

HAWAIIAN HOLDINGS INC

Form 10-K

February 13, 2018

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

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FORM 10-K

(Mark  
One)

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

For the fiscal year ended December 31, 2017

or

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 (I.R.S. employer  
incorporation or organization) identification no.)

3375 Koapaka Street, Suite G-350 96819

Honolulu, Hawai'i (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  No

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  No

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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.

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

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filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Non-accelerated filer  Accelerated filer  (Do not check if a smaller reporting company)  Smaller reporting company  Emerging growth company

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.

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

The aggregate market value of the voting and non-voting common equity stock held by non-affiliates of the registrant was approximately \$2.5 billion, computed by reference to the closing sale price of the Common Stock on the NASDAQ Global Select Market, on June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter.

As of February 8, 2018, 51,309,717 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 23, 2018 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 of 2018; 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 FAA, 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; our competitive environment, including the potential impact of rising industry capacity between North America and Hawai'i; fluctuations in demand for transportation in the markets in which we operate; maintenance of privacy and security of customer-related information and compliance with applicable federal and foreign privacy or data security regulations or standards; our dependence on technology and automated systems; our reliance on third-party contractors; satisfactory labor relations; our ability to attract and retain qualified personnel and key executives; successful implementation of growth strategy and cost reduction goals; adverse publicity; risks related to the airline industry; our ability to obtain and maintain adequate facilities and infrastructure; seasonal and cyclical volatility; the effect of applicable state, federal and foreign laws and regulations; increases in insurance costs or reductions in coverage; the limited number of suppliers for aircraft, aircraft engines and parts; our existing aircraft purchase agreements; delays in aircraft deliveries or other loss of fleet capacity; fluctuations in our share price; and

our financial liquidity. The risks, uncertainties, and assumptions referred to above that could cause our results to differ materially from the results expressed or implied by such forward-looking statements also include 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 (11) 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 October 2017, the latest data available.

At December 31, 2017, our fleet consisted of 20 Boeing 717-200 aircraft for the Neighbor Island routes, eight Boeing 767-300 aircraft, 24 Airbus A330-200 aircraft, and two Airbus A321-200 for the North America, International, and charter routes. We also own three ATR42 aircraft for the "Ohana by Hawaiian" Neighbor Island service and three ATR71 aircraft for our cargo operations.

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 every year is to grow a profitable airline with a passion for excellence, our customers, our people and the spirit of Hawai'i. In 2018, 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 several years, improving our long term competitive cost structure, and growing our offering of value-added products and services.

Flight Operations

Our flight operations are based in Honolulu, Hawai'i. At December 31, 2017, we operated 233 scheduled flights with: Daily service on our North America routes between the State of Hawai'i and Los Angeles, Oakland, Sacramento, San Diego, San Francisco, and San Jose, California; Las Vegas, Nevada; Phoenix, Arizona; Portland, Oregon; and Seattle, Washington; and scheduled service between the State of Hawai'i 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; Seoul, South Korea; and Beijing, China.

• Various ad hoc charters.

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Our operations and financial results are significantly affected by the availability and price of jet fuel. The following table sets forth statistics about our aircraft fuel consumption and cost.

| Year | Total<br>Gallons<br>consumed<br>(in thousands) | Total<br>cost,<br>including<br>taxes | Average<br>cost<br>per<br>gallon | Percent<br>of<br>operating<br>expenses |
|------|--|--------------------------------------|----------------------------------|--|
| 2017 | 259,915  | \$440,383                            | \$ 1.69                          | 19.9 %                                 |
| 2016 | 244,118  | \$344,322                            | \$ 1.41                          | 16.9 %                                 |
| 2015 | 234,183  | \$417,728                            | \$ 1.78                          | 22.4 %                                 |

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 derivative financial instruments such as heating oil swaps and crude oil call options.

**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, 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](http://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 612,000 in 2017. The number of free travel awards as a percentage of total revenue passengers was approximately 5% in 2017. 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**

In September 2017, we announced our partnership with Japan Airlines, including our intention to establish a joint venture upon anti-trust immunity approval. The first phase of the agreement is expected to be implemented in March 2018, subject to government approval, and would provide passengers convenience and connectivity between Hawai'i and Japan through extensive code sharing, lounge access, and frequent flyer reciprocity. We expect to submit an

application for antitrust immunity as the second step towards a formal joint venture early in the second quarter of 2018.

