdings, Inc.**

Notes to Consolidated Financial Statements (Unaudited)
(All dollar amounts in thousands, unless otherwise stated)

**1.** Business and Organization

Hawaiian Holdings, Inc. (the Company or Holdings ) is a holding company incorporated in the State of Delaware. The Company s primary asset is its sole ownership of all issued and outstanding shares of common stock of Hawaiian Airlines, Inc. ( Hawaiian ). Hawaiian was incorporated in January 1929 under the laws of the Territory of Hawaii and, based on the number of scheduled miles flown by revenue passengers (known as revenue passenger miles) in 2004, is the largest airline headquartered in Hawaii and the sixteenth largest domestic airline in the U.S. Hawaiian is engaged primarily in the scheduled transportation of passengers, cargo and mail.

As further described in Note 3, on April 1, 2003, following Hawaiian s bankruptcy filing, the Company deconsolidated Hawaiian for financial reporting purposes and accounted for its ownership of Hawaiian using the cost method of accounting. As further discussed in Note 4, on June 2, 2005, the Company reconsolidated Hawaiian upon its emergence from bankruptcy protection in a transaction accounted for as a business combination. As a result, for financial reporting purposes, the Company was a holding company with no business operations or properties for the period April 1, 2003 through June 1, 2005. Accordingly, as used in this report, the terms Company , we , our , and us refer to (i) Hawaiian Holdings, Inc. and its consolidated subsidiaries, with respect to the period through March 31, 2003; (ii) Hawaiian Holdings, Inc. only, with respect to the period from April 1, 2003 through June 1, 2005; and (iii) Hawaiian Holdings, Inc. and its consolidated subsidiaries, including Hawaiian Airlines, Inc., with respect to the periods from and after June 2, 2005.

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X of the U.S. Securities and Exchange Commission (SEC). Accordingly, these interim financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments and reorganization items) considered necessary for a fair presentation have been included. However, due to seasonal fluctuations common to the airline industry, results of operations for the periods presented are not necessarily indicative of operations to be expected for the entire year. The accompanying financial statements should be read in conjunction with the financial statements and the notes thereto contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2004.

**2.** Hawaiian s Bankruptcy, Liquidity and Going Concern

On March 21, 2003 (the Petition Date ), Hawaiian filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Hawaii (the Bankruptcy Court ). The Company did not file for relief under Chapter 11 of the Bankruptcy Code. On May 30, 2003, a bankruptcy trustee was selected to serve in connection with the Chapter 11 filing and operate Hawaiian, which thereafter operated its business under the jurisdiction of the bankruptcy court and in accordance with the applicable provisions of the bankruptcy code and orders of the bankruptcy court until June 2, 2005, the effective date of Hawaiian s joint plan of reorganization and its emergence from bankruptcy (the Effective Date ).

On March 11, 2005, the Company, together with the bankruptcy trustee, the Official Committee of Unsecured Creditors of Hawaiian, a wholly-owned subsidiary of the Company formerly known as HHIC, Inc. ( HHIC ), a Delaware corporation, and RC Aviation, LLC (which is currently the Company s largest stockholder), sponsored the Third Amended Joint Plan of Reorganization (the Joint Plan ) to provide for Hawaiian to emerge from bankruptcy. The Joint Plan provided for payment in full of all allowed claims, including unsecured claims. The Joint Plan also provided for the merger of Hawaiian Airlines, Inc., a Hawaii corporation, with and into HHIC, with HHIC as the surviving entity immediately changing its name to Hawaiian Airlines, Inc., a Delaware corporation. As used in this report, the term Hawaiian refers to the predecessor company for all periods prior to the HHIC merger and the successor company for all periods subsequent to the HHIC merger. The Company retained its equity interest in Hawaiian; however, in connection with the Joint Plan, the Company issued shares of its common stock to creditors of Hawaiian to help fund the Joint Plan, resulting in a dilution of the ownership interest of its common stockholders.

The following table briefly summarizes the classification and treatment of claims under the Joint Plan (in millions):

| Class | Classification | Treatment under the Joint Plan | Cash | Long-Term Obligations | Common Stock |
|---|---|---|---|---|---|
| Unclassified | Unsecured Priority Tax Claims | In cash, paid in up to twenty-four (24) equal quarterly installments. | $ 1.2 | $ 29.5 | $ |
| Class 1 (Unimpaired) | Secured Priority Tax Claims | In cash, paid in accordance with the legal, equitable and contractual rights of the holder of the claim. | 0.9 | | |
| Class 2 (Unimpaired) | Other Secured Claims | Generally, at the election of Hawaiian, (i) cash, (ii) surrender of the collateral securing the claim, (iii) cure and reinstatement, or (iv) retention by the holder of the claim of its legal, equitable and contractual rights. | 1.3 | 1.2 | |
| Class 3 (Unimpaired) | Other Priority Claims | Cash | 0.1 | | |
| Class 4 (Impaired) | Unsecured Claims not included in a category below | Cash equal to 100% of the allowed claim. | 36.6 | | |
| Class 5 (Impaired) | Lease Related Claims | A combination of cash, common stock of the Company based on a stock value of $6.16 per share, and subordinated convertible notes of the Company. | 27.0 | 60.0 | 87.0 |
| Class 6 (Impaired) | Convenience Claims | Cash | 0.8 | | |
| Class 7 (Impaired/ Unimpaired) | Equity Interests | Holders of equity interests in Hawaiian retained their interests in the reorganized Hawaiian, without modification or alteration by the Joint Plan. However, the Company was required to issue new common stock to creditors of Hawaiian, which resulted in a dilution of the ownership interest of the Company s common shareholders. | | | |
| | | Total | $ 67.9 | $ 90.7 | $ 87.0 |

Cash and common stock claims have been settled, with the exception of disputed claims totaling $14.4 million that are included in the Class 2 and 4 claims above at the gross claim amount. The ultimate resolution of the disputed claims may be lower, but no assurance can be provided that this will occur. For these reasons, the ultimate amounts and classifications of such claims cannot yet be determined.

The Joint Plan was financed through the issuance of approximately 14.1 million shares of the Company s common stock to the holders of lease-related claims, a $50.0 million senior secured credit facility of Hawaiian, a $25.0 million junior secured term loan of Hawaiian and a private placement by the Company of $60.0 million in subordinated convertible notes (collectively, the Exit Financing Transactions ), as discussed further in Note 5.

The Chapter 11 filing, including the subsequent appointment of the bankruptcy trustee, and the resulting uncertainty regarding Hawaiian s future prospects raised substantial doubt about the ability of the Company and Hawaiian to continue as a going concern. With the consummation of the Joint Plan, the conditions that previously raised substantial doubt about whether the Company and Hawaiian would continue as a going concern no longer exist.

**3.** Summary of Significant Accounting Policies

***Basis of Presentation***

Prior to the bankruptcy of Hawaiian, the Company consolidated Hawaiian pursuant to Statement of Financial Accounting Standards No. 94, Consolidation of All Majority-Owned Subsidiaries , because the Company controlled Hawaiian through its ownership of all of the voting stock of Hawaiian. Following the Petition Date, the Company expected to regain full control of Hawaiian in a relatively short period of time. The Company had re-negotiated Hawaiian s collective bargaining agreements with the Company s pilots, mechanics, and flight attendants prior to filing bankruptcy, Hawaiian had minimal secured debt or other secured non-aircraft claims, and then-current management believed that Hawaiian s operating leases could be re-negotiated in a short period of time through the Chapter 11 bankruptcy process. Furthermore, the Company and Hawaiian continued to have both a common Board of Directors and common management. As a result, the Company continued to consolidate Hawaiian through March 31, 2003. However, the filing of the motion seeking the appointment of a bankruptcy trustee created significant uncertainty regarding the Company s ability to facilitate a timely reorganization and regain full control of Hawaiian in a relatively short period of time. This uncertainty was further confirmed on May 16, 2003, upon the Bankruptcy Court s issuance of the order granting the trustee motion, which resulted in the appointment of a bankruptcy trustee to operate Hawaiian s business, instead of the common Board of Directors and common management of the Company and Hawaiian. As a result, effective April 1, 2003, the Company deconsolidated Hawaiian and prospectively accounted for its ownership of Hawaiian using the cost method of accounting through the date in which the Company regained control of Hawaiian on June 2, 2005, the effective date of Hawaiian s joint plan of reorganization and its emergence from bankruptcy. The Company accounted for Hawaiian s emergence from bankruptcy as a business combination, with the assets and liabilities of Hawaiian recorded in the Company s consolidated financial statements at their fair value as of June 2, 2005 and the results of operations of Hawaiian included in the Company s consolidated results of operations from June 2, 2005.

***Summary Financial Information of Hawaiian Airlines***

Hawaiian is a predecessor of the Company, as defined in Rule 405 of Regulation C under the Securities Act. As a result, separate financial statements of Hawaiian, prepared in accordance with Article 10 of Regulation S-X of the SEC, up until the point at which Hawaiian was acquired by the Company, have been included in this Quarterly Report on Form 10-Q. Summary financial information of Hawaiian, up until the point at which it emerged from bankruptcy and was acquired by the Company is presented below.

| **Income Statement Data** | **April 1, 2005 through June 1, 2005** | **January 1, 2005 through June 1, 2005** |
|---|---|---|
| Operating revenue | $ 132,164 | $ 321,508 |
| Operating expense | 130,332 | 311,301 |
| Operating income | 1,832 | 10,207 |
| Reorganization items, net | 502 | (5,349) |
| Nonoperating expenses | 4,546 | 2,893 |
| Income before taxes | 6,880 | 7,751 |
| Provision for income taxes | 12,749 | 13,266 |
| Net loss | 5,869 | 5,515 |

Hawaiian s financial statements, from which the above summarized financial information was derived, were prepared in accordance with American Institute of Certified Public Accountants Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code (SOP 90-7), and on a going-concern basis, which assumes continuity of operations, realization of assets and satisfaction of liabilities in the ordinary course of business. SOP 90-7 requires that the financial statements for periods subsequent to a Chapter 11 filing separate transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, all transactions (including, but not limited to, professional fees, realized gains and losses, and provisions for losses) directly associated with Hawaiian s reorganization and restructuring are reported separately as reorganization items in the statements of operations. The financial statements of Hawaiian do not include any of the adjustments that would have resulted had Hawaiian been unable to continue as a going concern, nor do they give effect to any adjustments to the carrying value of the assets or the amounts of liabilities of Hawaiian resulting from and occurring subsequent to the consummation of the Joint Plan.

***Cash Equivalents***

The Company considers all investments purchased with an original maturity of three months or less to be cash equivalents.

***Restricted Cash***

At December 31, 2004, restricted cash consisted of the amount transferred to the Company by Hawaiian immediately prior to Hawaiian s Chapter 11 filing. At June 30, 2005, restricted cash consisted primarily of collateral to support credit card holdbacks for advance ticket sales (which funds are subsequently made available to Hawaiian as air travel is provided), and as cash collateral for outstanding letters of credit.

***Spare Parts and Supplies***

Spare parts and supplies consist primarily of expendable parts for flight equipment and supplies that are stated at average cost and are expensed when consumed in operations. An allowance for obsolescence is provided over the estimated useful life of the related aircraft, plus allowances for spare parts currently identified as excess to reduce the carrying costs to the lower of amortized cost or net realizable value. These allowances are based on management estimates and are subject to change.

***Property and Equipment***

Owned property and equipment are stated at cost and depreciated on a straight-line basis over the following estimated useful lives:

| | |
|---|---|
| Flight equipment | 2-15 years, 15% residual value |
| Ground equipment | 5-15 years, no residual value |
| Airport terminal facility | Shorter of lease term or useful life |
| Buildings | 15-20 years |
| Leasehold improvements | Shorter of lease term or useful life |

Aircraft maintenance and repairs are charged to operations as incurred, except for maintenance and repairs under power-by-the-hour maintenance agreements that are accrued and expensed on the basis of hours flown. Modifications that significantly enhance the operating performance or extend the useful lives of aircraft or engines are capitalized and amortized over the lesser of the remaining life of the asset or the lease terms.

***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. Hawaiian performs periodic evaluations of this estimated liability, and any resulting adjustments, which can be significant, are included in results of operations for the periods in which the evaluations are completed. Charter and cargo revenue is recognized when the transportation is provided.

Hawaiian sells mileage credits in its HawaiianMiles frequent flyer program to participating partners such as hotels, car rental agencies and credit card companies. Revenue from the sale of mileage credits is deferred and recognized as passenger revenue when transportation is likely to be provided, based on the fair value of the transportation to be provided. Amounts in excess of the fair value of the transportation to be provided are recognized currently as a reduction in marketing expenses.

Components of other revenue include ticket change fees, ground handling fees, sales of jet fuel, and other incidental services that are recognized as revenue when the related service is provided.

***Basic Earnings Per Share***

Net income or loss per share is reported in accordance with Statement of Financial Accounting Standards No. 128, Earnings per Share (SFAS 128). Under SFAS 128, basic earnings per share, which excludes dilution, is computed by dividing net income or loss available to common stockholders by the weighted average number of common shares outstanding for the period. Under Emerging Issues Task Force Consensus 03-6, Participating securities and the Two-Class Method under SFAS Statement No. 128, *Earnings Per Share*, warrants that participate in dividends and/or distributions as if they were common stock are considered participating securities. Therefore, the Company is required to use the two-class method shown below:

| (in thousands, except share data) | Three Months Ended June 30, 2005 | | Three Months Ended June 30, 2004 | | Six Months Ended June 30, 2005 | | Six Months Ended June 30, 2004 | |
|---|---|---|---|---|---|---|---|---|
| Net income (loss) | $ | 1,399 | $ | (2,587) | $ | (696) | $ | (3,851) |
| Less: amount allocated to participating warrants | | (227) | | | | 119 | | |
| Net income (loss) available to common shareholders-Basic | $ | 1,172 | $ | (2,587) | $ | (577) | $ | (3,851) |
| Weighted average common shares outstanding | | 35,407 | | 29,574 | | 33,092 | | 29,155 |
| Basic earnings (loss) per share | $ | 0.03 | $ | (0.09) | $ | (0.02) | $ | (0.13) |

**Diluted Earnings Per Share**

Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted EPS includes in-the-money stock options, warrants and restricted stock using the treasury stock method and also includes the assumed conversion of preferred stock and convertible debt using the if-converted method.

| **(in thousands, except share data)** | **Three Months Ended June 30, 2005** | **2004** | **Six Months Ended June 30, 2005** | **2004** |
|---|---|---|---|---|
| Net income (loss) | $ 1,399 | $ (2,587) | $ (696) | $ (3,851) |
| Less: amount allocated to participating warrants | (227) | | 119 | |
| Add: assumed exercise of convertible notes | 548 | | | |
| Net income (loss) available to common shareholders - Diluted | $ 1,720 | $ (2,587) | $ (577) | $ (3,851) |
| Weighted average common shares outstanding | 35,407 | 29,574 | 33,092 | 29,155 |
| Assumed exercise of stock options | 729 | | | |
| Assumed exercise of convertible notes | 13,793 | | | |
| Adjusted weighted average shares - Diluted | 49,929 | 29,574 | 33,092 | 29,155 |
| Diluted earnings (loss) per share | $ 0.03 | $ (0.09) | $ (0.02) | $ (0.13) |

***Frequent Flyer Program***

The Company recognizes a liability under Hawaiian s HawaiianMiles frequent flyer program as members accumulate mileage points. Hawaiian records a liability for either 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 cost of fuel, meals, liability insurance, reservations, and ticketing and does not include any costs for aircraft ownership, maintenance, labor or overhead allocation. The liability is adjusted periodically based on awards earned, awards redeemed, changes in the incremental costs and changes in the HawaiianMiles program. 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.

***Sales Commissions***

Commissions from the sale of passenger revenue are recognized as expense when the transportation is provided and the related revenue is recognized. The amount of sales commissions not yet recognized as expense is included in prepaid expenses and other current assets in the accompanying balance sheets.

***Advertising Costs***

Advertising costs are expensed as incurred.

***Stock Options Plans***

The Company accounts for stock options in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related Interpretations. Under APB 25, no compensation expense is recognized for stock option grants if the exercise price of the stock option is at or above the fair market value of the underlying stock on the date of grant.

The Company has adopted the pro forma disclosure features of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123), as amended by SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure . As required by SFAS 123, pro forma information regarding net income (loss) has been determined as if the Company accounted for its employee stock options and awards granted using the fair value method prescribed by SFAS 123. The following table illustrates the pro forma effect on net loss if the Company had accounted for its employee stock options and awards granted using the fair value method prescribed by SFAS 123 for the three month and six month periods ended June 30, 2005 and 2004. The fair value for the stock options was estimated at the date of grant using the Black-Scholes-Merton option pricing model.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(in thousands, except share data)** | **2005** | **2004** | **2005** | **2004** |
| Net income (loss) available to common shareholders: | | | | |
| As reported | $ 1,172 | $ (2,587) | $ (577) | $ (3,851) |
| Less: total stock based employee compensation expense determined under the fair value method for all awards | 87 | 93 | 153 | 187 |
| Pro forma | $ 1,085 | $ (2,680) | $ (730) | $ (4,038) |
| Basic earnings (loss) per share | | | | |
| As reported | $ 0.03 | $ (0.09) | $ (0.02) | $ (0.13) |
| Pro forma | $ 0.03 | $ (0.09) | $ (0.02) | $ (0.14) |
| Diluted earnings (loss) per share | | | | |
| As reported | $ 0.03 | $ (0.09) | $ (0.02) | $ (0.13) |
| Pro forma | $ 0.02 | $ (0.09) | $ (0.02) | $ (0.14) |

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised 2004), Share Based Payment (SFAS 123R), which replaces SFAS 123 and supersedes 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 flow rather than operating activities as currently permitted.  SFAS 123R will be effective for us beginning January 1, 2006 (as extended by the SEC on April 14, 2005).  SFAS 123R offers alternative methods of adoption.  At the present time, the Company has not yet determined which alternative method it will use.  Depending on the method the Company adopts to calculate stock-based compensation expense upon the adoption of SFAS 123R, the pro forma disclosure above may not be indicative of the stock-based compensation expense to be recognized in periods beginning after December 31, 2005.

**4.** Business Combinations

As discussed further in Note 3, from the period April 1, 2003 through June 1, 2005, during which the Company did not control Hawaiian, the Company deconsolidated Hawaiian for financial reporting purposes and accounted for its ownership of Hawaiian using the cost method of accounting. In connection with Hawaiian s reorganization and emergence from bankruptcy, the Company issued debt and equity securities to holders of certain claims in Hawaiian s bankruptcy case in order to consummate the Joint Plan, which resulted in the Company regaining of control of Hawaiian, which the Company did not have prior to the Effective Date of the Joint Plan. As a result, the Company s reacquisition of Hawaiian was accounted for a business combination and the results of operations of Hawaiian have been included in the Company s results of operations since the Effective Date.

Under the Joint Plan, holders of lease-related claims, Hawaiian s largest creditors, received full payment of their approved claims in a combination of cash, common stock of the Company, and subordinated convertible notes of the Company, as more fully discussed in Note 5, while holders of other claims received full payment of their claims in cash. On the Effective Date, the Company issued approximately 14.1 million shares of common stock pursuant to the Joint Plan. In accordance with EITF Consensus 99-12, Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination , the common stock has been valued at $6.50 per share for accounting purposes. This price represents the average closing price per share for the five-day period including November 2, 2004, the date upon which the number of shares of common stock of the Company to be issued became fixed without subsequent revision. The estimated total purchase price is as follows (in thousands):

| | | |
|---|---|---|
| Common stock | $ | 91,805 |
| Issuance of subordinated convertible notes | | 60,000 |
| Cash payments made to holders of claims against Hawaiian | | 48,257 |
| Accruals for estimated unpaid claims | | 18,246 |
| Total estimated purchase price | $ | 218,308 |

Under the purchase method of accounting, the total purchase price is allocated to the net tangible and intangible assets of Hawaiian based on their fair values as of the date of acquisition. The following table summarizes the Company s estimates of the fair value of the assets acquired and liabilities assumed at the date of acquisition. The purchase price allocation is preliminary and will be finalized after completion of the independent appraisal of significant assets and liabilities acquired, and the resolution of certain pending claims in Hawaiian s bankruptcy proceeding. Independent valuation specialists are currently conducting an independent valuation in order to assist management in determining the fair values of a significant portion of these assets. The work performed by the independent valuation specialists has been considered in management s estimates of the fair values reflected in the financial statements. The final determination of these fair values will include management s consideration of a final valuation prepared by the independent valuation specialists. This final valuation will be based on the actual net tangible and intangible assets of Hawaiian that existed as of the date of acquisition. Therefore, the final amounts recorded may differ from the amounts included in these financial statements.

| | | |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ | 113,685 |
| Restricted cash | | 57,448 |
| Accounts receivable | | 51,433 |
| Spare parts and supplies | | 13,130 |
| Deferred taxes, net | | 13,576 |
| Prepaid expenses and other | | 30,984 |
| Property and equipment | | 49,530 |
| Long-term prepayments and other | | 62,208 |
| Intangible assets | | 168,280 |
| Goodwill | | 105,823 |
| | | |
| **Liabilities** | | |
| Accounts payable | $ | 47,623 |
| Air traffic liability | | 152,929 |
| Accrued liabilities | | 47,013 |
| Debt and capital lease obligations | | 97,062 |
| Accumulated pensions and other postretirement benefit obligations | | 200,777 |
| Other liabilities | | 50,321 |

Of the total estimated purchase price, approximately $158.3 million has been allocated to amortizable intangible assets acquired, and approximately $115.8 million has been allocated to goodwill and intangible assets with indefinite lives. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, goodwill and intangible assets with indefinite lives are not amortized, but instead will be tested for impairment at least annually (more frequently if certain indicators are present). Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying net tangible and intangible assets. Intangible assets with indefinite lives consist primarily of the estimated fair value allocated to the Hawaiian Airlines trade name. The Hawaiian Airlines trade name was determined to have an indefinite useful life due to several factors and considerations, including the length of time that the Hawaiian Airlines name has been in use, the Hawaiian Airlines brand awareness and market position, and the assumption of continued use of the Hawaiian Airlines brand. In the event that the Company determines that the value of goodwill or intangible assets with indefinite lives has become impaired, the Company will incur an accounting charge for the amount of impairment during the fiscal quarter in which the determination is made.

The following table summarizes our estimates of the fair value of intangible assets at the date of acquisition and the useful lives assigned to each asset.

| | | Fair Value (in thousands) | Useful Life |
|---|---|---|---|
| Favorable maintenance contracts | $ | 34,800 | Term of agreements |
| Frequent flyer program - marketing relationships | | 111,766 | 8 years |
| Frequent flyer program - customer relationships | | 8,014 | 10 years |
| Hawaiian Airlines trade name | | 10,000 | Indefinite |
| US FAA Part 121 Operating certificate | | 3,700 | 12 years |
| | $ | 168,280 | |

The following table presents pro forma financial information as if the business combination had occurred as of the beginning of each period presented.

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| | Three Months Ended June 30, 2005 | Three Months Ended June 30, 2004 | Six Months Ended June 30, 2005 | Six Months Ended June 30, 2004 |
|---|---|---|---|---|
| | (in thousands except per share date) | | | |
| Total revenue | $ 201,034 | $ 186,257 | $ 390,254 | $ 360,397 |
| Operating income (loss) | (4,647) | 7,598 | (1,320) | 15,272 |
| Income (loss) before income taxes | 3,419 | 1,020 | (3,811) | 1,942 |
| Net loss | (8,970) | (3,608) | (16,041) | (6,547) |
| Net loss per share: | | | | |
| Basic and diluted | (0.17) | (0.07) | (0.31) | (0.13) |

Pro forma income (loss) before income taxes and net loss include reorganization expenses of Hawaiian of $3.3 million for the three months ended June 30, 2004, and $5.3 million and $7.0 million for the six months ended June 30, 2005 and 2004, respectively.

**5.** Debt and Common Stock Warrant

The Joint Plan was financed through the Exit Financing Transactions, including the issuance of approximately 14.1 million shares of the Company s common stock and the following debt instruments.

***Senior Credit Facility***

On June 2, 2005, Hawaiian, as borrower, entered into a credit agreement with the Company, as guarantor, the lenders named therein and Wells Fargo Foothill, Inc. ( Wells Fargo ), as agent for the senior lenders (the Senior Credit Facility ). Indebtedness under the Senior Credit Facility is secured by substantially all of the assets of Hawaiian. The Senior Credit Facility provides Hawaiian with a $50.0 million senior secured credit facility comprised of (i) a revolving line of credit in the maximum amount of $25.0 million, subject to availability under a borrowing base formula based on Hawaiian s eligible accounts receivable, eligible spare parts, eligible ground equipment and collections, with a $15.0 million sublimit for letters of credit and up to $5.0 million in swing loans and (ii) a $25.0 million term loan. Indebtedness under the Senior Credit Facility bears interest, in the case of base rate loans, at a per annum rate equal to the base rate (Wells Fargo s published prime rate ) plus the base rate margin (1.50 percentage points), and, in the case of LIBOR rate loans, at a per annum rate equal to the LIBOR rate plus the LIBOR rate margin (4.0 percentage points), as defined in the Senior Credit Facility. The interest rate shall at no time be less than 5% per annum and is subject to adjustment from time to time. The Senior Credit Facility includes customary covenants for lending transactions of this type, including minimum EBITDA, excess availability and leverage ratio financial covenants. Hawaiian s obligations under the Senior Credit Facility are guaranteed by the Company. The Senior Credit Facility matures in three years.

***Term B Credit Facility***

On June 2, 2005, Hawaiian, as borrower, entered into a credit agreement with the Company, as guarantor, the lenders named therein and Canyon Capital Advisors, LLC ( Canyon ), as agent for the junior lenders (the Term B Credit Facility ). The Term B Credit Facility provided Hawaiian with an additional $25.0 million term loan at an interest rate of 10% per annum, with interest payable quarterly. The entire principal amount of the loan may be prepaid, subject to certain prepayment penalties as set forth in the Term B Credit Facility. The Term B Credit Facility includes customary covenants for lending transactions of this type, including minimum EBITDA, excess availability and leverage ratio financial covenants. The Term B Credit Facility is secured by a lien on substantially all of the assets of Hawaiian, subject to the prior liens granted to the senior lenders under the Senior Credit Facility. The obligations of Hawaiian under the Term B Credit Facility are guaranteed by the Company. The Term B Facility matures in three years.

***Note Purchase Agreement***

On June 1, 2005, the Company and RC Aviation entered into a Note Purchase Agreement (the Note Purchase Agreement ), pursuant to which RC Aviation and its members purchased from the Company Series A Subordinated Convertible Notes due June 1, 2010 (the Series A Notes ) and Series B Subordinated Convertible Notes due June 1, 2010 (the Series B Notes and, together with the Series A Notes, the Notes ), in the aggregate principal amount of $60.0 million. The Notes provide for interest at a rate of 5% per annum, payable in cash or additional Notes at the option of the Company. The Notes will be convertible into the Company s common stock at an initial conversion price of $4.35 per share, subject to adjustment upon the occurrence of certain dilutive events. The Series A Notes and the Series B Notes are convertible into 8,933,000 shares and 4,860,103 shares, respectively, of the Company s common stock at any time after the first anniversary of the issuance thereof (the convertibility of the Series B Notes was initially subject to the occurrence of certain events (including stockholder approval), all of which occurred in July 2005). The Notes become due in five years from the issue date, if not prepaid or converted prior to such date. The Company has the right, and has covenanted to use its best efforts, to redeem the Notes at 105% of the aggregate principal amount, plus all accrued and unpaid interest due and payable thereunder, at any time prior to the first anniversary of issuance. On June 2, 2005, RC Aviation also received a warrant to purchase shares of newly designated Series E Preferred Stock of the Company (the Series E Warrant ). In July 2005, the warrant was automatically exchanged, upon the occurrence of certain events (including stockholder approval), for a warrant to purchase up to ten percent (10%) of the fully-diluted shares of common stock of the Company (6,855,685) at an exercise price of $7.20 per share (the Common Stock Warrant ). Half of the Common Stock Warrants had been previously earned by RC Aviation for its funding commitment with respect to the Joint Plan and the other half were earned by RC Aviation in connection with its purchase of the Notes. In connection with the issuance of the Notes and the granting of the Common Stock Warrants, the Company and RC Aviation also entered into a Registration Rights Agreement relating to the registration of the shares of the Company s common stock issuable upon conversion of the Notes and exercise of the Common Stock Warrants.

The Notes are convertible into common stock of the Company at a price per share that is lower than the closing share price of the Company s common stock as of the date the Notes were issued, which constitutes a beneficial conversion feature. In accordance with EITF Consensus 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios , the intrinsic value of the beneficial conversion feature as of June 1, 2005 of $27.8 million has been recorded as additional paid-in-capital. Additionally, the fair value of the Common Stock Warrants of $13.5 million has also been recorded to additional paid-in-capital. As a result of the amounts ascribed to the beneficial conversion feature and the Common Stock Warrants, the Notes have been recorded at a substantial discount, which will be accreted to interest expense over the stated life of the Notes. The initial carrying value of the Notes was $18.7 million and the effective interest rate on the Notes is 35%.

Maturities of long-term debt as of June 30, 2005, in thousands, are as follows:

| | | |
|---|---|---|
| Remainder of 2005 | $ | 6,276 |
| 2006 | | 12,834 |
| 2007 | | 13,036 |
| 2008 | | 34,086 |
| 2009 | | 5,169 |
| Thereafter | | 68,256 |
| | $ | 139,657 |
| Discount attributable to, net of accretion: | | |
| Intrinsic value of beneficial conversion feature on subordinated convertible notes | | (27,550) |
| Fair value of warrants on subordinated convertible notes | | (13,442) |
| Long-term IRS obligation (See Note 8) | | (2,407) |
| | $ | 96,258 |
| Less current portion | | (20,182) |
| Total long term debt | $ | 76,076 |

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**6.** Leases

At June 30, 2005, Hawaiian leased all 25 of its aircraft under long-term operating leases. The aircraft fleet in service was as follows:

| Aircraft Type | Number of Aircraft |
|---|---|
| B767 | 14 |
| B717 | 11 |
| Total | 25 |

Hawaiian s leases with AWAS, formerly Ansett Worldwide Aviation Services, Inc. ( AWAS ) for seven Boeing 767 aircraft allow AWAS to terminate the leases early, after not less than 180 days prior notice to Hawaiian, beginning on March 21, 2007. AWAS can terminate up to two leases between March 21, 2007 and September 20, 2007, up to three additional leases between September 21, 2007 and March 20, 2008 and up to two additional leases between March 21, 2008 and September 20, 2009. After September 20, 2009, AWAS can terminate up to all seven leases on not less than 180 days notice.

The following table sets forth Hawaiian s scheduled future minimum lease commitments under operating and capital leases as of June 30, 2005.

| | Operating Leases | Capital Leases |
|---|---|---|
| Remainder of 2005 | $ 49,424 | $ 191 |
| 2006 | 99,449 | 242 |
| 2007 | 99,459 | 137 |
| 2008 | 104,559 | 102 |
| 2009 | 106,110 | 102 |
| Thereafter | 940,464 | 738 |
| Total minimum lease payments | $ 1,399,465 | 1,512 |
| Less amount representing interest (rates ranging from 7.40% to 11.10%) | | 441 |
| Present value of capital lease obligations | | $ 1,071 |

**7.** Fuel Price Risk Management

As of June 2, 2005, Hawaiian had entered into jet fuel swap agreements with a single counterparty to hedge approximately 45% of its fuel requirements for the forward twelve month period. Under the terms of these jet fuel swap agreements, Hawaiian is to pay a fixed amount per gallon of jet fuel, at prices ranging from $1.61 to $1.75 per gallon, and receive a floating amount per gallon of jet fuel from the counterparty, based on the market price for jet fuel. The fair value of the jet fuel swap agreements of $4.7 million was recorded in Prepaid expenses and other upon the Company s acquisition of Hawaiian.

The jet fuel swap agreements do not qualify as hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , because the Company did not have the required documentation in place during the period ended June 30, 2005. As a result, the increase in the fair value of the jet fuel swap agreements of $5.4 million during the period June 2, 2005 through June 30, 2005 was recorded as a component of Other, net, within non-operating income for the three and six months ended June 30, 2005. The fair value of the jet fuel swap agreements of $10.1 million as of June 30, 2005 is recorded in Prepaid expenses and other on the consolidated balance sheet.

The Company does not hold or issue derivative financial instruments for trading purposes. The Company is exposed to credit risks in the event any counterparty fails to meet its obligations. However, the Company does not expect any counterparty to fail to meet its obligations.

**8.** Income Taxes

The Company s effective tax rates differ from the federal statutory rate of 35% primarily due to increases in the valuation allowance, certain expenses that are not deductible for federal income tax purposes, and state income taxes. In assessing the realizability of deferred tax assets, and thus the need for a valuation allowance, management considers whether it is more likely than not that some portion or all of the Company s deferred tax assets will not be realized. The ultimate realization of the Company s deferred tax assets is dependent upon its ability to carry back net operating losses (NOLs) to periods in which the Company or Hawaiian had net taxable income, the generation of future taxable income during the periods in which those temporary differences become deductible, or the future utilization of the resulting NOL carryforwards prior to expiration. The consummation of the Joint Plan triggered significant tax deductions related to the payment of certain claims, most significantly the lease-related claims. The Company expects significant tax deductions and NOL carrybacks in its 2005 federal income tax return that will result in no taxes payable for 2005 and a refund for a portion of the income taxes paid by Hawaiian in 2003 and 2004. Net deferred tax assets have been reflected in the accompanying consolidated balance sheet only to the extent that NOLs will be carried back to years in which Hawaiian had net taxable income and thus realization is more likely than not.

As of December 31, 2004, the Company and Hawaiian had total NOL carryforwards of approximately $5.1 million and $8.4 million, respectively, available to offset future taxable income. If not used to offset future taxable income, the Company s NOLs will expire between the years 2014 and 2024 and Hawaiian s NOLs will expire between the years 2005 and 2009. Additionally, Hawaiian underwent an ownership change in January 1996, as defined under Section 382 of the Internal Revenue Code ( IRC Section 382 ). IRC Section 382 places an annual limitation on the amount of income that can be offset by NOL carryforwards generated in pre-ownership change years. The ownership change resulted in an annual IRC Section 382 limitation on Hawaiian s NOLs of approximately $1.7 million. To the extent the NOL carryforwards of Hawaiian are used to offset future taxable income, goodwill will be reduced by the resulting tax benefit.

