HAWAIIAN HOLDINGS INC
Form 10-K
February 13, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K
(Mark One)

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

For the fiscal year ended December 31, 2018
or

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

For the transition period from to .
Commission file number 1-31443
HAWAIIAN HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	71-0879698
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
3375 Koapaka Street, Suite G-350 Honolulu, Hawai'i (Address of principal executive offices)	96819 (Zip code)

Registrant's telephone number, including area code: (808) 835-3700
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock ($0.01 par value)	NASDAQ Stock Market, LLC (NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Exchange Rule Act 12b-2). Yes o No x

The aggregate market value of the voting and non-voting common equity stock held by non-affiliates of the registrant was approximately $1.8 billion, computed by reference to the closing sale price of the Common Stock on the NASDAQ Global Select Market, on June 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter.

As of February 8, 2019, 48,421,855 shares of Common Stock of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 2019 will be incorporated by reference into Part III of this Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 that reflect our current views with respect to certain current and future events and financial performance. Such forward-looking statements include, without limitation, statements related to our financial statements and results of operations; any expectations of operating expenses, deferred revenue, interest rates, tax rates, income taxes, deferred tax assets, valuation allowances or other financial items; expectations regarding our operating performance for the first quarter and full year of 2019; statements regarding factors that may affect our operating results; statements regarding our goals, mission and areas of focus; statements regarding our working capital, and capital expenditures; statements related to funding our aircraft orders, growth strategy and market opportunities; statements regarding the effect of fleet changes on our business, operations and cost structure; statements regarding our ability to pay taxes with working capital; estimates of fair value measurements; statements related to aircraft maintenance and repair; statements related to cash flow from operations and seasonality; statements regarding our intention to pay quarterly dividends and the amounts thereof, if any; statements regarding our ability and intention to repurchase our shares; estimates of required funding of and contributions to our defined benefit pension and disability plans; estimates of annual fuel expenses and measure of the effects of fuel prices on our business; statements regarding our wages and benefits and labor costs and agreements; statements regarding the status and effects of federal and state legislation and regulations promulgated by the Federal Aviation Administration (FAA), U.S. Department of Transportation (DOT) and other regulatory agencies; statements related to airport rent rates and landing fees; statements related to our lease of the cargo and maintenance hangar at the Daniel K. Inouye International Airport; statements regarding a joint venture with Japan Airlines; statements regarding aircraft rent expense; statements regarding our total capacity and yields on routes; statements regarding potential dilution of our securities; statements related to our frequent flyer program; statements related to our hedging program; statements concerning accounting principles, policies, standards, estimates, and the effect of the adoption thereof; statements regarding our net operating loss carryforwards; statements regarding our credit card holdback; statements regarding our debt or lease obligations and financing arrangements; statements regarding our financing needs; statements related to risk management, credit risks, and air traffic liability; statements related to future U.S. and global economic conditions or performance; statements related to changes in our fleet plan and related cash outlays; statements related to expected delivery of new aircraft and associated costs; statements related to the effects of any litigation on our operations or business; statements related to competition on our routes; statements related to continuous investments in technology and systems; and statements as to other matters that do not relate strictly to historical facts or statements of assumptions underlying any of the foregoing. Words such as "expects," "anticipates," "projects," "intends," "plans," "believes," "estimates," "could," "may," variations of such words, and similar expressions are also intended to identify such forward-looking statements. These forward-looking statements are and will be, as the case may be, subject to many risks, uncertainties, and assumptions relating to our operations and business environment, all of which may cause our actual results to be materially different from any future results, expressed or implied, in these forward-looking statements.

Factors that could affect such forward-looking statements include, but are not limited to: our ability to accurately forecast quarterly and annual results; global economic volatility; macroeconomic developments; political developments; our dependence on the tourism industry; the price and availability of fuel; foreign currency exchange rate fluctuations; competitive pressures, including the potential impact of increasing industry capacity between North America and Hawai'i; fluctuations in demand for transportation in the markets in which we operate, including due to the occurrence of natural disasters, such as hurricanes, volcanic eruptions, earthquakes, and tsunamis; maintenance of privacy and security of customer-related information and compliance with applicable federal and foreign privacy or data security regulations or standards; our dependence on technology and automated systems; our reliance on third-party contractors; satisfactory labor relations; our ability to attract and retain qualified personnel and key executives; successful implementation of growth strategy and cost reduction goals; adverse publicity; risks related to the airline industry; our ability to obtain and maintain adequate facilities and infrastructure; seasonal and cyclical volatility; the effect of applicable state, federal and foreign laws and regulations; increases in insurance costs or reductions in coverage; the limited number of suppliers for aircraft, aircraft engines and parts; our existing aircraft purchase agreements; delays in aircraft or engine deliveries or other loss of fleet capacity; our ability to continue to generate sufficient cash flow to support the payment of a quarterly dividend; changes in our future capital needs; fluctuations in our share price; our financial liquidity; and our ability to implement our growth strategy. The risks, uncertainties, and assumptions referred to above that could cause our results to differ materially from the results expressed or implied by such forward-looking statements also include those discussed under the heading "Risk Factors" in Item 1A in this Annual Report on Form 10-K and the risks, uncertainties and assumptions discussed from time to time in our public filings and public announcements. All forward-looking statements included in this report are based on information available to us as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date hereof.

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PART I

ITEM 1. BUSINESS.

Overview

Hawaiian Holdings, Inc. (the Company, Holdings, we, us, and our) is a holding company incorporated in the State of Delaware. The Company's primary asset is sole ownership of all issued and outstanding shares of common stock of Hawaiian Airlines, Inc. (Hawaiian). Hawaiian was originally incorporated in January 1929 under the laws of the Territory of Hawai'i and became our indirect wholly-owned subsidiary pursuant to a corporate restructuring that was consummated in August 2002. Hawaiian became a Delaware corporation and the Company's direct wholly-owned subsidiary concurrent with its reorganization and reacquisition by the Company in June 2005.

Our Business

We are engaged in the scheduled air transportation of passengers and cargo amongst the Hawaiian Islands (the Neighbor Island routes) and between the Hawaiian Islands and certain cities in the United States (the North America routes together with the Neighbor Island routes, the Domestic routes), and between the Hawaiian Islands and the South Pacific, Australia, New Zealand and Asia (the International routes), collectively referred to as our Scheduled Operations. We offer non-stop service to Hawai'i from more U.S. gateway cities (13) than any other airline, and also provide approximately 180 daily flights between the Hawaiian Islands. In addition, we operate various charter flights. We are the longest serving airline, as well as the largest airline headquartered, in the State of Hawai'i, and the 10th largest domestic airline in the United States based on revenue passenger miles (RPMs) reported by the Research and Innovative Technology Administration Bureau of Transportation Services as of September 2018, the latest data available.

At December 31, 2018, our fleet consisted of 20 Boeing 717-200 aircraft for the Neighbor Island routes, four Boeing 767-300 aircraft, 24 Airbus A330-200 aircraft, and eleven Airbus A321-200 for the North America, International, and charter routes. We also own four ATR42 aircraft for the "Ohana by Hawaiian" Neighbor Island service and three ATR71 aircraft for our Neighbor Island cargo operations. During the first quarter of 2019, we expect to retire all four of our remaining Boeing 767-300 aircraft, completing the transition to our A321 aircraft, allowing for optimization of our products and increased management of capacity.

Our goal is to be the number one destination carrier serving Hawai'i. We are devoted to the travel needs of the residents of and visitors to Hawai'i and we offer a unique travel experience. We are strongly rooted in the culture and people of Hawai'i and we seek to provide quality service to our customers that exemplifies the spirit of Aloha.

Outlook

Our mission is to continue to grow a profitable airline with a passion for excellence, our customers, our people and the spirit of Hawai'i. In 2019, we will continue to focus on strengthening our competitive position in the markets that we serve primarily by continuing to mature the routes we launched over the past decade, improving our long term competitive cost structure, improving the guest experience by making travel effortless and furthering our segmentation efforts through our offering of additional value-added products and services, including the introduction of our Main Cabin Basic product in 2019.

Flight Operations

Our flight operations are based in Honolulu, Hawai'i. At December 31, 2018, we operated 246 scheduled flights with:

- Daily service on our North America routes between the State of Hawai'i and Long Beach, Los Angeles, Oakland, Sacramento, San Diego, San Francisco, and San Jose, California; Las Vegas, Nevada; Phoenix, Arizona; Portland, Oregon; Seattle, Washington; and New York City, New York.
- Daily service on our Neighbor Island routes among the six major islands of the State of Hawai'i.
- Daily service on our International routes between the State of Hawai'i and Sydney, Australia; and Tokyo (Haneda and Narita); and Osaka, Japan; and scheduled service between the State of Hawai'i and Pago Pago, American Samoa; Papeete, Tahiti; Brisbane, Australia; Auckland, New Zealand; Sapporo, Japan; and Seoul, South Korea.
- Various ad hoc charters.

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Fuel

Our results of operations are significantly impacted by changes in the price and availability of aircraft fuel. The following table shows our aircraft fuel consumption and costs:

Year	Gallons consumed	Total cost, including taxes	Average cost per gallon	Percent of operating expenses
	(in thousands)			
2018	273,783	$599,544	$ 2.19	23.8 %
2017	259,915	$440,383	$ 1.69	19.9 %
2016	244,118	$344,322	$ 1.41	16.9 %

As illustrated by the table above, fuel costs constitute a significant portion of our operating expenses. We purchase aircraft fuel at prevailing market prices, and seek to manage economic risks associated with fluctuations in aircraft fuel prices by entering into various derivative financial instruments.

Aircraft Maintenance

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

Marketing and Ticket Distribution

We utilize various distribution channels including our website www.hawaiianairlines.com, primarily for our North America and Neighbor Island routes, and travel agencies and wholesale distributors for our International routes.

Our website is available in English, Japanese, Korean, and Chinese and offers our customers information on our flight schedules, information on our HawaiianMiles frequent flyer program, the ability to book reservations on our flights or connecting flights with any of our code-share partners, the status of our flights as well as the ability to purchase hotels, cars and vacation packages. We also distribute our fares through online travel agencies.

Frequent Flyer Program

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

HawaiianMiles members have a choice of various awards based on accumulated mileage credits, with most of the awards being redeemed for free air travel on Hawaiian.

HawaiianMiles accounts with no activity (frequent flyer miles earned or redeemed) for 18 months automatically expire. The number of free travel awards used for travel on Hawaiian was approximately 685,000 in 2018. The number of free travel awards as a percentage of total revenue passengers was approximately 6% in 2018. We believe displacement of revenue passengers is minimal due to our ability to manage frequent flyer seat inventory, and the relatively low ratio of free award usage to total revenue passengers.

Code-Share and Other Alliances

Together with Japan Airlines, we filed an application with the U.S. Department of Transportation (DOT) and Japan's Ministry of Land, Infrastructure, Transport and Tourism (MLIT) seeking antitrust immunity to create a joint venture that promises significant consumer benefits and the opportunity for service expansion. We further enhanced our comprehensive partnership with Japan Airlines with the announcement of reciprocal frequent flyer benefits for

HawaiianMiles and JAL Mileage Bank members in October 2018. The initial partnership launched in March 2018 with codeshare flights between Japan and Hawaii. We have not yet received approval and we do not anticipate operations commencing under the joint venture until late 2019.

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

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

Our marketing alliances with other airlines as of December 31, 2018 were as follows:

	Hawaiian Miles Frequent Flyer Agreement	Other Airline Frequent Flyer Agreement	Code-share—Hawaiian Flight # on Flights Operated by Other Airline	Code-share—Other Airline Flight # on Flights Operated by Hawaiian
Air China	No	No	No	Yes
American Airlines	No	Yes	No	Yes
China Airlines	Yes	Yes	Yes	Yes
Delta Air Lines	No	Yes	No	Yes
JetBlue	Yes	Yes	Yes	Yes
Korean Air	Yes	Yes	Yes	Yes
Philippine Airlines	No	No	No	Yes
Turkish Airlines	No	No	No	Yes
United Airlines	No	Yes	No	Yes
Virgin Atlantic Airways	Yes	Yes	No	No
Virgin Australia	Yes	Yes	No	Yes

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

Competition

The airline industry is highly competitive. We believe that the principal competitive factors in the airline industry are:

- Fares;
- Flight frequency and schedule;
- Customer service;
- On-time performance and reliability;
- Name recognition;
- Marketing affiliations;
- Frequent flyer benefits;
- Aircraft type;
- Safety record; and
- In-flight services.

Domestic—We face multiple competitors on our North America routes including major network carriers such as Alaska (AS), American Airlines (AA), United Airlines (UA), and Delta Airlines (DL). In addition, Southwest Airlines (WN) announced their intent to launch service to and from (and possibly within the islands of) Hawai'i in 2018. Various charter companies also provide non-scheduled service to Hawai'i, mostly under public charter arrangements. Our Neighbor Island competitors consist of regional carriers, which include Mokulele Airlines and a number of other "air taxi" companies.

International—Currently, we are the only provider of direct service between Honolulu and each of Sapporo, Japan; Pago Pago, American Samoa; and Papeete, Tahiti. However, we face multiple competitors from both domestic and foreign carriers on our other international routes.

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Employees

As of December 31, 2018, we had 7,244 active employees, of whom approximately 84% were covered by labor agreements with the following organized labor groups:

Employee Group	Represented by	Number of Employees	Agreement amendable on (*)
Flight deck crew members	Air Line Pilots Association (ALPA)	800	July 1, 2022
Cabin crew members	Association of Flight Attendants (AFA)	2,101	January 1, 2017 (**)
Maintenance and engineering personnel	International Association of Machinists and Aerospace Workers (IAM-M)	1,111	January 1, 2021
Clerical	IAM-C	2,031	January 1, 2021
Flight dispatch personnel	Transport Workers Union (TWU)	52	August 1, 2021

(*) Our relations with labor unions representing our airline employees are governed by the Railway Labor Act of 1926. Under the Railway Labor Act, a collective bargaining agreement between us and the labor unions does not expire, but instead becomes amendable as of a stated date if either party wishes to modify the terms of the agreement.

(**) As of December 31, 2018, contract negotiations are ongoing with the AFA.

Seasonality

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

Customers

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

Regulation

Our business is subject to extensive and evolving international, federal, state and local laws and regulations. Many governmental agencies regularly examine our operations to monitor compliance with applicable laws and regulations. Governmental authorities can enforce compliance with applicable laws and regulations and obtain injunctions or impose civil or criminal penalties or modify, suspend, or revoke our operating certificates in case of violations.

Industry Regulations

We are subject to the regulatory jurisdiction of the U.S. Department of Transportation (DOT) and the Federal Aviation Administration (FAA). The DOT has jurisdiction over international routes and fares for some countries (based upon treaty relations with those countries), consumer protection policies including baggage liability, denied boarding compensation, and unfair competitive practices as set forth in the Airline Deregulation Act of 1978. The FAA has regulatory jurisdiction over flight operations, including equipment, ground facilities, security systems, maintenance, and other safety matters. Pursuant to these regulations, we have established, and the FAA has approved, a maintenance program for each type of aircraft we operate that provides for the ongoing maintenance of our aircraft, ranging from frequent routine inspections to major overhauls.

Maintenance Directives

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

The FAA frequently issues airworthiness directives in response to specific incidents or reports by operators or manufacturers, requiring operators of specified equipment types to perform prescribed inspections, repairs or modifications within stated time periods or numbers of cycles. In the last several years, the FAA has issued a number of maintenance directives and other regulations relating to, among other things, wiring requirements for aging aircraft, fuel tank flammability, cargo compartment fire detection/suppression systems, collision avoidance systems, airborne windshear avoidance systems, noise abatement, and increased inspection requirements.

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Airport Security

The Aviation and Transportation Security Act (ATSA) mandates that the Transportation Security Administration (TSA) provide screening of all passengers and property, including mail, cargo, carry-on and checked baggage, and other articles that will be carried aboard a passenger aircraft. Under the ATSA, substantially all security screeners at airports are federal employees and airline and airport security is overseen and performed by federal employees, including security managers, law enforcement officers, and Federal Air Marshals. The ATSA also provides for increased security on flight decks of aircraft (and requires Federal Air Marshals to be present on certain flights), improved airport perimeter access security, airline crew security training, enhanced security screening of passengers, baggage, cargo, mail, employees and vendors, enhanced training and qualifications of security screening personnel, provision of passenger data to U.S. Customs and Border Protection and enhanced background checks.

The TSA also has the authority to impose additional fees on air carriers, if necessary, to cover additional federal aviation security costs.

Environmental and Employee Safety and Health

We are subject to various laws and regulations concerning environmental matters and employee safety and health in the U.S. and other countries in which we do business. Many aspects of airlines' operations are subject to increasingly stringent federal, state, local, and foreign laws protecting the environment. U.S. federal laws that have a particular impact on us include the Airport Noise and Capacity Act of 1990, the Clean Air Act, the Resource Conservation and Recovery Act, the Clean Water Act, the Safe Drinking Water Act, and the Comprehensive Environmental Response, Compensation, and Liability Act. Certain of our operations are also subject to the oversight of the Occupational Safety and Health Administration (OSHA) concerning employee safety and health matters. The U.S. Environmental Protection Agency (EPA), OSHA, and other federal agencies have been authorized to promulgate regulations that affect our operations. In addition to these federal activities, states have been delegated certain authority under the aforementioned federal statutes. Many state and local governments have adopted environmental and employee safety and health laws and regulations, some of which are similar to or stricter than federal requirements, such as California.

The EPA is authorized to regulate aircraft emissions and has historically implemented emissions control standards previously adopted by the International Civil Aviation Organization. Our aircraft comply with the existing EPA standards as applicable by engine design date.

We seek to minimize the impact of carbon emissions from our operations through reductions in our fuel consumption and other efforts. We have reduced the fuel needs of our aircraft fleet through the retirement and replacement of certain aircraft in our fleet with newer, more fuel efficient aircraft. In addition, we have implemented fuel saving procedures in our flight and ground support operations that further reduce carbon emissions. In 2012, we earned the first-ever aviation based carbon credits through the reduction of carbon dioxide emissions with the use of an eco-friendly engine washing technology. We are also supporting initiatives to develop alternative fuels and efforts to modernize the air traffic control system in the U.S. as part of our efforts to reduce our emissions and minimize our impact on the environment.

Noise Abatement

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

Civil Reserve Air Fleet Program

The U.S. Department of Defense regulates the Civil Reserve Air Fleet (CRAF) and government charters. We have elected to participate in the CRAF program by agreeing to make aircraft available to the federal government for use by the U.S. military under certain stages of readiness related to national emergencies. The program is a standby arrangement that allows the U.S. Department of Defense U.S. Transportation Command to call on as many as 12 contractually committed Hawaiian aircraft and crews to supplement military airlift capabilities. None of our aircraft are presently mobilized under this program.

Other Regulations

The State of Hawai'i is uniquely dependent upon air transportation. The Hawai'i state legislature has enacted legislation that reflects and attempts to address its concerns. For example, House Bill 2250 HD1, Act 1 of the 2008 Special Session, establishes

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a statutory scheme for the regulation of Hawai'i neighbor island air carriers, provided that federal legislation is enacted to permit its implementation. The U.S. Congress has yet to enact legislation that would allow this proposed legislation to go into effect.

Additionally, several aspects of airline operations are subject to regulation or oversight by federal agencies other than the FAA and the DOT. Federal antitrust laws are enforced by the U.S. Department of Justice. The U.S. Postal Service has jurisdiction over certain aspects of the transportation of mail and related services provided by our cargo services. Labor relations in the air transportation industry are generally regulated under the Railway Labor Act. We and other airlines certificated prior to October 24, 1978 are also subject to preferential hiring rights granted by the Airline Deregulation Act to certain airline employees who have been furloughed or terminated (other than for cause). The Federal Communications Commission issues licenses and regulates the use of all communications frequencies assigned to us and other airlines. There is increased focus on consumer protection both on the federal and state level. We cannot always accurately predict the cost of such requirements on our operations.

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

Available Information

General information about us, including the charters for the committees of our Board of Directors can be found at https://www.hawaiianairlines.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, as well as any amendments and exhibits to those reports that we file with the Securities and Exchange Commission (SEC) are available free of charge through our website. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, which can be found at http://www.sec.gov.

We also use the investor relations section of our website https://newsroom.hawaiianairlines.com/investor-relations and our website (https://www.hawaiianairlines.com), as a means of disclosing material information and for complying with our disclosure obligations under Regulation FD.

Information on our website is not incorporated into this Annual Report on Form 10-K or our other securities filings and is not a part of such filings.

ITEM 1A. RISK FACTORS.

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

ECONOMIC RISKS

Our business is affected by global economic volatility.

Our business and results of operations are significantly impacted by general world-wide economic conditions. Demand for discretionary purchases including air travel and vacations to Hawai'i remains unpredictable. Deterioration in demand resulting from economic uncertainty or another recession may result in a reduction in our passenger traffic and/or increased competitive pressure on fares in the markets we serve, which would negatively impact our results of operations and financial condition. We cannot assure that we would be able to offset such revenue reductions by reducing our costs.

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Our business is highly dependent on tourism to, from, and amongst the Hawaiian Islands and our financial results could suffer if there is a downturn in tourism levels.

Our principal base of operations is in Hawai'i and our revenue is linked primarily to the number of travelers (mainly tourists) to, from and amongst the Hawaiian Islands. Hawai'i tourism levels are affected by the political and economic climate in Hawai'i's main tourism markets, the availability of hotel accommodations, the popularity of Hawai'i as a tourist destination relative to other vacation destinations, and other global factors, including natural disasters, safety, and security. From time to time, various events and industry specific problems such as labor strikes have had a negative impact on tourism in Hawai'i. The occurrence of natural disasters, such as hurricanes, earthquakes, volcanic eruptions, and tsunamis, in Hawai'i or other parts of the world, could also have a material adverse effect on Hawai'i tourism. In addition, the potential or actual occurrence of terrorist attacks, wars, and the threat of other negative world events have had, and may in the future have, a material adverse effect on Hawai'i tourism. A decline in the level of Hawai'i passenger traffic could have a material adverse effect on our results of operations and financial condition.

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

Our results and operations are heavily impacted by the price and availability of jet fuel. While we have benefited in the past from lower fuel costs, fuel costs increased in 2017 and 2018 and we cannot assure that fuel costs will not increase further in the future. The cost and availability of jet fuel remains volatile and is subject to political, economic, and market factors that are generally outside of our control. Prices may be affected by many factors including, without limitation, the impact of political instability, crude oil production and refining capacity, unexpected changes in the availability of petroleum products due to disruptions to distribution systems or refineries, unpredicted increases in demand due to weather or the pace of global economic growth, inventory reserve levels of crude oil and other petroleum products, the relative fluctuation between the U.S. dollar and other major currencies, and the actions of speculators in commodity markets. Because of the effects of these factors on the price and availability of jet fuel, the cost and future availability of fuel cannot be predicted with any degree of certainty. Also, due to the competitive nature of the airline industry, there can be no assurance that we will be able to increase our fares or other fees to sufficiently offset any increase in fuel prices.