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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, 2017 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                                     | Yes   | Yes   |
| All Nippon Airways      | Yes                                     | Yes                                    | Yes   | 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 America *        | Yes                                     | Yes                                    | Yes   | No  |
| Virgin Atlantic Airways | Yes                                     | Yes                                    | No  | No  |
| Virgin Australia        | Yes                                     | Yes                                    | No  | Yes   |

\* The code-share and frequent flyer agreement with Virgin America terminated as of December 31, 2017.

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 extremely competitive. We believe that the principal competitive factors in the airline industry are:

• Price;

• Flight frequency and schedule;

• On-time performance and reliability;

• Name recognition;

• Marketing affiliations;

• Frequent flyer benefits;

• Customer service;

• Aircraft type; 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, 2017, we had 6,660 active employees, of which approximately 83% of our employees were covered by labor agreements with the following organized labor groups:

| Employee Group                        | Represented by  | Number of Employees | Agreement amendable on (*) |    |
|---------------------------------------|---|---------------------|----------------------------|----|
| Flight deck crew members              | Air Line Pilots Association (ALPA)                                    | 752                 | July 1, 2022               |    |
| Cabin crew members                    | Association of Flight Attendants (AFA)                                | 1,917               | January 1, 2017            | ** |
| Maintenance and engineering personnel | International Association of Machinists and Aerospace Workers (IAM-M) | 1,042               | January 1, 2021            |    |
| Clerical                              | IAM-C   | 1,803               | January 1, 2021            |    |
| Flight dispatch personnel             | Transport Workers Union (TWU)   | 44                  | August 1, 2021             |    |

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

(\*\*) As of December 31, 2017, 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 elements of 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.

### Business Segment Data

We operate in a single industry segment. All required financial segment information can be found in our consolidated financial statements.

### Information about Geographic Revenue and Foreign Operations

Information concerning revenues by geographic area is set forth in Note 15 to our consolidated financial statements.

### 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





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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. 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, 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 began to increase in 2017 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. 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.

**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 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 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 2017, approximately 75% 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 2017, approximately 53% 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, to increase 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. 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 2017, 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 have increased capacity to Hawai'i either by introducing new routes or increasing the frequency of existing routes from North America to the Neighbor Islands. This additional capacity provided by our competitors has 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 2017, approximately 25% 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

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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. 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](http://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.

We have 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. As part of our cost-control efforts, our reliance on outside vendors has increased and may continue to do so 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 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.

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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.

The airline industry has historically operated on low gross profit margins. 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

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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.

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.

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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.

**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, etc.) 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 which could result in increased parts and maintenance costs in future years.

Our agreements to purchase Airbus A321neo aircraft and A330-800neo aircraft represent significant future financial commitments and operating costs.

As of December 31, 2017, we had the following firm order commitments and purchase rights for aircraft:

| Aircraft Type | Firm | Purchase | Expected Delivery Dates |
|---------------|------|----------|-------------------------|
|---------------|------|----------|-------------------------|

|                      | Orders | Rights |                       |
|----------------------|--------|--------|-----------------------|
| A321neo aircraft     | 14     | 9      | Between 2018 and 2020 |
| A330-800neo aircraft | 6      | 6      | Between 2019 and 2021 |

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We have made substantial pre-delivery payments for Airbus 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 2018, we have significant obligations in order to fund our current aircraft orders and we are currently evaluating our options to finance these orders via our operating cash flows coupled with 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 into our fleet. If for any reason we are unable to secure deliveries of the Airbus 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. For example, we experienced delays of three to four months for the initial three A321neo deliveries, which were initially scheduled to be delivered in the third quarter of 2017. Delays in scheduled aircraft deliveries or our failure to integrate newly purchased Airbus 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;
- 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 the company's stock price. This type of litigation, if filed against us, could result in substantial costs and divert our management's attention and resources. In addition, the future sale of a substantial number of shares of common stock by us or by our existing

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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, 2017, we believe we were in compliance with the foreign ownership rules.

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.