During 2003, the Internal Revenue Service (IRS) commenced an audit of Hawaiian, covering taxes for income, fuel excise, and other matters. On June 30, 2004, the IRS filed a proof of claim in the amount of $128.9 million. Of that amount, approximately $88.0 million was asserted by the IRS to constitute a priority tax claim under section 507(a)(8) of the Bankruptcy Code. The priority claim consisted of two components: (i) excise taxes on aviation fuel consumed on flights over international waters, which Hawaiian claimed were not subject to the U.S. fuel excise tax; and (ii) income adjustments for the years 2001 and 2002 related primarily to the deductibility of payments for power-by-the-hour maintenance agreements, tax revenue recognition relative to certain components of the air traffic liability, deductions taken by Hawaiian in 2001 for certain DC-9 aircraft, and tax change in ownership limitations under IRC Section 382 on certain NOL carryforwards utilized in 2001. The balance of the claim represented penalties proposed by the IRS arising from the fuel excise tax matter referred to above. The IRS subsequently amended its claim on several occasions.

Hawaiian and the IRS settled the disputes regarding the deductibility of payments for power-by-the-hour maintenance agreements, tax revenue recognition relative to certain components of the air traffic liability, and the deductions taken by Hawaiian in 2001 for the DC-9 aircraft. On February 1, 2005, the Bankruptcy Court ruled that the IRS s claim for unpaid fuel excise tax and interest of $21.8 million was a valid claim, but that the IRS s penalty claim for nonpayment of the fuel excise tax was not a valid claim. Additionally, on February 24, 2005, the Bankruptcy Court ruled in favor of Hawaiian with respect to the NOL issue. Under the applicable provisions of the Bankruptcy Code, amounts due to the IRS by a debtor in a bankruptcy proceeding are generally payable in up to twenty-four equal quarterly installments. As a result of the agreed settlements with the IRS and the Bankruptcy Court s ruling with respect to the excise tax claim, Hawaiian will make quarterly payments of $1.4 million to the IRS through the second quarter of 2011. This obligation is included in long-term debt.

The IRS has appealed the decisions of the Bankruptcy Court with respect to both the excise tax penalty claim and the utilization of NOL carryforwards in 2001. Additionally, the IRS is currently also in the process of examining Hawaiian s income tax returns for 2003. The Company cannot currently determine the impact of any potential assessments by the IRS on the Company s financial position, results of operations and liquidity. Any

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additional taxes paid by Hawaiian related to any periods prior to the effective date of Hawaiian s plan of reorganization will result in a corresponding increase in goodwill.

**9.** Employee Benefit Plans

Hawaiian sponsors three defined benefit pension plans covering the Air Line Pilots Association (ALPA), the International Association of Machinists and Aerospace Workers (IAM) and other employees (salaried, Transport Workers Union, Employees of the Communications Section). The plans for the IAM and other employees were frozen effective October 1, 1993. The new collective bargaining agreement that Hawaiian s pilots ratified in May 2005 provides that benefit accruals for pilots under age 50 as of July 1, 2005 will be frozen effective January 1, 2008, and that Hawaiian will begin to make contributions to an alternate defined contribution retirement program for pilots. All of the pilots existing accrued benefits under their defined benefit plan at the date of the freeze will be preserved, but there will be no further benefit accruals after the date of the freeze. The pilots plan is funded based on minimum requirements under the Employee Retirement Income Security Act of 1974 (ERISA), but not less than the normal cost plus the 20-year funding of the past service liability. Funding for the ground personnel plans is based on minimum ERISA requirements.

Hawaiian also sponsors separate deferred compensation 401(k) plans for its pilots, flight attendants and ground and salaried employees. Participating employer cash contributions are not currently required under the terms of the pilots plan, but will be required subsequent to the freeze of the pilots defined benefit plan. Hawaiian is required to contribute up to 7.0% of defined compensation pursuant to the terms of the flight attendants plan.

In addition to providing pension benefits, Hawaiian sponsors two unfunded defined benefit postretirement medical and life insurance plans. Employees in Hawaiian s pilot group are eligible for certain medical, dental and life insurance benefits under one plan if they become disabled or reach normal retirement age while working for Hawaiian. Employees in Hawaiian s non-pilot group are eligible for certain medical benefits under another plan if they meet specified age and service requirements at the time of retirement.

The Company recorded the obligations under Hawaiian s defined pension and other post-retirement benefit plans at their fair value as of June 2, 2005, based on the assumptions set forth below. The following table summarizes the accumulated benefit obligation, the projected benefit obligation and plan assets as of June 2, 2005.

| | Pension Benefits | Other Benefits |
|---|---|---|
| Accumulated benefit obligation | $ 338,188 | $ 55,950 |
| Projected benefit obligation | $ 346,932 | $ 55,950 |
| Fair value of plan assets | (202,105) | |
| Accrued benefit obligation | $ 144,827 | $ 55,950 |

The following actuarial assumptions were used to determine the Company s defined pension and other post-retirement benefit obligations and net periodic benefit expense for the year ending December 31, 2005:

| | |
|---|---|
| Discount rate | 5.0% |
| Expected return on plan assets | 7.9% |
| Rate of compensation increase* | 1.0% |

* Pilots only. The rate of compensation increase is not applicable to the frozen plans.

The health care cost trend rate was assumed to be 9.5% for 2005 and decrease gradually to 4.75% over 9 years and remain level thereafter.

Hawaiian develops the expected long-term rate of return assumption based on historical experience and by evaluating input from the trustee managing the plan s assets, including the trustee s review of asset class return expectations by several consultants and economists, as well as long-term inflation assumptions. Hawaiian s expected long-term rate of return on plan assets is based on a target allocation of assets, which is based on the 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 security class will not have an unduly detrimental impact on the entire portfolio. The actual asset allocation percentages by category as of June 2, 2005, the target allocation of assets by category, and the expected long-term rate of return by category are as follows:

| | Asset Allocation June 2, 2005 | Target | Expected Long-Term Rate of Return |
|---|---|---|---|
| U.S. equities | 43% | 50% | 10% |
| Fixed income | 9% | 30% | 4% |
| International equities | 10% | 10% | 10% |
| Other | 38% | 10% | 8% |

Based on current legislation and current assumptions, the Company anticipates contributing $9.4 million and $27.1 million to Hawaiian s defined benefit pension plans during the remainder of 2005 and 2006, respectively. The Company projects that Hawaiian s pension plans will make the following benefit payments, which reflect expected future service, for the years ended December 31:

| | | |
|---|---|---|
| 2005 | $ | 15,112 |
| 2006 | | 16,000 |
| 2007 | | 17,366 |
| 2008 | | 18,801 |
| 2009 | | 19,934 |
| 2010 through 2014 | | 112,312 |

The following table sets forth the net periodic benefit cost for the three and six months ended June 30, 2005 (such expense was recognized only during the period June 2, 2005 through June 30, 2005, when Hawaiian was consolidated by the Company).

| **Components of Net Periodic Benefit Cost** | | |
|---|---|---|
| Service cost | $ | 469 |

| | | |
|---|---|---|
| Interest costs | | 1,428 |
| Expected return on plan assets | | (1,335) |
| Net periodic benefit cost | $ | 562 |

Assumed health care cost trend rates have a significant impact on the amounts reported for other benefits. A one-percentage point change in the assumed health care cost trend rates would have the following annual effects:

| | One-Percentage Point Increase | One-Percentage Point Decrease |
|---|---|---|
| Effect on total of service and interest cost components | $ 673 | $ (535) |
| Effect on postretirement benefit obligation | $ 9,283 | $ (7,541) |

**10.** Stock Compensation

Under a stock compensation program that became effective on June 2, 2005, the Effective Date of the Joint Plan, Hawaiian s eligible employees will be granted 1.5 million shares of the Company s common stock. Each eligible full time employee will have 100 immediately vested shares deposited in their 401(k) account (part-time eligible employees will receive 50 immediately vested shares), subject to applicable legal limitations, as soon as practicable after the Effective Date. Remaining shares will be distributed in two equal distributions on May 1, 2006 and May 1, 2007. The allocation of the May 1, 2006 and May 1, 2007 distributions will be based on the employee s pro rata share of W-2 wages for the tax year preceding the year of each distribution. The Company recorded compensation expense of $1.6 million during the three and six months ended June 30, 2005 related to approximately 285,000 shares for the first distribution, which is expected to occur shortly after the registration of the shares. Compensation expense for the May 1, 2006 distribution is being accrued over the service period (the 2005 tax year) based on the ending price of the Company s common stock for each reporting period. During the three and six months ended June 30, 2005, the Company recorded compensation expense of $1.2 million related to the May 1, 2006 distribution.

**11.** Commitments and Contingent Liabilities

***Litigation and Contingencies***

The Company is subject to legal proceedings arising in the normal course of its operations. Management does not anticipate that the disposition of such proceedings will have a material effect upon the Company s financial statements.

***American Airlines***

Included in accrued liabilities is a pending unpaid claim in the amount of approximately $11.0 million from American Airlines ( American ) for unpaid rent relating to DC-10 aircraft which Hawaiian leased from American prior to the Petition Date and unpaid maintenance charges. Hawaiian disputes a substantial portion of American s claim and also contends that a significant portion of the claim should be categorized as a Class 5 claim under the Joint Plan (see Note 2 above for a table summarizing the classification and treatment of claims under the Joint Plan). By Order entered on January 20, 2005, the Bankruptcy Court provided for the continued negotiations among the parties following confirmation of the Joint Plan, or a hearing before the Bankruptcy Court to resolve the issues, if agreement could not be reached, without prejudice to their respective rights. To the extent that Hawaiian ultimately pays more or less than the amount accrued, there will be a corresponding increase or decrease, respectively, in goodwill.

***Bankruptcy Success Fees***

The bankruptcy trustee in Hawaiian s Chapter 11 proceeding has submitted an application to the Bankruptcy Court for an $8 million success fee, in addition to $1.2 million of compensation already received. Simat, Helliesen & Eichner, the trustee s advisor in the case, has also submitted a success fee application in the amount of $1.75 million, in addition to hourly fees of $4.6 million billed in the case. The Bankruptcy Court has set a hearing on these fees for September 29, 2005. The Company vigorously opposes the payment of these success fees and plans to file an objection to each application with the Bankruptcy Court, as it believes the parties have already been adequately compensated. No amounts have been accrued for the success fee applications. Any amounts ultimately paid will result in a corresponding increase in goodwill.

***Los Angeles Airport Operating Terminal***

On December 1, 1985, Hawaiian entered into an interline agreement with other airlines, which was amended and restated as of September 1, 1989 for, among other things, the sharing of costs, expenses and certain liabilities related to the acquisition, construction and renovation of certain passenger terminal facilities at the Los Angeles International Airport ( Facilities ). Current tenants and participating members of LAX Two Corporation (the Corporation ), a mutual benefit corporation, are jointly and severally obligated to pay their share of debt service payments related to Facilities Sublease Revenue Bonds issued to finance the acquisition, construction and renovation of the Facilities which totaled $111.9 million at completion. The Corporation leases the Facilities from the Regional Airports Improvement Corporation under an agreement accounted for as an operating lease. In addition, the Corporation is also obligated to make annual payments to the city of Los Angeles for charges related to its terminal ground rental.

**General Guarantees and Indemnifications**

Hawaiian is the lessee under certain real estate leases. It is common in such commercial lease transactions for Hawaiian as the lessee to agree to indemnify the lessor and other related third parties for tort liabilities that arise out of or relate to Hawaiian s use or occupancy of the leased premises. In some cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by their gross negligence or willful misconduct. Additionally, Hawaiian typically indemnifies such parties for any environmental liability that arises out of or relates to its use of the leased premises. Hawaiian expects that it is covered by insurance (subject to deductibles) for most tort liabilities and related indemnities described above with respect to real estate that it leases. Hawaiian cannot estimate the potential amount of future payments, if any, under the foregoing indemnities and agreements.

**12.** Subsequent Events

On July 7, 2005, the Company s stockholders approved an amendment (the Amendment ) of the Company s certificate of incorporation to increase the number of authorized shares of capital stock from 62.0 million shares (consisting of 60.0 million shares of common stock and 2 million shares of preferred stock) to 120 million shares (consisting of 118 million shares of common stock and 2 million shares of preferred stock). The increase in the number of authorized shares of common stock was necessary in order to have sufficient shares of common stock available for the issuance of certain shares upon exercise of securities that were part of the exit financing from bankruptcy of Hawaiian, for grants under the Company s newly adopted 2005 Stock Incentive Plan, and a reserve of common shares for present and future needs and growth.

On July 7, 2005, the Company s stockholders approved the Company s 2005 Stock Incentive Plan (the Plan ) which supersedes the Company s 1996 Stock Incentive Plan and 1996 Nonemployee Director Stock Option Plan (the Prior Plans ), which would have expired under their terms in 2006. The Plan allows for the issuance of 8 million shares of common stock, which includes approximately 1.1 million shares to be rolled over from the Company s Prior Plans and approximately 6.9 million additional shares of common stock. The Plan authorizes the Compensation Committee of the Company s Board of Directors (the Compensation Committee ) to grant to participants: (i) options to purchase common stock, which may be in the form of non-statutory stock options or, if granted to employees, Incentive Stock Options; (ii) stock appreciation rights; (iii) deferred stock units; (iv) restricted common stock with such restriction periods, restrictions on transferability, and performance goals as the Compensation Committee may designate at the time of grant; (v) cash payments that may be granted separately or as a supplement to any stock-based award; (vi) dividend rights to participants, which rights entitle a participant to receive the dividends on common stock to which the participant would be entitled if the participant owned the number of shares of common stock represented by the dividend rights; and (vii) other stock-based awards as deemed by the Compensation Committee to be consistent with the purposes of the Plan. The Plan also authorizes the Governance and Nominating Committee of the Company s Board of Directors to grant and administer director options. The term of each award will be determined by the Compensation Committee at the time each award is granted, provided that the terms of options, stock appreciation rights and dividend rights may not exceed ten years.

Shares granted under the Plan will be made available from unissued common stock or from common stock held in treasury. The Plan imposes the following limitations on awards issued under the Plan: (i) the maximum number of shares of common stock that may be granted as awards to any participant in any fiscal year shall not exceed 1.5 million shares; (ii) the maximum amount of cash or cash payments that may be granted as awards in any fiscal year shall not exceed $100,000; and (iii) the maximum number of dividend rights that may be granted as awards to any participant in any fiscal year shall not exceed dividend rights with respect to 1.5 million shares. The shares of common stock subject to the Plan and each limitation described above are subject to adjustment in the event of certain changes of capitalization.  No awards may be granted under the Plan after April 27, 2015. The Plan may be terminated by the Board of Directors at any time, but the termination of the Plan will not adversely affect awards that have previously been granted.

On July 8, 2005, the Amendment was filed with the Secretary of State of the State of Delaware and became effective, and the Series E Warrant was exchanged for the Common Stock Warrant.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders
Hawaiian Holdings, Inc.

We have audited the accompanying balance sheets of Hawaiian Holdings, Inc. (the Company ) as of December 31, 2004 and 2003, and the related statements of operations, shareholders deficiency and comprehensive loss, and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed in the index at Item 9.01(c). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (U.S.). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Since the date of completion of our audit of the accompanying financial statements and initial issuance of our report thereon dated March 30, 2005, which report contained an explanatory paragraph regarding the Company s ability to continue as a going concern, the Company s wholly-owned subsidiary, Hawaiian Airlines, Inc., has emerged from Chapter 11 bankruptcy protection and the Company has completed the financing transactions described in Note 14. Therefore, the conditions that raised substantial doubt about whether the Company will continue as a going concern no longer exist.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (U.S.), the effectiveness of Hawaiian Holdings, Inc. s internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 30, 2005, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Honolulu, Hawaii
March 30, 2005, except for Note 14,
as to which the date is June 2, 2005

**Hawaiian Holdings, Inc.**

**(Parent Company of Debtor)**

**Statements of Operations (in thousands, except per share data)**

| | Year ended December 31, 2004* | | 2003** | | 2002*** | |
|---|---|---|---|---|---|---|
| Operating Revenue: | | | | | | |
| Passenger | $ | | $ | 133,687 | $ | 541,992 |
| Charter | | | | 11,832 | | 46,480 |
| Cargo | | | | 5,619 | | 21,319 |
| Other | | | | 5,926 | | 22,247 |
| Total operating revenue | | | | 157,064 | | 632,038 |
| Operating Expenses: | | | | | | |
| Wages and benefits | | | | 55,217 | | 205,422 |
| Aircraft fuel, including taxes and oil | | | | 25,716 | | 95,457 |
| Maintenance materials and repairs | | | | 15,573 | | 90,194 |
| Aircraft rent | | | | 29,502 | | 83,462 |
| Other rentals and landing fees | | | | 6,146 | | 24,179 |
| Sales commissions | | | | 1,096 | | 14,645 |
| Depreciation and amortization | | | | 1,813 | | 8,577 |
| Restructuring charges | | | | | | 8,701 |
| Other | | 7,266 | | 37,094 | | 157,480 |
| Total operating expenses | | 7,266 | | 172,157 | | 688,117 |
| Operating Loss | | (7,266) | | (15,093) | | (56,079) |
| Non-operating Income (Expense): | | | | | | |
| Reorganization items, net | | | | (1,773) | | |
| Interest income, net | | 4 | | 54 | | 625 |
| Loss of disposition of equipment and other, net | | | | (186) | | (22) |
| Total non-operating income (expense) | | 4 | | (1,905) | | 603 |
| Loss Before Income Tax Provision | | (7,262) | | (16,998) | | (55,476) |
| Income Tax Provision | | | | | | (2,799) |
| Net Loss | $ | (7,262) | $ | (16,998) | $ | (58,275) |
| Net Loss Per Common Stock Share: | | | | | | |
| Basic | $ | (0.24) | $ | (0.60) | $ | (1.88) |
| Diluted | $ | (0.24) | $ | (0.60) | $ | (1.88) |
| Weighted Average Number of Common Shares Outstanding: | | | | | | |
| Basic | | 29,651 | | 28,435 | | 31,024 |
| Diluted | | 29,651 | | 28,435 | | 31,024 |

* Includes the deconsolidated results of Hawaiian Holdings, Inc. for the entire period.

** Includes the consolidated results of Hawaiian Holdings, Inc. and Hawaiian Airlines, Inc. from January 1, 2003 through March 31, 2003 and the deconsolidated results of Hawaiian Holdings, Inc. from April 1, 2003 through December 31, 2003.

*** Includes the consolidated results of Hawaiian Holdings, Inc. and Hawaiian Airlines, Inc. for the entire period.

See accompanying notes.

**Hawaiian Holdings, Inc.**

**(Parent Company of Debtor)**

**Balance Sheets (in thousands, except share data)**

| | December 31, 2004* | | December 31, 2003* | |
|---|---|---|---|---|
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | $ | 2,169 | $ | 1 |
| Other receivables | | | | 286 |
| Prepaid expenses and other | | 175 | | 75 |
| Total current assets | | 2,344 | | 362 |
| Noncurrent Assets: | | | | |
| Restricted cash | | 500 | | 500 |
| Total Assets | | 2,844 | | 862 |
| LIABILITIES AND SHAREHOLDERS DEFICIENCY | | | | |
| Current Liabilities: | | | | |
| Accounts payable | | 593 | | 771 |
| Accrued liabilities | | 763 | | 474 |
| Due to related parties | | 1,478 | | 2,046 |
| Total current liabilities | | 2,834 | | 3,291 |
| Other Liabilities and Deferred Credits: | | | | |
| Losses in excess of investment in Hawaiian Airlines, Inc. | | 61,302 | | 61,302 |
| Commitments and Contingent Liabilities | | | | |
| Shareholders Deficiency: | | | | |
| Common Stock $0.01 par value, 60,000,000 shares authorized, 30,751,227 and 28,456,165 shares issued and outstanding in 2004 and 2003, respectively | | 307 | | 285 |
| Preferred Stock $0.01 par value, 2,000,000 shares authorized, three and seven shares issued and outstanding; designated as Special Preferred Stock, at December 31, 2004 and 2003, respectively | | | | |
| Capital in excess of par value | | 69,756 | | 60,077 |
| Accumulated deficit | | (131,355) | | (124,093) |
| Shareholders deficiency | | (61,292) | | (63,731) |
| Total Liabilities and Shareholders Deficiency | $ | 2,844 | $ | 862 |

* Includes the deconsolidated balance sheet of Hawaiian Holdings, Inc.

See accompanying notes.

**Hawaiian Holdings, Inc.**
**(Parent Company of Debtor)**
**Statements of Shareholders Deficiency and Comprehensive Loss (in thousands, except share data)**
**For the Years ended December 31, 2004, 2003, and 2002**

| | Common Stock | Special Preferred Stock | Capital In Excess of Par Value | Notes Receivable from Common Stock Sales | Accumulated Deficit | Accumulated Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2001 | $ 342 | $ | $ 84,665 | $ (1,560) | $ (48,820) | $ (55,837) | $ (21,210) |
| Net loss | | | | | (58,275) | | (58,275) |
| Minimum pension liability adjustment | | | | | | (44,463) | (44,463) |
| Unrealized gain on hedge instruments | | | | | | 6,126 | 6,126 |
| Comprehensive loss | | | | | | | (96,612) |
| Exercise of options to acquire 20,000 shares of Common Stock | | | 41 | | | | 41 |
| Distribution to Pilots 401(k) Plan of 1,051,214 shares of Common Stock | 11 | | 3,280 | | | | 3,291 |
| Repurchase of 990,700 shares of Common Stock | (10) | | (3,117) | | | | (3,127) |
| Repurchase of 5,880,000 shares of Common Stock tendered | (59) | | (24,931) | | | | (24,990) |
| Return of 934 shares of Common Stock | | | (3) | | | | (3) |
| Balance at December 31, 2002 | 284 | | 59,935 | (1,560) | (107,095) | (94,174) | (142,610) |
| Net loss | | | | | (16,998) | | (16,998) |
| Reclassification adjustment for gains included in net loss on hedge instruments | | | | | | (1,718) | (1,718) |
| Comprehensive loss | | | | | | | (18,716) |
| Distribution to Pilots 401(k) Plan of 105,776 shares of Common Stock | 1 | | 142 | | | | 143 |
| Deconsolidation of Hawaiian Airlines, Inc. | | | | 1,560 | | 95,892 | 97,452 |
| Balance at December 31, 2003 | 285 | | 60,077 | | (124,093) | | (63,731) |
| Net and comprehensive loss | | | | | (7,262) | | (7,262) |
| Issuance of 1,001,062 shares of Common Stock | 10 | | 5,572 | | | | 5,582 |
| Exercise of options to acquire 1,294,000 shares of Common Stock | 12 | | 4,107 | | | | 4,119 |
| Cancellation of four shares of Series A Special Preferred Stock | | | | | | | |
| Balance at December 31, 2004 | $ 307 | $ | $ 69,756 | $ | $ (131,355) | $ | $ (61,292) |

See accompanying notes.

**Hawaiian Holdings, Inc.**
**(Parent Company of Debtor)**
**Statements of Cash Flows (in thousands)**
**For the Years ended December 31, 2004, 2003, and 2002**

| | 2004* | 2003** | 2002*** |
|---|---|---|---|
| **Cash Flows From Operating Activities:** | | | |
| Net loss | $ (7,262) | $ (16,998) | $ (58,275) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities before reorganization activities: | | | |
| Depreciation | | 1,669 | 8,010 |
| Amortization | | 144 | 567 |
| Net periodic postretirement benefit cost | | 642 | 2,598 |
| Restructuring charges | | | 8,701 |
| Loss on disposition of equipment | | 1 | 118 |
| Advance on sale of frequent flyer miles | | | 24,000 |
| Decrease (increase) in restricted cash | | (13,710) | 3,708 |
| Decrease (increase) in accounts receivable | | (3,604) | 6,917 |
| Increase in prepaid expenses and other | (100) | (3,776) | (270) |
| Decrease in deferred taxes, net | | | 5,904 |
| Decrease in accounts payable | (178) | (7,080) | (677) |
| Increase (decrease) in air traffic liability | | 3,136 | (667) |
| Increase (decrease) in accrued liabilities | 289 | 518 | (5,284) |
| Other, net | (282) | 2,843 | 15,028 |
| Net cash provided by (used in) operating activities before reorganization activities | (7,533) | (36,215) | 10,378 |
| Cash Flows From Reorganization Activities: | | | |
| Professional fees paid for services rendered in connection with bankruptcy proceedings | | (1,773) | |
| Net cash used by reorganization activities | | (1,773) | |
| Net cash provided by (used in) operating activities | (7,533) | (37,988) | 10,378 |
| **Cash Flows From Investing Activities:** | | | |
| Additions to property and equipment | | (2,577) | (9,693) |
| Progress payments on flight equipment | | | (21) |
| Net proceeds from disposition of equipment | | 1 | 2,123 |
| Net cash used in investing activities | | (2,576) | (7,591) |
| **Cash Flows From Financing Activities:** | | | |
| Long-term borrowings | | | 344 |
| Repayment of long-term debt | | (481) | (4,450) |
| Repayment of capital lease obligations | | (262) | (1,554) |
| Proceeds from issuance of common stock | 9,701 | | 41 |
| Repurchase of common stock | | | (28,120) |
| Net cash provided by (used in) financing activities | 9,701 | (743) | (33,739) |
| Net impact on cash of Hawaiian Airlines, Inc. deconsolidation | | (30,600) | |
| Net increase (decrease) in cash and cash equivalents | 2,168 | (71,907) | (30,952) |
| Cash and cash equivalents Beginning of Year | 1 | 71,908 | 102,860 |
| Cash and cash equivalents End of Year | $ 2,169 | $ 1 | $ 71,908 |

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* Includes the deconsolidated cash flows of Hawaiian Holdings, Inc. for the entire period.

** Includes the consolidated cash flows of Hawaiian Holdings, Inc. and Hawaiian Airlines, Inc. from

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January 1, 2003 through March 31, 2003 and the deconsolidated cash flows of Hawaiian Holdings, Inc. from April 1, 2003 through December 31, 2003.

*** Includes the consolidated cash flows of Hawaiian Holdings, Inc. and Hawaiian Airlines, Inc. for the entire period.

**HAWAIIAN HOLDINGS, INC.**
**NOTES TO FINANCIAL STATEMENTS**
**(IN THOUSANDS, UNLESS OTHERWISE INDICATED)**

**1.** Business and Organization

Hawaiian Holdings, Inc. (the Company ) is a holding company incorporated in the State of Delaware. On August 29, 2002, Hawaiian Airlines, Inc. ( Hawaiian ) became a wholly owned subsidiary of the Company pursuant to a corporate restructuring under which the shareholders of Hawaiian, as described in more detail below, exchanged their Hawaiian shares for Company shares on a one-for-one basis and became shareholders of the Company (the Corporate Restructuring ). Hawaiian was incorporated in January 1929 under the laws of the Territory of Hawaii and, based on operating revenue and revenue passenger miles, is the largest airline headquartered in Hawaii. Hawaiian is engaged primarily in the scheduled transportation of passengers, cargo and mail. Following the Corporate Restructuring, the shareholders of the Company had substantially the same rights, privileges and interests with respect to the Company as they had with respect to Hawaiian immediately prior to the Corporate Restructuring, except for any such differences that arose from differences between Delaware and Hawaii law. As a result of the Corporate Restructuring, the Company s primary asset is its sole ownership, directly and indirectly, of all issued and outstanding shares of common stock of Hawaiian.

In connection with the Corporate Restructuring, Airline Investors Partnership, L.P. ( Airline Investors Partnership ), the majority shareholder of the Company prior to the Corporate Restructuring, was restructured into a limited liability company called AIP, LLC ( AIP ). As part of the AIP restructuring, the Company acquired and now owns, indirectly through a subsidiary, all of the shares of Hawaiian common stock that were previously held by Airline Investors Partnership. In exchange, AIP received the same number of shares of the Company s common stock that Airline Investors Partnership owned of Hawaiian common stock immediately prior to the exchange. Immediately after the Airline Investors Partnership the remaining outstanding shares of Hawaiian common stock and all of the shares of Hawaiian special preferred stock, with each of these shares being converted into one share of the Company s common stock. After the completion of the Corporate Restructuring, the shareholders of the Company held the same relative percentage of the Company s common stock as they did of Hawaiian common and special preferred stock immediately prior to the Corporate Restructuring.

Also as part of the Corporate Restructuring, the Company issued to AIP and each of the three labor unions having the right to nominate individuals to the Company s board of directors, a number of shares of a corresponding series of the Company s Special Preferred Stock equal to the number of shares of Hawaiian Special Preferred Stock that they held immediately prior to the Corporate Restructuring. In addition, the existing stockholders agreement among Hawaiian, Airline Investors Partnership and the three labor unions having board nomination rights was amended and restated to make the Company and AIP parties to the agreement and to have them assume all the rights and obligations of Hawaiian and Airline Investors Partnership under the existing stockholders agreement, respectively. As a result, after the completion of the Corporate Restructuring, the relative governance rights in the Company of AIP and these three labor unions were substantially the same as the rights in Hawaiian of Airline Investors Partnership and these three labor unions immediately prior to the Corporate Restructuring.

On June 14, 2004, RC Aviation, LLC ( RC Aviation ) purchased ten million shares of the Company s common stock from AIP, reducing AIP s ownership of the Company to approximately 14 percent of the Company s outstanding common stock. Also as part of the purchase, John W. Adams resigned as the Company s Chairman and Chief Executive Officer and RC Aviation and AIP entered into a stockholders agreement, under which, among other things, AIP agreed to cause the directors that AIP had previously designated to the Board of Directors of the Company to resign (other than Gregory S. Anderson), and Lawrence S. Hershfield and Randall L. Jenson (the RC Designees ) to be appointed to the Company s Board of Directors. AIP also agreed, among other things, to vote all of its common stock and Special Preferred Stock (i) in favor of the election, as members of the Board of Directors of the Company, of persons identified by RC Aviation for nomination or so nominated in accordance with the Company s Amended and Restated Certificate of Incorporation and the Company s

Amended Bylaws, (ii) to otherwise effect the intent of the stockholders agreement, which is to cause RC Designees to become members of the Board of Directors of the Company, and (iii) to otherwise vote such equity securities at the direction of RC Aviation. On December 30, 2004, the Company and AIP entered into an agreement whereby the four shares of Special Preferred Stock of the Company held by AIP were cancelled and AIP no longer has any beneficial ownership or any other form of right, title or interest in, the shares of Special Preferred Stock.

References herein to the Company refer to (i) Hawaiian Airlines, Inc. only, with respect to periods prior to the Corporate Restructuring; (ii) Hawaiian Holdings, Inc. and its subsidiaries, with respect to the period from the Corporate Restructuring through and including March 31, 2003; and (iii) Hawaiian Holdings, Inc. only, with respect to the periods from and after April 1, 2003.

## **2.** Bankruptcy Filing, Liquidity and Going Concern

On March 21, 2003 (the Petition Date ), Hawaiian filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code (the Bankruptcy Code ) in the Bankruptcy Court for the District of Hawaii (the Bankruptcy Court ). The Company did not file a voluntary petition for relief under Chapter 11. Hawaiian has continued to operate its business under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. The Chapter 11 filing triggered defaults, or termination events, on substantially all debt and lease obligations, and certain contractual obligations, of Hawaiian. Subject to certain exceptions under the Bankruptcy Code, Hawaiian s Chapter 11 filing automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against Hawaiian or its property to recover on, collect or secure a claim arising prior to the Petition Date. At a hearing held on March 21, 2003, the Bankruptcy Court granted Hawaiian s first day motions for various relief designed to stabilize its operations and business relationships with customers, vendors, employees and others and entered orders granting authority to Hawaiian to, among other things: pay certain pre-petition and post-petition employee wages, salaries, benefits and other employee obligations; pay vendors and other providers in the ordinary course for goods and services received from and after the Petition Date; honor customer service programs, including the HawaiianMiles program and ticketing policies; honor obligations arising prior to the Petition Date related to Hawaiian s interline, clearinghouse, code sharing and other similar agreements; pay certain pre-petition taxes and fees, including transportation excise taxes, payroll taxes and passenger facility charges; and pay certain other obligations.

On March 31, 2003, BCC Equipment Leasing Corporation ( BCC Leasing ), an affiliate of The Boeing Company, filed a motion seeking the appointment of a Chapter 11 trustee (the Trustee Motion ). BCC Leasing asserted that John W. Adams ( Mr. Adams ), the Chairman and Chief Executive Officer of the Company and Hawaiian at that time, could not be relied upon to act in the best interest of creditors or a successful reorganization because he had allegedly engaged in extensive self-dealing and allegedly had disabling conflicts of interest. BCC Leasing specifically pointed to a self-tender of Hawaiian that occurred in the spring of 2002, as described more fully in Note 10, which resulted in 5,880,000 shares of Hawaiian s stock being repurchased by Hawaiian at a price in excess of the then-trading price, of which a significant portion was repurchased from Mr. Adams and an entity controlled by Mr. Adams. On May 16, 2003, the Bankruptcy Court issued an order granting the Trustee Motion. As a result, a Chapter 11 trustee, Joshua Gotbaum, (the Trustee ), is in charge of operating Hawaiian s business, under the jurisdiction of the Bankruptcy Court, and has the power to investigate and enforce claims relating to transfers of property that occurred prior to the Petition Date. Additionally, Hawaiian s exclusive periods to file and solicit acceptances of a plan of reorganization terminated upon the appointment of the Trustee.

A pre-petition liability that requires different treatment under the Bankruptcy Code relates to certain qualifying aircraft, aircraft engines and other aircraft-related equipment that are leased or subject to a security interest or conditional sale contract. Under Section 1110 of the Bankruptcy Code, actions to collect most pre-petition liabilities of this nature are automatically stayed for 60 days only, except under two conditions: (a) a debtor may extend the 60-day period by agreement with the relevant financier and with court approval; or (b) a debtor may agree to perform all of the obligations under the applicable financing and cure any defaults as required under the bankruptcy code. If neither of these conditions is met, the financier may demand the return of the aircraft or take possession of the property and enforce any of its contractual rights or remedies to sell, lease or otherwise retain or dispose of such equipment at the end of the 60-day period. With respect to Hawaiian, the 60-day period under Section 1110 expired May 20, 2003. Hawaiian entered into various stipulations with each of it aircraft lessors to extend the Section 1110 deadlines on several occasions. Hawaiian subsequently reached agreements with AWAS, formerly Ansett Worldwide Aviation Services, Inc. ( AWAS ), International Lease Finance Corporation ( ILFC ), and BCC Leasing, who together lease Hawaiian its entire fleet of Boeing 767 and 717 aircraft, on revised long-term leases, which have been approved by the Bankruptcy Court. Hawaiian also cancelled the delivery of two Boeing 767 aircraft scheduled for delivery during 2003 and returned two Boeing 717 aircraft to BCC Leasing in late 2003 and early 2004. The revised leases and cancellations provide Hawaiian with significant savings in monthly aircraft rentals, but also result in lease related claims against Hawaiian for AWAS (the AWAS Claim ) and BCC Leasing of approximately $107.5 million and $66.5 million, respectively.

