

**THIS IS NOT A SOLICITATION OF ACCEPTANCE OR REJECTION OF THE JOINT PLAN. ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED UNTIL A DISCLOSURE STATEMENT HAS BEEN APPROVED BY THE BANKRUPTCY COURT. THIS DISCLOSURE STATEMENT IS BEING SUBMITTED FOR APPROVAL BUT HAS NOT BEEN APPROVED BY THE BANKRUPTCY COURT**

**UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF HAWAII**

In re

HAWAIIAN AIRLINES, INC., a  
Hawaii corporation,

Debtor.

Case No. 03-00817

Chapter 11

Disclosure Statement Hearing:

DATE: October 5, 2004

TIME: 9:30 a.m.

JUDGE: Hon. Robert J. Faris

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**SECOND AMENDED DISCLOSURE STATEMENT FOR THE SECOND AMENDED JOINT PLAN OF REORGANIZATION FILED BY CHAPTER 11 TRUSTEE, THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS, HAWAIIAN HOLDINGS, INC., HHIC, INC., AND RC AVIATION LLC, DATED AS OF OCTOBER 4, 2004**

## I. INTRODUCTION

Joshua Gotbaum (the “Trustee”), chapter 11 trustee for Hawaiian Airlines, Inc. (the “Debtor” or “Hawaiian”), the Official Committee of Unsecured Creditors (the “Committee”), Hawaiian Holdings, Inc. (“HHI”), HHIC, Inc. (“HHIC”), and RC Aviation LLC (“RC Aviation” together with the Trustee, HHI, and HHIC, the “Joint Plan Proponents”) have filed a joint plan of reorganization (the “Joint Plan”)<sup>1</sup> to provide for the Debtor to emerge from bankruptcy. A copy of the Joint Plan is attached as Exhibit A. This Disclosure Statement is being distributed to you by the Joint Plan Proponents to help enable you to make an informed judgment about the Joint Plan, and to solicit your acceptance of the Joint Plan. The Trustee, the Committee, and the Debtor’s shareholders believe that the acceptance, confirmation and implementation of the Joint Plan is in the best interests of the Debtor, its creditors and its shareholders.

The Joint Plan is the culmination of a process that was implemented by the Trustee in early 2004 to solicit potential investments in the Debtor. Following months of effort, the Trustee and the Committee have agreed to join HHI, HHIC, and RC Aviation in a plan of reorganization. HHI and RC Aviation have agreed to fund or provide financing to fund all payments necessary under the Joint Plan on the Effective Date, which will provide creditors with full satisfaction of their allowed claims. The decision of the Trustee to file and support confirmation of the Joint Plan is based on his belief that the Joint Plan will maximize the recovery to creditors and other stakeholders in this bankruptcy case.

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<sup>1</sup> Capitalized terms not otherwise defined in this Disclosure Statement have the meanings ascribed to such terms in the Joint Plan.

The United States Bankruptcy Court for the District of Hawaii (the “Bankruptcy Court”) has scheduled a hearing on \_\_\_\_\_ \_\_, 2004 to consider whether to confirm the Joint Plan, or an alternative plan of reorganization.

On \_\_\_\_\_ \_\_, 2004, after notice and a hearing held on October 5, 2004, the Bankruptcy Court entered the Disclosure Statement Order approving this Disclosure Statement as containing adequate information of a kind and in sufficient detail to enable hypothetical, reasonable investors typical of the Debtor’s creditors and equity interest holders to make an informed judgment whether to accept or reject the Joint Plan. APPROVAL OF THE DISCLOSURE STATEMENT DOES NOT, HOWEVER, CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT AS TO THE FAIRNESS OR MERITS OF THE JOINT PLAN. THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH SECTION 1125 OF THE BANKRUPTCY CODE AND RULE 3016 OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE. THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED OR DISAPPROVED THE DISCLOSURE STATEMENT, OR DETERMINED IF IT IS TRUTHFUL OR CORRECT. PERSONS OR ENTITIES TRADING IN OR OTHERWISE PURCHASING, SELLING OR TRANSFERRING SECURITIES OF THE DEBTOR OR HHI SHOULD EVALUATE THIS DISCLOSURE STATEMENT AND THE JOINT PLAN IN LIGHT OF THE PURPOSES FOR WHICH THEY WERE PREPARED.

The Disclosure Statement Order, a copy of which is annexed hereto as Exhibit B, sets forth deadlines for voting to accept or reject the Joint Plan and concerning procedures to be followed to object to confirmation of the Joint Plan, and the record date for voting purposes. A Ballot for the acceptance or rejection of the Joint Plan is enclosed with each Disclosure Statement submitted to a holder of

Claims or interests who are entitled to vote to accept or reject the Joint Plan. In addition, voting instructions accompany each Ballot.

Each holder of a Claim entitled to vote on the Joint Plan should read the Disclosure Statement, the Joint Plan, the Disclosure Statement Order and the instructions accompanying the Ballots in their entirety before voting to accept or reject the Joint Plan. These documents contain, among other things, important information concerning the classification of Claims and Interests and the tabulation of votes. No solicitation of votes to accept the Joint Plan may be made except pursuant to section 1125 of the Bankruptcy Code.

Attached as Exhibits to this Disclosure Statement are copies of the following:

- The Joint Plan (Exhibit A);
- Order of the Bankruptcy Court dated \_\_\_\_\_, 2004 (the “Disclosure Statement Order”), among other things, approving the Disclosure Statement and establishing certain procedures with respect to the solicitation and tabulation of votes to accept or reject the Joint Plan (Exhibit B);
  - Hawaiian Airlines, Inc.’s Fiscal Year 2003 and 2002 Audited Financial Statements (Exhibit C);
  - Hawaiian Airlines, Inc.’s Preliminary Financial Projections for the Years 2004 through 2007 (the “Projections”) (Exhibit D); and
  - Analysis of the potential results of a liquidation of the Debtor’s assets conducted in a case under chapter 7 of the Bankruptcy Code (Exhibit E); and
  - A list of Disputed Claims (Exhibit F); and
  - A scheduled setting forth the name, age, present principal occupation or employment and five-year employment history of each of the members of the Board of Directors of HHI, and the current holders of five percent (5%) or more of the outstanding shares of HHI Common Stock (Exhibit G).

## **A. Holders of Claims and Interests Entitled to Vote**

Pursuant to the provisions of the Bankruptcy Code, only holders of Allowed Claims or Interests in classes of claims or Interests that are impaired under a chapter 11 plan are entitled to vote to accept or reject the Joint Plan. Classes of Claims or Interests in which the holders of claims or interests will not receive or retain any property under a chapter 11 plan are conclusively deemed to have rejected the plan and are not entitled to vote to accept or reject the plan. Classes of Claims or Interests in which the holders of Claims or Interests are unimpaired under a chapter 11 plan are conclusively deemed to have accepted the plan and are not entitled to vote to accept or reject the plan.

Classes 1, 2, and 3 are unimpaired under the Joint Plan and the holders of Claims or Interests in those Classes are conclusively presumed to have accepted the Joint Plan. Classes 4, 5, 6 and 7 of the Joint Plan are classified as impaired under the Joint Plan and holders of Allowed Claims in those Classes are entitled to vote to accept or reject the Joint Plan. Therefore, acceptances of the Joint Plan are being solicited only from holders of Claims or Interests in Classes 4, 5, 6 and 7.

The Bankruptcy Code defines “acceptance” of a plan by a class of claims as acceptance by creditors in that class that hold at least two-thirds in dollar amount and more than one-half in number of the claims that cast ballots for acceptance or rejection of the plan. Acceptance of a plan by a class of interests requires acceptance by at least two-thirds of the amount of shares in such class for which ballots are cast for acceptance or rejection of the plan. For a complete description of the requirements for confirmation of the Joint Plan, see Section VII.E, “Voting and Confirmation of Joint Plan.”

Section 1129(b) of the Bankruptcy Code permits the confirmation of a plan notwithstanding the nonacceptance of such plan by one or more impaired classes of claims or Interests. Under that section, a plan may be confirmed by a

bankruptcy court if it does not “discriminate unfairly” and is “fair and equitable” with respect to each nonaccepting class. For a more detailed description of the requirements for confirmation of a nonconsensual plan, see Section VIII.F, “Best Interests Test, Liquidation Analysis.”

With respect to any Class of Claims that vote to reject the Joint Plan, the Joint Plan Proponents intend to request confirmation of the Joint Plan pursuant to section 1129(b) of the Bankruptcy Code, notwithstanding the rejection of the Joint Plan by such Class or Classes.

## **B. Voting Procedures**

If you are entitled to vote to accept or reject the Joint Plan, a Ballot is enclosed for the purpose of voting on the Joint Plan. If you hold Claims in more than one Class and you are entitled to vote Claims in more than one Class, you will receive separate Ballots that must be used for each separate Class of Claims.

Please vote and return your Ballot(s) to:

THE GARDEN CITY GROUP, INC.  
HAWAIIAN AIRLINES, INC. Balloting Agent  
PO Box 9000 #6091  
Merrick, NY 11566-9000  
Facsimile: (631) 940-6548

**DO NOT RETURN ANY SECURITIES OR OTHER EVIDENCE OF YOUR CLAIM AGAINST THE DEBTOR WITH YOUR BALLOT.**

**TO BE COUNTED, YOUR BALLOT INDICATING ACCEPTANCE OR REJECTION OF THE JOINT PLAN MUST BE ACTUALLY RECEIVED NO LATER THAN 4:00 P.M. HAWAII STANDARD TIME, ON \_\_\_\_\_, 2004. ANY BALLOT THAT DOES NOT INDICATE EITHER AN ACCEPTANCE OR REJECTION OF THE JOINT PLAN WILL NOT BE COUNTED.**

ANY CLAIM IN AN IMPAIRED CLASS AS TO WHICH AN OBJECTION OR REQUEST FOR ESTIMATION IS PENDING BEFORE THE BANKRUPTCY COURT OR WHICH IS SCHEDULED BY THE DEBTOR AS UNLIQUIDATED, DISPUTED OR CONTINGENT, INCLUDING ANY TORT CLAIM, IS NOT ENTITLED TO VOTE ON THE JOINT PLAN UNLESS THE HOLDER OF SUCH CLAIM HAS OBTAINED AN ORDER OF THE BANKRUPTCY COURT TEMPORARILY ALLOWING SUCH CLAIM FOR THE PURPOSE OF VOTING ON THE JOINT PLAN.

Pursuant to the Disclosure Statement Order, the Bankruptcy Court has set \_\_\_\_\_, 2004 as the record date for voting on the Joint Plan. Accordingly, only holders of Allowed Claims as of such date that are otherwise entitled to vote on the Joint Plan will receive a Ballot and may vote on the Joint Plan.

If you are a holder of an Allowed Claim entitled to vote on the Joint Plan and did not receive a Ballot, received a damaged Ballot or lost your Ballot, or if you have any questions concerning the Disclosure Statement, the Joint Plan or the procedures for voting on the Joint Plan, please contact any of the following persons:

Counsel for the Trustee

Hennigan, Bennett & Dorman LLP  
601 South Figueroa Street  
Suite 3300  
Los Angeles, California 90017  
Phone: (213) 694-1200  
Attn: Bruce Bennett, Esq.  
Sidney P. Levinson, Esq.

Carlsmith Ball LLP  
1001 Bishop Street  
ASB Tower, Suite 2200  
Honolulu, Hawaii 96813  
Phone: (808) 523-2500  
Attn: Tom E. Roesser, Esq.

Counsel for HHI, HHIC, and RC  
Aviation

Stutman, Triester & Glatt P.C.

Gelber, Gelber, Ingersoll & Klevansky  
745 Fort Street

1901 Avenue of the Stars, Suite 1200  
Los Angeles, CA 90067  
Phone: (310) 228-5600  
Attn: Jeffrey C. Krause, Esq.

Fort Street Tower, Suite 1400  
Honolulu, HI 96813-3823  
Phone : (808) 524-0155  
Attn : Simon Klevansky, Esq.

Counsel for the Committee

Otterbourg, Steindler, Houston & Rosen  
230 Park Avenue  
New York, NY 10169  
Phone: (212) 661-9100  
Attn: Brett H. Miller, Esq.

Wagner Choi & Evers  
745 Fort Street  
Fort Street Tower, Suite 1900  
Honolulu, Hawaii 96813  
Phone: (808) 533-1877  
Attn: James A. Wagner, Esq.

**C. Confirmation Hearing**

**The hearing to consider confirmation of the Joint Plan will be held on \_\_\_\_\_, 2004, at \_\_:\_\_ .m. Hawaii standard time, before the Honorable Robert J. Faris, United States Bankruptcy Judge, at the United States Bankruptcy Court, 1132 Bishop Street, Honolulu, Hawaii 96813.**

**The Bankruptcy Court has directed that objections, if any, to Confirmation of the Joint Plan be served and filed so that they are received on or before \_\_\_\_\_, 2004 at 4:00 p.m., Hawaii standard time, in the manner described below in Section I.C, “Confirmation Hearing.” The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for the announcement of the adjournment date made at the confirmation hearing or at any subsequent adjourned confirmation hearing.**

**The statements contained in this disclosure statement are made as of the date hereof unless another time is specified herein, and the delivery of this Disclosure Statement shall not create an implication that there has not been any change in the information stated since the date hereof.**

**For the convenience of Holders of Claims and Interests, this Disclosure Statement summarizes the terms of the Joint Plan, but the Joint Plan itself qualifies all summaries. If any inconsistency exists between the Joint Plan and the Disclosure Statement, the terms of the Joint Plan are controlling. Also, summaries of certain provisions of agreements referred to in this disclosure statement do not purport to be complete and are subject to, and are qualified in their entirety by, reference to the full text of the applicable agreement, including the definitions of terms contained in such agreement.**

**The Disclosure Statement may not be relied on for any purpose other than for the purpose of determining whether to vote to accept or reject the Joint Plan, and nothing stated herein shall constitute an admission of any fact or liability by any party, or be admissible in any proceeding involving the Debtor, the Trustee, the Committee, HHI, HHIC, RC Aviation, or any other party, or be deemed conclusive evidence of the tax, securities law, or other legal effects of the Joint Plan on the Debtor or holders of Claims or Interests.**

**Certain of the statements contained in this Disclosure Statement, by nature, are forward-looking and contain estimates and assumptions based upon current facts and circumstances. There can be no assurance that such statements will be reflective of actual outcomes, which may be materially different from any future results expressed or implied in such forward-looking statements. All holders of Claims should carefully read and consider fully Section XI of this Disclosure Statement, “Certain Risk Factors to be Considered,” before voting to accept or reject the Joint Plan.**

**Although no assurance can be given, the Joint Plan Proponents believe that the Joint Plan will enable the Debtor to successfully reorganize and accomplish the objectives of chapter 11 and that acceptance of the Joint Plan is in the best interests of the Debtor, its creditors, and its shareholders.**

**THE JOINT PLAN PROPONENTS URGE CREDITORS AND  
EQUITY INTEREST HOLDERS TO VOTE TO ACCEPT THE JOINT  
PLAN.**

## **II. OVERVIEW OF THE JOINT PLAN**

The Joint Plan provides for the payment, in full, of all Claims, including unsecured claims. There are three classes of unsecured claims: (a) Convenience Claims, which are smaller claims in the face amount of \$5,000 or less; (b) Lease Related Claims, which include claims arising from rejection or modification of aircraft leases that were not expired at the beginning of the bankruptcy case; and (c) all other holders of Unsecured Claims. Holders of Convenience Claims will receive 100% of their allowed claim in Cash without post-petition interest. Holders of Lease Related Claims may elect to receive either 50% of their allowed claim in Cash and the remainder in shares of common stock of HHI (“HHI Common Stock”) or (x) a note issued by the Reorganized Debtor having a principal amount equal to the allowed amount of such Lease Related Claim (the “Class 5 Note”). Holders of all other general Unsecured Claims, other than Lease Related Claims and Convenience Claims receive, at their election either (y) 50% of their allowed claim in Cash and the remainder in HHI Common Stock or (z) 100% of their allowed claim in Cash. The number of shares of HHI Common Stock to be distributed to the holders of claims will be based upon the average closing market price of a share of HHI Common Stock on the American Stock Exchange during the 20 trading days beginning on the day after the entry of the order approving the Disclosure Statement (October \_\_, 2004), but such price shall not be less than \$5.00 per share nor more than \$8.00 per share.

The Debtor’s two shareholders, HHI and HHIC – both proponents of this Joint Plan – will retain their existing interests in the Debtor.

HHI and RC Aviation have entered into an agreement, the “Restructuring Support Agreement,” under which they are obligated to provide the funding necessary to meet the distribution and payment obligations under the Joint Plan

and to ensure that the Reorganized Debtor has at least the minimum amount of Cash required by the Joint Plan. In order to fund their obligations under the Joint Plan, HHI and RC Aviation have the flexibility to utilize one or more sources of financing, including the following: the issuance of up to \$125 million of New Debt by the Reorganized Debtor, such as New Notes and/or a Senior Secured Loan Facility, the proceeds of a rights offering to existing shareholders of HHI, or the proceeds of the sale of Series E Convertible Preferred Stock in HHI to RC Aviation. In addition, HHI and RC Aviation may seek to secure a revolving loan to ensure that the Reorganized Debtor has liquidity during seasonal shifts. If necessary to make distributions to holders of Claims and to satisfy the Minimum Cash Balance, in exchange for the RC Aviation Controlled Claims (as of the date of this Disclosure Statement, the RC Aviation Controlled Claims include the Ansett Claim and the Boeing Claim, and may include other claims acquired or controlled by RC Aviation in the future for which RC Aviation or its affiliates will file a notice of transfer of claim with the Bankruptcy Court), RC Aviation shall be deemed to have elected the Cash and stock treatment for its Class 5 Claims, but receive in lieu of the Cash portion of the distribution available to other similar creditors on account of 50% of the RC Aviation Controlled Claims either deferred Cash payment or HHI Common Stock on the same basis and at the same “price” as shares of HHI Common Stock are issued to other creditors.

Whether or not the Joint Plan is confirmed, in the event that the Effective Date of the Plan has not occurred by March 31, 2005, RC Aviation has agreed to offer to purchase all Unsecured Claims, other than Lease Related Claims as set forth in the Restructuring Support Agreement at a price equal to 100% of the amount estimated by the Trustee as the allowed amount for any such Claim or, if any such Claim has been actually determined by order of the Bankruptcy Court

prior to the date of such offer, the amount of such Allowed Claim as determined by the Bankruptcy Court.

The following table briefly summarizes the classification and treatment of Claims and Interests under the Joint Plan. The information set forth under “Recoveries” are estimates based upon certain assumptions including, among others, that a sufficient number of shares of HHI Common Stock will be issued under the Joint Plan. For a discussion of the HHI Common Stock, see Section IV, “Description of HHI Capital Stock.” There can be no assurance that the HHI Common Stock will actually have the value described herein or that it will continue to trade in the market at the price used to establish the amounts of such shares to be distributed under the Joint Plan. For a description of certain risks associated with the recoveries provided under the Joint Plan, see Section IX, “Certain Factors To Consider in Voting to Accept or Reject the Joint Plan.”

<b>Class</b>	<b>Type of Claim or Interest</b>	<b>Treatment</b>	<b>Estimated Recovery</b>
1	Secured Tax Claims  Estimated Amount of Allowed Claims in Class 1: \$0	Unless the Holder of a Secured Tax Claim, which are tax claims entitled to Priority and also secured by a lien against property of the Estate, agrees to a different treatment, each holder of a Secured Priority Tax Claim shall receive the legal, equitable, and contractual rights to which such Claim entitles the holder thereof. Any default with respect to any Allowed Class 1 Claim that existed immediately prior to the filing of the Case shall be cured upon the Effective Date.	100%
2	Other Secured Claims  Estimated Amount of Allowed Claims	On the Effective Date, at the election of the Reorganized Debtor, the Holder of each Allowed Other Secured Claim shall, on account of such Claim, either: (i) be paid in	100%

<b>Class</b>	<b>Type of Claim or Interest</b>	<b>Treatment</b>	<b>Estimated Recovery</b>
	in Class 2: \$900,000 - \$3,200,000	Cash in full, (ii) have surrendered to such Holder, without representation or warranty, the collateral securing its Claim, (iii) notwithstanding any contractual provision or applicable law that entitles the Holder of such Claim to demand or receive accelerated payment of such Claim after the occurrence of a default (A) be paid a cure of any such default that occurred prior to the Effective Date, (B) have reinstated the maturity of such Claim as such maturity existed before such default, (C) be compensated for any damages incurred as a result of any reasonable reliance by such Holder on such contractual provision or such applicable law, and (D) otherwise not have altered the legal, equitable, or contractual rights to which such Claim entitles the Holder of such Claim, or (iv) have left unaltered the legal, equitable, and contractual rights to which such Claim entitles the Holder of such Claim.	
3	Other Priority Claims (Claims entitled to priority other than Priority Tax Claims)  Estimated Amount of Allowed Claims in Class 3: \$43,500	On the Effective Date, each holder of an Allowed Other Priority Claim shall receive Cash equal to the amount of such Allowed Other Priority Claim.	100%

Class	Type of Claim or Interest	Treatment	Estimated Recovery
4	<p>Unsecured Claims (All unsecured claims against the Debtor other than Lease Related Claims and Convenience Claims)</p> <p>Estimated Amount of Allowed Claims in Class 4: \$25,660,000 - \$43,160,000</p>	<p>Each Holder of an Allowed Class 4 Unsecured Claim may elect to receive either (a) Cash in an amount equal to fifty percent (50%) of the amount of such Allowed Unsecured Claim and a number of shares of HHI Common Stock equal to the quotient of (i) fifty percent (50%) of the Allowed amount of such Holders Class 4 Unsecured Claim divided by (ii) the average closing price for a share of HHI Common Stock on the American Stock Exchange during the 20 days following the entry of the order approving this Disclosure Statement (October __, 2004), which shall be no less than \$5 per share and no greater than \$8 per share; or (b) Cash equal to 100% of the amount of such Allowed Class 4 Unsecured Claim. In either event there will be no payment of post-petition interest to any Holder of an Allowed Class 4 Unsecured Claim.</p>	100%
5	<p>Lease Related Claims (Unsecured Claims of Boeing, Ansett, ILFC, Deutsche Bank, and American Airlines, based upon or arising out of rejection or modification of leases of aircraft, engines, or aircraft parts)</p>	<p>Each Holder of an Allowed Lease Related Claim may elect to receive either: (a) Cash in an amount equal to fifty percent (50%) of the amount of such Allowed Lease Related Claim and a number of shares of HHI Common Stock equal to the quotient of (i) fifty percent (50%) of the Allowed amount of such Holders Class 5 Lease Related Claim divided by (ii) the average closing price for a share of HHI Common Stock on the American Stock Exchange during the 20 days following the entry of the order approving this Disclosure Statement (October __, 2004), which shall be no less than \$5 per share and no greater than \$8 per share; or (b) an unsecured note (the</p>	100%

Class	Type of Claim or Interest	Treatment	Estimated Recovery
	<p>Estimated Amount of Allowed Claims in Class 5: \$173,370,000 - \$184,760,000</p>	<p>“Class 5 Note”) issued by the Reorganized Debtor having a principal amount equal to the Allowed amount of such Lease Related Claim, which shall bear simple interest at the rate of 6.5% per annum, and paid in equal monthly installments of principal and interest commencing on the first Business Day following the Effective Date and fully amortizing over a period of 15 years. In either event, there will be no payment of post-petition interest to any Holder of an Allowed Class 5 Lease Related Claim.</p> <p>In the event that Class 5 votes to reject the Joint Plan, each holder of an Allowed Lease Related Claim will be entitled to receive such treatment as the Bankruptcy Court determines will satisfy the requirements of section 1129(b) of the Bankruptcy Code.</p> <p>Notwithstanding anything to the contrary in the Plan, if necessary to make distributions to holders of Claims and to satisfy the Minimum Cash Balance, in exchange for the RC Aviation Controlled Claims (including the Ansett Claim and the Boeing Claim), RC Aviation shall elect option (a) above and in lieu of the Cash portion of the distribution specified in clause (a)(i) above, shall receive on account of the 50% of the RC Aviation Controlled Claims that is entitled to Cash, either deferred Cash payment or HHI Common Stock at the same price issued to calculate distributions of HHI Common Stock to other creditors.</p> <p>It is anticipated that Class 5 will vote to</p>	

<b>Class</b>	<b>Type of Claim or Interest</b>	<b>Treatment</b>	<b>Estimated Recovery</b>
		accept the Plan.	
6	<p>Convenience Claims (Unsecured Claims in an amount less than \$5,000)</p> <p>Estimated Amount of Allowed Claims in Class 6: \$798,000 - \$950,000</p>	Each holder of a Convenience Claim in Class 6 shall receive Cash in an amount equal to 100% of the Allowed amount of such Convenience Claim on the Effective Date or as soon thereafter as is practicable. There will be no payment of post-petition interest to any Holder of an Allowed Class 6 Convenience Claim.	100%
7	Interests	Holders of Class 7 Interests shall retain their Interests in the Debtor.	N/A

### **III. SUMMARY OF THE JOINT PLAN**

The Joint Plan Proponents believe that (i) the Joint Plan will afford the Debtor the opportunity and ability to continue in business as a viable going concern and preserve ongoing employment for the Debtor's employees and (ii) through the Joint Plan, creditors and equity interest holders will obtain a greater recovery from the Debtor's estate than would be available if the Debtor's assets were liquidated under chapter 7 of the Bankruptcy Code or if an alternative plan for reorganization of the Debtor were confirmed.

The Joint Plan is annexed hereto as Exhibit A and forms a part of this Disclosure Statement. The summary of the Joint Plan set forth below is qualified in its entirety by reference to the more detailed provisions of the Joint Plan.

#### **A. Classification and Treatment of Claims and Interests**

The Joint Plan classifies Claims and Interests separately and provides different treatment for different Classes of Claims and Interests in accordance with the Bankruptcy Code. As described more fully below, the Joint Plan provides separately for each Class that holders of certain Claims and Interests will receive various amounts and types of consideration (e.g., Cash, notes, and/or HHI Common Stock), thereby giving effect to the different rights of the holders of Claims and Interests in each Class.

##### *1. Administrative Expense Claims*

The Joint Plan provides that the Reorganized Debtor shall pay to each holder of an Allowed Administrative Expense Claim Cash in an amount equal to such Allowed Administrative Expense Claim on the later of the Effective Date and the date such Administrative Expense Claim becomes an Allowed Administrative Expense Claim, or as soon thereafter as is practicable; provided, however, that all Ordinary Course Administrative Expenses shall be paid in full by Reorganized

Debtor in the ordinary course of business in accordance with the terms and conditions of agreements relating thereto. The Confirmation Order shall contain a bar date for purposes of assertion and allowance of Administrative Expense Claims, other than Ordinary Course Administrative Expenses.

2. *Compensation and Reimbursement Claims*

The Joint Plan provides that all Entities that are awarded compensation or reimbursement of expenses by the Bankruptcy Court in accordance with section 330 or 331 of the Bankruptcy Code or entitled to the priority pursuant to section 503(b)(2), 503(b)(3), 503(b)(4) or 503(b)(5) of the Bankruptcy Code, shall be paid in full, in Cash, the amounts allowed by the Bankruptcy Court (a) on or as soon as reasonably practicable following the later to occur of (i) the Effective Date and (ii) the date on which the Bankruptcy Court order allowing such Claim becomes a Final Order, or (b) upon such other terms as may be mutually agreed upon between such holder of an Allowed Administrative Expense Claim and Reorganized Debtor.

Except as otherwise provided in the Joint Plan, the Joint Plan further provides that unless previously Filed, requests for payment of Administrative Expense Claims must be Filed and served on the Reorganized Debtor, pursuant to the procedures specified in the Confirmation Order and the notice of entry of the Confirmation Order, no later than 30 days after the Effective Date (the “Administrative Expense Claims Bar Date”). Holders of Administrative Expense Claims that are required to File and serve a request for payment of such Administrative Expense Claims and that do not File and serve such a request by the applicable Bar Date will be forever barred from asserting such Administrative Expense Claims against the Debtor or Reorganized Debtor or their respective property, and such Administrative Expense Claims will be deemed discharged as

of the Effective Date. Objections to such requests must be Filed and served on the Reorganized Debtor and the requesting party by the later of (A) 120 days after the Effective Date or (B) 60 days after the Filing of the applicable request for payment of Administrative Expense Claims.

Professionals or other Entities asserting a Professional Fee Claim for services rendered to the Estate before the Effective Date must File and serve on the Reorganized Debtor and such other Entities who are designated by the Bankruptcy Rules, the Confirmation Order, the Professional Fee Order or other order of the Bankruptcy Court an application for final allowance of such Professional Fee Claim, as it relates to services provided to the Estate, no later than 60 days after the Effective Date; *provided, however*, that any professional who may receive compensation or reimbursement of expenses pursuant to the Ordinary Course Professionals Order may continue to receive such compensation and reimbursement of expenses for services rendered before the Effective Date from Reorganized Debtor, without further Bankruptcy Court review or approval, pursuant to the Ordinary Course Professionals Order. Objections to any Professional Fee Claim must be Filed and served on the Reorganized Debtor and the requesting party by the later of (1) 90 days after the Effective Date or (2) 30 days after the Filing of the applicable request for payment of the Professional Fee Claim. To the extent necessary, the Confirmation Order will amend and supersede any previously entered order of the Bankruptcy Court, including the Professional Fee Order, regarding the payment of Professional Fee Claims.

### *3. Priority Tax Claims*

The Allowed Priority Tax Claim held by the IRS and any state taxing authority relating to any taxable year shall be the lesser of: (a) the Allowed Claim

held by such Entity; (b) the estimated claim amount held by such Entity, if estimated by the Bankruptcy Court for purposes of allowance; or (c) the amount of such claim as determined by any administrative or judicial tribunal of competent jurisdiction before which such issue is brought by final order or as compromised and settled by the Reorganized Debtor and such taxing authority. With respect to the IRS, the Allowed Amount of the IRS's Priority Tax Claim will not, in any circumstances, exceed the cap to be determined at the estimation hearing proceeding on December 13-14, 2004. Notwithstanding any other provision of the Joint Plan to the contrary, payments in respect of Allowed Priority Tax Claims shall not be made on the Effective Date, but rather shall, at the sole option and discretion of the Reorganized Debtor be made (a) in full, in Cash, on the later of the Effective Date or the Date of Assessment, (b) in accordance with section 1129(a)(9)(c) of the Bankruptcy Code, in full, in Cash, in up to twenty-four (24) equal quarterly installments, commencing on the first Business Day following the Date of Assessment of such Allowed Priority Tax Claim, together with interest from the Date of Assessment at a rate to be determined by the Bankruptcy Court, or (c) by mutual agreement of the holder of such Allowed Priority Tax Claim and Reorganized Debtor.

However, the holder of an Allowed Priority Tax Claim will not be entitled to priority on account of any penalty arising with respect to or in consideration with such Allowed Priority Tax Claim. Subject to the provision of the Joint Plan concerning conditions precedent to the occurrence of the Effective Date, any such penalty Claim or demand for any such penalty will be subject to treatment in Class 4. The holder of an Allowed Priority Tax Claim will not attempt to collect any penalty arising with respect to or in consideration with such Allowed Priority Tax Claim from the Debtor, the Reorganized Debtor or their respective property, but

such holder may timely file a Claim for such penalty with respect to a Tax Claim that arises prior to the Effective Date.

4. *Class 1 – Secured Tax Claims:*

The Joint Plan classifies all Secured Tax Claims in Class 1. Class 1 is unimpaired under the Plan, and the legal, equitable, and contractual rights of the holders of Allowed Class 1 Claims are unaltered by the Plan. Unless the Holder of such Claim and the Debtor agree to a different treatment, each holder of an Allowed Class 1 Claim shall receive the legal, equitable, and contractual rights to which such Claim entitles the holder thereof. Any default with respect to any Allowed Class 1 Claim that existed immediately prior to the filing of the Case shall be cured upon the Effective Date.

Class 1 is unimpaired. The Holders of Claims in Class 1 are deemed to have accepted the Joint Plan and will not vote to accept or reject the Joint Plan.

5. *Class 2 – Other Secured Claims:*

The Joint Plan classifies all Other Secured Claims in Class 2. On the Effective Date, at the election of the Reorganized Debtor, the Holder of each Allowed Other Secured Claim shall, on account of such Claim, either: (i) be paid in Cash in full, (ii) have surrendered to it, without representation or warranty, the collateral securing its Claim, (iii) notwithstanding any contractual provision or applicable law that entitles the Holder of such Claim to demand or receive accelerated payment of such Claim after the occurrence of a default (A) be paid a cure of any such default that occurred prior to the Effective Date, other than a default of a kind specified in section 365(b)(2) of this title, (B) have Reinstated the maturity of such Claim as such maturity existed before such default, (C) be compensated for any damages incurred as a result of any reasonable reliance by such Holder on such contractual provision or such applicable law, and (D)

otherwise not have altered the legal, equitable, or contractual rights to which such Claim entitles the Holder of such Claim, or (iv) have left unaltered the legal, equitable, and contractual rights to which such Claim entitles the Holder of such Claim. In the case of option (ii) or (iii), in the event that any such Claim is not completely satisfied by such distribution, the Deficiency Amount will constitute a Deficiency Claim against the Debtor and will be classified in the appropriate other Class and will receive the same treatment as other Claims in such Class. Any Holder of an Other Secured Claim may agree to accept less favorable treatment.