We enter into derivative agreements to protect against the volatility of fuel costs. There is no assurance that such agreements will protect us during unfavorable market conditions or that our counterparties will be able to perform under these hedge arrangements.

See Item 7A, Quantitative and Qualitative Disclosures About Market Risk, for further information regarding our exposure to the price of fuel.

Our business is exposed to foreign currency exchange rate fluctuations.

Our business is expanding internationally with an increasing percentage of our passenger revenue generated from our International routes. The fluctuation of the U.S. dollar relative to foreign currencies can significantly affect our results of operations and financial condition. To manage the effects of fluctuating exchange rates, we periodically enter into foreign currency forward contracts, execute payment of expenditures in those locations in local currency, and recently entered into $86.5 million in Japanese Yen denominated debt in connection with two aircraft financing transactions. There is no assurance that such agreements will protect us against foreign currency exchange rate fluctuations during unfavorable market conditions or that our counterparties will be able to perform under these hedge arrangements.

See Item 7A, Quantitative and Qualitative Disclosures About Market Risk, for further information regarding our exposure to the foreign currency exchange rates.

COMPETITIVE ENVIRONMENT RISKS

We operate in an extremely competitive environment.

The airline industry is characterized by low profit margins, high fixed costs, and significant price competition. We compete with other airlines on all of our Domestic and International routes. The commencement of, or increase in, service on our routes by existing or new carriers could negatively impact our operating results. Many of our competitors on our North America and International routes are much larger and have greater financial resources and brand recognition than we do. Aggressive marketing tactics or a prolonged fare war initiated by one or more of these competitors could adversely affect our financial resources and our ability to compete in these markets. Since airline markets have few natural barriers to entry, we also face the constant threat of new entrants in all of our markets.

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Additional capacity to Hawai'i, whether from network carriers or LCCs, could decrease our share of the markets in which we operate, could cause a decline in our yields, or both, which could have a material adverse effect on our results of operations and financial condition.

The concentration of our business in Hawai'i, and between Hawai'i and the U.S. mainland, provides little diversification of our revenue.

During 2018, approximately 74% of our passenger revenue was generated from our Domestic routes. Many of our competitors, particularly major network carriers with whom we compete on our North America routes, enjoy greater geographical diversification of their revenue. A reduction in the level of demand for travel within Hawai'i, or to Hawai'i from the U.S. mainland, or an increase in the level of industry capacity on these routes, may reduce the revenue we are able to generate and adversely affect our financial results. As these routes account for a significantly higher proportion of our revenue than they do for many of our competitors, such a reduction would have a relatively greater adverse effect on our financial results.

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

During 2018, approximately 52% of our passenger revenue was generated from our North America routes. The majority of competition on our North America routes is from network carriers such as Alaska Airlines, American Airlines, Delta Air Lines, and United Airlines, all of whom have a number of competitive advantages. Primarily, network carriers generate passenger traffic from and throughout the U.S. mainland, which enable them to attract higher customer traffic levels as compared to us. Also, there have been recent announcements by other carriers, such as Southwest Airlines, that there will be an increase in capacity to and from Hawai'i, and possibly amongst the Hawaiian Islands.

In contrast, we lack a comparable direct network to feed passengers to our North America flights and are therefore more reliant on passenger demand in the specific cities we serve. We also rely on our code-share partner agreements (e.g. with JetBlue) to provide customers access to and from North American destinations currently unserved by us. Most network carriers operate from hubs, which can provide a built-in market of passengers depending on the economic strength of the hub city and the size of the customer group that frequent the airline. Our Honolulu and Maui hubs do not originate a large proportion of North American travel, nor do they have the population or potential customer franchise of a larger city to provide us with a built-in market. Passengers in the North American market, for the most part, do not originate in Honolulu, but on the U.S. mainland, making Honolulu primarily a destination rather than an origin of passenger traffic.

Our Neighbor Island routes are affected by increased capacity provided by our competitors.

During 2018, approximately 22% of our passenger revenue was generated from our Neighbor Island routes. Although we enjoy a strong competitive position on our Neighbor Island routes, our competitors could increase capacity to Hawai'i either by introducing new routes or increasing the frequency of existing routes from North America to the Neighbor Islands or by the introduction of additional flights within the Neighbor Islands. This additional capacity could have the effect of decreasing our share of traffic on our Neighbor Island routes, which could have a material adverse effect on our results of operations and financial condition.

Our International routes are affected by competition from domestic and foreign carriers.

During 2018, approximately 26% of our passenger revenue was generated from our International routes. Our competitors on these routes include both domestic and foreign carriers. Both domestic and foreign competitors have a number of competitive advantages that may enable them to attract higher customer traffic levels as compared to us. Many of our domestic competitors have joined airline alliances, which provide customers access to each participating airline's international network, allowing for convenience and connectivity to their destinations. These alliances formed by our domestic competitors have increased in recent years. In some instances our domestic competitors have been granted antitrust exemptions to form joint venture arrangements in certain geographies, further deepening their cooperation on certain routes. To mitigate this risk, we rely on code-share agreements with partner airlines to provide customers access to international destinations currently unserved by us.

Many of our foreign competitors are network carriers that benefit from network feed to support International routes on which we compete. In contrast, we lack a comparable direct network to feed passengers to our International flights, and are therefore more reliant on passenger demand in the specific destinations that we serve. Most network carriers operate from hubs, which can provide a built-in home base market of passengers. Passengers on our International routes, for the most part, do not originate in Hawai'i, but rather internationally, in these foreign carriers' home bases. We also rely on our code-share agreements and our relationships with travel agencies and wholesale distributors to provide customers access to and from International destinations currently unserved by us.

INFORMATION TECHNOLOGY AND THIRD-PARTY RISKS

If we do not maintain the privacy and security of customer-related information or fail to comply with applicable U.S. and foreign privacy or data security regulations or security standards imposed by our commercial partners, our reputation could be damaged, we could incur substantial additional costs, and we could become subject to litigation or regulatory penalties.

We receive, retain, and transmit personal information about our customers and we are subject to increasing legislative, regulatory and customer focus on privacy and data security both domestically and internationally. A number of our commercial partners, including credit card companies, have imposed data security standards that we are obligated to meet and these standards continue to evolve. We will continue our efforts to meet new and increasing privacy and security standards; however, it is possible that such new standards may prove difficult to meet, require us to expend additional resources, and result in us being unable to process credit card transactions if determined to be non-compliant. Additionally, any compromise of our technology systems could result in the loss, disclosure, misappropriation of or access to our customers', employees' or business partners' information. Any such loss, disclosure, misappropriation or access could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information. Any significant data breach or our failure to comply with applicable U.S. and foreign privacy or data security regulations or security standards imposed by our commercial partners may adversely affect our reputation, business, results of operations and financial condition, and may require that we expend significant additional resources related to the security of information systems.

We are increasingly dependent on technology and automated systems to operate our business.

We depend heavily on technology and automated systems to effectively operate our business. These systems include flight operations systems, communications systems, airport systems, reservations systems, management and accounting systems, commercial websites, including www.hawaiianairlines.com, and other systems, all of which must be able to accommodate high traffic volumes, maintain secure information and provide accurate flight information, as well as process critical financial related transactions. Any substantial or repeated failures of these systems could negatively affect our customer service, compromise the security of customer information, result in the loss of important data, loss of revenue and increased costs, and generally harm our business. Like other companies, our systems may be vulnerable to disruptions due to events beyond our control, including natural disasters, power disruptions, software or equipment failures, terrorist attacks, cybersecurity threats, computer viruses and hackers. There can be no assurance that the measures we have taken to reduce the adverse effects of certain potential failures or disruptions are adequate to prevent or remedy disruptions of our systems. In addition, we will need to continuously make significant investments in technology to periodically upgrade and replace existing systems. If we are unable to make these investments or fail to successfully implement, upgrade or replace our systems, our business could be adversely impacted.

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

There are a limited number of qualified employees and personnel in the airline and information technology industry, especially within the Hawai'i market. Due to these limitations, we historically relied on outside vendors for a variety of services and functions critical to our business, including aircraft maintenance and parts, code-sharing, reservations, computer services including hosting and software maintenance, accounting, frequent flyer programs, passenger processing, ground facilities, baggage and cargo handling, personnel training, and the distribution and sale of airline seats. Our reliance on outside vendors may continue to increase in the future.

The failure of any of our third-party service providers to adequately perform their service obligations, or other interruptions of services may reduce our revenues, increase expenses, and/or prevent us from operating our flights and providing other services to our customers. Our business and financial performance would be materially harmed if our customers believe that our services are unreliable or unsatisfactory.

LABOR RELATIONS AND RELATED COSTS RISKS

We are dependent on satisfactory labor relations.

Labor costs are a significant component of airline expenses and can substantially impact an airline's results of operations. A significant portion of our workforce is represented by labor unions. We may make strategic and operational decisions that may

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require the consent of one or more of these labor unions, and these labor unions could demand additional wages, benefits or other consideration in return for their consent.

In addition, we have entered into collective bargaining agreements with our pilots, mechanical group employees, clerical group employees, flight attendants, and dispatchers. We cannot ensure that future agreements with our employees' labor unions will be on terms in line with our expectations or comparable to agreements entered into by our competitors, and any future agreements may increase our labor costs or otherwise adversely affect our business. We are currently in labor negotiations with our flight attendants' union, AFA, whose contract became amendable on January 1, 2017. If we are unable to reach an agreement with any unionized work group, we may be subject to future work interruptions and/or stoppages, which may hamper or halt operations. In addition, the threat of future work interruptions and/or stoppages may cause a decline in our passenger traffic, negatively impacting our results of operations and financial condition.

Our operations may be adversely affected if we are unable to attract and retain qualified personnel and key executives.

We believe that our future success is dependent on the knowledge and expertise of our key executives and highly qualified management, technical, and other personnel. Attracting and retaining such personnel in the airline industry is highly competitive. We cannot be certain that we will be able to retain our key executives or attract other qualified personnel in the future. Any inability to retain our key executives, or attract and retain additional qualified executives, could have a negative impact on our operations.

In addition, as we continue to expand our operations through the acquisition of new aircraft and introduction of service to new markets, it may be challenging to attract a sufficient number of qualified personnel including pilots, mechanics and other skilled labor. As we compete with other carriers for qualified personnel, we also face the challenge of attracting individuals who embrace our team-oriented, friendly and customer-driven corporate culture. Our inability to attract and retain qualified personnel who embrace our corporate culture could have a negative impact on our reputation and overall operations.

STRATEGY AND BRAND RISKS

Our failure to successfully implement our route and network strategy could harm our business.

Our route and network strategy (how we determine to deploy our fleet) includes initiatives to increase revenue, decrease costs, mature our network, and improve distribution of our sales channels. It is critical that we execute upon our planned strategy in order for our business to attain economies of scale and to sustain or improve our results of operations. If we are unable to utilize and fill increased capacity provided by additional aircraft entering our fleet, hire and retain skilled personnel, or secure the required equipment and facilities in a cost-effective manner, we may be unable to successfully develop and grow our new and existing markets, which may adversely affect our business and operations.

We continue to strive toward aggressive cost-containment goals which are an important part of our business strategy to offer the best value to passengers through competitive fares while maintaining acceptable profit margins and return on capital. We believe a lower cost structure will better position us to fund our strategy and take advantage of market opportunities. If we are unable to adequately contain our non-fuel unit costs, our financial results may suffer.

Our reputation and financial results could be harmed in the event of adverse publicity, including the event of an aircraft accident or incident.

Our customer base is broad and our business activities have significant prominence, particularly in Hawai'i and other destinations we serve. Consequently, negative publicity resulting from real or perceived shortcomings in our customer service, employee relations, business conduct, or other events affecting our operations could negatively affect the public image of our company and the willingness of customers to purchase services from us, which could affect our financial results.

Additionally, we are exposed to potential losses that may be incurred in the event of an aircraft accident or incident. Any such accident or incident involving our aircraft or an aircraft operated by one of our code-share partners could involve not only the repair or replacement of a damaged aircraft and its consequential temporary or permanent loss of revenue, but also significant claims of injured passengers and others. We are required by the U.S. Department of Transportation (DOT) to carry liability insurance, and although we currently maintain liability insurance in amounts consistent with the industry, we cannot be assured that our insurance coverage will adequately cover us from all claims and we may be forced to bear substantial losses incurred with an accident. In addition, any aircraft accident or incident could cause a public perception that we are less safe or reliable than other airlines, which would harm our business.

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AIRLINE INDUSTRY, REGULATION AND RELATED COSTS RISKS

The airline industry has substantial operating leverage and is affected by many conditions that are beyond its control, which could harm our financial condition and results of operations.

Due to the substantial fixed costs associated with operating an airline, there is a disproportionate relationship between the cost of operating each flight and the number of passengers carried. However, the revenue generated from a particular flight is directly related to the number of passengers carried and the respective average fares applied. Accordingly, a decrease in the number of passengers carried would cause a corresponding decrease in revenue (if not offset by higher fares), and it may result in a disproportionately greater decrease in profits. Therefore, any general reduction in airline passenger traffic as a result of any of the following or other factors, which are largely outside of our control, could harm our business, financial condition, and results of operations:

- decline in general economic conditions;
- continued threat of terrorist attacks and conflicts overseas;
- actual or threatened war and political instability;
- increased security measures or breaches in security;
- adverse weather and natural disasters;
- changes in consumer preferences, perceptions, or spending patterns;
- increased costs related to security and safety measures;
- increased fares as a result of increases in fuel costs;
- outbreaks of contagious diseases or fear of contagion; and
- congestion at airports and actual or potential disruptions in the air traffic control system.

Our results of operations may be volatile due to the conditions identified above. We cannot ensure that our financial resources will be sufficient to absorb the effects of any of these unexpected factors should they occur.

Our financial results and operations may be negatively affected by the State of Hawai'i's airport modernization plan.

The State of Hawai'i has begun to implement a modernization plan encompassing the airports we serve within the State. Our landing fees and airport rent rates have increased to fund the modernization program. Additionally, we expect the costs for our Neighbor Island operations to increase more than the costs related to our North America and International operations due to phased adjustments of the airports' funding mechanism. Therefore, costs related to the modernization program will have a greater impact on our operations as compared to our competitors, who do not have significant Neighbor Island operations. We can offer no assurance that we will be successful in offsetting these cost increases through other cost reductions or increases in our revenue and, therefore, can offer no assurance that our future financial results will not be negatively affected by them.

Our operations may be disrupted if we are unable to obtain and maintain adequate facilities and infrastructure at airports within the State of Hawai'i.

We must be able to maintain and/or obtain adequate gates, maintenance capacity, office space, operations areas, and ticketing facilities at the airports within the State of Hawai'i to be able to operate our existing and proposed flight schedules. Failure to maintain such facilities and infrastructure may adversely impact our operations and financial performance.

Our business is subject to substantial seasonal and cyclical volatility.

Our results of operations reflect the impact of seasonal volatility primarily due to passenger leisure and holiday travel patterns. As Hawai'i is a popular vacation destination, demand from North America, our largest source of visitors, is typically stronger during June, July, August and December and considerably weaker at other times of the year. Because of fluctuations in our results from seasonality, operating results for a historical period are not necessarily indicative of operating results for a future period and operating results for an interim period are not necessarily indicative of operating results for an entire year.

Terrorist attacks or international hostilities, or the fear of terrorist attacks or hostilities, even if not made directly on the airline industry, could negatively affect us and the airline industry.

Terrorist attacks, even if not made directly on the airline industry, or the fear of such attacks, hostilities or act of war, could adversely affect the airline industry, including us, and could result in a significant decrease in demand for air travel, increased security costs, increased insurance costs covering war-related risks, and increased flight operational loss due to cancellations and delays. Any future terrorist attacks or the implementation of additional security-related fees could have a material adverse effect on our business, financial condition and results of operations, and on the airline industry in general.

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

Airlines are subject to extensive regulatory requirements that result in significant costs. New, and modifications to existing, laws, regulations, taxes and airport rates, and charges imposed by domestic and foreign governments have been proposed from time to time that could significantly increase the cost of airline operations, restrict operations or reduce revenue. The FAA from time to time issues directives and other regulations relating to the maintenance and operation of aircraft that require significant expenditures. Some FAA requirements cover, among other things, retirement of older aircraft, security measures, collision avoidance systems, airborne windshear avoidance systems, noise abatement and other environmental concerns, commuter aircraft safety and increased inspections, and maintenance procedures to be conducted on older aircraft. A failure to be in compliance, or a modification, suspension or revocation of any of our DOT/FAA authorizations or certificates, would have a material adverse impact on our operations.

We cannot predict the impact that laws or regulations may have on our operations, nor can we ensure that laws or regulations enacted in the future will not adversely affect our business. Further, we cannot guarantee that we will be able to obtain or maintain necessary governmental approvals. Once obtained, operating permits are subject to modification and revocation by the issuing agencies. Compliance with these and any future regulatory requirements could require us to incur significant capital and operating expenditures.

In addition to extensive government regulations, the airline industry is dependent on certain services provided by government agencies (DOT, FAA, CBP, TSA, etc.). Furthermore, because of significantly higher security and other costs incurred by airports since September 11, 2001, many airports have significantly increased their rates and charges to airlines, including us, and may do so again in the future.

Federal budget constraints or federally imposed furloughs due to budget negotiation deadlocks may adversely affect our industry, business, results of operations and financial position.

Many of our airline operations are regulated by governmental agencies, including the FAA, the DOT, the CBP, the TSA, and others. If the federal government operations were to experience issues in reaching budgetary consensus in the future resulting in mandatory furloughs and/or other budget constraints, our business and results of operations could be materially negatively impacted.

The airline industry is required to comply with various environmental laws and regulations, which could inhibit our ability to operate and could also have an adverse effect on our results of operations.

Many aspects of airlines' operations are subject to increasingly stringent federal, state, local, and foreign laws protecting the environment. U.S. federal laws that have a particular impact on us include the Airport Noise and Capacity Act of 1990, the Clean Air Act, the Resource Conservation and Recovery Act, the Clean Water Act, the Safe Drinking Water Act, the Comprehensive Environmental Response Act and the Compensation and Liability Act. Compliance with these and other environmental laws and regulations can require significant expenditures, and violations can lead to significant fines and penalties. Governments globally are increasingly focusing on the environmental impact caused by the consumption of fossil fuels and as a result have proposed or enacted legislation which may increase the cost of providing airline service or restrict its provision. We expect the focus on environmental matters to increase.

Concern about climate change and greenhouse gases may result in additional regulation of aircraft emissions in the U.S. and abroad. In addition, other legislative or regulatory action to regulate greenhouse gas emissions is possible. At this time, we cannot predict whether any such legislation or regulation would apportion costs between one or more jurisdictions in which we operate flights. We are monitoring and evaluating the potential impact of such legislative and regulatory developments.

In addition to direct costs, such regulation may have a greater effect on the airline industry through increases in fuel costs. The impact to us and our industry from such actions is likely to be adverse and could be significant, particularly if regulators were to conclude that emissions from commercial aircraft cause significant harm to the atmosphere or have a greater impact on climate change than other industries.

Our operations may be adversely affected by our expansion into non-U.S. jurisdictions and the related laws and regulations to which we are subject.

The expansion of our operations into non-U.S. jurisdictions has expanded the scope of the laws and regulations to which we are subject, both domestically and internationally. Compliance with the laws and regulations of foreign jurisdictions and the restrictions on operations that these laws, regulations or other government actions may impose could significantly increase the cost of airline operations or reduce revenue. For example, a number of our destinations in Asia have been revising their privacy and consumer laws and regulations. Failure to comply with these evolving laws or regulations could result in significant penalties, criminal charges, costs to defend in a foreign jurisdiction, restrictions on operations and reputational damage. In addition, we operate flights on international routes regulated by treaties and related agreements between the U.S. and foreign governments, which are subject to change as they may be amended from time to time. Modifications of these arrangements could result in an inability to obtain or retain take-off or landing slots for our routes, route authorization and necessary facilities. Any limitations, additions or modifications to government treaties, agreements, regulations, laws or policies related to our international routes could have a material adverse impact on our financial position and results of operations.

We may be party to litigation or regulatory action in the normal course of business or otherwise, which could have an adverse effect on our operations and financial results.

From time to time, we are a party to or otherwise involved in legal or regulatory proceedings, claims, government inspections, investigations or other legal matters, both domestically and in foreign jurisdictions. Resolving or defending legal matters can take months or years. The duration of such matters can be unpredictable with many variables that we do not control including adverse party or government responses. Litigation and regulatory proceedings are subject to significant uncertainty and may be expensive, time-consuming and disruptive to our operations. In addition, an adverse resolution of a lawsuit, regulatory matter, investigation or other proceeding could have a material adverse effect on our financial condition and results of operations. We may be required to change or restrict our operations or be subject to injunctive relief, significant compensatory damages, punitive damages, penalties, fines or disgorgement of profits, none of which may be covered by insurance. We may have to pay out settlements that also may not be covered by insurance. There can be no assurance that any of these payments or actions will not be material. In addition, publicity of ongoing legal and regulatory matters may adversely affect our reputation.

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

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

Extended interruptions or disruptions in service could have a material adverse impact on our operations.

Our financial results may be adversely affected by factors outside our control, including, but not limited to, flight cancellations, significant delays in operations, and facility disruptions. Our principal base of operations is in Hawai'i and a significant interruption or disruption in service could have a serious impact on our business and results of operations. Natural disasters, such as hurricanes, earthquakes and tsunamis, may impact the demand for transportation in the markets in which we operate. In 2018, we faced the impacts of two hurricanes within the vicinity of the State of Hawai'i as well as increased volcanic activity on the Big Island of Hawai'i. There may be a lingering impact to demand on Hawai'i tourism and aviation transportation following weather-related events.

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FLEET AND FLEET-RELATED RISKS

We are dependent on a limited number of suppliers for aircraft, aircraft engines and parts.

We are dependent on a limited number of suppliers (e.g. Airbus, Boeing, Rolls Royce, Pratt & Whitney) for aircraft, aircraft engines, and aircraft-related items. As a result, we are vulnerable to any problems associated with the supply of those aircraft and parts and/or operational disruptions, which could result in increased parts and maintenance costs in future years.

Our agreements to purchase Airbus A321neo aircraft and Boeing 787-9 aircraft represent significant future financial commitments and operating costs.