On September 9, 2004, the Company, the Trustee, the Official Committee of Unsecured Creditors, HHIC, Inc., a wholly-owned subsidiary of the Company ( HHIC ), and RC Aviation, LLC ( RC Aviation ), filed an amended Joint Plan of Reorganization (as amended on October 4, 2004 and on March 11, 2005 and as may be amended from time to time thereafter, the Joint Plan ) to provide for Hawaiian to emerge from bankruptcy. The Joint Plan provides for payment in full, without interest accruing after the Petition Date, of all allowed claims, including unsecured claims. Additionally, the Joint Plan provides for the Company to retain its existing equity interest in Hawaiian, although the Company will be required to issue shares of its common stock to creditors of Hawaiian to help fund the Joint Plan, resulting in a dilution of the ownership interest of existing common shareholders of the Company. The Joint Plan was submitted to creditors for vote on approximately October 15, 2004. All Class 5 creditors who voted accepted the Joint Plan. More than 95% in both number and amount of each other impaired class of creditors entitled to vote on the Joint Plan accepted the Joint Plan. The Company and HHIC, as the sole shareholders of Hawaiian, also voted to accept the Joint Plan. The Joint Plan was, therefore, accepted by more than the required two-thirds of the dollar amount of eligible claims and more than the required one-half of the number of claims from each class of creditors entitled to vote on the Joint Plan. At the conclusion of the confirmation hearing for the Joint Plan on March 11, 2005, the Bankruptcy Court concluded that all of the requirements for confirmation had been met and that findings of fact and conclusions of law and an order would be entered following ratification of the proposed agreements with the Association of Flight Attendants (AFA) and the Air Line Pilots Association (ALPA).

On or about February 19, 2005, a final proposed agreement was reached with the negotiating committee of AFA, and on March 14, 2005, the agreement was ratified. On March 14, 2005, a final proposed agreement (the Proposed ALPA Agreement ) was reached with the negotiating committee of ALPA, but the members of ALPA did not ratify the Proposed ALPA Agreement. Consequently, on March 29, 2005, the Trustee s motion (the Section 1113 Motion ) to impose an agreement on ALPA pursuant to Section 1113 of the Bankruptcy commenced before the Bankruptcy Court, but was not completed. The hearing was continued to April 13, 2005, and is anticipated to be completed no later than April 15, 2005, though the Bankruptcy Court may not rule at the conclusion of the hearing. Hawaiian and ALPA may engage in negotiations before the hearing resumes.

The following table briefly summarizes the classification and treatment of claims under the Joint Plan, the estimated allowed claims and the anticipated treatment (in millions):

| | | | Anticipated Treatment | | |
|---|---|---|---|---|---|
| **Class** | **Classification** | **Treatment under the Joint Plan** | **Cash** | **Installment Payments** | **Common Stock** |
| Unclassified | Unsecured Priority Tax Claims | In cash, paid in up to twenty-four (24) equal quarterly installments. | $ 1.2 | $ 30.1 | $ |
| Class 1 (Unimpaired) | Secured Priority Tax Claims | In cash, paid in accordance with the legal, equitable and contractual rights of the holder of the claim. | 1.0 | | |
| Class 2 (Unimpaired) | Other Secured Claims | Generally, at the election of Hawaiian, (i) cash, (ii) surrender of the collateral securing the claim, | | 2.8 | |

| | | |
|---|---|---|
| | (iii) cure and reinstatement, or (iv) retention by the holder of the claim of its legal, equitable and contractual rights. | |

| Class | Classification | Treatment under the Joint Plan | Cash | Anticipated Treatment Installment Payments | Common Stock |
|---|---|---|---|---|---|
| Class 3 (Unimpaired) | Other Priority Claims | Cash | 0.1 | | |
| Class 4(1) (Impaired) | Unsecured Claims not included in a category below. | At the election of the holder, either (i) cash in an amount equal to fifty percent (50%) of the allowed claim and common stock of the Company equal to fifty percent (50%) of the allowed claim, based on a stock value of $6.16 per share; or (ii) cash equal to 100% of the allowed claim. | 36.3 | | |
| Class 5(2) (Impaired) | Lease Related Claims | Cash in an amount equal to fifty percent (50%) of the claim and common stock of the Company equal to fifty percent (50%) of the claim, based on a stock value of $6.16 per share. | 87.0 | | 87.0 |
| Class 6 (Impaired) | Convenience Claims | Cash | 0.8 | | |
| Class 7 (Impaired/ Unimpaired) | Equity Interests | Holders of equity interests in Hawaiian shall retain their interests in the reorganized Hawaiian, without modification or alteration by the Joint Plan. However, the Company will be required to issue new common stock to creditors of Hawaiian, which will result in a dilution of the ownership interest of Holdings existing common shareholders. | | | |
| | | Total | $ 126.4 | $ 32.9 | $ 87.0 |

The amounts and classifications of the claims above are based on the amounts agreed in the settlement of the claims, with the exception of disputed claims, where the gross claim amount has been included. It is expected that the ultimate resolution of the disputed claims will be lower, but we can provide no assurance that this will occur. For these reasons, the ultimate amounts and classifications of such claims cannot yet be determined.

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(1) The amount and classification of the claim filed by American Airlines, Inc. ( AA ) are in dispute. AA has filed a claim for approximately $11.0 million, which it contends belongs to Class 4. Hawaiian disputes a substantial portion of AA s claim, but the full $11.0 million is included above. Hawaiian also contends that a significant portion of AA s claim should be categorized in Class 5.

(2) To the extent a portion of AA s claim is categorized in Class 5, AA will not receive cash or stock. It will receive a 15-year fully amortizing promissory note, which bears interest at the rate of 6.5% per annum. Because all of AA s claim is included in Class 4 above, pending resolution of the classification dispute, none of that claim is included in Class 5.

The Trustee, the Company and RC Aviation entered into a Restructuring Support Agreement, dated as of August 26, 2004 (the Restructuring Support Agreement ), pursuant to which the Company and RC Aviation agreed to raise the funding necessary to meet the distribution and payment obligations under the Joint Plan and to ensure that Hawaiian has at least the minimum amount of cash required by the Joint Plan. The Joint Plan provides that the minimum unrestricted cash on hand at Hawaiian on the effective date of the Joint Plan must be at least $70.0 million. In order to fund their obligations under the Joint Plan, the Company and RC Aviation have the flexibility to utilize one or more sources of financing, including the following: the issuance of up to $150.0 million of new debt by Hawaiian, such as new notes and/or a senior secured loan facility, the proceeds of a rights offering to existing shareholders of the Company, or the proceeds of the sale of a new series of the Company s preferred stock in the Company to RC Aviation. The Company and RC Aviation are in the process of negotiating a $50.0 million senior secured credit facility as well as the issuance of up to $100.0 million of convertible senior notes. RC Aviation will receive shares of common stock of the Company valued at $6.16 per share on account of 50% of the lease-related claims controlled by RC Aviation. If necessary to make distributions to holders of claims and to satisfy the minimum cash requirement, in exchange for the 50% cash portion that RC Aviation is to receive on account of its lease-related claims, RC Aviation may defer the cash payment it is to receive and has agreed to accept a six-month note if Hawaiian does not have sufficient cash to pay all obligations due on the effective date and retain at least $70 million in unrestricted cash.

On the effective date of the Joint Plan, the Company will issue a warrant (the Warrant ) to RC Aviation as required pursuant to an agreement between RC Aviation and the Company dated August 24, 2004 in which RC Aviation and its members entered into a firm commitment to (i) provide funds to purchase up to $175.0 million of lease claims at an agreed upon discount, (ii) provide up to $60.0 million if required to fund the Joint Plan, and (iii) fund a tender offer for all Class 4 claims in the event the Joint Plan was not consummated by March 31, 2005, which the Trustee and RC Aviation have extended until April 29, 2005, estimated at the time to require approximately $38.0 million. The up to $60.0 million required to be funded by RC Aviation will be funded, based upon current circumstances, through the issuance of a new series of nonvoting convertible preferred stock of the Company, providing for dividends at the ate of 5% per annum, payable at the option of the Company in cash or in kind. If in kind, the holder may elect to receive preferred stock or Common Stock. The preferred stock would be convertible into Common Stock on or after the twelve month anniversary of the issuance date at a price per share based on then current market conditions, but not in excess of $6 per share. The preferred stock would be mandatorily redeemable in cash five years from the issue date. The Company would be required to use its best efforts to redeem the preferred stock, at 105% of its face amount, prior to the twelve month anniversary of issuance out of the proceeds of a rights offering of Common Stock.

The Warrant issued to RC Aviation will entitle its holder to purchase 100 shares of Series E Preferred Stock. The Series E Preferred Stock will have an aggregate liquidation preference equal to the Black Scholes valuation of the Common Stock Warrant (as defined below). The Series E Preferred Stock will be nonvoting, but will participate in dividends, distributions, mergers and similar events, liquidation, dissolution or winding up of the Company in an amount equal to the greater of the liquidation preference of the Series E Preferred Stock and the amount that would be received based upon participation with the Common Stock on a pro rata basis. Upon the receipt of shareholder approval of an increase in the number of authorized shares of Common Stock, the Warrant shall be automatically exchanged for a warrant (the Common Stock Warrant ) entitling the holder to purchase 5% of the fully diluted Common Stock (upon giving effect to all securities issued upon the Effective Date), at an exercise price of $7.20 per share, subject to adjustment for certain anti-dilutive events. In addition, if

RC Aviation is required to fund the up to $60.0 million referred to above, RC Aviation will be entitled to receive a commitment fee in the form of an additional warrant on the terms described above exercisable for 1% of the outstanding Common Stock on a fully diluted basis, for each $12.0 million of preferred stock purchased by RC Aviation.

The Chapter 11 Filing, including the subsequent appointment of the Trustee, and the resulting uncertainty regarding Hawaiian s future prospects raised substantial doubt about the ability of the Company and Hawaiian to continue as a going concern. The ability of the Company to continue as a going concern is contingent upon the Company s ability to consummate the Joint Plan, or another plan of reorganization of Hawaiian. While management believes they have obtained the necessary approvals and arranged the necessary financing in order to consummate the Joint Plan, with the exception of the approval of ALPA, such financing is contingent upon Hawaiian s ultimate emergence from bankruptcy protection. The occurrence of certain events prior to Hawaiian s emergence from bankruptcy (including the inability to resolve the outstanding ALPA issues) could result in the arranged financing not being available, which might prevent the Company from consummating the Joint Plan and therefore delay or prevent Hawaiian s emergence from bankruptcy. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The financial statements do not include any of the adjustments that would result if the Company were unable to continue as a going concern, nor do they give effect to any adjustments to the carrying value of assets or the amounts of liabilities of the Company that will be necessary as a consequence of the consummation of the Joint Plan or another plan of reorganization of Hawaiian.

See Note 14 for events relating to Hawaiian s bankruptcy and the Company s ability to continue as a going concern occurring subsequent to the original issuance of these financial statements in March 2005.

**3.** Summary of Significant Accounting Policies

***Basis of Presentation***

Prior to the bankruptcy of Hawaiian, the Company consolidated Hawaiian pursuant to Statement of Financial Accounting Standards (SFAS) No. 94, Consolidation of All Majority-Owned Subsidiaries , because the Company controlled Hawaiian through its ownership of all of the voting stock of Hawaiian. Following the Petition Date, the Company expected to regain full control of Hawaiian in a relatively short period of time. The Company had re-negotiated Hawaiian s collective bargaining agreements with its pilots, mechanics, and flight attendants prior to filing bankruptcy, Hawaiian had minimal secured debt or other secured non-aircraft claims, and then-current management believed that Hawaiian s operating leases could be re-negotiated in a short period of time through the Chapter 11 bankruptcy process. Furthermore, the Company and Hawaiian continued to have both a common Board of Directors and common management. As a result, the Company continued to consolidate Hawaiian through March 31, 2003. However, the filing of the Trustee Motion created significant uncertainty regarding the ability of the Company to facilitate a timely reorganization and regain full control of Hawaiian in a relatively short period of time. This uncertainty was further confirmed on May 16, 2003, upon the Bankruptcy Court s issuance of the order granting the Trustee Motion, which resulted in the appointment of the Trustee to operate Hawaiian s business, instead of the common Board of Directors and common management of the Company and Hawaiian. As a result, effective April 1, 2003, the Company deconsolidated Hawaiian and prospectively accounted for its ownership of Hawaiian using the cost method of accounting. The deconsolidation resulted in the removal of the following assets, liabilities and comprehensive loss item from the Company s consolidated financial statements:

| | | |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ | 30,600 |
| Restricted cash | | 36,412 |
| Accounts receivable, net | | 31,697 |
| Prepaid expenses and other | | 15,256 |
| Spare parts and supplies | | 5,140 |
| Property and equipment, net | | 46,447 |
| Long-term prepayments and other | | 44,840 |
| Reorganization value, net | | 28,320 |
| | | |
| **Liabilities** | | |
| Accounts payable | | 24,322 |
| Air traffic liability | | 113,110 |
| Other accrued liabilities | | 42,415 |
| Accumulated pensions and other postretirement benefit obligations | | 113,816 |
| Other liabilities and deferred credits | | 26,198 |
| Liabilities subject to compromise | | 76,045 |
| | | |
| **Comprehensive loss (gain)** | | |
| Minimum pension liability | | 96,063 |
| Unrealized gain on hedge instruments | | (171) |

The deconsolidation resulted in a deferred credit of $61.3 million, which represents the losses of Hawaiian in excess of the Company s investment in Hawaiian as of April 1, 2003. The deferred credit will remain on the Company s balance sheet until such time as the Company either regains full control of Hawaiian or disposes of its remaining interests in Hawaiian. The Company has not recorded any additional losses of Hawaiian subsequent to March 31, 2003, as the Company has no obligation to fund such losses.

The Company s results of operations include the operating results of Hawaiian through March 31, 2003, but for no subsequent periods. Due to the deconsolidation, the financial statements and certain footnotes included herein do not reflect comparable business activity on a year-to-year basis. The 2002 statement of operations includes the consolidated operating results of the Company and Hawaiian for the entire year. The 2003 statement of operations includes the consolidated operating results of the Company and Hawaiian through March 31, 2003, and the deconsolidated results of the Company only, which consists substantially of legal and consulting fees related to the Company s pursuit of the Joint Plan, legal fees for general corporate matters and insurance premiums included in other operating expenses, for the period from April 1, 2003 to December 31, 2003. The 2004 statement of operations includes the deconsolidated results of the Company only for the entire year. The balance sheets at December 31, 2004 and 2003 include the deconsolidated balances of the Company only. Summary financial information of Hawaiian as of and for the years ended December 31, 2004 and 2003, is presented below.

**Balance Sheet Data**

| | | 2004 | | 2003 |
|---|---|---|---|---|
| Cash and cash equivalents | $ | 110,647 | $ | 87,728 |
| Current assets | | 221,443 | | 207,622 |
| Total assets | | 334,205 | | 328,371 |
| Current liabilities | | 207,689 | | 206,626 |
| Liabilities subject to compromise | | 214,695 | | 134,532 |
| Total liabilities | | 627,313 | | 537,602 |
| Shareholders deficiency | | 293,108 | | 209,231 |

**Income Statement Data**

| | 2004 | 2003 |
|---|---|---|
| Operating revenue | $ 763,965 | $ 706,145 |
| Operating expense | 692,882 | 628,667 |
| Operating income | 71,083 | 77,478 |
| Reorganization items, net | 129,520 | 115,063 |
| Loss before taxes | 58,624 | 36,569 |
| Provision for income taxes | 16,816 | 12,944 |
| Net loss | 75,440 | 49,513 |

Hawaiian s financial statements, from which the above summarized financial information was derived, are prepared in accordance with American Institute of Certified Public Accountants Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code (SOP 90-7), and on a going-concern basis, which assumes continuity of operations, realization of assets and satisfaction of liabilities in the ordinary course of business. SOP 90-7 requires that the financial statements for periods subsequent to a Chapter 11 filing separate transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, all transactions (including, but not limited to, professional fees, realized gains and losses, and provisions for losses) directly associated with Hawaiian s reorganization and restructuring are reported separately as reorganization items in the statements of operations. The balance sheets distinguish pre-petition liabilities subject to compromise both from those pre-petition liabilities that are not subject to compromise and from post-petition liabilities. Liabilities subject to compromise are reported at the amounts expected to be allowed by the Bankruptcy Court, even if they may be settled for lesser amounts. The financial statements of Hawaiian do not include any of the adjustments that would result if Hawaiian was unable to continue as a going concern, nor do they give effect to any adjustments to the carrying value of the assets or the amounts of liabilities of Hawaiian that would be necessary as a consequence of the confirmation of the Joint Plan or another plan of reorganization.

***Cash and Cash Equivalents***

The Company considers all investments purchased with an original maturity of three months or less to be cash equivalents.

Cash paid for interest during the years ended December 31, 2004, 2003 and 2002 was zero, $0.2 million and $1.2 million, respectively.

***Restricted Cash***

Restricted cash consists of the amount transferred to the Company by Hawaiian immediately prior to Hawaiian s Chapter 11 filing. See Note 10.

***Revenue Recognition***

Passenger revenue is recognized either when the transportation is provided by Hawaiian or when the related ticket expires unused. The value of unused passenger tickets is included as air traffic liability (which is not included in the Company balance sheet as of December 31, 2004 or 2003 due to the deconsolidation of Hawaiian effective April 1, 2003). Hawaiian performs periodic evaluations of this estimated liability, and any resulting adjustments, which can be significant, are included in results of operations for the periods in which the evaluations are completed. Charter and cargo revenue is recognized when the transportation is provided.

Hawaiian sells mileage credits in its HawaiianMiles frequent flyer program to participating partners such as hotels, car rental agencies and credit card companies. Revenue from the sale of mileage credits is deferred and, beginning in 2003, recognized as passenger revenue when transportation is likely to be provided, based on the fair value of the transportation to be provided. Prior to 2003, these amounts were recognized on a comparable basis but were classified as other revenue. The related amounts in the statements of operations for the year ended

December 31, 2002 have been reclassified to conform to the 2003 presentation. Amounts in excess of the fair value of the transportation to be provided are recognized currently as a reduction in marketing expenses.

Components of other revenue include ticket change fees, ground handling fees, sales of jet fuel, and other incidental services that are recognized as revenue when the related service is provided.

***Frequent Flyer Program***

Hawaiian recognizes a liability under its HawaiianMiles frequent flyer program as members accumulate mileage points. The incremental cost method is used, computed primarily on the basis of fuel, insurance and catering costs, exclusive of any overhead or profit margin.

***Sales Commissions***

Commissions from the sale of passenger traffic are recognized as expense when the transportation is provided and the related revenue is recognized.

***Advertising Costs***

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2003 and 2002 was $2.1 million and $8.0 million, respectively (during the period Hawaiian was consolidated by the Company).

***Stock Option Plans***

The Company accounts for stock options in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related Interpretations. Under APB 25, no compensation expense is recognized for stock option grants if the exercise price of the stock option is at or above the fair market value of the underlying stock on the date of grant.

The Company has adopted the pro forma disclosure features of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123), as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure . As required by SFAS 123, pro forma information regarding net loss has been determined as if the Company had accounted for its employee stock options and awards granted using the fair value method prescribed by SFAS 123. The following table illustrates the pro forma effect on net loss if the Company had accounted for its employee stock options and awards granted using the fair value method prescribed by SFAS 123 for the years ended December 31, 2004, 2003 and 2002. The fair value for the stock options was estimated at the date of grant using a Black-Scholes option pricing model. See Note 9 for the assumptions used to compute the pro forma amounts.

| | | 2004 | | 2003 | | 2002 |
|---|---|---|---|---|---|---|
| Net loss: | $ | (7,262) | $ | (16,998) | $ | (58,275) |
| As reported | | | | | | |
| Less: Total stock based employee compensation expense determined under the fair value method for all awards, net of related tax effects | | 318 | | 376 | | 849 |
| Pro forma net loss | $ | (7,580) | $ | (17,374) | $ | (59,124) |
| Earnings per share | | | | | | |
| As reported: | | | | | | |
| Basic and diluted | $ | (0.24) | $ | (0.60) | $ | (1.88) |
| Pro forma: | | | | | | |
| Basic and diluted | $ | (0.26) | $ | (0.61) | $ | (1.91) |

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised 2004), Share Based Payment (SFAS 123R), which replaces SFAS 123, and supersedes 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 flow rather than operating activities as currently permitted. SFAS 123R will be effective for periods beginning after June 15, 2005. SFAS 123R offers alternative methods of adoption. At the present time, the Company has not yet determined which alternative method it will use. Depending on the method the Company adopts to calculate stock-based compensation expense upon the adoption of SFAS 123R, the pro forma disclosure above may not be indicative of the stock-based compensation expense to be recognized in periods beginning after June 15, 2005.

***Earnings (Loss) Per Share***

Basic earnings (loss) per share represents income (loss) available to common shareholders divided by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue shares of common stock were exercised or converted into shares of common stock or resulted in the issuance of shares of common stock that then shared in the earnings of the Company. Outstanding rights, warrants and options to purchase shares of the Company s common stock are not included in the computation of diluted earnings per share if inclusion of these rights, warrants and options is antidilutive. Options and warrants to purchase approximately 1.5 million, 3.1 million, and 3.4 million shares of common stock in 2004, 2003, and 2002, respectively, were outstanding, but not included in the computation of diluted earnings (loss) per share as inclusion of these options and warrants would be antidilutive due to the Company s net loss position.

***Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ significantly from those estimates.

**4.** Financial Instruments and Fuel Risk Management

***Financial Instruments***

The Company believes the carrying amounts of cash and cash equivalents, restricted cash, other receivables and accounts payable is a reasonable estimate of the fair value of these instruments due to their short-term nature.

***Fuel Risk Management***

During the three months ended March 31, 2003 that Hawaiian was consolidated by the Company, and for the year ended December 31, 2002, Hawaiian utilized heating oil forward contracts in an effort to manage market risks and hedge its financial exposure to fluctuations in its aircraft fuel costs. Hawaiian employed a strategy whereby heating oil contracts were used to hedge up to 50% of Hawaiian s anticipated aircraft fuel needs. The Company measures fair value of its derivatives based on quoted market prices. Derivatives that are not designated as hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivatives are either offset against the change in the fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative s change in fair value is immediately recognized in earnings as a component of non-operating income (loss). Such amounts were not material in any year presented.

In 2003, the Company ceased hedge accounting on Hawaiian s derivative instruments, and recognized realized and unrealized net gains of $1.0 million (during the period Hawaiian was consolidated by the Company) as a component of non-operating income (expense) related to the derivative instruments not designated as hedges. For the years ended December 31, 2003 and 2002, realized net gains (losses) of $1.7 million and $(0.6) million were recognized as a component of aircraft fuel expense on liquidated contracts designated as hedges (during the period Hawaiian was consolidated by the Company). Based upon Hawaiian s derivative positions as of December 31, 2002, realized gains of $0.8 million and unrealized gains of $1.1 million were recognized as other comprehensive income as of December 31, 2002. The Company reclassified $1.7 million of gains from accumulated other comprehensive income to operations during the year ended December 31, 2003 (during the period Hawaiian was consolidated by the Company) when the hedged fuel expenses were recognized.

## 5. Restructuring Charges

During the fourth quarter of 2002, based on a reduction in passenger demand, Hawaiian announced capacity reductions in specific transpacific markets. Hawaiian announced that it would reduce its workforce by approximately 150 employees, or four percent of the total workforce, in an effort to bring its cost structure in line with current and expected revenue. In addition, Hawaiian secured voluntary leaves of absence from approximately 60 flight attendants, reduced work schedules for part-time reservations personnel and decided to leave certain open positions unfilled. As a result of these actions, for the year ended December 31, 2002, the Company recorded a restructuring charge of $8.7 million related primarily to the accelerated retirement of its remaining eight leased DC-10 aircraft. This charge consisted of approximately $10.1 million related primarily to future lease commitments on the DC-10 aircraft, lease return conditions and maintenance commitments, severance costs for approximately 150 DC-10 pilots, and a write-down of DC-10 improvements and spare parts, partially offset by a credit of $1.4 million related to the sale of eight non-operating DC-9 aircraft and related assets that had been previously written down.

Activity related to the restructuring charges for the years ended December 31, 2003 and 2002, is as follows (the non-cash utilization of the restructuring change during the year ended December 31, 2003 represents the elimination of the remaining restructuring reserves upon the deconsolidation of Hawaiian):

| | Beginning Reserve | Restructuring Charges | Utilization of Charge<br>Cash | Non-Cash | Remaining Reserve |
|---|---|---|---|---|---|
| Year ended December 31, 2002: | | | | | |
| Write-down of spare parts and improvements | $ | $ 1,243 | $ | $ (1,243) | $ |
| Allowance for future lease payments, return conditions, and early termination costs | | 7,344 | | | 7,344 |
| Pilot severance costs | | 1,600 | | | 1,600 |
| | $ | 10,187 | $ | $ (1,243) | $ 8,944 |
| Sale of non-operating DC-9 assets | | (1,486) | | | |
| | | $ 8,701 | | | |
| Year ended December 31, 2003: | | | | | |
| Allowance for future lease payments, return conditions, and early termination costs | $ 7,344 | $ | $ (120) | $ (7,224) | $ |
| Pilot severance costs | 1,600 | | (1,389) | (211) | |
| | $ 8,944 | $ | $ (1,509) | $ (7,435) | $ |

## 6. Reorganization Items, Net

Reorganization items, net represents amounts directly associated with Hawaiian s reorganization and restructuring subsequent to the Petition Date and are presented separately in the statement of operations for the period during which Hawaiian was consolidated by the Company. Reorganization items, net consists primarily of professional fees incurred in connection with Hawaiian s Chapter 11 filing.

**7.** Income Taxes

The components of the income tax provision for the years ended December 31, 2004, 2003 and 2002 were as follows (in thousands):

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Current | | | |
| Federal | $ | $ | $ 5,129 |
| State | | | 775 |
| | | | 5,904 |
| Deferred | | | |
| Federal | $ | $ | $ (2,172) |
| State | | | (933) |
| | | | (3,105) |
| Provision for income taxes | $ | $ | $ 2,799 |

Income tax expense is based on an estimated annual effective tax rate, which differs from the federal statutory rate in 2004, 2003 and 2002, primarily due to state income taxes, certain nondeductible expenses, and increases in the deferred tax valuation allowance as follows.

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Computed expected tax benefit | $ (2,469) | $ (5,779) | $ (19,417) |
| State income taxes, net of federal income tax benefit | (424) | (494) | (2,883) |
| Changes in deferred tax valuation allowance | 974 | 5,206 | 28,071 |
| Other | 1,919 | 1,067 | (2,972) |
| Provision for income taxes | $ | $ | $ 2,799 |

During the year ended December 31, 2002, the Company determined that it was no longer more likely than not that any portion of its deferred tax assets would be realized and recognized a full valuation allowance on its net deferred tax assets as of the beginning of the year, all 2002 net operating losses, and all items directly impacting other comprehensive loss (primarily the minimum pension liability). As a result, the valuation allowance for deferred tax assets increased by $44.7 million during 2002. Of this increase, $28.1 million relates to increased valuation allowances for the deferred tax effect of current year losses and the valuation allowance on the opening net deferred tax asset, $17.7 million related to increased valuation allowances for the deferred tax asset attributable to the minimum pension liability, and the remainder related to an increase in deferred tax assets attributable to other comprehensive loss items. The valuation allowance of Hawaiian was eliminated upon the deconsolidation of Hawaiian during the year ended December 31, 2003.

Gross deferred tax assets at December 31, 2004 and 2003 consist solely of net operating loss carryforwards of the Company of $2.0 million and $0.6 million. Due to uncertainty surrounding the realizability of those assets, a valuation allowance has been recorded for the full amount. Deferred tax assets and related valuation allowance of approximately $0.4 million at December 31, 2004 relate to certain operating loss carryforwards resulting from the exercise of employee stock options, the tax benefit of which, when recognized, will be accounted for as a credit to capital in excess of par rather than a reduction of income tax. As of December 31, 2004, the Company has total net operating loss carryforwards of approximately $5.1 million to offset future taxable income. If not utilized to offset future taxable income, the net operating loss carryforwards will expire between the years 2014 and 2024.

## 8. Benefit Plans

Hawaiian sponsors three defined benefit pension plans covering ALPA, IAM and other employees (salaried, Transport Workers Union, Employees of the Communications Section). The plans for the IAM and other employees were frozen effective October 1, 1993. As a result of the freeze, there will be no further benefit accruals. The pilots plan is funded based on minimum Employee Retirement Income Security Act of 1974 (ERISA) requirements, but not less than the normal cost plus the 20-year funding of the past service liability. Funding for the ground personnel plans is based on minimum ERISA requirements. Plan assets consist primarily of common stocks, government and convertible securities, insurance contract deposits and cash management and mutual funds.

In addition to providing pension benefits, Hawaiian sponsors two unfunded defined benefit postretirement medical and life insurance plans. Employees in Hawaiian s pilot group are eligible for certain medical, dental and life insurance benefits under one plan if they become disabled or reach normal retirement age while working for Hawaiian. Employees in Hawaiian s non-pilot group are eligible for certain medical benefits under another plan if they meet specified age and service requirements at the time of retirement.

The accumulated benefit obligation for Hawaiian s defined benefit pension plans was $230.8 million as of December 31, 2002. To the extent that the accumulated benefit obligation exceeds the fair value of plan assets, a minimum pension liability must be recognized on the balance sheet. Accordingly, the Company recognized an additional amount (the minimum pension liability adjustment) necessary to record the full amount of the minimum pension liability. Pursuant to SFAS No. 87, Employers Accounting for Pensions , minimum pension liability adjustments are recognized through accumulated other comprehensive loss, rather than through the statement of operations. The minimum pension liability increased shareholders deficiency by $96.1 million as of December 31, 2002.

The accumulated benefit obligations and accumulated other comprehensive loss were eliminated upon the deconsolidation of Hawaiian.

The following table sets forth the net periodic benefit cost for the years ended December 31, 2003 and 2002:

| **Components of Net Periodic** | **Pension Benefits** | | **Other Benefits** | |
|---|---|---|---|---|
| **Benefit Cost** | **2003 *** | **2002** | **2003 *** | **2002** |
| Service cost | $ 2,045 | $ 7,466 | $ 440 | $ 1,324 |
| Interest costs | 4,276 | 16,342 | 496 | 1,525 |
| Expected return on plan assets | (4,198) | (17,271) | | |
| Amortization of prior service cost | | | 64 | 239 |
| Recognized net actuarial (gain) loss | 1,191 | 1,865 | (14) | (490) |
| Curtailment and termination benefits | | 881 | (344) | |
| Net periodic benefit cost | $ 3,314 | $ 9,283 | $ 642 | $ 2,598 |

* Only represents the period (January 1, 2003 to March 31, 2003) during which Hawaiian was consolidated by the Company.

Hawaiian also sponsors separate deferred compensation 401(k) plans for its pilots, flight attendants and ground and salaried personnel. Participating employer cash contributions are not required under the terms of the pilots plan. Hawaiian is required to contribute up to 7.0% of defined compensation pursuant to the terms of the flight attendants plan. Contributions to the flight attendants plan are funded currently and totaled approximately $0.6 million and $2.2 million in 2003 and 2002, respectively (during the period Hawaiian was consolidated by the Company). Hawaiian is also required to contribute a minimum of 4.04%, up to a maximum of 8%, of eligible earnings to the ground and salaried plan for eligible employees as defined by the plan. Contributions to the ground and salaried 401(k) plan totaled $0.9 million and $3.5 million in 2003 and 2002, respectively (during the period Hawaiian was consolidated by the Company).

**9.** Capital Stock and Options

As of December 31, 2004 and 2003, the authorized capital stock of the Company consists of 60,000,000 shares of Common Stock, par value $0.01 per share, and 2,000,000 shares of Preferred Stock, of which three and seven shares in 2004 and 2003, respectively, have been designated as Special Preferred Stock, par value $0.01 per share.

On July 26, 2004, the Company sold 351,062 unregistered shares of common stock to Donald J. Carty, a director of the Company, for $2.0 million, which represented a 10 percent discount from the trading price of the Common Stock.

On December 8, 2004 the Company sold 650,000 unregistered shares of common stock to institutional investors for $5.80 per share for total gross proceeds of $3.8 million. The price of $5.80 per share represented a 10 percent discount from the trading prices of the Common Stock.

No dividends were paid by the Company during years ended December 31, 2004, 2003, or 2002.

***Special Preferred Stock***

In connection with the Corporate Restructuring, four shares of the Company s Series A Special Preferred Stock were issued to AIP with such shares entitling AIP to nominate a number of directors determined based on the percentage of outstanding common equity interest (on a fully diluted basis) that it owns. The IAM, AFA, and ALPA each hold one share of Series B Special Preferred Stock, Series C Special Preferred Stock and Series D Special Preferred Stock, respectively, (with the Series A Special Preferred Stock, collectively the Special Preferred Stock ) which entitle each union to nominate one director. The holder of the Series A Special Preferred Stock is entitled to identify a number of director nominees based on the percentage of outstanding common equity interest (on a fully diluted basis) that it owns: six directors if the holder, together with specified affiliates, own at least 35% of the outstanding common equity interest (on a fully diluted basis); five directors if the holder, together with specified affiliates, own at least 25% of the outstanding common equity interest (on a fully diluted basis); four directors if the holder, together with specified affiliates, own at least 10% of the outstanding common equity interest (on a fully diluted basis); three directors if the holder, together with specified affiliates, own at least 5% of the outstanding common equity interest (on a fully diluted basis); or will not be entitled to identify any directors if the holder, together with specified affiliates, own less than 5% of the outstanding common equity interest (on a fully diluted basis). If the holder of the Series A Special Preferred Stock is entitled to identify less than six directors, the remaining directors of such six will be comprised of outside directors that are not affiliated with either (i) the holder of the Series A Special Preferred Stock, (ii) any of the unions holding Series B, C, or D Special Preferred Stock, or (iii) the Company other than as a director. In addition to the rights described above, each series of the Special Preferred Stock, unless otherwise specified: (1) ranks senior to the Company s Common Stock and ranks *pari passu* with each other such series of Special Preferred Stock with respect to liquidation, dissolution and winding up of the Company and will be entitled to receive $0.01 per share before any payments are made, or assets distributed to holders of any stock ranking junior to the Special Preferred Stock; (2) has no dividend rights unless a dividend is declared and paid on the Company s Common Stock, in which case the Special Preferred Stock would be entitled to receive a dividend in an amount per share equal to two times the dividend per share paid on the Common Stock; (3) is entitled to one vote per share of such series and votes with the Common Stock as a single class on all matters submitted to holders of the Company s Common Stock; (4) automatically converts into the Company s Common Stock on a 1:1 basis, (i) in the case of the Series A Special Preferred Stock, upon the transfer of any shares of Series A Special Preferred Stock to any person or entity that is not an affiliate of AIP; or if the holder of Series A Special Preferred Stock ceases to own 5% or more of the outstanding common equity interest of the Company (on a fully diluted basis) for a period of 365 consecutive days or (ii) in the cases of the Series B, C and D Special Preferred Stock, at such time as such shares are transferred or such holders are no longer entitled to nominate a representative to the Company s Board of Directors pursuant to their respective collective bargaining agreements. As further discussed in Note 1, the four shares of Series A Special Preferred Stock held by AIP were cancelled.