Class 2 is unimpaired. The Holders of Claims in Class 2 are deemed to have accepted the Joint Plan and will not vote to accept or reject the Joint Plan.

6. *Class 3 – Other Priority Claims:*

The Joint Plan classifies all Other Priority Claims in Class 3. On the Effective Date, each holder of an Allowed Other Priority Claim shall receive Cash equal to the amount of such Allowed Other Priority Claim.

Class 3 is unimpaired. The Holders of Claims in Class 3 are deemed to have accepted the Joint Plan and will not vote to accept or reject the Joint Plan.

7. *Class 4 – Unsecured Claims Other Than Lease Related Claims:*

The Joint Plan classifies all Unsecured Claims, other than Lease Related Claims and Convenience Claims, in Class 4. Each Holder of an Allowed Class 4 Unsecured Claim may elect to receive on the Effective Date or as reasonably practicable thereafter, either

(a) Cash in an amount equal to fifty percent (50%) of the amount of such Allowed Unsecured Claim and a number of shares of HHI Common Stock equal to the quotient of (i) fifty percent (50%) of the Allowed amount of such Holders Class 4 Unsecured Claim divided by (ii) the average closing market price for a share of HHI Common Stock on the American Stock Exchange during the 20

days following the entry of the order approving this Disclosure Statement (October \_\_, 2004), which shall be no less than \$5 per share and no greater than \$8 per share; or

(b) Cash in an amount equal to 100% of the amount of such Allowed Class 4 Unsecured Claim.

In either event there will be no distribution on account of post-petition interest.

The Joint Plan also provides that any Holder of a Class 4 Claim that (a) fails to return a Ballot, (b) returns a defective or untimely Ballot, or (c) returns a timely Ballot that fails to elect a treatment of its Class 4 Claim shall be deemed to have elected to receive Cash equal to 100% of the Allowed amount of such Class 4 Claim.

Class 4 is Impaired. Because Class 4 is Impaired and Holders of Class 4 Claims receive consideration under the Joint Plan, the Holders of Claims in Class 4 are permitted to vote to accept or reject the Joint Plan.

8. *Class 5 – Lease Related Claims:*

The Joint Plan classifies all Lease Related Claims in Class 5. Each Holder of an Allowed Lease Related Claim may elect to receive on the Effective Date or as reasonably practicable thereafter, either:

(a) Cash in an amount equal to fifty percent (50%) of the amount of such Allowed Lease Related Claim and a number of shares of HHI Common Stock equal to the quotient of (i) fifty percent (50%) of the Allowed amount of such Holders Class 5 Lease Related Claim divided by (ii) the average closing price for a share of HHI Common Stock on the American Stock Exchange during the 20 days following the entry of the order approving this Disclosure Statement (October \_\_,

2004), which shall be no less than \$5 per share and no greater than \$8 per share; or; or

(b) a Class 5 Note issued by the Reorganized Debtor having a principal amount equal to the Allowed amount of such Lease Related Claim, which shall bear simple interest at the rate of 6.5% per annum, and paid in equal monthly installments of principal and interest commencing on the first Business Day following the Effective Date and fully amortizing over a period of 15 years. Any Class 5 Note issued in accordance with the Joint Plan would be an unsecured obligation of the Reorganized Debtor.

There will be no distribution to holders of Lease Related Claims on account of post-petition interest.

With respect to the RC Aviation Controlled Claims that are included in Class 5, under certain circumstances alternative treatment will apply, as is more fully described in Section III.B.4.c. “Sources of Cash for Joint Plan Distributions” below.

In the event that Class 5 votes to reject the Joint Plan, the Joint Plan provides that such holders of Lease Related Claims shall receive such treatment as the Bankruptcy Court determines will satisfy the requirements of section 1129(b) of the Bankruptcy Code.

In the event that a Holder of a Lease Related Claim: (a) fails to return a Ballot, (b) returns a defective or untimely Ballot, or (c) returns a timely Ballot that fails to elect a treatment of its Unsecured Claim), the Joint Plan provides that such Lease Related Claims shall be deemed to have elected to receive the Class 5 Note Consideration. It is anticipated that Class 5 will vote to accept the Joint Plan.

Class 5 is impaired. Because Class 5 is impaired and Holders of Class 5 Claims receive consideration under the Joint Plan, the Holders of Claims in Class 5 are permitted to vote to accept or reject the Joint Plan.

9. *Class 6 – Convenience Claims*

The Joint Plan classifies all Convenience Claims, which are Unsecured Claims in an amount equal to or less than \$5,000, in Class 6. Each Holder of a Convenience Claim in Class 6 shall receive Cash in an amount equal to 100% of the Allowed amount of such Convenience Claim on the Effective Date or as soon thereafter as is practicable. There will be no distribution to Holders of a Convenience Claim on account of post-petition interest.

Class 6 is impaired. Because Class 6 is impaired and Holders of Class 6 Claims receive consideration under the Joint Plan, the Holders of Claims in Class 6 are permitted to vote to accept or reject the Joint Plan.

10. *Class 7 – Interests:*

The Joint Plan classifies holders of all Interests in the Debtor in Class 7. Under the Joint Plan, Holders of Class 7 Interests shall retain their Interests in the Debtor. Under the Joint Plan, all Interests held by HHI and HHIC shall be deemed Allowed Interests.

Class 7 may or may not be impaired. The Holders of Interests in Class 7 will vote to accept or reject the Joint Plan. HHI and HHIC have agreed to vote their respective interests in the Debtor to accept the Joint Plan.

**B. Summary of Other Provisions of the Joint Plan**

1. *Time and Method of Distributions Under the Joint Plan*

The Reorganized Debtor shall serve as the Disbursing Agent to hold and distribute Cash and such other property as may be distributed pursuant to the Joint Plan, provided however, that the Reorganized Debtor, in its sole and absolute discretion, may employ another Person, on such terms as may be determined by the Reorganized Debtor, to hold and distribute Cash and such other property as may be distributed pursuant to the Joint Plan. Even if the Disbursing Agent is a Person

other than the Reorganized Debtor, nonetheless the Disbursing Agent shall be an agent of the Reorganized Debtor and not a separate taxable entity with respect to, for example, the assets held, income received or disbursements or distributions made for the Reorganized Debtor. The Debtor or the Reorganized Debtor will pay Ordinary Course Administrative Expenses. The Reorganized Debtor, in its discretion, may delegate the making of all other distributions of Cash or HHI Common Stock under the Joint Plan to a third party Disbursing Agent. On the Effective Date, the Reorganized Debtor may transfer to the Disbursing Agent sufficient Cash to enable payments under the Joint Plan. The Cash received by the Disbursing Agent from the Reorganized Debtor shall be maintained in a segregated, interest bearing or similar investment account. The Disbursing Agent shall account for all distributions made from such Cash and shall file any reports or tax returns to the extent required under applicable law. Further, on the Effective Date, all of the HHI Common Stock to be distributed under the Joint Plan may be delivered to a third party Disbursing Agent, for distribution in accordance with the terms and conditions of the Joint Plan. The Reorganized Debtor shall not be required to provide a bond in connection with the making of any distributions pursuant to the Joint Plan.

The Sections of the Joint Plan on treatment of Administrative Expense Claims, Claims, and Interests specify the times for distributions. Whenever any payment or distribution to be made under the Joint Plan shall be due on a day other than a Business Day, such payment or distribution shall instead be made, without interest, on the immediately following Business Day. Distributions due on the Effective Date will be paid on such date or as soon as practicable thereafter, provided that if other provisions of the Joint Plan require the surrender of securities or establish other conditions precedent to receiving a distribution, the distribution may be delayed until such surrender occurs or conditions are satisfied. If, under

the terms of the Joint Plan, the resolution of a particular Disputed Claim, (*e.g.*, it is not Allowed), entitles other Holders of Claims or Interests to a further distribution, either (a) the Reorganized Debtor or the Disbursing Agent may make such further distribution as soon as practicable after the resolution of the Disputed Claim or (b) if the further distribution is determined in good faith, by the Reorganized Debtor or the Disbursing Agent who is to make such distribution, to be less than \$500 for any Creditor, then, in order to afford the Reorganized Debtor an opportunity to minimize costs and aggregate such distributions, the Reorganized Debtor or the Disbursing Agent may make such further distribution any time prior to sixty (60) days after the Final Resolution Date.

a. Cash Distributions

Distributions of Cash may be made either by check drawn on a domestic bank or wire transfer from a domestic bank, at the option of the Reorganized Debtor, as applicable, except that Cash payments made to foreign Creditors may be made in such funds and by such means as are necessary or customary in a particular foreign jurisdiction.

b. De Minimis Distributions

The Reorganized Debtor or Disbursing Agent shall not distribute Cash to the holder of an Allowed Claim in an impaired Class if the total aggregate amount of Cash to be distributed on account of such Claim is less than \$25, unless the Reorganized Debtor or the Disbursing Agent determines within its sole discretion to make such distribution. Any holder of an Allowed Claim on account of which the total aggregate amount of Cash to be distributed is less than \$25 will have its claim for such distribution discharged and will be forever barred from asserting any such claim against the Debtor, the Reorganized Debtor or Disbursing Agent, or their respective property.

c. Distributions of HHI Common Stock

The Reorganized Debtor or Disbursing Agent will distribute or cause to be distributed all HHI Common Stock to be distributed under the Joint Plan. Pending the distribution of HHI Common Stock as provided by the Joint Plan, the Reorganized Debtor or Disbursing Agent will cause the HHI Common Stock held by it for such distribution to be: (i) represented in person or by proxy at each meeting of the stockholders of HHI; (ii) voted in any election of directors of HHI, at the option of HHI, either (a) proportionally with the votes cast by other stockholders of HHI, or (b) for the nominees recommended by the Board of Directors of HHI; and (iii) voted with respect to any other matter in the same manner as prescribed in (ii)(a) above.

d. Fractional Securities

No fractional securities will be issued. If a distribution to a Holder of an Allowed Claim or Allowed Interest would otherwise result in the issuance of a number of shares of HHI Common Stock that is not a whole number, the actual distribution of shares of HHI Common Stock will be rounded down to the next whole number. No consideration will be provided to Holders of Claims or Interests in lieu of fractional shares of HHI Common Stock.

2. *Provisions for Treatment of Disputed Claims*

Notwithstanding all references in the Joint Plan to Claims that are Allowed, in undertaking the calculations prior to the Effective Date concerning Allowed Claims or Allowed Administrative Expense Claims under the Joint Plan, including the determination of the amount or number of distributions due to the Holders of Allowed Claims, Allowed Interests and Allowed Administrative Expense Claims, each Disputed Claim shall be treated as if it were an Allowed Claim, Allowed Interest or Allowed Administrative Expense Claim, in the amount that the Trustee

and the HHI Parties after consultation with the Committee, determine is the amount that the Disputed Claim will become an Allowed Claim, except that if the Bankruptcy Court estimates the likely portion of a Disputed Claim to be Allowed or authorized or otherwise determines the amount or number which would constitute a sufficient reserve for a Disputed Claim (which estimates and determinations may be requested by the Reorganized Debtor, but are not required), such amount or number as determined by the Bankruptcy Court shall be used as to such Claim; provided, however, such amount for Disputed Claims in Class 4 and Class 5 shall not exceed \$22 million in the aggregate.

Distributions of non-Cash consideration due in respect of a Disputed Claim shall be held and not made pending resolution of the Disputed Claim. The Cash distributions due in respect of Disputed Claims in Class 4 and Class 5 based on the calculations required by the Joint Plan shall be reserved for the Holders of Disputed Claims in accordance with the procedure and limitations set forth in Section 7.7 of the Joint Plan.

After an objection to a Disputed Claim is withdrawn, resolved by agreement, or determined by Final Order, the distributions due on account of any resulting Allowed Claim, Allowed Interest or Allowed Administrative Expense Claim shall be made by the Disbursing Agent, provided that any distribution of Cash shall be made from the Debtor's Cash or Disputed Claims Reserves, as applicable. Such distribution shall be made at the time provided in the Joint Plan for the next scheduled distribution to the class or type of Claim, Interest or Administrative Expense of such Holder and, if there is no such further scheduled time, within forty-five (45) days of the date that the Disputed Claim becomes an Allowed Claim or Allowed Administrative Expense Claim. No interest shall be due to a Holder of a Disputed Claim based on the delay attendant to determining the allowance of such Claim or Administrative Expense Claim.

After an objection to such a Disputed Claim is sustained in whole or in part by a Final Order or by agreement such that the Disputed Claim is not Allowed in whole or in part, (1) if the Disputed Claim was treated as a potential Claim or Interest in a Class which, under the Joint Plan, shares among its members the consideration available for such Class, then the Cash held in the Disputed Claims Reserve and any other consideration held in respect of the particular Disputed Claim (in excess of the distributions due on account of any resulting Allowed Claim or Allowed Interest) shall be distributed by the Reorganized Debtor or the Disbursing Agent to other Holders of Allowed Claims or Interests in such Class so as to give effect to the treatment set forth in the Joint Plan for such Class, (2) otherwise, any amount held in the Disputed Claims Reserve in respect of the particular Disputed Claim (in excess of the distributions due on account of any resulting Allowed Claim or Allowed Administrative Expense Claim) shall become the property of the Reorganized Debtor and may be used by the Reorganized Debtor in any manner not inconsistent with this Plan, provided however, that nothing in the Joint Plan precludes any claimant, including the IRS, from filing a notice of appeal of any final determination by the Bankruptcy Court disallowing a Claim. If the Claim of a Holder of a Claim is not Allowed (by example only, under 11 U.S.C. § 502(d)), the Claim of such Holder shall be cancelled, retired and of no further force and effect and such Holder shall be obligated to surrender any document, certificate or other matter evidencing such Claim. The Holders of any such cancelled instruments, securities and other documentation will have no rights arising from or relating to such instruments, securities or other documentation, or the cancellation thereof, except the rights provided pursuant to the Joint Plan.

If any distribution under the Joint Plan is returned to the Reorganized Debtor or its agents as undeliverable or the check or other similar instrument or distribution by the Reorganized Debtor remains uncashed or unclaimed for one

hundred eighty (180) days, such Cash or HHI Common Stock shall be deemed to be “Unclaimed Property.” Upon Cash becoming Unclaimed Property, it immediately shall be revested in the Reorganized Debtor. Upon unclaimed shares of HHI Common Stock or Class 5 Notes becoming Unclaimed Property, such shares or notes will be cancelled. Pending becoming Unclaimed Property, such Cash, Class 5 Notes, or HHI Common Stock will remain in the possession of the Disbursing Agent and, if the Disbursing Agent is notified in writing of a new address for the Holder, it shall cause distribution of the Cash or HHI Common Stock, as appropriate, within 45 days thereafter. Once there becomes Unclaimed Property for a Holder, no subsequent distributions for such Holder which may otherwise be due under the Joint Plan will accrue or be held for such Holder, provided that, if the Reorganized Debtor is notified in writing of such Holder’s then-current address and status as a Holder under the Joint Plan, thereafter, the Holder will become entitled to its share of distributions, if any, which first become due after such notification. Under Delaware law, HHI Common Stock held by HHI or the Reorganized Debtor will not be voted.

The Reorganized Debtor and the Disbursing Agent shall comply with all withholding and reporting requirements imposed by federal, state or local taxing authorities in connection with making distributions pursuant to the Joint Plan. In connection with each distribution with respect to which the filing of an information return (such as an Internal Revenue Service Form 1099 or 1042) or withholding is required, the Reorganized Debtor and the Disbursing Agent shall file such information return with the Internal Revenue Service and provide any required statements in connection therewith to the recipients of such distribution, or effect any such withholding and deposit all moneys so withheld to the extent required by law. With respect to any Person from whom a tax identification number, certified tax identification number or other tax information required by law to avoid

withholding has not been received by the Reorganized Debtor or the Disbursing Agent, the Reorganized Debtor or the Disbursing Agent may, at their sole option, withhold the amount required and distribute the balance to such Person or decline to make such distribution until the information is received; provided, however, that the Reorganized Debtor or the Disbursing Agent shall not be obligated to liquidate any securities to perform such withholding.

### *3. Restructuring Support Agreement*

Prior to the commencement of a hearing to consider the adequacy of the Disclosure Statement, the Joint Plan Proponents entered into a Restructuring Support Agreement. Under the Restructuring Support Agreement, HHI and RC Aviation made certain funding commitments that will provide all financing necessary to make all distributions required under the Joint Plan and to assure that the Reorganized Debtor will have the Minimum Cash Balance on the Effective Date of the Joint Plan. The actions to effect the transactions contemplated in the Restructuring Support Agreement may include: (a) the execution and delivery of appropriate agreements or other documents of transfer, merger, consolidation, restructuring, disposition, liquidation or dissolution containing terms that are consistent with the terms of the Joint Plan and that satisfy the requirements of applicable law and such other terms to which the applicable Entities may agree; (b) the execution and delivery of appropriate instruments of transfer, assignment, assumption or delegation of any asset, property, right, liability, duty or obligation on terms consistent with the terms of the Joint Plan and having such other terms as the applicable Entities may agree; (c) the filing of appropriate certificates or articles of merger, consolidation, continuance or dissolution or similar instruments with the applicable governmental authorities; and (d) the taking of all other actions that the applicable Entities determine to be necessary or appropriate, including

making other filings or recordings that may be required by applicable law in connection with such transactions.

In the Joint Plan, HHI has agreed to contribute to Hawaiian Air such shares of HHI common stock as are necessary to make any distribution of HHI stock under the Joint Plan.

4. *Sources of Cash for Joint Plan Distributions*

The sources of Cash for distribution under the Joint Plan shall be the Debtor's Cash and Cash from financing to be provided by HHI and RC Aviation. Financing sources utilized by HHI and RC Aviation may include any of the following or any other manner of financing agreed to in writing by the Trustee:

a. New Debt. HHI and RC Aviation shall, to the extent necessary to meet their financing obligations under the Joint Plan, obtain a commitment of one or more financial institutions or accredited investors to purchase new debt to be issued by Reorganized Debtor that generates net proceeds to the Reorganized Debtor of up to \$100,000,000 (the "New Debt"), provided, however, that HHI and RC Aviation shall not be required (but shall be authorized) to obtain a commitment for New Debt if HHI and RC Aviation receive commitments for the New Contribution, in a form reasonably satisfactory to the Trustee, that are sufficient to fund all payments required under the Joint Plan and maintain the Minimum Cash Balance. Up to \$100,000,000 of net proceeds of New Debt may be raised by the sale of notes issued by the Reorganized Debtor or HHI (the "New Notes"), which New Notes may be issued with a maximum aggregate principal amount of \$125,000,000, on terms reasonably acceptable to the Trustee, HHI, HHIC, and RC Aviation, after consultation with the Committee. Up to \$25,000,000 of New Debt may be secured debt of the Reorganized Debtor pursuant to a new Senior Secured Loan Facility with an independent third-party lender providing \$25,000,000 of

financing to the Reorganized Debtor on terms to be negotiated, at market rates (the “Senior Secured Loan Facility”). If the Senior Secured Loan Facility is finalized, the amount raised through the New Notes will be reduced by an amount equal to the Senior Secured Loan Facility and the maximum aggregate principal amount of the New Notes shall also be proportionately reduced. In addition, the Reorganized Debtor anticipates arranging for up to a \$25 million revolving line of credit that would also be secured.

b. New Contribution. Whether or any or all of the New Debt permitted above is actually issued, on the Effective Date of the Joint Plan, the HHI Parties will contribute to Debtor (the “New Contribution”) that amount required, after taking into account (i) the proceeds of the New Notes (if any) and the funds available under the Senior Secured Loan Facility (if any), to fund the payments required on the Effective Date under the Joint Plan, (ii) all payments required to be made on the Effective Date under the Joint Plan to Holders of Allowed Claims (excluding Holders of Allowed Ordinary Course Administrative Expense Claims) (it being understood that the amount of these payments will vary depending upon the elections made by Holders of Allowed Claims), and (iii) the Debtor’s unrestricted Cash balances on the Effective Date, to assure the Reorganized Debtor will have the Minimum Cash Balance. The Trustee and HHI, after consultation with the Committee, will agree on the minimum amount of the New Contribution prior to the Confirmation Hearing based on information then available regarding the Cash likely to be on hand on the Effective Date. The New Contribution may be raised through a rights offering of HHI Common Stock to HHI’s shareholders (the “Rights Offering”). If the Trustee, after consultation with the Committee, determines in his reasonable opinion that the Rights Offering cannot be completed without unduly delaying the Effective Date, RC Aviation will, within five Business Days of receiving written notice of such determination by the Trustee, fund the

New Contribution on an interim basis through the purchase of Series E Preferred Stock of HHI, on the terms described on Plan Exhibit C, which will be redeemed when the Rights Offering can be completed. In connection with the commitment by the members of RC Aviation to fund the New Contribution, HHI agreed to grant to such persons a five year warrant to purchase HHI Common Stock at an exercise price of \$7.20 per share (the “HHI Warrants”). One-half of the aggregate amount of such HHI Warrants, relating to five percent (5.0%) of the outstanding HHI Common Stock on a fully-diluted basis at the Effective Date, was earned upon such parties providing such commitment. The remaining HHI Warrants, relating to five percent (5.0%) of the outstanding HHI Common Stock on a fully-diluted basis at the Effective Date, will be earned upon the consummation of the funding of the New Contribution; provided, that the amount of these remaining HHI Warrants that will be earned is subject to a pro-rata adjustment should the total proceeds of the New Contribution be less than \$60,000,000.

c. RC Aviation Controlled Claims. The Holders of the RC Aviation Controlled Claims shall be deemed to have elected to receive the treatment specified in Section 4.5.1.1 of the Joint Plan. To the extent necessary to make all other Cash distributions under the Joint Plan on account of Allowed Claims and to fund the Disputed Claims Reserve on account of Disputed Claims as provided for, and in accordance with the procedure and limitations on the determination of the dollar amounts thereof as provided for in, Section 7.7 of the Joint Plan, and have the Minimum Cash Balance, notwithstanding any alternative treatment specified herein, in lieu of all or part of the distribution of Cash equal to 50% of the RC Aviation Controlled Claims (the “50% Cash Distribution”) as provided for in Section 4.5.1.1, Holders of RC Aviation Controlled Claims shall receive on the Effective Date (1) such Cash as is available after making all other Cash distributions required by the Plan and reserving the Minimum Cash Balance

(the “Available Cash”); and (2) a promissory note of the Reorganized Debtor in the principal amount equal to the 50% Cash Distribution, minus the Available Cash (the “RC Note”), that is all due and payable, with accrued interest on the first Business Day that is six months after the Effective Date (the “Maturity Date”). The RC Note shall bear interest from the Effective Date to the date of payment at rate of interest equal to LIBOR plus five percent (5%), calculated daily based upon the number of days elapsed and assuming a 360 day year. The principal and accrued and unpaid interest on the RC Note may be paid, without premium or penalty, at or before the Maturity Date. The payment can be made in Cash only if (x) the Reorganized Debtor’s unrestricted Cash balance exceeds the Minimum Cash Balance; or (y) the Reorganized Debtor receives an additional Cash equity contribution from HHI in an amount not less than the Cash to be paid on the RC Note. If the RC Note is not paid in Cash at or before the Maturity Date it shall be satisfied by the issuance of shares of HHI Common Stock (based upon the HHI Common Stock Distribution Price). Notwithstanding anything to the contrary in the Joint Plan, if the Available Cash at least equals the 50% Cash Distribution, the Holders of the RC Aviation Controlled Claims shall be entitled to receive on the Effective Date the treatment specified in Section 4.5.1.1 of the Plan (i.e. the 50% Cash Distribution and 50% of the RC Aviation Controlled Claims in Common Stock, based upon the HHI Common Stock Distribution Price).

d. Contribution of HHI Common Stock. On or prior to the Effective Date, HHI and or HHIC shall contribute to the Debtor such shares of HHI Common Stock as are necessary to make distributions under the Joint Plan.

e. Offer to Purchase. Whether or not the Joint Plan is confirmed, in the event that the Effective Date of the Plan has not occurred by March 31, 2005, RC Aviation has agreed to offer to purchase all Unsecured Claims, other than Lease Related Claims as set forth in the Restructuring Support Agreement at

amounts estimated by the Trustee or, if any such Claim has been actually determined by order of the Bankruptcy Court prior to the date of the Offer to Purchase, the amount of the allowed claim as determined by the Bankruptcy Court. If Joint Plan is not effective by March 31, 2005, and RC Aviation's offer is applicable, the allowance of Claims will be determined in accordance with the Bankruptcy Code and the Bankruptcy Rules.

5. *Amendment and Restatement of the Debtor's Articles of Incorporation and Bylaws*

On the Effective Date, the Amended and Restated Articles of Incorporation and Amended and Restated By-Laws shall be deemed adopted without further action of the shareholders or directors of the Reorganized Debtor and the Amended and Restated Articles of Incorporation shall be filed with the appropriate Secretary of State. The Amended and Restated Articles of Incorporation will, among other things, prohibit the issuance of nonvoting equity securities to the extent required by section 1123(a) of the Bankruptcy Code. The Amended and Restated Articles of Incorporation shall also prohibit the Reorganized Debtor for a period of two years from the Effective Date from paying any dividends or making any stock redemptions, or other payments to HHI, HHIC, or RC Aviation unless after giving effect to any such payment or other distribution, the Reorganized Debtor's unrestricted Cash exceeds the Minimum Cash Balance on January 31, 2005, provided however, that if the Effective Date occurs on any later date, that the Minimum Cash Balance shall be adjusted to account for seasonal variations in the Reorganized Debtor's Cash balances. Notwithstanding the foregoing, the Reorganized Debtor will be permitted under the Amended and Restated Articles of Incorporation to make distributions to HHI to service any New Debt issued by HHI to non-affiliates of HHI, HHIC, and RC Aviation. After the Effective Date, the Reorganized Debtor may amend and restate its Amended and Restated Articles of

Incorporation, Amended and Restated By-Laws and other constituent documents as permitted by applicable non-bankruptcy law.

6. *Corporate Action*

On the Effective Date, all actions contemplated by the Joint Plan shall be deemed authorized and approved in all respects (subject to the provisions of the Joint Plan), including, without limitation, the following: (a) the adoption and the filing with the Hawaii Department of Commerce and Consumer Affairs of the Amended and Restated Articles of Incorporation; (b) the adoption of the Amended and Restated By-Laws; (c) the execution and the delivery of, and the performance under, each of the Joint Plan Documents and all documents and agreements contemplated by or relating to any of the foregoing. All matters provided for under the Joint Plan involving the corporate structure of the Reorganized Debtor and any corporate action required by the Reorganized Debtor in connection with the Joint Plan shall be deemed to have occurred and shall be in effect pursuant to the Bankruptcy Code, without any requirement of further action by the shareholders or the directors of the Reorganized Debtor. On the Effective Date, Mr. Mark Dunkerley, the President of the Debtor, and other appropriate officers of the Reorganized Debtor should be authorized and directed to execute and to deliver the Joint Plan Documents and any other agreements, documents and instruments contemplated by the Joint Plan or the Joint Plan Documents in the name and on behalf of the Reorganized Debtor.

7. *Assumption of Aircraft Leases, as Modified*

The Debtor has assumed its Aircraft Leases with Boeing, Ansett and ILFC, and the terms of those Aircraft Leases, as modified by the Section 1110 Agreements with Boeing, Ansett, and ILFC previously approved by this Court, shall remain in effect following the Effective Date.

8. *Allowance of Ansett Claim*

The Ansett Claim shall be Allowed in the amount no less than \$106,320,000; provided, however, that the holder of the Ansett Claim shall reserve any and all rights to assert that the Allowed amount of the Ansett Claim is equal to its face amount of \$107,506,114.

RC Aviation, which holds the Ansett Claim, and the other HHI Parties believe that the Ansett Claim should be allowed in the amount of \$107,506,114, and reserve any and all rights with respect to any disputes regarding the allowance of the Ansett Claim.

9. *Collective Bargaining Agreements*

The Trustee, HHI, HHIC, and RC Aviation shall jointly seek to negotiate new or revised collective bargaining agreements with the Debtor's unions.

10. *Other Executory Contracts and Unexpired Leases*

Except as otherwise provided in the Plan, or in any Final Order, on the Effective Date, pursuant to Bankruptcy Code Section 365, each of the executory contracts and unexpired leases designated for assumption and listed on Plan Exhibit A, which will be Filed with the Bankruptcy Court five days prior to the hearing on the Disclosure Statement and may be amended through the date that is 10 days prior to the Confirmation Hearing, by notice Filed by the Trustee and served on the parties affected by such amendment, shall be assumed by the Debtor.

Each executory contract and unexpired lease identified for assumption or is not rejected under Article VI of the Joint Plan shall be assumed only to the extent, if any, that it constitutes an executory contract or unexpired lease on the Effective Date, and the listing of such contract or lease on Plan Exhibit A shall not constitute an admission by the Debtor, the Estate, or the Reorganized Debtor that such contract or lease is an executory contract or unexpired lease or that the Debtor or

the Estate have any liability thereunder. Any executory contract or unexpired lease that the Debtor assumes shall be deemed to be a permitted assignment notwithstanding a provision in such contract or lease requiring consent of the nondebtor party to such contract or lease.

The execution and recording of any memorandum of lease relating to any unexpired lease listed on Plan Exhibit A is hereby exempt from any law or requirement requiring lessor consent or joinder, whether express or otherwise, to such execution or recordation. The Reorganized Debtor or any agent or representative thereof, is hereby authorized to serve upon all filing and recording officers a notice, substantially in the form attached hereto as Plan Exhibit A, in connection with the execution, filing and recording of any memoranda of lease (whether recorded or unrecorded) in accordance with the Plan, to evidence and implement this paragraph. The appropriate state or local government filing and recording officers are hereby directed to accept for filing or recording any and all memoranda of lease to be executed, filed and recorded in accordance with the Plan and the exhibits thereto, without need for lessor consent or joinder to such execution or recordation, and without the presentation of any affidavits, instruments, or returns otherwise required for recording, other than the Confirmation Order. The Bankruptcy Court retains jurisdiction to enforce the foregoing direction, by contempt proceedings or otherwise.

The Confirmation Order shall constitute an order of the Bankruptcy Court approving assumption of the executory contracts and unexpired leases, as provided for under the Plan, pursuant to Bankruptcy Code Section 365, as of the Effective Date, to the extent such contracts or leases are executory contracts or unexpired leases. Any party in interest wishing to object to the assumption of an executory contract or unexpired lease, shall file and serve on counsel for the Trustee, counsel for the Committee, HHI Counsel, and the U.S. Trustee any objection to such

assumption by the same deadline and in the same manner established for filing objections to Confirmation, unless the assumption of such executory contract or unexpired lease is the subject of an amendment to Plan Exhibit A, in which case the deadline is the date that is the earlier of: (a) 20 days after the date of such amendment; or (b) 5 days before the Confirmation Hearing. Failure to file and serve any such objection by the applicable deadline shall constitute consent to the assumption, an acknowledgment that there are no defaults or Cure Amount Claims due under the executory contract or unexpired lease identified for assumption, except as set forth in Plan Exhibit A, and that adequate assurance of future performance in connection with the proposed assumption has been provided.

If an objection to assumption of an executory contract or unexpired lease is timely filed and: (a) a Final Order is entered determining that the executory contract or unexpired lease cannot be assumed; or (b) if the Debtor (before the Effective Date) or the Reorganized Debtor (after the Effective Date) gives notice to the other party to such executory contract or unexpired lease stating that assumption of such contract or lease is not in the best interests of the Estate in light of the objection, then the contract or lease shall automatically thereupon be deemed to have been included on Plan Exhibit B, and rejected pursuant to the Joint Plan.

If the rejection of an executory contract or unexpired lease pursuant to the Joint Plan gives rise to an Allowed Claim, such Claim shall be classified in Class 4 (other than a Lease Related Claim, which shall be classified in Class 5); provided, however, that any Claim arising from such rejection which has not been barred by a prior order of the Bankruptcy Court shall be forever barred and shall not be enforceable unless a proof of Claim is Filed within 30 days after the mailing of notice referred to in the Joint Plan. Nothing in the Joint Plan shall constitute a waiver of any other applicable bar date.

Any monetary defaults, including Cure Amount Claims, under each executory contract and unexpired lease to be assumed under the Plan, shall be satisfied, pursuant to Bankruptcy Code Section 365(b)(1), by payment of the Cure Amount Claim, if any as set forth in Plan Exhibit A (or as otherwise agreed by the Reorganized Debtor and the parties to such executory contract or unexpired lease or as provided in a Final Order, if a timely objection is filed to the assumption), and shall be paid on or as soon as practicable after the Effective Date by the Reorganized Debtor. In the case of a dispute with respect to such cure amount set forth in a timely filed objection to the assumption, the Reorganized Debtor shall pay such Cure Amount Claim in Cash on or as soon as practicable after entry of a Final Order resolving the dispute, and approving the assumption.