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In October 2017, our Board of Directors commenced our quarterly cash dividend program. In February 2018, we announced that our Board of Directors declared a quarterly cash dividend of \$0.12 per share payable on February 28, 2018, to stockholders of record as of February 14, 2018. 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 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, 2017, we had \$433 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 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 is held back to serve as collateral to cover any possible chargebacks or other disputed charges that may occur. These holdbacks totaled \$1.0 million as of December 31, 2017. In the event of a material adverse change in our business, the holdback could incrementally increase to

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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, 2016, 2017 and anticipated in 2018 (based on existing agreements):

| Aircraft Type | December 31, 2016 |       |       | December 31, 2017 |       |       | December 31, 2018 |       |       | 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                | 12    | 23    | 11                | 13    | 24    | 11                | 13    | 24    | 278 - 294                       | 4.5                           |
| 767-300(2)    | 4                 | 4     | 8     | 7                 | 1     | 8     | 2                 | —     | 2     | 252 - 264                       | 18.8                          |
| 717-200       | 5                 | 15    | 20    | 5                 | 15    | 20    | 5                 | 15    | 20    | 128                             | 15.7                          |
| ATR 42-500(3) | —                 | 3     | 3     | —                 | 3     | 3     | —                 | 4     | 4     | 48                              | 13.5                          |
| ATR 72-200(4) | —                 | 3     | 3     | —                 | 3     | 3     | —                 | 3     | 3     | —                               | 24.4                          |
| A321-200(5)   | —                 | —     | —     | —                 | 2     | 2     | 2                 | 9     | 11    | 189                             | 0.1                           |
| Total         | 20                | 37    | 57    | 23                | 37    | 60    | 20                | 44    | 64    |                                 |                               |

(1) During 2017, we took delivery of and placed into service one Airbus A330-200 aircraft for service on our North America and International routes.

(2) The decrease in the number of owned and leased Boeing 767-300 from 2017 to 2018 is due to the planned retirement of six aircraft.

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

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

(5) In the fourth quarter of 2017, we took delivery of two Airbus A321-200 aircraft (one of which is in revenue service and one of which was received and available for use, but not in revenue service as of December 31, 2017). In 2018, we expect to take delivery of nine Airbus A321-200 (A321neo) aircraft.

(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, 2017, we had firm aircraft orders as detailed below:

| Delivery Year | A321neo Aircraft(1) | A330-800neo Aircraft(2) | Total |
|---------------|---------------------|-------------------------|-------|
| 2018          | 7                   | —                       | 7     |
| 2019          | 6                   | 2                       | 8     |
| 2020          | 1                   | 2                       | 3     |
| 2021          | —                   | 2                       | 2     |
|               | 14                  | 6                       | 20    |

In 2013, we executed a purchase agreement for the purchase of 16 new Airbus A321neo aircraft scheduled for (1) delivery between 2017 and 2020. In 2017, we took delivery of two of the 16 aircraft orders. The Airbus A321neo narrow-body

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aircraft will be used to complement Hawaiian's existing fleet of wide-body aircraft for travel to and from the West Coast on its North America routes.

(2) In 2014, we entered into an amendment (the Purchase Agreement Amendment) to the Airbus A330/A350XWB Purchase Agreement to convert our order for six firm A350XWB-800 aircraft with an additional six purchase rights into an order for six firm A330-800neo aircraft with an additional six purchase rights. The Purchase Agreement Amendment provides for delivery, subject to certain flexibility rights, of six Airbus A330-800neo aircraft starting in 2019. These fuel efficient, long-range aircraft will complement our existing fleet of wide-body, twin aisle aircraft used for long-haul flying on our North America and International routes.

We have purchase rights for an additional nine A321neo aircraft and six A330-800neo aircraft and can utilize these rights subject to production availability. 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 the four major 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, 2017:

| Name of Airport                                 | Location      |                |
|---|---------------|----------------|
| Phoenix Sky Harbor International Airport        | Phoenix       | Arizona        |
| 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        |
| Kona International Airport                      | 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      |
| Beijing Capital International Airport           | Beijing       | China          |
| 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.