***Stock Compensation***

As part of the collective bargaining agreement negotiated with the ALPA in December 2000, Hawaiian agreed to distribute 1,685,380 shares of Hawaiian s common stock on a quarterly basis to the individual 401(k) accounts of ALPA pilots in Hawaiian s employment during 2001 and 2002. Subsequent to the Corporate Restructuring, each pilot participant eligible to receive a share of Hawaiian common stock became eligible to receive, on the same terms and conditions as were in effect immediately prior to the Corporate Restructuring, one share of the Company s common stock instead. In 2002, 1,051,214 shares, required for the fourth quarter of 2001 and the first, second and third quarters of 2002, were distributed to Vanguard Group, Inc. as trustee. The distribution for the quarter ended December 31, 2002, consisting of 105,776 shares, was made on March 14, 2003. The Company recognized compensation expense related to the stock distribution of $2.2 million for the year ended December 31, 2002.

Holdings has agreed to set aside 1,500,000 shares of the Common Stock in a pool for allocation to employees of Hawaiian. Under the agreement, shares in the pool will be allocated between the time of Hawaiian s emergence from bankruptcy and May 2007, among employees of Hawaiian (other than officers) or to their accounts in Hawaiian s 401(k) or similar plan. The shares will be allocated pursuant to formulas set forth in the agreement.

**Stock Option Plans**

Under the 1994 Stock Option Plan, 600,000 shares of Common Stock were reserved for grants of options to officers and key employees of Hawaiian. Under the 1996 Stock Incentive Plan, as amended, 4,500,000 shares of Common Stock were reserved for issuance of discretionary grants of options to Hawaiian s employees. Hawaiian also had a 1996 Nonemployee Director Stock Option Plan under which 500,000 shares of Common Stock were reserved for issuance and grants of options to nonemployee members of the Board of Directors. Following the Corporate Restructuring, the Company assumed sponsorship of the then-existing Hawaiian stock option plans. As a result, the outstanding options became exercisable or issuable upon the same terms and conditions as were in effect immediately prior to the completion of the Corporate Restructuring, except that shares of the Company s common stock would be issued upon the exercise or issuance of these options instead of Hawaiian common stock.

Stock options were granted with an exercise price equal to the common stock s fair market value at the date of grant, generally vested over a period of four years and expired, if not previously exercised, ten years from the date of grant.

| | Shares of Common Stock Available | Outstanding | Weighted average of exercise price |
|---|---|---|---|
| Balance at December 31, 2001 | 1,439,500 | 3,018,000 | $ 2.97 |
| Granted | | | |
| 1996 Stock Incentive Plan | (350,000) | 350,000 | 2.46 |
| 1996 Nonemployee Director Stock Option Plan | (164,000) | 164,000 | 3.26 |
| Exercised | | | |
| 1996 Stock Incentive Plan | | (20,000) | 2.06 |
| Forfeited | | | |
| 1996 Stock Incentive Plan | 110,000 | (110,000) | 2.91 |
| Balance at December 31, 2002 | 1,035,500 | 3,402,000 | $ 2.92 |
| Forfeited | | | |
| 1996 Stock Incentive Plan | 290,000 | (290,000) | 3.42 |
| 1996 Nonemployee Director Stock Option Plan | 24,000 | (24,000) | 2.81 |
| Balance at December 31, 2003 | 1,349,500 | 3,088,000 | $ 2.90 |
| Exercised | | | |
| 1994 Stock Incentive Plan | | (50,000) | 1.62 |
| 1996 Stock Incentive Plan | | (1,050,000) | 3.29 |
| 1996 Nonemployee Director Stock Option Plan | | (194,000) | 3.16 |
| Forfeited | | | |
| 1996 Stock Incentive Plan | 280,000 | (280,000) | 2.38 |
| Balance at December 31, 2004 | 1,629,500 | 1,514,000 | $ 2.72 |

Stock option activity during the periods indicated is as follows:

As of December 31, 2004, vesting requirements and exercise periods under each respective plan are as follows:

| | Vesting | Exercise Period |
|---|---|---|
| 1994 Stock Option Plan | Fully vested | Through 2005 |
| 1996 Stock Incentive Plan | Various from 2005 through 2006 | Various from 2005 through 2012 |
| 1996 Nonemployee Director Stock Option Plan | Fully vested | Various from 2005 through 2012 |

As of December 31, 2004, the range of exercise prices and weighted-average remaining contractual lives of outstanding options was $2.10 to $3.69 and 5.8 years, respectively. At December 31, 2004, 2003, and 2002, the number of options exercisable was 1,276,500, 2,628,000 and 2,643,000, respectively, with weighted-average exercise prices of $2.76, $2.96 and $3.02, respectively.

There were no stock options granted during 2004 and 2003. The per share weighted-average fair value of stock options granted during 2002 was $1.62 on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions:

**2002**

| | |
|---|---|
| Expected dividend yield | 0.00% |
| Expected volatility | 55.00% |
| Risk-free interest rate | 3.54 to 5.29% |
| Expected life | Up to 7 years |

**10.** Stock Repurchases, Related Party Transactions and Related Litigation

In March 2000, Hawaiian s Board of Directors approved a stock repurchase program authorizing the repurchase of up to five million shares of its common stock from time to time in the open market or privately negotiated transactions. In August 2000, the Board of Directors increased the authorization to 10 million shares. Including the effect of the repurchase of certain warrants and stock repurchased in 2000, the total number of shares of common stock repurchased under the stock repurchase program amounted to 9,333,508 as of December 31, 2001. In March 2002, Hawaiian s Board of Directors approved another stock repurchase program authorizing the repurchase of up to five million shares of its common stock from time to time in the open market or privately negotiated transactions. Hawaiian purchased 990,700 shares of common stock for $3.1 million at an average cost of $3.17 per share in open market transactions under this program through May 7, 2002, when the repurchase program was halted.

On May 31, 2002, Hawaiian commenced a tender offer to purchase for cash up to 5,880,000 shares of its common stock at a price of $4.25 per share, representing a potential purchase of approximately 17.5% of Hawaiian s outstanding common stock as of that date (the Self-Tender ). The Self-Tender terminated without extension on June 27, 2002 and was substantially oversubscribed. Hawaiian accepted 5,880,000 properly tendered shares on a pro rata basis with a proration factor of approximately 22.12%. Payment for accepted shares of $25.0 million was made on July 8, 2002.

Included in other operating expenses for the years ended December 31, 2003 and 2002 is $0.2 million and $2.6 million, respectively, related to a services agreement with Smith Management LLC ( Smith Management ), whereby Hawaiian paid $2.0 million to Smith Management for specified corporate, financial and tax services purportedly provided to Hawaiian through March 31, 2002, and $75,000 per month for such services thereafter. Mr. Adams is also the president of Smith Management.

Subsequent to the Corporate Restructuring, Hawaiian paid certain expenses on behalf of the Company, generally relating to the Company s obligations as a public company. In addition, Hawaiian transferred $500,000, which is recorded as restricted cash, to the Company immediately prior to Hawaiian s bankruptcy filing. The Company had $1.4 million due to Hawaiian as of December 31, 2004 and 2003.

On November 28, 2003, the Trustee filed a complaint (the Complaint ) with the Bankruptcy Court, naming Mr. Adams, AIP, LLC, AIP and Smith Management (together, the Adams Defendants ) and the Company, as defendants. The Complaint asserted various counts based on corporate actions including claims alleging, inter alia, fraudulent transfer claims under the Bankruptcy Code and Hawaii law; avoidance and recovery of preference under the Bankruptcy Code; unlawful distribution under Hawaii law; violations of the duties of care and loyalty under Hawaii law; and unjust enrichment under Hawaii law. The factual allegations relate to the Self-Tender; payments made by Hawaiian to Smith Management; $200,000 in compensation paid by Hawaiian to Mr. Adams; and the $500,000 transferred from Hawaiian to the Company immediately prior to Hawaiian s bankruptcy filing. Based on all of the claims in the Complaint, the Trustee sought in excess of $28.0 million, as well as punitive damages, prejudgment interest and the costs of the lawsuit. The Adams Defendants and the Company served answers denying all material allegations of the Complaint on January 5, 2004 and on February 18, 2004, respectively. On December 17, 2004 Hawaiian and the Adams Defendants entered into a settlement agreement under which the Adams Defendants agreed to pay the sum of $3.6 million to Hawaiian in exchange for a release of Hawaiian s claims. At a hearing held on February 24, 2005, the Bankruptcy Court approved the settlement agreement. The $3.6 million is payable to Hawaiian no later than ten days after the effective date of the Joint Plan.

With respect to the $500,000 transferred from Hawaiian, the Company has filed a response in which it acknowledges that it received $500,000 from Hawaiian shortly before the commencement of Hawaiian s bankruptcy case and that it is prepared to return that cash to Hawaiian. The Company has not, however, returned the funds because the Pension Benefit Guarantee Corporation (PBGC) has asserted a contingent claim against the Company, which claim it has alleged is secured by the $500,000 that the Company would otherwise return to Hawaiian. The PBGC claim arises from the pension plan for the pilots employed by Hawaiian. That pension plan has not been terminated and, therefore, the contingency to the PBGC having a claim against the Company has not occurred. The PBGC has, however, asserted a claim, pending confirmation of the Joint Plan that definitively provides for the preservation of the pension plan.

During 2003, the Security and Exchange Commission (SEC) opened a formal, nonpublic investigation of Hawaiian and several of its then officers, including Mr. Adams, related to the Self-Tender. On March 13, 2004, Hawaiian announced that the Staff of the San Francisco District Office of the SEC was considering recommending that the SEC authorize a civil action against Mr. Adams and AIP for possible violations of securities laws related to the Self-Tender. On September 23, 2004, Hawaiian announced a settlement agreement with the SEC that resolves the SEC s investigation of the Self-Tender, pursuant to which investigation the SEC concluded that the Self-Tender violated SEC rules relating to tender offers. Under the terms of the settlement, the SEC will not file any claim or seek any monetary penalties against Hawaiian, and Hawaiian pledges to comply with tender offer disclosure rules if it should ever again make a public tender offer.

On October 14, 2003, the Company and Smith Management entered into an agreement (the Smith Management Agreement ), whereby the parties agreed that Smith Management would continue to provide the Company with corporate, financial, strategic, planning, management, consulting and tax-related services and forego receiving compensation or reimbursement for any expenses for services provided until the parties mutually agreed otherwise. The Smith Management Agreement replaced the previous agreement between Smith Management and Hawaiian as discussed above. Under the Smith Management Agreement, the Company agreed that neither Smith Management nor any of its members, affiliates, officers, directors, employees, consultants or advisors (collectively the Smith Representatives ) shall be liable or held accountable, in damages or otherwise, for any errors of judgment or any mistakes of fact or law or for anything that the Smith Management or the Smith Representatives do or refrain from doing in good faith in providing or failing to provide services under the Smith Management Agreement. Further, the Company agreed to indemnify the Smith Management and the Smith Representatives (collectively the Smith Indemnitees ), and each of their successors and assigns, subject to certain conditions, from and against any and all losses or cost suffered or sustained by any Smith Indemnitees (other than any losses or cost arising out of the gross negligence or willful misconduct of Smith Management or the Smith Representatives), arising in connection with their obligations under the Smith Management Agreement. In connection with RC Aviation s purchase of ten million shares of the Company s common stock from AIP in June 2004, the Smith Management Agreement was terminated, but the indemnification and exculpation provisions described above survive termination of the Agreement. However, the Company has no obligation to indemnify the Smith Representatives for amounts paid by them pursuant to the settlement with the Trustee.

In addition, the Company incurred certain amounts of debt owed to AIP or its affiliates. AIP informed the Company that AIP believed that the Company owed AIP and its affiliates an aggregate amount of approximately $1.6 million for expenditures paid on the Company s behalf by AIP and its affiliates to fund costs associated with maintaining the Company s status as a public company, costs related to preparing a plan of reorganization for Hawaiian, and other obligations of the Company. All such indebtedness to AIP and its affiliates was satisfied pursuant to a Mutual Release, dated as of December 30, 2004, by and among the Company, RC Aviation, RC Aviation Management, LLC, John Adams, Smith Management, AIP and Airline Investors Partnership.

Included in other operating expenses for the year ended December 31, 2002 is $300,000 related to a consulting agreement with Todd G. Cole, a director of Hawaiian through May 15, 2003, pursuant to which Mr. Cole provided executive consulting services regarding fleet utilization, scheduling and other operational matters for a fee of $20,833 per month from May 1, 2002 through October 31, 2002 and a single payment of $125,800 due January 6, 2003. The consulting agreement was extended through December 31, 2002, during which Mr. Cole received a fee of $41,666 per month and accrued payments during the initial term totaling $125,000 on October 31, 2002. The consulting agreement was terminated on December 31, 2002.

From May 19, 2000 through April 25, 2003, Hawaiian invested $3.0 million in certificates of deposit with Liberty Bank, SSB, of Austin, Texas. Liberty Bank is indirectly majority owned by Mr. Adams and another individual. Edward Z. Safady and Thomas J. Trzanowski, both former members of Hawaiian s Board of Directors, are employees and/or directors of Liberty Bank, SSB.

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In July 2004, the Company sold 351,062 unregistered shares of the Company s Common Stock to Donald J. Carty, a director of the Company, for $2.0 million.

The Company had approximately $57,000 due to Ranch Capital, LLC as of December 31, 2004 related to out of pocket travel expenses for the Company s officers, Lawrence S. Hershfield and Randall L. Jenson, paid by Ranch Capital, LLC on behalf of the Company. Mr. Hershfield and Mr. Jenson are respectively the Chief Executive Officer and Managing Director of Ranch Capital, LLC.

## **11.** Concentration of Business Risk

Financial instruments that potentially subject the Company to risk due to concentrations consist principally of accounts with financial institutions in excess of federally insured limits. As of December 31, 2004 and 2003, the Company had deposits in two financial institutions that were in excess of federally insured amounts totaling $2.1 million and $0.4 million, respectively.

**12.** Segment Information

Principally all operations of Hawaiian either originate or end in the State of Hawaii. The management of such operations is based on a system-wide approach due to the interdependence of Hawaiian s route structure in its various markets. Hawaiian operates as a matrix form of organization as it has overlapping sets of components for which managers are held responsible. Managers report to Hawaiian s chief operating decision-maker on both Hawaiian s geographic components and Hawaiian s product and service components, resulting in the components based on products and services constituting one operating segment. As Hawaiian offers only one service (i.e., air transportation), management has concluded that it has only one segment. Hawaiian s principal line of business, the scheduled and chartered transportation of passengers, constitutes more than 90% of its operating revenue. The following table delineates scheduled and chartered passenger revenue of Hawaiian for the period during which Hawaiian was consolidated by the Company:

| | 2003* | 2002 |
|---|---|---|
| Transpacific | $ 87,094 | $ 341,662 |
| Interisland | 42,151 | 180,391 |
| South Pacific | 4,442 | 19,940 |
| Overseas Charter | 11,832 | 46,480 |
| | $ 145,519 | $ 588,473 |

* Only represents the period during which Hawaiian was consolidated by the Company.

**13.** Supplemental Financial Information (unaudited)

Unaudited Quarterly Financial Information (in thousands, except for per share data)

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| **2004:** | | | | |
| Operating revenue | $ | $ | $ | $ |
| Operating loss | (1,264) | (2,589) | (1,757) | (1,656) |
| Nonoperating income | 1 | 2 | 1 | |
| Net loss | (1,263) | (2,587) | (1,756) | (1,656) |
| Net loss per Common Stock share: | | | | |
| Basic and diluted | (0.04) | (0.09) | (0.06) | (0.05) |

| | First Quarter* | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| **2003:** | | | | |
| Operating revenue | $ 157,064 | $ | $ | $ |
| Operating loss | (13,559) | (451) | (531) | (552) |
| Nonoperating expense | (1,905) | | | |
| Net loss | (15,464) | (451) | (531) | (552) |
| Net loss per Common Stock share: | | | | |
| Basic and diluted | (0.55) | (0.02) | (0.02) | (0.02) |

* Includes the consolidated results of the Company and Hawaiian. All other periods include the deconsolidated results of the Company only.

**14.** Subsequent Events

Subsequent to the original issuance of these financial statements in March 2005, Hawaiian reached a revised final proposed agreement with the negotiating committee of ALPA, which was ratified by the members of the ALPA, and the Joint Plan was consummated on June 2, 2005. In addition to providing for payment in full of all allowed claims, the Joint Plan also provided for the merger of Hawaiian with and into HHIC, with HHIC as the surviving entity immediately changing its name to Hawaiian Airlines, Inc., a Delaware corporation. The Joint Plan was consummated with the financing transactions set forth below. As a result, the conditions that previously raised substantial doubt about whether the Company would continue as a going concern no longer exist.

***Common Stock***

On June 2, 2005, the Company issued approximately 14.1 million shares of its common stock to holders of lease-related claims in Hawaiian s bankruptcy case pursuant to the Joint Plan.

***Senior Credit Facility***

On June 2, 2005, Hawaiian, as borrower, entered into a credit agreement with the Company, as guarantor, the lenders named therein and Wells Fargo Foothill, Inc. ( Wells Fargo ), as agent for the senior lenders (the Senior Credit Facility ). Indebtedness under the Senior Credit Facility is secured by substantially all of the assets of Hawaiian. The Senior Credit Facility provides Hawaiian with a $50.0 million senior secured credit facility comprised of (i) a revolving line of credit in the maximum amount of $25.0 million, subject to availability under a borrowing base formula based on Hawaiian s eligible accounts receivable, eligible spare parts, eligible ground equipment and collections, with a $15.0 million sublimit for letters of credit and up to $5.0 million in swing loans and (ii) a $25.0 million term loan. Indebtedness under the Senior Credit Facility bears interest, in the case of base rate loans, at a per annum rate equal to the base rate (Wells Fargo s published prime rate ) plus the base rate margin (1.50 percentage points), and, in the case of LIBOR rate loans, at a per annum rate equal to the LIBOR rate plus the LIBOR rate margin, as defined in the Senior Credit Facility. The interest rate shall at no time be less than 5% per annum and is subject to adjustment from time to time. The Senior Credit Facility includes customary covenants for lending transactions of this type, including minimum EBITDA, excess availability and leverage ratio financial covenants. Hawaiian s obligations under the Senior Credit Facility are guaranteed by the Company. The Senior Credit Facility matures in three years.

***Term B Credit Facility***

On June 2, 2005, Hawaiian, as borrower, entered into a credit agreement with the Company, as guarantor, the lenders named therein and Canyon Capital Advisors, LLC ( Canyon ), as agent for the junior lenders (the Term B Credit Facility ). The Term B Credit Facility provided Hawaiian with an additional $25.0 million term loan at an interest rate of 10% per annum, with interest payable quarterly. The entire principal amount of the loan may be prepaid, subject to certain prepayment penalties as set forth in the Term B Credit Facility. The Term B Credit Facility includes customary covenants for lending transactions of this type, including minimum EBITDA, excess availability and leverage ratio financial covenants. The Term B Credit Facility is secured by a lien on substantially all of the assets of Hawaiian, subject to the prior liens granted to the senior lenders under the Senior Credit Facility. The obligations of Hawaiian under the Term B Credit Facility are guaranteed by the Company. The Term B Facility matures in three years.

***Note Purchase Agreement***

On June 1, 2005, the Company and RC Aviation entered into a Note Purchase Agreement (the Note Purchase Agreement ), pursuant to which RC Aviation and its members purchased from the Company Series A Subordinated Convertible Notes due June 1, 2010 (the Series A Notes ) and Series B Subordinated Convertible Notes due June 1, 2010 (the Series B Notes and, together with the Series A Notes, the Notes ), in the aggregate principal amount of $60.0 million. The Notes provide for interest at a rate of 5% per annum, payable in cash or additional Notes at the option of the Company. The Notes will be convertible into the Company s common stock at an initial conversion price of $4.35 per share, subject to adjustment upon the occurrence of certain dilutive events. The Series A Notes are convertible into 8,933,000 shares of the Company s common stock at any time after the first anniversary of the issuance thereof, and the Series B Notes are convertible into 4,860,103 shares of the Company s common stock at any time after the latest to occur of (i) the effectiveness of an amendment to the Company s Amended and Restated Certificate of Incorporation increasing the aggregate number of authorized shares of the Company s common stock to an amount that would allow for the full conversion of the Series B Notes and the full exercise of the common stock warrant issued to RC Aviation on June 2, 2005, (ii) the receipt of stockholder approval authorizing the issuance of the Company s common stock upon conversion of the Series B Notes, and (iii) the first anniversary of the issuance of the Notes. The Notes become due in five years from the issue date, if not prepaid or converted prior to such date. The Company has the right, and has covenanted to use its best efforts, to redeem the Notes at 105% of the aggregate principal amount, plus all accrued and unpaid interest due and payable thereunder, at any time prior to the first anniversary of issuance. On June 2, 2005, RC Aviation also received a warrant to purchase shares of newly designated Series E Preferred Stock of the Company, such warrant to be automatically exchanged, upon the occurrence of certain events, for warrants to purchase up to ten percent (10%) of the fully-diluted shares of common stock of the Company (6,855,685 shares) at an exercise price of $7.20 per share, of which warrants half had been previously earned by RC Aviation for its funding commitment with respect to the Joint Plan and the other half of which was earned by RC Aviation in connection with its purchase of the Notes.

**Hawaiian Holdings, Inc.**

**(Parent Company of Debtor)**

**Schedule II Valuation and Qualifying Accounts (in thousands)**

**For the Years Ended December 31, 2004, 2003 and 2002**

| COLUMN A | | COLUMN B | COLUMN C ADDITIONS | | COLUMN D | | COLUMN E |
|---|---|---|---|---|---|---|---|
| Description | | Balance at Beginning of Year | (1) Charged to Costs and Expenses | (2) Charged to Other Accounts | Deductions | | Balance at End of Year |
| **Allowance for Doubtful Accounts** | | | | | | | |
| 2004 | $ | | | | | $ | |
| 2003 | $ | 1,305 | | | 1,305(b) | $ | |
| 2002 | $ | 1,305 | 401 | | 401(a) | $ | 1,305 |
| **Allowance for Obsolescence of Flight Equipment Expendable Parts and Supplies** | | | | | | | |
| 2004 | $ | | | | | $ | |
| 2003 | $ | 1,037 | | | 1,037(e) | $ | |
| 2002 | $ | 7,501 | 692(c) | | 7,156(d) | $ | 1,037 |

(a) Doubtful accounts written off, net of recoveries

(b) Includes the doubtful accounts written off, net of recoveries for $65 from January 1, 2003 to March 31, 2003 and elimination of $1,240 upon deconsolidation of Hawaiian on April 1, 2003

(c) Restructuring charge related to the write-down of DC-10 expendable parts

(d) Includes write-off of DC-9 expendable parts sold

(e) Includes the write off of expendable parts and supplies for $218 from January 1, 2003 to March 31, 2003 and elimination of $819 upon deconsolidation of Hawaiian on April 1, 2003

**Hawaiian Airlines, Inc.**

**Statement of Operations (in thousands) (unaudited)**

| | April 1 - June 1, 2005 | April 1 - June 30, 2004 | January 1 - June 1, 2005 | January 1 - June 30, 2004 |
|---|---|---|---|---|
| **Operating Revenue:** | | | | |
| Passenger | $ 120,451 | $ 176,395 | $ 290,198 | $ 339,276 |
| Charter | 1,396 | 1,154 | 5,914 | 3,056 |
| Cargo | 4,724 | 7,420 | 11,770 | 14,670 |
| Other | 5,593 | 6,209 | 13,626 | 12,007 |
| Total | 132,164 | 191,178 | 321,508 | 369,009 |
| | | | | |
| **Operating Expenses:** | | | | |
| Wages and benefits | 38,818 | 58,544 | 95,107 | 115,050 |
| Aircraft fuel, including taxes and oil | 31,452 | 31,696 | 69,786 | 59,836 |
| Maintenance materials and repairs | 9,794 | 13,041 | 23,865 | 24,469 |
| Aircraft rent | 17,727 | 26,600 | 43,868 | 53,232 |
| Other rentals and landing fees | 3,924 | 6,046 | 9,637 | 11,999 |
| Sales commissions | 1,213 | 1,203 | 2,607 | 2,291 |
| Depreciation and amortization | 1,568 | 1,820 | 3,768 | 3,614 |
| Other | 25,836 | 34,008 | 62,663 | 64,557 |
| Total | 130,332 | 172,958 | 311,301 | 335,048 |
| | | | | |
| **Operating Income** | 1,832 | 18,220 | 10,207 | 33,961 |
| | | | | |
| Nonoperating Income (Expense): | | | | |
| Reorganization items, net | 502 | (3,284) | (5,349) | (7,038) |
| Interest and amortization of debt expense | (131) | (62) | (465) | (111) |
| Loss on disposition of equipment | (4) | (20) | (45) | (36) |
| Other, net | 4,681 | (112) | 3,403 | (50) |
| Total | 5,048 | (3,478) | (2,456) | (7,235) |
| | | | | |
| **Income Before Income Taxes** | 6,880 | 14,742 | 7,751 | 26,726 |
| | | | | |
| **Income Tax Provision** | 12,749 | 5,561 | 13,266 | 10,312 |
| | | | | |
| **Net Income (Loss)** | $ (5,869) | $ 9,181 | $ (5,515) | $ 16,414 |

See Accompanying Notes to Financial Statements.

**Hawaiian Airlines, Inc.**

**Balance Sheets (in thousands) (unaudited)**

| | June 1, 2005 | December 31, 2004 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets:** | | |
| Cash and cash equivalents | $ 118,176 | $ 110,647 |
| Restricted cash | 57,448 | 47,902 |
| Accounts receivable, net of allowance for doubtful accounts of $1,219 and $1,337 as of June 1, 2005 and December 31, 2004, respectively | 37,675 | 23,321 |
| Spare parts and supplies | 10,911 | 8,527 |
| Prepaid expenses and other | 30,984 | 31,046 |
| Total current assets | 255,194 | 221,443 |
| | | |
| Property and equipment, less accumulated depreciation and amortization of $43,568 and $40,383 as of June 1, 2005 and December 31, 2004, respectively | 60,035 | 51,539 |
| | | |
| **Other Assets:** | | |
| Long-term prepayments and other | 33,256 | 33,492 |
| Reorganization value in excess of amounts allocable to identifiable assets, net | 27,731 | 27,731 |
| | | |
| Total Assets | $ 376,216 | $ 334,205 |
| | | |
| **LIABILITIES AND SHAREHOLDERS DEFICIENCY** | | |
| **Current Liabilities:** | | |
| Accounts payable | $ 43,865 | $ 47,097 |
| Air traffic liability | 166,464 | 129,532 |
| Other accrued liabilities | 35,005 | 30,981 |
| Current portion of long-term debt | 4,296 | 13 |
| Current portion of capital lease obligations | 11 | 66 |
| Total current liabilities | 249,641 | 207,689 |
| | | |
| **Long-Term Debt** | 25,294 | 33 |
| | | |
| **Other Liabilities and Deferred Credits:** | | |
| Accumulated pensions and other postretirement benefit obligations | 142,489 | 144,198 |
| Other liabilities and long-term deposits | 37,305 | 60,698 |
| Total other liabilities and deferred credits | 179,794 | 204,896 |
| | | |
| **Liabilities Subject to Compromise** | 214,879 | 214,695 |
| | | |
| **Commitments and Contingent Liabilities** | | |
| | | |
| **Shareholders Deficiency** | | |
| Common Stock - $0.01 par value, 60,000,000 shares authorized, 27,814,143 shares issued and outstanding as of June 1, 2005 and December 31, 2004 | 278 | 278 |
| Preferred Stock - $0.01 par value, 2,000,000 shares authorized, no shares issued or outstanding at June 1, 2005 and December 31, 2004 | | |
| Capital in excess of par value | 60,084 | 60,084 |
| Notes receivable from Common Stock sales | (49) | (69) |
| Accumulated deficit | (236,733) | (231,218) |
| Accumulated other comprehensive income (loss): | | |
| Minimum pension liability adjustment | (120,716) | (120,716) |

| | | | | |
|---|---|---|---|---|
| Unrealized gain on hedge instruments | | 3,744 | | (1,467) |
| Shareholders deficiency | | (293,392) | | (293,108) |
| Total Liabilities and Shareholders Deficiency | $ | 376,216 | $ | 334,205 |

See Accompanying Notes to Financial Statements.

**Hawaiian Airlines, Inc.**

**Statements of Cash Flows (in thousands) (unaudited)**

| | January 1-<br>June 1,<br>2005 | January 1-<br>June 30,<br>2004 |
|---|---|---|
| **Cash Flows From Operating Activities:** | | |
| Net income (loss) | $ (5,515) | $ 16,414 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Reorganization items, net | 5,349 | 7,038 |
| Depreciation | 3,610 | 3,400 |
| Amortization | 158 | 214 |
| Net periodic postretirement benefit cost | 3,300 | 2,244 |
| Loss on disposition of equipment | 45 | 36 |
| Increase in restricted cash | (9,546) | (35,031) |
| Increase in accounts receivable | (14,354) | (5,506) |
| Increase in spare parts and supplies | (2,384) | (2,472) |
| Decrease in prepaid expenses | 62 | 2,659 |
| Increase (decrease) in accounts payable | (3,232) | 8,595 |
| Increase in air traffic liability | 36,932 | 60,873 |
| Increase (decrease) in accrued liabilities | 8,313 | (4,338) |
| Other, net | 2,437 | (10,781) |
| Net cash provided by operating activities before reorganization activities | 25,175 | 43,345 |
| Reorganization activities: | | |
| Professional fees | (6,928) | (8,543) |
| Interest on accumulated cash balances | 1,579 | 1,196 |
| Net cash used in reorganization activities | (5,349) | (7,347) |
| Net cash provided by operating activities | 19,826 | 35,998 |
| **Cash Flows From Investing Activities:** | | |
| Additions to property and equipment | (12,054) | (4,137) |
| Net cash used in investing activities | (12,054) | (4,137) |
| **Cash Flows From Financing Activities:** | | |
| Long-term borrowings | | 52 |
| Proceeds from sales of common stock | 20 | 1,349 |
| Repayment of long-term debt | (21) | (19) |
| Repayment of capital lease obligations | (242) | (530) |
| Net cash provided by financing activities | (243) | 852 |
| Net increase in cash and cash equivalents | 7,529 | 32,713 |
| Cash and cash equivalents - Beginning of Period | 110,647 | 87,728 |
| Cash and cash equivalents - End of Period | $ 118,176 | $ 120,441 |

See Accompanying Notes to Financial Statements.

**Hawaiian Airlines, Inc.**

**Notes to Financial Statements (Unaudited)**

**(All dollar amounts in thousands, unless otherwise stated)**

**1. Business and Basis of Presentation**

Hawaiian Airlines, Inc., a wholly-owned subsidiary of Hawaiian Holdings, Inc. ( Holdings ), was incorporated in January 1929 under the laws of the Territory of Hawaii and, based on the number of scheduled miles flown by revenue passengers (known as revenue passenger miles) in 2004, is the largest airline headquartered in Hawaii and the sixteenth largest domestic airline in the U.S. Hawaiian Airlines is engaged primarily in the scheduled transportation of passengers, cargo and mail. On June 2, 2005, concurrent with its emergence from bankruptcy protection, Hawaiian Airlines, Inc., a Hawaii corporation, was merged with and into HHIC, Inc. ( HHIC ), a wholly-owned subsidiary of Holdings, with HHIC as the surviving entity immediately changing its name to Hawaiian Airlines, Inc., a Delaware corporation.

Hawaiian is a predecessor of Holdings, as defined in Rule 405 of Regulation C of the U.S. Securities and Exchange Commission (SEC). As a result, financial information of Hawaiian, prepared in accordance with Regulation S-X of the SEC, up until the point at which Hawaiian was subsumed by Holdings has been included in the accompanying financial statements and in the Quarterly Report on Form 10-Q of Holdings for the quarterly period ended June 30, 2005. The accompanying financial statements, prepared as of and through June 1, 2005, do not give effect to any adjustments to the carrying value of assets or the amounts of liabilities of Hawaiian resulting from and occuring subsequent to the consummation of Hawaiian s plan of reorganization on June 2, 2005.

The accompanying unaudited financial statements were prepared in accordance with American Institute of Certified Public Accountants Statement of Position 90-7 Financial Reporting by Entities in Reorganization Under the Bankruptcy Code (SOP 90-7), and on a going-concern basis, which contemplates the continuity of operations, realization of assets and satisfaction of liabilities in the ordinary course of business. SOP 90-7 requires that the financial statements for periods subsequent to a Chapter 11 filing separate transactions and events that are directly associated with a company s reorganization from the normal, ongoing operations of its business. Accordingly, all transactions (including, but not limited to, professional fees, realized gains and losses, and provisions for losses) directly associated with the reorganization and restructuring of the business are reported separately as reorganization activities in the accompanying statements of operations. The balance sheets distinguish pre-petition liabilities subject to compromise from those pre-petition liabilities that are not subject to compromise and from post-petition liabilities. Liabilities subject to compromise are reported at the amounts expected to be allowed even if they might ultimately be settled for lesser amounts.

The accompanying unaudited financial statements have also been prepared in accordance with generally accepted accounting principles for interim financial information, and the instructions to Form 10-Q and Article 10 of Regulation S-X of the SEC. Accordingly, these interim financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments and reorganization items) considered necessary for a fair presentation are included. However, due to seasonal fluctuations common to the airline industry, results of operations for the periods presented are not necessarily indicative of the results of operations to be expected for the entire year.