As of the Effective Date, the following executory contracts and unexpired leases shall be rejected to the extent, if any, that they constitute executory contracts or unexpired leases of the Debtor, including any remaining obligations of the Debtor under any executory contract or unexpired lease assigned by the Debtor prior to the Petition Date: (a) each executory contract or unexpired lease of the Debtor that: (i) has not been previously assumed, assumed and assigned, or rejected by Final Order; or (ii) is not the subject of a motion pending on the Effective Date to assume or to assume and assign; (b) each contract or lease of the Debtor that has expired by its own terms before the Confirmation Date; (c) any purchase orders executed or issued by the Debtor before the Petition Date which have not been previously performed, assumed and assigned, or terminated; (d) any contract providing for support, guaranty, contribution, indemnity, and similar obligations unless specifically assumed; and (e) the executory contracts and unexpired leases listed on Plan Exhibit B, which Plan Exhibit B will be filed 5 days prior to the hearing on the Disclosure Statement and may be amended through the date that is 10 days prior to the Confirmation Hearing, on notice filed by the

Debtor and served on the parties affected by such amendments. The listing of a contract or lease by category above, or on Plan Exhibit B, shall not constitute an admission by any party that such contract or lease is an executory contract or unexpired lease, or that the Debtor or the Estate have any liability thereunder, nor shall such listing, the absence of an objection thereto, or Confirmation constitute a finding or determination that any such contract or lease is an executory contract or unexpired lease.

The Confirmation Order shall constitute an order of the Bankruptcy Court approving the rejection of the executory contracts and unexpired leases as provided for under the Plan pursuant to Bankruptcy Code Sections 365 and 1123(b)(2). If an executory contract previously has been rejected, or is hereby rejected, under which the Debtor is a licensor of intellectual property (as defined in Bankruptcy Code Section 101(35A)), the licensee under such contract shall retain and may exercise its rights and remedies under Bankruptcy Code Section 365(n); provided, however, that such other party files and serves a notice of its alternative election on the Reorganized Debtor and its counsel within 30 days after the Effective Date and that nothing in the Plan, or any Exhibits to the Plan, shall constitute an admission by the Debtor, the Estate or the Reorganized Debtor that the Debtor is a licensor of intellectual property, or that Bankruptcy Code Sections 101(35A) or 365(n) apply to any such contract.

Any party in interest wishing to object to the rejection of an executory contract or unexpired lease identified for rejection, as provided under the Plan, shall file and serve on counsel for the Chapter 11 Trustee, counsel for the Committee, Plan Proponent Counsel, and the U.S. Trustee any objection by the same deadline and in the same manner established for filing objections to Confirmation, unless the rejection is the subject of an amendment to Plan Exhibit B, in which case the deadline is the date that is the earlier of: (a) 20 days after the

date of such amendment; or (b) the day that is 5 days before the Confirmation Hearing. Failure to file and serve any such objection by the applicable deadline shall constitute consent to the rejection.

*11. Discharge of the Debtor and Injunction*

Except as provided in the Joint Plan or Confirmation Order, the rights afforded hereunder and the treatment of Claims, Administrative Expense Claims and Interests thereunder will be in exchange for and in complete satisfaction, discharge and release of all Claims and Administrative Expense Claims, including any interest accrued on Claims from the Petition Date. Except as provided in the Joint Plan or the Confirmation Order, Confirmation will discharge the Debtor and Reorganized Debtor from all Claims, Administrative Expense Claims or other debts that arose before the Confirmation Date and all debts of the kind specified in sections 502(g), 502(h) or 502(i) of the Bankruptcy Code, whether or not (a) a proof of Claim based on such debt is filed or deemed filed pursuant to section 501 of the Bankruptcy Code, (b) a Claim based on such debt is allowed pursuant to section 502 of the Bankruptcy Code or (c) the Holder of a Claim or Administrative Expense Claim based on such debt has accepted the Joint Plan. As of the Confirmation Date, except as provided in the Joint Plan or the Confirmation Order, all Entities shall be precluded from asserting against the Debtor, the Reorganized Debtor, their successors or their property, any other or further claims, debts, rights, causes of action, liabilities or Interests based upon any act, omission, transaction or other activity of any nature that occurred prior to the Confirmation Date.

As of the Confirmation Date, except as provided in the Joint Plan, all Persons shall be precluded from asserting against the Debtor any other or further Claims, Administrative Expense Claims, Interests, debts, rights, causes of action, liabilities, or Interests based on any act, omission, transaction or other activity of

any kind or nature that occurred before the Confirmation Date. In accordance with the foregoing, except as provided in the Joint Plan or in the Confirmation Order, the Confirmation Order will be a judicial determination of discharge of all such Claims, Administrative Expense Claims and other debts and liabilities against the Debtor, pursuant to sections 524 and 1141 of the Bankruptcy Code, and such discharges shall void any judgment obtained against the Debtor at any time, to the extent that such judgment relates to a discharged liability, Claim, or Administrative Expense Claim. Notwithstanding the foregoing, the Securities and Exchange Commission (the “SEC”) and other governmental agencies shall not be subject to the foregoing injunction with respect to the exercise and enforcement of any of their respective regulatory or police rights and powers.

#### *12. Retention of Rights of Action*

In accordance with section 1123(b) of the Bankruptcy Code, the Reorganized Debtor, to the extent set forth below, and its successors, any assigns hereunder and future assigns will retain and may exclusively enforce any Rights of Action subject only to any express waiver or release thereof by the Trustee in the Joint Plan or in any other contract, instrument, release, indenture or other agreement entered into in connection with the Joint Plan or entered into otherwise by the Trustee, and the Confirmation Order’s approval of the Joint Plan shall be deemed a *res judicata* determination of such rights to retain and exclusively enforce such Rights of Action. Absent such express waiver or release, the Reorganized Debtor, or its successors or assigns may pursue Rights of Action, as appropriate, in accordance with the best interests of the Reorganized Debtor (or its successors or future assigns). The Trustee may designate certain Rights of Action for transfer, on the Effective Date, to a litigation trust having terms that shall be governed by a litigation trust agreement. The Rights of Action may be asserted or

prosecuted before or after solicitation of votes on the Joint Plan or before or after the Effective Date.

Absent an express waiver or release by the Trustee as referenced above, nothing in the Joint Plan shall (or is intended to) prevent, estop or be deemed to preclude the Reorganized Debtor from utilizing, pursuing, prosecuting or otherwise acting upon all or any of its Rights of Action and, therefore, no preclusion doctrine, including, without limitation, the doctrines of res judicata, collateral estoppel, issue preclusion, claim preclusion, estoppel (judicial, equitable or otherwise) or laches shall apply to such Rights of Action upon or after Confirmation or Consummation. *By example only and without limiting the foregoing, the utilization or assertion of a Right of Action or the initiation of any proceeding with respect thereto against a Person, by the Reorganized Debtor or any successor to or assign of it, shall not be barred (whether by estoppel, collateral estoppel, res judicata or otherwise) as a result of: (a) the solicitation of a vote on the Joint Plan from such Person or such Person's predecessor in interest; (b) the Claim, Interest or Administrative Expense Claim of such Person or such Person's predecessor in interest having been listed in the Debtor's Schedules, List of Holders of Interests, or in the Joint Plan, Disclosure Statement or any exhibit thereto; (c) prior objection to or allowance of a Claim, Interest or Administrative Expense Claim of the Person or such Person's predecessor in interest; or (d) Confirmation of the Joint Plan.*

Notwithstanding any allowance of a Claim or Administrative Expense Claim, the Reorganized Debtor reserves the right to seek, among other things, to have such Claim or Administrative Expense Claim disallowed if the Reorganized Debtor, at the appropriate time, determines that it has a defense under 11 U.S.C. § 502(d), *e.g.*, the Reorganized Debtor holds a Right of Action for an Avoidance claim against the Holder of such Claim or Administrative Expense Claim and such Holder after demand refuses to pay the amount due in respect thereto. Such

reservation shall remain subject to any limitation on application of 11 U.S.C. § 502(d) to Administrative Expense Claim under applicable law.

**UNLESS A RIGHT OF ACTION IS EXPRESSLY WAIVED UNDER THE JOINT PLAN OR A CLAIM IS EXPRESSLY ALLOWED UNDER THE JOINT PLAN, BEFORE OR AFTER SOLICITATION OF VOTES ON THE JOINT PLAN AND BEFORE OR AFTER THE EFFECTIVE DATE, THE REORGANIZED DEBTOR OR ANY SUCCESSOR MAY OBJECT TO A CLAIM OR ASSERT AGAINST THE HOLDER OF A CLAIM, IN ANY APPROPRIATE MANNER, INCLUDING THROUGH THE INITIATION OF COURT PROCEEDINGS, (A) RECOVERY ACTIONS OR (B) ANY OTHER RIGHTS OF ACTION.**

**MOREOVER, UNDER THE JOINT PLAN, REGARDLESS OF WHETHER A PERSON HAS A CLAIM, WHETHER THE CLAIM WAS LISTED IN THE DEBTOR'S SCHEDULES AND STATEMENTS OR FILED AS A PROOF OF CLAIM, OR WHETHER THE CLAIM WAS THE SUBJECT OF AN OBJECTION, THE SOLICITATION OF A VOTE ON THE JOINT PLAN FROM THE PERSON AND CONFIRMATION OF THE JOINT PLAN SHALL NOT BAR (WHETHER BY ESTOPPEL, COLLATERAL ESTOPPEL, RES JUDICATA OR OTHERWISE) SUCH OBJECTION OR ASSERTION OF A RIGHT OF ACTION AGAINST THE PERSON.**

### *13. Mutual Cooperation*

The Joint Plan Proponents shall (i) use commercially reasonable efforts to seek approval of a Disclosure Statement relating to the Joint Plan by the Bankruptcy Court, (ii) upon Bankruptcy Court approval of the Disclosure Statement, use commercially reasonable efforts to solicit acceptances of the Joint

Plan and (iii) take all other commercially reasonably necessary actions to support and obtain confirmation of and implement the Joint Plan.

*14. Termination of the Committee*

The Committee shall be terminated immediately upon the Effective Date; provided, however, that following the termination of the Committee, the professionals employed by the Committee may prepare and file their respective Fee Applications. Except as otherwise provided in the Joint Plan and notwithstanding anything provided in the Bankruptcy Code, the Committee shall not have any rights under the Bankruptcy Code as a Joint Plan Proponent, including, without limitation, rights under Section 1127 of the Bankruptcy Code.

*15. Trustee's Professionals*

Following the termination of the Trustee's appointment, the professionals employed by the Trustee may prepare and File their respective Fee Applications and the Trustee's Fee Applications.

*16. Exculpation and Limitation of Liability*

To the maximum extent permitted by law, none of the Debtor, the Trustee, the Reorganized Debtor, the Estate, the Committee, HHI, HHIC, RC Aviation, nor any of their employees, officers, directors, agents, members, representatives, or the professionals employed or retained by any of them, whether or not by Bankruptcy Court order (each, an "Exculpated Person"), shall have or incur liability to any Person for an act taken or omission made in good faith in connection with or related to the formulation of the Joint Plan, the Disclosure Statement, the Restructuring Support Agreement or a contract, instrument, release, or other agreement or document created in connection therewith, the solicitation of acceptances for or confirmation of the Joint Plan, or the consummation and implementation of the Joint Plan and the transactions contemplated therein. Each

Exculpated Person shall in all respects be entitled to reasonably rely on the advice of counsel with respect to its duties and responsibilities under the Joint Plan. Entry of the Confirmation Order constitutes a judicial determination that the exculpation provision contained in this Section is necessary to, inter alia, facilitate Confirmation and feasibility and to minimize potential claims arising after the Effective Date for indemnity, reimbursement or contribution from the Reorganized Debtor. The Confirmation Order's approval of the Joint Plan also constitutes a res judicata determination of the matters included in the exculpation provisions of the Joint Plan.

*17. Exemption from Transfer Taxes*

Pursuant to section 1146(c) of the Bankruptcy Code, any transfers from the Debtor to the Reorganized Debtor or any other Person pursuant to the Joint Plan including (a) the issuance, transfer, or exchange of HHI Common Stock, (b) the creation of any mortgage deed or trust, or other security interest, and (c) the making of any agreement or instrument in furtherance of, or in connection with, this Plan, shall not be subject to any document recording tax, stamp tax, conveyance fee, intangibles or similar tax, mortgage tax, stamp act, real estate transfer tax, mortgage recording tax or other similar Tax or governmental assessment.

*18. Amendment of the Joint Plan*

The Trustee and the HHI Parties, after consultation with the Committee, may seek to amend or modify the Joint Plan at any time prior to its Confirmation in the manner provided by section 1127 of the Bankruptcy Code or as otherwise permitted by law without additional disclosure pursuant to section 1125 of the Bankruptcy Code, except as the Bankruptcy Court may otherwise order, and the Trustee and the HHI Parties, after consultation with the Committee, reserve the

right to amend the terms of the Joint Plan or waive any conditions to its Confirmation, effectiveness or consummation if the Joint Plan Proponents determine that such amendments or waivers are necessary or desirable to confirm, effectuate or consummate the Joint Plan. To the extent that the Trustee and the HHI Parties agree to a modification of the Joint Plan that is material, the Committee shall have the right to withdraw as a Joint Plan Proponent and shall, notwithstanding Section 12.5 of the Joint Plan, be entitled to object to Confirmation of the Joint Plan.

After confirmation of the Joint Plan, the Trustee and the HHI Parties, after consultation with the Committee, may apply to the Bankruptcy Court, pursuant to section 1127 of the Bankruptcy Code, to modify the Joint Plan. After confirmation of the Joint Plan, the Trustee and the HHI Parties, after consultation with the Committee, may apply to remedy defects or omissions in the Joint Plan or to reconcile inconsistencies in the Joint Plan. The Joint Plan may not be altered, amended or modified without the written consent of the Trustee and the HHI Parties, after consultation with the Committee, or their successors.

#### *19. Revocation of the Joint Plan*

The Trustee and the HHI Parties reserve the right, to be exercised jointly, each in their sole and unfettered discretion, after consultation with the Committee, to revoke and withdraw the Joint Plan at any time prior to the Effective Date, in which case the Joint Plan will be deemed to be null and void (including (1) any discharge of Claims and Administrative Expenses and termination of Interests pursuant to section 1141 of the Bankruptcy Code will be deemed null and void, (2) the assumptions, assumptions and assignments or rejections of executory contracts and unexpired leases pursuant to the Joint Plan will be deemed null and void, and (3) nothing contained in the Joint Plan will (a) constitute a waiver or release of any

Right of Action, Claim, Administrative Expense Claim, Claim, or Interest or (b) prejudice in any manner the rights of the Reorganized Debtor).

**C. Conditions Precedent to Confirmation of the Joint Plan**

The Joint Plan provides that the Bankruptcy Court will not enter the Confirmation Order unless and until the following conditions have been satisfied or duly waived:

1. The Confirmation Order will be reasonably acceptable in form and substance to the Joint Plan Proponents and will expressly approve the Restructuring Support Agreement and authorize the transactions contemplated thereby.

2. All Exhibits to the Joint Plan shall be in form and substance reasonably satisfactory to the Joint Plan Proponents.

3. Collective bargaining agreements satisfactory to the Trustee and HHI shall be agreed upon, or if no such agreement has been reached, the Bankruptcy Court shall have entered an order pursuant to Section 1113 of the Bankruptcy Code authorizing the following modifications: existing collective bargaining agreements shall be extended in their current form and at their current wage and benefit levels for three (3) years beyond their amendable dates, provided however, that benefits under the Pilots' Pension Plan shall be frozen and replaced with defined contribution and disability plans having a cost no greater than the normal cost under the current Pilots' Pension Plan; provided, however, that this condition may be waived or modified by the Trustee and HHI in each of his or its sole and absolute discretion.

4. The Confirmation Order is entered no later than August 26, 2005.

**D. Conditions Precedent to the Occurrence of the Effective Date of the Joint Plan**

The Effective Date will not occur, and the Joint Plan will not be consummated, unless and until each of the following conditions have been satisfied or duly waived by the Joint Plan Proponents:

1. The Confirmation Order has been entered, has not been reversed, stayed, modified or amended and has become a Final Order.

2. The Confirmation Order shall authorize the Joint Plan Proponents to take all actions necessary or appropriate to implement the Joint Plan, including consummation of the Restructuring Support Agreement and transactions contemplated by the Joint Plan, as well as the implementation and consummation of all contracts, instruments, releases and other agreement or documents contemplated by the Joint Plan, the Restructuring Support Agreement, or the Restructuring Transactions.

3. The Restructuring Transactions have been consummated, either prior to or simultaneous with substantial consummation of the Joint Plan.

4. The Unsecured, non-Priority Claim held by the Internal Revenue Service against the Debtor for Tax related penalties shall be not Allowed by the Bankruptcy Court.

5. The Joint Plan shall not have been amended, altered or modified from the Joint Plan as confirmed, in any material respect, unless such amendment, alteration or modification has been consented to in accordance with Section 15.1 of the Joint Plan, and all Exhibits to the Joint Plan remain in form and substance reasonably satisfactory to the Joint Plan Proponents.

6. The Effective Date has occurred by February 26, 2006.

#### **IV. DESCRIPTION OF HHI CAPITAL STOCK**

HHI is incorporated in the State of Delaware. The rights of shareholders of HHI are generally governed by Delaware law and HHI's certificate of incorporation and by-laws. This summary is not a complete discussion of, and is qualified by reference to, Delaware law, including the Delaware General Corporation Law (DGCL) and the common and constitutional law of the State of Delaware, and the full texts of HHI's amended and restated certificate of incorporation and by-laws.

##### **A. General**

The authorized capital of HHI is 62 million shares, consisting of 2 million shares of preferred stock, par value \$.01 per share, and 60 million shares of common stock, par value \$.01 per share. 29,750,105 shares of HHI Common Stock are outstanding and seven shares of special preferred stock of HHI are outstanding. These shares are issued in four series to AIP LLC and ALPA, AFA and IAM, each of which currently has a right to nominate a member to the HHI board.

##### **B. Common Stock**

*Dividends and Distributions.* Subject to preferences applicable to outstanding HHI preferred stock, the holders of outstanding shares of HHI Common Stock will be entitled to receive dividends and other distributions out of assets legally available at times and in amounts as the board of directors of HHI may determine from time to time. All shares of HHI Common Stock are entitled to participate ratably with respect to dividends or other distributions.

*Liquidation Rights.* If HHI is liquidated, dissolved or wound up, voluntarily or involuntarily, holders of HHI Common Stock are entitled to share ratably in all assets of HHI available for distribution to HHI's shareholders after the payment in

full of any preferential amounts to which holders of any HHI preferred stock may be entitled.

*Voting Rights.* Holders of HHI Common Stock are entitled to one vote per share on all matters to be voted upon by shareholders. There are no cumulative voting rights. Shareholders may vote by proxy.

*Other.* There are no preemption, redemption, sinking fund or conversion rights applicable to the HHI Common Stock.

### **C. Preferred Stock**

The board of directors of HHI may, without further shareholder approval, issue up to two million shares of preferred stock in one or more series and fix the number of shares constituting, the designation, voting powers (if any), preferences and other rights, as well as the qualifications, limitations and restrictions, of the series. The powers, preferences and rights, and the qualifications, limitations or restrictions, if any, of each series of preferred stock may be different from those of any and all other series. The issuance of HHI preferred stock may have the effect of delaying, deferring or preventing a change of control of HHI without further premium over the market price of HHI Common Stock and may adversely affect the market price of, and the voting and other rights of the holders of, HHI Common Stock.

### **D. Special Preferred Stock and Related Provisions**

HHI has designated the following four series of special preferred stock: four shares of Series A special preferred stock, par value \$.01 per share; one share of Series B special preferred stock, par value \$.01 per share; one share of Series C special preferred stock, par value \$.01 per share; and one share of Series D special preferred stock, par value \$.01 per share.

HHI has issued these seven shares of special preferred stock as follows:

- four shares of Series A special preferred stock to AIP LLC;
- one share of Series B special preferred stock to IAM in accordance with the existing collective bargaining agreement with the Debtor;
- one share of Series C special preferred stock to AFA in accordance with the existing collective bargaining agreement with the Debtor; and
- one share of Series D special preferred stock to ALPA in accordance with the existing collective bargaining agreement with the Debtor.

*Dividend Rights and Limitations.* At any time that a dividend or distribution is declared and paid with respect to HHI Common Stock, holders of each series of HHI's special preferred stock will have the right to receive a dividend per share equal to twice the dividend per share paid on HHI Common Stock.

*Liquidation Rights.* In the event of any liquidation, dissolution or winding up of HHI, whether voluntary or involuntary, holders of HHI's special preferred stock have the right to receive, out of the assets of HHI, \$.01 per share before any payment is made or any assets distributed to the holders of HHI Common Stock or to the holders of any other class of HHI's stock.

*Voting Rights.* Holders of HHI's special preferred stock will have the right to one vote per share, together with HHI Common Stock, voting as a single class, with respect to any matters submitted for a vote to the holders of HHI Common Stock.

*Nomination of Members of the Board.* Holders of record of HHI special preferred stock will have the right to identify individuals for nomination by the board of directors of HHI to serve as directors as follows:

- A holder of Series A special preferred stock of HHI will have the following rights:
- If the holder, together with specified affiliates, owns at least 35% of the shares of the outstanding HHI Common Stock (on a fully diluted

basis), then the holder will be entitled to identify six directors to the HHI board for nomination.

- If the holder, together with specified affiliates, owns at least 25% of the shares of the outstanding HHI Common Stock (on a fully diluted basis), but does not satisfy the requirement for identifying six directors specified above, then the holder will be entitled to identify five directors to the HHI board for nomination.
- If the holder, together with specified affiliates, owns at least 10% of the shares of the outstanding HHI Common Stock (on a fully diluted basis), but does not satisfy the requirement for identifying five directors specified above, then the holder will be entitled to identify four directors to the HHI board for nomination.
- If the holder, together with specified affiliates, owns at least 5% of the shares of the outstanding HHI Common Stock (on a fully diluted basis), but does not satisfy the requirement for identifying four directors specified above, then the holder will be entitled to identify three directors to the HHI board for nomination.
- If the holder, together with specified affiliates, owns less than 5% of the shares of the outstanding HHI Common Stock (on a fully diluted basis), then the holder will not be entitled to identify any directors to the HHI board for nomination.
- If the holder only has the right to identify less than six directors to the HHI board for nomination, the remaining directors will be comprised of outside directors that are not affiliated with either the holder or any of the unions with board representation.
- Each labor union holding the Series B, Series C and Series D special preferred stock of HHI will have the right to identify one director to HHI's board for nomination so long as the collective bargaining agreement between the union and the Debtor entitles the union to nominate a director.
- The parties to the existing stockholders agreement to which HHI and AIP LLC are party have also agreed to take all action within their respective power, including the voting of capital stock of HHI, to, among other things, cause:

- the election to the board of directors of the persons identified for nomination by the holders of the special preferred stock; and
- to make reasonable efforts to ensure that at least one employee director serves on each significant committee of the board of directors other than the audit committee.

AIP LLC and RC Aviation, LLC are party to a stockholders agreement dated as of June 11, 2004, pursuant to which, among other things, AIP LLC granted to RC Aviation, LLC, the right to direct the voting of the Series A special preferred stock of HHI and AIP LLC's HHI Common Stock.

*Filling Vacancies on the Board of Directors.* Newly created directorships and vacancies may be filled by the affirmative vote of a majority of the HHI board or by a plurality of the votes cast by shareholders at a meeting. However, if the vacancy is of a director nominated by a holder of special preferred stock, HHI may fill the vacancy only with a person nominated by this holder. Furthermore, if such vacancy is not filled within 30 days, the vacancy may be filled by the affirmative vote of the holders of a majority of the applicable series of special preferred stock.

*Restrictions on Transfers and Conversion Provisions.* The rights and preferences of shares of HHI special preferred stock cease to exist once the outstanding shares are converted into HHI Common Stock. This conversion will occur at a 1:1 ratio. Conversion occurs automatically in the following circumstances:

- The Series A special preferred stock of HHI will convert:
  - upon transfer to any person other than an affiliate of the original holder; or
  - if the holder, together with its affiliates, becomes the holder of less than 5% of the then outstanding shares of HHI Common Stock (on a fully diluted basis) for a period of 365 consecutive days.

- The Series B special preferred stock, Series C special preferred stock and Series D special preferred stock of HHI will convert:
  - upon transfer to any third party or
  - if the collective bargaining agreement between the holder and HHI is amended so that it no longer entitles the holder to nominate a representative on the board of directors.

*Merger and Similar Transactions.* In the event HHI enters into any consolidation, merger or other transaction in which shares of HHI Common Stock are exchanged for or changed into other stock, securities, Cash or other property, then all shares of HHI special preferred stock will at the same time be exchanged for or changed into an amount per share equal to the aggregate amount of stock, securities, Cash and other property received in exchange for each share of HHI Common Stock.

*Other.* None of the shares of HHI special preferred stock are subject to redemption, but HHI may acquire shares of HHI special preferred stock in any other manner permitted by law. There is no provision for anti-dilution adjustments for HHI special preferred stock, including with respect to the number of shares of HHI Common Stock issuable upon conversion of shares of HHI special preferred stock.

*Directors.* A quorum for the transaction of business at a meeting of the HHI board is the presence in person of a majority of the HHI board. However, a quorum must include at least three directors, if any, nominated by the holder of the Series A special preferred stock.

*Amendment of HHI's Restated Certificate of Incorporation.* Most provisions in HHI's restated certificate of incorporation, including those relating to the special preferred stock but excluding the authorized capital provision, may be amended only by the affirmative vote of the holders of at least two-thirds of the

combined voting power of the outstanding shares of voting stock of HHI voting together as a single class.

*Amendment of HHI's By-Laws.* HHI's board may amend the by-laws of HHI by the vote of a majority of the entire board of directors, subject to the power of shareholders to alter or repeal any by-law provision. However, amendment of the following provisions will require a majority of the board that includes at least one of the directors, if any, nominated by the Series A special preferred stock:

- amendment of the by-laws;
- the number, qualification or term of office of directors;
- newly created directorships or vacancies;
- removal of directors;
- special meetings of the board; and
- quorum of directors.

#### **E. Anti-Takeover Effects of HHI's Certificate of Incorporation and By-Laws**

Some provisions of HHI's amended and restated certificate of incorporation and amended by-laws could make the following more difficult:

- acquisition of HHI by means of a tender offer; or
- acquisition of HHI by means of a proxy contest or otherwise.

These provisions, which are summarized below, are intended to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of HHI to first negotiate with the board of directors of HHI. HHI believes that the benefits of increased protection give HHI the potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure the company and

outweigh the disadvantages of discouraging the proposals because negotiation of the proposals could result in an improvement of their terms.

*Special Meetings.* Under the amended by-laws of HHI, special meetings of HHI shareholders may be called only by the chairman of the board of directors or by a resolution approved by a majority of the board of directors. Business at the meetings is limited to the purpose stated in the notice for the meeting.

*Requirements for Advance Notification of Shareholder Nominations and Proposals.* HHI's amended by-laws require that shareholders provide advance notice of nomination of directors and shareholder proposals for consideration of an annual meeting. Notice for an annual meeting must be received by HHI:

- not earlier than 120 days prior to the anniversary of last year's annual meeting; and
- not later than 90 days prior to such anniversary date.

If the date of the annual meeting is more than 30 days before or 70 days after such anniversary date, then notice must be received by HHI:

- not earlier than 120 days prior to the date of the annual meeting; and
- not later than 90 days prior to the date of the annual meeting, or 10 days after public announcement of such date, if later.

The notice must include specified information regarding the nominee or the proposal and the shareholder making the nomination or proposal that would be required by the proxy rules of the SEC.

Only business identified in the notice of special meeting may be conducted at the special meeting. If a special meeting is called to elect directors, a shareholder may submit nominations provided that the shareholder's notice is received by HHI:

- not earlier than 120 days prior to the date of the special meeting; and
- not later than 90 days prior to the date of the special meeting, or 10 days after public announcement of such date, if later.

*Elimination of Shareholder Action by Written Consent.* Under the restated certificate of incorporation of HHI, any action required or permitted to be taken by shareholders must be effected at an annual or special meeting of shareholders, subject to the rights of holders of any series of HHI preferred stock.

*Undesignated Preferred Stock.* The ability of the board of directors of HHI to issue preferred stock with voting or other rights or preferences is described above.

*Board Nomination and Vacancy Replacement Rights of Holders of Special Preferred Stock.* The ability of holders of special preferred stock to designate for nomination and replace directors, as described above, will limit in a material manner the ability of holders of HHI Common Stock to elect and replace members of the board of directors.

*Amendments to Certificate of Incorporation.* The amendment of these and other provisions that are contained in the restated certificate of incorporation would require approval by holders of at least two-thirds of the outstanding shares of HHI Common Stock.

## **F. Delaware Anti-Takeover Statute**

Under the terms of HHI's restated certificate of incorporation and as permitted under Delaware law, HHI has elected not to be subject to Delaware's anti-takeover law.

## **G. Other Provisions**

*Limitation on Voting by Foreign Shareholders.* The restated certificate of incorporation of HHI provides that shares of capital stock may not be voted by, or at the direction of, persons who are not citizens of the United States unless the shares are registered on a separate stock record. Under federal law, no more than 25% of the voting stock of a United States airline such as the Debtor may be

owned or controlled, directly or indirectly, by persons who are not U.S. citizens, and the airline itself, as well as its president and at least two-thirds of its directors or other managing officers, must be U.S. citizens. For these purposes, “U.S. citizen” means:

- an individual who is a citizen of the United States;
- a partnership each of whose partners is an individual who is a citizen of the United States; or
- a corporation or association organized under the laws of the United States or a State, the District of Columbia, or a territory or possession of the United States, of which the president and at least two-thirds of the board of directors and other managing officers are citizens of the United States, and in which at least 75% of the voting interest is owned or controlled by persons that are citizens of the United States.

In addition, the Department of Transportation has broad authority to determine on a case-by-case basis whether an air carrier is effectively owned and controlled by U.S. citizens, and has indicated that the ownership of less than 50% of an air carrier’s total equity securities by non-U.S. citizens, taken alone, is not indicative of foreign control of the airline.

In order to comply with these rules, HHI’s restated certificate of incorporation provides that no shares will be registered on the foreign stock record described above if the amount so registered would exceed the restrictions described above or adversely affect the Debtor’s operating certificates or authorities. Registration on the foreign stock record is made in chronological order based on the date HHI receives a written request for registration.

*Limitation of Director Liability and Indemnification.* HHI’s restated certificate of incorporation provides, to the full extent permitted by Delaware law, that directors will not be liable to HHI or its stockholders for monetary damages for breach of fiduciary duty as a director.

In the event that the DGCL is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of the HHI directors will be eliminated or limited to the fullest extent permitted by the DGCL, as so amended. The restated certificate of incorporation and amended by-laws of HHI further provide that HHI will indemnify each of its directors and officers to the full extent permitted by Delaware law and may indemnify other persons as authorized by the DGCL. These provisions do not eliminate any monetary liability of directors under the federal securities laws.

#### **H. Trading Value of HHI Common Stock**

The HHI Common Stock is listed on the American Stock Exchange (“Amex”) and has continued to trade on Amex during much of the Debtor’s reorganization. The closing price for the HHI Common Stock on September 9, 2004 was \$8.31. The closing price for the HHI Common Stock on the date of the initial filing of the Joint Plan on August 30, 2004 was \$6.96 and the closing price on the date that RC Aviation acquired 10,000,000 shares of HHI Common Stock in a private transaction on June 14, 2004 was \$5.19 (although RC Aviation paid \$4.14 per share in a previously executed agreement to purchase such stock). The 50-day moving average for the HHI Common Stock is \$6.42. The following chart sets forth the high and low sales price per share for the HHI Common Stock in each calendar quarter since January 1, 2003:

<u>Calendar Quarter</u>	<u>High</u>	<u>Low</u>
Third quarter 2004	\$8.72	\$5.28
Second quarter 2004	\$7.40	\$3.52
First quarter 2004	\$5.10	\$2.47

Fourth quarter 2003	\$3.18	\$1.00
Third quarter 2003	\$1.93	\$0.65
Second quarter 2003	\$1.50	\$0.29
First quarter 2003	\$2.15	\$1.01

The market price of the HHI Common Stock after the date hereof may be higher or lower than the historical market prices. The Joint Plan Proponents make no representation or warranty as to the potential future market price of the HHI Common Stock. The future market price of HHI Common Stock is subject to a number of factors, including the risk factors described in Section XI “Certain Factors to Consider in Voting to Accept or Reject the Joint Plan.” Sales of a significant number of these shares, or the perception that these sales could occur, could materially and adversely affect the market price of the HHI Common Stock.