As of December 31, 2018, we had the following firm order commitments and purchase rights for additional aircraft:

Aircraft Type	Firm Orders	Purchase Rights	Expected Delivery Dates
A321neo aircraft	7	3	Between 2019 and 2020
B787-9 aircraft	10	10	Between 2021 and 2025

We have made substantial pre-delivery payments for Airbus and Boeing aircraft under existing purchase agreements and are required to continue these pre-delivery payments as well as make payments for the balance of the purchase price through delivery of each aircraft. These commitments substantially increase our future capital spending requirements and may require us to increase our level of debt in future years. In 2019, we have significant obligations in order to fund our current aircraft orders and we are continuing to evaluate our options to finance these orders via our operating cash flows and debt financing. There can be no assurance that we will be able to obtain such financing on favorable terms, or at all.

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

The success of our business depends on, among other things, the ability to effectively operate a certain number and type of aircraft. As noted above, we have contractual commitments to purchase and integrate additional Airbus aircraft or Boeing aircraft into our fleet. If for any reason we are unable to secure deliveries of the Airbus aircraft or Boeing aircraft on the contractually scheduled delivery dates and successfully introduce these aircraft into our fleet, then our business, operations, and financial performance could be negatively impacted. Delays in scheduled aircraft deliveries or our failure to integrate newly purchased aircraft into our fleet as planned may require us to utilize our existing fleet longer than expected. Such extensions may require us to operate existing aircraft beyond the point at which it is economically optimal to retire them, resulting in increased maintenance costs.

We may never realize the full value of our long-lived assets, resulting in impairment and other related charges that may negatively impact our financial position and results of operations.

Economic and intrinsic triggers, which include extreme fuel price volatility, an uncertain economic and credit environment, unfavorable trends in historical or forecasted results of operations and cash flows, as well as other uncertainties, may cause us to record material impairments of our long-lived assets. We could be subject to impairment charges in the future that could have an adverse effect on our financial position and results of operations in future periods.

COMMON STOCK RISKS

Our share price is subject to fluctuations and stockholders could have difficulty trading shares.

The market price of our stock is influenced by many factors, many of which are outside of our control, and include the following:

- operating results and financial condition;
- changes in the competitive environment in which we operate;
- fuel price volatility including the availability of fuel;

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- announcements concerning our competitors including bankruptcy filings, mergers, restructurings or acquisitions by other airlines;
- increases or changes in government regulation;
- general and industry specific market conditions;
- changes in financial estimates or recommendations by securities analysts; and
- sales of our common stock or other actions by investors with significant shareholdings.

In recent years the stock market has experienced volatile price and volume fluctuations that often have been unrelated to the operating performance of individual companies. These market fluctuations, as well as general economic conditions, may affect the price of our common stock.

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

Certain provisions of our certificate of incorporation and bylaws may delay or prevent a change of control, which could materially adversely affect the price of our common stock.

Our certificate of incorporation and bylaws contain provisions that may make it difficult to remove our Board of Directors and management, and may discourage or delay a change of control, which could materially and adversely affect the price of our common stock. These provisions include, among others:

- the ability of our Board of Directors to issue, without further action by the stockholders, series of undesignated preferred stock, or rights to acquire preferred stock, that could dilute the interest of, or impair the voting power of, holders of our common stock or could also be used as a method of discouraging, delaying or preventing a change of control;
- advance notice procedures for stockholder proposals to be considered at stockholders' meetings and for nominations of candidates for election to our Board of Directors;
- the ability of our Board of Directors to fill vacancies on the board;
- a prohibition against stockholders taking action by written consent;
- a prohibition against stockholders calling special meetings of stockholders; and
- super-majority voting requirements to modify or amend specified provisions of our certificate of incorporation.

Our certificate of incorporation includes a provision limiting voting and ownership by non-U.S. citizens and our bylaws include a provision specifying an exclusive forum for stockholder disputes.

To comply with restrictions imposed by federal law on foreign ownership of U.S. airlines, our certificate of incorporation restricts voting of shares of our common stock by non-U.S. citizens. Our certificate of incorporation provides that the failure of non-U.S. citizens to register their shares on a separate stock record, which we refer to as the "foreign stock record," would result in a suspension of their voting rights in the event that the aggregate foreign ownership of the outstanding common stock exceeds the foreign ownership restrictions imposed by federal law.

Our certificate of incorporation further provides that no shares of our common stock will be registered on the foreign stock record if the amount so registered would exceed the foreign ownership restrictions imposed by federal law. If it is determined that the amount registered in the foreign stock record exceeds the foreign ownership restrictions imposed by federal law, shares will be removed from the foreign stock record in reverse chronological order based on the date of registration therein, until the number of shares registered therein does not exceed the foreign ownership restrictions imposed by federal law. As of December 31, 2018, we believe we were in compliance with the foreign ownership rules.

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Our bylaws provide that, unless we consent in writing to an alternative forum, the Court of Chancery of the State of Delaware or, if such court lacks jurisdiction, any other state or federal court located in the State of Delaware will be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of us; (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our current or former directors, officers or other employees to us or our stockholders; (iii) any action asserting a claim against us or any of our directors, officers or other employees arising pursuant to any provision of the Delaware General Corporation Law or our certificate of incorporation or bylaws (as each may be amended or restated from time to time); or (iv) any action asserting a claim against us or any of our directors, officers or other employees governed by the internal affairs doctrine. Accordingly, stockholders may be limited in the forum in which they are able to pursue legal actions against us.

We cannot guarantee that we will repurchase our common stock pursuant to our share repurchase program or continue to pay dividends on our common stock.

Our intent to continue to repurchase our shares pursuant to our stock repurchase program and to continue to pay quarterly dividends is subject to capital availability, market and economic conditions, applicable legal requirements, and other relevant factors. The stock repurchase program may be limited, suspended, or discontinued at any time without prior notice.

In 2018, we initiated the quarterly issuance of dividends to our stockholders of record. We cannot provide any assurance that we will continue to declare dividends for any fixed period, and the payment of dividends may be suspended or adjusted at any time at our discretion. We will evaluate, on a quarterly basis, the amount and timing of future dividends based on our operating results, financial condition, capital requirements, and general business conditions.

LIQUIDITY RISKS

See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for further information regarding our liquidity.

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

Our business requires access to capital markets to finance equipment purchases, including aircraft, and to provide liquidity in seasonal or cyclical periods of weaker revenue generation. In particular, we will face specific funding requirements with respect to our obligation under purchase agreements with Airbus and Boeing to acquire new aircraft. We may finance these upcoming aircraft deliveries; however, the unpredictability of global credit market conditions may adversely affect the availability of financing or may result in unfavorable terms and conditions. We can offer no assurance that the financing we need will be available when required or that the economic terms on which it is available will not adversely affect our financial condition. If we cannot obtain financing or we cannot obtain financing on commercially reasonable terms, our business and financial condition may be adversely affected.

Our debt could adversely affect our liquidity and financial condition, and include covenants that impose restrictions on our financial and business operations.

As of December 31, 2018, we had $468 million in outstanding debt. Our debt and related covenants could:

- require us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing the availability of our cash flow for other operational purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- limit, along with the financial and other restrictive covenants in the agreements governing our debt, our ability to borrow additional funds;
- place us at a competitive disadvantage compared to other less leveraged competitors and competitors with debt agreements on more favorable terms than us; and
- adversely affect our ability to secure additional financing in the future on acceptable terms or at all, which would impact our ability to fund our working capital, capital expenditures, acquisitions or other general purpose needs.

These agreements require us to meet certain covenants. If we breach any of these covenants we could be in a default under these facilities, which could cause our outstanding obligations under these facilities to accelerate and become due and payable immediately, and could also cause us to default under our other debt or lease obligations and lead to an acceleration of the

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obligations related to such other debt or lease obligations. The existence of such a default could also preclude us from borrowing funds under our credit facilities.

Our ability to comply with the provisions of financing agreements can be affected by events beyond our control and a default under any such financing agreements if not cured or waived, could have a material adverse effect on us. In the event our debt is accelerated, we may not have sufficient liquidity to repay these obligations or to refinance our debt obligations, resulting in a material adverse effect on our financial condition.

We are required to maintain reserves under our credit card processing agreements which could adversely affect our financial and business operations.

Under our bank-issued credit card processing agreements, certain proceeds from advance ticket sales may be held back to serve as collateral to cover any possible chargebacks or other disputed charges that may occur. These holdbacks, which are included in restricted cash of our consolidated balance sheets, totaled $1.0 million as of December 31, 2017. As of December 31, 2018, there were no holdbacks held with our credit card processors.

In the event of a material adverse change in our business, the holdback could incrementally increase to an amount up to 100% of the applicable credit card activity for all unflown flights, which would also cause an increase in the level of restricted cash. If we are unable to obtain a waiver, or otherwise mitigate the increase in restricted cash, it could adversely affect our liquidity and also cause a covenant violation under other debt or lease obligations and have a material adverse effect on our financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

Aircraft

The table below summarizes our total fleet as of December 31, 2017 and 2018, and anticipated fleet as of December 31, 2019 (based on existing agreements):

Aircraft Type	December 31, 2017			December 31, 2018			December 31, 2019			Seating Capacity (Per Aircraft)	Simple Average Age (In Years)
	Leased (6)	Owned	Total	Leased (6)	Owned	Total	Leased (6)	Owned	Total		
A330-200(1)	11	13	24	12	12	24	12	12	24	278	5.5
A321-200(2)	—	2	2	2	9	11	2	15	17	189	.5
767-300(3)	7	1	8	3	1	4	—	—	—	252 - 264	23.3
717-200	5	15	20	5	15	20	5	15	20	128	16.7
ATR 42-500(4)	—	3	3	—	4	4	—	4	4	48	15.7
ATR 72-200(5)	—	3	3	—	3	3	—	3	3	—	25.4
Total	23	37	60	22	44	66	19	49	68		

(1) In 2018, we entered into a sale leaseback transaction with an independent third party for one A330-200 aircraft under an operating lease for a term of 12 years.

(2) In 2018, we took delivery of nine Airbus A321-200 aircraft. In 2019, we expect to take delivery of an additional six Airbus A321-200 aircraft.

(3) The decrease in leased Boeing 767-300 from 2017 to 2018 is due to the retirement of four aircraft. In the first quarter of 2019, we retired our remaining four aircraft, thereby completing our exit from the Boeing 767-300 fleet.

(4) The ATR 42-500 turboprop aircraft are owned by Airline Contract Maintenance & Equipment, Inc., a wholly-owned subsidiary of the Company. In 2018, we took delivery of one ATR 42-500 turboprop aircraft.

(5) The ATR 72-200 turboprop aircraft are used for our cargo operations.

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(6) Leased aircraft include both aircraft under capital and operating leases. See Note 9 to the consolidated financial statements for further discussion regarding our aircraft leases.

At December 31, 2018, we had firm aircraft orders as detailed below:

Delivery Year	A321neo Aircraft(1)	B787-9 Aircraft(2)	Total
2019	6	—	6
2020	1	—	1
2021	—	2	2
2022	—	3	3
2023	—	1	1
2024	—	3	3
2025	—	1	1
	7	10	17

(1) In 2013, we entered into an agreement for the purchase of 16 new Airbus A321neo aircraft with purchase rights for an additional nine aircraft with scheduled for deliveries from 2017 to 2020. In 2018, we took delivery of seven firm ordered aircraft, bringing our total delivered aircraft to nine. We have seven additional A321neo deliveries scheduled in 2019 and 2020 as reflected above, bringing the total purchased A321neo aircraft to 16. The Airbus A321neo narrow-body aircraft will be used to complement Hawaiian's existing fleet of wide-body aircraft for travel to and from the West Coast on our North America routes.

(2) In February 2018, we exercised our right to terminate our aircraft purchase agreement with Airbus for six Airbus A330-800neo aircraft and the purchase rights for an additional six A330-800neo aircraft. Refer to Note 11 to the consolidated financial statements for discussion of the contract termination charge. In July 2018, we entered into a purchase agreement for the purchase of 10 Boeing 787-9 "Dreamliner" aircraft with purchase rights for an additional 10 aircraft with scheduled deliveries from 2021 to 2025. These fuel efficient, long-range aircraft will complement our existing fleet of wide-body for long-haul Asia/Pacific and North America routes.

See Note 9 to the consolidated financial statements for additional information regarding our aircraft lease agreements.

Ground Facilities

Our principal terminal facilities, cargo facilities and hangar and maintenance facilities are located at the Daniel K. Inouye International Airport (HNL). The majority of the facilities at HNL are leased on a month-to-month basis. We are also charged for the use of terminal facilities at other Neighbor Island airports owned by the State of Hawai'i. Some terminal facilities, including gates and holding rooms, are considered by the State of Hawai'i to be common areas and thus are not exclusively controlled by us. We also utilize other State of Hawai'i facilities, including station managers' offices, Premier Club lounges, and operations support space.

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The table below sets forth the airport locations we utilize pursuant to various agreements as of December 31, 2018:

Name of Airport	Location	
Phoenix Sky Harbor International Airport	Phoenix	Arizona
Long Beach Airport	Long Beach	California
Los Angeles International Airport	Los Angeles	California
Oakland International Airport	Oakland	California
Sacramento International Airport	Sacramento	California
San Diego International Airport	San Diego	California
San Francisco International Airport	San Francisco	California
Norman Y. Mineta San Jose International Airport	San Jose	California
Hilo International Airport	Hilo	Hawai'i
Daniel K. Inouye International Airport	Honolulu	Hawai'i
Kahului Airport	Kahului	Hawai'i
Kapalua Airport	Lahaina	Hawai'i
Ellison Onizuka Kona International Airport	Kailua-Kona	Hawai'i
Lana'i Airport	Lana'i	Hawai'i
Lihu'e Airport	Lihu'e	Hawai'i
Moloka'i Airport	Moloka'i	Hawai'i
McCarran International Airport	Las Vegas	Nevada
John F. Kennedy International Airport	New York	New York
Portland International Airport	Portland	Oregon
Seattle-Tacoma International Airport	Seattle	Washington
Pago Pago International Airport	Pago Pago	American Samoa
Brisbane International Airport	Brisbane	Australia
Sydney International Airport	Sydney	Australia
Haneda International Airport	Tokyo	Japan
Kansai International Airport	Osaka	Japan
Narita International Airport	Tokyo	Japan
New Chitose International Airport	Sapporo	Japan
Auckland Airport	Auckland	New Zealand
Incheon International Airport	Seoul	South Korea
Faa'a International Airport	Papeete	Tahiti

Our corporate headquarters are located in leased premises adjacent to the Daniel K. Inouye International Airport.

ITEM 3. LEGAL PROCEEDINGS.

We are subject to legal proceedings arising in the normal course of our operations. We do not anticipate that the disposition of any currently pending proceeding will have a material effect on our operations, business or financial condition.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

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PART II

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

Our common stock is traded on the NASDAQ Global Select Market under the symbol "HA."

Holders

There were 749 stockholders of record of our common stock as of February 8, 2019, which does not reflect those shares held beneficially or those shares held in "street" name.

Dividends and Other Restrictions

We paid dividends of $24.2 million to shareholders of record during 2018 and $6.3 million during 2017. In February 2019, our Board of Directors declared a quarterly cash dividend of $0.12 per share payable on February 22, 2019 to stockholders of record as of February 8, 2019.

Our dividend payments may change from time to time. We cannot provide assurance that we will continue to declare dividends for any fixed period and payment of dividends may be suspended at any time at our discretion.

United States law prohibits non-U.S. citizens from owning more than 25% of the voting interest of a U.S. air carrier or controlling a U.S. air carrier. Our certificate of incorporation prohibits the ownership or control of more than 25% (to be increased or decreased from time to time, as permitted under the laws of the U.S.) of our issued and outstanding voting capital stock by persons who are not "citizens of the U.S." As of December 31, 2018, we believe we are in compliance with the law as it relates to voting stock held by non-U.S. citizens.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table displays information with respect to our repurchases of shares of our common stock during the three months ended December 31, 2018:

Period	Total number of shares purchased (i)	Average price paid per share (ii)	Total number of shares purchased as part of publicly announced plans or programs (i)	Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions) (i)
October 1, 2018 - October 31, 2018	1,083,195	$ 34.68	1,083,195	
November 1, 2018 - November 30, 2018	179,738	35.26	179,738	
December 1, 2018 - December 31, 2018	158,595	29.65	158,595	
Total	1,421,528		1,421,528	$ 97.5

(i) In November 2017, our Board of Directors approved the repurchase of up to $100.0 million of our outstanding common stock over a two-year period through December 2019 via the open market, established plans or privately negotiated transactions in accordance with all applicable securities laws, rules and regulations, which stock repurchase program was completed in December 2018. In November 2018, our Board of Directors approved the repurchase of up to an additional $100 million of our outstanding common stock through December 2020. The new stock repurchase program is subject to modification or termination at any time.

(ii) Weighted average price paid per share is calculated on a settlement basis and excludes commission.

Stockholder Return Performance Graph

The following graph compares cumulative total stockholder return on our common stock, the S&P 500 Index and the AMEX Airline Index from December 31, 2013 to December 31, 2018. The comparison assumes $100 was invested on December 31, 2013 in our common stock and each of the foregoing indices and assumes reinvestment of dividends before consideration of income taxes.

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

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ITEM 6. SELECTED FINANCIAL DATA.

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

Hawaiian Holdings, Inc.

Selected Financial Data

	Year ended December 31,					
	2018	2017		2016	2015	2014
	(in thousands, except per share data)					
Summary of Operations:[(a)]						
Operating revenue	$2,837,411	$2,675,145		$2,432,413	$2,317,467	$2,314,879
Operating expenses	2,523,043	2,211,107		2,034,926	1,868,837	2,060,922
Operating income	314,368	464,038		397,487	448,630	253,957
Net Income	233,200	330,610		224,120	182,646	68,926
Net Income Per Common Stock Share:						
Basic	$4.63	$6.23	(c)	$4.19	$3.38	$1.29
Diluted	4.62	6.19		4.15	2.98	1.10
Cash dividends declared per common share	0.48	0.12		0.00	0.00	0.00
Balance Sheet Items as of December 31:						
Total assets	$3,196,646	$2,873,821		$2,720,346	$2,489,922	$2,554,112
Long-term debt, less discount, and capital lease obligations, excluding current maturities[(b)]	608,684	511,201		497,908	677,915	870,946

(a) We adopted Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers (ASC 606), and restated the consolidated financial results as of and for the years ended December 31, 2017 and 2016. Results from periods prior to 2016 have not been restated for the adoption of this standard. See Note 1 to the consolidated financial statements for additional information.

(b) In 2018, we entered into two Japanese Yen denominated debt agreements for a total value of $86.5 million to finance a portion of the purchase price of two Airbus A321neo aircraft. Additionally, we took delivery of two A321neo aircraft accounted for as a capital lease. In 2016, we extinguished $140.5 million of existing debt under three secured financing agreements, which were originally scheduled to mature in 2022 and 2023. In 2015, we extinguished $123.9 million of existing debt under four secured financing agreements, which were originally scheduled to mature in 2018, 2023, and 2024. We also repurchased $70.8 million in principal of our convertible notes. In 2014, we received proceeds of $368.4 million in connection with the EETC financing for the purchase of five Airbus A330-200 aircraft. See further discussion at Note 8 to the consolidated financial statements.

(c) We recognized a one-time benefit of $83.0 million, or $1.55 per common stock share, during the year ended December 31, 2017 as a result of the Tax Reform Act enacted in December 2017. During the year ended December 31, 2018, we completed our accounting for the effects of the Tax Act and recorded an additional tax benefit of $9.3 million.

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

Overview

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand the Company and its operations. This discussion and analysis of our financial condition and results of operations contains forward-looking statements that involve risks and uncertainties. We have based these forward-looking statements on our current expectations and projections of future events. However, our actual results could differ materially from those discussed herein as a result of the risks that we face, including but not limited to those risks stated in the "Risk Factors" section of this report. See "Cautionary Note Regarding Forward-Looking Statements" above. In addition, the following discussion should be read in conjunction with the audited consolidated financial statements and the related notes thereto included elsewhere in this report.

Year in Review

2018 Financial Highlights

- Operating income of $314 million compared to $464 million in the prior-year period.
- Pre-tax income of $301 million compared to $391 million in the prior-year period.
- GAAP net income of $233 million or $4.62 per diluted share compared to $331 million or $6.19 per diluted share in the prior year period.
- Adjusted net income of $275 million or $5.44 per diluted share compared to $289 million or $5.41 per share in the prior year period.
- Unrestricted cash and cash equivalents and short-term investments of $501 million compared to $460 million in the prior year period.

See "Non-GAAP Financial Measures" below for our reconciliation of non-GAAP measures.

Outlook

Looking ahead, capacity increases in North America and parts of our International network are expected to increase in the first half of 2019. We expect our capacity to grow between 1.5% to 3.0% in the first quarter of 2019 as compared to the first quarter of 2018. For the first quarter of 2019, we expect the aforementioned increases in capacity will result in operating revenue per available seat mile to decrease between 3.0% to 6.0% as compared to the first quarter of 2018. We also expect that our operating costs per available seat mile will decrease by 3.8% to 7.1% during the first quarter of 2019, while our operating costs per available seat mile excluding fuel will increase by 1.0% to 4.0%.

For 2019, we expect the corporate federal tax rate will result in an all-in book tax rate for us of 25% to 27%.

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Selected Consolidated Statistical Data

Below are the operating statistics we use to measure our operating performance.

	Year ended December 31,		
	2018	2017 (a)	2016 (a)
	(in thousands, except as otherwise indicated)		
Scheduled Operations (b) :			
Revenue passengers flown	11,830	11,498	11,044
Revenue passenger miles (RPM)	17,198,985	16,307,344	15,484,369
Available seat miles (ASM)	20,158,139	18,991,566	18,371,544
Passenger revenue per RPM (Yield)	15.13 ¢	15.25 ¢	14.67 ¢
Passenger load factor (RPM/ASM)	85.3 %	85.9 %	84.3 %
Passenger revenue per ASM (PRASM)	12.91 ¢	13.09 ¢	12.37 ¢
Total Operations (b) :			
Revenue passengers flown	11,840	11,505	11,051
RPM	17,206,703	16,316,739	15,492,509
ASM	20,171,911	19,006,682	18,384,637
Operating revenue per ASM (RASM)	14.07 ¢	14.07 ¢	13.23 ¢
Operating cost per ASM (CASM)	12.51 ¢	11.63 ¢	11.07 ¢
CASM excluding aircraft fuel, loss on sale of aircraft, contract terminations expense, and special items (c)	9.36 ¢	9.19 ¢	8.60 ¢
Aircraft fuel expense per ASM (d)	2.97 ¢	2.32 ¢	1.87 ¢
Revenue block hours operated	208,809	189,881	179,254
Gallons of jet fuel consumed	273,783	259,915	244,118
Average cost per gallon of jet fuel (actual) (d)	$ 2.19	$ 1.69	$ 1.41

(a) Amounts adjusted due to the adoption of ASC 606. See Note 1 to consolidated financial statements for additional information.

(b) Includes the operations of our contract carrier under a capacity purchase agreement. Total Operations includes both scheduled and chartered operations.