**2. Proceedings under Chapter 11 of the Bankruptcy Code, Liquidity and Going Concern**

On March 21, 2003, Hawaiian filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Hawaii. Holdings did not file for relief under Chapter 11 of the Bankruptcy Code. On May 30, 2003, a bankruptcy trustee was selected to serve in connection with the Chapter 11 filing and operate Hawaiian, which thereafter operated its business under the jurisdiction of the bankruptcy court and in accordance with the applicable provisions of the bankruptcy code and orders of the bankruptcy court until June 2, 2005, the effective date of Hawaiian s joint plan of reorganization and its emergence from bankruptcy.

On March 11, 2005, Holdings, together with the bankruptcy trustee, the Official Committee of Unsecured Creditors of Hawaiian, HHIC, and RC Aviation, LLC (which is currently the largest stockholder of Holdings), sponsored the Third Amended Joint Plan of Reorganization (the Joint Plan ) to provide for Hawaiian to emerge from bankruptcy. The Joint Plan provided for payment in full of all allowed claims, including unsecured claims. The Joint Plan also provided for the HHIC Merger.

The following table briefly summarizes the classification and treatment of claims under the Joint Plan (in millions):

| Class | Classification | Treatment under the Joint Plan | Cash | Non Current Obligations | Common Stock of Holdings |
|---|---|---|---|---|---|
| Unclassified | Unsecured Priority Tax Claims | In cash, paid in up to twenty-four (24) equal quarterly installments. | $ 1.2 | $ 29.5 | $ |
| Class 1 (Unimpaired) | Secured Priority Tax Claims | In cash, paid in accordance with the legal, equitable and contractual rights of the holder of the claim. | 0.9 | | |
| Class 2 (Unimpaired) | Other Secured Claims | Generally, at the election of Hawaiian, (i) cash, (ii) surrender of the collateral securing the claim, (iii) cure and reinstatement, or (iv) retention by the holder of the claim of its legal, equitable and contractual rights. | 1.3 | 1.2 | |
| Class 3 (Unimpaired) | Other Priority Claims | Cash | 0.1 | | |
| Class 4 (Impaired) | Unsecured Claims not included in a category below | Cash equal to 100% of the allowed claim. | 36.6 | | |
| Class 5 (Impaired) | Lease Related Claims | A combination of cash, common stock of Holdings based on a stock value of $6.16 per share, and subordinated convertible notes of Holdings | 27.0 | 60.0 | 87.0 |
| Class 6 (Impaired) | Convenience Claims | Cash | 0.8 | | |
| Class 7 (Impaired/ Unimpaired) | Equity Interests | Holders of equity interests in Hawaiian shall retain their interests in the reorganized Hawaiian, without modification or alteration by the Joint Plan. However, Holdings was required to issue new common stock to creditors of Hawaiian, which resulted in a dilution of the ownership interest of Holdings common shareholders. | | | |
| | | Total | $ 67.9 | $ 90.7 | $ 87.0 |

Cash and common stock claims have been settled, with the exception of disputed claims totaling $14.4 million that are included in the Class 2 and 4 claims above at the gross claim amount. The ultimate resolution of the disputed claims may be lower, but we can provide no assurance that this will occur. For these reasons, the ultimate amounts and classifications of such claims cannot yet be determined.

The Joint Plan was financed through the issuance of approximately 14.1 million shares of Holdings common stock to the holders of lease-related claims, a private placement by Holdings of $60.0 million in subordinated convertible notes, and the Senior Credit Facility and Term B Credit Facility of Hawaiian, as described below.

On June 2, 2005, Hawaiian, as borrower, entered into a credit agreement with Holdings, as guarantor, the lenders named therein and Wells Fargo Foothill, Inc. ( Wells Fargo ), as agent for the senior lenders (the Senior Credit Facility ). Indebtedness under the Senior Credit Facility is secured by substantially all of the assets of Hawaiian. The Senior Credit Facility provides Hawaiian with a $50.0 million senior secured credit facility comprised of (i) a revolving line of credit in the maximum amount of $25.0 million, subject to availability under a borrowing base formula based on Hawaiian s eligible accounts receivable, eligible spare parts, eligible ground equipment and collections, with a $15.0 million sublimit for letters of credit and up to $5.0 million in swing loans and (ii) a $25.0 million term loan. Indebtedness under the Senior Credit Facility bears interest, in the case of base rate loans, at a per annum rate equal to the base rate (Wells Fargo s published prime rate ) plus the base rate margin (1.50 percentage points), and, in the case of LIBOR rate loans, at a per annum rate equal to the LIBOR rate plus the LIBOR rate margin, as defined in the Senior Credit Facility. The interest rate shall at no time be less than 5% per annum and is subject to adjustment from time to time. The Senior Credit Facility includes customary covenants for lending transactions of this type, including minimum EBITDA, excess availability and leverage ratio financial covenants. Hawaiian s obligations under the Senior Credit Facility are guaranteed by Holdings. The Senior Credit Facility matures in three years.

On June 2, 2005, Hawaiian, as borrower, entered into a credit agreement with Holdings, as guarantor, the lenders named therein and Canyon Capital Advisors, LLC ( Canyon ), as agent for the junior lenders (the Term B Credit Facility ). The Term B Credit Facility provided Hawaiian with an additional $25.0 million term loan at an interest rate of 10% per annum, with interest payable quarterly. The entire principal amount of the loan may be prepaid, subject to certain prepayment penalties as set forth in the Term B Credit Facility. The Term B Credit Facility includes customary covenants for lending transactions of this type, including minimum EBITDA, excess availability and leverage ratio financial covenants. The Term B Credit Facility is secured by a lien on substantially all of the assets of Hawaiian, subject to the prior liens granted to the senior lenders under the Senior Credit Facility. The obligations of Hawaiian under the Term B Credit Facility are guaranteed by Holdings. The Term B Facility matures in three years.

The Chapter 11 filing, including the subsequent appointment of the bankruptcy trustee, and the resulting uncertainty regarding Hawaiian s future prospects raised substantial doubt about the ability of Hawaiian to continue as a going concern. With the consummation of the Joint Plan, the conditions that previously raised substantial doubt about whether Hawaiian would continue as a going concern no longer exist.

**3. Stock Compensation**

Hawaiian accounts for stock options issued by Hawaiian prior to its August 2002 corporate restructuring and for stock options issued subsequent to the corporate restructuring by Holdings related to Hawaiian s participation in the stock-based compensation plans of Holdings, in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related Interpretations. Under APB 25, no compensation expense is recognized for stock option grants if the exercise price of the stock option is at or above the fair market value of the underlying stock on the date of grant.

Hawaiian has adopted the pro forma disclosure features of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation (SFAS 123), as amended by SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure . As required by SFAS 123, pro forma information regarding net loss has been determined as if Hawaiian had accounted for its employee stock options and awards granted using the fair value method prescribed by SFAS 123. The following table illustrates the pro forma effect on net loss if Hawaiian had accounted for its employee stock options and awards granted using the fair value method prescribed by SFAS 123 for the second quarter and year-to-date periods of 2004 and 2005. The fair value for the stock options was estimated at the date of grant using the Black-Scholes-Merton option pricing model.

| (in thousands, except share data) | April 1- June 1, 2005 | April 1- June 30, 2004 | January 1- June 1, 2005 | January 1- June 30, 2004 |
|---|---|---|---|---|
| Net income (loss): | | | | |
| As reported | $ (5,869) | $ 9,181 | $ (5,515) | $ 16,414 |
| | | | | |
| Less: total stock based employee compensation expense determined under the fair value method for all awards | 44 | 93 | 110 | 187 |
| Pro forma | $ (5,913) | $ 9,088 | $ (5,625) | $ 16,227 |

**4.** Liabilities Subject to Compromise

Under the Bankruptcy Code, pre-petition obligations of Hawaiian generally may not be enforced, and any actions to collect pre-petition indebtedness are automatically stayed, unless the stay is lifted by the Bankruptcy Court. Hawaiian received approval from the Bankruptcy Court to: (i) pay certain pre-petition and post-petition employee wages, salaries, benefits and other employee obligations; (ii) pay vendors and other providers in the ordinary course for goods and services received from and after the Petition Date; (iii) honor customer service programs, including the HawaiianMiles program and ticketing policies; (iv) honor obligations arising prior to the Petition Date related to Hawaiian s interline, clearinghouse, code sharing and other similar agreements; and (v) pay certain pre-petition taxes and fees, including transportation excise taxes, payroll taxes and passenger facility charges. Substantially all other pre-petition liabilities not mentioned above, which consisted primarily of lease-related claims and pre-petition accounts payable, were classified as liabilities subject to compromise and were settled under the Joint Plan, as further described in Note 2.

Included in liabilities subject to compromise is a claim in the amount of approximately $11.0 million from American Airlines ( American ) for unpaid rent relating to DC-10 aircraft which Hawaiian leased from American prior to the Petition Date and unpaid maintenance charges. Hawaiian disputes a substantial portion of American s claim and also contends that a significant portion of the claim should be categorized in Class 5. By Order entered on or about January 20, 2005, the Bankruptcy Court provided for the continued negotiations among the parties following confirmation of the Joint Plan, or a hearing before the Bankruptcy Court to resolve the issues, if agreement could not be reached, without prejudice to their respective rights.

**5. Reorganization Items, Net**

Reorganization items, net represents amounts resulting directly from Hawaiian s Chapter 11 proceedings and are presented separately in its statement of operations. Reorganization items, net for each period presented consisted primarily of professional fees incurred in connection with Hawaiian s Chapter 11 case.

**6. Employee Benefit Plans**

Net periodic defined pension and other retirement benefit expense included the following components:

| | April 1-<br>June 1,<br>2005 | April 1-<br>June 30,<br>2004 | January 1-<br>June 1,<br>2005 | January 1-<br>June 30,<br>2004 |
|---|---|---|---|---|
| Service cost | $ 2,117 | $ 2,591 | $ 5,240 | $ 5,182 |
| Interest cost | 3,599 | 5,074 | 8,909 | 10,148 |
| Expected return on plan assets | (2,820) | (4,317) | (6,981) | (8,634) |
| Amortization of prior service cost | 39 | 55 | 96 | 111 |
| Recognized net actuarial loss | 1,537 | 1,984 | 3,805 | 3,968 |
| Net periodic benefit expense | $ 4,472 | $ 5,387 | $ 11,069 | $ 10,774 |

**7. Income Taxes**

Hawaiian s effective tax rates differ from the federal statutory rate of 35% primarily due to increases in the valuation allowance for deferred tax assets, the non-deductibility of certain reorganization related expenses, and state income taxes. Due in part to limitations on the availability of Hawaiian s net operating loss ( NOL ) carryforwards to offset federal income taxes payable, as further discussed below, Hawaiian has paid income taxes on its taxable earnings in both 2003 and 2004. As a result, increases in net deferred tax assets created by temporary differences also result in increases in the valuation allowance and in the provision for income taxes. Hawaiian increased its valuation allowance by approximately $4.9 million during the second quarter of 2005 due to a determination, based on developments during that quarter in its on-going IRS audits, that additional book-tax timing differences were likely to generate an increase in net deferred tax assets and a corresponding increase in the valuation allowance.

Utilization of Hawaiian s deferred tax assets is predicated on its ability to generate taxable income in the future years in which those temporary differences become deductible. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. At June 1, 2005 and December 31, 2004, Hawaiian recognized a full valuation allowance on its net deferred tax assets.

During 2003, the Internal Revenue Service (IRS) commenced an audit of Hawaiian, covering taxes for income, fuel excise, and other matters. On June 30, 2004, the IRS filed a proof of claim in the amount of $128.9 million. Of that amount, approximately $88.0 million was asserted by the IRS to constitute a priority tax claim under section 507(a)(8) of the Bankruptcy Code. The priority claim consisted of two components: (i) excise taxes on aviation fuel consumed on flights over international waters, which Hawaiian claimed were not subject to the U.S. fuel excise tax; and (ii) income adjustments for the years 2001 and 2002 related primarily to the deductibility of payments for power-by-the-hour maintenance agreements, tax revenue recognition relative to certain components of the air traffic liability, deductions taken by Hawaiian in 2001 for certain DC-9 aircraft, and tax change in ownership limitations under IRC Section 382 on certain NOL carryforwards utilized in 2001. The balance of the claim represented penalties proposed by the IRS arising from the fuel excise tax matter referred to above. The IRS subsequently amended its claim on several occasions.

Hawaiian and the IRS settled the disputes regarding the deductibility of payments for power-by-the-hour maintenance agreements, tax revenue recognition relative to certain components of the air traffic liability, and the deductions taken by Hawaiian in 2001 for the DC-9 aircraft. On February 1, 2005, the Bankruptcy Court ruled that the IRS s claim for unpaid fuel excise tax and interest of $21.8 million was a valid claim, but that the IRS s penalty claim for nonpayment of the fuel excise tax was not a valid claim. Additionally, on February 24, 2005, the Bankruptcy Court ruled in favor of Hawaiian with respect to the NOL issue. Under the applicable provisions of the Bankruptcy Code, amounts due to the IRS by a debtor in a bankruptcy proceeding are generally payable in up to twenty-four equal quarterly installments. As a result of the agreed settlements with the IRS and the Bankruptcy Court s ruling with respect to the excise tax claim, Hawaiian will make quarterly payments of $1.4 million to the IRS through the 2nd quarter of 2011.

The IRS has appealed the decisions of the Bankruptcy Court with respect to both the excise tax penalty claim and the utilization of NOL carryforwards in 2001. Additionally, the IRS is currently also in the process of examining Hawaiian s income tax returns for 2003. Hawaiian cannot currently determine the impact of any potential assessments by the IRS on Hawaiian s financial position, results of operations and liquidity.

**8. Comprehensive Income (Loss)**

Total comprehensive loss for the period from April 1 through June 1, 2005 was $14.5 million and for the period from January 1 through June 1, 2005 was $0.3 million.  Total comprehensive income for the three and six months ended June 30, 2004 was $9.2 million and $16.4 million, respectively.  The difference between net income and total comprehensive income for each period was due to change in the fair value of derivative financial instruments accounted for as cash flow hedges in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities .

**9. Commitments and Contingencies**

From time to time, Hawaiian is subject to legal proceedings arising in the normal course of its operations. Management does not anticipate that the disposition of such proceedings will have a material adverse effect upon Hawaiian s results of operations and financial condition. Furthermore, Hawaiian s Chapter 11 filing automatically enjoined, or stayed, the continuation of any judicial or administrative proceeding or other actions against Hawaiian or its property to recover on, collect or secure a claim arising prior to the Petition Date.

Hawaiian is the lessee under various leases for real property. It is common in such commercial lease transactions for the lessee to agree to indemnify the lessor and related third parties, if any, for tort liabilities that arise out of or relate to the lessee s use or occupancy of the leased premises. In some cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by their gross negligence or willful misconduct. Given the nature of its business, Hawaiian also typically indemnifies such parties for any environmental liability that might arise out of or relates to its use of the leased premises. Although Hawaiian cannot estimate the potential amount of future liabilities that might be caused by the foregoing indemnities and lease agreements, if any, Hawaiian believes that it is covered by insurance (subject to deductibles) for most tort liabilities and related indemnities described above with respect to the real property that it leases.

**REPORT OF INDEPENDENT AUDITORS**

Hawaiian Airlines, Inc.

We have audited the accompanying balance sheets of Hawaiian Airlines, Inc. ( Hawaiian ) as of December 31, 2004 and 2003, and the related statements of operations, shareholders deficiency and comprehensive loss, and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed in the index at Item 9.01(c). These financial statements and schedule are the responsibility of Hawaiian s management. Our responsibility is to express an opinion on these financial statements and schedule based and schedule on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the U.S. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of Hawaiian s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Hawaiian s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Since the date of completion of our audit of the accompanying financial statements and initial issuance of our report thereon dated March 30, 2005, which report contained an explanatory paragraph regarding Hawaiian s ability to continue as a going concern, Hawaiian has emerged from Chapter 11 bankruptcy protection and completed the financing transactions described in Note 19. Therefore, the conditions that raised substantial doubt about whether Hawaiian will continue as a going concern no longer exist.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hawaiian as of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the U.S. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Honolulu, Hawaii
March 30, 2005, except for Note 19,
as to which the date is June 2, 2005

**Hawaiian Airlines, Inc. (Debtor)**
**Statements of Operations**

| | Year ended December 31, 2004 | 2003 | 2002 |
|---|---|---|---|
| | | (In Thousands) | |
| **Operating revenue:** | | | |
| Passenger | $ 699,497 | $ 626,807 | $ 541,992 |
| Charter | 7,280 | 23,070 | 46,480 |
| Cargo | 30,579 | 28,504 | 21,319 |
| Other | 26,609 | 27,764 | 22,247 |
| Total operating revenue | 763,965 | 706,145 | 632,038 |
| **Operating expenses:** | | | |
| Wages and benefits | 227,332 | 215,421 | 205,422 |
| Aircraft fuel, including taxes and oil | 135,946 | 97,055 | 95,457 |
| Aircraft rent | 106,090 | 111,454 | 83,462 |
| Maintenance materials and repairs | 49,246 | 49,515 | 90,194 |
| Other rentals and landing fees | 23,984 | 24,967 | 24,179 |
| Depreciation and amortization | 8,122 | 7,098 | 8,577 |
| Sales commissions | 5,529 | 4,302 | 14,645 |
| Restructuring charges | | | 8,701 |
| Special credits (Stabilization and Supplemental Appropriations Acts) | | (17,497) | 680 |
| Other | 136,633 | 136,352 | 155,970 |
| Total operating expenses | 692,882 | 628,667 | 687,287 |
| **Operating income (loss)** | 71,083 | 77,478 | (55,249) |
| **Non-operating income (expense):** | | | |
| Reorganization items, net | (129,520) | (115,063) | |
| Interest and amortization of debt expense | (1,030) | (417) | (1,264) |
| Interest income | | 234 | 1,889 |
| Loss on disposition of equipment and other, net | 843 | 1,199 | (22) |
| Total non-operating income (expense), net | (129,707) | (114,047) | 603 |
| **Loss before income taxes** | (58,624) | (36,569) | (54,646) |
| **Income tax expense** | (16,816) | (12,944) | (2,799) |
| **Net loss** | $ (75,440) | $ (49,513) | $ (57,445) |

See accompanying notes.

**Hawaiian Airlines, Inc. (Debtor)**

**Balance Sheets**

| | December 31, 2004 | | December 31, 2003 | |
|---|---|---|---|---|
| | (In Thousands, Except for Share Data) | | | |
| **Assets** | | | | |
| **Current assets:** | | | | |
| Cash and cash equivalents | $ | 110,647 | $ | 87,728 |
| Restricted cash | | 47,902 | | 52,766 |
| Accounts receivable, net of allowance for doubtful accounts of $1,337 and $1,940 in 2004 and 2003, respectively | | 23,321 | | 36,902 |
| Spare parts and supplies, net | | 8,527 | | 9,552 |
| Prepaid expenses and other | | 31,046 | | 20,674 |
| Total current assets | | 221,443 | | 207,622 |
| | | | | |
| **Property and equipment, net:** | | | | |
| Flight equipment | | 26,320 | | 17,766 |
| Ground equipment, buildings and leasehold improvements | | 65,602 | | 60,656 |
| Total | | 91,922 | | 78,422 |
| Accumulated depreciation and amortization | | (40,383) | | (32,431) |
| Property and equipment, net | | 51,539 | | 45,991 |
| | | | | |
| **Other assets:** | | | | |
| Long-term prepayments and other | | 33,492 | | 46,438 |
| Reorganization value in excess of amounts allocable to identifiable assets, net | | 27,731 | | 28,320 |
| Total other assets | | 61,223 | | 74,758 |
| Total assets | $ | 334,205 | $ | 328,371 |
| | | | | |
| **Liabilities and shareholders deficiency** | | | | |
| **Current liabilities:** | | | | |
| Accounts payable | $ | 47,097 | $ | 48,866 |
| Air traffic liability | | 129,532 | | 110,923 |
| Other accrued liabilities | | 31,060 | | 46,837 |
| Total current liabilities | | 207,689 | | 206,626 |
| **Other liabilities and deferred credits:** | | | | |
| Accumulated pension and other postretirement benefit obligations | | 144,198 | | 144,920 |
| Other liabilities, deferred credits and long-term deposits | | 60,731 | | 51,524 |
| Total other liabilities | | 204,929 | | 196,444 |
| **Liabilities subject to compromise** | | **214,695** | | **134,532** |
| **Commitments and contingent liabilities** | | | | |
| **Shareholders deficiency:** | | | | |
| Common Stock $0.01 par value, 60,000,000 shares authorized; 27,814,143 shares issued and outstanding at December 31, 2004 and 2003 | | 278 | | 278 |
| Preferred stock $0.01 par value, 2,000,000 shares authorized; no shares issued or outstanding at December 31, 2004 and 2003 | | | | |
| Capital in excess of par value | | 60,084 | | 60,084 |
| Notes receivable from common stock sales | | (69) | | (1,560) |
| Accumulated deficit | | (231,218) | | (155,778) |
| Accumulated other comprehensive loss | | | | |
| Minimum pension liability | | (120,716) | | (112,255) |
| Derivative financial instruments | | (1,467) | | |
| Shareholders deficiency | | (293,108) | | (209,231) |
| Total liabilities and shareholders deficiency | $ | 334,205 | $ | 328,371 |

See accompanying notes.

**Hawaiian Airlines, Inc. (Debtor)**
**Statements of Shareholders Deficiency and Comprehensive Loss**

| | Common Stock | Capital in Excess of Par Value | Notes Receivable From Common Stock Sales | Accumulated Deficit | Accumulated Comprehensive Loss Pension | Accumulated Comprehensive Income (Loss) Derivatives | Total |
|---|---|---|---|---|---|---|---|
| | (In Thousands, Except for Share Data) | | | | | | |
| Balance at December 31, 2001 | $ 342 | $ 84,665 | $ (1,560) | $ (48,820) | $ (51,600) | $ (4,237) | $ (21,210) |
| Net loss | | | | (57,445) | | | (57,445) |
| Minimum pension liability | | | | | (44,463) | | (44,463) |
| Derivative financial instruments | | | | | | 6,126 | 6,126 |
| Total comprehensive loss | | | | | | | (95,782) |
| Exercise of options to acquire 20,000 shares of common stock | | 41 | | | | | 41 |
| Distribution to Pilots 401(k) Plan of 514,034 shares of common stock | 5 | 1,920 | | | | | 1,925 |
| Repurchase of 990,700 shares of common stock | (10) | (3,117) | | | | | (3,127) |
| Repurchase of 5,880,000 shares of common stock tendered | (59) | (24,931) | | | | | (24,990) |
| Other | | 1,363 | | | | | 1,363 |
| Balance at December 31, 2002 | 278 | 59,941 | (1,560) | (106,265) | (96,063) | 1,889 | (141,780) |
| Net loss | | | | (49,513) | | | (49,513) |
| Minimum pension liability | | | | | (16,192) | | (16,192) |
| Derivative financial instruments | | | | | | (1,889) | (1,889) |
| Total comprehensive loss | | | | | | | (67,594) |
| Other | | 143 | | | | | 143 |
| Balance at December 31, 2003 | 278 | 60,084 | (1,560) | (155,778) | (112,255) | | (209,231) |
| Net loss | | | | (75,440) | | | (75,440) |
| Minimum pension liability | | | | | (8,461) | | (8,461) |
| Derivative financial instruments | | | | | | (1,467) | (1,467) |
| Total comprehensive loss | | | | | | | (85,368) |
| Repayment of shareholder notes | | | 1,491 | | | | 1,491 |
| Balance at December 31, 2004 | $ 278 | $ 60,084 | $ (69) | $ (231,218) | $ (120,716) | $ (1,467) | $ (293,108) |

See accompanying notes.

**Hawaiian Airlines, Inc. (Debtor)**
**Statements of Cash Flows**

| | Year ended December 31, 2004 | 2003 (In Thousands) | 2002 |
|---|---|---|---|
| **Operating activities:** | | | |
| Net loss | $ (75,440) | $ (49,513) | $ (57,445) |
| Adjustments to reconcile net loss to net cash provided by operating activities before reorganization activities: | | | |
| Reorganization items, net | 129,520 | 115,063 | |
| Depreciation | 7,714 | 6,534 | 8,010 |
| Amortization | 408 | 564 | 567 |
| Net periodic postretirement benefit cost | 3,979 | 2,298 | 2,598 |
| Restructuring charges | | | 8,701 |
| Loss on assets held for sale | 132 | 29 | 118 |
| Advance on sale of frequent flyer miles | | | 24,000 |
| Decrease (increase) in restricted cash | 4,864 | (29,564) | 3,708 |
| Decrease (increase) in accounts receivable | 13,581 | (8,809) | 6,917 |
| Decrease (increase) in spare parts and supplies | 1,025 | (5,144) | (839) |
| Increase in prepaid expenses and other assets | (11,839) | (9,290) | (270) |
| Decrease in deferred taxes, net | | | 5,904 |
| Increase (decrease) in accounts payable | (1,769) | 14,389 | (677) |
| Increase (decrease) in air traffic liability | 18,609 | (9,801) | (667) |
| Increase (decrease) in other accrued liabilities | (15,889) | 15,690 | (2,659) |
| Other, net | (20,651) | (3,402) | 12,452 |
| Net cash provided by operating activities before reorganization activities | 54,244 | 39,044 | 10,418 |
| Cash flows from reorganization activities: | | | |
| Professional fees paid for services rendered in connection with bankruptcy proceedings | (20,709) | (14,026) | |
| Interest income on accumulated cash balances | 2,649 | 728 | |
| Net cash used by reorganization activities | (18,060) | (13,298) | |
| Net cash provided by operating activities | 36,184 | 25,746 | 10,418 |
| **Investing activities:** | | | |
| Additions to property and equipment | (13,673) | (7,445) | (9,693) |
| Progress payments on flight equipment | | | (21) |
| Proceeds from disposition of equipment | | 12 | 2,123 |
| Net cash used in investing activities | (13,673) | (7,433) | (7,591) |
| **Financing activities:** | | | |
| Long-term borrowings | | | 344 |
| Repayments of long-term debt | | (1,508) | (4,450) |
| Repayments of capital lease obligations | (1,083) | (984) | (1,554) |
| Repurchase of common stock | | | (28,120) |
| Proceeds on notes receivable from common stock sales | 1,491 | | |
| Net cash provided by (used in) financing activities | 408 | (2,492) | (33,780) |
| Net increase (decrease) in cash and cash equivalents | 22,919 | 15,821 | (30,953) |
| Cash and cash equivalents at beginning of year | 87,728 | 71,907 | 102,860 |
| Cash and cash equivalents at end of year | $ 110,647 | $ 87,728 | $ 71,907 |

See accompanying notes.

**HAWAIIAN AIRLINES, INC.**
**NOTES TO FINANCIAL STATEMENTS**
**(IN THOUSANDS, UNLESS OTHERWISE INDICATED)**

## 1. Business and Organization

Hawaiian Airlines, Inc. ( Hawaiian ) was incorporated in January 1929 under the laws of the Territory of Hawaii and is the largest airline headquartered in Hawaii. Hawaiian became a wholly-owned subsidiary of Hawaiian Holdings, Inc. ( Holdings ) on August 29, 2002, pursuant to the corporate restructuring described in Note 4. Hawaiian is engaged primarily in the scheduled air transportation of passengers, cargo and mail. Hawaiian provides passenger and cargo service from Hawaii, principally Honolulu, to eight Western U.S. cities ( Transpacific ). Hawaiian also provides daily direct service to four of the six major islands and directly through an arrangement with Island Air to two of the six major islands of the State of Hawaii ( Interisland ) and weekly service to each of Pago Pago, American Samoa and Papeete, Tahiti in the South Pacific ( South Pacific ) and Sydney, Australia. Charter service is also provided from Honolulu to Anchorage, Alaska ( Overseas Charter ). Hawaiian currently operates a fleet of 11 Boeing 717-200 aircraft for its Interisland routes, and a fleet of 14 Boeing 767-300ER aircraft for its Transpacific, South Pacific and Overseas Charter routes.

## 2. Bankruptcy Filing, Liquidity and Going Concern

On March 21, 2003 (the Petition Date ), Hawaiian filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code (the Bankruptcy Code ) in the Bankruptcy Court for the District of Hawaii (the Bankruptcy Court ). Holdings did not file a voluntary petition for relief under Chapter 11. Hawaiian has continued to operate its business under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. The Chapter 11 filing triggered defaults, or termination events, on substantially all debt and lease obligations, and certain other contractual obligations of Hawaiian. Subject to certain exceptions under the Bankruptcy Code, Hawaiian s Chapter 11 filing automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against Hawaiian or its property to recover on, collect or secure a claim arising prior to the Petition Date. At a hearing held on the Petition Date, the Bankruptcy Court granted Hawaiian s first day motions for various relief designed to stabilize its operations and business relationships with customers, vendors, employees and others and entered orders granting authority to Hawaiian to, among other things: pay certain pre-petition and post-petition employee wages, salaries, benefits and other employee obligations; pay vendors and other providers in the ordinary course for goods and services received from and after the Petition Date; honor customer service programs, including the HawaiianMiles program and ticketing policies; honor obligations arising prior to the Petition Date related to Hawaiian s interline, clearinghouse, code sharing and other similar agreements; pay certain pre-petition taxes and fees, including transportation excise taxes, payroll taxes and passenger facility charges; and pay certain other obligations.

On March 31, 2003, BCC Equipment Leasing Corporation ( BCC Leasing ), an affiliate of The Boeing Company, filed a motion seeking the appointment of a Chapter 11 trustee (the Trustee Motion ). BCC Leasing asserted that John W. Adams, the Chairman and Chief Executive Officer of Hawaiian and Holdings at that time, could not be relied upon to act in the best interest of creditors or to undertake a successful reorganization because he had allegedly engaged in extensive self-dealing and allegedly had disabling conflicts of interest. BCC Leasing specifically pointed to a self-tender of Hawaiian common stock that occurred in the spring of 2002, as described more fully in Note 15, which resulted in 5,880,000 shares of Hawaiian s stock being repurchased by Hawaiian at a price in excess of the then-trading price, of which a significant portion was repurchased from Mr. Adams and an entity controlled by Mr. Adams. On May 16, 2003, the Bankruptcy Court issued an order granting the Trustee Motion. As a result, a Chapter 11 trustee, Joshua Gotbaum (the Trustee ), is in charge of operating Hawaiian s business under the jurisdiction of the Bankruptcy Court, and has the power to investigate and enforce claims relating to transfers of property that occurred prior to the Petition Date. Additionally, Hawaiian s exclusive periods to file and solicit acceptances of a plan of reorganization terminated upon the appointment of the Trustee.

A pre-petition liability that requires different treatment under the Bankruptcy Code relates to certain qualifying aircraft, aircraft engines and other aircraft-related equipment that are leased or subject to a security interest or conditional sale contract. Under Section 1110 of the Bankruptcy Code, actions to collect most pre-petition liabilities of this nature are automatically stayed for 60 days only, except under two conditions: (i) the debtor may extend the 60-day period by agreement with the relevant creditor and with court approval; or (ii) the debtor may agree to perform all of the obligations under the applicable financing and cure any defaults as required under the Bankruptcy Code. If neither of these conditions is met, the creditor may demand the return of the aircraft or take possession of the property and enforce any of its contractual rights or remedies to sell, lease or otherwise retain or dispose of such equipment at the end of the 60-day period. With respect to Hawaiian, the original 60-day period under Section 1110 expired May 20, 2003. Hawaiian entered into various stipulations with each of it aircraft lessors to extend the Section 1110 deadlines on several occasions. Hawaiian ultimately reached agreements with AWAS, formerly Ansett Worldwide Aviation Services, Inc. ( AWAS ), International Lease Finance Corporation (ILFC), and BCC Leasing, who together lease Hawaiian its entire fleet of Boeing 767 and 717 aircraft, under revised long-term leases approved by the Bankruptcy Court. Hawaiian also cancelled the delivery of two Boeing 767 aircraft scheduled for delivery during 2003 and returned two Boeing 717 aircraft to BCC Leasing in late 2003 and early 2004. The revised leases and cancellations provide Hawaiian with significant savings in monthly aircraft rentals, but also result in lease-related deficiency claims against Hawaiian by AWAS (the AWAS Claim ) and BCC Leasing of approximately $107.5 million and $66.5 million, respectively. See Notes 6 and 7.

On September 9, 2004, Holdings, the Trustee, the Official Committee of Unsecured Creditors, HHIC, Inc., a wholly-owned subsidiary of Holdings ( HHIC ), and RC Aviation, LLC ( RC Aviation ), filed an amended Joint Plan of Reorganization (as amended on October 4, 2004, and on March 11, 2005 and as may be amended from time to time thereafter, the Joint Plan ) to provide for Hawaiian to emerge from bankruptcy. The Joint Plan provides for payment in full, without interest accruing after the Petition Date, of all allowed claims, including unsecured claims. Additionally, the Joint Plan provides for Holdings to retain its existing equity interest in Hawaiian, although Holdings will be required to issue shares of common stock to creditors of Hawaiian to help fund the Joint Plan, resulting in a dilution of the ownership interest of existing common shareholders of Holdings. The Joint Plan was submitted to creditors for vote on approximately October 15, 2004. All Class 5 creditors who voted accepted the Joint Plan. More than 95% in both number and amount of each other impaired class of creditors entitled to vote on the Joint Plan accepted the Joint Plan. Holdings and HHIC, as the sole shareholders of Hawaiian, also voted to accept the Joint Plan. The Joint Plan has, therefore, been accepted by more than the required two-thirds of the dollar amount of eligible claims and more than the required one-half of the number of claims from each class of creditors entitled to vote on the Joint Plan. At the confirmation hearing for the Joint Plan on March 11, 2005, the Bankruptcy Court concluded that all of the requirements for confirmation had been met and that findings of fact and conclusions of law and an order would be entered following ratification of the proposed agreements with the Association of Flight Attendants (AFA) and the Air Line Pilots Association (ALPA).

On February 19, 2005, a final proposed agreement was reached with the negotiating committee of AFA, and on March 14, 2005, the agreement was ratified. On March 14, 2005, a final proposed agreement (the Proposed ALPA Agreement ) was reached with the negotiating committee of ALPA, but the members of ALPA did not ratify the Proposed ALPA Agreement. Consequently, on March 29, 2005, the Trustee s motion (the Section 1113 Motion ) to impose an agreement on ALPA pursuant to Section 1113 of the Bankruptcy Code commenced before the Bankruptcy Court, but was not completed. The hearing was continued to April 13, 2005, and is anticipated to be completed no later than April 15, 2005, though the Bankruptcy Court may not rule at the conclusion of the hearing. Hawaiian and ALPA may engage in negotiations before the hearing resumes.