A significant number of shares of HHI Common Stock and securities convertible into HHI Common Stock will be issued in connection with the Joint Plan. As currently contemplated by the Joint Plan and the proposed financing arrangements:

- If on the Effective Date there is sufficient Cash such that the holders of the Ansett Claim and the Boeing Claim will receive no more than 50% of the Allowed amount of such Claims in HHI Common Stock, HHI would issue between 10,875,000 shares of HHI Common Stock (at \$8.00 per share) and 17,400,000 shares of HHI Common Stock (at \$5.00 per share) to such holders;
- Assuming that the Allowed amount of Unsecured Claims does not exceed \$40 million, HHI could issue up to 2,500,000 shares of HHI Common Stock (at \$8.00 per share) and 4,000,000 shares of HHI

Common Stock (at \$5.00 per share) to holders of Allowed Class 4 Claims electing to receive Cash in an amount equal to fifty percent (50%) of the amount of such Allowed Unsecured Claim and a number of shares of HHI Common Stock equal to fifty percent (50%) of the amount of such Allowed Unsecured Claims; and

- HHI has already issued warrants exercisable to purchase at \$7.20 per share up to five percent (5%) of the fully-diluted HHI Common Stock, and could issue additional warrants exercisable to purchase at \$7.20 per share up to an additional five percent (5%) of the fully-diluted HHI Common Stock.

These ranges of potential equity issuances are based on numerous assumptions which could change prior to consummation of the Joint Plan or could prove incorrect. Such assumptions include, but are not limited to: the portion of each of Class 4 and Class 5 electing to receive an equity component for their claims; the final aggregate dollar amount of the Class 4 and Class 5 claims; the size, if any of the New Contribution; the form of debt financing raised and the conversion price of any such debt financing which is convertible; the conversion price or issuance price of any equity securities sold pursuant to the New Contribution; and the market price of the HHI Common Stock in the twenty trading days following the entry of the order approving this disclosure statement.

The above ranges are included for illustrative purposes and as stated above, are based upon a number of assumptions, some or all of which may not occur. In particular, the ultimate form and terms for financing the Joint Plan have not yet been definitively determined. As a result, the ultimate number of shares of HHI Common Stock or equity equivalents issued may be more than the maximum range and may be less than the minimum range.

## V. DESCRIPTION OF THE CLASS 5 NOTES

The Class 5 Notes shall be unsecured obligations of the Reorganized Debtor, having the following terms:

- Principal amount: 100% of the Allowed Class 5 Lease Related Claim (excluding postpetition interest);
- Maturity Date: 15 years following the first business day of the second month after the Effective Date;
- Interest: accrues as of the Effective Date and continues thereafter until the full payment of the Principal Amount, at a rate of 6.5% per annum, simple interest;
- Amortization Payments: (i) on the first Business Day of the first month after the Effective Date, payment of interest accruing from the Effective Date through the end of the month in which the Effective Date occurs; and (ii) commencing on the first Business Day of the second month after the effective Date and continuing until the Maturity Date, equal monthly payments of principal and interest; and
- Miscellaneous: No covenants, guarantees, or cross-defaults. Prepayment at any time without limitation, penalty or premium.

## **VI. DESCRIPTION OF THE DEBTOR'S BUSINESS**

Hawaiian is a certificated air carrier engaged primarily in the business of transporting passengers and cargo. It is the largest airline headquartered in Hawaii. From its Honolulu base, the Debtor serves seven cities in Hawaii (two by code share), eight cities on the western United States mainland, and serves American Samoa and French Polynesia. In May 2004, Hawaiian inaugurated service to Sydney, Australia.

Principally all of the Debtor's flight operations either originate or end in the State of Hawaii. The management of the Debtor's operations is based on a system-wide approach due to the interdependence of its route structure in the various markets that it serves.

As of June 30, 2004, the Debtor operated approximately 140 scheduled flights per day with:

- daily service on the Debtor's transpacific routes between Hawaii and Los Angeles, Sacramento, San Diego and San Francisco, California; Las Vegas, Nevada; Phoenix, Arizona; Portland, Oregon and Seattle, Washington;
- daily service on the Debtor's interisland routes among the six major islands (two by code share) of the State of Hawaii; and
- weekly service on the Debtor's south pacific routes as a direct provider of air transportation from Hawaii to each of Pago Pago, American Samoa, Sydney, Australia, and Papeete, Tahiti in the South Pacific.

The Debtor's fleet currently consists of 11 Boeing 717 aircraft and 14 Boeing 767 aircraft. The Debtor employs nearly 3,300 employees, 90% of which

are based in Hawaii. Approximately 85% of the Debtor's employees are covered by collective bargaining agreements.

The Debtor developed extensive maintenance programs, which consist of a series of phased or continuous checks for each aircraft type. These checks are performed at specified intervals measured either by time flown or by the number of takeoffs and landings, or "cycles", performed. In addition, from time to time, the Debtor performs inspections, repairs and modifications of the Debtor's aircraft in response to FAA directives. Checks range from daily "walk around" inspections, to more involved overnight maintenance checks, to exhaustive and time consuming major overhauls. Aircraft engines are subject to phased maintenance programs designed to detect and remedy potential problems before they occur.

The Debtor also has marketing alliances with other airlines that provide reciprocal frequent flyer mileage accrual and redemption privileges and codesharing (one carrier placing its name and flight numbers, or "code", on flights operated by the other carrier) on certain flights. The Debtor has codesharing agreements with Alaska Airlines, America West Airlines, American Airlines, American Eagle Airlines, Continental Airlines, Island Air, and Northwest Airlines. The Debtor also participates in the frequent flyer programs of Alaska Airlines, America West Airlines, American Airlines, Continental Airlines, Northwest Airlines and Virgin Atlantic Airlines. These programs enhance the Debtor's revenue opportunities by:

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

Most of the Debtor's ticket sales are generated by direct, web based, and travel agency sales. In an effort to reduce the Debtor's reliance on travel agencies and lower its distribution costs, the Debtor expanded and pursued e-commerce initiatives. During 2002, the Debtor converted to ticketless operations in a similar manner as most U.S. airlines and effective January 2003, the Debtor announced the discontinuation of travel voucher coupons.

Electronic tickets, or e-tickets, result in lower distribution costs to the Debtor while providing increased customer convenience. The Debtor's website, <http://www.HawaiianAir.com>, offers customers information on the Debtor's flight schedules, its frequent flyer program, HawaiianMiles, booking reservations on its flights or connecting flights with any of the Debtor's code share partners, the status of the Debtor's flights as well as the ability to purchase tickets or travel packages. The Debtor also publishes fares with web-based travel services such as ORBITZ, Travelocity, Expedia, Cheap Tickets, Trip, Hotwire and Priceline. These comprehensive travel planning websites provide customers with convenient online access to airline, hotel, car rental and other travel services.

The Debtor has a HawaiianMiles frequent flyer program that it initiated in 1983 to encourage and develop a customer loyalty base. The HawaiianMiles program allows passengers to earn mileage credits by flying with the Debtor and its partner carriers. The Debtor also credits members with mileage credits for patronage with the Debtor's program partners, including hotels, car rental firms, credit card issuers and long distance telephone companies, pursuant to the Debtor's exchange partnership agreements. The Debtor also sells mileage credits to other companies participating in the program.

The Debtor's HawaiianMiles members are entitled to a choice of various awards based on accumulated mileage, with a majority of the awards being free air travel. Travel awards available in the HawaiianMiles program range from a 5,000

mile award, which is redeemable for a one-way interisland flight, to 60,000 and 75,000 mile awards, which are redeemable for a roundtrip first class transpacific flight and a roundtrip first class south pacific flight, respectively.

In 2002 and early 2003, the Debtor entered into agreements with two financial institutions to establish co-branded credit and debit cards, linked to the Debtor's HawaiianMiles program for the program's members as well as the Debtor's other customers and prospective customers.

A pioneer of Pacific aviation, the Debtor was incorporated on January 30, 1929 under the name Inter-Island Airways Ltd. On November 11 that same year, thousands gathered at Honolulu's John Rodgers Airport to witness the departure of Hawaii's first scheduled interisland flights.

In 1941 Inter-Island changed its name to Hawaiian Airlines and introduced the 24-passenger DC-3 to Hawaiian skies. The advent of commercial jet service in the 1960s resulted in increased air traffic to and from Hawaii. The Debtor grew to accommodate the travel needs of a growing residential population as well as an increased number of tourists visiting Hawaii.

In 1984 the Debtor began to provide worldwide charter services using three long-range DC-8 jets. Soon after, scheduled service began to Pago Pago, American Samoa and Nuku'alofa, Tonga. June 12, 1985 marked the inauguration of the Debtor's scheduled widebody jet service between the West Coast and Hawaii with daily flights to Los Angeles, expanding in January 1986 to include daily flights between Hawaii and San Francisco and Seattle. Service to Western Samoa soon followed.

During its seventy-five year history, the Debtor has never had a single fatality, making it one of the world's safest airlines.

In September 1993, the Debtor filed for bankruptcy protection under chapter 11 of the Bankruptcy Code. The Debtor emerged from its prior bankruptcy case

pursuant to a confirmed plan of reorganization on September 12, 1994. Subsequently, in January 1996, the Debtor received an infusion of capital by selling a controlling interest in the Debtor – 69% of its common stock – to Airline Investors Partnership, L.P. (“Airline Investors Partnership”) in exchange for \$20 million in cash and other consideration. At that time, John Adams became Chairman of the Board of Directors of the Debtor.

From June 1995 until August 2002, the Debtor was a publicly held company. As discussed in further detail hereafter, in August 2002, the Debtor became a wholly owned subsidiary of HHI.

## **VII. RESULTS OF THE DEBTOR'S OPERATIONS**

This discussion analyzes the Debtor's operations for the six months ended June 30, 2004 and June 30, 2003, and for fiscal years 2003 and 2002. The following information should be read together with the audited financial statements for the Debtor attached as Exhibit C to this Disclosure Statement and other notes included elsewhere in this Disclosure Statement. Some of the following discussion includes a comparison of the Debtor's results of operations that occurred after the commencement of its chapter 11 case compared to financial results of operations occurring before the commencement of its chapter 11 case.

Some of the financial information included herein includes financial information from the Debtor's monthly operating reports that it files with the Bankruptcy Court, which are unaudited. These financial statements, as well as the Debtor's audited financial statements for periods subsequent to its bankruptcy filing, are prepared in accordance with American Institute of Certified Public Accountants' Statement of Position 90-7 ("SOP 90-7"), "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code," 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 the Debtor's reorganization and restructuring are reported separately as reorganization items in its 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 different/lesser amounts.

**A. Comparison of the First Six Months of 2004 to the First Six Months of 2003.<sup>2</sup>**

The following chart illustrates the Debtor’s financial performance for the six months ended June 30, 2004 and the six months ended June 30, 2003.

	Total Operating Revenues & Expenses Six-Months Ended June 30,		Percentage Change
	2004	2003	
<b>Operating Revenue:</b>			
Passenger	\$ 340.5	\$ 283.0	20%
Charter	3.0	18.1	(83)%
Cargo	14.7	13.1	12%
Other	18.7	10.5	78%
<b>Total</b>	<b>376.9</b>	<b>324.7</b>	<b>16%</b>
<b>Operating Expenses:</b>			
Wages and benefits	115.1	107.8	7%
Fuel, taxes, and oil	59.8	48.1	24%
Maintenance	24.5	26.8	(9)%
Aircraft rent	53.2	56.8	(6)%
Other rentals, landing fees	12.0	12.4	(3)%
Sales commissions	2.1	2.1	-
Dep. and amortization	3.6	3.6	-
Special charges (credits)	-	(17.5)	(100)%
Other	71.2	70.8	1%
<b>Total</b>	<b>341.5</b>	<b>310.9</b>	<b>10%</b>
<b>Operating Income</b>	<b>35.4</b>	<b>13.8</b>	<b>157%</b>
<b>Nonoperating Income (Expense):</b>			
Reorganization items, net	(7.0)	(7.7)	
Interest, etc., net	(0.1)	-	
Other, net	(0.1)	0.2	
<b>Total</b>	<b>(7.2)</b>	<b>(7.5)</b>	
<b>Income Before Taxes</b>	<b>28.2</b>	<b>6.3</b>	
<b>Income Tax (Expense)</b>	<b>(12.7)</b>	<b>-</b>	
<b>Net Income</b>	<b>\$ 15.5</b>	<b>\$ 6.3</b>	

<sup>2</sup> The following financial information is for Hawaiian Airlines, Inc., the Debtor. The common stock being issued under the Joint Plan is not common stock of the Debtor, but rather is common stock of Hawaiian Holdings, Inc. See Section IV “Description of HHI Capital Stock” for a further discussion of HHI.

For the six months ended June 30, 2004, the Debtor reported operating income of \$35.4 million and net income of \$15.5 million. For the six months ended June 30, 2003, the Debtor reported operating income of \$13.8 million and net income of \$6.3 million.

*1. Operating Revenue.*

For the six months ended June 30, 2004, the Debtor's operating revenue was \$376.9 million compared to \$324.7 million over the six months ended June 30, 2003, representing a 16.1 percent improvement of \$52.2 million. Although capacity remained constant, traffic increased significantly. Available seat miles ("ASMs") decreased by only 0.5 percent on two less aircraft to 3.5 billion, while passenger miles ("RPMs") improved by 11.5 percent, resulting in a system load factor of 84.1 percent and a 9.1 percentage point improvement over the same period in 2003. Revenue per available seat mile ("RASM") increased significantly, largely due to changes in fares and distribution as well as increased passenger volume and load factors. The Debtor's system RASM over the six months ended June 30, 2004 was 10.6 cents, representing an improvement of 16.7 percent over the six months ended June 30, 2003 RASM of 9.1 cents. The Debtor's scheduled passenger yield increased in the six months ended June 30, 2004 by 1.8% to 11.6 cents from 11.4 cents in the six months ended June 30, 2003.

Charter revenue totaled \$3.1 million over the six months ended June 30, 2004, a decline of 83.1 percent, compared to the same period in 2003 due to military charters flown in the same period of 2003 and as a result of assigning aircraft assets to the Debtor's scheduled operation. Cargo revenue totaled \$14.7 million for the six months ended June 30, 2004, an increase of \$1.6 million, or 12.2

percent, compared to the same period in 2003 primarily due to increases in excess baggage revenue, and greater containerized freight carried on the Debtor's transpacific and interisland flights. All other operating revenue in the six months ended June 30, 2004 totaled \$18.7 million. This included \$9.5 million in miscellaneous fees and penalties, \$6.6 million for the sale of fuel (offset on the expense side by the cost of the fuel), \$1.9 million for in-flight liquor and headset sales and \$0.4 million for ground handling services.

2. *Operating Expenses.*

For the six months ended June 30, 2004, the Debtor's operating expenses were \$341.5 million, compared to \$310.9 million (which includes the benefit of a \$17.5 million reimbursement of passenger security and air carrier security fees pursuant to the Emergency Wartime Supplemental Appropriations Act, the "Wartime Act") in 2003, representing an increase of \$30.6 million or 9.8 percent. The Debtor's cost per available seat mile ("CASM") was 9.6 cents in 2004 compared to 8.7 cents in 2003 (including a 0.5 cent CASM benefit from the Wartime Act reimbursement), which represents an increase of 10.4 percent. Significant year-to-year variances for this six-month period were as follows:

- a. Wages and benefits totaled \$115.1 million for the six months ended June 30, 2004, an increase of \$7.2 million, or 6.7 percent, over the six months ended June 30, 2003, primarily due to profit bonus accruals and an overall increase in employee benefits expense. This increase, along with an increase in non-contract and IAM labor due to headcount increases of 2.7 percent and 4.0 percent, respectively, was partially offset by a decrease in pilot labor mainly due to a headcount decrease of 12.5 percent.
- b. Aircraft fuel totaled \$59.8 million for the six months ended June 30, 2004, an increase of \$11.7 million, or 24.4 percent, over the six

months ended June 30, 2003, as a result of a 20.6 percent increase in 2004 fuel prices and a favorable fuel hedge gain in 2003.

c. Maintenance expenses totaled \$24.5 million for the six months ended June 30, 2004, a decrease of \$2.3 million, or 8.6 percent, over the six months ended June 30, 2003. This reduction resulted from the operation of the 767 widebody Pacific fleet that replaced the older DC-10 fleet, partially offset by an increase in the 717 fleet maintenance due to an increase in maintenance rates.

d. Aircraft rental expense totaled \$53.2 million for the six months ended June 30, 2004, a decrease of \$3.6 million, or 6.3 percent, over the six months ended June 30, 2003, due to the return of two 717 aircraft, completion of the transition from older DC-10 aircraft to newer 767 aircraft, and renegotiated lease rates on a portion of the 767 fleet.

e. Other expenses, which include food and beverage, advertising, insurance, and other recurring miscellaneous expenses, totaled \$71.2 million for the six months ended June 30, 2004, an increase of \$0.4 million, or 0.6 percent over the six month period ended June 30, 2003.

**B. Summary of Financial Results for Fiscal Years 2003, 2002 and 2001.**<sup>3</sup>

The following chart illustrates the Debtor's financial performance for fiscal years 2003, 2002, and 2001.

	Total Operating Revenues & Expenses			Percentage Change	
	Year Ended December 31,			2003	2002
	2003	2002	2001	vs. 2002	vs. 2001
<b>Operating Revenue:</b>					
Passenger	\$ 626.8	\$ 542.0	\$ 496.8	16%	9%
Charter	23.0	46.5	75.6	(51)%	(38)%
Cargo	28.5	21.3	22.2	34%	(4)%
Other	27.8	22.2	17.0	25%	31%
<b>Total</b>	<b>706.1</b>	<b>632.0</b>	<b>611.6</b>	<b>12%</b>	<b>3%</b>
<b>Operating Expenses:</b>					
Wages and benefits	215.4	205.4	188.8	5%	9%
Fuel, taxes, and oil	97.1	95.5	111.9	2%	(15)%
Maintenance	49.5	90.2	99.0	(45)%	(9)%
Aircraft rent	111.5	83.5	40.0	34%	109%
Other rentals, landing fees	25.0	24.2	21.8	3%	11%
Sales commissions	4.3	14.6	20.8	(71)%	(30)%
Dep. and amortization	7.1	8.6	14.0	(17)%	(39)%
Special charges (credits)	(17.5)	9.4	(34.4)	(287)%	127%
Other	136.4	156.0	133.0	(13)%	17%
<b>Total</b>	<b>626.7</b>	<b>687.2</b>	<b>594.9</b>	<b>(9)%</b>	<b>16%</b>
<b>Operating Income (Loss)</b>	<b>77.5</b>	<b>(55.2)</b>	<b>16.7</b>	<b>240%</b>	<b>(431)%</b>
<b>Nonoperating Income (Expense):</b>					
Reorganization items, net	(115.1)	-	-		
Interest, etc., net	(0.2)	0.6	1.7		
Other, net	1.3	-	0.5		
<b>Total</b>	<b>(114.0)</b>	<b>0.6</b>	<b>2.2</b>		
<b>Income (Loss) Before Taxes</b>	<b>(36.6)</b>	<b>(54.6)</b>	<b>18.9</b>		
<b>Income Tax (Expense)</b>	<b>(12.9)</b>	<b>(2.8)</b>	<b>(13.8)</b>		
<b>Net Income (Loss)</b>	<b>\$ (49.5)</b>	<b>\$ (57.4)</b>	<b>\$ 5.1</b>		

<sup>3</sup> The following financial information is for Hawaiian Airlines, Inc., the Debtor. The common stock being issued under the Joint Plan is not common stock of the Debtor, but rather is common stock of Hawaiian Holdings, Inc. See Section IV "Description of HHI Capital Stock" for a further discussion of HHI.

## **C. Comparison of Fiscal Year 2003 to Fiscal Year 2002**

For the year ended December 31, 2003, the Debtor had a net loss of \$49.5 million, after \$115.1 million of primarily non-cash reorganization charges and a tax provision of \$12.9 million. For the year ended December 31, 2002, the Debtor had a net loss of \$57.4 million, which included a tax provision of \$2.8 million.

### *1. Operating Revenue.*

In 2003, the Debtor's operating revenue was \$706.1 million compared to \$632.0 million in 2002, representing an 11.7 percent improvement of \$74.1 million. RPMs improved by 3.0 percent in 2003, while ASMs increased by 1.4 percent from 7.1 billion in 2002 to 7.2 billion in 2003, resulting in a load factor of 80.3 percent, a 1.2 percentage point improvement over 2002. RASM increased significantly, largely due to changes in fares and distribution. The Debtor's system RASM for 2003 was 9.8 cents representing an improvement of 10.2 percent over 2002 RASM of 8.9 cents. The Debtor's scheduled passenger yield was relatively flat year-over-year at approximately 11 cents.

Charter revenue totaled \$23.1 million in 2003, a decline of 50.4 percent, compared to 2002, as a result of assigning aircraft assets to the Debtor's scheduled operation. Cargo revenue totaled \$28.5 million for 2003 an increase of \$7.2 million, or 33.7 percent, compared to 2002 primarily due to increases in US mail, excess baggage revenue, and greater containerized freight carried on the Debtor's transpacific and southpacific flights. All other operating revenue in 2003 totaled \$27.8 million. This included \$14.2 million in miscellaneous fees and penalties, \$8.1 million for the sale of fuel (offset on the expense side by the cost of the fuel), \$3.8 million for in-flight liquor and headset sales and \$1.2 million for ground handling services.

## 2. *Operating Expenses.*

In 2003, the Debtor's operating expenses were \$628.7 million (which includes the benefit of the \$17.5 million reimbursement under the Wartime Act), compared to \$687.3 million in 2002, representing a decline of \$58.6 million or 8.5 percent. The Debtor's CASM (including a 0.24 cent CASM benefit from Wartime Act reimbursement) was 8.7 cents compared to 9.7 cents in 2002 which represents a decrease of 9.8 percent. Significant year-to-year variances were as follows:

a. Wages and benefits totaled \$215.4 million in 2003, an increase of \$10.0 million, or 4.9 percent, over 2002 primarily due to negotiated wage increases, a profit bonus accrual and an overall increase in employee benefits expense. This increase was partially offset by productivity concessions agreed to by the Debtor's flight attendants, pilots and IAM employees in 2003. Average flight attendant and pilot headcount decreased in 2003 by 9.1% and 27.3%, respectively. Productivity improvements were achieved in part through greater reliance upon part-time employees.

b. Aircraft fuel totaled \$97.0 million in 2003 and was relatively flat compared to 2002 as a result of a nearly 20 percent increase in 2003 fuel prices, offset by a 12 percent decrease in fuel consumption.

c. Maintenance expenses totaled \$49.5 million in 2003, a decrease of \$40.7 million, or 45.1 percent, compared to 2002. This reduction resulted from the full year operation of the Debtor's new 767 widebody Pacific fleet which replaced the older DC-10 fleet. (The 717 fleet was fully operational in 2002. The DC-9 fleet was retired in October 2001.)

d. Aircraft rental expense totaled \$111.5 million in 2003, an increase of \$28.0 million, or 33.5 percent, compared to 2002, primarily due to the completion of the transition from older DC-10 aircraft to newer 767 aircraft and associated parts and spares.

e. Sales commissions totaled \$4.3 million in 2003, a decrease of \$10.3 million, or 70.6 percent, over 2002. In mid-2002, travel agency base commissions were reduced from five percent to zero, the full-year effect being realized in 2003. Additionally, significant savings were achieved as a result of the Debtor's efforts to sell through direct and internet distribution channels and reduce its incentive commissions to wholesalers.

f. Other expenses totaled \$150.9 million in 2003, a decrease of \$47.2 million, or 23.8 percent over 2002. In 2002, other expenses included \$8.7 million in restructuring fees and in 2003 other expenses were reduced as a result of a credit of \$17.5 million from the TSA.

#### **D. Comparison of Fiscal Year 2002 to Fiscal Year 2001**

For the year ended December 31, 2002, the Debtor reported an operating loss of \$55.2 million and a net loss of \$57.4 million. For the year ended December 31, 2001, the Debtor reported operating income of \$16.7 million and net income of \$5.1 million, during which year overall revenue and expenses for both years were unfavorably impacted by the events of September 11, 2001. That impact was mitigated by relief received under the Stabilization Act, totaling \$30.8 million. Except for this item, it is not practicable to determine the impact of those events on individual elements of the Debtor's operations, and the discussion that follows makes no attempt to set forth what would have been the Debtor's 2001 operating results had the events of September 11, 2001 not occurred.

##### *1. Operating Revenue.*

Operating revenue totaled \$632.0 million for the year ended December 31, 2002, compared to \$611.6 million for the year ended December 31, 2001, an increase of \$20.4 million, or 3.3%. Scheduled passenger revenue totaled \$529.4 million during the year ended December 31, 2002, an increase of \$41.1 million, or

8.4%, over the year ended December 31, 2001. During 2002, the Debtor experienced higher passenger volume in the Debtor's transpacific market as a result of the Debtor's expanded transpacific routes.

Overseas charter revenue totaled \$46.5 million for the year ended December 31, 2002, a decrease of \$29.2 million, or 38.5%, compared to the year ended December 31, 2001. On September 25, 2001, a major source of the Debtor's overseas charter revenue, Renaissance Cruises, Inc. filed for bankruptcy under Chapter 11 and ceased operations, resulting in the termination of the Debtor's Los Angeles to Papeete, Tahiti charter service. Cargo revenue totaled \$21.3 million for the year ended December 31, 2002, a decrease of \$0.9 million, or 4.0%, compared to the year ended December 31, 2001, due to a decrease in the cargo rate per pound. Other operating revenue totaled \$34.9 million for the year ended December 31, 2002, an increase of \$9.4 million, or 37.1%, over the year ended December 31, 2001, primarily due to an increase in the sale of frequent flyer miles, sale of jet fuel and ground handling revenue.

## 2. *Operating Expenses.*

Operating expenses, including restructuring charges, include a \$0.7 million reduction of the special credit resulting from federal financial assistance received under the Stabilization Act, totaled \$687.3 million for the year ended December 31, 2002 compared to \$594.9 million for the year ended December 31, 2001, an increase of \$92.4 million, or 15.5%. Significant year-to-year variances were as follows:

a. Wages and benefits totaled \$205.4 million for the year ended December 31, 2002, an increase of \$16.6 million, or 8.8%, over the year ended December 31, 2001, primarily due to salary and wage increases related to the new collective bargaining agreements with the Debtor's pilots,

flight attendants and IAM employees that went into effect during 2001, training costs associated with the introduction of the B767 aircraft into the fleet, executive severance costs and an overall increase in employee benefit expenses.

b. Aircraft fuel costs, including taxes and oil, totaled \$95.5 million for the year ended December 31, 2002, a decrease of \$16.4 million, or 14.7%, compared to the year ended December 31, 2001. Due to the introduction of the more fuel-efficient B717 aircraft on interisland routes and B767 aircraft on transpacific routes, aircraft fuel consumption decreased 8.9%, resulting in a decrease in fuel cost of \$9.8 million. The average cost of aircraft fuel per gallon decreased 5.5%, resulting in a \$5.5 million decrease in fuel cost. The Debtor recognized a loss from its fuel-hedging program of \$0.6 million in 2002, compared to a loss of \$1.7 million in 2001.

c. Maintenance materials and repairs totaled \$90.2 million for the year ended December 31, 2002, a decrease of \$8.8 million, or 8.9%, compared to the year ended December 31, 2001, primarily due to a decrease of \$5.7 million in DC-9 maintenance resulting from the replacement of the DC-9 fleet, and a decrease of \$22.1 million in DC-10 maintenance resulting from the reduction of the DC-10 fleet. The cost savings were offset by increases of \$5.1 million in B717 maintenance expense resulting from the introduction of B717 aircraft in 2001, and \$14.1 million in B767 maintenance expense resulting from the operation of B767 aircraft beginning in the fourth quarter of 2001.

d. Aircraft rentals totaled \$83.5 million for the year ended December 31, 2002, an increase of \$43.5 million, or 108.8%, compared to the year ended December 31, 2001, primarily due to the replacement of DC-

9 aircraft with new B717 aircraft during 2001, and the transition from DC-10 aircraft to B767 aircraft.

e. Other rentals and landing fees totaled \$24.2 million for the year ended December 31, 2002, an increase of \$2.4 million, or 10.9%, over the year ended December 31, 2001, mainly due to an increase in rent due to the opening of two new stations in California in June 2002, the opening of a new station in Arizona in October 2002, and an increase in ground equipment rent to support the new B767 fleet. Landing fees totaled \$5.0 million for the year ended December 31, 2002, an increase of \$0.2 million, or 3.8%, over the year ended December 31, 2001. After September 11, 2001, the State of Hawaii suspended the collection of landing fees at all airports in Hawaii. Effective April 1, 2002, the landing fees for all airports were reinstated.

f. Sales commissions totaled \$14.6 million for the year ended December 31, 2002, a decrease of \$6.2 million, or 29.6%, over the year ended December 31, 2001, primarily due to the elimination of travel agency base commissions in June 2002.

g. Depreciation and amortization expense totaled \$8.6 million for the year ended December 31, 2002, a decrease of \$5.4 million, or 38.7%, over the year ended December 31, 2001, primarily due to a decrease of \$4.1 million in DC-9 depreciation expense as a result of the replacement of DC-9 aircraft in 2001. Additionally, effective January 1, 2002, the Debtor discontinued amortization of Reorganization Value in Excess of Amounts Allocable to Identifiable Assets in accordance with SFAS No. 142 "Goodwill and Other Intangible Assets" and as a result no amortization expense was recorded in the year ended December 31, 2002 as compared to \$2.3 million in the year ended December 31, 2001.

h. Other expenses totaled \$156.0 million for the year ended December 31, 2002, an increase of \$23.0 million, or 17.0%, over the year ended December 31, 2001. Increases in legal and consulting fees related to the Debtor's proposed merger with Aloha Airlines, Inc. and TurnWorks, insurance premiums, security costs, simulator costs, training and costs associated with the sale of jet fuel were partially offset by decreases in interrupted trips and personnel expenses.

i. During the fourth quarter of 2002, based on a reduction in passenger demand, the Debtor announced capacity reductions in specific transpacific markets. The Debtor announced that it would reduce its workforce by approximately 150 employees, or four percent of the Debtor's total workforce, in an effort to bring its cost structure in line with current and expected revenues. In addition, the Debtor 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 until economic conditions improve. As a result of these actions, for the year ended December 31, 2002, the Debtor recorded \$8.7 million in restructuring charges related primarily to the accelerated retirement of its remaining eight leased DC-10 aircraft. The Debtor recorded a charge of approximately \$10.1 million related primarily to future lease commitments on the DC-10 aircraft, lease return conditions and maintenance commitments, DC-10 pilot severance costs and a write-down of DC-10 improvements and parts. The Debtor also recorded a credit of \$1.4 million related to the sale of eight non-operating DC-9 aircraft and related assets that had been written in a prior year restructuring charge. The year ended December 31, 2001 includes a \$3.6 million favorable adjustment to

the restructuring charge recorded in 2000 due to a change in the estimated cost to comply with the airframe return provisions.

j. In the year ended December 31, 2001, the Debtor recognized \$30.8 million as a special credit to operating expenses for the estimated allocation of proceeds from the federal government under the Stabilization Act. For the year ended December 31, 2002, the Debtor recorded a charge of \$0.7 million to adjust the special credit under the Stabilization Act based on the DOT's final determination.

#### **E. Liquidity and Capital Resources**

The Debtor continues to have significant obligations, including aircraft rental and pension obligations.

The airline industry is subject to substantial cyclical volatility. Airlines frequently experience fluctuating short-term cash requirements caused by seasonal fluctuations in traffic and other factors that often deplete cash during off-peak periods, and by other factors that are not necessarily seasonal. These factors include the extent and nature of fare changes and competition from other airlines, changing levels of operations, national and international events, fuel prices and general economic conditions, including inflation. Because a substantial portion of both personal and business airline travel is discretionary, the industry tends to experience adverse financial results in general economic downturns. Accordingly, the Debtor requires substantial liquidity to sustain continued operations.

The Debtor has historically operated largely without lines of credit, relying on its own working capital for liquidity. The Debtor currently has no outside credit lines and limited assets against which to finance, and therefore funds all of its liquidity requirements using existing cash and cash generated from operations. The Debtor has not attempted to secure debtor-in-possession financing during its

Reorganization Case. The Reorganized Debtor anticipates arranging for up to a \$25 million secured revolving line of credit.

As of July 31, 2004, the Debtor had approximately \$216.4 million in cash and cash equivalents, comprised of approximately \$141.9 million in unrestricted cash and \$74.5 million of restricted cash. The Debtor's restricted cash results primarily from a holdback by the bank that processes the Debtor's credit card sales transactions. Holdbacks move to unrestricted cash when the first segment of a ticket is flown.