(c) Represents adjusted unit costs, a non-GAAP measure. We believe this is a useful measure because it better reflects our controllable costs. See "Non-GAAP Financial Measures" below for our reconciliation of non-GAAP measures.

(d) Includes applicable taxes and fees.

Operating Revenue

Our revenue is derived primarily from transporting passengers on our aircraft. We record passenger revenue when the transportation is provided or upon scheduled flight for tickets expected to expire unused. We measure capacity in terms of available seat miles, which represent the number of seats available for passengers multiplied by the number of miles the seats are flown. Yield, or the average amount one passenger pays to fly one mile, is calculated by dividing passenger revenue by RPMs. We strive to increase passenger revenue primarily by increasing our yield per flight or by filling a higher proportion of available seats, which produces higher operating revenue per available seat mile. Other revenue primarily consists of cargo revenue, incidental services revenue, marketing component related to the sale of frequent flyer miles, contract services and charter services revenue.

Operating revenue was $2.84 billion, $2.68 billion and $2.43 billion for the years ended December 31, 2018, 2017 and 2016, respectively. The increase in operating revenue in 2018 from 2017 was driven primarily by an increase in passenger revenue and is discussed below:

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2018 vs. 2017

Passenger Revenue

Passenger revenue was $2.60 billion and $2.49 billion for the years ended December 31, 2018 and 2017, respectively. Details of these changes are described in the table below:

	Year Ended December 31, 2018 as compared to Year Ended December 31, 2017			
	Change in scheduled passenger revenue (in millions)	Change in Yield	Change in RPM	Change in ASM
Domestic	$58.9	(2.8)%	6.1 %	8.4 %
International	57.0	5.1	4.1	1.9
Total scheduled	$115.9	(0.8)%	5.5 %	6.1 %

Domestic revenue increased by $58.9 million driven by a 2.7% increase in passengers flown on our domestic routes, partially offset by a 1.2% decline in average fares. Unit revenue declines primarily resulted from capacity growth in the region, specifically between Hawai'i and North America, combined with a reduction in travel attributed to weather-related events impacting the State of Hawai'i.

International revenue increased by $57.0 million for the year ended December 31, 2018 as compared to the prior year period driven by a combination of increased passenger counts and average fares, which outpaced capacity growth. In 2017, we completed the upgrade of our first class cabin and extra comfort seating products on our A330 aircraft, which are driving improvements in profitability and unit revenue growth.

During the year we expanded our operations and now have direct routes between Maui, Hawai'i and Portland, Oregon (January 2018), Kona, Hawai'i and Los Angeles, California (March 2018), Lihue, Hawai'i and Los Angeles, California (May 2018), Honolulu, Hawai'i and Long Beach, California (May 2018), Maui, Hawai'i and San Diego, California (June 2018), and Lihue, Hawai'i and Oakland, California (July 2018 - expansion to daily service). In October 2018, we suspended our thrice-weekly nonstop service between Honolulu, Hawai'i and Beijing, China. In September 2018, we announced our new direct route between Honolulu, Hawai'i and Boston, Massachusetts, which will commence in April 2019. During the first quarter of 2019, we will have retired our last Boeing 767-300 aircraft, completing the transition to our A321 aircraft, allowing for optimization of our products and better capacity management.

Other Operating Revenue

Other operating revenue increased by $46.3 million, or 24.6%, in 2018, as compared to 2017, primarily due to an increase in loyalty program revenue of $31.8 million related to brand usage associated with our co-brand credit card partnership with Barclays, which was amended in the first quarter of 2018. Refer to Note 1 in the consolidated financial statements for additional information. Cargo revenue was up $9.0 million as a result of increased freight volumes and the introduction of our inter-island cargo freighter operation in the fourth quarter of 2018.

Operating Expenses

During the year ended December 31, 2018, total operating expense increased $311.9 million or 14.1% to $2.5 billion as compared to the same period in 2017. The largest components of our operating expenses are wages and benefits provided to our

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employees and aircraft fuel (including taxes and delivery). Increases (decreases) in operating expenses are detailed below.

	Changes for the year ended December 31, 2018 as compared to year ended December 31, 2017	
	$ (in thousands)	%
Operating expense:		
Aircraft fuel, including taxes and delivery	$159,161	36.1 %
Wages and benefits	51,722	8.2
Aircraft rent	(11,803)	(8.6)
Maintenance materials and repairs	20,206	9.2
Aircraft and passenger servicing	12,943	8.9
Commissions and other selling	2,565	2.0
Depreciation and amortization	26,589	23.5
Other rentals and landing fees	10,140	8.7
Purchased services	20,864	18.8
Contract terminations expense	35,322	NM
Special items	(23,450)	NM
Other	7,677	5.3
Total	$311,936	14.1 %

Aircraft fuel

The price and availability of aircraft fuel is volatile due to global economic and geopolitical factors that we can neither control nor accurately predict. The increases in aircraft fuel expense are illustrated in the following table:

	Year Ended December 31,		
	2018	2017	% Change
	(in thousands, except per-gallon amounts)		
Aircraft fuel expense, including taxes and delivery	$599,544	$440,383	36.1 %
Fuel gallons consumed	273,783	259,915	5.3 %
Average fuel price per gallon, including taxes and delivery	$2.19	$1.69	29.6 %

The increase in fuel expense from 2017 to 2018 is due to an increase in average fuel price per gallon and increased fuel consumption driven by capacity growth.

We believe economic fuel expense is the best measure of the effect of fuel prices on our business as it most closely approximates the net cash outflow associated with the purchase of fuel for our operations and is consistent with how management manages our business and assesses our operating performance. We define economic fuel expense as GAAP fuel expense plus (gains)/losses realized through actual cash (receipts)/payments received from or paid to hedge counterparties for fuel hedge derivative contracts settled in the period inclusive of costs related to hedging premiums.

Economic fuel expense is calculated as follows:

	Year Ended December 31,		
	2018	2017	% Change
	(in thousands, except per-gallon amounts)		
Aircraft fuel expense, including taxes and delivery	$599,544	$440,383	36.1 %
Realized losses (gains) on settlement of fuel derivative contracts	(25,563)	534	(4,887.1)%
Economic fuel expense	$573,981	$440,917	30.2 %
Fuel gallons consumed	273,783	259,915	5.3 %
Economic fuel costs per gallon	$2.10	$1.70	23.5 %

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See Item 7A, Quantitative and Qualitative Disclosures about Market Risk, for additional discussion of our jet fuel costs and related derivative program.

Wages and benefits

Wages and benefits expense increased by $51.7 million, or 8.2%, in 2018, as compared to 2017, primarily driven by increased overall headcount (up 8.8% in 2018). The higher wages and benefits expenses also reflected an increase in cost incurred for training to prepare for the induction of our A321neo fleet which entered service during 2018.

Maintenance materials and repairs

Maintenance materials and repairs increased $20.2 million, or 9.2%, in 2018, as compared to 2017. On a per ASM basis, maintenance, materials, and repairs expense increased 2.9% as compared to the prior year, primarily due to an increase in the number of airframe and engine maintenance events, higher cost of materials for aging aircraft, and an increase in rates on our power by hour contract.

Aircraft and passenger servicing

Aircraft and passenger servicing expenses increased $12.9 million, or 8.9%, in 2018, as compared to 2017, resulting from higher food and beverage expenses attributed to increased passenger counts (up 2.9% in 2018) and an increase in ground handling services reflective of increased operations in domestic and international markets.

Depreciation and amortization

Depreciation and amortization increased $26.6 million, or 23.5%, in 2018, as compared to 2017 primarily due to additions of new aircraft, aircraft improvements and increases in information technology infrastructure and development projects.

Purchased services

Purchased services expense increased by $20.9 million, or 18.8%, in 2018, as compared to 2017. The increase was primarily attributed to an increase in third party expenses including, outsourced web and IT fees and services associated with our increased cargo operations.

Contract terminations expense

During the year ended December 31, 2018, we terminated two contracts which incurred a total of $35.3 million in expense. The transactions are described below:

In January 2018, we entered into a transaction with a lessor to early terminate three Boeing 767-300 aircraft leases and concurrently entered into a forward sale agreement for the same three Boeing 767-300 aircraft, including two Pratt & Whitney 4060 engines for each aircraft. These aircraft were previously accounted for as operating leases. In order to exit the lease and purchase the aircraft, we agreed to pay a total of $67.1 million (net of all deposits) of which a portion was expensed immediately and recognized as a contract termination fee. The expensed amount represents the total purchase price amount over fair value of the aircraft purchased as of the date of the transaction.

In February 2018, we exercised our right to terminate the aircraft purchase agreement with Airbus for six Airbus A330-800neo aircraft and the purchase rights for an additional six Airbus A330-800neo aircraft. To terminate the purchase agreement, we were obligated to repay Airbus for concessions received relating to a prior firm order, training credits, as well as forfeit the pre-delivery progress payments made towards the flight equipment. We recorded a contract terminations expense to reflect the termination penalty within our consolidated statements of operations.

Nonoperating expense, net

Net nonoperating expense decreased by $60.0 million in 2018, as compared to 2017, primarily as a result of a $35.2 million loss on plan termination and a $10.4 million partial settlement and curtailment loss, which were recorded in Other nonoperating special items in 2017. Additionally, Other components of net periodic benefit costs decreased by approximately $15.9 million during the year ended December 31, 2018, as compared to the same period in 2017, primarily as a result of strategic initiatives and favorable market trends.

Income taxes

Our effective tax rate was 22.6% for 2018, compared with 15.4% for 2017. In December 2017, Congress enacted the Tax Cuts and Jobs Act (Tax Act), which resulted in a reduction of the federal corporate tax rate from 35% to 21% and the re-measurement of our deferred tax assets and liabilities as of December 31, 2017. We recorded a tax benefit of

$83.0 million

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during 2017 to record the impact of the Tax Act. During the year ended December 31, 2018, we completed our accounting for the effects of the Tax Act and recorded an additional tax benefit of $9.3 million, the majority of which related to pension contributions made in 2018 for the 2017 plan year deductible at the higher 2017 tax rate. Refer to Note 10 in the consolidated financial statements for additional discussion.

2017 vs. 2016

Passenger Revenue

Passenger revenue was $2.49 billion and $2.27 billion for the years ended December 31, 2017 and 2016, respectively. Details of these changes are described in the table below:

	Year Ended December 31, 2017 as compared to Year Ended December 31, 2016			
	Change in scheduled passenger revenue (in millions)	Change in Yield	Change in RPM	Change in ASM
Domestic	$86.1	5.3 %	(0.5)%	(2.3)%
International	129.0	6.3	19.2	15.6
Total scheduled	$215.1	4.0 %	5.3 %	3.4 %

Domestic revenue increased $86.1 million on yield improvement of 5.3%. North America routes drove the yield improvement as a result of strong demand and the relatively steady industry capacity environment in 2017, which resulted in higher unit prices.

International revenue increased $129.0 million in 2017, as compared to 2016. A 19.2% increase in RPM along with yield improvement of 6.3% drove the strong revenue performance. The increase in RPM flown is attributed to the expansion of Hawai'i to Japan service in 2016, which was fully realized in 2017 and includes; the expansion of service between Honolulu and Tokyo/Narita (July 2016 start), Kona and Tokyo/Haneda (December 2016 start), and expansion of existing Honolulu and Tokyo/Haneda, Japan service (December 2016 start).

Other Operating Revenue

Other operating revenue increased by $27.6 million, or 17.2%, in 2017, as compared to 2016, due to an increase in cargo revenue of $19.7 million, or 26.7%, attributable to increased freight volumes. The increase was also due to a $2.7 million increase in contract services revenue (e.g. ground handling). Other components within our Other operating revenue line include, but are not limited to, loyalty brand and marketing revenue, and other miscellaneous items.

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Operating Expenses

During the year ended December 31, 2017, total operating expense increased $176.2 million or 8.7% to $2.2 billion as compared to the same period in 2016. The largest components of our operating expenses are wages and benefits provided to our employees and aircraft fuel (including taxes and delivery). Increases (decreases) in operating expenses are detailed below.

	Changes for the year ended December 31, 2017 as compared to year ended December 31, 2016	
	$ (in thousands)	%
Operating expense:		
Aircraft fuel, including taxes and delivery	$96,061	27.9 %
Wages and benefits	97,733	18.3
Aircraft rent	13,199	10.6
Maintenance materials and repairs	(9,491)	(4.1)
Aircraft and passenger servicing	14,954	11.5
Commissions and other selling	3,963	3.2
Depreciation and amortization	5,149	4.8
Other rentals and landing fees	8,676	8.0
Purchased services	14,588	15.2
Special items	(85,692)	(78.5)
Other	17,041	13.4
Total	$176,181	8.7 %

The price and availability of aircraft fuel is volatile due to global economic and geopolitical factors that we can neither control nor accurately predict. The increases in aircraft fuel expense are illustrated in the following table:

	Year Ended December 31, 2017	2016	% Change
	(in thousands, except per-gallon amounts)		
Aircraft fuel expense, including taxes and delivery	$440,383	$344,322	27.9 %
Fuel gallons consumed	259,915	244,118	6.5 %
Average fuel price per gallon, including taxes and delivery	$1.69	$1.41	19.9 %

The increase in fuel expense from 2016 to 2017 is due to an increase in average fuel price per gallon and increased fuel consumption due to added capacity.

Economic fuel expense is calculated as follows:

	Year Ended December 31, 2017	2016	% Change
	(in thousands, except per-gallon amounts)		

Aircraft fuel expense, including taxes and delivery	$440,383	$344,322	27.9 %
Realized losses (gains) on settlement of fuel derivative contracts	534	27,572	(98.1)%
Economic fuel expense	$440,917	$371,894	18.6 %
Fuel gallons consumed	259,915	244,118	6.5 %
Economic fuel costs per gallon	$1.70	$1.52	11.8 %

Wages and benefits

Wages and benefits expense increased by $97.7 million, or 18.3%, in 2017, as compared to 2016, of which approximately $43.4 million was due to the Air Line Pilots Association (ALPA) contract amendment effective April 1, 2017. In addition, employee benefits expenses (including health insurance) increased by $18.4 million for the year. The higher wages and benefits expenses also reflected an increase in the number of flight crew and training to prepare for the induction of our A321neo fleet, in addition

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to an overall increase in employee headcount by approximately 7.4% as compared to December 31, 2016, which includes flight attendants, machinists, and non-contract employees.

Aircraft rent

Aircraft rent increased by $13.2 million, or 10.6%, in 2017, as compared to 2016, due to a sale leaseback transaction for three Boeing 767-300 aircraft in April 2017 and the addition of two leased Boeing 717-200 aircraft in November 2016.

Aircraft and passenger servicing

Aircraft and passenger servicing expenses increased $15.0 million, or 11.5%, in 2017, as compared to 2016, resulting directly from higher passenger counts, specifically a 21.5% increase in international passengers flown which generally have a higher associated food and handling cost per passenger. This increase resulted in an overall increase of $5.4 million in food and beverage costs and $5.6 million in ground handling costs.

Purchased services

Purchased services expense increased by $14.6 million, or 15.2%, in 2017, as compared to 2016, due to an increase of $8.6 million in various third party expenses including: outsourced web and IT fees and outsourced labor resources associated with the maintenance hangar project.

Special items

Special items expense decreased by $85.7 million, or 78.5%, in 2017, as compared to 2016. See Note 11 to the consolidated financial statements for further discussion surrounding both 2017 and 2016 Special items.

Other expenses

Other expenses increased by $17.0 million, or 13.4%, in 2017, as compared to 2016, due to an increase of $3.8 million in hotel and personnel related expenses for our crew members (e.g. meals and entertainment), as well as a $4.1 million increase in other supplies expenses. Other components of our Other expense line item include, but are not limited to, communication costs, professional and technical fees, insurance costs, legal fees, and other miscellaneous expenses.

Nonoperating expense, net

Net nonoperating expense increased by $36.9 million in 2017, as compared to 2016, due to a $35.2 million loss on plan termination and a $10.4 million partial settlement and curtailment loss, which were recorded in Other nonoperating special items in 2017. These expenses were partially offset by an $11.7 million fluctuation in fuel hedge gains during the same period.

In 2016, the Hawaiian Airlines, Inc. Pension Plan for Salaried Employees (the Salaried Plan) was consolidated into the Hawaiian Airlines, Inc. Pension Plan for Employees Represented by the International Association of Machinists (IAM), which established the Hawaiian Airlines, Inc. Salaried & IAM Merged Pension Plan (the Merged Plan). At that time, the net liabilities of the Salaried Plan were transferred to the Merged Plan. In August 2017, we completed the termination of the Merged Plan by transferring the assets and liabilities to a third-party insurance company. The Merged Plan was fully funded and we recognized a one-time Other nonoperating special item expense of $35.2 million as an Other nonoperating special item in our Consolidated Statement of Operations.

In 2017, we recognized a one-time Other nonoperating special item expense of $10.4 million related to the settlement of a portion of our pilots' other post-retirement medical plan liability, pursuant to which the parties agreed to eliminate the post-65 post-retirement medical benefit for all active pilots and to replace the benefit with a health retirement account (HRA) managed by ALPA. This transaction represented a curtailment and partial settlement of the pilots' other post-retirement benefit plan. In August 2017, we made a one-time cash payment of approximately $101.9 million to fund the HRA and settle the post-65 post-retirement medical plan obligation. The cash contributed was distributed to the trust funding the individual health retirement notional accounts of the participants.

Income Tax Expense

Our effective tax rate was 15.4% percent for 2017, compared with 38.0% for 2016. The decrease in rate was driven by a $83.0 million reduction in provision for income taxes related to the Tax Act enacted in December 31, 2017, which resulted in re-measurement of our deferred tax assets and liabilities at the new federal corporate tax rate of 21.0%.

Liquidity and Capital Resources

Our primary sources of liquidity are:

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- Our existing cash and cash equivalents and short-term investments of $500.8 million, and our expected cash from operations;
- Our 21 unencumbered aircraft in our aircraft fleet as of December 31, 2018, that could be financed, if necessary; and
- Our $235.0 million revolving credit facility with no outstanding borrowing. Information about this facility can be found in Note 8 to the consolidated financial statements.

At December 31, 2018, we had $709.8 million of debt and capital lease obligations, including $101.1 million classified as a current liability in the Consolidated Balance Sheets. As of December 31, 2018, our current liabilities exceeded our current assets by approximately $301.0 million. However, approximately $603.7 million of our current liabilities are related to our advanced ticket sales and frequent flyer deferred revenue, both of which largely represent revenue to be recognized for travel within the next 12 months and not actual cash outlays. The deficit in working capital does not have an adverse impact to our cash flows, liquidity, or operations.

Cash Flows

Net cash provided by operating activities was $508.5 million, $331.1 million, and $437.0 million in 2018, 2017, and 2016, respectively. Operating cash flows are primarily derived from providing air transportation to customers. The vast majority of tickets are purchased in advance of when travel is provided, and in some cases, several months before the anticipated travel date. Operating cash outflows are related to the recurring expenses of the airline operations. The operating cash flows for 2018, 2017, and 2016 were impacted primarily by our results of operations, adjusted for non-cash items as well as changes in the Air traffic liability, Accounts receivables and Other asset and liabilities, net. Net cash provided by operating activities is primarily used to finance capital expenditures, including pre-delivery payments for future aircraft deliveries, repayment of debt and capital lease obligations, fund stock repurchases, pay dividends, and provide working capital.

Cash used in investing activities was $316.5 million, $294.7 million, and $154.1 million for 2018, 2017, and 2016, respectively. Investing activities in 2018, 2017, and 2016 included Capital expenditures, primarily related to aircraft and other equipment, and the purchases and sales of short-term investments. During 2018, Capital expenditures were $486.8 million, the majority of which were payments for new A321 aircraft delivered to us. This compared with $341.5 million and $178.8 million in Capital expenditures during 2017 and 2016, respectively. We currently estimate our 2019 capital expenditures will range between approximately $380 million to $430 million. During 2018, our purchases and sales of short-term investments resulted in net cash inflow of $36.6 million. During 2017 and 2016, purchases and sales of short-term investments resulted in net cash outflows of $12.9 million and $7.1 million, respectively. During 2018, we received proceeds of $46.7 million as a result of the sale of three Boeing 767-300 aircraft and $87.0 million as a result of the completion of the sale and subsequent leaseback of an A330-200 aircraft accounted for as an operating lease.

Net cash used in financing activities was $115.4 million, $175.5 million, and $238.5 million for 2018 and 2017, and 2016, respectively. During 2018, we repaid $68.2 million in debt and capital lease obligations, compared with $61.5 million and $214.0 million during 2017 and 2016, respectively. During 2018, we entered into two Japanese Yen denominated notes, totaling $86.5 million, collateralized by the aircraft financed. See Note 8 to the consolidated financial statements for further information. We repurchased $102.5 million of our outstanding common stock through authorized share repurchases during 2018, compared with repurchases of $100.0 million and $13.8 million in 2017 and 2016, respectively. We also paid $24.2 million in dividends to Shareholders during 2018, compared with $6.3 million in 2017. Although we currently intend to continue paying dividends on a quarterly basis for the foreseeable future, our Board of Directors may change the timing, amount, and payment of dividends on the basis of the results of operations, financial condition, cash requirements, future prospects, and other factors deemed relevant by our Board of Directors.

Credit Card Holdbacks

Under our bank-issued credit card processing agreements, certain proceeds from advance ticket sales may be held back to serve as collateral to cover any possible chargebacks or other disputed charges that may occur. These holdbacks, are reported as restricted cash in our Consolidated Balance Sheets. As of December 31, 2018, there were no holdbacks held with our credit card processors.

In the event of a material adverse change in our business, the holdback could increase to an amount up to 100% of the applicable credit card activity for all unflown tickets, which would also result in an increase in the required level of restricted cash. If we are unable to obtain a waiver of, or otherwise mitigate the increase in the restriction of cash, it could have a material adverse impact on our operations.

Pension and Other Postretirement Benefit Plan Funding

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As of December 31, 2018, the excess of the projected benefit obligations over the fair value of plan assets was approximately $186.3 million. We voluntarily contributed $50.0 million, $30.2 million, and $57.8 million to our defined benefit pension plans (excluding one-time settlement payments) and disability plan during 2018, 2017, and 2016, respectively. Future funding requirements for our defined benefit and other postretirement plans are dependent upon many factors such as interest rates, funded status, applicable regulatory requirements, and the level and timing of asset returns. We have made significant contributions (above the minimum required) to our defined benefit pension and disability plans in the past few years. In 2019, our minimum required contribution has been estimated to be approximately $7.8 million.

Stock Repurchase Program and Dividends

During the year ended December 31, 2018, we used $102.5 million to repurchase 2.8 million shares of our common stock, completing our November 2017 repurchase authorization. In November 2018, our Board of Directors approved a new stock repurchase program pursuant to which we may repurchase up to $100 million of our outstanding common stock over a two-year period through December 2020. The stock repurchase program is subject to further modification or termination at any time.