## PART II

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

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

|                | Common<br>Stock Prices |         | Cash<br>Dividends<br>Declared<br>(Per<br>Share) |
|----------------|------------------------|---------|---|
|                | High                   | Low     |   |
| 2017           |                        |         |   |
| Fourth Quarter | \$43.40                | \$32.40 | \$ 0.12   |
| Third Quarter  | 48.65                  | 36.20   | —   |
| Second Quarter | 59.45                  | 45.45   | —   |
| First Quarter  | 58.50                  | 46.05   | —   |
| 2016           |                        |         |   |
| Fourth Quarter | \$60.90                | \$44.28 | \$ —  |
| Third Quarter  | 49.87                  | 37.40   | —   |
| Second Quarter | 50.95                  | 34.69   | —   |
| First Quarter  | 48.14                  | 28.40   | —   |

## Holders

There were 788 stockholders of record of our common stock as of February 8, 2018, which does not reflect those shares held beneficially or those shares held in "street" name.

## Dividends and Other Restrictions

In October 2017, we announced that our Board of Directors declared a quarterly cash dividend of \$0.12 per share payable on November 30, 2017, to stockholders of record as of November 17, 2017. The total cash payment for dividends during the year ended December 31, 2017 was \$6.3 million, which was the first dividend payment made by us. In February 2018, we announced that our Board of Directors declared a quarterly cash dividend of \$0.12 per share payable on February 28, 2018, to stockholders of record as of February 14, 2018.

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, 2017, 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, 2017:

| Period | Total<br>number of<br>shares<br>purchased<br>(i) | Average<br>price<br>paid per<br>share<br>(ii) | Total<br>number of<br>shares<br>purchased<br>as part of<br>publicly<br>announced<br>plans or<br>programs<br>(i) | Approximate<br>dollar value<br>of shares<br>that may yet<br>be purchased<br>under the<br>plans or<br>programs (in<br>millions) (i) |
|--------|--|---|---|--|
|--------|--|---|---|--|

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|                                      |           |          |           |        |
|--------------------------------------|-----------|----------|-----------|--------|
| October 1, 2017 - October 31, 2017   | 295,388   | \$ 33.85 | 295,388   |        |
| November 1, 2017 - November 30, 2017 | 619,733   | 38.73    | 619,733   |        |
| December 1, 2017 - December 31, 2017 | 383,574   | 40.45    | 383,574   |        |
| Total                                | 1,298,695 |          | 1,298,695 | \$ 100 |

In April 2017, our Board of Directors approved the repurchase of up to \$100 million of our outstanding common (i) stock over a two-year period through May 2019 via the open market, established plans or privately negotiated transactions in

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accordance with all applicable securities laws, rules and regulations, which stock repurchase program was completed in December 2017. In November 2017, our Board of Directors approved a new stock repurchase program pursuant to which we may repurchase up to an additional \$100 million of our outstanding common stock over a two-year period through December 2019. The 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, 2012 to December 31, 2017. The comparison assumes \$100 was invested on December 31, 2012 in our common stock and each of the foregoing indices and assumes reinvestment of dividends before consideration of income taxes.

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,               |             |             |             |             |
|--|---------------------------------------|-------------|-------------|-------------|-------------|
|  | 2017                                  | 2016        | 2015        | 2014        | 2013        |
|  | (in thousands, except per share data) |             |             |             |             |
| Summary of Operations:   |                                       |             |             |             |             |
| Operating revenue  | \$2,695,628                           | \$2,450,580 | \$2,317,467 | \$2,314,879 | \$2,155,865 |
| Operating expenses   | 2,211,856                             | 2,034,848   | 1,868,837   | 2,060,922   | 2,004,444   |
| Operating income   | 483,772                               | 415,732     | 448,630     | 253,957     | 151,421     |
| Net Income   | 364,041                               | 235,432     | 182,646     | 68,926      | 51,854      |
| Net Income Per Common Stock Share:   |                                       |             |             |             |             |
| Basic  | \$6.86                                | \$4.40      | \$3.38      | \$1.29      | \$1.00      |
| Diluted  | 6.82                                  | 4.36        | 2.98        | 1.10        | 0.98        |
| Cash dividends declared per common share   | 0.12                                  | 0.00        | 0.00        | 0.00        | 0.00        |
| Balance Sheet Items as of December 31:   |                                       |             |             |             |             |
| Total assets   | \$2,859,831                           | \$2,708,601 | \$2,489,922 | \$2,554,112 | \$2,132,476 |
| Long-term debt, less discount, and capital lease obligations, excluding current maturities (a) | 511,201                               | 497,908     | 677,915     | 870,946     | 732,093     |