Cash flows provided by operations for the year ended December 31, 2003, net of reorganization items, were \$25.7 million, compared to \$10.4 million for the year ended December 31, 2002. This change was primarily due to net income before reorganization items of \$65.6 million offset by a \$29.6 million increase in restricted cash. Cash flows provided by operations for the six months ended June 30, 2004, net of reorganization items, were \$36.3 million, compared to cash flows used in operations of \$11.1 million for the six months ended June 30, 2003. This change was primarily due to net income before reorganization items of \$22.5 million and a \$61.8 million increase in air traffic liability, offset by a \$35.0 million increase in restricted cash.

Cash flows used in investing activities were \$7.4 million for the year ended December 31, 2003, and \$7.6 million for the year ended December 31, 2002. Investing activities in 2003 and 2002 consisted primarily of capital expenditures related to the acquisition of flight equipment and computer hardware and software. Cash flows used in investing activities were \$4.1 million for the six months ended June 30, 2004, and \$2.8 million for the six months ended June 30, 2003. Investing activities in these six month periods consisted primarily of capital expenditures related to the acquisition of maintenance equipment and computer hardware and software.

Cash flows used in financing activities were \$2.5 million for the year ended December 31, 2003, compared to \$33.7 million for the year ended December 31, 2002. Financing activities in 2003 and 2002 include repayments of debt and capital lease obligations. Additionally, in 2002 \$28.1 million was used for the repurchase of common stock. Cash flows provided by financing activities were \$0.9 million for the six months ended June 30, 2004, compared to the cash flows used in financing activities of \$1.9 million for the six months ended June 30, 2003. Financing activities in these six month periods include proceeds from optionholders notes receivable and repayments of debt.

The Debtor estimates capital expenditures for the year 2004 will be approximately \$13 million, consisting primarily of aircraft improvements and modifications, improvements in software and related hardware, facility improvements, purchases of ground equipment and other assets. The majority of these anticipated capital expenditures are not firm commitments, and therefore the Debtor may adjust the level of the Debtor's capital spending based on the Debtor's available cash and the progress of the bankruptcy proceeding. The amount of anticipated capital expenditures for the year 2004 does not include any expenditures to cure as yet unassumed aircraft leases.

The Debtor maintains several defined benefit pension plans, all of which were frozen in 1993 except the pilots' plan. The combination of low interest rates, poor stock market performance, lack of funding, and pilot pay increases during the past three years has caused the Debtor's pension plans to be significantly underfunded. The largest of these pension plans, the Pilots' Pension Plan, had an accumulated benefit obligation (the "ABO") in excess of plan assets of \$94.5 million as of December 31, 2003; the aggregate ABO in excess of plan assets for all the Debtor's defined benefit pension plans totaled \$114.1 million as of that date.

The following table sets forth the scheduled future minimum lease commitments under operating leases for the Debtor as of October 1, 2004. This table reflects the revised terms of the Debtor's leases with Ansett and ILFC, which were renegotiated during 2003, and the revised terms of the Debtor's leases with Boeing, which, as of October 1, 2004, were also renegotiated and assumed. 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 that were rejected during 2003 and returned to the lessor in December 2003 and January 2004, or the deficiency claims associated with leases renegotiated or rejected by the Debtor subsequent to the bankruptcy filing.

2004 <sup>4</sup>	\$ 26,849
2005	98,553
2006	99,170
2007	99,372
2008	104,472
Thereafter	<u>1,043,578</u>
Total minimum lease payments	<u><u>\$1,471,994</u></u>

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<sup>4</sup> The minimum lease commitment for 2004 represents the remaining minimum lease commitment for the fourth quarter of 2004. The minimum lease commitment amounts for the other periods represent the annual commitment for such period.

## **VIII. THE HHI PARTIES**

### **A. HHI and HHIC**

HHI is the parent company of the Debtor and holds 49.1% of the outstanding common stock of the Debtor directly. The remaining 50.9% of the outstanding common stock of the Debtor is held by HHIC, a wholly-owned subsidiary of HHI.

On August 29, 2002, the Debtor was reorganized, whereby the Debtor became a wholly owned subsidiary directly and indirectly of HHI with HHI being a holding company. The shareholders of the Debtor exchanged their shares in the Debtor for shares in HHI on a one-for-one basis, thereby becoming shareholders of HHI. The shareholders of HHI have substantially the same rights, privileges and interests with respect to HHI as they had with respect to the Debtor immediately prior to the corporate restructuring, except for any such differences that arise from differences between Delaware and Hawaii law. The purpose of the corporate restructuring was to provide strategic, operational and financing flexibility, and to take advantage of the flexibility, predictability and responsiveness that Delaware law provides.

As a result of the corporate restructuring, HHI's primary asset is its sole ownership, directly and indirectly through HHIC, of all issued and outstanding shares of common stock of the Debtor. As such, HHI does not have any independent business operations. It employs, currently without pay, two persons, both of whom are officers of HHI. Other than its ownership of the common stock of the Debtor, HHI's assets (as of August 31, 2004) total approximately \$1.5 million (consisting of cash, prepaid expenses, and miscellaneous assets) and HHI's liabilities approximate \$4.0 million (consisting of current liabilities). In addition, HHI has certain indemnification obligations to its former officers and directors. In light of (1) the commencement of the Bankruptcy Case by the Debtor and the

appointment of the Trustee, HHI has had limited access to information regarding the Debtor's business operations and financial status and (2) the resignation of Ernst & Young, LLP as HHI's independent public accountants, HHI is not in a position to publish stand-alone financial statements. HHI's common stock is listed on the American Stock Exchange ("AMEX") and the Pacific Exchange ("PCX") under the symbol "HA".

### **B. Acquisition of Common Stock of HHI By RC Aviation LLC**

On June 14, 2004, AIP, LLC ("Seller") completed the sale (the "Sale") of 10,000,000 shares of HHI Common Stock to RC Aviation at a purchase price of \$4.14 per share. The Sale was completed pursuant to a Stock Purchase Agreement, dated as of June 11, 2004, by and between Seller and RC Aviation (the "Purchase Agreement"). Seller and RC Aviation also entered into a Stockholders Agreement, dated as of June 11, 2004 (the "2004 Stockholders Agreement"). A copy of the 2004 Stockholder Agreement may be obtained electronically at <http://www.sec.gov>.

### **C. Voting Securities of HHI**

Each share of HHI Common Stock entitles the holder thereof to one vote. As of August 30, 2004, there were 29,750,165 shares of HHI Common Stock issued and outstanding. In addition, as of August 30, 2004, there were four shares of Series A Special Preferred Stock of HHI outstanding, which shares are owned by Seller and entitle Seller to nominate four directors to the Board of Directors of HHI. In addition, the IAM, the AFA, and the ALPA 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"). Each Union is entitled to nominate one director of HHI. The Unions previously had nominated representatives to the

Board of Directors of HHI, which nominees had been elected to the Board. On January 31, 2004, the persons nominated by the Unions to serve on the Board of Directors of HHI resigned. For a more complete description of HHI's capital stock, see Section IV, "Description of HHI Capital Stock".

**D. Rights To Designate Directors And RC Designees**

In the Purchase Agreement, Seller agreed, among other things, to cause (a) the directors that Seller had previously designated to the Board of Directors of HHI to resign, and (b) Lawrence S. Hershfield and Randall L. Jenson (the "RC Designees") to be appointed to the Board of Directors of HHI.

Pursuant to the 2004 Stockholders Agreement, Seller has agreed, among other things, to vote all of its HHI Common Stock and Series A Special Preferred Stock (a) in favor of the election, as members of the Board of Directors of HHI, of persons identified by RC Aviation for nomination or so nominated in accordance with HHI's Amended and Restated Certificate of Incorporation (the "HHI Certificate of Incorporation") and HHI's Amended Bylaws (the "HHI Bylaws"), (b) to otherwise effect the intent of the 2004 Stockholders Agreement, which is to cause the RC Designees to become members of the Board of Directors of HHI, and (c) to otherwise vote such equity securities at the direction of RC Aviation. As of the date hereof, to the knowledge of the Joint Plan Proponents, Seller holds 4,159,043 shares of HHI Common Stock and 4 shares of Series A Special Preferred Stock.

In connection with the foregoing, HHI has, pursuant to the 2004 Stockholders Agreement and the Purchase Agreement, received written resignations from prior members of the Board of Directors of HHI who were designated by Seller, including Mr. John W. Adams, the prior Chairman of HHI. In addition, Mr. Adams has resigned as Chief Executive Officer of HHI. One prior

member of the Board of Directors of HHI, Mr. Gregory Anderson, did not resign and intends to continue as a director until the expiration of his term. HHI's prior Board of Directors has replaced the Seller-appointed directors with Messrs. Lawrence S. Hershfield and Randall L. Jenson. Mr. Hershfield has been appointed Chairman of the Board of Directors, Chief Executive Officer and President and Mr. Jenson has been appointed Chief Financial Officer, Treasurer and Secretary, each effective June 14, 2004. In addition, Mr. Donald J. Carty was appointed to the Board of Directors of HHI on July 26, 2004 and subsequently as Chairman of its audit committee. As a result of such resignations and appointments, the Board of Directors of HHI presently consists of four members, two designated by RC Aviation and two independent directors.

The name, age, present principal occupation or employment and five-year employment history of each of the members of the Board of Directors of HHI are set forth in Exhibit "G" annexed hereto. Each is a citizen of the United States. Unless otherwise noted, the business address of each person listed below is 12730 High Bluff Drive, Suite 180, San Diego, CA 92130 and the telephone number at that address is (858) 523-1799.

The 2004 Stockholders Agreement grants to RC a right of first offer and a right of first refusal with respect to any third party sale by Seller of its equity interests in HHI. In addition, RC Aviation has the right, in connection with any sale by RC Aviation of all or substantially all of its HHI Common Stock, to require Seller to sell its HHI Common Stock, and if RC Aviation does not exercise this right, Seller shall have the right to participate in such sale by RC Aviation. In addition, Seller has agreed to support any plan of reorganization for the Debtor proposed by RC Aviation and not to take any action to oppose or interfere with confirmation of such plan.

## **E. Other Matters Relating To HHI**

### *1. AMEX Listing*

By letter dated June 30, 2003, the AMEX advised HHI that based upon its Form 10-Q for the period ended March 31, 2003, HHI did not meet certain of the AMEX's continued listing standards. The June 30, 2003 letter advised that HHI was not in compliance with Section 1003(a) because HHI had (i) shareholders' equity of less than \$2,000,000 and losses from continuing operations and/or net losses in two out of its three most recent fiscal years; and (ii) shareholders' equity of less than \$4,000,000 and losses from continuing operations and/or net losses in three out of its four most recent fiscal years. The letter advised HHI that in order to maintain its listing on the AMEX, HHI was required to submit a plan by July 28, 2003 advising the AMEX of the actions that HHI has taken, or will take, that would bring HHI into compliance with the continued listing standards. HHI submitted the required plan on August 11, 2003, and provided an update on October 8, 2003 (collectively, the "AMEX Plan"). The AMEX Plan was accepted by the Staff of the AMEX on October 13, 2003.

By letter dated February 18, 2004, the AMEX advised HHI that based upon HHI's Form 8-K filed on February 4, 2004, it was necessary for HHI to update its AMEX Plan by submitting a copy of a plan of reorganization for the Debtor, or a narrative description of the anticipated plan of reorganization, within five business days. The February 18, 2004 letter further advised HHI that based upon the Form 8-K filed on February 4, 2004, HHI had again become subject to the procedures and requirements of Section 1009 of the AMEX Company Guide and HHI needed to submit by March 4, 2004 an additional plan advising the AMEX of the action it has taken, or will take, to bring it into compliance with the continued listing standards. HHI submitted the additional plan and it was accepted by the AMEX.

HHI is in dialogue with the AMEX regarding HHI's plan for coming into compliance with the continued listing standards of the AMEX. HHI expects that following confirmation of the Plan it will come into compliance with the continued listing standards of the AMEX and as such HHI's common stock will continue to be listed on the AMEX; however, there can be no assurance of such a result.

## 2. *Other Information*

Since the Petition Date, HHI has had no direct involvement in the management of the Debtor and has had incomplete information concerning the Debtor. In addition, in July 2003, Ernst & Young, LLP, the Debtor's independent public accountants resigned as HHI's independent public accountants. For these reasons, among others, each month since the Petition Date HHI has been filing the Debtor's unaudited Monthly Operating Report with the Bankruptcy Court under cover of a Current Report on Form 8-K, in lieu of filing its otherwise required Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K. Therefore, HHI may not be deemed to be current in its Exchange Act filings. While HHI and the Debtor currently intend to cooperate in an effort to permit HHI to rehire Ernst & Young, LLP as HHI's independent public accountants, to bring current its Exchange Act filings, and to file all subsequent required Exchange Act filings, no assurance can be given as to if or when HHI will be able to do so. A copy of HHI's public filings with the SEC may be obtained through the internet at <http://www.sec.gov>.

## **IX. EVENTS PRECEDING THE COMMENCEMENT OF THE CASE**

### **A. Aircraft Fleet Replacement Program**

In the fourth quarter of 1999, the Debtor decided to replace its aging fleet of DC-9s and DC-10s with new airplanes that would reduce maintenance and fuel expenses and improve service for its passengers. The Debtor ultimately entered into agreements with three aircraft lessors – Boeing, Ansett, and International Lease Finance Corporation (“ILFC”), to lease new B-717s and new or late-model B-767s. The planes were delivered in 2001 and 2002, with the replacement of the entire fleet completed by the first quarter of 2003.

### **B. Impact of the September 11, 2001 Terrorist Attacks**

The terrorist attacks on September 11, 2001 had an immediate and devastating effect on every American airline, including the Debtor. Not only did the Debtor cancel flights for three days, but the entire industry experienced depressed ticket sales. Following September 11, 2001, the Debtor was forced to reduce its capacity by approximately 22% and furlough 12% of its workforce due to reduced travel demand. Acknowledging that the events of September 11, 2001 radically changed the economic outlook of the airline industry, airlines, including the Debtor, sought assistance from the U.S. government to confront the liquidity crisis it faced. Congress responded by passing the Air Transportation Safety and System Stabilization Act which allowed airlines to receive certain payments and obtain federal loan guarantees to assist them in recovering from the effects of September 11. Pursuant to that Act, the Debtor applied for and received more than \$30 million in federal stabilization funds, \$24.9 million of which was received by the Debtor in December 2001 and the remainder in August 2002.

**C. Proposed Merger with Aloha Airlines, Inc.**

In December 2001, the Debtor entered into an agreement to merge with Aloha Airlines, Inc. (“Aloha”), its principal competitor in the interisland market, and TurnWorks, Inc. an entity controlled by Greg Brenneman (formerly with Continental Airlines). The merger agreement provided that Mr. Brenneman, who had negotiated the merger, would lead the merged airline and that TurnWorks, Inc. would receive 20% of the equity of the combined companies. When it became apparent that the merger could not be completed by a deadline set forth in the merger agreement, the Debtor refused a request by TurnWorks to extend the deadline and terminated the merger agreement.

**D. The Debtor’s Declining Financial Condition**

The merger had been presented as a solution to the many business and financial challenges that the Debtor then faced. After the Debtor terminated the merger, those problems remained. The Debtor’s March 31, 2002 quarterly financial results reflected a net loss of \$18.6 million and a shareholders’ deficit of \$35.0 million. Although the Debtor had a positive cash balance, it was declining. Furthermore, despite the receipt of \$24.9 million in one-time stabilization payments, the Debtor had a working capital deficit of \$76.1 million, the largest in the Debtor’s recent history. These results were substantially worse than the Debtor’s projections. And, although the Debtor reported cash on hand of \$93.6 million as of March 31, 2002, it also had an unfunded pension liability calculated to be at least \$115.8 million as of December 31, 2002.

During this period of financial instability, the Debtor continued to embark on its aircraft fleet replacement program replacing its old fleet of DC-9 and DC-10 aircrafts with new B-717 and B-767 models. The fleet change presented

implementation risks, which the Debtor, in fact, experienced in the form of significant transition expenses and substantially increased fixed costs.

As a result of the financial impact of the September 11 incident and the Debtor's impaired financial condition, in fall 2001 the Debtor's credit card processor imposed a "holdback" that placed restrictions on approximately \$25 million of the Debtor's cash in order to protect the processor against the risk that the Debtor would go out of business before it could provide service to customers who purchased tickets using credit cards.

In addition to its financial difficulties, the Debtor also experienced several high-level executive departures during the spring of 2002. Specifically, Robert W. Zoller, Jr., the Debtor's President and Chief Operating Officer ("COO"), resigned effective March 28, 2002, and the COO position remained unfilled until December 2002. As of April 1, 2002, Paul Casey assumed the positions of Vice-Chairman, CEO and President, but also resigned less than two months later, on May 15, 2002. On May 17, 2002, Adams was appointed President and Chief Executive Officer.

#### **E. The \$25 Million Self-Tender Offer**

On May 20, 2002, three days after becoming the Debtor's President and Chief Executive Officer, Adams proposed that the Board approve a self-tender offer that would distribute \$25 million of the Debtor's cash to shareholders. In connection with the tender offer proposal, AIP LLC, a company affiliated with Adams, announced its intention to tender all of its shares, subject to the caveat that the Debtor would purchase only that number of AIP LLC's shares such that, following completion of the tender offer, AIP LLC would continue to own a majority of Hawaiian's outstanding shares.

Under the self-tender, the Debtor offered to purchase nearly 6 million of its outstanding shares at \$4.25 per share, an amount substantially in excess of the

then-current market price. As a result of the self tender transaction, John Adams and his affiliates received a distribution in excess of \$17 million.

#### **F. Other Restructuring Efforts**

Also in 2002, partly as a result of external factors, such as reductions in interest rates and declines in the stock market, the Pilots' Pension Plan became substantially underfunded. As of December 31, 2002, the Pilots' Pension Plan was underfunded by \$67 million as determined under applicable ERISA law. The Debtor is obligated under ERISA to make substantial payments to the plan to cure such funding deficiencies.

The Debtor commenced efforts to restructure its aircraft leases and collective bargaining agreements. In February 2003, the Debtor negotiated productivity changes to the existing collective bargaining agreements. The Debtor was, however, unable to negotiate a restructuring of the aircraft leases.

On March 21, 2003 (the "Petition Date"), the Debtor filed a voluntary petition under chapter 11 of the United States Bankruptcy Code. The day before filing the bankruptcy case, the Debtor transferred \$500,000 to HHI, the Debtor's parent company. The purpose of that transfer was to provide funds to HHI to pay for certain expenses incurred by it.

## **X. EVENTS OCCURRING DURING THE REORGANIZATION CASE**

### **A. The Trustee Litigation**

Within days of the Debtor's March 21, 2003 bankruptcy filing, Boeing filed a motion with the Bankruptcy Court seeking the appointment of a trustee. Boeing contended that Adams could not be relied upon to act in the best interest of creditors or a successful reorganization and alleged that Adams had engaged in extensive self-dealing and had disabling conflicts of interest. On May 16, 2003, the Bankruptcy Court granted Boeing's motion and entered an order appointing a trustee.

The Court's decision found that "the tender offer and the disbursement to [HHI] on the eve of bankruptcy show that, while under Mr. Adams' control, Hawaiian consistently placed the interests of its shareholders ahead of the interests of its creditors." Finding that those two transactions alone justified the appointment of a trustee, the Bankruptcy Court issued an order that included, among others, the following findings of fact:

- As to the tender offer, the Bankruptcy Court found that the Debtor's contention "that the tender offer was appropriate because '[m]anagement believed that the precipitous decline in air travel following the tragic events of September 11 had leveled off and that passenger travel would pick up,' . . . is not credible. . . . [E]ven if [the Debtor's] management and board thought that the airline industry's fortunes had stopped deteriorating and would begin to improve, prudent people in their situation would have waited to see if those expectations were borne out before distributing a substantial portion of the company's cash to equity holders. . . . In short, it is doubtful that [the Debtor's] management was

- actually as optimistic during May and June 2002 as [the Debtor] asserts today, any such optimism was misplaced at the outset and had evaporated by the time the tender offer closed, and even if management were as optimistic as it now claims, it was not prudent to act so hastily.”
- As to the \$500,000 transfer to HHI, the Bankruptcy Court found that “[HHI] has no independent means of repaying the money. [HHI] needed the money to pay its expenses, including legal fees and other costs associated with the public listing of its stock. Hawaiian had no obligation to make the transfer and received nothing of value in exchange for the transfer. Although [HHI’s] stockholders (including AIP [LLC] and Mr. Adams) may benefit from continued public trading in [HHI’s] stock, [the Debtor] received no benefits at all.”

**B. Appointment of a Chapter 11 Trustee and Retention of Professionals**

On May 30, 2003, John Monahan was appointed as the Chapter 11 Trustee for the Debtor. Mr. Monahan retained Hennigan, Bennett & Dorman, LLP (“HBD”) and Carlsmith Ball LLP (“Carlsmith”) as his restructuring and corporate counsel. Mr. Monahan also retained Ernst & Young Corporate Finance LLC (“EYCF”) as financial advisors.

On June 24, 2003, Mr. Monahan resigned as the Chapter 11 Trustee for personal reasons. Shortly thereafter, on July 3, 2003, the Bankruptcy Court entered an order appointing Joshua Gotbaum as the Chapter 11 Trustee. The Trustee also, in addition to retaining HBD, Carlsmith, and EYCF, retained Simat, Helliesen and Eichner, Inc. (“SH&E”) to advise the Trustee with respect to the Debtor’s airline operations and financial strategies; Morrison & Forester LLP as special tax counsel; Gibson Dunn & Crutcher LLP as special employee benefits counsel; ECLAT Consulting as airline labor relations consultant; and Akin Gump

Strauss Hauer & Feld, LLP (and later, Orrick, Herrington & Sutcliffe LLP) as special aircraft leasing counsel.

### **C. Appointment of the Committee**

On April 1, 2003, the United States Trustee appointed an Official Committee of Unsecured Creditors (the “Committee”). The Committee consists of the following members:

- Air Line Pilots Association, International (“ALPA”);
- Association of Flight Attendants;
- Aviation Insurance Services of Nevada;
- International Association of Machinist and Aerospace Workers, AFL-CIO;
- Panda Travel;
- Pratt & Whitney; and
- Starr Seigle Communications, Inc.

The Committee is represented by Otterbourg, Steindler, Houston & Rosen, P.C. (“OSHR”), Wagner, Choi & Evers (“WCE”), and KPMG LLP (“KPMG”).

### **D. First Day Relief**

The Debtor filed numerous motions on the Petition Date, prior to the appointment of the Trustee, seeking the relief provided by certain first-day orders. First-day orders are intended to ensure a seamless transition between a debtor’s prepetition and postpetition business operations by approving certain normal business conduct that may not be specifically authorized under the Bankruptcy Code, or as to which the Bankruptcy Code requires prior approval by the bankruptcy court. The Bankruptcy Court entered first-day orders that, among other things:

- Prohibited utilities from altering, refusing or discontinuing services and determining that adequate assurance has been provided to utilities;
- Authorized the Debtor to continue the workers' compensation programs and certain other insurance policies;
- Established a procedure for treatment of reclamation claims;
- Authorized the Debtor to honor prepetition obligations to customers in ordinary course of business;
- Authorized the Debtor to pay certain contractors in satisfaction of perfected or potential mechanics', materialmen's or similar liens or interests in the ordinary course of business;
- Authorized the Debtor to pay or honor prepetition obligations to certain foreign vendors, service providers and governments in the ordinary course of business;
- Authorized the Debtor to apply prepetition payments to postpetition fuel supply contracts and storage agreements;
- Authorized the Debtor to assume contracts relating to the debtor's fuel acquisition and management and maintenance services;
- Authorized the Debtor to make payment of pre-petition wages, salaries, reimbursable employee expenses, payment of pre-petition deductions, payment pursuant to certain employee benefits programs;
- Authorized the Debtor to assume certain executory credit card agreements, including the Debtor's Hawaiian Miles program;
- Authorized the Debtor to employ professionals utilized in the ordinary course of business;
- Authorized the Debtor to reject certain aircraft leases and maintenance agreements;
- Authorized the Debtor to authorize debtor to pay prepetition sales and use taxes, transportation taxes, fees, passenger facility charges and other similar government and airport charges;

- Authorized the Debtor to assume jet fuel sale and purchase agreements;
- Authorized the Debtor to assume executory contracts relating to interline agreements, clearinghouse agreements, ARC agreements, BSP agreements, UATP agreement, code share agreements and frequent flyer agreements; and,
- Authorized the Debtor to continue to use its prepetition cash management system, maintain existing bank accounts and business forms.

#### **E. Aircraft Leases**

Notwithstanding the imposition of the automatic stay under section 362(a) of the Bankruptcy Code, section 1110 of the Bankruptcy Code obligates the Trustee, within 60 days of the commencement of the bankruptcy case, to perform in accordance with and cure any defaults under leases for, agreements providing a security interest in, and conditional sales contracts for aircraft or aircraft engines, in order to retain the ability to retain and operate such aircraft and aircraft engines. If the Trustee does not perform and cure within this 60 day period, then the secured party, lessor, or vendor for the aircraft will have relief from the automatic stay to obtain possession of the pertinent aircraft and or engines. Section 1110 provides that the parties may agree to extend this 60 day period.

As stated above, one of the first day orders provided for the Debtor to reject certain of its aircraft leases. Among the leases rejected were three for DC-10 aircraft no longer used by the Debtor, and two for B-767 aircraft that had not been delivered to the Debtor.

On May 16, 2003, the Bankruptcy Court entered an order authorizing the Trustee to assume, as modified, seven leases with Ansett for B-767s. The terms of the assumption of these leases were filed under seal and remain confidential.

Subsequently, on August 29, 2003, the Bankruptcy Court entered an order authorizing the Trustee to assume, as modified, four leases with ILFC for B-767s.

With respect to the B-717 and B-767 planes leased from Boeing, the Trustee and Boeing have stipulated, from time to time, to extend the 60-day period under section 1110. The current stipulation extends this time period until September 30, 2004. During this time, the Debtor has paid rents to Boeing under those leases in amounts that vary from the terms of the applicable lease agreements.

The Debtor has, since the appointment of the Trustee, rejected two of the B-717 aircraft leases with Boeing. Rejection of those leases was approved by separate orders of the Bankruptcy Court dated November 7, 2003, and December 19, 2003.

On September 15, 2004, the Trustee, Boeing and the HHI Parties entered into a comprehensive Memorandum of Understanding (the "MOU") that provides for the following: (a) assumption, on modified terms, of the three 767 aircraft leases and eleven 717 aircraft leases between the Debtor and Boeing (together, the "Boeing Assumed Leases"), (b) settlement of the claims of Boeing against the Debtor, both with respect to the aircraft leases to be assumed, as modified, and also the two 717 aircraft leases and one 767 aircraft lease (together, the "Boeing Rejected Leases") that were previously rejected, for an agreed amount of \$66,500,000; and (c) the sale by Boeing to RC Aviation of the \$66,500,000 claim. The MOU also provides for mutual releases between the Trustee and Boeing, as well as a release of claims of avoidance actions against four affiliates of Boeing.

Under the MOU, the Trustee and the HHI Parties agreed that the Joint Plan shall provide for assumption of the Boeing Assumed Leases and shall not provide for their rejection under any circumstances. The Trustee and the HHI Parties also agreed under the MOU that the Joint Plan shall provide for the affirmation of certain tax indemnity obligations related to the Rejected Leases. Under the

affirmation, the Debtor will continue to indemnify Boeing for all adverse tax consequences, subject to the conditions and restrictions as set forth in Section 2(f) of the MOU. The Debtor believes that the likelihood of any such indemnification obligation arising is remote and that if it does, based on the terms agreed between the parties, any such obligation will not have a material financial impact on the Debtor and its operations. Boeing has agreed not to object to the Joint Plan unless it provides for rejection of the Boeing Assumed Leases (which it does not) or there is a material change that materially impairs the Debtor's ability to perform its obligations under the Boeing Assumed Leases.

By order entered on September 27, 2004, the Court approved assumption of the Boeing Assumed Leases, and approved the terms of the MOU. The transactions contemplated under the MOU, including amendment of the leases and the sale of the Boeing claim to RC Aviation, were consummated on September 30, 2004.

#### **F. Pension Plans in General**

The Debtor has established and maintained the following pension plans for certain of its employees: the Retirement Plan for Employees Represented by International Association of Machinists (the "IAM Retirement Plan"); the Retirement Plan for Pilots of Hawaiian Airlines, Inc. (the "Pilots' Pension Plan"), and the Hawaiian Airlines Pension Plan for Salaried Employees (the "Salaried Pension Plan," and together with the IAM Retirement Plan and the Pilots' Pension Plan, the "Pensions Plans"). The Pensions Plans are covered by Title IV of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (29 U.S.C. § 1304 et seq.).

The Pension Benefit Guaranty Corporation (the "PBGC"), a United States Government corporation that guarantees the payment of certain pension benefits

upon termination of a pension plan, asserts that the Debtor is obligated to contribute to the Pension Plans at least the amounts necessary to satisfy ERISA's minimum funding standards, found in ERISA section 302 and Internal Revenue Code section 412. The PBGC also takes the position that in the event of a termination of the Pension Plans, the Debtor and all members of its controlled group may be jointly and severally liable for the unfunded benefit liabilities of the Pension Plans, See ERISA section 4062, 29 U.S.C. § 1362, and that the Pension Plans may be terminated only if the statutory requirements of either ERISA section 4041 or 4042 are met. The PBGC estimates that as of the Claims Bar Date, each of the Pension Plans was underfunded as follows: \$30.1 million for the IAM Retirement Plan; \$137.6 million for the Pilots' Pension Plan; and \$10.5 million for the Salaried Pension Plan. These estimates are higher than those asserted by the Debtor, which estimates that as of December 31, 2003, the Pension Plans were underfunded as follows: \$13.6 million for the IAM Retirement Plan; \$94.5 million for the Pilots' Pension Plan; and \$5.8 million for the Salaried Pension Plan.

Under the Joint Plan, the Debtor is not terminating any of the Pension Plans. Instead, the Pension Plans will be continued by the Reorganized Debtor. Neither the Debtor nor the Reorganized Debtor intend to request any minimum funding waivers. Unless the Pension Plans have been terminated prior to the Effective Date of the Joint Plan, the liability of the Debtor, the Reorganized Debtor, and their controlled groups (if any) to the Pension Plans, or the PBGC with respect to the Pension Plans, under ERISA, shall not be affected in any way by this reorganization proceeding, including by discharge or release. The Debtor and the PBGC are in the process of negotiating the terms of a stipulation that would provide that so long as the Joint Plan does not provide for termination of the Pension Plans, upon the Effective Date, the PBGC will be deemed to have

withdrawn all Claims against the Debtor whether or not filed in the bankruptcy case.

#### **G. The Pilots' Defined Benefit Pension Plan**

The Debtor and ALPA are parties to a collective bargaining agreement, which also provides for the Debtor to maintain the Pilots' Pension Plan. Under section 302 of ERISA and section 412 of the Tax Code, the Debtor is obligated to make minimum annual contributions to the Pilots' Pension Plan. For the 2002 Year in the Pilots' Pension Plan, the Debtor was required to contribute an additional \$4.25 million and pursuant to section 412(c)(10) of the Tax Code and Section 302(c)(10) of ERISA to make such payment no later than September 15, 2003.

On August 28, 2003, the Trustee filed a motion to suspend funding contributions to Pilots' Pension Plan attributable to prepetition services (the "Section 1113(e) Motion"). The purpose of seeking interim relief was to permit the Trustee and ALPA time to analyze and determine whether termination of the Pilots' Pension Plan, or alternative changes to that plan or other parts of the agreement, would be necessary to a successful reorganization of the Debtor.

ALPA and various other parties filed objections to the Section 1113(e) Motion. At a hearing held September 12, 2003, and by order dated September 15, 2003, the Court granted interim authority to the Trustee to suspend the payment obligations arising under the collective bargaining agreement with ALPA for the 2002 Plan Year. However, that order did not affect in any way the obligations of the Debtor, and any entities that are members of a controlled group with the Debtor, with respect to the Pilots' Pension Plan under ERISA or the Internal Revenue Code, including but not limited to the amount, priority, or other treatment of any claims arising under ERISA or the Internal Revenue Code filed on behalf of

or with respect to the Pilots' Pension Plan. The IRS has included in its a proof of claim a general unsecured claim of \$425,793 based upon the fact that the \$4.25 million attributable to pre-petition services for the 2002 Plan Year were not made on or before September 15, 2003.

The Court scheduled a further evidentiary hearing on the matter for October 24, 2003. On October 17, 2003, the Trustee and ALPA entered into a letter agreement (the "October 17 Letter") that provided for a continuance of the hearing on the Section 1113(e) Motion, the resumption of the monthly contractually owed post-petition contributions to the Pilots' Pension Plan, and the separate accounting of other funds equal to the payment obligations attributable to pre-petition and to the monthly contributions due from the time of waiver previously granted by ALPA to the date of the October 17 Letter. A further hearing on the Section 1113(e) Motion was scheduled for February 27, 2004, which was later continued until March 29, 2004.