The following table displays information with respect to our stock repurchase programs as of December 31, 2018:

(in thousands, except repurchase price)	Share Repurchase Authorization (in '000s)	Weighted Average Repurchase Price	Planned Completion Date	Authorization Remaining
April 2015 Program	$ 100,000	$ 25.75	April 2017	Completed April 2017
April 2017 Program	100,000	39.85	May 2019	Completed December 2017
November 2017 Program	100,000	36.71	December 2019	Completed December 2018
November 2018 Program	100,000	27.11	December 2020	$97,500

During 2018, we declared and paid cash dividends of $24.2 million. In February 2019, our Board of Directors declared a $0.12 per share payable on February 22, 2019 to stockholders of record as of February 8, 2019.

Off-Balance Sheet Arrangements

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

Contractual Obligations

Our estimated contractual obligations as of December 31, 2018 are summarized in the following table:

Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(in thousands)				
Debt and capital lease obligations, including principal and interest(1)	$882,998	$130,744	$172,412	$168,115	$411,727
Operating leases—aircraft and related equipment(2)	558,584	106,448	164,732	128,133	159,271
Operating leases—non-aircraft	118,888	5,730	11,554	11,905	89,699

Purchase commitments—capital(3)	1,941,180	330,089	465,454	667,849	477,788
Other commitments(4)	487,155	74,621	135,833	111,856	164,845
Projected employee benefit contributions(5)	44,355	3,755	10,800	17,800	12,000
Total contractual obligations	$4,033,160	$651,387	$960,785	$1,105,658	$1,315,330

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(1) Amounts reflect capital lease obligations for one Airbus A330-200 aircraft, two Airbus A321-200 aircraft, two Boeing 717-200 aircraft, one Airbus A330 flight simulator, aircraft and IT related equipment, and the building component of the cargo and maintenance hangar (within the capital commitments section).

(2) Amounts reflect leases for eleven Airbus A330-200 aircraft, three Boeing 767-300 aircraft which end during the first quarter of 2019, and three Boeing 717-200 aircraft as of December 31, 2018.

(3) Amounts include our firm commitments for aircraft and aircraft related equipment. See Note 14 to the consolidated financial statements for a discussion of our purchase commitments.

(4) Amounts include commitments for services provided by third-parties for aircraft maintenance for our fleet, capacity purchases, IT, and reservations. Total contractual obligations do not include long-term contracts where the commitment is variable in nature (with no minimum guarantee), such as aircraft maintenance deposits due under operating leases and fees due under certain other agreements such as aircraft maintenance power-by-the-hour, computer reservation systems and credit card processing agreements, or when the agreements contain short-term cancellation provisions.

(5) Amounts include our estimated contributions to our pension plans (based on actuarially determined estimates) and our pilots' disability plan. Amounts are subject to change based on numerous factors, including interest rate levels, the amount and timing of asset returns and the impact of future legislation. We are currently unable to estimate the projected contributions beyond 2025. See "Critical Accounting Policies" below for a discussion of our current year assumption regarding our employee benefit plans.

Capital Commitments

As of December 31, 2018, we had the following capital commitments consisting of firm aircraft and engine orders and purchase rights:

Aircraft Type	Firm Orders	Purchase Rights	Expected Delivery Dates
A321neo aircraft	7	3	Between 2019 and 2020
B787-9 aircraft	10	10	Between 2021 and 2025
Pratt & Whitney spare engines:			
A321neo spare engines	1	2	In 2019
General Electric GEnx spare engines:			
B787-9 spare engines	2	2	Between 2021 and 2025

Committed expenditures for these aircraft, engines, and related flight equipment are approximately $330 million in 2019, $162 million in 2020, $303 million in 2021, $431 million in 2022, $237 million in 2023, and $478 million thereafter.

In order to complete the purchase of these aircraft and fund related costs, we may need to secure acceptable financing. We have backstop financing available from aircraft and engine manufacturers, subject to certain customary conditions. Financing may be necessary to satisfy our capital commitments for firm order aircraft and other related capital expenditures. We can provide no assurance that any financing not already in place for aircraft and spare engine deliveries will be available to us on acceptable terms when necessary or at all.

Non-GAAP Financial Measures

We believe the disclosure of non-GAAP financial measures is useful information to readers of our financial statements because:

- We believe it is the basis by which we are evaluated by industry analysts and investors;
- These measures are often used in management and board of directors' decision making analysis;
- It improves a reader's ability to compare our results to those of other airlines; and
- It is consistent with how we present information in our quarterly earnings press releases.

See table below for reconciliation between GAAP consolidated net income to adjusted consolidated net income, including per share amounts (in thousands unless otherwise indicated). The adjustments are described below:

- As a result of the Tax Act, we recognized a one-time benefit of $83.0 million in the fourth quarter of 2017 from the estimated impact of the revaluation of deferred tax assets and liabilities. This tax benefit is being excluded from our

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results as a Special item. We excluded the Tax Act effect (on the financial statements) in order to allow investors to better analyze our core results and allow the information to be presented on a comparative basis to the prior year.

- Changes in fair value of derivative contracts, net of tax, are based on market prices for open contracts as of the end of the reporting period. This adjustment includes the unrealized gains and losses on fuel and interest rate derivatives (not designated as hedges) that will settle in future periods and the reversal of prior period unrealized amounts. Excluding the impact of these derivative adjustments allows investors to analyze our core operational performance and compare our results to other airlines in the periods presented below.
- Unrealized loss (gain) on foreign debt is based on fluctuations in foreign exchanges rates related to foreign-denominated debt agreements we executed in 2018. We believe that excluding the impact of these amounts helps investors analyze our operational performance and compare our results to other airlines in the periods presented below.
- Loss on extinguishment of debt, net of tax, is excluded to allow investors to analyze our core operational performance and compare our results to other airlines in the periods presented below.
- Loss (gain) on sale of aircraft is the result of adjustments to the final purchase price for three of our Boeing 767-300 aircraft included in a forward sale agreement we entered into in January 2018 and described below. During the twelve months ended December 31, 2018, we recorded a loss of $0.3 million.

2016 Special Items

- An impairment analysis and ultimate charge was triggered by the decision in the fourth quarter of 2016 to exit our Boeing 767-300 fleet in 2018. We estimated the fair value of the owned Boeing 767-300 fleet assets using third party pricing information and quotes from potential buyers, which resulted in a $49.4 million impairment charge.
- In 2016, we accrued $34.0 million associated with the tentative agreement with ALPA related to past service (prior to January 1, 2017) and also elected to pay a $4.8 million profit sharing bonus payment to other labor groups related to prior period service.
- In connection with the decision to exit the Boeing 767-300 fleet, we negotiated a termination of our Boeing 767-300 maintenance agreement and recorded a $21.0 million charge related to the amount paid to terminate the contract.

2017 Special Items

- In August 2017, we terminated the Hawaiian Airlines, Inc. Salaried & IAM Merged Pension Plan (the Merged Plan) and settled a portion of our pilots' other post-retirement medical plan liability. In connection with the reduction of these liabilities we recorded one-time Other nonoperating special charges of $35.2 million related to the Merged Plan termination and $10.4 million related to the other post-retirement (OPEB) medical plan partial settlement.
- In April 2017, we executed a sale leaseback transaction with an independent third party for three Boeing 767-300 aircraft. The lease terms for the three aircraft commenced in April 2017 and end between November 2018 and January 2019. During the twelve months ended December 31, 2017, we recorded a loss on sale of aircraft of $4.8 million.
- In February 2017, we reached a tentative agreement with ALPA, covering our pilots. In March 2017, we received notice from ALPA that the agreement was ratified by ALPA's members. The agreement became effective April 1, 2017 and has a term of 63 months. The agreement includes, among other various benefits, a pay adjustment and ratification bonus computed based on previous service. During the twelve months ended December 31, 2017, we expensed $18.7 million primarily related to a one-time payment to reduce our future 401K employer contribution for certain pilot groups, which is not recoverable once paid.

2018 Contract Terminations Expense

- During the twelve months ended December 31, 2018, we terminated two contracts which incurred a total of $35.3 million in contract terminations expense. The transactions are described below:

In February 2018, we exercised our right to terminate our aircraft purchase agreement with Airbus for six Airbus A330-800neo aircraft and the purchase rights for an additional six Airbus A330-800neo aircraft. To terminate the purchase agreement, we were obligated to repay Airbus for concessions received relating to a prior firm order, training credits, as well as forfeit the pre-delivery progress payments made towards the flight equipment. We recorded a contract terminations expense to reflect the termination penalty in our consolidated statements of operations.

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In January 2018, we entered into a transaction with our lessor to early terminate and purchase three Boeing 767-300 aircraft leases and concurrently entered into a forward sale agreement for the same three Boeing 767-300 aircraft, including two Pratt & Whitney 4060 engines for each aircraft. These aircraft were previously accounted for as operating leases. In order to exit the lease and purchase the aircraft, we agreed to pay a total of $67.1 million (net of all deposits) of which a portion was expensed immediately and recognized as a contract termination fee. The expensed amount represents the total purchase price amount over fair value of the aircraft purchased as of the date of the transaction.

We believe that excluding such special items helps investors analyze our operational performance and compare our results to other airlines in the periods presented below.

	Year Ended December 31,					
	2018		2017		2016	
	Total	Diluted Per Share	Total	Diluted Per Share	Total	Diluted Per Share
	(in thousands, except for per share data)					
GAAP net income, as reported	$233,200	$4.62	$330,610	$6.19	$224,120	$4.15
Add: impact of tax reform	—	—	(82,978)	(1.55)	—	—
Add: changes in fair value of derivative contracts	19,973	0.39	(3,845)	(0.07)	(47,678)	(0.88)
Add: unrealized loss on foreign debt	380	0.01	—	—	—	—
Add: loss on extinguishment of debt	—	—	—	—	10,473	0.19
Add: loss on sale of aircraft	309	0.01	—	—	—	—
Add: contract terminations expense	35,322	0.70	—	—	—	—
Add: special items						
Operating						
Loss on sale of aircraft	—	—	4,771	0.09	—	—
Collective bargaining charge	—	—	18,679	0.35	38,781	0.72
Impairment charge	—	—	—	—	49,361	0.92
Termination charge	—	—	—	—	21,000	0.39
Nonoperating						
Partial settlement and curtailment loss	—	—	10,384	0.19	—	—
Loss on plan termination	—	—	35,201	0.66	—	—
Tax effect of adjustments	(14,365)	(0.29)	(23,886)	(0.45)	(27,307)	(0.51)
Adjusted net income	$274,819	$5.44	$288,936	$5.41	$268,750	$4.98

Operating Costs per Available Seat Mile (CASM)

We have separately listed in the table below our fuel costs per ASM and non-GAAP unit costs, excluding fuel and special items. These amounts are included in CASM, but for internal purposes we consistently use cost metrics that exclude fuel and special items (if applicable) to measure and monitor its costs.

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CASM and CASM, excluding fuel, loss on sale of aircraft, contract terminations expense, and special items, are summarized in the table below:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands, except for CASM figures)		
GAAP operating expenses	$2,523,043	$2,211,107	$2,034,926
Less: aircraft fuel, including taxes and delivery	(599,544)	(440,383)	(344,322)
Less: contract terminations expense	(35,322)	—	—
Less: loss on sale of aircraft	(309)	—	—
Less: special items			
Loss on sale of aircraft	—	(4,771)	—
Collective bargaining charge	—	(18,679)	(38,781)
Impairment charge	—	—	(49,361)
Termination of Boeing 767-300 engine maintenance contract	—	—	(21,000)
Adjusted operating expenses—excluding aircraft fuel, loss on sale of aircraft, contract terminations expense, and special items	$1,887,868	$1,747,274	$1,581,462
Available Seat Miles	20,171,911	19,006,682	18,384,637
CASM—GAAP	12.51 ¢	11.63 ¢	11.07 ¢
Less: aircraft fuel, including taxes and delivery	(2.97)	(2.32)	(1.87)
Less: contract terminations expense	(0.18)	—	—
Less: loss on sale of aircraft	0.00	—	—
Less: special items			
Loss on sale of aircraft	—	(0.02)	—
Collective bargaining charge	—	(0.10)	(0.21)
Impairment charge	—	—	(0.28)
Termination of Boeing 767-300 engine maintenance contract	—	—	(0.11)
CASM—excluding aircraft fuel, loss on sale of aircraft, contract terminations expense, and special items	9.36 ¢	9.19 ¢	8.60 ¢

Critical Accounting Policies and Estimates

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

Critical accounting policies and estimates are defined as those accounting policies and accounting estimates that are reflective of significant judgments and uncertainties, and that potentially result in materially different results under different assumptions and conditions. Our most critical accounting policies and estimates are described below. See the summary of significant accounting policies included in Note 1 to the consolidated financial statements for additional discussion of the application of these estimates and other accounting policies.

Revenue Recognition

We adopted the new revenue standard (ASC 606) as of January 1, 2018, utilizing the full retrospective option. The adoption of the standard has had a significant impact on our financial statements and our critical accounting policies. See Note 1 to the consolidated financial statements for additional information including quantification of the overall impact of adoption.

Passenger revenue. We record passenger ticket sales and tickets sold by other airlines for use on Hawaiian as passenger revenue when the transportation is provided or upon scheduled flight for tickets expected to expire unused. The value of unused passenger tickets is included in current liabilities as Air Traffic Liability. Non-refundable tickets generally expire 13 months from the date of flight. We record an estimate of breakage revenue on the scheduled flight date for tickets that will expire unused. These estimates are based on the evaluation of actual historical results and forecasted trends. Ticket change fees are recorded in air traffic liability and recognized when the related transportation is provided.

Frequent flyer revenue. HawaiianMiles, Hawaiian's frequent flyer travel award program, provides a variety of awards to program members based on accumulated mileage. ASC 606, Revenue from Contracts with Customers, and created Accounting Standards Codification (ASC 606) requires us to account for miles earned by passengers in the HawaiianMiles program through flight activity as a component of the passenger revenue ticket transaction at the estimated selling price of the miles. Ticket consideration received is allocated between the performance obligations, primarily travel and miles earned by passengers. The allocated value of the miles is deferred until the free travel or other award is used by the passenger, at which time it is included in passenger revenue. The value of the ticket used in the determination of the estimated selling price is based on the historical value of equivalent flights to those provided for loyalty awards and the related miles redeemed to obtain that award adjusted for breakage or fulfillment. The equivalent ticket value (ETV) includes a fulfillment discount (breakage) to reflect the value of the award ticket over the number of miles that, based on historical experience, will be needed to obtain the award. On a quarterly basis, we calculate the ETV by analyzing the fares of similar tickets for the prior 12 months, considering cabin class and geographic region.

We also sell mileage credits to companies participating in our frequent flyer program. These contracts generally include multiple performance obligations, including the transportation that will ultimately be provided when the mileage credits are redeemed and marketing and brand related activities.

During the first quarter of 2018, we amended our partnership with Barclaycard US, Hawaiian's co-branded credit card partner. Management determined that the amendment should be accounted for as a termination of the existing contract and the creation of a new contract under ASC 606 and the relative selling price was determined for each performance obligation of the new agreement. The new agreement continues through 2024 and includes improved economics and enhanced product offerings for our Barclay's co-branded cardholders. The amended agreement did not change, and includes the following performance obligations; (i) transportation that will ultimately be provided when mileage credits are redeemed (transportation), (ii) the Hawaiian Airlines brand and access to its members lists (collectively, brand performance), (iii) marketing, and (iv) airline benefits to cardholders, including discounts and anniversary travel benefits, baggage waivers and inflight purchase credits. We determined the relative fair value of each performance obligation by estimating the selling prices of the deliverables by considering discounted cash flows using multiple inputs and assumptions, including: (1) the expected number of miles to be awarded and redeemed; (2) the estimated weighted average equivalent ticket value, adjusted by a fulfillment discount; (3) the estimated total annual cardholder spend; (4) an estimated royalty rate for the Hawaiian portfolio; and (5) the expected use of each of the airline benefits. The overall consideration received is allocated to the performance obligations based on their relative selling prices.

The transportation performance obligation is deferred and recognized as passenger revenue when the transportation is provided. The value to the financial institution is provided each time a new cardholder chooses the Hawaiian branded credit card and each time a cardholder chooses to use the co-branded credit card. Therefore, we recognize revenue for the brand performance obligation as members use their co-brand credit card and the resulting mileage credits are issued to them, which best correlates with our performance toward satisfying the obligation.

Accounting for frequent flyer revenue involves the use of various techniques to estimate revenue. To determine the total estimated transaction price, we forecast future credit card activity based on historical data. The relative selling price is determined using management's estimated standalone selling price of each performance obligation. The objective of using the estimated selling price based methodology is to determine the price at which we would transact a sale if the product or service were sold on a standalone basis. Accordingly, we determine our best estimate of selling price by considering multiple inputs and methods including, but not limited to, discounted cash flows, brand value, number of miles awarded and number of miles redeemed. We estimate the selling price of miles using an ETV adjusted for a fulfillment discount as described above.

Miles expire after 18 months of member account inactivity. We review our breakage estimates annually based upon the latest available information regarding redemption and expiration patterns (e.g., credit card and non-credit card holders). Our estimate of the expected expiration of miles requires significant management judgment. Current and future changes to expiration assumptions or to the expiration policy, or to program rules and program could affect the estimated value of a mile.

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Pension and Other Postretirement and Postemployment Benefits

The calculation of pension and other postretirement and postemployment benefit expenses and its corresponding liabilities require the use of significant assumptions, including the assumed discount rate, the expected long-term rate of return on plan assets, expected mortality rates of the plan participants, and the expected health care cost trend rate. Changes in these assumptions will impact the expense and liability amounts, and future actual experience may differ from these assumptions.

The significant assumptions as of December 31, 2018 are as follows:

Pension:		
Discount rate to determine projected benefit obligation	4.35%	
Expected return on plan assets	7.33%	^
Postretirement:		
Discount rate to determine projected benefit obligation	4.36%	
Expected return on plan assets	N/A	
Expected health care cost trend rate:		
Initial	6.75%	
Ultimate	4.75%	
Years to reach ultimate trend rate	4	
Disability:		
Discount rate to determine projected benefit obligation	4.39%	
Expected return on plan assets	4.90%	^

N/A Not Applicable

^ Expected return on plan assets used to determine the net periodic benefit expense for 2019 is 6.91% for the pension plans and 4.90% for the disability plan.

The expected long-term rate of return assumption is developed by evaluating input from the trustee managing the plans' assets, including the trustee's review of asset class return expectations by several consultants and economists, as well as long-term inflation assumptions. Our expected long-term rate of return on plan assets is based on a target allocation of assets, which is based on our goal of earning the highest rate of return while maintaining risk at acceptable levels. The Retirement Plan for Pilots of Hawaiian Airlines, Inc. and the Pilot's Voluntary Employee Beneficiary Association Disability and Survivor's Benefit Plan strive to have assets sufficiently diversified so that adverse or unexpected results from any one security class will not have an unduly detrimental impact on the entire portfolio. We believe that our long-term asset allocation on average will approximate the targeted allocation. We periodically review our actual asset allocation and rebalance the pension plan's investments to our targeted allocation when considered appropriate. Pension expense increases as the expected rate of return on plan assets decreases. Lowering the expected long-term rate of return by 100 basis points will have the following effects on our estimated 2019 pension and disability benefit expense recorded in wages and benefits and nonoperating expense:

	100 Basis Point Decrease (in millions)
Increase in estimated 2019 pension expense	$ 3.0
Increase in estimated 2019 disability benefit expense	0.3

We determine the appropriate discount rate for each of our plans based on current rates on high quality corporate bonds that would generate the cash flow necessary to pay plan benefits when due. The pension and other postretirement benefit liabilities and future expense both increase as the discount rate is reduced. Lowering the discount rate by 100 basis points would have the following effects:

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	100 Basis Point Decrease (in millions)
Increase in pension obligation as of December 31, 2018	$ 46.8
Increase in other postretirement benefit obligation as of December 31, 2018	15.0
Decrease in estimated 2019 pension expense (operating and nonoperating)	(0.3)
Increase in estimated 2019 other postretirement benefit expense (operating and nonoperating)	1.2

The health care cost trend rate is based upon an evaluation of our historical trends and experience taking into account current and expected market conditions. Changes in the assumed current health care cost trend rate by year by 100 basis points would have the following annual effects:

	100 Basis Point Increase (in millions)
Increase in other postretirement benefit obligation as of December 31, 2018	$ 8.0
Increase in estimated 2019 other postretirement benefit expense (operating and nonoperating)	1.0

	100 Basis Point Decrease (in millions)
Decrease in other postretirement benefit obligation as of December 31, 2018	$ (6.9)
Increase in estimated 2019 other postretirement benefit expense (operating and nonoperating)	1.2

In 2017, we recognized a one-time Other nonoperating special item expense of $10.4 million related to the settlement of a portion of our pilots' other post-retirement medical plan liability, pursuant to which the parties agreed to eliminate the post-65 post-retirement medical benefit for all active pilots and to replace the benefit with a health retirement account (HRA) managed by ALPA. We evaluated the accounting for the transaction in accordance with ASC 715-60 Compensation-Retirement Benefits - Defined Benefit Plans-Other Postretirement, and determined that it represented a curtailment and partial settlement of the pilots' other post-retirement benefit plan.

Long-Lived Assets

Long-lived assets used in operations, consisting principally of property and equipment. Depreciable life is determined through economic analysis, such as reviewing existing fleet plans, obtaining appraisals and comparing estimated lives to other airlines that operate similar fleets. Residual values are estimated based on historical experience and are based on when the aircraft are acquired and typically reflect asset values that have not reached the end of their physical life. When testing for impairment management considers market trends, the expected useful lives of the assets, changes in economic conditions, recent transactions involving sales of similar assets and, if necessary, estimates of future undiscounted cash flows. To determine whether impairment exists for aircraft used in operations, assets are grouped at the fleet-type level (the lowest level for which there are identifiable cash flows) and future cash flows are estimated based on projections of capacity, passenger mile yield, fuel costs, labor costs and other relevant factors. If, at any time, management determines the net carrying value of an asset is not recoverable, the amount is reduced to its fair value during the period in which such determination is made. Any changes in the estimated useful lives of these assets will be accounted for prospectively.