The following table briefly summarizes the classification and treatment of claims under the Joint Plan, the estimated allowed claims and the anticipated treatment (in millions):

| | | | Anticipated Treatment | | |
|---|---|---|---|---|---|
| **Class** | **Classification** | **Treatment under the Joint Plan** | **Cash** | **Installment Payments** | **Common Stock** |
| Unclassified | Unsecured Priority Tax Claims | In cash, paid in up to twenty-four (24) equal quarterly installments. | $ 1.2 | $ 30.1 | $ |
| Class 1 (Unimpaired) | Secured Priority Tax Claims | In cash, paid in accordance with the legal, equitable and contractual rights of the holder of the claim. | 1.0 | | |
| Class 2 (Unimpaired) | Other Secured Claims | Generally, at the election of Hawaiian, (i) cash, (ii) surrender of the collateral securing the claim, (iii) cure and reinstatement, or (iv) retention by the holder of the claim of its legal, equitable and contractual rights. | | 2.8 | |
| Class 3 (Unimpaired) | Other Priority Claims | Cash | 0.1 | | |
| Class 4(1) (Impaired) | Unsecured Claims not included in a category below. | At the election of the holder, either (i) cash in an amount equal to fifty percent (50%) of the allowed claim and common stock of Holdings equal to fifty percent (50%) of the allowed claim, based on a stock value of $6.16 per share; or (ii) cash equal to 100% of the allowed claim. | 36.3 | | |
| Class 5(2) (Impaired) | Lease Related Claims | Cash in an amount equal to fifty percent (50%) of the claim and common stock of Holdings equal to fifty percent (50%) of the claim, based on a stock value of $6.16 per share. | 87.0 | | 87.0 |
| Class 6 (Impaired) | Convenience Claims | Cash | 0.8 | | |
| Class 7 (Impaired/ Unimpaired) | Equity Interests | Holders of equity interests in Hawaiian shall retain their interests in the reorganized Hawaiian, without modification or alteration by the Joint Plan. However, Holdings will be required to issue new common stock to creditors of Hawaiian, which will result in a dilution of the ownership interest of Holdings existing common shareholders. | | | |
| | | Total | $ 126.4 | $ 32.9 | $ 87.0 |

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1 The amount and classification of the claim filed by American Airlines, Inc. ( AA ) are in dispute. AA has filed a claim for approximately $11 million, which it contends belongs to Class 4. Hawaiian disputes a substantial portion of AA s claim, but the full $11 million is included above. Hawaiian also contends that a significant portion of AA s claim should be categorized in Class 5.

2 To the extent a portion of AA s claim is categorized in Class 5, AA will not receive cash or stock. It will receive a 15-year fully amortizing promissory note, which bears interest at the rate of 6.5% per annum. Because all of AA s claim is included in Class 4 above, pending resolution of the classification dispute, none of that claim is included in Class 5.

The amounts and classifications of the claims above are based on the amounts agreed in the settlement of the claims, with the exception of disputed claims, where the gross claim amount has been included. It is expected that the ultimate resolution of the disputed claims will be lower, but we can provide no assurance that this will occur. For these reasons, the final amounts and classifications of such claims cannot yet be determined.

The Trustee, Holdings and RC Aviation entered into a Restructuring Support Agreement, dated as of August 26, 2004 (the Restructuring Support Agreement ), pursuant to which Holdings and RC Aviation agreed to raise the funding necessary to meet the distribution and payment obligations under the Joint Plan, and to ensure that Hawaiian has at least $70.0 million of unrestricted cash on the effective date of the Joint Plan. In order to fund their obligations under the Joint Plan, Holdings and RC Aviation have the flexibility to utilize one or more sources of financing, including the following: the issuance of up to $150.0 million of new debt by Hawaiian, such as new notes and/or a senior secured loan facility; the proceeds of a rights offering to existing shareholders of Holdings; or the proceeds of the sale of a new series of Holdings preferred stock in Holdings to RC Aviation. Holdings and RC Aviation are in the process of negotiating a $50.0 million senior secured credit facility as well as the issuance of up to $100.0 million of convertible senior notes. RC Aviation will receive shares of common stock of Holdings valued at $6.16 per share on account of 50% of the lease-related deficiency claims controlled by RC Aviation. If necessary to make distributions to holders of claims and to satisfy the minimum cash requirement, in exchange for the 50% cash portion that RC Aviation is to receive on account of its lease-related claims, RC Aviation may defer the cash payment it is to receive and has agreed to accept a six-month note if Hawaiian does not have sufficient cash to pay all obligations due on the effective date and retain at least $70 million in unrestricted cash.

The Chapter 11 Filing, including the subsequent appointment of the Trustee, and the resulting uncertainty regarding Hawaiian s future prospects raise substantial doubt about the ability of Hawaiian to continue as a going concern. The ability of Hawaiian to continue as a going concern is contingent upon Hawaiian s ability to consummate the Joint Plan, or another plan of reorganization. While the Company believes the necessary approvals have been obtained and the necessary financing arranged in order to consummate the Joint Plan, with the exception of the approval of ALPA, such financing is contingent upon Hawaiian s ultimate emergence from bankruptcy protection. The occurrence of certain events prior to Hawaiian s emergence from bankruptcy (including the inability to resolve the outstanding ALPA issues) could result in the arranged financing not being available, which might prevent the consummation of the Joint Plan and therefore delay or prevent Hawaiian s emergence from bankruptcy. The accompanying financial statements have been prepared assuming that Hawaiian will continue as a going concern. The financial statements do not include any of the adjustments that would result if Hawaiian were unable to continue as a going concern, nor do they give effect to any adjustments to the carrying value of assets or the amounts of liabilities of Hawaiian that will be necessary as a consequence of the consummation of the Joint Plan or another plan of reorganization.

See Note 19 for events relating to Hawaiian s bankruptcy and ability to continue as a going concern occurring subsequent to the original issuance of these financial statements in March 2005.

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## 3. Summary of Significant Accounting Policies

***Basis of Presentation***

The accompanying financial statements are prepared in accordance with American Institute of Certified Public Accountants Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code (SOP 90-7), and on a going-concern basis, which assumes continuity of operations, realization of assets and satisfaction of liabilities in the ordinary course of business. SOP 90-7 requires that the financial statements for periods subsequent to a Chapter 11 filing separate transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, all transactions (including, but not limited to, professional fees, realized gains and losses, and provisions for losses) directly associated with Hawaiian s reorganization and restructuring are reported separately as reorganization items in the statements of operations. The statements of financial position distinguish pre-petition liabilities subject to compromise both from those pre-petition liabilities that are not subject to compromise and from post-petition liabilities. Liabilities subject to compromise are reported at the amounts expected to be allowed by the Bankruptcy Court, even if they may be settled for lesser amounts.

***Cash and Cash Equivalents***

Hawaiian considers all investments purchased with an original maturity of three months or less to be cash equivalents.

***Restricted Cash***

Restricted cash consists primarily of collateral to support credit card holdbacks for advance ticket sales (which funds are subsequently made available to Hawaiian as air travel is provided), and as cash collateral for outstanding letters of credit.

***Spare Parts and Supplies***

Spare parts and supplies consist primarily of expendable parts for flight equipment and supplies that are stated at average cost and are expensed when consumed in operations. An allowance for obsolescence is provided over the estimated useful life of the related aircraft, plus allowances for spare parts currently identified as excess to reduce the carrying costs to the lower of amortized cost or net realizable value. These allowances are based on management estimates and are subject to change.

***Property and Equipment***

Owned property and equipment are stated at cost and depreciated on a straight-line basis over the following estimated useful lives:

| | |
|---|---|
| Flight equipment | 2-15 years, 15% residual value |
| Ground equipment | 5-15 years, no residual value |
| Airport terminal facility | 30 years |
| Buildings | 15-20 years |
| Leasehold improvements | Shorter of lease term or useful life |

Routine maintenance and repairs are charged to operations as incurred, except that maintenance and repairs under power-by-the-hour maintenance agreements are accrued and expensed on the basis of hours flown. Scheduled airframe inspections and overhauls, which are generally performed every seven years, are capitalized and amortized over the estimated period benefited, presently the lesser of seven years, the time until the next scheduled event, or the remaining lease terms of the aircraft. Modifications that significantly enhance the operating performance or extend the useful lives of aircraft or engines are capitalized and amortized over the lesser of the remaining life of the asset or the lease terms.

***Reorganization Value in Excess of Amounts Allocable to Identifiable Assets***

Hawaiian emerged from a previous Chapter 11 bankruptcy on September 12, 1994. Under fresh start reporting, the reorganization value of the entity was allocated to Hawaiian s assets and liabilities on a basis substantially consistent with the purchase method of accounting. The portion of reorganization value not attributable to specific tangible or identifiable intangible assets of Hawaiian is reflected as reorganization value in excess of amounts allocable to identifiable assets ( Excess Reorganization Value ) in the accompanying balance sheets. Excess Reorganization Value is not amortized but is instead subject to annual impairment tests. During the year ended December 31, 2004, Excess Reorganization Value was reduced by $0.6 million representing the current year tax benefit of the utilization of net operating loss carryforwards arising prior to the previous Chapter 11 bankruptcy.

***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. Hawaiian performs periodic evaluations of this estimated liability, and any resulting adjustments, which can be significant, are included in results of operations for the periods in which the evaluations are completed. Charter and cargo revenue is recognized when the transportation is provided.

Hawaiian sells mileage credits in its HawaiianMiles frequent flyer program to participating partners such as hotels, car rental agencies and credit card companies. Revenue from the sale of mileage credits is deferred and recognized as passenger revenue when transportation is likely to be provided, based on the fair value of the transportation to be provided. Amounts in excess of the fair value of the transportation to be provided are recognized currently as a reduction in marketing expenses.

Components of other revenue include ticket change fees, ground handling fees, sales of jet fuel, and other incidental services that are recognized as revenue when the related service is provided.

***Frequent Flyer Program***

Hawaiian recognizes a liability under its HawaiianMiles frequent flyer program as members accumulate mileage points. Hawaiian records a liability for either 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 cost of fuel, meals, liability insurance, reservations, and ticketing and does not include any costs for aircraft ownership, maintenance, labor or overhead allocation. The liability is adjusted periodically based on awards earned, awards redeemed, changes in the incremental costs and changes in the HawaiianMiles program. 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.

***Sales Commissions***

Commissions from the sale of passenger revenue are recognized as expense when the transportation is provided and the related revenue is recognized. The amount of sales commissions not yet recognized as expense is included in prepaid expenses and other current assets in the accompanying balance sheets.

***Advertising Costs***

Hawaiian expenses advertising costs as incurred. Advertising expense was $7.7 million, $4.6 million, and $8.0 million for the years ended December 31, 2004, 2003 and 2002, respectively.

***Notes Receivable from Sale of Stock***

In September 1996, $1.9 million in full recourse, interest-bearing notes were received from option holders who exercised options to purchase 592,500 shares of Hawaiian s common stock. The notes are classified as a reduction in shareholders deficiency. In 2004, $1.5 million of the notes were repaid to Hawaiian.

***Stock Option Plans***

Hawaiian accounts for stock options issued by Hawaiian prior to the August 2002 corporate restructuring discussed in Note 4, and for stock options issued subsequent to such corporate restructuring by Holdings related to Hawaiian s participation in the stock-based compensation plans of Holdings, in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related interpretations. Under APB 25, no compensation expense is recognized for stock option grants if the exercise price of the stock option is at or above the fair market value of the underlying stock on the date of grant.

Hawaiian has adopted the pro forma disclosure features of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation (SFAS 123), as amended by SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure . As required by SFAS 123, pro forma information regarding net loss has been determined as if Hawaiian had accounted for its employee stock options and awards granted using the fair value method prescribed by SFAS 123. The following table illustrates the pro forma effect on net loss if Hawaiian had accounted for its employee stock options and awards granted using the fair value method prescribed by SFAS 123 for the years ended December 31, 2004, 2003 and 2002. The fair value for the stock options was estimated at the date of grant using a Black-Scholes-Merton option pricing model. See Note 13 for the assumptions used to compute the pro forma amounts.

| | | 2004 | | 2003 | | 2002 |
|---|---|---|---|---|---|---|
| Net loss: | | | | | | |
| As reported | $ | (75,440) | $ | (49,513) | $ | (57,445) |
| Less: Total stock based employee compensation expense determined under the fair value method for all awards, net of tax | | 318 | | 376 | | 849 |
| Pro forma net loss | $ | (75,758) | $ | (49,889) | $ | (58,294) |

In December, 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), Share Based Payment (SFAS 123R), which replaces SFAS 123, and supersedes 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 flow rather than operating activities as currently permitted. SFAS 123R will be effective for periods beginning after June 15, 2005. SFAS 123R offers alternative methods of adoption. At the present time, Hawaiian has not yet determined which alternative method it will use. Depending on the method Hawaiian adopts to calculate stock-based compensation expense upon the adoption of SFAS 123R, the pro forma disclosure above may not be indicative of the stock-based compensation expense to be recognized in periods beginning after June 15, 2005.

***Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant changes relate to the determination of asset impairment, air traffic liability, frequent flyer liability and the amounts reported for accumulated pension and other postretirement benefit obligations. Management believes that such estimates have been appropriately established in accordance with accounting principles generally accepted in the U.S.

***Reclassifications***

Certain prior year amounts were reclassified to conform to the 2004 presentation.

**4. Corporate Restructuring**

On August 29, 2002, Hawaiian was restructured into a holding company structure, whereby Hawaiian became a wholly owned subsidiary of Holdings, a Delaware corporation, and the shareholders of Hawaiian, as described in more detail below, exchanged their Hawaiian shares for Holdings shares on a one-for-one basis and became shareholders of Holdings (the Corporate Restructuring ). The shareholders of Holdings then had substantially the same rights, privileges and interests with respect to Holdings as they had with respect to Hawaiian immediately prior to the Corporate Restructuring, except for any such differences that arise from differences between Delaware and Hawaii law.

In connection with the Corporate Restructuring, Airline Investors Partnership, L.P. ( Airline Investors Partnership ), the majority shareholder of Hawaiian prior to the Corporate Restructuring, was restructured into a limited liability company called AIP, LLC ( AIP ). As part of the AIP restructuring, Holdings acquired and now owns, indirectly through a subsidiary, all of the shares of Hawaiian common stock that were previously held by Airline Investors Partnership. In exchange, AIP received the same number of shares of Holdings common stock that Airline Investors Partnership owned of Hawaiian common stock immediately prior to the exchange. Immediately after the AIP restructuring, Holdings acquired the remaining outstanding shares of Hawaiian common stock and all of the shares of Hawaiian special preferred stock, with each of these shares being converted into one share of Holdings common stock. After the completion of the Corporate Restructuring, the shareholders of Holdings held the same relative percentage of Holdings common stock as they did of Hawaiian common and special preferred stock immediately prior to the Corporate Restructuring. On December 30, 2004, Holdings, AIP and certain related parties entered into an agreement pursuant to which the shares of special preferred stock held by AIP were cancelled.

In addition, Holdings assumed sponsorship of the then-existing Hawaiian stock option plans. As a result, the outstanding options became exercisable or issuable upon the same terms and conditions as were in effect immediately prior to the completion of the Corporate Restructuring, except that shares of Holdings common stock would be issued upon the exercise or issuance of these options instead of Hawaiian common stock. Furthermore, each pilot participant eligible to receive a share of Hawaiian common stock under the Hawaiian pilots 401(k) plan and a 2001 letter of agreement with the Hawaiian pilots became eligible to receive, on the same terms and conditions as were in effect immediately prior to the Corporate Restructuring, one share of Holdings common stock instead of one share of Hawaiian common stock.

As part of the Corporate Restructuring, Holdings also issued to AIP and each of Hawaiian s three labor unions having the right to nominate individuals to the Holdings board of directors, a number of shares of a corresponding series of Holdings special preferred stock equal to the number of shares of Hawaiian special preferred stock that they held immediately prior to the Corporate Restructuring. In addition, the existing stockholders agreement among Hawaiian, Airline Investors Partnership and the three labor unions having board nomination rights was amended and restated to make Holdings and AIP parties to the agreement and to have them assume all the rights and obligations of Hawaiian and Airline Investors Partnership under the existing stockholders agreement, respectively. As a result, after the completion of the Corporate Restructuring, the relative governance rights in Holdings of AIP and these three labor unions were substantially the same as the rights in Hawaiian of Airline Investors Partnership and these three labor unions immediately prior to the Corporate Restructuring.

Immediately after the Corporate Restructuring was completed, an amendment to the rights agreement between Hawaiian and the rights agent, which was previously approved by the Hawaiian board of directors, also became effective. This amendment essentially rendered non-exercisable the rights attached to each share of Hawaiian common stock that were issued pursuant to the rights agreement.

The Corporate Restructuring had no impact on Hawaiian s financial statements. As more fully discussed in Note 2, on May 16, 2003, the Bankruptcy Court issued an order granting the Trustee Motion, which provided the Trustee with the authority to operate Hawaiian s business. Although Holdings continues to own 100% of the outstanding common stock of Hawaiian, it has no authority over the Trustee or Hawaiian.

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## 5. Stabilization and Supplemental Appropriations Acts

On September 22, 2001, President Bush signed into law the Air Transportation Safety and System Stabilization Act (the Stabilization Act ), which for all U.S. airlines and air cargo carriers (collectively, air carriers) provided for, among other things, $5 billion in compensation for direct losses (including lost revenue) incurred as a result of the federal ground stop order and for incremental losses incurred through December 31, 2001 as a direct result of the September 11, 2001 terrorist attacks. Hawaiian received $30.1 million from the U.S. Government under the airline compensation provisions of the Stabilization Act. During the year ended December 31, 2002, Hawaiian recognized a charge of $0.7 million associated with the Department of Transportation s final determination of the $30.8 million estimated allocation of proceeds received in 2001 and 2002.

On April 16, 2003, President Bush signed into law the Emergency Wartime Supplemental Appropriations Act (the Supplemental Appropriations Act ), a supplemental appropriations bill that included reimbursement to U.S. air carriers for their proportional share of passenger and air carrier security fees paid or collected by U.S. air carriers as of the date of enactment of the legislation, together with other items. Under the Supplemental Appropriations Act, in 2003 Hawaiian received and recognized a $17.5 million special credit to operating expenses for reimbursement of airline security fees previously paid and expensed.

## 6. Reorganization Items, net

Reorganization items, net represents amounts incurred as a direct result of Hawaiian s Chapter 11 filing and are presented separately in the statements of operations. Reorganization items, net for the years ended December 31, 2004 and 2003 consist of the following:

| | 2004 | 2003 |
|---|---|---|
| Deficiency claims and other lease rejection charges | $ 111,189 | $ 96,915 |
| Professional fees | 20,709 | 14,026 |
| Interest income on accumulated cash balances | (2,649) | (728) |
| Other | 271 | 4,850 |
| Total reorganization items, net | $ 129,520 | $ 115,063 |

As further discussed in Note 2, Hawaiian has reached agreements with AWAS, ILFC and BCC Leasing, which together lease to Hawaiian 14 Boeing 767 aircraft and 11 Boeing 717 aircraft, under revised long-term leases, which have been approved by the Bankruptcy Court. The revised leases provide Hawaiian with significant savings in monthly aircraft rentals, but also result in deficiency claims for AWAS and BCC Leasing.

Additionally, Hawaiian cancelled the delivery of two Boeing 767 aircraft scheduled for delivery in 2003, and returned two Boeing 717 aircraft to BCC Leasing in late 2003 and early 2004. These cancellations and lease returns have also resulted in deficiency claims in Hawaiian s bankruptcy case.

In 2003, under the terms of the revised lease agreements with AWAS for seven Boeing 767 aircraft, Hawaiian surrendered security deposits totaling $5.8 million and agreed that AWAS s deficiency claims related to the revised and cancelled leases would be $91.1 million. In 2004, AWAS filed an amended proof of claim for the revised leases of $89.0 million. Additionally, Hawaiian agreed to AWAS s $18.5 million deficiency claim, net of a surrendered lease security deposit of $0.3 million, for the cancelled delivery of one Boeing 767 aircraft in 2003. As a result of these agreements, Hawaiian recognized reorganization expense of $16.4 million and $96.9 million during the years ended December 31, 2004 and 2003, respectively. The agreed deficiency claims have been classified as Liabilities Subject to Compromise in the accompanying balance sheets, and it is anticipated that they will be settled under the Joint Plan of reorganization.

In 2004, Hawaiian, BCC Leasing, and Holdings entered into an agreement that provided for the assumption and modification of the lease terms for three Boeing 767 and 11 Boeing 717 aircraft. Under the terms of the agreement, and in settlement of all claims with respect to the lease revisions, cancelled delivery of one

Boeing 767 aircraft in 2003, and rejection of two Boeing 717 aircraft in late 2003 and early 2004, Hawaiian agreed that the BCC Leasing deficiency claim would be $66.5 million and Hawaiian s monthly rentals on the eleven Boeing 717 aircraft leased from BCC Leasing were increased. As a result of this agreement, Hawaiian recognized reorganization expense of $96.6 million during the year ended December 31, 2004, consisting of the agreed-upon claim, the present value of the additional monthly rentals, and the write-off of deferred aircraft rent and financing costs related to the previous lease agreements. The agreed deficiency claim has been classified as liabilities subject to compromise in the accompanying balance sheets, and it is anticipated that the claim will be settled in full under the Joint Plan.

## 7. Liabilities Subject to Compromise

Under the Bankruptcy Code, pre-petition obligations of Hawaiian generally may not be enforced, and any actions to collect pre-petition indebtedness are automatically stayed, unless the stay is lifted by the Bankruptcy Court. Hawaiian has received approval from the Bankruptcy Court to: (i) pay certain pre-petition and post-petition employee wages, salaries, benefits and other employee obligations; (ii) pay vendors and other providers in the ordinary course for goods and services received from and after the Petition Date; (iii) honor customer service programs, including the HawaiianMiles program and ticketing policies; (iv) honor obligations arising prior to the Petition Date related to Hawaiian s interline, clearinghouse, code sharing and other similar agreements; and (v) pay certain pre-petition taxes and fees, including transportation excise taxes, payroll taxes and passenger facility charges. Substantially all other pre-petition liabilities not mentioned above have been classified as liabilities subject to compromise in the accompanying balance sheet. It is anticipated that most of the liabilities subject to compromise will be settled under the Joint Plan. The following table summarizes the components of liabilities subject to compromise as of December 31, 2004 and 2003. Adjustments to these liabilities may result from negotiations, payments authorized by the Bankruptcy Court, additional rejection of executory contracts, including leases, or other events.

| | | **2004** | | **2003** |
|---|---|---|---|---|
| Debt | $ | 1,490 | $ | 1,527 |
| Capital leases | | 1,334 | | 2,370 |
| Accounts payable | | 33,984 | | 36,554 |
| Accrued liabilities | | 881 | | 2,956 |
| Deficiency claims | | 177,006 | | 91,125 |
| Total liabilities subject to compromise | $ | 214,695 | $ | 134,532 |

The Pension Benefit Guaranty Corporation (PBGC) has filed several claims for an aggregate amount of more than $200 million relating to the three defined benefit pension plans sponsored and maintained by Hawaiian. Three of the claims were contingent upon the termination of Hawaiian s defined benefit pension plans; the remaining claims were for minimum funding obligations or unpaid premiums. The Joint Plan does not provide for termination of any of the pension plans, and further provides that the claims of the PBGC will not be discharged or otherwise affected by the Joint Plan. In December 2004, Hawaiian and the PBGC executed a stipulation providing, among other things, that so long as Hawaiian does not terminate its pension plans prior to the effective date of the Joint Plan, upon the effective date the PBGC will be deemed to have withdrawn its claims, and that neither the stipulation or the Joint Plan affects the liabilities of Hawaiian with respect to its pension plans or the PBGC.

## 8. Leases

***Aircraft Leases***

At December 31, 2004 and 2003, Hawaiian leased all 25 and 26, respectively, of its aircraft under long-term operating leases. The aircraft fleet in service was as follows:

| Aircraft Type | 2004 | 2003 |
|---|---|---|
| B767 | 14 | 14 |
| B717 | 11 | 12 |
| Total | 25 | 26 |

In January 2004, Hawaiian returned one Boeing 717 aircraft to the lessor.

The amended Boeing 767 leases with AWAS allow AWAS to terminate the leases early, after not less than 180 days prior notice to Hawaiian, beginning on March 21, 2007. AWAS can terminate up to two leases between March 21, 2007 and September 20, 2007, up to three additional leases between September 21, 2007 and March 20, 2008 and up to two additional leases between March 21, 2008 and September 20, 2009. After September 20, 2009, AWAS can terminate up to all seven leases on not less than 180 days notice. If AWAS elects to terminate any lease, Hawaiian would be relieved of all rental and other obligations under the lease.

***Other Leases***

Hawaiian leases office space for its headquarters, airport facilities, ticket offices and certain ground equipment under leases with various terms through 2016.

***General***

Rent expense for aircraft, office space, real property, and other equipment and aircraft parts during 2004, 2003, and 2002 was $120.3 million, $126.7 million, and $104.8 million, respectively, net of sublease rental income.

The following table sets forth Hawaiian s scheduled future minimum lease commitments under operating and capital leases as of December 31, 2004. This table reflects the revised terms of Hawaiian s leases with BCC Leasing, which were renegotiated during 2004, and Hawaiian s leases with AWAS and ILFC, which were renegotiated during 2003. The table does not include any amounts for the DC-10 leases that were rejected as of March 21, 2003, the two Boeing 717 aircraft leases that were rejected during 2003, or the deficiency claims associated with leases renegotiated or rejected by Hawaiian subsequent to the bankruptcy filing.

| | Operating Leases | Capital Leases |
|---|---|---|
| 2005 | $ 98,865 | $ 577 |
| 2006 | 99,449 | 242 |
| 2007 | 99,459 | 137 |
| 2008 | 104,559 | 102 |
| 2009 | 106,110 | 102 |
| Thereafter | 1,555,017 | 738 |
| Total minimum lease payments | $ 2,063,459 | 1,898 |
| Less amount representing interest (rates ranging from 7.40% to 11.1%) | | 498 |
| Present value of capital lease obligations | | $ 1,400 |

Hawaiian s capital lease obligations are included in liabilities subject to compromise as of December 31, 2004 and 2003.

The net book value of property held under capital leases as of December 31, 2004 and 2003, totaled $2.9 million and $3.4 million, respectively. Amortization of property held under capital leases is included in depreciation and amortization expense in the accompanying statements of operations.

## 9. Financial Instruments and Risk Management

***Financial Instruments***

The carrying amounts of cash and cash equivalents, restricted cash, and accounts receivable approximate fair value due to the short maturity of those instruments. The fair value of accounts payable, accrued liabilities, long-term debt and liabilities subject to compromise could not be estimated due to the uncertainties resulting from the bankruptcy filing.

***Fuel Risk Management***

Hawaiian utilizes heating oil forward contracts in an effort to manage market risks and hedge its financial exposure to fluctuations in its aircraft fuel costs. Hawaiian employs a strategy whereby heating oil contracts may be used to hedge up to 45% of Hawaiian s anticipated aircraft fuel needs. Hawaiian does not hold or issue derivative financial instruments for trading purposes. At December 31, 2004, Hawaiian held forward contracts to purchase barrels of heating oil in the aggregate notional amount of $14.9 million through May 2005.

Hawaiian accounts for the heating oil forward contracts as cash flow hedges. They are recorded at fair value with the offset to accumulated other comprehensive income (loss), net of applicable income taxes and hedge ineffectiveness, and recognized as a component of fuel expense when the underlying fuel being hedged is used. Hawaiian measures fair value of its derivatives based on quoted market prices. The ineffective portion of a change in the fair value of the forward contracts is immediately recognized in earnings as a component of non-operating income (loss). During 2004, Hawaiian recognized $0.4 million in additional non-operating income related to the ineffectiveness of its hedges. There was no such income or loss recognized in 2003 and 2002. For the years ended December 31, 2004, 2003 and 2002, Hawaiian realized net gains (losses) of $2.1 million, $1.9 million, and $(0.6) million, respectively, as a component of aircraft fuel expense on liquidated contracts designated as hedges. Based upon Hawaiian s derivative positions as of December 31, 2004, realized gains of $0.4 million and unrealized losses of $1.9 million were recognized as other comprehensive income in the balance sheet as of December 31, 2004. Hawaiian expects to reclassify net losses on derivative instruments to fuel expense during the next five months when the hedged fuel expenses are recognized.

During the year ended December 31, 2003, Hawaiian ceased hedge accounting on its derivative instruments, and recognized realized and unrealized net gains of $1.0 million as a component of non-operating income (expense) related to the derivative instruments not designated as hedges.

## 10. Restructuring Charges

During the fourth quarter of 2002, based on a reduction in passenger demand, Hawaiian announced capacity reductions in specific transpacific markets. Hawaiian announced that it would reduce its workforce by approximately 150 employees, or four percent of the total workforce, in an effort to bring its cost structure in line with current and expected revenue. In addition, Hawaiian secured voluntary leaves of absence from approximately 60 flight attendants, reduced work schedules for part-time reservations personnel and decided to leave certain open positions unfilled. As a result of these actions, for the year ended December 31, 2002, Hawaiian recorded a restructuring charge of $8.7 million related primarily to the accelerated retirement of its remaining eight leased DC-10 aircraft. This charge consisted of approximately $10.1 million related primarily to future lease commitments on the DC-10 aircraft, lease return conditions and maintenance commitments, severance costs for approximately 150 DC-10 pilots, and a write-down of DC-10 improvements and spare parts, partially offset by a credit of $1.4 million related to the sale of eight non-operating DC-9 aircraft and related assets that had been previously written down.

Activity related to the restructuring charges for the years ended December 31, 2004, 2003, and 2002, is as follows:

| | Beginning Reserve | Restructuring Charges | Utilization of Charge Cash | Non-Cash | Remaining Reserve |
|---|---|---|---|---|---|
| Year ended December 31, 2002: | | | | | |
| Write-down of spare parts and improvements | $ | $ 1,243 | $ | $ (1,243) | $ |
| Allowance for future lease payments, return conditions, and early termination costs | | 7,344 | | | 7,344 |
| Pilot severance costs | | 1,600 | | | 1,600 |
| | $ | 10,187 | $ | $ (1,243) | $ 8,944 |
| Sale of non-operating DC-9 assets | | (1,486) | | | |
| | | $ 8,701 | | | |
| Year ended December 31, 2003: | | | | | |
| Allowance for future lease payments, return conditions, and early termination costs | $ 7,344 | $ | $ (120) | $ (283) | $ 6,941 |
| Pilot severance costs | 1,600 | | (1,389) | | 211 |
| | $ 8,944 | $ | $ (1,509) | $ (283) | $ 7,152 |
| Year ended December 31, 2004: | | | | | |
| Allowance for future lease payments, return conditions, and early termination costs | $ 6,941 | $ | $ | $ (61) | $ 6,880 |
| Pilot severance costs | 211 | | (211) | | |
| | $ 7,152 | $ | $ (211) | $ (61) | $ 6,880 |

Accrued restructuring charges are included in liabilities subject to compromise as of December 31, 2004 and 2003.

## 11. Income Taxes

The significant components of the income tax provision were:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Current | | | |
| Federal | $ 12,311 | $ 10,100 | $ 5,129 |
| State | 3,916 | 2,844 | 775 |
| | 16,227 | 12,944 | 5,904 |
| Deferred | | | |
| Federal | 589 | | (2,172) |
| State | | | (933) |
| | 589 | | (3,105) |
| Provision for income taxes | $ 16,816 | $ 12,944 | $ 2,799 |

Cash payments for federal and state income taxes were $36.5 million during the year ended December 31, 2004.

Income tax expense in 2004, 2003 and 2002 differs from the expected tax expense (benefit) for that year computed by applying the respective year s U.S. federal corporate income tax rate to income (loss) before income taxes as follows:

| | | 2004 | | 2003 | | 2002 |
|---|---|---|---|---|---|---|
| Computed expected tax benefit | $ | (20,518) | $ | (12,799) | $ | (19,417) |
| State income taxes, net of federal income tax | | (2,931) | | (1,828) | | (2,883) |
| Change in deferred tax valuation allowance | | 35,117 | | 26,101 | | 28,071 |
| Non-deductible reorganization costs | | 4,324 | | | | |
| Other | | 824 | | 1,470 | | (2,972) |
| | $ | 16,816 | $ | 12,944 | $ | 2,799 |

The tax effects of temporary differences that give rise to significant portions of Hawaiian s deferred tax assets and deferred tax liabilities at December 31, 2004 and 2003 are presented below:

| | | 2004 | | 2003 |
|---|---|---|---|---|
| Deferred tax assets: | | | | |
| Reorganization items | $ | 82,661 | $ | 39,923 |
| Accumulated pension and other postretirement benefits | | 54,367 | | 47,768 |
| Accrued liabilities | | 23,857 | | 26,085 |
| Net operating loss carryforwards | | 2,942 | | 3,531 |
| Advance on sale of frequent flyer miles | | | | 7,720 |
| Other | | 9,847 | | 8,950 |
| Total gross deferred tax assets | | 173,674 | | 133,977 |
| Less valuation allowance on deferred tax assets | | (167,246) | | (127,995) |
| Net deferred tax assets | | 6,428 | | 5,982 |
| | | | | |
| Deferred tax liabilities: | | | | |
| Plant and equipment, principally due to difference in depreciation | | (6,428) | | (5,982) |
| Total deferred tax liabilities | | (6,428) | | (5,982) |
| Net deferred taxes | $ | | $ | |

Utilization of Hawaiian s deferred tax assets is predicated on Hawaiian being profitable in future years. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible, or the future utilization of the resulting net operating loss carryforwards prior to expiration. During the year ended December 31, 2002, Hawaiian determined that it was no longer more likely than not that any portion of its net deferred tax assets would be realized and recognized a full valuation allowance on its net deferred tax assets as of the beginning of the year, all 2002 net operating losses, and all items directly impacting other comprehensive loss (primarily the minimum pension liability). Hawaiian also recognized a full valuation allowance on all net deferred tax assets recorded during 2004 and 2003. As a result, the valuation allowance for deferred tax assets increased by $39.3 million, $34.3 million, and $39.6 million during the years ended December 31, 2004, 2003 and 2002, respectively. These increases include amounts in all periods presented that both impact the provision (benefit) for income taxes and directly impact other comprehensive loss.