Thereafter, the Debtor faced a March 31, 2004 deadline to make certain contributions to the Pilots' Pension Plan for the plan year ending December 31, 2003 (the "2003 Plan Year") required under the terms of the collective bargaining agreement. A portion of that payment, in the amount of \$2,521,961, was attributable to services performed by the pilots before the Petition Date, and the balance, in the amount of \$3,965,661, was attributable to services performed by pilots after the Petition Date. By letter agreement dated March 17, 2004, the Trustee and ALPA agreed to continue further, until July 9, 2004, the hearing on the Section 1113(e) Motion. Under that letter agreement, the Trustee was not required to make contributions on account of pre-petition services for the 2002 Plan Year or 2003 Plan Year, but did agree to continue to provide for separate accounting of those funds.

Ultimately, the Trustee after substantial analysis concluded that termination of the Pilots' Pension Plan was highly unlikely. Accordingly, on July 6, 2004, the Trustee and ALPA filed a joint motion to authorize contributions to Pilots' Pension Plan attributable to pre-petition services. Following a hearing on that motion held July 16, 2004, the Bankruptcy Court entered an order on July 28, 2004 authorizing such payments. Based on that authority, on August 9, 2004, the Debtor made contributions to the Pilots' Pension Plan in the amount of \$6,796,500, which reflected the amount of \$4.25 million due for pre-petition services plus actual interest earned on those funds during the period that they were segregated by the Debtor. Accordingly, any purported default of that pre-petition obligation has been cured, which, the Trustee believes, under applicable bankruptcy law precludes the IRS from asserting a penalty claim for \$425,793.00 on account of that alleged default. The IRS disagrees with this position.

On September 15, 2004, the Debtor contributed an additional \$13,853,367 to the Pilots' Pension Plan, which reflects the balance of payments due under applicable ERISA requirements for the 2003 Pilots' Pension Plan Year.

#### **H. Omnibus Motion for Relief**

On November 28, 2003, the Trustee filed a motion seeking approval of (1) a severance program for the Debtor's management, (2) severance benefits to non-contract employees, (3) an agreement among the Trustee, the Committee, and certain officers of the Debtor to facilitate the ability of those officers to resign as officers of HHI, (4) terms of compensation for the Trustee, and (5) final approval of compensation for Mr. Monahan as the former trustee. Each of these, as more fully described below, was approved at a hearing held on January 23, 2004.

1. *Severance Program for Management*

The severance program for the Debtor's management provides eleven officers with severance in the form of salary and certain benefits for one year after termination. (The program has subsequently been modified to include other officers of the Debtor who were retained after the Omnibus Motion was filed and thus not included within the scope of its relief). The severance benefits would only be available upon a termination of employment without cause during the 180-day period or resignation during the 60-day period following a "Change of Control." A Change of Control was defined to be an event where the Trustee was no longer the trustee, and the chief operating officer (Mark Dunkerley) was not elevated to chief executive officer.

2. *Severance Benefits to Non-Contract Employees*

The severance program for non-contract employees provided, to the Debtor's current and future regular non-contract full-time employees, severance on the same terms and conditions as was available to those employees prior to the Petition Date. That program provides those employees who are involuntarily terminated without cause, with between two and thirteen weeks of severance benefits based on length of service of the employee. As of the date of this Disclosure Statement, there are 495 non-contract employees, of which 434 are eligible for such severance. The Trustee also retained discretion to pay non-contract employees (including officers) accrued pre-petition vacation and additional severance, provided that payments to any non-contract employee shall not exceed 52 weeks of salary and benefits.

3. *Five Officer Agreement*

Five officers of the Debtor (the "Five Officers") were also directors of HHI on the Petition Date. While these individuals were willing to resign their positions

as directors of HHI, they were concerned about the legal implications of such resignation. Accordingly, the Trustee sought and obtained, on an expedited basis, authority to engage separate counsel to represent the officers. Following negotiations between the Trustee, the Committee and the Five Officers, they agreed to resign their positions provided that they received certain protections from the Trustee. The Trustee, the Committee and Five Officers entered into an agreement (the “Five Officer Agreement”) whereby the Trustee and the Committee agreed (a) not to take any action that could result in the subordination of any indemnity claim held by these officers, (b) allow the officers to make a claim against the Debtor’s existing Directors and Officers Insurance Policies, and (c) to covenant not to sue the officers. The Five Officers agreed to cooperate in the investigation related to the conduct of the business of HHI or the Debtor prior to the Trustee’s appointment.

4. *Terms of Compensation for the Trustee*

The Trustee also sought approval from the Bankruptcy Court of the terms of his compensation as chapter 11 trustee. Ultimately, the Committee and the Office of the United States Trustee supported an agreement under which the Trustee receives interim compensation of \$50,000 per month, plus reimbursement of certain living expenses (excluding business expenses, which are not capped) in an amount not to exceed \$10,000 per month. In addition, the Court approved the preservation of the Trustee’s right to request additional compensation payable in cash and stock based upon the results achieved in the case.

5. *Approval of Compensation for Mr. Monahan as Former Trustee*

Finally, the Trustee sought approval of compensation for Mr. Monahan on a final basis. The Court approved compensation in the amount of \$58,700 based on 117.4 hours of work at a rate of \$400 per hour.

## **I. Other Significant Bankruptcy Court Actions**

In addition to the orders approving the first day motions and the other matters described above, the Trustee has sought and obtained certain orders from the Bankruptcy Court that are of particular importance in the operation of the business or in the administration of the chapter 11 case. Included among such orders are the following:

- Assumed Credit Card Agreements. Credit card sales represent the substantial majority of the Debtor's total gross receipts. The Debtor has various agreements with credit card processors to collect and process credit card receivables. Accordingly, the Trustee obtained orders assuming various credit card agreements, including those with Discover Financial Services, Inc. and US Bank. The Trustee also obtained an order, entered on July 29, 2004, authorizing the execution and implementation of a stipulation with U.S. Bank that will reduce the amount of the deposit under the credit card processing agreement with US Bank to 80% of amounts charged. This change has resulted in an increase of the Debtor's unrestricted cash balance of approximately \$13.3 million.
- Extension of Time to Assume or Reject Executory Contracts and Unexpired Leases. Since his appointment, the Trustee has obtained several extensions of time to assume or reject executory contracts. The current deadline for such rejection or assumption is the earlier of the Effective Date or January 12, 2005.
- Management Incentive Program. The Trustee also obtained an order, entered on July 16, 2004, authorizing the implementation of a Management Incentive Plan, which authorizes the Trustee to award performance bonuses to the Debtor's senior and middle managers.

Under the Management Incentive Program, approved with the consent of the Committee but over the objection of the Debtor's three major unions, the Trustee has authority to award up to \$3 million in performance bonuses for work attributable to 2003, and up to \$3 million in performance bonuses in 2004 (or \$4 million if operating profits exceed \$60 million). Those bonuses are to be paid as follows: up to fifty percent of the bonus attributable to 2003 can be paid at any time, with the balance of the bonus payable for 2003 and the full amount of any bonus for work performed in 2004 to be paid on the earlier of December 1, 2004 or the Effective Date. Any bonuses paid to senior management under the Management Incentive Plan will reduce the amount of severance payable to those officers under the severance programs previously approved by the Bankruptcy Court.

- 10% Payment to Pilots. Prior to the Petition Date, in 2000, the Debtor and ALPA agreed that certain pilots who remained employed with the Debtor on June 30, 2004, or retired before that date, would be entitled to receive payments from the Debtor equal to ten percent of their wages, based on rates as of December 31, 2000 and the amount of services provided in 2001. Consistent with that agreement, on July 6, 2004, the Debtor and ALPA filed a joint motion requesting Court authority for the Debtor to pay any undisputed amounts of the "10% Payment" owed to the pilots, which the Debtor estimates to be approximately \$3.5 million. By order dated July 28, 2004, the Court approved payment of the 10% Payment.

## **J. Summary of Claims Process, Bar Date, and Filed Claims**

### *1. Schedules and Statement of Financial Affairs*

On May 5, 2003, the Debtor filed its Schedule of Assets and Liabilities and Statement of Financial Affairs with the Bankruptcy Court. Among other things, the Schedules and Statements set forth the Claims of known creditors against the Debtor as of the Petition Date based upon the Debtor's books and records. The Debtor scheduled secured claims in the aggregate amount of \$5,757,930.93, priority claims in the aggregate amount of \$6,898.98, and unsecured claims in the aggregate amount of \$73,242,432.37.

On November 7, 2003, the Trustee amended the Debtor's schedules. After the amendments, the schedules reflected priority claims in the aggregate amount of \$6,809.10, and unsecured claims in the aggregate amount of \$67,832,948.84. The Trustee did not amend the Debtor's schedule of secured claims.

### *2. Claims Bar Date and Proofs of Claims*

On November 7, 2003, the Bankruptcy Court entered an Order (the "Bar Date Order") establishing January 26, 2004 as the deadline for filing proofs of claims against and interests in the Debtor. Parties filed over 970 proofs of claim totaling more than \$720 million.

On June 16, 2004, the Trustee filed his First Omnibus Objection Of Chapter 11 Trustee To Claims (Amended/Duplicative Claims, Reclassified Claims, No Basis Claims, And Employee Benefits Claims), pursuant to which the Trustee objected to approximately 356 proofs of claims. The Court sustained the First Omnibus Objection with respect to 191 of these claims, reducing the amount of the claims asserted against the estate by \$27,463,614.83.

The Trustee subsequently filed his Second Omnibus Objection Of Chapter 11 Trustee To Claims (Amended/Duplicative Claims, Reclassified Claims, No

Basis Claims, And Employee Benefits Claims), pursuant to which the Trustee objected to approximately 105 proofs of claims. The Court sustained the Second Omnibus Objection with respect to 100 of the claims, reducing the amount of allowed claims by a total of \$8,862,685.44.

The Trustee has also filed separate objections to at least four other individual proofs of claims, in the aggregate amount of approximately \$83,279,054.00. Of those objections, the Bankruptcy Court has to date issued orders disallowing or reducing three of those claims in the total approximate amount of \$50,130,721.00. There can be no assurance as to how many, or the aggregate amount, of such remaining claims will be allowed or disallowed.

### *3. Significant Disputed Claims*

The Joint Plan Proponents believe that many of the timely filed proofs of claim are wholly invalid, duplicative, or otherwise overstated in amount. However, there can be no assurance that the Reorganized Debtor will succeed in all of its objections to these claims. A summary of certain significant disputed claims follows.

#### *a. Pension Benefit Guaranty Corporation*

The Pension Benefit Guaranty Corporation (“PGBC”) filed at least nine claims in the aggregate amount of more than \$200 million relating to the three defined benefit pension plans sponsored and maintained by the Debtor for unfunded pension liability. Three of those claims is contingent upon termination of the pension plans; the remaining claims are for minimum funding obligations or unpaid premiums. As discussed above, the Joint Plan does not provide for termination of the pension plans, and further provides that the claims of the PBGC will not be discharged or otherwise affected by the Joint Plan. Accordingly, the

Trustee anticipates that the PBGC will agree to withdraw its claims as of the Effective Date, and is negotiating a stipulation with the PBGC.

b. Internal Revenue Service

Around the time that the Trustee was appointed, in July 2003, the Internal Revenue Service (“IRS”) commenced a tax audit of the Debtor, covering taxes for income, fuel excise, and other matters. The Debtor has cooperated with the IRS in conducting its tax audit. Early in the audit process, the IRS requested and was granted a five-month extension of the bar date, until June 30, 2004, for it to file a proof of claim. On June 30, 2004, the IRS filed a proof of claim in the face amount of \$128,934,576. Subsequently, on July 22, 2004, the IRS amended its claim, reducing it to \$125,980,628.31 (the “IRS Amended Proof of Claim”), and also filed a request for payment of administrative expenses in the amount of \$3,146,273.99 (the “IRS Administrative Expense Claim”).

In the IRS Amended Proof of Claim, the sum of \$87,381,015.42 is said to constitute a priority tax claim under section 507(a)(8) of the Bankruptcy Code. That priority claim consists of two components: (1) excise taxes in the amount of \$20,292,385.47, plus interest of \$1,689,477.78, for a total of \$21,981,863.25; and (2) income tax adjustments for the years 2001 and 2002 in the aggregate amount of \$62,774,722, plus interest of \$2,624,430, for a total amount of \$65,399,152, including unpaid interest.

The Trustee believes that the balance of the IRS Amended Proof of Claim, in the amount of \$38,599,612.89, primarily reflects penalties proposed by the IRS arising from its contention that the Debtor filed excessive claims related to the non-taxable use of aviation fuel. The amount equals approximately 200% of the excise tax amount claimed. The Trustee believes that these amounts constitute a penalty under well established law. A small portion of that claim, in the amount of

\$425,793.00, apparently reflects a penalty excise tax arising from the fact that the Debtor did not make payment, prior to September 15, 2003, of certain ERISA minimum funding obligations to the Pilots Pension Plan. Any purported default of that obligation has been cured, and accordingly, under the terms of the Joint Plan, the penalty claim of \$425,793.00 will not be paid.

The IRS Administrative Expense Claim consists of excise taxes for aviation fuel that was consumed after March 21, 2003 (the “Petition Date”) in the amount of \$1,006,962.52, plus interest of \$192,325.36, plus penalties in the amount of \$1,946,986.11 related to those excise taxes, for a total of \$3,146,273.99. The claim extends only to the quarter ending June 30, 2003, as the Debtor did not assert any exemptions from fuel excise taxes from and after the third quarter of 2003.

On July 28, 2004, the Trustee filed a pleading with the Bankruptcy Court (the “Trustee’s IRS Objection”), requesting that the Court estimate the priority tax claim and impose a cap on that claim of \$23 million (reflecting the portion of the priority tax cap reflecting excise taxes and interest). The Trustee also requested that the Bankruptcy Court disallow, in its entirety, the portion of the IRS Amended Proof of Claim that seeks penalties related to the excise taxes. In its pleading, the Debtor asserts that the claim for additional income tax and the claim for penalties relating to the excise taxes are without merit. The Debtor has also reserved the right to object to the excise tax claim as well as the other claims asserted by the IRS.

Following a hearing held on August 27, 2004, the Bankruptcy Court held that the priority tax claim reflecting income tax adjustments is subject to estimation under section 502(c) of the Bankruptcy Code, and scheduled a further hearing on September 7, 2004 to establish a schedule for adjudication of the Trustee’s IRS Objection. At the September 7, 2004 hearing, the Court approved the following schedule:

Deadline to Exchange Initial Document Requests and Interrogatories	September 10, 2004
Deadline to Initially Respond to and Produce Documents and Answer Interrogatories for Discovery Requests Issued on or before September 10, 2004	September 30, 2004
Depositions	October 4 – November 12, 2004
Discovery Cutoff	November 15, 2004
Expert Reports	November 1, 2004
Rebuttal Expert Reports	November 10, 2004
Deposition of Experts	November 15 – 23, 2004
Submit Trial Briefs, Exchange Witness and Exhibit Lists; Exchange Direct Testimony Declarations of Witnesses	December 6, 2004
Evidentiary Hearing	December 13 – 14, 2004

It is a condition to the occurrence of the Effective Date of the Joint Plan that the IRS's Unsecured Claim against the Debtor for tax related penalties shall be disallowed by the Bankruptcy Court, however this condition does not extend to the resolution of any appeals of any such order. On the other hand, the resolution of the IRS' Priority Claim is not a condition to the occurrence of the Effective Date.

c. Captain Robert Konop

Robert Konop, a captain currently employed by the Debtor, has filed three proofs of claim in the aggregate amount of approximately \$40,049,000. Captain Konop alleges that the Debtor has improperly used certain proprietary information belonging to him. Although no assurance can be given, the Trustee believes that

Captain's Konop's claim should be disallowed in its entirety. On August 14, 2004, the Trustee filed an objection to Captain Konop's claim. At a hearing held on September 13, 2004, the Bankruptcy Court estimated Claim No. 72 filed by Captain Konop at an amount not to exceed \$36,000 plus approximately \$4,000 in expenses (subject to an accounting). The Bankruptcy Court disallowed Claim Nos. 780 and 560 filed by Captain Konop for the reasons stated on the record at that hearing.

d. American Airlines

American Airlines ("AA") has filed a proof of claim, as amended, in the amount of \$11,049,616.17. Of that amount, \$553,548.13 is for unpaid rent accruals relating to DC-10 aircraft which the Debtor leased prior to the Petition Date. Much of the balance of the claim is for unpaid maintenance charges. Moreover, certain of the claims are attributable to airplanes leased from AA whose terms expired prior to the Petition Date. The Joint Plan Proponents are in the process evaluating what portion of the proof of claim filed by AA is a Lease Related Claim. The Trustee and AA are negotiating the terms of a stipulation that would provide that the claim of AA will be bifurcated between a Lease Related Claim in Class 5 and an Unsecured Claim in Class 4, with the amount of that allocation to be agreed by the parties or determined by the Bankruptcy Court. With respect to the amount of the proof of claim, the Debtor disputes a substantial portion and contends that the allowed amount of the claim, other than for rent accruals, should not exceed \$2,276,778.63.

e. Deutsche Bank Securities, Inc. ("DBSI")

DBSI is the holder of a proof of claim in the amount of approximately \$23,045,0000 (the "DBSI Claim") related to leases of two DC-10 aircraft. On September 24, 2004, the Trustee filed an objection to the DBSI Claim. The

Trustee seeks to disallow \$15 million of that claim on the ground that it is an invalid and unenforceable as it constitutes a penalty and forfeiture under applicable New York law. The Trustee also seeks to disallow DBSI's claim for \$7,170,000 for the return condition of the two aircraft because there is no evidence or supporting documents to show that DBSI incurred any actual expenses in repairing or maintaining the Aircraft upon their return to DBSI. Finally, the Trustee has objected to the portion of the claim, in the amount of \$875,000, for post-petition interest. The Trustee is conducting discovery to support his objection and a hearing is currently scheduled for November 15, 2004. The DBSI claim is properly classified as a Lease Related Claim included in Class 5. DBSI has filed a motion seeking allowance of the DBSI Claim and the classification of such claim in Class 4 as an Unsecured Claim. The Joint Plan Proponents are opposing DBSI's motion, which is also scheduled for hearing on November 15, 2004.

f. Additional Disputed Claims

A list of additional disputed claims is attached as Exhibit F to this Disclosure Statement. NEITHER THE JOINT PLAN PROPONENTS NOR THE REORGANIZED DEBTOR WAIVE UNDER THE JOINT PLAN OR HEREBY ANY RIGHT TO, AMONG OTHER THINGS, OBJECT TO THE CLAIM OF ANY CREDITOR. CREDITORS SHOULD ASSUME THAT THEIR CLAIM MIGHT BE OBJECTED TO IN VOTING ON THE JOINT PLAN.

**K. Litigation**

1. *Gotbaum v. Adams, et al. – Adv. Proc. No. 03-90061*

On November 28, 2003, the Trustee commenced a lawsuit against John Adams and three of his affiliates, AIP LLC, Smith Management, and Airline Investors Partnership (collectively, the "Adams Defendants"), as well as HHI. The lawsuit seeks recovery of damages arising from the \$25 million tender offer that

occurred in June 2002, as well as other transactions that involved payments by the Debtor to one or more of the Adams Defendants. In addition, the lawsuit seeks recovery from HHI of the \$500,000 transfer made on the eve of the Debtor's bankruptcy case. The lawsuit asserts that the transfers constitute fraudulent conveyances and/or preferences, and that Adams breached his fiduciary duty and violated Hawaii law in causing and authorizing the Debtor to consummate the transaction.

The Adams Defendants are contesting the suit. On January 5, 2004, the Adams Defendants filed a motion to withdraw the reference to this Court, so that the matter could be heard by the United States District Court for the District of Hawaii. That motion was denied, and the action remains pending in the Bankruptcy Court. Discovery is ongoing, with trial scheduled to commence in June 2005.

2. *Gotbaum v. Happ – Adv. Proc. No. 03-90060*

The Trustee has brought a lawsuit against John Happ, the Company's former Vice President, Sales and Marketing, who resigned on February 15, 2003. In that lawsuit, the Trustee seeks injunctive and monetary relief against Happ based upon his alleged violation of a covenant not to compete and other contractual obligations which occurred when he accepted a similar position with ATA Airlines, Inc. in July 2003. The Trustee has also filed an objection to the proof of claim filed by Happ in the amount of about \$433,000. Trial in the adversary proceeding is scheduled to begin on January 24, 2005.

**L. Commencement of the “Plan Process”**

As a result of and upon the appointment of the former chapter 11 trustee, the exclusive period granted to a debtor in possession to file and solicit acceptances of

a plan of reorganization automatically terminated under Section 1121(c)(1) of the Bankruptcy Code.

On February 11, 2004, Boeing and Corporate Recovery Group LLC (“CRG”) filed a separate plan of reorganization. On that same date, they filed a motion to expedite the plan confirmation process and obtain approval of a break-up or “topping” fee in the amount of \$5.4 million in favor of CRG in the event that the Boeing/CRG plan was not confirmed. That plan proposed an investment of \$30 million in exchange for effectively 90% of the equity of a reorganized Hawaiian Airlines. The Court denied Boeing/CRG’s motion to shorten time for a hearing on the motion, and scheduled a hearing for April 1, 2004.

The Trustee and the Committee opposed Boeing/CRG’s motion and subsequently filed a joint motion to approve bidding procedures for a possible investments in the Debtor through a plan of reorganization. At the hearing on the Trustee’s and Committee’s joint motion and Boeing and CRG’s motion held on April 1, 2004, the Court approved a schedule for submission of plans of reorganization and disclosure statements for all interested parties.

The procedures allowed interested potential investors, referred to in the Plan Process Order as Qualified Proponents, approximately six weeks for investigation of the Debtor prior to making a binding proposal. Qualified Proponents, as determined by the Trustee and the Committee, were provided with an information memorandum and basic due diligence information about the Debtor.

On May 5, 2004, thirteen Qualified Proponents submitted non-binding written expressions of interest. Thereafter, the Trustee and the Committee, together with their advisors, evaluated the expressions of interest and selected a group of four Qualified Proponents that were granted substantial access to the Debtor’s confidential business and financial information. In light of the higher than expected number of interested investors, on May 17, 2004, the Trustee and the

Committee filed a joint motion to modify the schedule for the submission of plans of reorganization. That motion was granted, with the consent of HHI as well as Boeing and CRG, on May 21, 2004. As a result, the deadline for parties in interest to file plans of reorganization was extended until July 29, 2004.

On July 8, 2004, the four Qualified Proponents selected by the Trustee and the Committee to remain in their process submitted binding proposals of interest. Following a meeting of the Trustee and Committee, and their advisors, the Trustee and Committee selected two Qualified Proponents to continue the process, and invited them to submit revised proposals.

In evaluating the proposals of the Qualified Proponents, as well as a proposal made by HHI in mid-July, the Trustee and Committee concluded that additional time in the plan process was needed to evaluate whether a plan could be formulated that would provide a substantial cash distribution to unsecured creditors upon the Effective Date.

On August 12, 2004, the remaining two Qualified Proponents submitted final proposals to the Trustee and the Committee. The Trustee and the Committee identified one of those proposals as preferable to the other, and began to engage in negotiations with that Qualified Proponent in an effort to reach agreement on the terms of a plan. However, prior to reaching any agreement with the Qualified Proponent, HHI, HHIC and RC Aviation made an offer to the Trustee to fund a plan that would provide for a full recovery on allowed claims of creditors and allow shareholders to retain their interests in Hawaiian. From the Trustee's perspective, the HHI, HHIC, and RC Aviation proposal was consistent with and in the best interest of both the creditors and the shareholders of the Debtor. Accordingly, on August 26, 2004, the Trustee entered into the Restructuring Support Agreement under which the Trustee selected HHI, HHIC, and RC Aviation as the Qualified Proponent whose proposal was preferred when compared

with all others previously made, in the judgment of the Trustee, in the best interest of the estate. Subsequent to the Trustee's determination, the Committee agreed to support the HHI, HHIC, and RC Aviation proposal and join in the Joint Plan.

On or prior to August 30, 2004, the following parties filed plans of reorganization: (1) the Trustee, the Committee, HHI, HHIC, and RC Aviation (the "Joint Plan"); (2) BCC Equipment Leasing Corporation, Boeing Capital Corporation, and Corporate Recovery Group, LLC (the "Boeing/CRG Proponents"); (3) Hawaiian Investment Partners Group LLC, Hawaiian Reorganization Committee LLC, and Robert C. Konop; and (4) Madison 50 Air Partners LLC ("Madison 50"). The plans of reorganization filed by the Boeing/CRG Proponents and Madison 50 have been withdrawn. On October 5, 2004, this Court held a hearing regarding approval of the disclosure statements filed by the various plan proponents. At that hearing, the Court approved the disclosure statements submitted by the following parties: \_\_\_\_\_.

## **XI. CERTAIN FACTORS TO CONSIDER IN VOTING TO ACCEPT OR REJECT THE JOINT PLAN**

The holder of a Claim against or Interest in the Debtor should read and carefully consider the following factors, as well as the other information set forth in this Disclosure Statement (and the documents delivered together herewith and/or incorporated by reference herein), before deciding whether to vote to accept or to reject the Joint Plan.

### **A. Additional Terrorist Attacks or International Hostilities Could Adversely Affect The Debtor's Results.**

The terrorist attacks of September 11, 2001 adversely affected the business, results of operation and financial condition of both the Debtor and the airline industry generally. Additional terrorist attacks, even if not made directly on the airline industry, or the fear of such attacks (including elevated national threat

warnings or selective cancellation or redirection of flights due to terror threats), could negatively affect the Debtor and the airline industry as a whole. The war in Iraq decreased demand for air travel during the first quarter of 2003, and additional international hostilities could potentially have a material adverse impact on the Debtor's financial condition, results of operations and financial condition.

**B. Changes In Fuel Costs and/or Fuel Supply Materially Affect The Debtor's Operating Results.**

Aircraft fuel is a significant expense and even marginal changes in fuel costs can greatly affect the Debtor's profitability. The price and availability of aviation fuel is unpredictable and currently is at historically high levels. Fuel costs (including taxes and oil) represented approximately 15% of the Debtor's operating expenses for the year ended December 31, 2003. A one-cent per gallon change in the cost of fuel changes the Debtor's operating expenses by about \$87,000 per month, based on 2003 consumption. The Debtor continued to realize savings in 2003 as a result of the Debtor's introduction of more efficient B-717 and B-767 aircraft into the Debtor's system. Currently, in an effort to reduce fuel costs, the Debtor makes bulk purchases of fuel from Asia. The Debtor recently obtained authority to enter into fuel risk management transactions from time to time in an effort to manage market risks and hedge the Debtor's financial exposure to fluctuations in fuel costs. The Debtor's average fuel costs per gallon have increased materially in the last two months. If the Debtor's average fuels costs remain at current levels, and the Debtor is not able to increase average fares to compensate for the increased fuel costs, the Debtor's net operating income would be adversely affected. The Debtor cannot predict the future costs and availability of fuel with any degree of certainty. In the event of a fuel supply shortage, higher fuel prices or the curtailment of operations could result. There can be no assurance

that the Debtor would be able to offset any increases of the price of fuel with higher fares.

**C. Airline Revenues Are Volatile and Fixed Costs Are High.**

Airline profit levels are highly sensitive to changes in fare levels, passenger demand, and competition from other airlines which have added capacity. Passenger demand and fare levels are influenced by, among other things, the state of the global economy, domestic and international events, airline capacity and pricing actions taken by carriers. The Debtor's revenues are subject to seasonal volatility due primarily to leisure and holiday traffic patterns. Traffic levels are typically weaker in the first quarter of the year and stronger periods occur during July, August and December. As a result, the Debtor's operating results for an interim period are not necessarily indicative of operating results for an entire year, and historical operating results are not necessarily indicative of future operating results. As with other airlines, the Debtor's revenues vary substantially in relation to fixed operating costs. Most of the cost of a flight is fixed, and does not vary with the number of passengers carried, although the revenue generated from a particular flight is directly related to the number of passengers carried. Therefore, while a decrease in the number of passengers carried would cause a corresponding decrease in revenue (if not offset by higher fares), it may result in a disproportionately greater decrease in profits. An increase in the number of passengers carried would have the opposite effect.

**D. The Debtor Must Maintain Adequate Insurance Coverage.**

The Debtor believes that its insurance coverage is adequate and consistent with current industry practice. However, the Debtor can provide no assurance that the amount of the Debtor's coverage will not change or that the Debtor will not suffer losses from accidents that exceed the Debtor's insurance coverage. After

September 11, 2001, aviation insurers significantly reduced the maximum amount of certain types of coverage, significantly increased their premiums, and canceled all war risk insurance coverage for the airline industry. The Debtor's war risk insurance coverage was subsequently reinstated to a limit of \$100 million from the independent insurers at increased premiums. The Debtor also purchased from the U.S. government third-party war risk insurance coverage above \$100 million, up to a cap of twice the previous limit. As part of the Supplemental Appropriations Act, this coverage was extended through December 2004, after which it is anticipated that the federal coverage will be extended unless insurance for war risk coverage in necessary amounts is available from independent insurers or a group insurance program is instituted by the U.S. carriers and the Department of Transportation. However, there can be no assurance that such coverage will be available, that the amount of such coverage will not be changed or that the Debtor will not bear additional increased premiums or substantial losses from accidents or other events. Substantial claims in excess of related insurance coverage could have a material adverse effect on the Debtor's operations and profitability. The annual cost of the Debtor's aviation insurance programs has increased from approximately \$3.6 million in 2001 to approximately \$14.4 million in 2003. Aviation insurers would likely increase their premiums even further in the event of additional terrorists attacks, hijackings, airline crashes or other events adversely affecting the airline industry.

**E. Additional Security Requirements May Increase The Debtor's Costs and Decrease The Debtor's Traffic.**

Since September 11, 2001, the U.S. government has implemented numerous security measures that affect airline operations and costs, and is likely to implement additional measures in the future. The Debtor believes that these and other security measures have the effect of increasing the hassle of both passenger

and cargo transportation by air and thus decreasing traffic. In addition, current and future security measures imposed by the U.S. and foreign governments increase the Debtor's costs and may adversely affect the Debtor's financial results. The Emergency Wartime Supplemental Appropriations Act of 2003 (the "Supplemental Appropriations Act") contained a number of provisions relating to security costs. In May 2003, the Debtor received and recognized in earnings \$17.5 million in cash for reimbursement of the Debtor's proportional share of passenger security 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. Additionally, passenger security fees were not imposed for the period June 1, 2003 to September 30, 2003. The Debtor also received reimbursement for the direct costs associated with installing strengthened flight deck doors and locks.

**F. Increased Labor Costs or Labor Disruptions Could Affect the Debtor's Operations.**

As with most airlines, labor costs are a significant component of the Debtor's expenses. Labor costs represented approximately 33% of the Debtor's operating expenses for the year ended December 31, 2003. The majority of the Debtor's employees are represented by labor unions and covered by collective bargaining agreements. Under the Railway Labor Act, which governs the Debtor's relations with the labor unions, collective bargaining agreements do not expire, but instead become amendable as of a stated date. For instance, between November 2004 and April 2005, five of the Debtor's collective bargaining agreements will become amendable according to their current terms. The Debtor's collective bargaining agreement with ALPA became amendable in July 2004. Together, these six agreements cover 2,798 employees. If either party wishes to modify the terms of any such agreement, it must notify the other party in the manner prescribed by the agreement. After receipt of such notice, the parties must meet

for direct negotiations. If no agreement is reached, either party may request the National Mediation Board (the “NMB”) to appoint a federal mediator. If no agreement is reached in mediation, the NMB may determine, at any time, that an impasse exists. If an impasse is declared, the NMB proffers binding arbitration to the parties. Either party may decline to submit to arbitration. If arbitration is rejected, a 30-day “cooling-off” period commences, following which the labor organization may strike and the airline may resort to “self-help”, including the imposition of any or all of its proposed amendments and the hiring of workers to replace strikers. There is no assurance that future agreements with the Debtor’s unions will be reached and, if so, on what terms. If the Debtor is unable to reach agreement with any of its unions, the Debtor may be subject to work interruptions or stoppages, which may hamper or halt operations.

**G. The Debtor Relies Heavily on Third Parties for its Operations.**

The Debtor relies on agreements with third parties to provide facilities and services required for the Debtor’s operations, including aircraft maintenance, code sharing, reservations, computer services, frequent flyer programs, passenger processing, ground facilities, baggage and cargo handling, and personnel training. The Debtor’s reliance on third parties to provide important aspects of the Debtor’s business operations may affect the Debtor’s ability to operate the Debtor’s business effectively. In particular, the loss of one or more of the Debtor’s significant travel agencies, or any effort by the Debtor’s significant travel agencies to favor other carriers or disfavor the Debtor, could adversely affect the Debtor’s revenue.