The impairment analysis and ultimate charge in 2016 was triggered by the decision in the fourth quarter of 2016 to exit the Boeing 767-300 fleet in 2018. The early exit of the Boeing 767-300 fleet was made possible by our decision to acquire one Airbus A330 (delivered in 2017), lease two additional Airbus A321s (to be delivered in 2018 in addition to our existing aircraft orders), and our ability to early terminate our long-term power-by-the-hour maintenance contract for the Boeing 767-300 fleet. This fleet change allows us to streamline our fleet, simplify our operations, and reduce our cost structure in the future. In order to assess whether there was an impairment of the Boeing 767-300 asset group, we compared the projected undiscounted cash flows of the fleet to the book value of the assets and determined the book value was in excess of the undiscounted cash flows. We estimated the fair value of our owned Boeing 767-300 fleet assets using third party pricing information and quotes from potential buyers of our owned aircraft, which resulted in a $49.4 million impairment charge. Our determination of fair value considered attributes specific to our Boeing 767-300 fleet and aircraft condition (e.g. age, maintenance requirements, cycles, etc.). The Boeing 767-300 asset group consisted of both owned and leased (at the time of the assessment) aircraft.

Income Taxes

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The Tax Act, enacted in December 2017, significantly changed existing U.S. tax law and reduces the U.S. federal corporate tax from 35% to 21%. We recognized a one-time benefit of $83.0 million during the year ended December 31, 2017 from the impact of the revaluation of deferred tax assets and liabilities. During the year ended December 31, 2018, we completed our accounting for the effects of the Tax Act and recorded an additional tax benefit of $9.3 million, primarily related to deductions for additional pension contributions made in 2018 for the 2017 Plan year.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are subject to certain market risks, including commodity price risk (i.e. jet fuel prices) and foreign currency risk. We have market-sensitive instruments in the form of financial derivatives used to offset Hawaiian's exposure to jet fuel price increases, and financial hedge instruments used to hedge Hawaiian's exposure to foreign currency exchange risk. The adverse effects of potential changes in these market risks are discussed below.

The sensitivity analyses presented do not consider the effects that such adverse changes may have on overall economic activity nor do they consider additional actions we might undertake to mitigate our exposure to such changes. Actual results may differ.

Aircraft Fuel

Aircraft fuel costs constitute a significant portion of our operating expense. Fuel costs represented 24% of our operating expenses for the year ended December 31, 2018. Approximately 71% of our fuel is based on Singapore jet fuel prices, 26% is based on U.S. West Coast jet fuel prices, and 3% on other jet fuel prices. We periodically enter into derivative financial instruments to manage our exposure to changes in the price of jet fuel. As of December 31, 2018, we hedged approximately 34% of our projected fuel requirements for 2019. As of December 31, 2018, the fair value of these fuel derivative agreements reflected a net asset of $1.6 million that is recorded as prepaid assets in the Consolidated Balance Sheets. Based on gallons expected to be consumed in 2019, for every one cent increase in the cost of a gallon of jet fuel, our annual fuel expense would increase by approximately $2.7 million.

We expect to continue our program of offsetting some of our exposure to future changes in the price of jet fuel with a combination of fixed forward pricing contracts, swaps, puts and other option-based structures.

We continue to believe that our fuel derivative program is an important part of our strategy to reduce our exposure to volatile fuel prices. We expect to continue to enter into these types of contracts prospectively, although significant changes in market conditions could affect our decisions. For more discussion, see Note 6 to our consolidated financial statements.

Interest Rates

We have exposure to market risk associated with changes in interest rates related to our pre-tax earnings and cash flows associated with our interest-bearing cash equivalent accounts and short-term investments. Based on the balances of our cash and cash equivalents, and short-term investments as of December 31, 2018, a change in interest rates is unlikely to have a material impact on our results of operations.

Our variable-rate debt agreements include the Revolving Credit Facility and secured loan agreements, the terms of which are discussed in Note 8 to our consolidated financial statements. At December 31, 2018, we had $720.3 million of fixed-rate debt including capital lease obligations, facility agreements for aircraft purchases, and the outstanding notes related to the aircraft purchase financing. As of December 31, 2018, we have no variable-rate debt. An increase of 100 basis points in average annual interest rates would have decreased the estimated fair value of our fixed-rate long-term debt by $6.9 million at December 31, 2018.

Foreign Currency

We have exposure to market risk associated with changes in foreign currency exchange rates because we generate sales, incur expenses, and have debt denominated and paid in foreign currencies, predominantly in Japanese Yen and to a lesser extent, the Australian Dollar.

To mitigate the exchange rate risk, we transact our international sales and expenditures in the same foreign currency, to the extent practical. Additionally, our Yen denominated debt serves as a natural hedge against the volatility of exchange rates against cash inflows. We also have an established foreign currency derivative program, where we periodically enter into foreign currency forward contracts. At December 31, 2018, the fair value of our foreign currency forwards reflected a net asset of $3.2 million ($2.9 million and $0.3 million recorded in Prepaid expenses and other (short-term) and Long-term prepayments and other (long-term), respectively) in the consolidated balance sheet.

Based on forecasted transactions in foreign currency, a 10% depreciation in the U.S. dollar, relative to the Japanese Yen and Australian Dollar, would result in a decrease in annual net income, net of the impact of foreign currency hedges, of approximately $21.9 million.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

INDEX TO FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Hawaiian Holdings, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Hawaiian Holdings, Inc. (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedules listed in the Index at Item 15(a) (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the PCAOB, the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 13, 2019 expressed an unqualified opinion thereon.

Adoption of ASU No. 2014-09

As discussed in Note 1 to the consolidated financial statements, the Company retrospectively changed its method of accounting for recognizing revenue as a result of the adoption of Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), and the amendments in ASUs 2015-14, 2016-08, 2016-10 and 2016-12 effective January 1, 2016.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ ERNST & YOUNG LLP

We have served as the Company's auditor since 1999.
Honolulu, Hawai'i
February 13, 2019

Hawaiian Holdings, Inc.
Consolidated Statements of Operations
For the Years ended December 31, 2018, 2017 and 2016

	2018	2017 (a)	2016 (a)
	(in thousands, except per share data)		
Operating Revenue:			
Passenger	$2,602,793	$2,486,827	$2,271,687
Other	234,618	188,318	160,726
Total	2,837,411	2,675,145	2,432,413
Operating Expenses:			
Wages and benefits	684,719	632,997	535,264
Aircraft fuel, including taxes and delivery	599,544	440,383	344,322
Aircraft rent	125,961	137,764	124,565
Maintenance materials and repairs	239,759	219,553	229,044
Aircraft and passenger servicing	157,796	144,853	129,899
Commissions and other selling	129,315	126,750	122,787
Depreciation and amortization	139,866	113,277	108,128
Other rentals and landing fees	126,903	116,763	108,087
Purchased services	131,651	110,787	96,199
Contract terminations expense	35,322	—	—
Special items	—	23,450	109,142
Other	152,207	144,530	127,489
Total	2,523,043	2,211,107	2,034,926
Operating Income	314,368	464,038	397,487
Nonoperating Income (Expense):			
Other nonoperating special items	—	(45,585)	—
Interest expense and amortization of debt discounts and issuance costs	(33,001)	(30,901)	(36,612)
Interest income	9,242	6,132	4,007
Capitalized interest	7,887	8,437	2,651
Other components of net periodic benefit cost, excluding settlements	(825)	(16,713)	(20,270)
Gains on fuel derivatives	5,590	3,312	20,106
Loss on extinguishment of debt	—	—	(10,473)
Other, net	(2,103)	2,101	4,323
Total	(13,210)	(73,217)	(36,268)
Income Before Income Taxes	301,158	390,821	361,219
Income tax expense	67,958	60,211	137,099
Net Income	$233,200	$330,610	$224,120
Net Income Per Common Stock Share:			
Basic	$4.63	$6.23	$4.19
Diluted	$4.62	$6.19	$4.15
Weighted Average Number of Common Stock Shares Outstanding:			
Basic	50,338	53,074	53,502
Diluted	50,488	53,413	53,958
Cash Dividends Declared Per Common Share	$0.48	$0.12	$—

(a) Amounts adjusted for the adoption of Accounting Standards Codification (ASC) No. 606, Revenue from Contracts with Customers. See Note 1 to Consolidated Financial Statements for additional information.
See accompanying Notes to Consolidated Financial Statements.

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Hawaiian Holdings, Inc.
Consolidated Statements of Comprehensive Income
For the Years ended December 31, 2018, 2017 and 2016

	Year Ended December 31,		
	2018	2017 (a)	2016 (a)
	(in thousands)		
Net Income	$233,200	$330,610	$224,120
Other Comprehensive Income (Loss), net:			
Net change related to employee benefit plans, net of tax benefit of $2,414 for 2018, net of tax expense of $22,321 for 2017, and tax benefit of $3,588 for 2016	(7,243)	34,249	(6,337)
Net change in derivative instruments, net of tax expense of $586 for 2018, tax benefit of $3,548 for 2017, and tax expense of $1,290 for 2016	1,799	(5,822)	2,111
Net change in available-for-sale investments, net of tax expense of $25 for 2018, tax benefit of $120 for 2017, and tax expense of $6 for 2016	78	(198)	10
Total Other Comprehensive Income (Loss)	(5,366)	28,229	(4,216)
Total Comprehensive Income	$227,834	$358,839	$219,904

(a) Amounts adjusted for the adoption of ASC No. 606, Revenue from Contracts with Customers. See Note 1 to Consolidated Financial Statements for additional information.

See accompanying Notes to Consolidated Financial Statements.

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Hawaiian Holdings, Inc.
Consolidated Balance Sheets
December 31, 2018 and 2017

	2018	2017 (a)
	(in thousands, except share data)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$268,577	$190,953
Restricted cash	—	1,000
Short-term investments	232,241	269,297
Accounts receivable, net	111,834	140,279
Spare parts and supplies, net	33,942	35,361
Prepaid expenses and other	58,573	79,186
Total	705,167	716,076
Property and equipment, net		
Flight equipment	2,307,033	1,848,061
Pre-delivery deposits on flight equipment	119,957	150,652
Other property and equipment	421,582	402,098
	2,848,572	2,400,811
Less accumulated depreciation and amortization	(663,461)	(558,548)
Total	2,185,111	1,842,263
Other Assets:		
Long-term prepayments and other	185,556	193,632
Intangible assets, net	14,149	15,187
Goodwill	106,663	106,663
Total Assets	$3,196,646	$2,873,821
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$143,146	$140,805
Air traffic liability and current frequent flyer deferred revenue	603,736	589,093
Other accrued liabilities	158,154	147,593
Current maturities of long-term debt, less discount, and capital lease obligations	101,097	59,470
Total	1,006,133	936,961
Long-Term Debt and Capital Lease Obligations	608,684	511,201
Other Liabilities and Deferred Credits:		
Accumulated pension and other postretirement benefit obligations	182,620	220,788
Other liabilities and deferred credits	119,826	75,841
Noncurrent frequent flyer deferred revenue	163,619	149,764
Deferred tax liability, net	167,770	134,141
Total	633,835	580,534
Commitments and Contingent Liabilities		
Shareholders' Equity:		
Special preferred stock, $0.01 par value per share, three shares issued and outstanding at December 31, 2018 and 2017	—	—
Common stock, $0.01 par value per share, 48,540,280 and 51,173,453 shares issued and outstanding as of December 31, 2018 and 2017, respectively	485	512
Capital in excess of par value	128,448	126,743
Accumulated income	912,201	793,134

Accumulated other comprehensive loss, net	(93,140)	(75,264)
Total	947,994	845,125
Total Liabilities and Shareholders' Equity	$3,196,646	$2,873,821

(a) Amounts adjusted for the adoption of Accounting Standards Codification (ASC) No. 606, Revenue from Contracts with Customers. See Note 1 to Consolidated Financial Statements for additional information.

See accompanying Notes to Consolidated Financial Statements.

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Hawaiian Holdings, Inc.
Consolidated Statements of Shareholders' Equity
For the Years ended December 31, 2018, 2017 and 2016

	Common Stock(*)	Special Preferred Stock(**)	Capital In Excess of Par Value	Accumulated Income	Accumulated Other Comprehensive Loss	Total
	(in thousands)					
Balance at December 31, 2015	$ 534	$ —	$ 124,091	$ 420,714	$ (99,277)	$ 446,062
Net Income	—	—	—	224,120	—	224,120
Other comprehensive loss	—	—	—	—	(4,216)	(4,216)
Issuance of 412,857 shares of common stock, net of shares withheld for taxes	4	—	(7,589)	—	—	(7,585)
Repurchase and retirement of 379,062 shares common stock	(4)	—	(13,759)	—	—	(13,763)
Share-based compensation expense	—	—	6,005	—	—	6,005
Excess tax benefits from stock issuance	—	—	19,656	—	—	19,656
Reacquisition of equity component of convertible notes	—	—	(1,138)	—	—	(1,138)
Cumulative effect of accounting change (ASC 606), net of tax	—	—	—	(76,074)	—	(76,074)
Balance at December 31, 2016	$ 534	$ —	$ 127,266	$ 568,760	$ (103,493)	593,067
Net Income	—	—	—	330,610	—	330,610
Dividends declared on common stock	—	—	—	(6,261)	—	(6,261)
Other comprehensive income	—	—	—	—	28,229	28,229
Issuance of 247,852 shares of common stock, net of shares withheld for taxes	3	—	(7,535)	—	—	(7,532)
Repurchase and retirement of 2,509,633 shares common stock	(25)	—	—	(99,975)	—	(100,000)
Share-based compensation expense	—	—	7,012	—	—	7,012
Balance at December 31, 2017	$ 512	$ —	$ 126,743	$ 793,134	$ (75,264)	845,125
Net Income	—	—	—	233,200	—	233,200
Dividends declared on common stock	—	—	—	(24,171)	—	(24,171)
Other comprehensive loss	—	—	—	—	(5,366)	(5,366)
Issuance of 182,843 shares of common stock, net of shares withheld for taxes	1	—	(3,645)	—	—	(3,644)
Repurchase and retirement of 2,816,016 shares common stock	(28)	—	—	(102,472)	—	(102,500)
Share-based compensation expense	—	—	5,350	—	—	5,350
Cumulative effect of accounting change (ASU 2018-02)	—	—	—	12,510	(12,510)	—
Balance at December 31, 2018	$ 485	$ —	$ 128,448	$ 912,201	$ (93,140)	$ 947,994

(*) Common Stock—$0.01 par value; 118,000,000 authorized as of December 31, 2018 and 2017.
(**) Special Preferred Stock—$0.01 par value; 2,000,000 shares authorized as of December 31, 2018 and 2017
See accompanying Notes to Consolidated Financial Statements.

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Hawaiian Holdings, Inc.
Consolidated Statements of Cash Flows
For the Years ended December 31, 2018, 2017 and 2016

	2018	2017 (a)	2016 (a)
	(in thousands)		
Cash Flows From Operating Activities:			
Net Income	$233,200	$330,610	$224,120
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of intangible assets	1,038	1,224	2,322
Depreciation and amortization of property and equipment	139,401	112,627	107,041
Deferred income taxes, net	35,433	(1,095)	29,439
Impairment of assets	—	—	49,361
Stock compensation	5,349	7,286	8,424
Loss on termination of lease	(1,201)	—	—
Loss on extinguishment of debt	—	—	10,473
Amortization of debt discounts and issuance costs	4,482	5,252	5,579
Post retirement payments	(56,663)	(153,959)	(60,931)
Pension and postretirement benefit cost	9,350	29,580	34,569
Partial settlement and curtailment loss	—	45,585	—
Change in unrealized (gain) loss on fuel derivative contracts	19,973	(3,845)	(47,678)
Foreign currency debt remeasurement (gain)/loss	380	—	—
Other, net	8,610	11,170	2,172
Changes in operating assets and liabilities:			
Accounts receivable, net	21,132	(40,782)	(18,954)
Spare parts and supplies, net	(4,701)	(21,964)	(5,259)
Prepaid expenses and other current assets	(149)	1,915	(13,138)
Accounts payable	2,926	21,964	12,306
Air traffic liability	7,830	57,474	35,311
Other accrued liabilities	18,329	(24,629)	47,183
Frequent flyer deferred revenue	20,668	28,662	36,290
Other assets and liabilities, net	43,121	(75,940)	(21,586)
Net cash provided by operating activities	508,508	331,135	437,044
Cash Flows From Investing Activities:			
Additions to property and equipment, including pre-delivery deposits	(486,777)	(341,515)	(178,838)
Proceeds from purchase assignment and leaseback transactions	87,000	33,000	31,851
Proceeds from disposition of equipment	46,714	941	16
Purchases of investments	(210,836)	(231,393)	(260,987)
Sales of investments	247,423	244,261	253,855
Net cash used in investing activities	(316,476)	(294,706)	(154,103)
Cash Flows From Financing Activities:			
Long-term borrowings	86,500	—	—
Repayments of long-term debt and capital lease obligations	(68,245)	(61,486)	(214,025)
Dividend payments	(24,171)	(6,261)	—
Repurchases and conversion of convertible notes	—	—	(1,426)
Repurchases of common stock	(102,500)	(100,000)	(13,763)
Debt issuance costs	(3,350)	(188)	(1,653)
Payment for taxes withheld for stock compensation	(3,642)	(7,532)	(7,585)
Net cash used in financing activities	(115,408)	(175,467)	(238,452)
Net increase (decrease) in cash and cash equivalents	76,624	(139,038)	44,489

Cash, cash equivalents, and restricted cash—Beginning of Year	191,953	330,991	286,502
Cash, cash equivalents, and restricted cash—End of Year	$268,577	$191,953	$330,991

(a) Amounts adjusted for the adoption of Accounting Standards Codification (ASC) No. 606, Revenue from Contracts with Customers. See Note 1 to Consolidated Financial Statements for additional information.

See accompanying Notes to Consolidated Financial Statements.

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Hawaiian Holdings, Inc.
Notes to Consolidated Financial Statements
1. Summary of Significant Accounting Policies
Basis of Presentation
Hawaiian Holdings, Inc. (the Company, Holdings, we, us and our) and its direct wholly-owned subsidiary, Hawaiian Airlines, Inc. (Hawaiian), are incorporated in the State of Delaware. The Company's primary asset is its sole ownership of all issued and outstanding shares of common stock of Hawaiian.
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, including its principal subsidiary, Hawaiian, through which the Company conducts substantially all of its operations. All significant inter-company balances and transactions have been eliminated upon consolidation.
The Company reclassified certain prior period amounts to conform to the current period presentation. Unless otherwise noted, all amounts disclosed are stated before consideration of income taxes.
Use of Estimates
The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates.
Cash Equivalents
Cash equivalents consist of short-term, highly liquid investments with an original maturity of three months or less at the date of purchase.
Restricted Cash
Restricted cash consists of cash held as collateral by institutions that process our credit card transactions for advanced ticket sales.
Short Term Investments
Investments with original maturities of greater than three months and remaining maturities of less than one year are classified as short-term investments. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations. All short-term investments, which consists of debt securities, are classified as available-for-sale, and realized gains and losses are recorded using the specific identification method. Changes in market value, excluding other-than-temporary impairments, are reflected in accumulated other comprehensive income (loss).
Spare Parts and Supplies
Spare parts and supplies are valued at average cost, and primarily consist of expendable parts for flight equipment and other supplies. An allowance for obsolescence of expendable parts is provided over the estimated useful lives of the related aircraft and engines for spare parts expected to be on hand at the date the aircraft are retired from service. These allowances are based on management's estimates and are subject to change.
Property, Equipment and Depreciation
Property and equipment are stated at cost and depreciated on a straight-line basis to their estimated residual values over the asset's estimated useful life. Depreciation begins when the asset is placed into service. Aircraft and related parts begin depreciating on the aircraft's first revenue flight.

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

Estimated useful lives and residual values of property and equipment are as follows:

Boeing 717-200 aircraft and engines	7 - 11 years, 7 - 34% residual value
Boeing 767-300 aircraft and engines (1)	Through retirement in 2019
Airbus A330-200 aircraft and engines	25 years, 10% residual value
Airbus A321neo aircraft and engines	25 years, 10% residual value
ATR turboprop aircraft and engines	10 years, 15% residual value
Flight and ground equipment under capital lease	Shorter of lease term or useful life
Major rotable parts	Average lease term or useful life for related aircraft, 10% - 15% residual value
Improvements to leased flight equipment and the cargo maintenance hangar	Shorter of lease term or useful life
Facility leasehold improvements	Shorter of lease term, including assumed lease renewals when renewal is economically compelled at key airports, or useful life
Furniture, fixtures and other equipment	3 - 7 years, no residual value
Capitalized software	3 - 7 years, no residual value

(1) The Company will retire its Boeing 767-300 aircraft and flight equipment in the first quarter of 2019.

Additions and modifications that significantly enhance the operating performance and/or extend the useful lives of property and equipment are capitalized and depreciated over the lesser of the remaining useful life of the asset or the remaining lease term, as applicable. Expenditures that do not improve or extend asset lives are charged to expense as incurred. Pre-delivery deposits are capitalized when paid.

Aircraft under capital leases are recorded at an amount equal to the present value of minimum lease payments utilizing the Company's incremental borrowing rate at lease inception and amortized on a straight-line basis over the lesser of the remaining useful life of the aircraft or the lease term. The amortization is recorded in depreciation and amortization expense on the Consolidated Statement of Operations. Accumulated amortization of aircraft and other capital leases was $90.5 million and $70.9 million as of December 31, 2018 and 2017, respectively.

The Company capitalizes certain costs related to the acquisition and development of computer software and amortizes these costs using the straight-line method over the estimated useful life of the software. The net book value of computer software, which is included in Other property and equipment on the consolidated balance sheets, was $27.9 million and $34.6 million at December 31, 2018 and 2017, respectively. The value of construction in progress, primarily consisting of aircraft in 2018 and aircraft facilities in 2017, which is included in property and equipment on the consolidated balance sheets, was $47.3 million and $135.3 million as of December 31, 2018 and 2017, respectively. Amortization expense related to computer software was $14.6 million, $12.3 million and $9.7 million for the years ended December 31, 2018, 2017, and 2016 respectively.

Aircraft Maintenance and Repair Costs

Maintenance and repair costs for owned and leased flight equipment, including the overhaul of aircraft components, are charged to operating expenses as incurred. Engine overhaul costs covered by power-by-the-hour arrangements are paid and expensed as incurred or expensed on a straight-line basis and are based on the amount of hours flown per contract. Under the terms of these power-by-the-hour agreements, the Company pays a set dollar amount per engine hour flown on a monthly basis and the third-party vendor assumes the obligation to repair the engines at no additional cost, subject to certain specified exclusions. As of December 31, 2018 and 2017, the Company had approximately $95.0 million and $109.3 million, respectively in prepayments to one of its power-by-the-hour vendors, which is recoverable over the next four years.