Hawaiian underwent an ownership change in January 1996, as defined under Section 382 of the Internal Revenue Code ( IRC Section 382 ). IRC Section 382 places an annual limitation on the amount of income that can be offset by net operating loss carryforwards generated in pre-ownership change years. The ownership change resulted in an annual IRC Section 382 limitation of approximately $1.7 million plus certain built-in income items. This new limitation applies to all net operating losses incurred prior to the ownership change. As of December 31, 2004, Hawaiian has total net operating loss carryforwards of approximately $8.4 million to offset future taxable income, all of which were generated prior to Hawaiian s previous bankruptcy. If not utilized to offset future taxable income, the net operating loss carryforwards will expire between the years 2005 and 2009. During the year ended December 31, 2004, Hawaiian utilized $1.7 million of the net operating loss carryforwards and Excess Reorganization Value was reduced by the resulting $0.6 million benefit. Future utilization of the net operating loss carryforwards may also result in a reduction in Excess Reorganization Value.

During 2003, the Internal Revenue Service (IRS) commenced an audit of Hawaiian, covering taxes for income, fuel excise, and other matters. On June 30, 2004, the IRS filed a proof of claim in the amount of $128.9 million. Of that amount, approximately $88.0 million was asserted by the IRS to constitute a priority tax claim under section 507(a)(8) of the Bankruptcy Code. The priority claim consisted of two components: (1) excise taxes on aviation fuel consumed on flights over international waters, which Hawaiian claimed were not subject to the U.S. fuel excise tax; and (2) income adjustments for the years 2001 and 2002 related primarily to the deductibility of payments for power-by-the-hour maintenance agreements, tax revenue recognition relative to certain components of the air traffic liability, deductions taken by Hawaiian in 2001 for certain DC-9 aircraft, and tax change in ownership limitations under IRC Section 382 on certain net operating loss carryforwards utilized in 2001. The balance of the claim represented penalties proposed by the IRS arising from the fuel excise tax matter referred to above. The IRS subsequently amended its claim on several occasions.

Hawaiian and the IRS settled the disputes regarding the deductibility of payments for power-by-the-hour maintenance agreements, tax revenue recognition relative to certain components of the air traffic liability, and the deductions taken by Hawaiian in 2001 for the DC-9 aircraft. On February 1, 2005, the Bankruptcy Court ruled that the IRS s claim for unpaid fuel excise tax and interest of $21.8 million was a valid claim, but that the IRS s penalty claim for nonpayment of the fuel excise tax was not a valid claim. Additionally, on February 24, 2005, the Bankruptcy Court ruled in favor of Hawaiian with respect to the net operating loss issue.

Hawaiian had fully reserved for the unpaid fuel excise tax and interest during each period the related tax position had been taken. Additionally, under the applicable provisions of the Bankruptcy Code, amounts due to the IRS by a debtor in a bankruptcy proceeding are generally payable in up to twenty-four equal quarterly installments. As a result, after considering the additional deductions available to Hawaiian in its 2003 and 2004 tax returns arising from the income adjustments agreed to with the IRS for the two years under audit, the results of the IRS audit of Hawaiian s 2001 and 2002 tax returns did not have a material impact on Hawaiian s financial position, results of operations and liquidity.

The IRS is currently also in the process of examining Hawaiian s income tax returns for 2003. Hawaiian cannot currently determine the impact of any potential assessments by the IRS on Hawaiian s financial position, results of operations and liquidity. Hawaiian believes that the IRS will assert similar claims with regard to deductibility of payments for power-by-the-hour maintenance agreements and tax revenue recognition relative to certain components of the air traffic liability as were asserted during the audits of Hawaiian s 2001 and 2002 tax returns. No amounts have been accrued for these items, as management believes the ultimate liability, if any, is neither probable nor estimable.

The consummation of the Joint Plan will trigger significant tax deductions related to the payment of the lease deficiency claims described in Note 6. Assuming the Company has consummated the Joint Plan and fully resolved the open matters pending with the IRS, the Company expects tax deductions and resulting net operating loss carrybacks in its 2005 federal income tax return that will result in no taxes payable for 2005 and a refund for a significant portion of the income taxes paid by the Company in 2003 and 2004.

## 12. Benefit Plans

Hawaiian sponsors three defined benefit pension plans covering ALPA, the International Association of Machinists and Aerospace Workers (IAM) and other employees (salaried, Transport Workers Union, Employees of the Communications Section). The plans for the IAM and other employees were frozen effective October 1, 1993. As a result of the freeze, there will be no further benefit accruals. The pilot s plan is funded based on minimum requirements under the Employee Retirement Income Security Act of 1974 (ERISA), but not less than the normal cost plus the 20-year funding of the past service liability. Funding for the ground personnel plans is based on minimum ERISA requirements. Plan assets consist primarily of common stocks, government and convertible securities, insurance contract deposits, and cash management and mutual funds.

In addition to providing pension benefits, Hawaiian sponsors two unfunded defined benefit postretirement medical and life insurance plans. Employees in Hawaiian s pilot group are eligible for certain medical, dental and life insurance benefits under one plan if they become disabled or reach normal retirement age while working for Hawaiian. Employees in Hawaiian s non-pilot group are eligible for certain medical benefits under another plan if they meet specified age and service requirements at the time of retirement.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Medicare Act ) was enacted to provide a prescription drug benefit as well as a federal subsidy to sponsors of certain retiree health care benefit plans. FASB Staff Position No. 106-2, which was issued in May 2004 in response to the Medicare Act, requires that the effects of the federal subsidy be considered an actuarial gain and recognized in the same manner as other actuarial gains and losses. Hawaiian s net periodic postretirement benefit cost for 2004 does not reflect the effects of the Medicare Act. The accumulated postretirement benefit obligation (APBO) for the postretirement benefit plan was remeasured at December 31, 2004, to reflect the effects of the Medicare Act, which resulted in a reduction in the APBO of $2.6 million. The effects of the reduction in APBO will begin to be reflected in 2005 expense; however, the impact on expense in any given year is not expected to be material.

The following tables summarize changes to projected benefit obligations, plan assets, funded status and applicable amounts included in the accompanying balance sheets as of December 31, 2004 and 2003:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| **Change in projected benefit obligations** | | | | |
| Projected benefit obligation at beginning of year | $ 304,495 | $ 258,698 | $ 34,683 | $ 26,343 |
| Service cost | 8,753 | 8,181 | 1,610 | 1,576 |
| Interest cost | 18,235 | 17,105 | 2,060 | 1,776 |
| Assumption changes | (679) | 35,034 | 12,656 | 5,960 |
| Curtailment | | (2,081) | | (1,367) |
| Actuarial (gain) loss | 6,277 | (676) | (2,237) | 1,442 |
| Benefits paid | (13,420) | (11,766) | (1,314) | (1,047) |
| Projected benefit obligation at end of year | 323,661 | 304,495 | 47,458 | 34,683 |
| | | | | |
| **Change in plan assets** | | | | |
| Fair value of assets at beginning of year | 162,452 | 142,869 | | |
| Actual gain on plan assets | 15,747 | 28,070 | | |
| Employer contribution | 29,412 | 3,279 | 1,314 | 1,047 |
| Benefits paid | (13,420) | (11,766) | (1,314) | (1,047) |
| Fair value of assets at end of year | 194,191 | 162,452 | | |
| | | | | |
| **Funded status** | | | | |
| Funded status underfunded | (129,470) | (142,043) | (47,458) | (34,683) |
| Unrecognized actuarial net loss | 139,466 | 140,193 | 12,841 | 2,510 |
| Unrecognized prior service cost | | | 1,139 | 1,360 |
| Net amount recognized | $ 9,996 | $ (1,850) | $ (33,478) | $ (30,813) |

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| **Amounts recognized in the accompanying balance sheets** | | | | |
| Accrued benefit liability | $ (110,720) | $ (114,105) | $ (33,478) | $ (30,813) |
| Accumulated other comprehensive loss | 120,716 | 112,255 | | |
| Net amount recognized | $ 9,996 | $ (1,850) | $ (33,478) | $ (30,813) |
| Weighted average assumptions at end of year: | | | | |
| Discount rate | 5.75% | 6.00% | 5.75% | 6.00% |
| Expected return on plan assets | 8.00% | 9.00% | Not applicable | Not applicable |

| | | | | |
|---|---|---|---|---|
| Rate of compensation increase | Various* | Various* | Not applicable | Not applicable |

* Differs for each pilot. Amount needed to bring pilot s final pay to $168,000 in 2004 dollars, indexed

1.0% per year after 2004. Compensation for pilots was assumed to increase 4.5% in 2004 and 3.5% in 2003. The rate of compensation increase is not applicable to the frozen plans.

At December 31, 2004, the health care cost trend rate was assumed to increase by 9.5% for 2005 and decrease gradually to 4.75% over 9 years and remain level thereafter. At December 31, 2003, the health care cost trend rate was assumed to increase by 9.50% for 2004 and decrease gradually to 4.75% over 7 years and remain level thereafter.

Assumption changes, for both pension and other benefits, relate primarily to reductions in the discount rate used to value the pension obligations as of December 31, 2004 and 2003, which resulted in a significant increase in the projected benefit obligation in both years. The curtailment recognized in the year ended December 31, 2003, resulted from pilot furloughs that occurred during 2003.

The accumulated benefit obligation for Hawaiian s defined benefit pension plans was $304.9 million and $276.4 million as of December 31, 2004 and 2003, respectively. To the extent that the accumulated benefit obligation exceeds the fair value of plan assets, a minimum pension liability must be recognized on the balance sheet. Accordingly, Hawaiian recognized an additional amount (the minimum pension liability adjustment) necessary to record the full amount of the minimum pension liability. Pursuant to SFAS No. 87, Employers Accounting for Pensions , minimum pension liability adjustments are recognized through accumulated other comprehensive income (loss), rather than through the statement of operations. The minimum pension liability increased shareholders deficiency by $120.7 million and $112.3 million as of December 31, 2004 and 2003, respectively.

The following table sets forth the net periodic benefit cost for the years ended December 31, 2004, 2003, and 2002:

| | Pension Benefits 2004 | Pension Benefits 2003 | Pension Benefits 2002 | Other Benefits 2004 | Other Benefits 2003 | Other Benefits 2002 |
|---|---|---|---|---|---|---|
| **Components of Net Periodic Benefit Cost** | | | | | | |
| Service cost | $ 8,753 | $ 8,181 | $ 7,466 | $ 1,610 | $ 1,576 | $ 1,324 |
| Interest costs | 18,235 | 17,105 | 16,342 | 2,060 | 1,776 | 1,525 |
| Expected return on plan assets | (17,267) | (16,790) | (17,271) | | | |
| Amortization of prior service cost | | | | 221 | 227 | 239 |
| Recognized net actuarial loss (gain) | 7,848 | 4,763 | 1,865 | 88 | (50) | (490) |
| Curtailment and termination benefits | | | 881 | | (1,232) | |
| Net periodic benefit cost | $ 17,569 | $ 13,259 | $ 9,283 | $ 3,979 | $ 2,297 | $ 2,598 |

Assumed health care cost trend rates have a significant impact on the amounts reported for other benefits. A one-percentage point change in the assumed health care cost trend rates would have the following effects:

| | One-Percentage Point Increase | One-Percentage Point Decrease |
|---|---|---|
| Effect on total of service and interest cost components | $ 606 | $ (492) |
| Effect on postretirement benefit obligation | $ 7,336 | $ (6,014) |

Plan assets consist primarily of equity and fixed income securities. As of December 31, the asset allocation percentages by category were as follows (in thousands):

| | 2004 | 2003 |
|---|---|---|
| U.S. equities | 44% | 46% |
| Fixed income | 33% | 21% |
| International equities | 10% | 11% |
| Other | 13% | 22% |
| | 100% | 100% |

Hawaiian develops the expected long-term rate of return assumption based on historical experience and by evaluating input from the trustee managing the plan s assets, including the trustee s review of asset class return expectations by several consultants and economists as well as long-term inflation assumptions. Hawaiian s expected long-term rate of return on plan assets is based on a target allocation of assets, which is based on the 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 security class will not have an unduly detrimental impact on the entire portfolio. The target allocation of assets are as follows:

| | Percent of Total | Expected Long-Term Rate of Return |
|---|---|---|
| U.S. equities | 50% | 10% |
| Fixed income | 30% | 4% |
| International equities | 10% | 10% |
| Other | 10% | 8% |
| | 100% | |

Hawaiian also sponsors separate deferred compensation plans (401(k)) for its pilots, flight attendants, ground and salaried personnel. Participating employer cash contributions are not required under the terms of the pilots plan. Hawaiian is required to contribute up to 7.0% of defined compensation pursuant to the terms of the flight attendants plan. Contributions to the flight attendants plan are funded currently and totaled approximately $2.3 million in 2004 and $2.2 million in both 2003 and 2002. Hawaiian is also required to contribute a minimum of 4.04%, up to a maximum of 8%, of eligible earnings to the ground and salaried plan for eligible employees as defined by the plan. Contributions to the ground and salaried 401(k) plan totaled $3.5 million, $3.3 million, and $3.5 million in 2004, 2003, and 2002, respectively.

## 13. Capital Stock and Options

***Authorized Capital Stock***

As of December 31, 2004 and 2003, the authorized capital stock of Hawaiian consists of 60,000,000 shares of common stock, par value $0.01 per share, and 2,000,000 shares of preferred stock, par value $0.01 per share.

No dividends were paid by Hawaiian for any of the years ended December 31, 2004, 2003 or 2002.

***Stock Compensation***

As part of the collective bargaining agreement negotiated with ALPA in December 2000, Hawaiian agreed to distribute 1,685,380 shares of Hawaiian s common stock on a quarterly basis to the individual 401(k) accounts of ALPA pilots in Hawaiian s employment during 2001 and 2002. Subsequent to the Corporate Restructuring, each pilot participant eligible to receive a share of Hawaiian common stock became eligible to receive, on the same terms and conditions as were in effect immediately prior to the Corporate Restructuring, one share of Holdings common stock instead. In 2001, 518,910 shares, representing the number of shares required to be distributed in respect of the first, second and third quarters of 2001, were distributed to Vanguard Group, Inc. as trustee for the Hawaiian Airlines, Inc. Pilots 401(k) Plan. In 2002, 1,051,214 shares, required for the fourth quarter of 2001 and the first, second and third quarters of 2002, were distributed to Vanguard Group, Inc. as trustee. The distribution for the quarter ended December 31, 2002, consisting of 105,776 shares, was made on March 14, 2003. Hawaiian recognized compensation expense related to the stock distribution of $2.2 million for the year ended December 31, 2002.

Holdings has agreed to set aside 1,500,000 shares of its common stock in a pool for allocation to employees of Hawaiian. Under the agreement, shares in the pool will be allocated between the time of Hawaiian s emergence from bankruptcy and May 2007 among employees of Hawaiian (other than officers) or to their accounts in Hawaiian s 401(k) or similar plan. The shares will be allocated pursuant to formulas set forth in the agreement.

***Stock Option Plans***

Under the 1994 Stock Option Plan, 600,000 shares of common stock were reserved for grants of options to officers and key employees of Hawaiian. Under the 1996 Stock Incentive Plan, as amended, 4,500,000 shares of common stock were reserved for issuance of discretionary grants of options to Hawaiian s employees. Hawaiian also had a 1996 Nonemployee Director Stock Option Plan under which 500,000 shares of common stock were reserved for issuance and grants of options to nonemployee members of the Board of Directors. Following the Corporate Restructuring, Holdings assumed sponsorship of the then-existing Hawaiian stock option plans. As a result, the outstanding options became exercisable or issuable upon the same terms and conditions as were in effect immediately prior to the completion of the Corporate Restructuring, except that shares of Holdings common stock would be issued upon the exercise or issuance of these options instead of Hawaiian common stock. As a result of the Corporate Restructuring, Hawaiian currently has no stock options outstanding.

Stock options were granted with an exercise price equal to the common stock s fair market value at the date of grant, generally vested over a period of four years and expired, if not previously exercised, ten years from the date of grant. Stock option activity for Hawaiian during the periods indicated is as follows:

| | Shares of Common Stock | | Weighted Average of Exercise Price of Shares Under Plan |
|---|---|---|---|
| | **Available for Options** | **Under Plan** | |
| Balance at December 31, 2001 | 1,439,500 | 3,018,000 | $ 2.97 |
| Granted | | | |
| 1996 Stock Incentive Plan | (150,000) | 150,000 | 2.95 |
| 1996 Nonemployee Director Stock Option Plan | (164,000) | 164,000 | 3.26 |
| Exercised | | | |
| 1996 Stock Incentive Plan | | (20,000) | 2.06 |
| Forfeited | | | |
| 1996 Stock Incentive Plan | 50,000 | (50,000) | 3.25 |
| Balance at August 29, 2002 | 1,175,500 | 3,262,000 | $ 2.96 |
| Corporate Restructuring, options assumed by Holdings | (1,175,500) | (3,262,000) | |
| Balance at December 31, 2002 | | | |

The per share weighted-average fair value of stock options granted during 2002 was $1.62 on the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions:

| | |
|---|---|
| Expected dividend yield | 0.00% |
| Expected volatility | 55.00% |
| Risk-free interest rate | 3.54% to 5.29% |
| Expected life | Up to 6 years |

## 14. Commitments and Contingent Liabilities

***Litigation and Contingencies***

Hawaiian is subject to legal proceedings arising in the normal course of its operations. Management does not anticipate that the disposition of such proceedings will have a material effect upon Hawaiian s financial statements. Furthermore, Hawaiian s Chapter 11 filing automatically enjoined, or stayed, the continuation of any judicial or administrative proceedings or other actions against Hawaiian or its property to recover on, collect or secure a claim arising prior to the Petition Date.

***Los Angeles Airport Operating Terminal***

On December 1, 1985, Hawaiian entered into an interline agreement with other airlines, which was amended and restated as of September 1, 1989 for, among other things, the sharing of costs, expenses and certain liabilities related to the acquisition, construction and renovation of certain passenger terminal facilities at the Los Angeles International Airport ( Facilities ). Current tenants and participating members of LAX Two Corporation (the Corporation ), a mutual benefit corporation, are jointly and severally obligated to pay their share of debt service payments related to Facilities Sublease Revenue Bonds issued to finance the acquisition, construction and renovation of the Facilities which totaled $111.9 million at completion. The Corporation leases the Facilities from the Regional Airports Improvement Corporation under an agreement accounted for as an operating lease. In addition, the Corporation is also obligated to make annual payments to the city of Los Angeles for charges related to its terminal ground rental.

***General Guarantees and Indemnifications***

Hawaiian is the lessee under certain real estate leases. It is common in such commercial lease transactions for Hawaiian as the lessee to agree to indemnify the lessor and other related third parties for tort liabilities that arise out of or relate to Hawaiian s use or occupancy of the leased premises. In some cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but usually excludes any liabilities caused by their gross negligence or willful misconduct. Additionally, Hawaiian typically indemnifies such parties for any environmental liability that arises out of or relates to its use of the leased premises. Hawaiian expects that it is covered by insurance (subject to deductibles) for most tort liabilities and related indemnities described above with respect to real estate that it leases. Hawaiian cannot estimate the potential amount of future payments, if any, under the foregoing indemnities and agreements.

## 15. Stock Repurchases, Related Party Transactions and Related Litigation

In March 2000, Hawaiian s Board of Directors approved a stock repurchase program authorizing the repurchase of up to five million shares of its common stock from time to time in the open market or privately negotiated transactions. In August 2000, the Board of Directors increased the authorization to ten million shares, including the effect of the repurchase of certain warrants and common stock repurchased in 2000. The total number of shares of common stock repurchased under the stock repurchase program amounted to 9,333,508 as of December 31, 2001. In March 2002, Hawaiian s Board of Directors approved another stock repurchase program authorizing the repurchase of up to an additional five million shares of its common stock from time to time in the open market or privately negotiated transactions. Hawaiian purchased 990,700 shares of common stock for $3.1 million at an average cost of $3.17 per share in open market transactions under this program through May 7, 2002, when the repurchase program was halted.

On May 31, 2002, Hawaiian commenced a tender offer to purchase for cash up to 5,880,000 shares of its common stock at a price of $4.25 per share, representing a potential purchase of approximately 17.5% of Hawaiian s outstanding common stock as of that date (the Self-Tender ). The Self-Tender was substantially oversubscribed and terminated without extension on June 27, 2002. Hawaiian accepted 5,880,000 properly tendered shares on a pro rata basis with a proration factor of approximately 22.12%. Payment for accepted shares of $25.0 million was made on July 8, 2002.

Included in other operating expenses for the years ended December 31, 2003 and 2002 is $0.2 million and $2.6 million, respectively, related to a services agreement with Smith Management LLC, whereby Hawaiian paid $2.0 million to Smith Management LLC for specified corporate, financial and tax services provided to Hawaiian through March 31, 2002, and $75,000 per month for such services thereafter. Mr. John W. Adams, Hawaiian s Chairman and Chief Executive Officer at that time, is also the president of Smith Management LLC.

Subsequent to the Corporate Restructuring, but prior to the Trustee s appointment, Hawaiian paid certain expenses on behalf of Holdings, generally relating to Holdings obligations as a public company. In addition, Hawaiian transferred $500,000 to Holdings immediately prior to Hawaiian s bankruptcy filing. These transactions resulted in an aggregate receivable from Holdings of $1.4 million as of December 31, 2004 and 2003, which has been fully reserved by Hawaiian.

On November 28, 2003, the Trustee filed a complaint (the Complaint ) with the Bankruptcy Court, naming Mr. Adams, AIP, Airline Investors Partnership, L.P. and Smith Management LLC (collectively, the Adams Defendants ) and Holdings, as defendants. The Complaint asserted various counts based on corporate actions including claims alleging, inter alia, fraudulent transfer claims under the Bankruptcy Code and Hawaii law; avoidance and recovery of preference under the Bankruptcy Code; unlawful distribution under Hawaii law; violations of the duties of care and loyalty under Hawaii law; and unjust enrichment under Hawaii law. The factual allegations relate to the Self-Tender; payments made by Hawaiian to Smith Management LLC; $200,000 in compensation paid by Hawaiian to Mr. Adams; and $500,000 transferred from Hawaiian to Holdings immediately prior to Hawaiian s bankruptcy filing. Based on all of the claims in the Complaint, the Trustee sought in excess of $28 million, as well as punitive damages, prejudgment interest and the costs of the lawsuit. The Adams Defendants and Holdings served answers denying all material allegations of the Complaint on January 5, 2004 and on February 18, 2004, respectively. On December 17, 2004, Hawaiian and the Adams Defendants entered into a settlement agreement under which the Adams Defendants agreed to pay $3.6 million to Hawaiian in exchange for a release of Hawaiian s claims. At a hearing held on February 24, 2005, the Bankruptcy Court approved the settlement agreement. The $3.6 million is payable to Hawaiian no later than ten days after Effective Date of the Joint Plan.

With respect to the $500,000 transferred from Hawaiian to Holdings, Holdings has filed a response in which it acknowledges that it received $500,000 from Hawaiian shortly before the commencement of Hawaiian s bankruptcy case and that it is prepared to return that cash to Hawaiian. Holdings has not, however, returned the funds because the Pension Benefit Guarantee Corporation (PBGC) has asserted a contingent claim against Holdings, which claim it has alleged is secured by the $500,000 that Holdings would otherwise return to Hawaiian. The PBGC claim arises from the pension plan for the pilots employed by Hawaiian. That pension plan has not been terminated and, therefore, the contingency to the PBGC having a claim against Holdings has not occurred. The PBGC has, however, asserted a claim, pending confirmation of the Joint Plan that definitively provides for the preservation of the pension plan.

During 2003, the Securities and Exchange Commission (SEC) opened a formal, nonpublic investigation of Hawaiian and several of its then officers, including Mr. Adams, related to the Self-Tender. On March 13, 2004, Hawaiian announced that the staff of the San Francisco District Office of the SEC was considering recommending that the SEC authorize a civil action against Mr. Adams and AIP for possible violations of securities laws related to the Self-Tender. On September 23, 2004, Hawaiian announced a settlement agreement with the SEC that resolves the SEC s investigation of the Self-Tender, pursuant to which investigation of the SEC concluded that the Self-Tender violated SEC rules relating to tender offers. Under the terms of the settlement, the SEC will not file any claim or seek any monetary penalties against Hawaiian, and Hawaiian pledges to comply with tender offer disclosure rules if it should ever again make a public tender offer.

Included in other operating expenses for the year ended December 31, 2002 is $300,000 related to a consulting agreement with Todd G. Cole, a director of Hawaiian through May 15, 2003, pursuant to which Mr. Cole provided executive consulting services regarding fleet utilization, scheduling and other operational matters for a fee of $20,833 per month from May 1, 2002 through October 31, 2002 and a single payment of $125,800 due January 6, 2003. The consulting agreement was extended through December 31, 2002, during which Mr. Cole received a fee of $41,666 per month and accrued payments during the initial term totaling $125,000 on October 31, 2002. The consulting agreement was terminated on December 31, 2002.

From May 19, 2000 through April 25, 2003, Hawaiian invested $3.0 million in certificates of deposit with Liberty Bank, SSB, of Austin, Texas. Liberty Bank is indirectly majority owned by Mr. Adams and another individual. Edward Z. Safady and Thomas J. Trzanowski, both former members of Hawaiian s Board of Directors, are employees and/or directors of Liberty Bank, SSB.

## 16. Concentration of Business Risk

Hawaiian s scheduled service operations are primarily focused on providing air transportation service to, from, and throughout the Hawaiian Islands. Therefore, Hawaiian s operations, including its ability to collect its outstanding receivables, are significantly affected by economic conditions in the State of Hawaii and by other factors affecting the level of tourism in Hawaii. In 2004 and 2003, one particular Hawaii-based wholesaler constituted approximately 6% of Hawaiian s total operating revenue.

## 17. Segment Information

Principally all operations of Hawaiian either originate or end in the State of Hawaii. The management of such operations is based on a system-wide approach due to the interdependence of Hawaiian s route structure in its various markets. Hawaiian operates as a matrix form of organization as it has overlapping sets of components for which managers are held responsible. Managers report to Hawaiian s chief operating decision-maker on both Hawaiian s geographic components and Hawaiian s product and service components, resulting in the components based on products and services constituting one operating segment. As Hawaiian offers only one service (i.e., air transportation), management has concluded that it has only one segment. Hawaiian s principal line of business, the scheduled and chartered transportation of passengers, constitutes more than 90% of its operating revenue. The following table delineates scheduled and chartered passenger revenue of Hawaiian:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Transpacific | $ 448,934 | $ 408,349 | $ 341,661 |
| Interisland | 214,468 | 197,629 | 180,391 |
| South Pacific | 36,095 | 20,829 | 19,940 |
| Charter | 7,280 | 23,070 | 46,480 |
| | $ 706,777 | $ 649,877 | $ 588,472 |

## 18. Supplemental Financial Information (unaudited)

Unaudited Quarterly Financial Information

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| **2004:** | | | | |
| Operating revenue | $ 177,831 | $ 191,178 | $ 210,819 | $ 184,137 |
| Operating income | 15,741 | 18,220 | 32,142 | 4,980 |
| Nonoperating expense | (3,757) | (3,478) | (117,106) | (5,366) |
| Net income (loss) | 7,233 | 9,181 | (95,059) | 3,205 |

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| **2003:** | | | | |
| Operating revenue | $ 157,064 | $ 167,667 | $ 196,000 | $ 185,414 |
| Operating income (loss) | (13,559) | 27,315 | 43,737 | 19,984 |
| Nonoperating expense | (1,905) | (5,648) | (100,991) | (5,502) |
| Net income (loss) | (15,464) | 20,148 | (65,311) | 11,046 |

## 19. Subsequent Events

Subsequent to the original issuance of these financial statements in March 2005, Hawaiian reached a revised final proposed agreement with the negotiating committee of ALPA, which was ratified by the members of the ALPA, and the Joint Plan was consummated on June 2, 2005. In addition to providing for payment in full of all allowed claims, the Joint Plan also provided for the merger of Hawaiian with and into HHIC, with HHIC as the surviving entity immediately changing its name to Hawaiian Airlines, Inc., a Delaware corporation. The Joint Plan was consummated with the financing transactions set forth below. As a result, the conditions that previously raised substantial doubt about whether Hawaiian would continue as a going concern no longer exist.

***Common Stock***

On June 2, 2005, Holdings issued approximately 14.1 million shares of its common stock to holders of lease-related claims in Hawaiian s bankruptcy case pursuant to the Joint Plan.

***Senior Credit Facility***

On June 2, 2005, Hawaiian, as borrower, entered into a credit agreement with Holdings, as guarantor, the lenders named therein and Wells Fargo Foothill, Inc. ( Wells Fargo ), as agent for the senior lenders (the Senior Credit Facility ). Indebtedness under the Senior Credit Facility is secured by substantially all of the assets of Hawaiian. The Senior Credit Facility provides Hawaiian with a $50.0 million senior secured credit facility comprised of (i) a revolving line of credit in the maximum amount of $25.0 million, subject to availability under a borrowing base formula based on Hawaiian s eligible accounts receivable, eligible spare parts, eligible ground equipment and collections, with a $15.0 million sublimit for letters of credit and up to $5.0 million in swing loans and (ii) a $25.0 million term loan. Indebtedness under the Senior Credit Facility bears interest, in the case of base rate loans, at a per annum rate equal to the base rate (Wells Fargo s published prime rate ) plus the base rate margin (1.50 percentage points), and, in the case of LIBOR rate loans, at a per annum rate equal to the LIBOR rate plus the LIBOR rate margin, as defined in the Senior Credit Facility. The interest rate shall at no time be less than 5% per annum and is subject to adjustment from time to time. The Senior Credit Facility includes customary covenants for lending transactions of this type, including minimum EBITDA, excess availability and leverage ratio financial covenants. Hawaiian s obligations under the Senior Credit Facility are guaranteed by Holdings. The Senior Credit Facility matures in three years.

***Term B Credit Facility***

On June 2, 2005, Hawaiian, as borrower, entered into a credit agreement with Holdings, as guarantor, the lenders named therein and Canyon Capital Advisors, LLC ( Canyon ), as agent for the junior lenders (the Term B Credit Facility ). The Term B Credit Facility provided Hawaiian with an additional $25 million term loan at an interest rate of 10% per annum, with interest payable quarterly. The entire principal amount of the loan may be prepaid, subject to certain prepayment penalties as set forth in the Term B Credit Facility. The Term B Credit Facility includes customary covenants for lending transactions of this type, including minimum EBITDA, excess availability and leverage ratio financial covenants. The Term B Credit Facility is secured by a lien on substantially all of the assets of Hawaiian, subject to the prior liens granted to the senior lenders under the Senior Credit Facility. The obligations of Hawaiian under the Term B Credit Facility are guaranteed by Holdings. The Term B Facility matures in three years.

***Note Purchase Agreement***

On June 1, 2005, Holdings and RC Aviation entered into a Note Purchase Agreement (the Note Purchase Agreement ), pursuant to which RC Aviation and its members purchased from Holdings Series A Subordinated Convertible Notes due June 1, 2010 (the Series A Notes ) and Series B Subordinated Convertible Notes due June 1, 2010 (the Series B Notes and, together with the Series A Notes, the Notes ), in the aggregate principal amount of $60 million. The Notes provide for interest at a rate of 5% per annum, payable in cash or additional Notes at the option of Holdings. The Notes will be convertible into Holdings common stock at an initial conversion price of $4.35 per share, subject to adjustment upon the occurrence of certain dilutive events. The Series A Notes are convertible into 8,933,000 shares of Holdings common stock at any time after the first anniversary of the issuance thereof, and the Series B Notes are convertible into 4,860,103 shares of Holdings common stock at any time after the latest to occur of (i) the effectiveness of an amendment to Holdings Amended and Restated Certificate of Incorporation increasing the aggregate number of authorized shares of Holdings common stock to an amount that would allow for the full conversion of the Series B Notes and the full exercise of the common stock warrant issued to RC Aviation on June 2, 2005, (ii) the receipt of Holdings stockholder approval authorizing the issuance of the Holdings common stock upon conversion of the Series B Notes, and (iii) the first anniversary of the issuance of the Notes. The Notes become due in five years from the issue date, if not prepaid or converted prior to such date. Holdings has the right, and has covenanted to use its best efforts, to redeem the Notes at 105% of the aggregate principal amount, plus all accrued and unpaid interest due and payable thereunder, at any time prior to the first anniversary of issuance. On June 2, 2005, RC Aviation also received a warrant to purchase shares of newly designated Series E Preferred Stock of Holdings, such warrant to be automatically exchanged, upon the occurrence of certain events, for warrants to purchase up to ten percent (10%) of the fully-diluted shares of common stock of Holdings (6,855,685 shares) at an exercise price of $7.20 per share, of which warrants half had been previously earned by RC Aviation for its funding commitment with respect to the Joint Plan and the other half of which was earned by RC Aviation in connection with its purchase of the Notes.

**Hawaiian Airlines, Inc. (Debtor)**

**Schedule II Valuation and Qualifying Accounts (in thousands)**

**For the Years Ended December 31, 2004, 2003 and 2002**

| COLUMN A | COLUMN B | COLUMN C ADDITIONS | | COLUMN D | COLUMN E |
|---|---|---|---|---|---|
| Description | Balance at Beginning of Year | (1) Charged to Costs and Expenses | (2) Charged to Other Accounts | Deductions | Balance at End of Year |
| **Allowance for Doubtful Accounts** | | | | | |
| 2004 | $ | $ | $ | $ | $ |
| 2003 | 1,305 | | | 1,305(b) | |
| 2002 | 1,305 | 401 | | 401(a) | 1,305 |
| **Allowance for Obsolescence of Flight Equipment Expendable Parts and Supplies** | | | | | |
| 2004 | $ | $ | $ | $ | $ |
| 2003 | 1,037 | | | 1,037(e) | |
| 2002 | 7,501 | 692(c) | | 7,156(d) | 1,037 |

(a) Doubtful accounts written off, net of recoveries

(b) Reinstated DC-9 fully reserved parts, previously written off in 2002

(c) Restructuring charge related to the write-down of DC-10 expendable parts

(d) Includes write-off of DC-9 expendable parts sold

**PART II**

**INFORMATION NOT REQUIRED IN PROSPECTUS**

**Item 13.** ***Other Expenses of Issuance and Distribution.***

The following table sets forth all expenses (subject to future contingencies) payable by us in connection with the issuance and distribution of our securities being registered hereby. All amounts are estimated except the SEC registration fee:

| **Expenses** | | **Amount** |
|---|---|---|
| SEC registration fee | $ | 6,156 |
| Printing and engraving expenses | | 20,000 |
| Legal fees and expenses | | 250,000 |
| Accounting fees and expenses | | 100,000 |
| Miscellaneous expenses | | 10,000 |
| Total | **$** | 386,156 |

**Item 14.** ***Indemnification of Directors and Officers.***

Section 145(a) of the General Corporation Law of the State of Delaware (the DGCL ) provides in relevant part that a corporation may indemnify any officer or director who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (other than an action by or in the right of the corporation) by reason of the fact that such person is or was a director or officer of the corporation, or is or was serving at the request of the corporation as a director or officer of another entity, against expenses (including attorneys fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person s conduct was unlawful.