**H. The Debtor Expects That its Maintenance Costs will Increase as its Fleet Ages.**

The Debtor’s new B-717 and B-767 aircraft require less maintenance than the older aircraft the Debtor previously used. However, the Debtor expects that

maintenance costs will increase significantly as these aircraft age. As a small airline, the Debtor has a relatively small fleet. If an aircraft becomes unavailable because of unscheduled maintenance, repairs or other reasons, it is more likely that no replacement aircraft will be available and that the Debtor could suffer greater financial and reputational damage than a larger carrier. Although the Debtor performs certain maintenance tasks itself, the Debtor has entered into a number of contracts with third-party service providers for maintenance services.

**I. The Business Plan May Not Be Successfully Implemented, and the Projections May not be Achieved.**

The Projections attached as Exhibit D to this Disclosure Statement are based on numerous assumptions including the timing, confirmation and consummation of the Joint Plan, the anticipated future performance of the Reorganized Debtor, industry performance, general business and economic conditions and other matters, many of which are beyond the control of the Joint Plan Proponents and some or all of which may not materialize. In addition, unanticipated events and circumstances occurring subsequent to the date that this Disclosure Statement was approved by the Bankruptcy Court may affect the actual financial results of the Reorganized Debtor's operations. These variations may be material and may adversely affect the ability of the Reorganized Debtor to make payments with respect to indebtedness under the Joint Plan, or the value of any distribution of notes or equity made under the Joint Plan. Because the actual results achieved through the periods covered by the Projections may vary from the projected results, the Projections should not be relied upon as a guaranty, representation or other assurance of the actual results that will occur.

In addition, the Projections attached as Exhibit D were prepared by the Trustee, not the HHI Parties or the Committee. As set forth herein, HHI has prepared its own projections and has its own views as to the potential future results

of the Debtor's operations. However, as with the Trustee's Projections, HHI's projections and views as to potential future results of operations are based on numerous assumptions including the timing, confirmation and consummation of the Joint Plan, the anticipated future performance of the Reorganized Debtor, industry performance, general business and economic conditions and other matters, many of which are beyond the control of the Joint Plan Proponents and some or all of which may not materialize. In addition, unanticipated events and circumstances occurring after the date that this Disclosure Statement was approved by the Bankruptcy Court may affect the actual financial results of the Reorganized Debtor's operations. Because the actual results achieved through the periods covered by the projections prepared by HHI may vary from the projected results, HHI's projections and views as to the potential results of the Debtor's future operations should not be relied upon as a guaranty, representation or other assurance of the actual results that will occur.

**J. HHI Common Stock.**

Under the Joint Plan, the Joint Plan Proponents propose to distribute HHI Common Stock to those creditors electing to receive a portion of their claims in HHI Common Stock. HHI, incorporated in April 2002 under the laws of the State of Delaware, is a holding company. HHI became the parent of the Debtor on August 29, 2002, pursuant to a corporate restructuring. As a result of the corporate restructuring, HHI's primary asset is its sole ownership, directly and indirectly, of all issued and outstanding shares of common stock of Hawaiian. HHI's ability to continue as a going concern after the Debtor's Reorganization case is dependent upon, among other things, the ability of the Debtor (i) to maintain adequate Cash on hand, (ii) to generate Cash from operations, and (iii) to maintain profitability. Thus, the value of HHI Common Stock will depend substantially on the operation

of the Reorganized Debtor's business. In addition, any funds raised from the New Contribution, plus those shares of HHI Common Stock issued to holders of Claims under the Joint Plan, would be dilutive to the existing holders of HHI Common Stock and, if Series E Preferred Stock of HHI was issued, would result in a class of equity securities with superior rights and preferences to the HHI Common Stock. For a further description of the HHI Common Stock, please refer to Section IV "Description of HHI Capital Stock."

**K. The Reorganized Debtor will have Substantial Indebtedness.**

Following the Effective Date, the Reorganized Debtor will have a substantial amount of indebtedness and other fixed obligations, including, without limitation, the New Notes, the Class 5 Notes and the Reorganized Debtor's aircraft operating lease obligations. The degree to which the Reorganized Debtor is leveraged could have important consequences, including, but not limited to: (i) making it more difficult to pay interest and satisfy debt obligations, (ii) increasing the Reorganized Debtor's vulnerability to general adverse economic and industry conditions, (iii) requiring the dedication of a substantial portion of the Reorganized Debtor's Cash flow from operations to the payment of indebtedness and aircraft operating lease obligations, thereby reducing the availability of the cash flow to fund working capital, capital expenditures or other general corporate requirements of the Reorganized Debtor or to distribute dividends to HHI, (iv) limiting the ability of the Reorganized Debtor to obtain additional financing, and (v) placing the Reorganized Debtor at a competitive disadvantage compared to less leveraged competitors.

**L. History of Operating Losses.**

As a result of the September 11, 2001 terrorist attacks, their effect on the airline industry and recessionary conditions in the United States, the Debtor has

suffered significant losses in recent years. During the fiscal years ended December 31, 2002 and 2003, the Debtor had net losses of \$57.4 million and \$49.5 million, respectively. Due to substantial uncertainty relating to the duration of the current economic climate, the risk of future terrorist attacks and other factors beyond the control of the Debtor that affect its operating results, the Joint Plan Proponents cannot predict whether or for how long the Reorganized Debtor will be profitable.

**M. Risk of Geographic Concentration.**

The Debtor's scheduled flight service is focused completely on flights to, from, and within Hawaii. The Reorganized Debtor's business would be harmed by any circumstances causing a reduction in air transportation to or from these locations, such as adverse changes in local economic conditions, negative public perceptions of these destinations, a change in customer preferences or significant price increases linked to increases in airport access costs and fees imposed on passengers.

**N. HHI's Dependence on Dividends from the Debtor.**

HHI is a holding company with no business operations of its own. Its only significant asset is its direct and indirect interest in the capital stock of the Debtor. As a result it will rely on payments from the Reorganized Debtor to meet its obligations. The Reorganized Debtor's own debt service and operating obligations will restrict its ability to pay cash dividends to HHI or to make other distributions to HHI, which in turn could limit the ability of HHI to meet its obligations or to pay cash dividends to the holders of HHI Common Stock.

**O. Labor Conditions to Confirmation of the Joint Plan**

The ALPA asserts that the Joint Plan is not feasible because it is conditioned on labor concessions that ALPA asserts have not been agreed to and cannot be

obtained under Section 1113. The Joint Plan Proponents dispute these assertions as set forth below.

ALPA is the authorized collective bargaining representative of some 375 airline pilots employed by the Debtor, slightly more than 10% of the Debtors employees. ALPA and the Debtor are parties to a collective bargaining agreement that ALPA asserts became amendable under the terms of the Railway Labor Act on June 30, 2004. ALPA asserts that under the agreement and upon a defined change in control of the Debtor, ALPA has the option of extending its term for up to three years with a 4% increase in compensation for each year's extension. ALPA maintains that the acquisition by RC Aviation of an equity interest in HHI and the Debtor's emergence from bankruptcy will constitute a change in control within the meaning of the collective bargaining agreement.

The Joint Plan Proponents dispute ALPA's assertion. The Joint Plan does not provide for any "transfer of ownership or control of all or substantially all of the equity securities or assets of the Debtor." Rather, the shareholder of the Debtor, Hawaiian Holdings, Inc., will remain unchanged, and no assets are to be transferred. Thus, no "Change of Control" has occurred.

In February 2003 ALPA and the Debtor entered into negotiations in an effort to offset agreed upon wage increases by contractual changes that would increase productivity. The parties at that time entered into an agreement (the "ALPA Restructuring Agreement") that modified a number of contractual work rules and contained certain other concessions that the ALPA and the Debtor then estimated would ultimately result in cost savings of \$8 million annually to the Debtor when fully implemented. ALPA also agreed to engage in further discussion concerning the Pilots' Pension Plan, a defined benefit pension plan that provides retirement and disability income for the Debtor's pilots. ALPA contends that in the ALPA Restructuring Agreement, the Debtor agreed that it would not seek relief under

either Section 1113 or 1114 of the Bankruptcy Code in connection with any filing unless the Debtor's financial condition materially deteriorated from the financial condition projected in the Debtor's 2003 and 2004 business plan. The Trustee disputes ALPA's assertions concerning the alleged waiver of rights in the ALPA Restructuring Agreement. The Trustee believes that any alleged waiver would, under bankruptcy law, be unenforceable, and in any case would be unenforceable against the Trustee.

Since the execution of the ALPA Restructuring Agreement, ALPA and the Trustee have entered into discussions concerning the Pilots' Pension Plan and the terms of a new collective bargaining agreement. ALPA alleges that at times in those discussions, the Trustee has proposed freezing the Pilots' Pension Plan and implementing a new defined contribution plan that ALPA alleges would cost \$6 million per year and would provide both retirement and disability benefits. ALPA has advised the Trustee that it will not agree to this proposal. ALPA also advised the Trustee that it will not agree to extend the present collective bargaining agreement for three years without pay increases for pilots. The Trustee has made no such proposal.

ALPA alleges that any attempt to impose these terms through the Section 1113 process would be a detriment to the estate. ALPA intends to vigorously defend against such a motion and asserts that the Trustee cannot make out the procedural and substantive prerequisites for such relief. ALPA does not believe that there is a financial need for the terms proposed under the Joint Plan or that such relief would treat parties fairly and equitably, given the proposed 100% recovery for creditors and the retention by shareholders of their equity interests.

The Trustee asserts that at present the Debtor is attempting to negotiate a satisfactory agreement with ALPA, and that such an agreement is a precondition to the proposed Plan (as it was to all other proposals received by the Trustee). If the

Trustee concludes that a satisfactory agreement cannot be negotiated, and that such an agreement is necessary successfully to reorganize the Debtor, he retains the ability to seek relief under section 1113. The Trustee notes that satisfactory labor agreements are an express precondition to obtain the capital infusion and structure provided under the Joint Plan that even ALPA concedes is required for the Debtor's long term future. The Trustee reports that the Debtor is attempting to negotiate agreements that permit the Debtor to remain competitive, based upon well established benchmarks of the Debtor's competitors in the airline industry. Moreover, the Trustee asserts that any changes to the collective bargaining agreement ensure that creditors, the debtor and affected parties are treated "fairly and equitably." The Trustee believes that ALPA and its membership have been treated favorably in this bankruptcy case – indeed, the Trustee has sought and obtained authority to make, and has made, full payment in cash of pension and various other pre-petition obligations even though no plan has yet been confirmed. The Trustee believes that ALPA's pilots have also enjoyed, since the commencement of this case, a substantial pay increase that went into effect.

ALPA asserts that if the collective bargaining agreement was rejected, then it would assert a claim for rejection damages. ALPA contends that the modifications to the pension plan that are a condition to confirmation of the Joint Plan would, through 2009, cause Hawaiian pilots to lose retirement benefits presently valued no less than \$30 million. ALPA further asserts that rejection of the change in control provision would result in lost earnings of approximately \$4.8 million over three years. ALPA asserts that it would have a rejection damage claim of no less than \$35 million.

The Joint Plan Proponents dispute ALPA's contention that it may have rejection damages claim in the amounts set forth above. The Joint Plan Proponents believe that ALPA cannot assert rejection damages on account of any services to

be performed after the amendable date of the collective bargaining agreement – June 30, 2004 – because the Joint Plan Proponents believe that nothing in the collective bargaining agreement could have provided employees an expectation that they would have enjoyed the same benefits and wages beyond that date.

**P. IRS’s Penalty Claim**

The Trustee has filed an objection to the IRS’s penalty claim and the Plan will not become effective unless that objection is sustained or this condition is waived.

**XII. VOTING PROCEDURES AND  
CONFIRMATION OF THE JOINT PLAN**

**A. General.**

To confirm the Joint Plan, the Bankruptcy Code requires that the Bankruptcy Court make a series of findings concerning the Joint Plan and the Debtor, including that:

- the Joint Plan has classified Claims and Interests in a permissible manner;
- the Joint Plan complies with the applicable provisions of the Bankruptcy Code;
- the Joint Plan Proponents have complied and will comply with the applicable provisions of the Bankruptcy Code;
- the Joint Plan Proponents have proposed the Joint Plan in good faith and not by any means forbidden by law;
- the disclosure required by section 1125 of the Bankruptcy Code has been made;
- the Joint Plan has been accepted by the requisite votes of creditors and equity interest holders (except to the extent that cramdown is available

under section 1129(b) of the Bankruptcy Code (see Section XII.D. “Acceptance or Cramdown”));

- the Joint Plan is feasible, including that confirmation of the Joint Plan will not likely be followed by the liquidation or the need for further financial reorganization of the Debtor or the Reorganized Debtor;
- the Joint Plan is in the “best interests” of all holders of Claims or Interests in an impaired Class who does not accept the Joint Plan by providing to such creditors or interest holders on account of such Claims or Interests property of a value, as of the Effective Date, that is not less than the amount that such holder would receive or retain in a chapter 7 liquidation;
- all fees and expenses payable under 28 U.S.C. § 1930, as determined by the Bankruptcy Court at the Confirmation Hearing, have been paid, or the Joint Plan provides for the payment of such fees on the Effective Date;
- the Joint Plan provides for the continuation after the Effective Date of all retiree benefits provided by the Debtor, as defined in section 1114 of the Bankruptcy Code, at the level established at any time prior to Confirmation pursuant to sections 1114(e)(1)(B) or 1114(g) of the Bankruptcy Code, for the duration of the period that the Debtor has obligated itself to provide such benefits; and
- the disclosures required under section 1129(a)(5) concerning the identity and affiliations of persons who will serve as officers, directors and voting trustees of the Reorganized Debtor have been made.

Class 5 contains Lease Related Claims, which are unsecured Claims arising out of any leases for aircraft or aircraft parts (including engines), whether such leases have been rejected or have been assumed and modified. The Boeing Claim and the Ansett Claim, among others, are Lease Related Claims.

The Plan Proponents believe that separate classification of Lease Related Claims is appropriate for a number of reasons, including, aircraft lessors are among the most significant entities with whom the Debtor contracts, aircraft lessors are afforded special rights in a chapter 11 case pursuant to Section 1110 of the

Bankruptcy Code, and the Debtor's underlying contract with the holders of Lease Related Claims was a long-term contractual relationship.

DBSI, which is an assignee of a Claim relating to the rejection of DC-10 aircraft, asserts that the Claim it acquired should be classified in Class 4, and has filed a motion with the Bankruptcy Court to determine whether its Claim should be classified in Class 4 or Class 5.

## **B. Voting Procedures and Requirements.**

Pursuant to the Bankruptcy Code, only classes of Claims against or Interests in the Debtor that are “impaired” under the terms of the Joint Plan are entitled to vote to accept or reject the Joint Plan. A class is “impaired” if the legal, equitable or contractual rights attaching to the claims or interests of that class are modified, other than by curing defaults and reinstating maturity. Classes of Claims or Interests that are not impaired are not entitled to vote on the Joint Plan and are conclusively presumed to have accepted the Joint Plan. In addition, classes of Claims or Interests that receive no distributions under the Joint Plan are not entitled to vote on the Joint Plan and are deemed to have rejected the Joint Plan unless such Class otherwise indicates acceptance. The classification of Claims and Interests is summarized, together with an indication of whether each class of Claims or Interests is impaired or unimpaired, in Section II. “Summary of Classification and Treatment of Claims and Interests under the Joint Plan.”

Pursuant to section 502 of the Bankruptcy Code and Bankruptcy Rule 3018, the Bankruptcy Court may estimate and temporarily allow a Claim for voting or other purposes. By order of the Bankruptcy Court, certain vote tabulation rules have been approved that temporarily allow or disallow certain Claims for voting

purposes only. These tabulation rules are described in the solicitation materials provided with your Ballot.

VOTING ON THE JOINT PLAN BY EACH HOLDER OF AN IMPAIRED CLAIM OR INTEREST ENTITLED TO VOTE ON THE JOINT PLAN IS IMPORTANT. YOU SHOULD COMPLETE, SIGN AND RETURN EACH BALLOT YOU RECEIVE.

PLEASE CAREFULLY FOLLOW ALL OF THE INSTRUCTIONS CONTAINED ON THE BALLOT PROVIDED TO YOU. ALL BALLOTS MUST BE COMPLETED AND RETURNED IN ACCORDANCE WITH THE INSTRUCTIONS PROVIDED.

TO BE COUNTED, YOUR BALLOT MUST BE ACTUALLY RECEIVED BY 4:00 P.M., HAWAIIAN STANDARD TIME, ON [\_\_\_\_\_,] 2004 (OR SUCH OTHER TIME AND DATE IDENTIFIED ON YOUR BALLOT) AT THE ADDRESS SET FORTH ON THE PREAMDRESSED ENVELOPE PROVIDED TO YOU. IT IS OF THE UTMOST IMPORTANCE TO THE JOINT PLAN PROPONENTS THAT YOU VOTE PROMPTLY TO ACCEPT THE JOINT PLAN.

Votes cannot be transmitted orally. Accordingly, you are urged to return your signed and completed Ballot promptly.

IF ANY OF THE CLASSES OF HOLDERS OF IMPAIRED CLAIMS VOTE TO REJECT THE JOINT PLAN, (i) THE JOINT PLAN PROPONENTS MAY SEEK TO SATISFY THE REQUIREMENTS FOR CONFIRMATION OF THE JOINT PLAN UNDER THE CRAMDOWNS PROVISIONS OF SECTION 1129(b) OF THE BANKRUPTCY CODE AND, IF REQUIRED, MAY AMEND THE JOINT PLAN TO CONFORM TO THE STANDARDS OF SUCH SECTION; OR (ii) THE JOINT PLAN MAY BE MODIFIED OR WITHDRAWN. See Section VI.B.18 "Amendment of the Joint Plan."

IF YOU ARE ENTITLED TO VOTE AND YOU DID NOT RECEIVE A BALLOT, RECEIVED A DAMAGED BALLOT OR LOST YOUR BALLOT, PLEASE CALL THE JOINT PLAN PROPONENTS' VOTING AGENT,

\_\_\_\_\_.

**C. Confirmation Hearing.**

The Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a hearing on whether the Joint Plan Proponents have fulfilled the Confirmation requirements of section 1129 of the Bankruptcy Code. The Confirmation Hearing has been scheduled for [\_\_\_\_\_,] 2004 at [\_\_:00 a.m.] before The Honorable Robert J. Faris, United States Bankruptcy Court for the District of Hawaii, 1132 Bishop Street, Suite 250-L, Honolulu, Hawaii 96813. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice, except for an announcement of the adjourned date made at the Confirmation Hearing. Any objection to Confirmation must be made in writing and must specify in detail the name and address of the objector, all grounds for the objection and the amount of the Claim or Interest held by the objector. Any such objections must be Filed and served upon the persons designated in the notice of the Confirmation Hearing, in the manner and by the deadline described therein.

**D. Acceptance or Cramdown.**

As a condition to confirmation, the Bankruptcy Code requires that each Class of Impaired Claims and Interests vote to accept the Joint Plan, except under certain circumstances.

Section 1126(c) of the Bankruptcy Code defines acceptance of a plan by a class of impaired creditors. Classes 1, 2, and 3 are unimpaired and deemed to accept the Joint Plan. Classes 4, 5, 6, and 7 are permitted to vote to accept or reject the Joint Plan.

To the extent that a Class of Impaired Claims votes to reject the Joint Plan, the Joint Plan Proponents intend to request that the Bankruptcy Court confirm the Joint Plan in accordance with section 1129(b) of the Bankruptcy Code with respect to such rejecting class. DBSI has asserted that the Joint Plan Proponents may not be able to confirm the Joint Plan in accordance with section 1129(b) of the Bankruptcy Code because the Joint Plan does not provide for the payment of interest to creditors. DBSI has also asserted that the Joint Plan artificially impairs Unsecured Claims classified in Class 4 and that if Class 4 is found to be unimpaired and Class 5 votes to reject the Joint Plan, the Joint Plan Proponents may not be able to cram down confirmation of the Joint Plan over the rejection by Class 5.

The Joint Plan Proponents dispute these assertions and believe that the Joint Plan can be confirmed under section 1129(b) of the Bankruptcy Code without the payment of interest to creditors. Moreover, in the event that Class 5 does vote to reject the Joint Plan, the Joint Plan Proponents assert that the Joint Plan may be confirmed pursuant to section 1129(b) because Classes 4 and 6 are both impaired classes under applicable Ninth Circuit authority.

Section 1129(a)(10) requires that if a plan impairs a class of creditors, one impaired class must vote to accept the plan without counting the votes of an insider. The Plan Proponents submit that if either Class 4 or Class 6 votes to accept the Joint Plan, the requirements of Section 1129(a)(10) will be met. DBSI challenges the classification under the Joint Plan, asserts that its Claim should be classified in Class 4, and disputes whether Class 4 or Class 6 will satisfy the requirements of Section 1129(a)(10).

**E. Best Interests Test; Liquidation Analysis.**

Notwithstanding acceptance of the Joint Plan by each impaired Class, to confirm the Joint Plan, the Bankruptcy Court must determine that the Joint Plan is in the best interests of each holder of a Claim or Interest in any such impaired Class who has not voted to accept the Joint Plan. Accordingly, if an impaired Class does not unanimously accept the Joint Plan, the “best interests” test requires that the Bankruptcy Court find that the Joint Plan provides to each member of such impaired Class a recovery on account of the member’s Claim or Interest that has a value, as of the Effective Date, at least equal to the value of the distribution that each such member would receive if the Debtor was liquidated under chapter 7 of the Bankruptcy Code on such date.

To estimate what members of each impaired Class of Claims or Interests would receive if the Debtor was liquidated under chapter 7 of the Bankruptcy Code, the Bankruptcy Court must first determine the aggregate dollar amount that would be available if the Reorganization Case was converted to a chapter 7 case under the Bankruptcy Code and the Debtor’s assets were liquidated by a chapter 7 trustee (the “Liquidation Value”). The Liquidation Value of the Debtor would consist of the net proceeds from the disposition of the assets of the Debtor, augmented by any cash held by the Debtor.

The Liquidation Value available to holders of Unsecured Claims and Interests in Classes 4 through 7 would be reduced by, among other things, (i) the Claims of secured creditors to the extent of the value of their collateral; (ii) the costs, fees and expenses of the liquidation, as well as other administrative expenses of the Debtor’s chapter 7 case; (iii) unpaid Administrative Expense Claims of the Reorganization Case; and (iv) Priority Claims and Priority Tax Claims. The costs of liquidation in chapter 7 case would include the compensation of a trustee, as well as of counsel and of other professionals retained by such trustee, asset

disposition expenses, applicable Taxes, litigation costs, Claims arising from the operation of the Debtor during the pendency of the chapter 7 case and all unpaid Administrative Expense Claims incurred by the Debtor during the Reorganization Case that are allowed in the chapter 7 case. The liquidation itself would trigger certain Priority Claims, such as Claims for severance pay, and would likely accelerate the payment of other Priority Claims and Priority Tax Claims that would otherwise be payable in the ordinary course of business. These Priority Claims and Priority Tax Claims would be paid in full out of the net liquidation proceeds, after payment of Secured Claims, before the balance would be made available to pay Unsecured Claims or to make any distribution in respect of Interests. The Joint Plan Proponents believe that the liquidation also would generate a significant increase in Unsecured Claims, such as rejection damage Claims.

The information contained in Exhibit E hereto provides a summary of the Liquidation Value of the Debtor's interests in property, assuming a chapter 7 liquidation in which a trustee appointed by the Bankruptcy Court would liquidate the Debtor's properties and interests in property. As more fully described in Exhibit E, the liquidation analysis is based on a number of other estimates and assumptions that are subject to significant uncertainties, including estimates and assumptions relating to the proceeds of sales of assets, the timing of such sales, the impact of pending liquidations on continuing operations and values and certain tax matters. **YOU SHOULD CAREFULLY REVIEW IN DETAIL ALL OF THE ESTIMATES AND ASSUMPTIONS SET FORTH IN EXHIBIT E. WHILE THE JOINT PLAN PROPONENTS BELIEVE THAT THESE ESTIMATES AND ASSUMPTIONS ARE REASONABLE FOR THE PURPOSE OF PREPARING HYPOTHETICAL CHAPTER 7 LIQUIDATION ANALYSES, NO ASSURANCE EXISTS THAT SUCH ESTIMATES AND ASSUMPTIONS WOULD BE VALID IF THE DEBTOR WERE, IN FACT, TO BE**

LIQUIDATED. THE FUTURE VALUE AVAILABLE FOR DISTRIBUTION TO HOLDERS OF CLAIMS AND INTERESTS UNDER A CHAPTER 7 LIQUIDATION COULD BE MATERIALLY GREATER OR LESSER THAN AS SET FORTH IN EXHIBIT E.

As noted above, the Joint Plan Proponents believe that chapter 7 liquidation could result in substantial litigation that could delay the liquidation beyond the periods assumed in Exhibit E. This delay could materially reduce the amount determined on a present value basis available for distribution to creditors, including holders of Unsecured Claims in Classes 4, 5, and 6. Moreover, the Joint Plan Proponents believe that such litigation and attendant delay could adversely affect the values realizable in the sale of the Debtor's assets to an extent that cannot be reliably estimated at this time.

Based on the liquidation analysis set forth in Exhibit E, although no assurance can be given, the Joint Plan Proponents believe that holders of Claims and Interests will receive value, as of the Effective Date, at equal to or greater under the Joint Plan than such holders would receive under a chapter 7 liquidation.

In actual liquidations of the Debtor, distributions to holders of Claims would be made substantially later than the Effective Date assumed in connection with the Joint Plan. This delay would materially reduce the amount determined on a present value basis available for distribution to creditors. The hypothetical chapter 7 liquidation of the Debtor is assumed to commence on September 30, 2004 and to be completed within 30 days thereafter. The Liquidation Analysis assumes the distributions are made by the chapter 7 trustee beginning immediately following commencement of the liquidation and completed within 30 days of commencement. As a result, the Joint Plan Proponents believe the value of the liquidation distributions on a present value basis determined as of the projected Effective Date would be less than the value distributable under the Joint Plan.

The Joint Plan Proponents further believe that chapter 7 liquidation of the Debtor would result in substantial diminution in the value to be realized by holders of Claims and Interests, as compared to the proposed distributions under the Joint Plan, because of, among other factors:

- a. the failure to realize the maximum going concern value of the Debtor's assets;
- b. the substantial negative impact of conversion to a chapter 7 case and subsequent liquidation on the employees and customers of the Debtor;
- c. additional expenses and Claims, some of which would be entitled to priority in payment, which would arise by reason of the liquidation and from the rejection of Executory Contracts and Unexpired Leases in connection with a cessation of the Debtor's operations; and
- d. the substantial time that would elapse before entities would receive any distribution in respect of their Claims.

Consequently, the Joint Plan Proponents believe, although no assurance can be given, that the Joint Plan will provide a greater return to holders of Claims against the Debtor than would a chapter 7 liquidation.

## **F. Feasibility**

To confirm the Joint Plan, the Bankruptcy Court must find that confirmation is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtor. This requirement is imposed by section 1129(a)(11) of the Bankruptcy Code and is referred to as the "feasibility" requirement.

Although no assurances can be given, the Joint Plan Proponents believe that the Debtor, with the assistance required to be provided by HHI and RC Aviation, they will be able to timely perform all obligations described in the Joint Plan, and, therefore, that the Joint Plan is feasible.

In an effort to demonstrate the feasibility of the Joint Plan, the Trustee has prepared financial projections for fiscal years 2004 – 2007, as set forth in Exhibit D attached to this Disclosure Statement. The Projections indicate that the Reorganized Debtor should have sufficient cash flow to pay and service its debt obligations and to fund its operations. The Projections have not been prepared by the HHI Parties or the Committee and, as such, neither the HHI Parties nor the Committee join in the Projections.

HHI and RC Aviation have committed to fund the Joint Plan as provided in the Restructuring Support Agreement. The Trustee and the Committee have undertaken due diligence with respect to RC Aviation's commitment to fund the Joint Plan. Based upon that due diligence, the Trustee and the Committee have satisfied themselves that RC Aviation will be in a position to honor its commitment. To date, RC Aviation has demonstrated a deployment of a substantial amount of capital, and has provided the Trustee and the Committee with evidence of its ability to implement the New Debt described below. The placement of the New Debt coupled with the deferral of Cash distributions on account of the RC Controlled Claims and the Cash in the Estate provide the Cash resources needed to fund the Joint Plan. Accordingly, the Joint Plan Proponents believe that the Joint Plan satisfies the feasibility requirement of section 1129(a)(11) of the Bankruptcy Code.

As noted in the Projections, however, the Trustee cautions that no representations can be made as to the accuracy of the Projections or as to the Reorganized Debtor's ability to achieve the projected results. Many of the assumptions upon which the Projections are based are subject to uncertainties outside the control of the Joint Plan Proponents. Some assumptions inevitably will not materialize, and events and circumstances occurring after the date on which the Projections were prepared may be different from those assumed or may be

unanticipated, and may adversely affect the Reorganized Debtor's financial results. Therefore, the actual results may vary from the projected results and the variations may be material and adverse. See Section XI "Certain Factors to Consider in Voting to Accept or Reject the Joint Plan" for a discussion of certain risk factors that may affect feasibility of the Joint Plan.

THE PROJECTIONS WERE NOT PREPARED BY THE TRUSTEE WITH A VIEW TOWARD COMPLIANCE WITH THE GUIDELINES ESTABLISHED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS, THE PRACTICES RECOGNIZED TO BE IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, OR THE RULES AND REGULATIONS OF THE SEC REGARDING PROJECTIONS. FURTHERMORE, THE PROJECTIONS HAVE NOT BEEN AUDITED BY THE DEBTOR'S INDEPENDENT ACCOUNTANTS. ALTHOUGH PRESENTED WITH NUMERICAL SPECIFICITY, THE PROJECTIONS ARE BASED UPON A VARIETY OF ASSUMPTIONS, WHICH ARE FURTHER DESCRIBED IN EXHIBIT D. THERE IS NO ASSURANCE THAT ANY OR ALL OF THE ASSUMPTIONS WILL BE ACCRUATE OR THAT THE PROJECTIONS WILL PROVE TO BE ACCURATE. SOME OF THESE ASSUMPTIONS HAVE NOT BEEN ACHIEVED IN THE PAST, MAY NOT BE REALIZED IN THE FUTURE, AND ARE SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC AND COMPETITIVE UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE BEYOND THE CONTROL OF THE JOINT PLAN PROPONENTS. CONSEQUENTLY, THE PROJECTIONS SHOULD NOT BE REGARDED AS A REPRESENTATION OR WARRANTY BY THE JOINT PLAN PROPONENTS, OR ANY OTHER PERSON, THAT THE PROJECTIONS WILL BE REALIZED. ACTUAL RESULTS MAY BE

## MATERIALLY BETTER OR WORSE THAN THOSE PRESENTED IN THE PROJECTIONS.

In preparing its own plan of reorganization over the past several months, HHI prepared its own financial projections. Based on its analyses of comparable airlines, market competition and current and expected industry conditions, HHI's projections assume that the Debtor will likely maintain the load factors, fares and yields close to those it has experienced over the past year, and could experience marginal growth over time in its core transpacific and inter-island businesses. HHI's projections reflect higher net operating revenues and higher operating income as compared to the Trustee's Projections. Of course, as noted herein, both the Trustee's Projections and HHI's projections are only estimates of what could result and actual results are likely to differ from both sets of projections.

In particular, the Trustee's Projections forecast revenues to increase from \$761.4 million in 2004 to \$763.9 million in 2005 (despite the launch of an additional transpacific route in April 2005) and a decrease in operating income from \$68.8 million in 2004 to \$54.2 million in 2005. Approximately \$3.0 million of the Trustee's projected decrease in operating income is due to losses from the launch of the additional transpacific route, which is projected to operate at below average yields and load factors in the first 18 months of operation. The remainder of the decline in operating income in the Trustee's Projections is principally due to the following factors:

1. The Trustee's Projections forecast passenger revenues in selected West Coast markets to decline due to additional capacity from other carriers, resulting in the Company-wide load factor declining from 85% in 2004 to 81% in 2005 (excluding new routes). HHI is informed that the Debtor's revenues are highly sensitive to a change in load factor with a one-

point change in Company-wide load factor resulting in a change in revenues of approximately \$8.0 million.

2. The Trustee's Projections forecast a degradation in yields due to a weakening domestic fare environment on transpacific routes, resulting from additional capacity in selected West Coast markets, and a 0.5% decrease in the average fare per annum on inter-island routes due to mainland carriers increasing direct flights to the outer islands. These factors contribute to an overall decline in yields in the Trustee's Projections from 11.1 cents in 2004 to 10.8 cents in 2005 (excluding new routes). HHI is informed that the Debtor's revenues are highly sensitive to a change in yield with a 1/10 of a cent change in Company-wide yield resulting in a change in revenues of approximately \$6.2 million.