Additionally, although the Company's aircraft lease agreements specifically provide that it is responsible for maintenance of the leased aircraft, the Company pays maintenance reserves to the aircraft lessors that are applied toward the cost of future maintenance events. These reserves are calculated based on a performance measure, such as flight hours, and are available for reimbursement to the Company upon the completion of the maintenance of the

leased aircraft. However, reimbursements are limited to the available reserves associated with the specific maintenance activity for which the Company requests reimbursement.
Under certain aircraft lease agreements, the lessor is entitled to retain excess amounts on deposit at the expiration of the lease, if any; whereas at the expiration of certain other existing aircraft lease agreements any such excess amounts are returned to the

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Company, provided that it has fulfilled all of its obligations under the lease agreements. The maintenance reserves paid under the lease agreements do not transfer either the obligation to maintain the aircraft or the cost risk associated with the maintenance activities to the aircraft lessor. In addition, the Company maintains the right to select any third-party maintenance provider.

Maintenance reserve payments that are expected to be recovered from lessors are recorded as deposits in the Consolidated Balance Sheets as an asset until it is less than probable that any portion of the deposit is recoverable. In addition, payments of maintenance reserves that are not substantially and contractually related to the maintenance of the leased assets are expensed as incurred. Any costs that are substantially and contractually unrelated to the maintenance of the leased asset are considered to be unrecoverable. In order to properly account for the costs that are related to the maintenance of the leased asset, the Company bifurcates its maintenance reserves into two groups and expenses the proportionate share that is expected to be unrecoverable.

Goodwill and Indefinite-lived Intangible Assets

Goodwill and intangible assets with indefinite lives are not amortized. We apply a fair value-based impairment test to the carrying value of goodwill and indefinite-lived intangible assets on an annual basis and, if certain events or circumstances indicate that an impairment loss may have been incurred, on an interim basis. We assess the value of our goodwill and indefinite-lived assets under either a qualitative or quantitative approach.

Goodwill. When the Company evaluates goodwill for impairment using a quantitative approach, it estimates the fair value of the reporting unit by considering the market capitalization. If the reporting unit's fair value exceeds its carrying value, no further testing is required. If, however, the reporting unit's carrying value exceeds its fair value, the Company then determines the amount of the impairment charge, if any. The Company recognizes an impairment charge if the carrying value of the reporting unit's goodwill exceeds its estimated fair value.

Intangible Assets. The Company assesses its indefinite-lived assets under a qualitative approach. The Company analyzes market factors to determine if events and circumstances have affected the fair value of the indefinite-lived intangible assets. If the Company determines that it is more likely than not that the asset value may be impaired, it then uses the quantitative approach to assess the asset's fair value and the amount of the impairment. The Company performs the quantitative impairment test for indefinite-lived intangible assets by comparing the asset's fair value to its carrying value.

Impairment of Long-Lived Assets and Finite-lived Intangible Assets

Long-lived assets used in operations, consisting principally of property and equipment and finite-lived intangible assets, are tested for impairment when events or changes in circumstances indicate, in management's judgment, that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their carrying amount. When testing for impairment management considers market trends, the expected useful lives of the assets, changes in economic conditions, recent transactions involving sales of similar assets and, if necessary, estimates of future undiscounted cash flows. To determine whether impairment exists for aircraft used in operations, assets are grouped at the fleet-type level (the lowest level for which there are identifiable cash flows) and future cash flows are estimated based on projections of capacity, passenger mile yield, fuel costs, labor costs and other relevant factors. If, at any time, management determines the net carrying value of an asset is not recoverable, the amount is reduced to its fair value during the period in which such determination is made. Any changes in the estimated useful lives of these assets will be accounted for prospectively. In 2016, a $49.4 million impairment charge was recorded as the Company determined that the Boeing 767-300 fleet and related assets were impaired. See Note 11 for further details.

Operating Leases

The Company leases aircraft, engines, airport terminal facilities, office space, and other equipment under operating leases. Some of these lease agreements include escalation clauses and renewal options. For scheduled rent escalation clauses during the lease terms or for rental payments commencing at a date other than the date of initial occupancy, the Company records minimum rental expenses on a straight-line basis over the terms of the leases in the Consolidated Statements of Operations. Rental expense for operating leases totaled $201.1 million, $208.0 million, and $193.0 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Leased Aircraft Return Costs

Costs associated with the return of leased aircraft are accrued when it is probable that a payment will be made and that amount is reasonably estimable, usually no sooner than after the last scheduled maintenance event prior to lease return. Any accrual is

based on the time remaining on the lease, planned aircraft usage, and the provisions included in the lease agreement, although the actual amount due to any lessor upon return will not be known with certainty until lease termination.
As leased aircraft are returned, any payments are charged against the established accrual. The accrual is part of current and long-term liabilities and was not material as of December 31, 2018 and 2017. The expense is included in Aircraft rent in the consolidated statements of operations.

Revenue Recognition

Passenger revenue. The majority of the Company's revenue is derived from transporting passengers on our aircraft. The Company accounts for revenue in accordance with ASC 606, which was adopted on January 1, 2018, using the full retrospective method. See Recently Adopted Accounting Pronouncements section below for further discussion of adoption, including the impact on our previously issued financial statements.

The Company's primary operations are that of its wholly-owned subsidiary, Hawaiian. Principally all operations of Hawaiian either originate and/or end in the State of Hawai'i. The management of such operations is based on a system-wide approach due to the interdependence of Hawaiian's route structure in its various markets. As Hawaiian offers only one significant line of business (i.e., air transportation), management has concluded that it has only one segment. The Company's operating revenues by geographic region (as defined by the Department of Transportation, DOT) are summarized below:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Domestic	$2,071,861	$1,976,971	$1,874,039
Pacific	765,550	698,174	558,374
Total operating revenue	$2,837,411	$2,675,145	$2,432,413

Hawaiian attributes operating revenue by geographic region based on the destination of each flight segment. Hawaiian's tangible assets consist primarily of flight equipment, which are mobile across geographic markets, and, therefore, have not been allocated to specific geographic regions.

Passenger & Other revenue - Generally, the Company's contracts with customers have two principal performance obligations, which are the promise to provide transportation to the passenger and the frequent flyer miles earned on the flight. In addition, the Company often charges additional fees for items such as baggage and in-flight entertainment. Such items are not capable of being distinct from the transportation provided because the customer can only benefit from the services during the flight. The transportation performance obligation, including the redemption of HawaiianMiles awards for flights, is satisfied, and revenue is recognized, as transportation is provided. In some instances, tickets sold by the Company can include a flight segment on another carrier which is referred to as an interline segment. In this situation, the Company acts as an agent for the other carrier and revenue is recognized net of cost in other revenue. Tickets sold by other airlines where the Company provides the transportation are recognized as passenger revenue at the estimated value to be billed to the other airline when travel is provided. Differences between amounts billed and the actual amounts may be rejected and rebilled or written off if the amount recorded was different from the original estimate.

Other operating revenue consists of cargo revenue, ground handling fees, commissions, and fees earned under certain joint marketing agreements with other companies. These amounts are recognized when the service is provided.

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Notes to Consolidated Financial Statements (Continued)

	Year Ended December 31,		
	2018	2017	2016
Passenger Revenue by Type	(in thousands)		
Passenger revenue, excluding frequent flyer	$2,454,811	$2,351,062	$2,146,258
Frequent flyer revenue, transportation component	147,982	135,765	125,429
Passenger Revenue	$2,602,793	$2,486,827	$2,271,687
Other revenue (e.g. cargo and other miscellaneous)	$163,140	$142,172	$115,379
Frequent flyer revenue, marketing and brand component	71,478	46,146	45,347
Other Revenue	$234,618	$188,318	$160,726

For the twelve months ended December 31, 2018, 2017, and 2016, the Company's total revenue was $2.8 billion, $2.7 billion, and $2.4 billion, respectively. As of December 31, 2018 and 2017, the Company's Air traffic liability balance as it relates to passenger tickets (excluding frequent flyer) was $427.8 million and $421.6 million, respectively, which represents future revenue that is expected to be realized over the next 12 months. During the twelve months ended December 31, 2018, 2017, and 2016, the amount of revenue recognized that was included in Air traffic liability as of the beginning of the respective period was $421.0 million, $363.9 million, and $328.7 million, respectively.

Passenger revenue associated with unused tickets, which represent unexercised passenger rights, is recognized in proportion
to the pattern of rights exercised by related passengers (e.g. scheduled departure dates). To calculate the portion to be recognized as revenue in the period, the Company utilizes historical information and applies the trend rate to the current air traffic liability balances for that specific period.

Certain governmental taxes are imposed on the Company's ticket sales through a fee included in ticket prices. The Company collects these fees and remits them to the appropriate government agency. Management has elected (via a practical expedient election) to exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected from a customer, e.g., sales, use, value added, and certain excise taxes. These fees have been presented on a net basis in the accompanying Consolidated Statements of Operations and recorded as a liability until remitted.

Frequent Flyer Revenue. Hawaiian's frequent flyer travel award program provides a variety of awards to program members based on accumulated mileage. ASC 606 requires the Company to account for miles earned by passengers in the HawaiianMiles program through flight activity as a component of the passenger revenue ticket transaction at the estimated selling price of the miles. Ticket consideration received is allocated between the performance obligations, primarily travel and miles earned by passengers. The allocated value of the miles is deferred until the free travel or other award is used by the passenger, at which time it is included in passenger revenue. The value of the ticket used in the determination of the estimated selling price is based on the historical value of equivalent flights to those provided for loyalty awards and the related miles redeemed to obtain that award adjusted for breakage or fulfillment. The equivalent ticket value (ETV) includes a fulfillment discount (breakage) to reflect the value of the award ticket over the number of miles that, based on historical experience, will be needed to obtain the award. On a quarterly basis, the Company calculates the ETV by analyzing the fares of similar tickets for the prior 12 months, considering cabin class and geographic region.

The Company also sells mileage credits to companies participating in our frequent flyer program These contracts generally include multiple performance obligations, including the transportation that will ultimately be provided when the mileage credits are redeemed and marketing and brand related activities. The marketing and brand performance obligations are effectively provided each time a HawaiianMiles member uses the co-branded credit card and monthly access to customer lists and marketing is provided, which corresponds to the timing of when the Company issues or is obligated to issue the mileage credits to the HawaiianMiles member. Therefore, the Company recognizes revenue for the marketing and brand performance obligations when HawaiianMiles members use their co-brand credit card and the resulting mileage credits are issued to them, which best correlates with the Company’s performance in satisfying the obligation.

During the first quarter of 2018, the Company amended its partnership with Barclaycard US, Hawaiian's co-branded credit card partner. Management determined that the amendment should be accounted for as a termination of the existing contract and the creation of a new contract under ASC 606 and the relative selling price was determined for each performance obligation of the new agreement. The new agreement continues through 2024 and includes improved economics and enhanced product offerings

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

for our Barclay's co-branded cardholders. The amended agreement did not change, and includes the following performance obligations; (i) transportation that will ultimately be provided when mileage credits are redeemed (transportation), (ii) the Hawaiian Airlines brand and access to its members lists (collectively, brand performance), (iii) marketing, and (iv) airline benefits to cardholders, including discounts and anniversary travel benefits, baggage waivers and inflight purchase credits. The Company determined the relative fair value of each performance obligation by estimating the selling prices of the deliverables by considering discounted cash flows using multiple inputs and assumptions, including: (1) the expected number of miles to be awarded and redeemed; (2) the estimated weighted average equivalent ticket value, adjusted by a fulfillment discount; (3) the estimated total annual cardholder spend; (4) an estimated royalty rate for the Hawaiian portfolio; and (5) the expected use of each of the airline benefits. The overall consideration received is allocated to the performance obligations based on their relative selling prices.

The transportation performance obligation is deferred and recognized as passenger revenue when the transportation is expected to be provided.

Accounting for mileage sales to co-branded partners involves the use of various techniques to estimate revenue. To determine the total estimated transaction price, the Company forecasts future credit card activity using historical information. The relative selling price is determined using management's standalone estimated selling price of each performance obligation. The objective of using the estimated selling price based methodology is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. Accordingly, the Company determines the best estimate of selling price by considering multiple inputs and methods including, but not limited to, discounted cash flows, brand value, published selling prices, number of miles awarded and number of miles redeemed. The Company estimates the selling price of miles using an ETV adjusted for a fulfillment discount as described above.

The Company's frequent flyer liability is recorded in Air traffic liability (short-term) and Noncurrent frequent flyer deferred revenue in the Company's consolidated balance sheet based on estimated and expected redemption patterns using historical data and analysis. As of December 31, 2018 and 2017, the balances were as follows:

	As of December 31,	
	2018	2017
	(in thousands)	
Air traffic liability (current portion of frequent flyer deferred revenue)	$168,570	$161,757
Noncurrent frequent flyer deferred revenue	163,619	149,764
Total frequent flyer liability	$332,189	$311,521

Miles expire after 18 months of member account inactivity. The Company reviews its breakage estimates annually based upon the latest available information regarding redemption and expiration patterns (e.g., credit card and non-credit card holders). The Company's estimate of the expected expiration of miles requires significant management judgment. Current and future changes to expiration assumptions or to the expiration policy, or to program rules and program could affect the estimated value of a mile.

Accounts Receivable

Accounts receivable primarily consist of amounts due from credit card companies, non-airline partners, and cargo transportation customers. The Company provides an allowance for uncollectible accounts equal to the estimated losses expected to be incurred based on historical chargebacks, write-offs, bankruptcies and other specific analyses. Bad debt expense was not material in any period presented.

Costs to obtain or fulfill a contract

In order for the Company to provide transportation to its customers, the Company incurs fulfillment costs (booking fees, credit card fees, and commission/selling costs), which are deferred until the period in which the flight occurs. As of December 31, 2018 and 2017, the Company's asset balance associated with these costs were $16.3 million and

$16.7 million, respectively. During the twelve months ended December 31, 2018, 2017, and 2016, expenses related to these costs totaled to $96.0 million, $95.5 million, and $94.3 million, respectively. To determine the amount to capitalize and expense at the end of each period, the Company uses historical sales data and estimates the amount associated with unflown tickets.

Pension and Postretirement and Postemployment Benefits

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

The Company accounts for its defined benefit pension and other postretirement and postemployment plans in accordance with ASC 715, Compensation—Retirement Benefits (ASC 715), which requires companies to measure their plans' assets and obligations to determine the funded status at fiscal year-end, reflect the funded status in the statement of financial position as an asset or liability, and recognize changes in the funded status of the plans in comprehensive income during the year in which the changes occur. Pension and other postretirement and postemployment benefit expenses are recognized on an accrual basis over each employee's service periods. Pension expense is generally independent of funding decisions or requirements.
The Company uses the corridor approach in the valuation of its defined benefit pension and other postretirement and postemployment plans. The corridor approach defers all actuarial gains and losses resulting from variances between actual results and actuarial assumptions. These unrecognized actuarial gains and losses are amortized when the net gains and losses exceed 10% of the greater of the market-related value of plan assets or the projected benefit obligation at the beginning of the year. The amount in excess of the corridor is amortized over the expected average remaining service period of active plan participants for the open plans and is amortized over the expected average remaining lifetime of inactive participants for plans whose population is “all or almost all” inactive.
Advertising Costs
Advertising costs are expensed when incurred. Advertising expense was $19.3 million, $16.6 million and $18.3 million for the years ended December 31, 2018, 2017, and 2016, respectively.
Capitalized Interest
Interest is capitalized upon the payment of predelivery deposits for aircraft and engines, and is depreciated over the estimated useful life of the asset from service inception date.
Share-Based Compensation
The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. The fair value of the awards are estimated using the following:
(1) option-pricing models for grants of stock options or (2) fair value at the measurement date (usually the grant date) for awards of stock subject to service and / or performance-based vesting. The resulting cost is recognized as compensation expense over the period of time during which an employee is required to provide services to the Company (the service period) in exchange for the award, the service period generally being the vesting period of the award. The Company's policy is to recognize forfeitures as they occur.
Financial Derivative Instruments
The Company uses derivatives to manage risks associated with certain assets and liabilities arising from the potential adverse impact of fluctuations in global aircraft fuel prices, interest rates and foreign currency exchange rates.
The following table summarizes the accounting treatment of the Company's derivative contracts:

Derivative Type	Accounting Designation	Classification of Realized Gains and Losses	Classification of Unrealized Gains (Losses)	
			Effective Portion	Ineffective Portion
Interest rate contracts	Designated as cash flow hedges	Interest expense and amortization of debt discounts and issuance costs	AOCI	Nonoperating income (expense)
Foreign currency exchange contracts	Designated as cash flow hedges	Passenger revenue	AOCI	Nonoperating income (expense)
Fuel hedge contracts	Not designated as hedges	Gains (losses) on fuel derivatives	Change in fair value is recorded in nonoperating income (expense)	
Foreign currency exchange contracts	Not designated as hedges	Nonoperating income (expense), Other	Change in fair value is recorded in nonoperating income (expense)	

If the Company terminates a derivative designated for hedge accounting under ASC 815, prior to its contractual settlement date, then the cumulative gain or loss recognized in AOCI at the termination date remains in AOCI until the forecasted transaction occurs. In a situation where it becomes probable that a hedged forecasted transaction will not occur, any gains and/or losses that have been recorded to AOCI would be required to be immediately reclassified into earnings. All cash flows associated with purchasing and settling derivatives are classified as operating cash flows in the Consolidated Statements of Cash Flows.

Recently Adopted Accounting Pronouncements

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

In February 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220) Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The standard focuses on a targeted improvement to reclassify stranded tax effects resulting from the Tax Cuts and Jobs Act (the Tax Act) enacted on December 22, 2017 from accumulated other comprehensive income to retained earnings. The Company elected to early adopt the standard in the year ended December 31, 2018 and reclassified tax benefit of $12.5 million from accumulated other comprehensive income to accumulated income in the Consolidated Balance Sheets.

In May 2014, the Financial Accounting Standards Board (FASB) issued ASC 606, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASC 606 replaced most existing revenue recognition guidance in GAAP and is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017.

The Company adopted the standard as of January 1, 2018, utilizing the full retrospective transition method, which required the Company to restate prior reporting periods presented.

The most significant impact of the standard relates to the accounting for the Company's frequent flyer travel award program. This change, as well as other less significant changes, are described below:

- Frequent flyer - The standard requires the Company to account for miles earned by passengers in the HawaiianMiles program through flight activity as a component of the passenger revenue ticket transaction at the estimated selling price of the miles, effectively eliminating the incremental cost accounting previously applied. The allocated value of miles earned through flights and sold to partners is recognized at the time the free travel or other award is redeemed by the passenger. Previously, the transportation element associated with sold miles was deferred and recognized as passenger revenue over the period when the transportation was expected to be provided (23 months).
- Passenger revenue - Prior to the adoption of ASC 606, the Company recorded revenue for unused tickets when the tickets expired. Ticket change fees were previously recognized at the time the fees were assessed. Further, the Company reclassified revenue items such as checked baggage, charter, ticket change and cancellation fees, in flight revenue, and other incidental sales to passenger revenue (from other operating revenue), as these items do not represent distinct performance obligations separate from the transportation provided to the passenger.
- Selling Costs - Prior to ASC 606, the Company recognized the costs associated with credit card and booking fees as they were incurred.

Adoption of the revenue recognition standard impacted our previously reported results as follows:

	Year Ended December 31, 2016		
	As Previously Reported	Adjustments	As Restated
	(in thousands)		
Operating Revenue:			
Passenger	$2,145,742	$ 125,945	$2,271,687
Other	304,838	(144,112)	160,726
Total	$2,450,580	$ (18,167)	$2,432,413
Operating Expenses	2,034,848	78	2,034,926
Operating Income	415,732	(18,245)	397,487
Nonoperating Income (Expense)	(36,268)	—	(36,268)

Income tax expense	144,032	(6,933)	137,099
Net Income	$235,432	$ (11,312)	$224,120
Net Income Per Common Stock Share:			
Basic	$4.40	$ (0.21)	$4.19
Diluted	$4.36	$ (0.21)	$4.15

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

	Year Ended December 31, 2017		
	As Previously Reported	Adjustments	As Restated
	(in thousands)		
Operating Revenue:			
Passenger	$2,362,076	$ 124,751	$2,486,827
Other	333,552	(145,234)	188,318
Total	$2,695,628	$ (20,483)	$2,675,145
Operating Expenses	2,211,856	(749)	2,211,107
Operating Income	483,772	(19,734)	464,038
Nonoperating Income (Expense)	(73,217)	—	(73,217)
Income tax expense	46,514	13,697	60,211
Net Income	$364,041	$ (33,431)	$330,610
Net Income Per Common Stock Share:			
Basic	$6.86	$ (0.63)	$6.23
Diluted	$6.82	$ (0.63)	$6.19

	December 31, 2017		
	As Previously Reported	Adjustments	As Restated
	(in thousands)		
ASSETS			
Prepaid expenses and other	$65,196	$ 13,990	$79,186
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Air traffic liability	545,362	43,731	589,093
Other accrued liabilities	146,283	1,310	147,593
Noncurrent Liabilities:			
Other liabilities and deferred credits	95,636	(19,795)	75,841
Noncurrent frequent flyer deferred revenue	—	149,764	149,764
Deferred tax liability	174,344	(40,203)	134,141
Shareholders' Equity:			
Accumulated income	913,951	(120,817)	793,134

Recently Issued Accounting Pronouncements
In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging, which better aligns a company's risk management activities and financial reporting for hedging relationships and is intended to simplify the hedge accounting requirements. ASU 2017-12 is effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the components and options within ASU 2017-12. The adoption of this standard is not expected to have an impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (codified within ASC 842, Leases). ASC 842 requires a lessee to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases (with the exception of short-term leases) at the lease commencement date and recognize expenses similar to the current ASC

840, Leases. ASC 842 is effective for fiscal years, and interim periods beginning after December 15, 2018, and early adoption is permitted. The Company currently plans to utilize the optional transition method for adoption of ASC 842, which allows entities to continue to apply the legacy guidance in Topic 840, including its disclosure requirements, in the comparative periods presented in the year of adoption. The Company plans to adopt ASU 2016-02 on January 1, 2019, as required.

Under ASU 2016-02, the lease liability will be measured at the present value of remaining lease payments and the right-of-use (ROU) asset will be derived from the calculation of the lease liability, adjusted for any historically recorded amounts under Topic 840 for rent leveling and certain other adjustments (ROU Asset). Lease payments, which are comparable to the minimum lease payments included in the Company's existing lease commitments disclosure, include fixed and in-substance fixed payments, variable payments based on an index or rate, reasonably certain purchase options, termination penalties and probable amounts the lessee will owe under a residual value guarantee. Lease payments exclude variable payments other than those based on an index or rate or any amount allocated to non-lease components (unless the practical expedient is elected on an asset class level to combine components). Variable lease payments will continue to be expensed as incurred.