In 2016, we extinguished \$140.5 million of existing debt under three secured financing agreements, which was 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 (a) in connection with the EETC financing for the purchase of five Airbus A330-200 aircraft. In 2013, we borrowed \$132.0 million to finance a portion of the purchase price of two Airbus A330-200 aircraft, and received proceeds of \$76.1 million in connection with the EETC financing for the purchase of one Airbus A330-200 aircraft. See further discussion at Note 8 to the consolidated financial statements.

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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

2017 Financial Highlights

Operating income increased to \$484 million compared to \$416 million in the prior-year period.

Pre-tax income grew to \$411 million compared to \$379 million in the prior-year period.

GAAP net income of \$364 million or \$6.82 per diluted share compared to \$235 million or \$4.36 per diluted share in the prior year period.

Adjusted net income of \$301 million or \$5.64 per diluted share compared to \$280 million or \$5.19 per share in the prior year period.

Unrestricted cash and cash equivalents and short-term investments of \$460 million compared to \$610 million in the prior year period.

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

Outlook

Looking ahead, industry capacity increases in North America and parts of our International network are expected to increase in the first half of 2018. We expect our capacity to grow between 3.0% to 5.0% in the first quarter of 2018 as compared to the first quarter of 2017, primarily driven by new service between Los Angeles-Kauai and Portland-Maui. For the first quarter of 2018, we expect the aforementioned increases in capacity will result in operating revenue (based on the new revenue recognition standard) per available seat mile between a decrease of 0.5% to an increase of 2.5% as compared to the first quarter of 2017. We also expect that our operating costs per available seat mile will increase by 3.3% to 6.7% during the first quarter of 2018 primarily due to expected increases in wages and benefits costs and the continuation of Airbus A321neo pilot training.

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## Selected Consolidated Statistical Data

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

|  | Year ended December 31,                       |   |            |   |            |   |
|--|---|---|------------|---|------------|---|
|  | 2017  |   | 2016       |   | 2015       |   |
|  | (in thousands, except as otherwise indicated) |   |            |   |            |   |
| Scheduled Operations (a) :                         |   |   |            |   |            |   |
| Revenue passengers flown                           | 11,498  |   | 11,044     |   | 10,665     |   |
| Revenue passenger miles (RPM)                      | 16,307,344                                    |   | 15,484,369 |   | 14,450,564 |   |
| Available seat miles (ASM)                         | 18,991,566                                    |   | 18,371,544 |   | 17,710,309 |   |
| Passenger revenue per RPM (Yield)                  | 14.48   | ¢ | 13.86      | ¢ | 14.02      | ¢ |
| Passenger load factor (RPM/ASM)                    | 85.9  | % | 84.3       | % | 81.6       | % |
| Passenger revenue per ASM (PRASM)                  | 12.44   | ¢ | 11.68      | ¢ | 11.44      | ¢ |
| Total Operations (a) :                             |   |   |            |   |            |   |
| Revenue passengers flown                           | 11,505  |   | 11,051     |   | 10,673     |   |
| RPM  | 16,316,739                                    |   | 15,492,509 |   | 14,462,191 |   |
| ASM  | 19,006,682                                    |   | 18,384,637 |   | 17,726,322 |   |
| Operating revenue per ASM (RASM)                   | 14.18   | ¢ | 13.33      | ¢ | 13.07      | ¢ |
| Operating cost per ASM (CASM)                      | 11.64   | ¢ | 11.07      | ¢ | 10.55      | ¢ |
| CASM excluding aircraft fuel and special items (b) | 9.20  | ¢ | 8.61       | ¢ | 8.19       | ¢ |
| Aircraft fuel expense per ASM (c)                  | 2.32  | ¢ | 1.87       | ¢ | 2.36       | ¢ |
| Revenue block hours operated                       | 189,881                                       |   | 179,254    |   | 173,546    |   |
| Gallons of jet fuel consumed                       | 259,915                                       |   |            |   |            |   |