3. The Trustee currently forecasts fuel costs per gallon to decrease from an average of \$1.10 in 2004 to \$1.06 in 2005. HHI is informed that the Debtor's average fuel costs per gallon have increased materially in the last two months. If the Debtor's average fuels costs remain at current levels, the Debtor will probably seek to recover part, or all, of the additional cost through increase in average fares. To the extent the Debtor is unable to compensate for increased fuel costs by increasing fares, which may depend on whether competing airlines refuse to match the increased fares, the Debtor's net operating income could be adversely affected. The Company's fuel expenses are highly sensitive to a changes in fuel prices, with a \$0.01 change in fuel price per gallon resulting in an approximately \$1.2 million change in fuel expenses.

4. The Trustee's Projections forecast maintenance expenses (excluding new aircraft) to increase from \$50.6 million in 2004 to \$56.0 million in 2005. The increase is based on costs associated with "power by the hour" contracts and is principally due to the normal aging of the Debtor's fleet.

HHI believes that it is reasonable to project that the Debtor may perform better than the Trustee's Projections with respect to one or more of these factors and, therefore, that the Debtor's revenues and operating income may be higher than the Trustee's Projections. However, as noted above, if the Debtor's average fuel costs are higher than projected by the Trustee's Projections or HHI's projections, actual net operating income could be lower than the Trustee's projections.

THE PROJECTIONS THAT HHI HAS PREPARED WERE NOT PREPARED WITH A VIEW TOWARD COMPLIANCE WITH THE GUIDELINES ESTABLISHED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS, THE PRACTICES RECOGNIZED TO BE IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, OR THE RULES AND REGULATIONS OF THE SEC REGARDING PROJECTIONS. FURTHERMORE, THEY HAVE NOT BEEN AUDITED. ALTHOUGH PRESENTED WITH NUMERICAL SPECIFICITY, THE PROJECTIONS THAT HHI HAS PREPARED ARE BASED UPON A VARIETY OF ASSUMPTIONS. THERE IS NO ASSURANCE THAT ANY OR ALL OF THE ASSUMPTIONS WILL BE ACCURATE OR THAT THE PROJECTIONS PREPARED BY HHI WILL PROVE TO BE ACCURATE. SOME OF THESE ASSUMPTIONS HAVE NOT BEEN ACHIEVED IN THE PAST, MAY NOT BE REALIZED IN THE FUTURE, AND ARE SUBJECT TO

SIGNIFICANT BUSINESS, ECONOMIC AND COMPETITIVE UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE BEYOND THE CONTROL OF THE JOINT PLAN PROPONENTS. CONSEQUENTLY, HHI'S VIEWS EXPRESSED HEREIN (AND REFERENCE TO HHI'S PROJECTIONS) SHOULD NOT BE REGARDED AS A REPRESENTATION OR WARRANTY BY HHI, OR BY THE JOINT PLAN PROPONENTS, OR ANY OTHER PERSON, THAT HHI'S VIEWS EXPRESSED HEREIN (OR HHI'S PROJECTIONS REFERRED TO) WILL BE REALIZED. ACTUAL RESULTS MAY BE MATERIALLY BETTER OR WORSE THAN THOSE PRESENTED.

## **GENERAL DISCLAIMER REGARDING FORWARD-LOOKING STATEMENTS**

**CERTAIN OF THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS BY ITS NATURE FORWARD-LOOKING AND CONTAINS ESTIMATES, ASSUMPTIONS AND PROJECTIONS THAT MAY BE MATERIALLY DIFFERENT FROM ACTUAL, FUTURE RESULTS. EXCEPT WITH RESPECT TO THE PROJECTIONS SET FORTH IN EXHIBIT "D" ATTACHED HERETO, EXCEPT WITH RESPECT TO STATEMENTS REGARDING HHI'S PROJECTIONS AS TO FUTURE RESULTS AND EXCEPT AS OTHERWISE SPECIFICALLY AND EXPRESSLY STATED HEREIN, THIS DISCLOSURE STATEMENT DOES NOT REFLECT ANY EVENTS THAT MAY OCCUR SUBSEQUENT TO THE DATE HEREOF AND THAT MAY HAVE A MATERIAL IMPACT ON THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT. NEITHER THE JOINT PLAN PROPONENTS NOR THE**

**REORGANIZED DEBTOR INTEND TO UPDATE THE PROJECTIONS OR ANY FORWARD-LOOKING STATEMENTS. THUS, THE PROJECTIONS (AND ANY FORWARD-LOOKING STATEMENT SET FORTH HEREIN) WILL NOT REFLECT THE IMPACT OF ANY SUBSEQUENT EVENTS NOT ALREADY ACCOUNTED FOR IN THE ASSUMPTIONS UNDERLYING THE PROJECTIONS OR SUCH FORWARD-LOOKING STATEMENTS. FURTHER, THE JOINT PLAN PROPONENTS DO NOT ANTICIPATE THAT ANY AMENDMENTS OR SUPPLEMENTS TO THIS DISCLOSURE STATEMENT WILL BE DISTRIBUTED TO REFLECT SUCH OCCURRENCES. ACCORDINGLY, THE DELIVERY OF THIS DISCLOSURE STATEMENT DOES NOT UNDER ANY CIRCUMSTANCES IMPLY THAT THE INFORMATION HEREIN IS CORRECT OR COMPLETE AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.**

**G. Compliance with Applicable Provisions of the Bankruptcy Code**

Section 1129(a)(1) of the Bankruptcy Code requires that the Joint Plan comply with the applicable provisions of the Bankruptcy Code. The Joint Plan Proponents have considered each of these issues in the development of the Joint Plan and believe that the Joint Plan complies with all provisions of the Bankruptcy Code.

**H. Retention of Jurisdiction**

Notwithstanding the entry of the Confirmation Order or the occurrence of the Effective Date, the Bankruptcy Court shall retain jurisdiction over the Reorganization Case and any of the proceedings related to the Reorganization Case pursuant to section 1142 of the Bankruptcy Code and 28 U.S.C. § 1334 to the fullest extent permitted by the Bankruptcy Code and other applicable law,

including, without limitation, such jurisdiction as is necessary to ensure that the purpose and intent of the Joint Plan are carried out. Without limiting the generality of the foregoing, the Bankruptcy Court shall retain jurisdiction for the following purposes:

1. establish the priority or secured or unsecured status of, allow, disallow, determine, liquidate, classify, or estimate any Claim, Administrative Expense Claim or Interest (including, without limitation and by example only, determination of Tax issues or liabilities in accordance with Bankruptcy Code §505), resolve any objections to the allowance or priority of Claims, Administrative Expense Claim or Interests, or resolve any dispute as to the treatment necessary to reinstate a Claim, Administrative Expense Claim or Interest pursuant to the Joint Plan;

2. grant or deny any applications for allowance of compensation or reimbursement of expenses authorized pursuant to the Bankruptcy Code or the Joint Plan, for periods ending on or before the Effective Date;

3. resolve any matters related to the assumption, assumption and assignment or rejection of any executory contract or unexpired lease to which the Debtor is a party or with respect to which the Debtor may be liable, and to hear, determine and, if necessary, liquidate any Claims or Administrative Expenses arising therefrom;

4. ensure that distributions to Holders of Allowed Claims, Administrative Expense Claims or Interests are made pursuant to the provisions of the Joint Plan, and to effectuate performance of the provisions of the Joint Plan;

5. decide or resolve any motions, adversary proceedings, contested or litigated matters and any other matters and grant or deny any applications involving the Debtor that may be pending before the Effective Date or that may be commenced thereafter as provided in the Joint Plan;

6. except as otherwise provided in the Confirmation Order or in the Joint Plan, enter such orders as may be necessary or appropriate to implement or consummate the provisions of the Joint Plan and all contracts, instruments, releases, indentures and other agreements or documents created in connection with the Joint Plan, the Disclosure Statement or the Confirmation Order, including, without limitation, any stay orders as may be appropriate in the event that the Confirmation Order is for any reason stayed, revoked, modified or vacated;

7. resolve any cases, controversies, suits or disputes that may arise in connection with the consummation, interpretation or enforcement of the Joint Plan or the Confirmation Order, including the release and injunction provisions set forth in and contemplated by the Joint Plan and the Confirmation Order or any Person's rights arising under or obligations incurred in connection with the Joint Plan or the Confirmation Order; provided, however, that, absent a Reorganized Debtor's request or consent, such retention of jurisdiction shall not apply to any cases, controversies, suits or disputes that may arise in connection with a Reorganized Debtor's or any other entity's rights or obligations as: (a) the issuer or Holder, respectively, of any securities issued or delivered pursuant to the Joint Plan; or (b) a party to any agreements governing, instruments evidencing or documents relating to the securities issued or delivered pursuant to the Joint Plan;

8. subject to the restrictions on modifications provided in any contract, instrument, release, indenture or other agreement or document created in connection with the Joint Plan, modify the Joint Plan before or after the Effective Date pursuant to section 1127 of the Bankruptcy Code or modify the Disclosure Statement, the Confirmation Order or any contract, instrument, release, indenture or other agreement or document created in connection with the Joint Plan, the Disclosure Statement or the Confirmation Order; or remedy any defect or omission or reconcile any inconsistency in any Bankruptcy Court order, the Joint Plan, the

Disclosure Statement, the Confirmation Order or any contract, instrument, release, indenture or other agreement or document created in connection with the Joint Plan, the Disclosure Statement or the Confirmation Order, in such manner as may be necessary or appropriate to consummate the Joint Plan, to the extent authorized by the Bankruptcy Code;

9. issue injunctions, enter and implement other orders or take such other actions as may be necessary or appropriate to restrain interference by any Person with the consummation, implementation or enforcement of the Joint Plan or the Confirmation Order,

10. consider and act on the compromise and settlement of any Claim against, or Right of Action of the Debtor or Trustee, or of any of their successors or representatives;

11. decide or resolve any Rights of Action under the Bankruptcy Code, including without limitation, Avoidance Actions and claims under sections 362, 510, 542 and 543 of the Bankruptcy Code;

12. enter such orders as may be necessary or appropriate in connection with the recovery of the assets of the Debtor or the Reorganized Debtor wherever located;

13. hear and determine any motions or contested matters involving Tax Claims or Taxes either arising prior (or for periods including times prior) to the Effective Date or relating to the administration of the Reorganization Case, including, without limitation (i) matters involving federal, state and local Taxes in accordance with sections 346, 505 and 1146 of the Bankruptcy Code, (ii) matters concerning Tax refunds due for any period including times prior to the Effective Date, (iii) any matters arising prior to the Effective Date affecting Tax attributes of the Reorganized Debtor, and (iv) estimate or allow any Tax Claims asserted against the Debtor or Reorganized Debtor;

14. determine such other matters as may be provided for in the Confirmation Order or as may from time to time be authorized under the provisions of the Bankruptcy Code or any other applicable law;

15. enforce all orders, judgments, injunctions, releases, exculpations, indemnifications and rulings issued or entered in connection with the Reorganization Case or the Joint Plan;

16. remand to state court any claim, cause of action, or proceeding involving the Debtor that was removed to federal court in whole or in part in reliance upon 28 U.S.C. § 1334;

17. determine any other matters that may arise in connection with or relate to the Joint Plan, the Disclosure Statement, the Confirmation Order or any contract, instrument, release, indenture or other agreement or document created in connection with the Joint Plan, the Disclosure Statement or the Confirmation Order, except as otherwise provided in the Joint Plan;

18. determine any other matter not inconsistent with the Bankruptcy Code; and

19. enter an order concluding the Reorganization Case.

### **XIII. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF CONSUMMATION OF THE JOINT PLAN**

The following discussion summarizes certain federal income tax consequences of the implementation of the Joint Plan to the Debtor and certain holders of Claims. The following summary does not address the federal income tax consequences to (i) holders whose Claims are entitled to reinstatement or payment in full in Cash, or are otherwise unimpaired under the Joint Plan (*e.g.*, holders of Administrative Expense Claims, holders of Priority Tax Claims, Other Priority Claims, and certain Secured Claims), or (ii) holders whose Claims or Interests are or may be extinguished without a distribution in exchange therefor.

The following summary is based on the Internal Revenue Code of 1986, as amended (the “Code”), Treasury Regulations promulgated thereunder, judicial decisions and published administrative rules and pronouncements of the Internal Revenue Service (“IRS”) as in effect on the date hereof. Changes in such rules or new interpretations thereof may have retroactive effect and could significantly affect the federal income tax consequences described below.

The federal income tax consequences of the Joint Plan are complex and are subject to significant uncertainties. The Joint Plan Proponents have not requested a ruling from the IRS or an opinion of counsel with respect to any of the tax aspects of the Joint Plan. Thus, no assurance can be given as to the interpretation that the IRS will adopt. In addition, this summary does not address foreign, state or local tax consequences of the Joint Plan, nor does it purport to address the federal income tax consequences of the Joint Plan to Claims held solely by the United States or any state or local government, or to special classes of taxpayers (such as foreign taxpayers, broker-dealers, banks, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, tax-exempt organizations, and investors in pass-through entities).

ACCORDINGLY, THE FOLLOWING SUMMARY OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON THE INDIVIDUAL CIRCUMSTANCES PERTAINING TO A HOLDER OF A CLAIM. ALL HOLDERS OF CLAIMS OR INTERESTS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS FOR THE FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES APPLICABLE UNDER THE JOINT PLAN.

**A. Consequences to the Debtor.**

According to its audited financial statements, the Debtor had approximately \$44 million of net operating loss (“NOL”) carryforwards for federal income tax purposes as of December 31, 2002. The Debtor anticipates that a portion of such NOL carryforwards will be utilized to offset income from operations in its current taxable year. In addition, the amount of such NOL carryforwards and other losses remains subject to adjustment by the IRS. As discussed below, any remaining NOL carryforwards (and possibly certain other tax attributes) may be eliminated or subject to limitations in future years upon the implementation of the Joint Plan.

*1. Cancellation of Debt*

In general, the Code provides that a debtor in a bankruptcy case must reduce certain of its tax attributes – such as NOL carryforwards and current year NOLs, tax credits, and tax basis in assets – by the amount of any cancellations of debt (“COD”). COD is the amount by which the indebtedness discharged exceeds any consideration given in exchange therefor. As a result of the discharge of the Allowed Claims pursuant to the Joint Plan, the Debtor will suffer COD and tax attribute reduction, except to the extent that holders of Allowed Claims are paid in full or one or more statutory or judicial exceptions to COD and tax attribute

reduction apply (such as where the payment of the cancelled debt would have given rise to a tax reduction). The extent of such COD and resulting tax attribute reduction will depend on the fair market value of the HHI Common Stock, and the amount of Cash distributed in discharge of such Allowed Claims. Confirmation of the Joint Plan may result in the reduction or elimination of the Debtor's NOL carryforwards after taking into account current year operating income.

2. *Limitation on NOL Carryforwards and Other Tax Attributes*

Following the implementation of the Joint Plan, any remaining NOLs (and carryforwards thereof) and possibly certain other tax attributes of the Debtor allocable to periods prior to the Effective Date will be subject to the limitations imposed by Section 382 of the Code.

Under Section 382, if a corporation undergoes an "ownership change," the amount of its pre-change losses (including certain losses or deductions which are "built-in," *i.e.*, economically accrued but unrecognized, as of the date of the ownership change) that may be utilized to offset future taxable income generally is subject to an annual limitation. The issuance of the HHI Common Stock pursuant to the Joint Plan will constitute an ownership change of the Debtor.

The amount of the annual limitation to which the Debtor would be subject generally would be equal to the product of (i) the lesser of the value of the equity of Reorganized Debtor immediately after the ownership change or the value of the Debtor's gross assets immediately before such change (with certain adjustments) and (ii) the "long-term tax exempt rate" in effect for the month in which the ownership change occurs (4.72% for ownership changes occurring in September 2004). However, if the Debtor does not continue its historic business or use a significant portion of its business assets in a new business for two years after the ownership change, the annual limitation would be zero.

As stated above, Section 382 also can operate to limit certain built-in losses recognized subsequent to the date of the ownership change. If a loss corporation has a net unrealized built-in loss at the time of an ownership change (taking into account most assets and all items of “built-in” income and deductions), then any built-in losses recognized during the following five years (up to the amount of the original net built-in loss) generally will be treated as a pre-change loss and similarly will be subject to the annual limitation. Conversely, if the loss corporation has a net unrealized built-in gain at the time of an ownership change, any built-in gains recognized during the following five years (up to the amount of the original net built-in gain) generally will increase the annual limitation in the year recognized, such that the loss corporation would be permitted to use its pre-change losses against such built-in gain income in addition to its regular annual allowance. In general, a loss corporation’s net unrealized built-in gain or loss will be deemed to be zero unless it is greater than the lesser of (i) \$10 million or (ii) 15% of the fair market value of its assets (with certain adjustments) before the ownership change. It is currently unknown whether the Debtor will be in a net unrealized built-in gain or net unrealized built-in loss position on the Effective Date. For purposes of the projections in Section VIII.G, “Feasibility,” it has been assumed that the Debtor will have no net unrealized built-in gain or loss on the Effective Date.

An exception to the foregoing annual limitation (and built-in gain and loss) rules generally applies where qualified (so-called “old and cold”) creditors of the debtor receive at least 50% of the vote and value of the stock of the reorganized debtor pursuant to a confirmed chapter 11 plan. Under this exception, a debtor’s pre-change losses are not limited on an annual basis but are reduced by the amount of any interest deductions claimed during the three years preceding the effective date of the reorganization, and during the part of the taxable year prior to and

including the reorganization, in respect of the debt converted into stock in the reorganization. Moreover, if this exception applies, any further ownership change of the debtor within a two-year period will preclude the debtor's utilization of any pre-change losses at the time of the subsequent ownership change against future taxable income.

An old and cold creditor includes a creditor who has held its debt for at least 18 months prior to the chapter 11 case. In addition, any stock received by a creditor who does not become a direct or indirect 5% shareholder of the reorganized debtor generally will be treated as received by an old and cold creditor, other than in the case of any creditor whose participation in the plan makes evident to the debtor that the creditor has not owned the debt for the requisite period. Due to the significant trading and accumulation of Claims, the Joint Plan Proponents do not anticipate that the Debtor would qualify for this exception. If the Debtor would qualify, it could, if it so desired, elect not to apply this exception and instead remain subject to the annual limitation and built-in gain and loss rules described above.

### *3. Alternative Minimum Tax*

In general, an alternative minimum tax ("AMT") is imposed on a corporation's alternative minimum taxable income at a 20% rate to the extent that such tax exceeds the corporation's regular federal income tax. For purposes of computing taxable income for AMT purposes, certain tax deductions and other beneficial allowances are modified or eliminated. In particular, even though a corporation otherwise might be able to offset all of its taxable income for regular tax purposes by available NOL carryforwards, only 90% of a corporation's taxable income for AMT purposes may be offset by available NOL carryforwards (as computed for AMT purposes).

In addition, if a corporation undergoes an “ownership change” within the meaning of Section 382 of the Code and is in a net unrealized built-in loss position (as determined for AMT purposes) on the date of the ownership change, the corporation’s aggregate tax basis in its assets would be reduced for certain AMT purposes to reflect the fair market value of such assets as of the change date.

Any AMT that a corporation pays generally will be allowed as a nonrefundable credit against its regular federal income tax liability in future taxable years when the corporation is no longer subject to the AMT.

## **B. Consequences to Holders of Certain Claims.**

Pursuant to the Joint Plan, holders of Allowed Unsecured Claims (Class 4 Claims) will be entitled to receive, in satisfaction of their Claims, Cash and HHI Common Stock. Holders of Allowed Lease Related Claims (Class 5 Claims) will be entitled to receive, in satisfaction of their Claims, Cash and HHI Common Stock or Class 5 Notes, of if Class 5 votes to reject the Joint Plan, such treatment as the Bankruptcy Court determines satisfies the requirements of 1129(b) of the Bankruptcy Code. Holders of Allowed Convenience Claims (Class 6 Claims) will be entitled to receive, in satisfaction of their Claims, Cash. Distributions by the Reorganized Debtor will be made on the Effective Date.

### *1. Holders of Allowed Claims in Classes 4, 5 and 6*

In general, each holder of an Allowed Claim in Classes 4, 5 and 6 will recognize gain or loss in an amount equal to the difference between (i) the “amount realized” by the holder in satisfaction of its Claim (other than any Claim for accrued but unpaid interest) and (ii) the holder’s adjusted tax basis in its Claim (other than any Claim for accrued but unpaid interest). For a discussion of the tax consequences of Claims for accrued interest, see Section XIII.B.2 “Distributions in Discharge of Accrued Interest,” below.

The “amount realized” by a holder generally will equal the sum of (a) the amount of any cash received, and (b) the fair market value of any HHI Common Stock or Class 5 Note of the Reorganized Debtor received.

The character of gain or loss recognized by a holder, as long-term or short-term capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the holder, whether the Claim constitutes a capital asset in the hands of the holder and how long it has been held, whether the Claim was acquired at a market discount and whether and to what extent the holder had previously claimed a bad debt deduction. A holder which purchased its Claim from a prior holder at a market discount may be subject to the market discount rules of the Code. Under those rules, assuming that the holder has made no election to amortize the market discount into income on a current basis with respect to any market discount instrument, any gain recognized on the exchange of such Claim (subject to a de minimis rule) generally would be characterized as ordinary income to the extent of the accrued market discount on such Claim as of the date of the exchange.

A holder’s aggregate tax basis in any HHI Common Stock will equal the amount realized by the holder as a result of the receipt of such HHI Common Stock with respect to the holder’s Class 4 or Class 5 Allowed Claim, and the holding period for such stock generally will begin the day following the issuance of such stock.

## *2. Distributions in Discharge of Accrued Interest*

Pursuant to the Joint Plan, all distributions in respect of Allowed Claims will be allocated first to the principal amount of such Claims, with any excess allocated to unpaid accrued interest. However, there is no assurance that such allocation would be respected by the IRS for federal income tax purposes. In general, to the

extent that any amount received (whether stock, cash or other property) by a holder of a debt is received in satisfaction of accrued interest during its holding period, such amount will be taxable to the holder as interest income (if not previously included in the holder's gross income). Conversely, a holder generally recognizes a deductible loss to the extent any accrued interest claimed was previously included in its gross income and is not paid in full. Each holder of a Claim in Classes 4, 5, and 6 is urged to consult its tax advisor regarding the allocation of consideration and the deductibility of unpaid interest for tax purposes.

### *3. Subsequent Sale of HHI Common Stock*

Any gain recognized by a holder upon a subsequent taxable disposition of HHI Common Stock received with respect to an Allowed Claim in Class 4 or 5 pursuant to the Joint Plan (or any stock or property received for it in a later tax-free exchange) will be treated as ordinary income to the extent of (i) any bad debt deductions (or additions to a bad debt reserve) claimed with respect to its Claim and any ordinary loss deductions incurred upon satisfaction of its Claim, less any income (other than interest income) recognized by the holder upon satisfaction of its Claim, and (ii) with respect to a cash-basis holder, also any amounts which would have been included in its gross income if the holder's Claim had been satisfied in full but which was not included by reason of the cash method of accounting.

### *4. Information Reporting and Withholding*

All distributions to holders of Allowed Claims under the Joint Plan are subject to any applicable withholding (including employment tax withholding). Under federal income tax law, interest, dividends, and other reportable payments may, under certain circumstances, be subject to "backup withholding" at a rate of 31%. Backup withholding generally applies if the holder (a) fails to furnish its

social security number or other taxpayer identification number (“TIN”), (b) furnishes an incorrect TIN, (c) fails properly to report interest or dividends, or (d) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is its correct number and that it is not subject to backup withholding. Backup withholding is not an additional tax but merely an advance payment, which may be refunded to the extent it results in an overpayment of tax. Certain persons are exempt from backup withholding, including, in certain circumstances, corporations and financial institutions.

**THE FOREGOING SUMMARY HAS BEEN PROVIDED FOR INFORMATIONAL PURPOSES ONLY. ALL HOLDERS OF CLAIMS AND INTERESTS ARE URGED TO CONSULT THEIR TAX ADVISORS CONCERNING THE FEDERAL, STATE, LOCAL, AND OTHER TAX CONSEQUENCES APPLICABLE UNDER THE JOINT PLAN.**

## **XIV. APPLICABILITY OF CERTAIN FEDERAL AND STATE SECURITIES LAWS**

### **A. General.**

The Joint Plan Proponents believe that, subject to certain exceptions described below, various provisions of the Bankruptcy Code and related no-action interpretations of the staff of the SEC exempt from federal securities registration requirements (i) the offer and distribution of such securities under the Joint Plan and (ii) subsequent transfers of such securities. In addition, various provisions of the Bankruptcy Code exempt from state securities registration requirements the offer and distribution of such securities pursuant to the Joint Plan. However, the ability to effect subsequent transfers of such securities under state securities laws without registration or qualification under such laws may be limited in circumstances where the securities are not registered under the Securities and Exchange Act of 1934, as amended (the “Exchange Act”) or do not constitute “covered securities” for purposes of the Exchange Act (*i.e.*, not listed on the New York Stock Exchange or Amex, or quoted on the Nasdaq Stock Market).

### **B. Bankruptcy Code Exemptions from Registration Requirements**

Section 1145(a)(1) of the Bankruptcy Code exempts the offer and sale of securities under a plan of reorganization from registration under the Securities Act of 1933, as amended, 15 U.S.C. §§ 77a-77aa (the “Securities Act”) and applicable state securities laws if three principal requirements are satisfied: (i) the securities must be offered and sold under a plan of reorganization and must be securities of the debtor, an affiliate participating in a joint plan with the debtor or a successor to the debtor under the plan; (ii) the recipients of the securities must hold a prepetition or administrative expense claim against or an interest in the debtor; and (iii) the securities must be issued entirely in exchange for the recipient’s claim

against or interest in the debtor or such an affiliate, or principally in such exchange and partly for cash or property. The Joint Plan Proponents believe that the offer and sale of the HHI Common Stock under the Joint Plan satisfies the requirements of section 1145(a)(1) of the Bankruptcy Code and, therefore, are exempt from registration under the Securities Act and applicable state securities laws.

### **C. Subsequent Transfers of Securities Under Federal Securities Laws**

In general, all resales and subsequent transactions in the HHI Common Stock distributed under the Joint Plan will be exempt from registration under the Securities Act pursuant to section 4(1) of the Securities Act, which exempts from registration transactions by any person other than the “issuer,” an “underwriter” or a “dealer.”

Section 1145(b) of the Bankruptcy Code defines four types of “underwriters”:

- (i) persons who purchase a claim against, an interest in, or a claim for administrative expense against the debtor with a view to distributing any security received in exchange for such a claim or interest (“accumulators”);
- (ii) persons who offer to sell securities offered under a plan for the holders of such securities (“distributors”);
- (iii) persons who offer to buy securities from the holders of such securities, if the offer to buy is (i) with a view to distributing such securities and (ii) made under a distribution agreement; and
- (iv) a person who is an “issuer” with respect to the securities, as the term “issuer” is defined in section 2(11) of the Securities Act.

Under section 2(11) of the Securities Act, an “underwriter” includes any person who purchases from an issuer with a view to, or offers or sells for an issuer

in connection with, the distribution of a security, or participates directly or indirectly in such an undertaking. For these purposes, the term “issuer” includes a person directly or indirectly controlling or controlled by or under direct or indirect or common control with the issuer (commonly known as an “affiliate” of the issuer). Under section 2(12) of the Securities Act, a “dealer” is any person who engages either for all or part of such person’s time, directly or indirectly, as agent, broker or principal in the business of offering, buying, selling or otherwise dealing or trading in securities issued by another person.

Section 1145(b) of the Bankruptcy Code also specifies that an entity that is not the issuer is not an underwriter, even if it falls within one of the four categories specified above, with respect to “ordinary trading transactions.” The staff of the SEC has indicated that a transaction in securities may be considered an “ordinary trading transaction” if the class of securities is registered under the Exchange Act and if the transaction is made on an exchange or in the over-the-counter market and does not involve any of the following factors:

- (i) either (a) concerted action by the recipients of securities issued under a plan in connection with the sale of such securities or (b) concerted action by distributors on behalf of one or more such recipients in connection with such sales;
- (ii) the use of informational documents concerning the offering of the securities prepared or used to assist in the resale of such securities, other than a bankruptcy court-approved disclosure statement and supplements thereto and documents filed with the SEC pursuant to the Exchange Act; or
- (iii) the payment of special compensation to brokers and dealers in connection with the sale of such securities designed as a special incentive to the resale of such securities (other than the compensation

that would be paid pursuant to arms' length negotiations between a seller and a broker or dealer, each acting unilaterally, not greater than the compensation that would be paid for a routine similar-sized sale of similar securities of a similar issuer).

Although not binding with respect to any future events or circumstances, including those directly or indirectly relevant to the Joint Plan, the staff of the SEC has indicated in a series of no-action interpretations that, in certain situations, (i) non-affiliates of an issuer may make unregistered offers and sales of securities received in a reorganization in “ordinary trading transactions” and (ii) “affiliates” of an issuer may effect resales of such securities in reliance on Rule 144 under the Securities Act without compliance with any holding period. Rule 144 provides an exemption from registration under the Securities Act for certain limited public resales of unrestricted securities by “affiliates” of the issuer of such securities. Rule 144 allows a holder of unrestricted securities that is an affiliate of the issuer of such securities to sell, without registration, within any three-month period a number of shares of such unrestricted securities that does not exceed the greater of 1% of the number of outstanding securities of the class in question or the average weekly trading volume in such securities during the four calendar weeks preceding the date on which notice of such sale was filed on Form 144, subject to the satisfaction of certain other requirements of Rule 144 regarding, among other things, the manner of sale and the availability of current public information regarding the issuer. The Joint Plan Proponents believe that, pursuant to section 1145(c) of the Bankruptcy Code, the HHI Common Stock to be issued pursuant to the Joint Plan will be issued in a public offering pursuant to such section and will be deemed unrestricted securities for purposes of Rule 144.

For a company such as HHI, the securities of which are registered under the Exchange Act, sufficient information generally is deemed available to the public

only if it has filed all reports required to be filed under the Exchange Act for the twelve months preceding the date of resale. Since the Petition Date, HHI has had no direct involvement in the management of the Debtor and has had incomplete information concerning the Debtor. In addition, in July 2003, Ernst & Young, LLP, the Debtor's independent public accountants resigned as HHI's independent public accountants. For these reasons, among others, each month since the Petition Date HHI has been filing the Debtor's unaudited Monthly Operating Report with the Bankruptcy Court under cover of a Current Report on Form 8-K, in lieu of filing its otherwise required Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K. Therefore, HHI may not be deemed to be current in its Exchange Act filings. While HHI and the Trustee currently intend to cooperate in an effort to permit HHI to rehire Ernst & Young, LLP as HHI's independent accountants, to bring current its Exchange Act filings, and to file all subsequent required Exchange Act filings, no assurance can be given as to if or when HHI will be able to do so. HHI will not satisfy the current public information requirement of Rule 144 unless and until such filings are made.

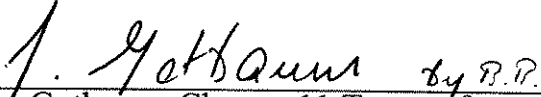
GIVEN THE COMPLEX NATURE OF THE QUESTION OF WHETHER A PARTICULAR PERSON MAY BE AN UNDERWRITER, DEALER, OR AN AFFILIATE OF THE REORGANIZED DEBTOR, OR THE APPLICABILITY OF THE "ORDINARY TRADING TRANSACTION" EXEMPTION OR RULE 144, THE JOINT PLAN PROPONENTS MAKE NO REPRESENTATIONS CONCERNING THE RIGHT OF ANY PERSON TO TRADE IN THE HHI COMMON STOCK TO BE DISTRIBUTED PURSUANT TO THE JOINT PLAN. THE JOINT PLAN PROPONENTS HAVE NOT SOUGHT THE SEC'S VIEWS ON ANY OF THESE MATTERS. THE JOINT PLAN PROPONENTS RECOMMEND THAT HOLDERS OF CLAIMS OR INTERESTS CONSULT


THEIR OWN SECURITIES COUNSEL CONCERNING WHETHER THEY  
MAY FREELY TRADE SUCH SECURITIES.

## **XV. RECOMMENDATION AND CONCLUSION**

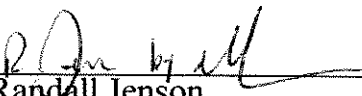
For all of the reasons set forth in this Disclosure Statement, the Joint Plan Proponents believe that the Confirmation and consummation of the Joint Plan is preferable to all other alternatives. Consequently, the Joint Plan Proponents urge all holders of Claims in voting Classes to vote to accept the Joint Plan and to evidence their acceptance by duly completing and returning their Ballots so that they will be received on or before the Voting Deadline.

DATED: Honolulu, Hawaii  
October 4, 2004

  
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Joshua Gotbaum, Chapter 11 Trustee for  
Hawaiian Airlines, Inc.

  
\_\_\_\_\_  
Randall Jenson  
For Hawaiian Holdings, Inc.

  
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Randall Jenson  
For RC Aviation LLC

  
\_\_\_\_\_  
Randall Jenson  
For HHIC, Inc.

  
\_\_\_\_\_  
The Official Committee of Unsecured  
Creditors of Hawaiian Airlines, Inc.