The Company completed its preliminary evaluation of implementing ASU 2016-02 and believes that the most significant impact on its financial statements will be the consolidated balance sheet impact of recording the ROU Asset and Operating Lease Liability for existing aircraft and engine leases, its Maintenance Hangar lease with the State of Hawaii, and certain real estate leases. As of December 31, 2018, the Company had 17 aircraft and 5 engines under operating lease in its fleet. The net present value of future lease payments for the aforementioned leases range between $550 million and $650 million. The Company also has operating leases related to terminal operations and office space, which are not included in the range provided, because the majority of these leases have variable payments and are not expected to be included in the Operating Lease Liability at adoption. Management does not believe that the impact of adopting ASC 842 will be significant to the consolidated statement of operations and consolidated statements of cash flows.

ASC 842 also eliminates the current build-to-suit lease accounting guidance and is expected to result in derecognition of build-to-suit assets and liabilities that remained on the balance sheet after the end of the construction period and then the application of lease accounting to the agreement. See Note 9 for additional discussion on the Company's build-to-suit project. Management concluded that the lease will be accounted for as an operating lease under ASC 842, which will result in operating lease expense being recognized equally over the lease term, which is a change from the current treatment as a financing, similar to capital lease treatment. The present value of the Operating Lease Liability, including the amount previously recognized as a financing liability of $73.0 million, is included in the range discussed above.

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

2. Accumulated Other Comprehensive Loss
Reclassifications out of accumulated other comprehensive loss by component is as follows:

Details about accumulated other comprehensive loss components	Year ended December 31, 2018	2017	2016	Affected line items in the statement where net income is presented
	(in thousands)			
Derivatives designated as hedging instruments under ASC 815				
Foreign currency derivative (gains) losses, net	$(1,380)	$(2,391)	$196	Passenger revenue
Interest rate derivative losses, net	—	—	944	Interest expense
Total before tax	(1,380)	(2,391)	1,140	
Tax expense (benefit)	339	906	(438)	
Total, net of tax	$(1,041)	$(1,485)	$702	
Amortization of defined benefit pension items				
Actuarial loss	$2,708	$8,792	$7,730	Nonoperating Income (Expense), Other, net
Prior service cost	225	254	227	Nonoperating Income (Expense), Other, net
Partial settlement and curtailment loss	—	10,384	—	Other nonoperating special items
Loss on plan termination	—	35,201	—	Other nonoperating special items
Total before tax	2,933	54,631	7,957	
Tax benefit	(671)	(21,519)	(3,048)	
Total, net of tax	$2,262	$33,112	$4,909	
Short-term investments				
Realized (gain) loss on sales of investments, net	107	(32)	(108)	Nonoperating Income (Expense), Other, net
Total before tax	107	(32)	(108)	
Tax expense	(26)	12	41	
Total, net of tax	81	(20)	(67)	
Total reclassifications for the period	$1,302	$31,607	$5,544	

A rollforward of the amounts included in accumulated other comprehensive loss, net of taxes, is as follows:

Year ended December 31, 2018	Foreign Currency Derivatives	Defined Benefit Pension Items	Short-Term Investments	Total
	(in thousands)			
Beginning balance	$1,249	$(75,953)	$ (560)	$(75,264)
Reclassification of stranded tax effects (a)	269	(12,659)	(120)	(12,510)
Other comprehensive income (loss) before reclassifications, net of tax	2,840	(9,505)	(3)	(6,668)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	(1,041)	2,262	81	1,302
Net current-period other comprehensive income (loss), net of tax	1,799	(7,243)	78	(5,366)
Ending balance	$3,317	$(95,855)	$ (602)	$(93,140)

(a) Amounts represent the reclassification from AOCI to RE of the stranded tax effectives resulting from the enactment of the Tax Act and adoption of ASU 2018-02.

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Hawaiian Holdings, Inc.
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Year ended December 31, 2017	Foreign Currency Derivatives	Defined Benefit Pension Items	Short-Term Investments	Total
	(in thousands)			
Beginning balance	$7,071	$(110,202)	$ (362)	$(103,493)
Other comprehensive income (loss) before reclassifications, net of tax	(4,337)	1,137	(178)	(3,378)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	(1,485)	33,112	(20)	31,607
Net current-period other comprehensive income (loss), net of tax	(5,822)	34,249	(198)	28,229
Ending balance	$1,249	$(75,953)	$ (560)	$(75,264)

3. Earnings Per Share

Basic earnings per share, which excludes dilution, is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period.

Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Antidilutive common stock equivalents excluded from the diluted earnings per share calculation are not material. The following table shows our computation of basic and diluted earnings per share:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands, except for per share data)		
Numerator:			
Net Income	$233,200	$330,610	$224,120
Denominator:			
Weighted average common shares outstanding—Basic	50,338	53,074	53,502
Assumed exercise of stock options and awards	150	339	450
Assumed exercise of convertible note premium	—	—	6
Weighted average common shares outstanding—Diluted	50,488	53,413	53,958
Net Income Per Common Stock Share:			
Basic	$4.63	$6.23	$4.19
Diluted	$4.62	$6.19	$4.15

4. Short-Term Investments

Debt securities that are not classified as cash equivalents are classified as available-for-sale investments and are stated at fair value. Realized gains and losses on sales of investments are reflected in nonoperating income (expense).

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

The following is a summary of short-term investments held as of December 31, 2018 and 2017:

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Corporate debt	$142,748	$ 49	$ (695)	$142,102
U.S. government and agency debt	37,163	3	(59)	37,107
Municipal bonds	9,903	—	(32)	9,871
Other fixed income securities	43,183	2	(24)	43,161
Total short-term investments	$232,997	$ 54	$ (810)	$232,241

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Corporate debt	$165,610	$ 8	$ (535)	$165,083
U.S. government and agency debt	59,054	1	(215)	58,840
Municipal bonds	21,517	—	(104)	21,413
Other fixed income securities	23,973	1	(13)	23,961
Total short-term investments	$270,154	$ 10	$ (867)	$269,297

Contractual maturities of short-term investments as of December 31, 2018 are shown below.

	Under 1 Year	1 to 5 Years	Total
	(in thousands)		
Corporate debt	$69,957	$ 72,145	$142,102
U.S. government and agency debt	28,164	8,943	37,107
Municipal bonds	8,288	1,583	9,871
Other fixed income securities	35,990	7,171	43,161
Total short-term investments	$142,399	$ 89,842	$232,241

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

5. Fair Value Measurements

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

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

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

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

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Hawaiian Holdings, Inc.
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The following tables present information about the Company's financial assets and liabilities measured at fair value on a recurring basis:

	Fair Value Measurements as of December 31, 2018			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Cash equivalents	$121,154	$42,175	$78,979	$ —
Restricted cash	—	—	—	—
Short-term investments	232,241	—	232,241	—
Fuel derivative contracts:	1,572	—	1,572	—
Foreign currency derivatives	4,579	—	4,579	—
Total assets measured at fair value	$359,546	$42,175	$317,371	$ —
Foreign currency derivatives	1,347	—	1,347	—
Total liabilities measured at fair value	$1,347	$—	$1,347	$ —

	Fair Value Measurements as of December 31, 2017			
	Total	Level 1	Level 2	Level 3
	(in thousands)			
Cash equivalents	$62,310	$27,807	$34,503	$ —
Restricted cash	1,000	1,000	—	—
Short-term investments	269,297	—	269,297	—
Fuel derivative contracts:				
Crude oil call options	20,272	—	20,272	—
Jet fuel swaps	336	—	336	—
Foreign currency derivatives	4,300	—	4,300	—
Total assets measured at fair value	$357,515	$28,807	$328,708	$ —
Foreign currency derivatives	1,713	—	1,713	—
Total liabilities measured at fair value	$1,713	$—	$1,713	$ —

Cash equivalents. The Company’s Level 1 cash equivalents consist of money market securities. The carrying amounts approximate fair value because of the short-term maturity of these assets and Level 2 cash equivalents consist of U.S. agency bonds, mutual funds, and commercial paper. These instruments are valued using quoted prices for similar assets in active markets.

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

Short-term investments. Short-term investments include corporate debt, U.S. government and agency debt, municipal bonds, and other fixed income securities. These instruments are valued using quoted prices for similar assets in active markets or other observable inputs.

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

Foreign currency derivatives. The Company’s foreign currency derivatives consist of Japanese Yen and Australian Dollar forward contracts and are valued based primarily on data readily observable in public markets.

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

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

Fair Value of Debt

December 31, 2018					December 31, 2017				
Carrying Amount	Fair Value Total	Level 1	Level 2	Level 3	Carrying Amount	Fair Value Total	Level 1	Level 2	Level 3
(in thousands)					(in thousands)				
$467,760	$461,805	$ —	$ —	$461,805	$433,072	$444,099	$ —	$ —	$444,099

The fair value estimates of the Company's debt were based on the discounted amount of future cash flows using the Company's current incremental rate of borrowing for similar obligations.
The carrying amounts of cash, other receivables, and accounts payable approximate fair value due to the short-term nature of these financial instruments.

6. Financial Derivative Instruments

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

Fuel Risk Management

The Company's operations are inherently dependent upon the price and availability of aircraft fuel. To manage economic risks associated with fluctuations in aircraft fuel prices, the Company periodically enters into derivative financial instruments. The Company uses a combination of derivative contracts to hedge its aircraft fuel expense. As of December 31, 2018, the Company's portfolio comprised of crude oil call options, which were not designated as hedges under ASC Topic 815, Derivatives and Hedging (ASC 815), for hedge accounting treatment. As a result, any changes in fair value of these derivative instruments are adjusted through other nonoperating income (expense) in the period of change.
The following table reflects the amount of realized and unrealized gains and losses recorded as nonoperating income (expense) in the Consolidated Statements of Operations.

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Gains (losses) realized at settlement	$25,563	$(534)	$(27,572)
Prior period unrealized amounts	(11,792)	(7,946)	39,731
Unrealized gains (losses) that will settle in future periods	(8,181)	11,792	7,947
Gains on fuel derivatives recorded as Nonoperating income (expense)	$5,590	$3,312	$20,106

Foreign Currency Exchange Rate Risk Management

The Company is subject to foreign currency exchange rate risk due to revenues and expenses denominated in foreign currencies, with the primary exposures being the Japanese Yen and Australian Dollar. To manage exchange rate risk, the Company executes its international revenue and expense transactions in the same foreign currency to the extent practicable. The Company enters into foreign currency forward contracts to further manage the effects of fluctuating exchange rates. The effective portion of the gain or loss is reported as a component of AOCI and reclassified into earnings in the same period in which the related sales are recognized as passenger revenue. The effective portion of the foreign currency forward contracts represents the change in fair value of the hedge that offsets the change in the fair value of the hedged item. To the extent the change in the fair value of the hedge does not perfectly offset the change in the fair value of the hedged item, the ineffective portion of the hedge is immediately recognized as nonoperating income (expense).
The Company believes that its foreign currency forward contracts will continue to be effective in offsetting changes in cash flow attributable to the hedged risk. The Company expects to reclassify a net gain of approximately $3.9 million

into earnings over the next 12 months from AOCI based on the values at December 31, 2018.

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

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

Derivative positions as of December 31, 2018

	Balance Sheet Location	Notional Amount	Final Maturity Date	Gross fair value of assets	Gross fair value of (liabilities)	Net derivative position
		(in thousands)		(in thousands)		
Derivatives designated as hedges						
Foreign currency derivatives	Prepaid expenses and other	15,933,550 Japanese Yen 48,709 Australian Dollars	December 2019	$3,922	$ (915)	$ 3,007
	Long-term prepayments and other	4,491,350 Japanese Yen 9,419 Australian Dollars	December 2020	633	(292)	341
Derivatives not designated as hedges						
Foreign currency derivatives	Other accrued liabilities	832,900 Japanese Yen 2,785 Australian Dollars	March 2019	24	(140)	(116)
Fuel derivative contracts	Prepaid expenses and other	95,256 gallons	December 2019	1,572	—	1,572

Derivative positions as of December 31, 2017

	Balance Sheet Location	Notional Amount	Final Maturity Date	Gross fair value of assets	Gross fair value of (liabilities)	Net derivative position
		(in thousands)		(in thousands)		
Derivatives designated as hedges						
Foreign currency derivatives	Prepaid expenses and other	16,732,375 Japanese Yen 47,805 Australian Dollars	December 2018	$3,737	$ (1,441)	$ 2,296
	Long-term prepayments and other	4,666,700 Japanese Yen 9,180 Australian Dollars	December 2019	546	(195)	351
Derivatives not designated as hedges						

Foreign currency derivatives	Other accrued liabilities	866,150 Japanese Yen 3,148 Australian Dollars	March 2018	17	(77)	(60)
Fuel derivative contracts	Prepaid expenses and other	94,332 gallons	December 2018	20,608	—	20,608

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

	(Gain) Loss recognized in AOCI on derivatives (effective portion)			(Gain) Loss reclassified from AOCI into income (effective portion)			Gain recognized in nonoperating (income) expense (ineffective portion)		
	Year ended December 31,			Year ended December 31,			Year ended December 31,		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
	(in thousands)								
Foreign currency derivatives	$(3,766)	$6,983	$(3,350)	$(1,380)	$(2,391)	$196	$ —	$ —	$ —
Interest rate derivatives	—	—	923	—	—	944	—	—	—

Risk and Collateral

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

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

The Company's agreements with its counterparties also require the posting of cash collateral in the event the aggregate value of the Company's positions exceeds certain exposure thresholds. The aggregate fair value of the Company's derivative instruments that contain credit-risk related contingent features that are in a net asset position was $4.8 million and a net asset position of $23.2 million as of December 31, 2018 and December 31, 2017, respectively.

ASC 815 requires a reporting entity to elect a policy of whether to offset rights to reclaim cash collateral or obligations to return cash collateral against derivative assets and liabilities executed with the same counterparty under a master netting agreement, or present such amounts on a gross basis. The Company's accounting policy is to present its derivative assets and liabilities on a net basis, including any collateral posted with the counterparty. The Company had no collateral posted with its counterparties as of December 31, 2018 and December 31, 2017.

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

7. Intangible Assets

The following tables summarize the gross carrying values of intangible assets less accumulated amortization, and the useful lives assigned to each asset.

	As of December 31, 2018				
	Gross carrying value	Accumulated amortization	Net book value	Approximate useful life (years)	
	(in thousands)				
Favorable aircraft maintenance contracts	$8,740	$ (8,284)	$456	14	(*)
Trade name	13,500	—	13,500	Indefinite	
Other	1,388	(1,195)	193	3	
Total intangible assets	$23,628	$ (9,479)	$14,149		

	As of December 31, 2017				
	Gross carrying value	Accumulated amortization	Net book value	Approximate useful life (years)	
	(in thousands)				
Favorable aircraft maintenance contracts	$8,740	$ (7,708)	$1,032	14	(*)
Trade name	13,500	—	13,500	Indefinite	
Other	1,388	(733)	655	3	
Total intangible assets	$23,628	$ (8,441)	$15,187		

(*) Weighted average is based on the gross carrying values and estimated useful lives as of June 2, 2005 (the date Hawaiian emerged from bankruptcy).

Amortization expense related to the above intangible assets was $1.0 million, $1.2 million, and $2.3 million for the years ended December 31, 2018, 2017, and 2016, respectively. Amortization of the favorable aircraft maintenance contracts are included in maintenance materials and repairs in the accompanying Consolidated Statements of Operations. As of December 31, 2018, the estimated future amortization expense for intangible assets was $0.6 million, which will be recognized in 2019.

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8. Debt

Long-term debt (including capital and financing lease obligations) net of unamortized discounts is outlined as follows:

	2018	2017
	(in thousands)	
Class A EETC, fixed interest rate of 3.9%, semiannual principal and interest payments, remaining balance due at maturity in January 2026(1)	$245,845	$263,864
Class B EETC, fixed interest rate of 4.95%, semiannual principal and interest payments, remaining balance of due at maturity in January 2022(1)	88,608	94,580
Boeing 717-200 Aircraft Facility Agreements, fixed interest rate of 8%, monthly principal and interest payments, remaining balance due at maturity in June 2019(2)	50,376	74,629
Japanese Yen denominated financing, fixed interest rate of 1.05%, quarterly principal and interest payments, remaining balance due at maturity in May 2030	42,116	—
Japanese Yen denominated financing, fixed interest rate of 1.01%, semiannual principal and interest payments, remaining balance due at maturity in June 2030	40,815	—
Capital & Financing lease obligations (see Note 9)	252,517	149,039
Total debt, capital, and financing lease obligations	$720,277	$582,112
Less:		
Unamortized debt discount and debt issuance costs	(10,496)	(11,441)
Current maturities	(101,097)	(59,470)
Long-Term Debt, less discount, Capital, and Financing Lease Obligations	$608,684	$511,201

(1)The equipment notes underlying these EETCs are the direct obligations of Hawaiian.

(2)Aircraft Facility Agreements are secured by aircraft.

Enhanced Equipment Trust Certificates (EETC)

In 2013, Hawaiian consummated an EETC financing, whereby it created two pass-through trusts, each of which issued pass-through certificates. The proceeds of the issuance of the pass-through certificates were used to purchase equipment notes issued by the Company to fund a portion of the purchase price for six Airbus aircraft, all of which were delivered in 2013 and 2014. The equipment notes are secured by a lien on the aircraft, and the payment obligations of Hawaiian under the equipment notes will be fully and unconditionally guaranteed by the Company. The Company issued the equipment notes to the trusts as aircraft were delivered to Hawaiian. Hawaiian received all proceeds from the pass-through trusts by 2014 and recorded the debt obligation upon issuance of the equipment notes rather than upon the initial issuance of the pass-through certificates.

The Company evaluated whether the pass-through trusts formed are variable interest entities ("VIEs") required to be consolidated by the Company under applicable accounting guidance, and determined that the pass-through trusts are VIEs. The Company determined that it does not have a variable interest in the pass-through trusts. Neither the Company nor Hawaiian invested in or obtained a financial interest in the pass-through trusts. Rather, Hawaiian has an obligation to make interest and principal payments on it equipment notes held by the pass-through trusts, which are fully and unconditionally guaranteed by the Company. Neither the Company nor Hawaiian intends to have any voting or non-voting equity interest in the pass-through trusts or to absorb variability from the pass-through trusts. Based on this analysis, the Company determined that it is not required to consolidate the pass-through trusts.

Foreign Denominated Financing

In 2018, the Company entered into two Japanese Yen denominated financings with a total value of approximately $86.5 million (¥9.6 billion), collateralized by the aircraft financed. Each financing is for a term of 12 years with quarterly or semiannual principal and interest payments, respectively, at fixed installment coupon rates of 1.01% and 1.05%, respectively. The fluctuation in foreign exchange rates at each balance sheet date is reflected within the nonoperating income (expense) line item in the Consolidated Statements of Operations. During 2018, the Company recorded foreign currency unrealized losses of $0.4 million.

Debt Extinguishment

In 2018 and 2017, the Company had no debt extinguishment activity. In 2016, Hawaiian extinguished $140.5 million of its existing debt under secured financing agreements, which were originally scheduled to mature in 2022 and 2023. This debt extinguishment resulted in a loss of $10.0 million, which is reflected in nonoperating income (expense) in the Consolidated Statement of Operations.

Revolving Credit Facility

In December 2018, Hawaiian amended and restated the existing credit agreement with Citigroup Global Markets Inc., increasing the secured revolving credit and letter (Revolving Credit Facility) from $225 million to $235 million. This Revolving Credit Facility will mature in December 2022 and has a 12-month renewal option. This was accounted for as a modification of the existing agreement and approximately $0.6 million in unamortized costs will be amortized over the amended term along with additional issuance costs for the renewal of $2.0 million. Hawaiian may, from time to time, grant liens on certain eligible account receivables, aircraft, spare engines, ground support equipment and route authorities, as well as cash and certain cash equivalents, in order to secure its outstanding obligations under the Revolving Credit Facility. Indebtedness under the Revolving Credit Facility will bear interest, at a per annum rate based on, at Hawaiian's option: (1) a variable rate equal to the London interbank offer rate plus a margin of 2.0%; or (2) Alternate base rate (as defined in the Revolving Credit Facility) plus a margin of 1.0%. Hawaiian is also subject to compliance and liquidity covenants under the Revolving Credit Facility. As of December 31, 2018, the Company had no outstanding borrowing under the Revolving Credit Facility.

Schedule of Maturities of Long-Term Debt

As of December 31, 2018, the scheduled maturities of long-term debt are as follows (in thousands):

2019	$81,075
2020	29,597
2021	56,557
2022	63,665
2023	28,466
Thereafter	208,400
	$467,760

9. Leases

As of December 31, 2018, the Company had lease contracts for 22 of its 66 aircraft. Of the 22 lease contracts, 5 aircraft lease contracts were accounted for as capital leases, with the remaining 17 lease contracts accounted for as operating leases. These aircraft leases have remaining lease terms ranging from approximately less than 1 year to 10 years.

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As of December 31, 2018, the scheduled future minimum rental payments under capital leases and operating leases with non-cancellable basic terms of more than one year are as follows:

	Capital & Financing Leases		Operating Leases	
	Aircraft	Other	Aircraft	Other
	(in thousands)			
2019	$24,850	$7,909	$106,448	$5,730
2020	24,850	5,908	90,417	5,709
2021	24,850	4,630	74,315	5,846
2022	24,705	4,870	68,208	5,930
2023	21,370	8,207	59,925	5,975
Thereafter	75,891	111,651	159,271	89,699
	196,516	143,175	$558,584	$118,889
Less amounts representing interest	(35,502)	(51,672)		
Present value of minimum capital & financing lease payments	$161,014	$91,503		

Maintenance Hangar

In November 2016, the Company entered into a lease agreement with the Department of Transportation of the State of Hawai'i to lease a cargo and maintenance hangar at the Daniel K. Inouye International Airport with a lease term of 35 years. As the hangar was not fully constructed, the Company took responsibility of the construction and was responsible for the remainder of the construction costs of $33.3 million. In accordance with the applicable accounting guidance, specifically as it relates to the Company's involvement in the construction of the hangar, the Company was considered the owner of the asset under construction and has recognized an additional $73.0 million asset, with a corresponding lease liability, for the amount previously spent by the lessor.

The Company placed the hangar into service in late 2017. The $73.0 million liability is relieved as the Company makes rental payments under the agreement and the $106.3 million asset (the original $73.0 million plus an additional $33.3 million of asset additions), is depreciated over the lease term.

10. Income Taxes

On December 22, 2017, the Tax Act was enacted into law, which significantly changed existing U.S. tax law and reduced the U.S. federal corporate tax from 35% to 21%. The Company recognized a one-time benefit of $83.0 million during the year ended December 31, 2017 from the impact of the revaluation of deferred tax assets and liabilities. During the year ended December 31, 2018, the Company completed its accounting for the effects of the Tax Act and recorded an additional tax benefit of $9.3 million primarily related to deductions for additional pension contributions made in 2018 for the 2017 Plan year.

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Notes to Consolidated Financial Statements (Continued)

The significant components of income tax expense are as follows:

	Years Ended December 31,		
	2018	2017	2016
	(in thousands)		
Current			
Federal	$23,438	$49,835	