Section 145(b) of the DGCL provides in relevant part that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys fees) actually and reasonably incurred by the person in connection with the defense or settlement of such action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Our Certificate of Incorporation limits the liability of directors, for monetary damages for breaches of fiduciary duties as a director, to the fullest extent permitted by Delaware law. Our By-laws provide for the indemnification of our directors and officers and state that the Company shall pay the expenses (including attorneys fees) incurred by a director or officer defending any proceeding in advance of its final disposition; provided, however, that, to the extent required by applicable law, such payment of expenses in advance of the final disposition of the proceeding shall be made only upon receipt of an undertaking by the director or officer to repay all amounts advanced if it should be ultimately determined that the director or officer is not entitled to be indemnified under our By-laws or otherwise.

Pursuant to Item 510 of Regulation S-K, insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors or officers pursuant to the foregoing provisions, we have been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is therefore unenforceable.

Section 145(g) of the DGCL provides that a corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person s status as such, whether or not the corporation would have the power to indemnify such person against such liability under this section.

Holdings maintains a global directors and officers liability insurance policy that provides coverage to its directors and officers.

**Item 15.** ***Recent Sales of Unregistered Securities.***

As described in greater detail above under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources, on June 1, 2005, we and RC Aviation entered into the Note Purchase Agreement, pursuant to which RC Aviation and its members (the Purchasers ) purchased, on June 2, 2005, Notes of the Company in the aggregate principal amount of $60 million. The Notes are convertible into shares of common stock (such shares, the Conversion Shares ) on the terms and subject to the conditions set forth in the Note Purchase Agreement and described above under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources. The aggregate placement fees in connection with such sales were $1.5 million. The issuance of the Notes was deemed exempt from the registration provisions of the Securities Act, by reason of the provision of Section 4(2) of the Securities Act in reliance upon, among other things, the representations made by RC Aviation on behalf of the Purchasers, including representations regarding their status as accredited investors (as such term is defined under Rule 501 promulgated under the Securities Act), and their acquisition of the Notes (and the Conversion Shares issuable upon exercise thereof) for investment and not with a current view to distribution thereof, except as such distribution may be permissible under applicable law. The Notes contain, and the certificates representing the Conversion Shares shall contain, a legend to the effect that such shares are not registered under the Securities Act and may not be transferred except pursuant to a registration which has become effective under the Securities Act or pursuant to an exemption from such registration. The issuance of such securities was not underwritten. The Conversion Shares are subject to registration rights pursuant to the terms and conditions contained in the Registration Rights Agreement.

On June 2, 2005, we issued 14,123,873 shares of common stock to various claimants of Hawaiian pursuant to the Joint Plan. The issuance of shares of common stock was deemed exempt from the registration provisions of the Securities Act in reliance on Section 1145 of the U.S. Bankruptcy Code and subject in the case of affiliates to compliance with Section 1145(b)(1) with respect to ordinary trading transactions.

As described in greater detail above under Description of Capital Stock, on June 2, 2005, we issued to RC Aviation the Series E Warrant, such Series E Warrant to be automatically exchanged, upon the effectiveness of an amendment to our Certificate of Incorporation increasing the number of authorized shares of Common Stock, for the Common Stock Warrant. The Series E Warrant was exercisable, prior to such automatic exchange, for 200 shares of Series E Preferred Stock at an exercise price of $246,816 per share of Series E Preferred Stock, beginning on the earlier of (a) December 1, 2005 and (b) the record date for a Distribution Event (as defined in the Series E Warrant). The issuance of the Series E Warrant was deemed exempt from the registration provisions of the Securities Act pursuant to Section 4(2) of the Securities Act. On July 8, 2005, such amendment to our certificate of incorporation became effective, and the Series E Warrant was automatically exchanged for the Common Stock Warrant.

On July 26, 2004, we issued 351,062 shares of Common Stock to Donald J. Carty, one of our directors, for an aggregate consideration of $2,000,000. The issuance of such shares to Mr. Carty was deemed exempt from the registration provisions of the Securities Act, by reason of the provision of Section 4(2) of the Securities Act in reliance upon, among other things, representations by Mr. Carty, including representations regarding his status as an accredited investor (as such term is defined under Rule 501 promulgated under the Securities Act), and his acquisition of such shares for investment and not with a view to distribution thereof. The certificates representing the shares issued to Mr. Carty contain a legend to the effect that such shares are not registered under the Securities Act and may not be transferred except pursuant to a registration which has become effective under the Securities Act or pursuant to an exemption from such registration. The issuance of such shares was not underwritten.

On December 8, 2004, we issued 650,000 shares of Common Stock to three institutional investors for an aggregate consideration of $3,770,000 to help fund the ongoing expenses of developing the Joint Plan. The aggregate commissions in connection with such sale were $188,500. The issuance of such shares was deemed exempt from the registration provisions of the Securities Act, by reason of the provision of Section 4(2) of the Securities Act in reliance upon, among other things, the representations by such investors, including representations regarding their status as accredited investors (as such term is defined under Rule 501 promulgated under the Securities Act), and their acquisition of such shares for investment and not with a view to distribution thereof. The certificates representing the shares issued to the investors contain a legend to the effect that such shares are not registered under the Securities Act and may not be transferred except pursuant to a registration which has become effective under the Securities Act or pursuant to an exemption from such registration. The issuance of such shares was not underwritten. The shares are subject to registration rights.

**Item 16. Exhibits and Financial Statement Schedules.**

**Item 16(a)** ***Exhibits***

| | |
|---|---|
| 2.1 | Third Amended Joint Plan of Reorganization of Joshua Gotbaum, as Chapter 11 Trustee for Hawaiian Airlines, Inc., the Official Committee of Unsecured Creditors, HHIC, Inc., Hawaiian Holdings, Inc., and RC Aviation, LLC, dated as of March 11, 2005 (filed as Exhibit 2.01 to the Form 8-K filed by Hawaiian Holdings, Inc. on June 7, 2005). * |
| 2.2 | Order Confirming Third Amended Joint Plan of Joshua Gotbaum, as Chapter Trustee for Hawaiian Airlines, The Official Committee of Unsecured Creditors, HHIC, Inc., the Company and RC Aviation, dated as of March 11, 2005, as amended (filed as Exhibit 2.02 to the Form 8-K filed by Hawaiian Holdings, Inc. on June 7, 2005).* |
| 3.1 | Amended and Restated Certificate of Incorporation of Hawaiian Holdings, Inc. |
| 3.2 | Amended Bylaws of Hawaiian Holdings, Inc. (filed as Exhibit 3.2 to the Form 10-K filed by Hawaiian Holdings, Inc. on March 31, 2005).* |
| 5.1 | Opinion of Dechert LLP |
| 10.1 | Lease Agreement N475HA, dated February 28, 2001, between Wells Fargo Bank Northwest, N.A. (successor to First Security Bank, N.A.) and Hawaiian Airlines, Inc., for one Boeing 717-200 aircraft (filed as Exhibit 1.2 to the Form 10-Q filed by Hawaiian Airlines, Inc. on May 15, 2001, in redacted form since confidential treatment has been requested pursuant to Rule 24b-2 for certain portions thereof). Hawaiian Airlines, Inc. also entered into a Lease Agreement N476HA, dated March 14, 2001 between Wells Fargo Bank, Northwest, N.A. (successor to First Security Bank, N.A.) and Hawaiian Airlines, Inc., and a Lease Agreement N477HA, dated April 20, 2001, a Lease Agreement N478HA, dated May 24, 2001, a Lease Agreement N479HA, dated June 21, 2001, a Lease Agreement N480HA, a Lease Agreement N481HA, dated July 26, 2001, a Lease Agreement N482HA, dated August 13, 2001, a Lease Agreement N483HA, dated August 27, 2001, a Lease Agreement N484HA, dated September 12, 2001, a Lease Agreement N485HA, dated October 29, 2001, a Lease Agreement N486HA, dated November 20, 2001, and a Lease Agreement N487HA, dated December 20, 2001, each between Wells Fargo Bank, Northwest, N.A. (successor to First Security Bank, N.A.) and Hawaiian Airlines, Inc., each for one Boeing 717-200 aircraft, which leases are substantially identical to Lease Agreement N475HA, except with respect to the aircraft information, delivery date and certain other information as to which Hawaiian Airlines, Inc. requested confidential treatment, and pursuant to Regulation S-K Item 601, |

Instruction 2, these lease agreements were not filed.*

10.2 Amendment No. 1 to Lease Agreement N475HA, dated September 30, 2004, between Wells Fargo Bank Northwest, National Association and Hawaiian Airlines, Inc. (filed as Exhibit 10.1 to the Form 10-Q/A filed by the Company on October 14, 2005 in redacted form since confidential treatment was requested pursuant to Rule 24b-2 for certain provisions thereof ). Hawaiian Airlines, Inc. also entered into Amendment No. 1 to Lease Agreement N476HA, dated September 30, 2004, Amendment No. 1 to Lease Agreement N477HA, dated September 30, 2004, Amendment No. 1 to Lease Agreement N478HA, dated September 30, 2004, Amendment No. 1 to Lease Agreement N479HA, dated September 30, 2004, Amendment No. 1 to Lease Agreement N480HA, dated September 30, 2004, Amendment No. 1 to Lease Agreement N481HA, dated September 30, 2004, Amendment No. 1 to Lease Agreement N484HA, dated September 30, 2004, Amendment No. 1 to Lease Agreement N485HA, dated September 30, 2004, Amendment No. 1 to Lease Agreement N486HA, dated September 30, 2004, and Amendment No. 1 to Lease Agreement N487HA, dated September 30, 2004, between Wells Fargo Bank Northwest, National Association and Hawaiian Airlines, Inc. The amended leases are substantially identical to Amendment No. 1 to Lease Agreement N475HA, except with respect to the aircraft information, delivery dates and certain other information as to which the Company has requested confidential treatment pursuant to Rule 24b-2. Pursuant to Regulation S-K Item 601, Instruction 2, these amendments are not being filed herewith. *

10.3 Amendment No. 2 to Lease Agreement N475HA, dated September 30, 2004, between Wells Fargo Bank Northwest, National Association and Hawaiian Airlines, Inc. (filed as Exhibit 10.2 to the Form 10-Q/A filed by the Company on October 14, 2005). Hawaiian Airlines, Inc. also entered into Amendment No. 2 to Lease Agreement N476HA, dated September 30, 2004, Amendment No. 2 to Lease Agreement N477HA, dated September 30, 2004, Amendment No. 2 to Lease Agreement N478HA, dated September 30, 2004, Amendment No. 2 to Lease Agreement N479HA, dated September 30, 2004, Amendment No. 2 to Lease Agreement N480HA, dated September 30, 2004, Amendment No. 2 to Lease Agreement N481HA, dated September 30, 2004, Amendment No. 2 to Lease Agreement N484HA, dated September 30, 2004, Amendment No. 2 to Lease Agreement N485HA, dated September 30, 2004, Amendment No. 2 to Lease Agreement N486HA, dated September 30, 2004, and Amendment No. 2 to Lease Agreement N487HA, dated September 30, 2004, between Wells Fargo Bank, Northwest, National Association and Hawaiian Airlines, Inc. The amended leases are substantially identical to Amendment No. 2 to Lease Agreement N475HA, except with respect to the aircraft information and delivery dates. Pursuant to Regulation S-K Item 601, Instruction 2, these amendments are not being filed herewith. *

10.4 Lease Agreement, dated as of June 8, 2001, between AWMS I and Hawaiian Airlines, Inc., for one Boeing Model 767-33AER aircraft, Manufacturer s Serial Number 28140 (filed as Exhibit 1.3 to the Form 10-Q filed by Hawaiian Airlines, Inc. on August 14, 2001 in redacted form since confidential treatment was requested pursuant to Rule 24b-2 for certain portions thereof). Hawaiian Airlines, Inc. has also entered into a Lease Agreement, dated as of June 8, 2001, between AWMS I and Hawaiian Airlines, Inc. for one Boeing Model 767-33AER aircraft, Manufacturer s Serial Number 28141, and a Lease Agreement, dated as of June 8, 2001, between AWMS I and Hawaiian Airlines, Inc. for one Boeing Model 767-33AER aircraft, Manufacturer s Serial Number 28139, which lease agreements are substantially identical to Lease Agreement 28140, except with respect to aircraft information, delivery date and certain other information as to which Hawaiian Airlines, Inc. requested confidential treatment, and pursuant to Regulation S-K Item 601, Instruction 2, these lease agreements were not filed.*

10.5 Amendment to Lease Agreement, dated as of May 7, 2003, by and between AWMS I and Hawaiian Airlines, Inc., amending that certain Lease Agreement, dated June 8, 2001, by and between AWMS I and Hawaiian Airlines, Inc., Manufacturer s Serial Number 28140 (filed as

Exhibit 10.3 to the Form 10-Q/A filed by the Company on October 14, 2005 in redacted form since confidential treatment was requested pursuant to Rule 24b-2 for certain provisions thereof ). Hawaiian Airlines, Inc. has also entered into Amended Lease Agreement, dated as of May 7, 2003, by and between AWMS I and Hawaiian Airlines, Inc., Manufacturer s Serial Number 28139, and Amended Lease Agreement, dated as of May, 2003, by and between AWMS I and Hawaiian Airlines, Inc., Manufacturer s Serial Number 28141, which amended lease agreements are substantially identical to Amended Lease Agreement 28140, except with respect to aircraft information, delivery date and certain other information as to which the Company has requested confidential treatment, and pursuant to Regulation S-K Item 601, Instruction 2, these amended lease agreements are not being filed herewith. *

10.6 Lease Agreement, dated as of September 20, 2001, between AWMS I and Hawaiian Airlines, Inc. for one Boeing Model 767-33AER aircraft, Manufacturer s Serial Number 33421 (filed as Exhibit 1.5 to the Form 10-Q filed by Hawaiian Airlines, Inc. on November 14, 2001, in redacted form since confidential treatment has been requested pursuant to Rule 24b-2 for certain portions thereof) (Hawaiian Airlines, Inc. has also entered into a Lease Agreement, dated as of September 20, 2001, between AWMS I and Hawaiian Airlines, Inc. for one Boeing Model 767-33AER aircraft, Manufacturer s Serial Number 33422, a Lease Agreement, dated as of September 20, 2001, between AWMS I and Hawaiian Airlines, Inc. for one Boeing Model 767-33AER aircraft, Manufacturer s Serial Number 33423, and a Lease Agreement, dated as of September 20, 2001, between AWMS I and Hawaiian Airlines, Inc. for one Boeing Model 767-33AER aircraft, Manufacturer s Serial Number 33424, which lease agreements are substantially identical to Lease Agreement 33421, except with respect to aircraft information, delivery date and certain other information as to which Hawaiian Airlines, Inc. requested confidential treatment, and pursuant to Regulation S-K Item 601, Instruction 2, these lease agreements were not filed).*

10.7 Amendment No. 1 to Lease Agreement, dated November 6, 2002, by and between AWMS I and Hawaiian Airlines, Inc., Manufacturer s Serial Number 33421 (filed as Exhibit 10.4 to the Form 10-Q/A filed by the Company on October 14, 2005). Hawaiian Airlines, Inc. has also entered into Amendment No. 1 to Lease Agreement, dated as of November 6, 2002, Manufacturer s Serial Number 33422, Amendment No. 1 to Lease Agreement, dated as of November 6, 2002, Manufacturer s Serial Number 33423, and Amendment No. 1 to Lease Agreement, dated as of November 6, 2002, Manufacturer s Serial Number 33424, which amended lease agreements are substantially identical to Amendment No. 1 to Lease Agreement 33421, except with respect to aircraft information and delivery date, and pursuant to Regulation S-K Item 601, Instruction 2, these amended lease agreements are not being filed herewith. *

10.8 Amendment No. 2 to Lease Agreement, dated as of May 7, 2003, by and between AWMS I and Hawaiian Airlines, Inc., Manufacturer s Serial Number 33421 (filed as Exhibit 10.5 to the Form 10-Q/A filed by the Company on October 14, 2005 in redacted form since confidential treatment was requested pursuant to Rule 24b-2 for certain provisions thereof ). Hawaiian Airlines, Inc. has also entered into Amendment No. 2 to Lease Agreement, dated as of May 7, 2003, Manufacturer s Serial Number 33422, Amendment No. 2 to Lease Agreement, dated as of May 7, 2003, Manufacturer s Serial Number 33423, and Amendment No. 2 to Lease Agreement, dated as of May 7, 2003, Manufacturer s Serial Number 33424, which amended lease agreements are substantially identical to Amendment No. 2 to Lease Agreement 33421, except with respect to aircraft information, delivery date and certain other information as to which the Company has requested confidential treatment, and pursuant to Regulation S-K Item 601, Instruction 2, these amended lease agreements are not being filed herewith. *

10.9 Lease Agreement, dated as of July 16, 2001, between International Lease Finance Corporation and Hawaiian Airlines, Inc. for one Boeing Model 767-33AER aircraft, Manufacturer s Serial Number 24257 (filed as Exhibit 1.4 to the Form 10-Q filed by Hawaiian Airlines, Inc. on November 14, 2001, in redacted form since confidential treatment has been requested pursuant to Rule 24b-2 for certain portions thereof). (Hawaiian Airlines, Inc. has also entered into a Lease Agreement, dated as of July 16, 2001, between International Lease Finance Corporation and Hawaiian Airlines, Inc. for one Boeing Model 767-33AER aircraft, Manufacturer s Serial Number 24258, a Lease Agreement, dated as of July 16, 2001, between International Lease Finance Corporation and Hawaiian Airlines, Inc. for one Boeing Model 767-33AER aircraft, Manufacturer s Serial Number 25531, and a Lease Agreement, dated as of July 16, 2001, between International Lease Finance Corporation and Hawaiian Airlines, Inc. for one Boeing Model 767-33AER aircraft, Manufacturer s Serial Number 24259, which lease agreements are substantially identical to Lease Agreement 24257, except with respect to aircraft information, delivery date and certain other information as to which Hawaiian Airlines, Inc. requested confidential treatment, and pursuant to Regulation S-K Item 601, Instruction 2, these lease agreements were not filed).*

10.10 Amendment No. 1 to Lease Agreement, dated as of August 2003, between International Lease Finance Corporation and Hawaiian Airlines, Inc., Manufacturer s Serial Number 24257 (filed as Exhibit 10.6 to the Form 10-Q/A filed by the Company on October 14, 2005 in redacted form since confidential treatment was requested pursuant to Rule 24b-2 for certain provisions thereof ). Hawaiian Airlines, Inc. has also entered into Amendment No. 1 to Lease Agreement, dated as of August 2003, Manufacturer s Serial Number 24258, Amendment No. 1 to Lease Agreement, dated as of August 2003, Manufacturer s Serial Number 25531, and Amendment No. 1 to Lease Agreement, dated as of August 2003, Manufacturer s Serial Number 24259, which amended lease agreements are substantially identical to Amendment No. 1 to Lease Agreement 24257, except with respect to aircraft information, delivery date and certain other information as to which the Company has requested confidential treatment, and pursuant to Regulation S-K Item 601, Instruction 2, these amended lease agreements are not being filed herewith. *

10.11 Lease Agreement, dated as of September 20, 2001, between BCC Equipment Leasing Corporation and Hawaiian Airlines, Inc. for one Boeing Model 767-33AER aircraft, Manufacturer s Serial Number 33426 (filed as Exhibit 1.6 to the Form 10-Q filed by Hawaiian Airlines, Inc. on November 14, 2001, in redacted form since confidential treatment has been requested pursuant to Rule 24b-2 for certain portions thereof). Hawaiian Airlines, Inc. has also entered into a Lease Agreement, dated as of September 20, 2001, between BCC Equipment Leasing Corporation and Hawaiian Airlines, Inc. for one Boeing Model 767-33AER aircraft, Manufacturer s Serial Number 33427, a Lease Agreement, dated as of September 20, 2001, between BCC Equipment Leasing Corporation and Hawaiian Airlines, Inc. for one Boeing Model 767-33AER aircraft, Manufacturer s Serial Number 33428, and a Lease Agreement, dated as of September 20, 2001, between BCC Equipment Leasing Corporation and Hawaiian Airlines, Inc. for one Boeing Model 767-33AER aircraft, Manufacturer s Serial Number 33429, which lease agreements are substantially identical to Lease Agreement 33426, except with respect to aircraft information, delivery date and certain other information as to which Hawaiian Airlines, Inc. requested confidential treatment, and pursuant to Regulation S-K Item 601, Instruction 2, these lease agreements were not filed.*

10.12 Amendment No. 1 to Lease Agreement, dated as of October 24, 2002, by and between BCC Equipment Leasing Corporation and Hawaiian Airlines, Inc., Manufacturer s Serial Number 33466 (originally 33426) (filed as Exhibit 10.7 to the Form 10-Q/A filed by the Company on October 14, 2005). Hawaiian Airlines, Inc. has also entered into Amendment No. 1 to Lease Agreement, dated as of October 24, 2002, Manufacturer s Serial Number 33427 (originally 33467) and Amendment No. 1 to Lease Agreement, dated as of October 24, 2002, Manufacturer s Serial Number 33428 (originally 33468), which amended lease agreements are substantially identical to Amendment No. 1 to Lease Agreement 33466 (originally 33426), except with respect to aircraft information and delivery dates, and pursuant to Regulation S-K Item 601, Instruction 2, these amended lease agreements are not being filed herewith. *

10.13 Amendment No. 2 to Lease Agreement, dated as of September 30, 2004, by and between BCC

Equipment Leasing Corporation and Hawaiian Airlines, Inc., Manufacturer s Serial Number 33466 (originally 33426) (filed as Exhibit 10.8 to the Form 10-Q/A filed by the Company on October 14, 2005 in redacted form since confidential treatment was requested pursuant to Rule 24b-2 for certain provisions thereof). Hawaiian Airlines, Inc. has also entered into Amendment No. 2 to Lease Agreement, dated as of September 30, 2004, Manufacturer s Serial Number 33427 (originally 33467) and Amendment No. 2 to Lease Agreement, dated as of September 30, 2004, Manufacturer s Serial Number 33428 (originally 33468), which amended lease agreements are substantially identical to Amendment No. 2 to Lease Agreement 33466, except with respect to aircraft information, delivery dates and certain other information as to which the Company has requested confidential treatment, and pursuant to Regulation S-K Item 601, Instruction 2, these amended lease agreements are not being filed herewith. *

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| 10.14 | Amendment No. 3 to Lease Agreement, dated as of September 30, 2004, by and between BCC Equipment Leasing Corporation and Hawaiian Airlines, Inc., Manufacturer s Serial Number 33466 (originally 33426) (filed as Exhibit 10.9 to the Form 10-Q/A filed by the Company on October 14, 2005). Hawaiian Airlines, Inc. has also entered into Amendment No. 3 to Lease Agreement, dated as of September 30, 2004, Manufacturer s Serial Number 33427 (originally 33467) and Amendment No. 3 to Lease Agreement, dated as of September 30, 2004, Manufacturer s Serial Number 33428 (originally 33468), which amended lease agreements are substantially identical to Amendment No. 3 to Lease Agreement 33466 (originally 33426), except with respect to aircraft information and delivery date, and pursuant to Regulation S-K Item 601, Instruction 2, these amended lease agreements are not being filed herewith.* |
| 10.15 | PW4060 Engine Fleet Management Program Agreement, dated as of October 5, 2001, by and between United Technologies Corporation Pratt & Whitney Division and Hawaiian Airlines, Inc. (filed as Exhibit 10.1 to the Form 10-K filed by Hawaiian Airlines, Inc. on April 1, 2002, in redacted form since confidential treatment has been requested pursuant to Rule 24b-2 for certain portions thereof).* |
| 10.16 | Amended and Restated Stockholders Agreement, dated as of August 29, 2002, by and among Hawaiian Holdings, Inc., AIP, LLC, Air Line Pilots Association, Hawaiian Master Executive Council, Association of Flight Attendants and the International Association of Machinists and Aerospace Workers (filed as Exhibit 10.3 to the Form 10-Q filed by Hawaiian Holdings, Inc. on November 15, 2002).* |
| 10.17 | Registration Rights Agreement, dated as of August 29, 2002, between Hawaiian Holdings, Inc. and AIP, LLC (filed as Exhibit 10.1 to the Form 8-K filed by Hawaiian Holdings, Inc. on August 30, 2002).* |
| 10.18 | Hawaiian Holdings, Inc. 1994 Stock Option Plan, as amended (filed as Exhibit 4.1 to the Registration Statement on Form S-8 filed by Hawaiian Airlines, Inc. on November 15, 1995).*+ |
| 10.19 | Hawaiian Holdings, Inc. 1996 Stock Incentive Plan, as amended (filed as Exhibit 4.12 to Amendment No. 1 to the Registration Statement on Form S-2 filed by Hawaiian Airlines, Inc. on July 12, 1996).* + |
| 10.20 | Hawaiian Holdings, Inc. 1996 Non-employee Director Stock Option Plan, as amended (filed as Exhibit 10-N to the Form 10-K filed by Hawaiian Airlines, Inc. on March 31, 1997).* + |
| 10.21 | Hawaiian Holdings, Inc. 2005 Stock Incentive Plan (filed as Exhibit 10.1 to the Form 8-K filed by Hawaiian Holdings, Inc. on July 14, 2005). *+ |
| 10.22 | Hawaiian Airlines, Inc. Stock Bonus Plan (filed as Exhibit 4.1 to the Form S-8 filed by Hawaiian Holdings, Inc. on August 19, 2005). *+ |

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| 10.23 | Employment Agreement, dated as of August 18, 2005, between the Company and Mark B. Dunkerley (filed as Exhibit 10.1 to the Form 8-K filed by Hawaiian Holdings, Inc. on August 19, 2005). *+ |
| 10.24 | Employment Agreement, dated as of March 29, 2005, between Hawaiian Airlines, Inc. and David Z. Arakawa.+ |
| 10.25 | Stock Purchase Agreement, dated as of June 11, 2004, by and between AIP, LLC and RC Aviation, LLC (filed as Exhibit 2 to the Schedule 13D filed by RC Aviation, LLC, RC Aviation Management, LLC, and Lawrence S. Hershfield on June 21, 2004).* |
| 10.26 | Stockholders Agreement, dated as of June 11, 2004, by and between AIP, LLC and RC Aviation, LLC (filed as Exhibit 3 to the Schedule 13D filed by RC Aviation, LLC, RC Aviation Management, LLC, and Lawrence S. Hershfield on June 21, 2004).* |
| 10.27 | Stock Purchase Agreement, dated July 26, 2004, by and between Hawaiian Holdings, Inc. and Donald J. Carty (filed as Exhibit 10.1 to the Form 10-Q for the quarter ended September 30, 2004 filed by Hawaiian Holdings, Inc. on March 31, 2005)* |
| 10.28 | Restructuring Support Agreement, dated as of August 26, 2004, by and among Joshua Gotbaum as Trustee, Hawaiian Holdings, Inc. and RC Aviation, LLC (filed as Exhibit 10.2 to the Form 10-Q for the quarter ended September 30, 2004 filed by Hawaiian Holdings, Inc. on March 31, 2005).* |
| 10.29 | Stock Purchase Agreement, dated December 8, 2004, by and between Hawaiian Holdings, Inc. and the Investors Signatory thereto (filed as Exhibit 10.1 to the Form 8-K/A by Hawaiian Holdings, Inc. on December 10, 2004.)* |
| 10.30 | Mutual Release, dated as of December 30, 2004, by and among Hawaiian Holdings, Inc., RC Aviation, LLC, RC Aviation Management, LLC, John Adams, Smith Management LLC, AIP, LLC, and AIP, LLC s functional predecessor, Airline Investors Partnership, L.P. (filed as Exhibit 10.46 to the Form 10-K for the year ended December 31, 2004 filed by Hawaiian Holdings, Inc. on March 31, 2005).* |
| 10.31 | Amended and Restated Stockholders Agreement, dated as of December 30, 2004, by and between AIP, LLC and RC Aviation, LLC (filed as Exhibit 10.1 to the Amendment No. 11 to Schedule 13D filed by AIP, LLC and Jeffrey A. Smith on January 12, 2005).* |
| 10.32 | Credit Agreement, dated June 2, 2005, by and among Hawaiian Holdings, Inc., Hawaiian Airlines, Inc., the lenders from time to time party thereto, and Wells Fargo Foothill, Inc. (filed as Exhibit 10.08 to the Form 10-Q filed by Hawaiian Holdings, Inc. on August 15, 2005). * |
| 10.33 | Amendment No. 1 to Credit Agreement, dated August 19, 2005, by and among Hawaiian Holdings, Inc., Hawaiian Airlines, Inc., the lenders from time to time party thereto, and Wells Fargo Foothill, Inc. |
| 10.34 | Amendment No. 2 to Credit Agreement, dated September 8, 2005, by and among Hawaiian Holdings, Inc., Hawaiian Airlines, Inc., the lenders from time to time party thereto, and Wells Fargo Foothill, Inc. |
| 10.35 | Security Agreement, dated June 2, 2005, by and among Hawaiian Holdings, Inc., Hawaiian Airlines, Inc. and Wells Fargo Foothill, Inc. (filed as Exhibit 10.2 to the Form 8-K filed by Hawaiian Holdings, Inc. on June 7, 2005). * |
| 10.36 | Engine and Spare Parts Security Agreement, dated June 2, 2005, by and between Hawaiian |

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| | Airlines, Inc. and Wells Fargo Foothill, Inc. (filed as Exhibit 10.3 to the Form 8-K filed by Hawaiian Holdings, Inc. on June 7, 2005). * |
| 10.37 | General Continuing Guaranty, dated June 2, 2005, by Hawaiian Holdings, Inc. in favor of Wells Fargo Foothill, Inc. (filed as Exhibit 10.4 to the Form 8-K filed by Hawaiian Holdings, Inc. on June 7, 2005). * |
| 10.38 | Credit Agreement, dated June 2, 2005, by and among Hawaiian Holdings, Inc., Hawaiian Airlines, Inc., the lenders from time to time party thereto, and Canyon Capital Advisors LLC (filed as Exhibit 10.12 to the Form 10-Q filed by Hawaiian Holdings, Inc. on August 15, 2005). * |
| 10.39 | General Continuing Guaranty, dated June 2, 2005, executed and delivered by Hawaiian Holdings, Inc. in favor of Canyon Capital Advisors LLC (filed as Exhibit 10.8 to the Form 8-K filed by Hawaiian Holdings, Inc. on June 7, 2005). * |
| 10.40 | Note Purchase Agreement, dated June 1, 2005, by and between Hawaiian Holdings, Inc. and RC Aviation, LLC (filed as Exhibit 10.9 to the Form 8-K filed by Hawaiian Holdings, Inc. on June 7, 2005). * |
| 10.41 | Form of Series A Subordinated Convertible Note (filed as Exhibit 10.10 to the Form 8-K filed by Hawaiian Holdings, Inc. on June 7, 2005).* |
| 10.42 | Form of Series B Subordinated Convertible Note (filed as Exhibit 10.11 to the Form 8-K filed by Hawaiian Holdings, Inc. on June 7, 2005). * |
| 10.43 | Registration Rights Agreement, dated as of June 1, 2005, by and between Hawaiian Holdings, Inc. and RC Aviation, LLC (filed as Exhibit 10.12 to the Form 8-K filed by Hawaiian Holdings, Inc. on June 7, 2005). * |
| 10.44 | Warrant, dated October 21, 2005, granted to RC Aviation, LLC to purchase the Common Stock of Hawaiian Holdings, Inc. |
| 21.1 | List of Subsidiaries of Hawaiian Holdings, Inc. |
| 23.1 | Consent of Ernst & Young LLP. |
| 23.2 | Consent of Dechert LLP (included in Exhibit 5). |
| 24.1 | Power of Attorney (included in signature page). |

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+ These exhibits relate to management contracts or compensatory plans or arrangements.

* Previously filed; incorporated herein by reference.

**Item 16(b)** *Financial Statement Schedules*

**Item 17.** *Undertakings*

The undersigned registrant hereby undertakes:

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Diego, State of California, on November 7, 2005.

**HAWAIIAN HOLDINGS, INC.**

By: /s/ RANDALL L. JENSON
Name: Randall L. Jenson
Title: Chief Financial Officer and Treasurer

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Randall L. Jenson his true and lawful attorney-in-fact and agent with full power of substitution and resubstitution, for him and in his name, place, and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) and additions to this Registration Statement on Form S-1, and any subsequent registration statements pursuant to Rule 462(b) under the Securities Act of 1933, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, and hereby grants to such attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

| Signature | | Title | | Date |
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| | | President, | | November 7, 2005 |
| /s/ MARK B. DUNKERLEY | | Chief Executive Officer and Director | | |
| Mark B. Dunkerley | | | | |
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| | | Chief Financial Officer, Treasurer | | November 7, 2005 |
| /s/ RANDALL L. JENSON | | and Director | | |
| Randall L. Jenson | | | | |
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| | | Director | | November 7, 2005 |
| /s/ LAWRENCE S. HERSHFIELD | | (Chairman of the Board) | | |
| Lawrence S. Hershfield | | | | |
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| | | Director | | November 7, 2005 |

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| /s/ GREGORY S. ANDERSON | | | | |
| Gregory S. Anderson | | | | |
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| | | Director | | November 7, 2005 |
| /s/ BERT T. KOBAYASHI, JR. | | | | |
| Bert T. Kobayashi, Jr. | | | | |

| Signature | | Title | | Date |
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| | | Director | | November 7, 2005 |
| /s/ DONALD J. CARTY | | | | |
| Donald J. Carty | | | | |
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| | | Director | | November 7, 2005 |
| /s/ THOMAS B. FARGO | | | | |
| Thomas B. Fargo | | | | |
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| | | Director | | November 7, 2005 |
| /s/ ERIC C.W. NICOLAI | | | | |
| Eric C.W. Nicolai | | | | |