

Allegiant Travel CO  
Form 10-Q  
July 31, 2015

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q  
(Mark One)

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

For the quarterly period ended June 30, 2015

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 001-33166  
Allegiant Travel Company  
(Exact Name of Registrant as Specified in Its Charter)  
Nevada  
(State or Other Jurisdiction of Incorporation or  
Organization)

20-4745737  
(IRS Employer Identification No.)

1201 North Town Center Drive  
Las Vegas, Nevada  
(Address of Principal Executive Offices)

89144  
(Zip Code)

Registrant's Telephone Number, Including Area Code: (702) 851-7300

(Former name, former address and former fiscal year if changed since last report)

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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares of the registrant’s common stock outstanding as of the close of business on July 15, 2015 was 16,980,329.

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Allegiant Travel Company

Form 10-Q  
June 30, 2015

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## PART I. FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

ALLEGIANT TRAVEL COMPANY  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except per share amounts)

|   | June 30, 2015<br>(unaudited) | December 31, 2014 |
|---|------------------------------|-------------------|
| Current assets:   |                              |                   |
| Cash and cash equivalents   | \$93,471                     | \$89,610          |
| Restricted cash   | 8,884                        | 12,021            |
| Short-term investments  | 286,897                      | 269,817           |
| Accounts receivable   | 14,004                       | 14,216            |
| Expendable parts, supplies and fuel, net of allowance for obsolescence of \$3,783 and \$3,003 at June 30, 2015 and December 31, 2014, respectively  | 15,139                       | 16,980            |
| Prepaid expenses  | 24,937                       | 24,306            |
| Deferred income taxes   | 6,271                        | 6,271             |
| Other current assets  | 3,292                        | 406               |
| Total current assets  | 452,895                      | 433,627           |
| Property and equipment, net   | 818,961                      | 738,783           |
| Long-term investments   | 34,575                       | 57,390            |
| Investment in and advances to unconsolidated affiliates, net  | 2,779                        | 1,811             |
| Deposits and other assets   | 8,271                        | 7,774             |
| Total assets  | \$1,317,481                  | \$1,239,385       |
| Current liabilities:  |                              |                   |
| Current maturities of long-term debt  | \$65,234                     | \$53,819          |
| Accounts payable  | 12,120                       | 13,232            |
| Accrued liabilities   | 84,389                       | 110,802           |
| Air traffic liability   | 222,584                      | 185,315           |
| Total current liabilities   | 384,327                      | 363,168           |
| Long-term debt and other long-term liabilities:   |                              |                   |
| Long-term debt, net of current maturities   | 562,382                      | 539,280           |
| Deferred income taxes   | 44,591                       | 42,872            |
| Total liabilities   | 991,300                      | 945,320           |
| Stockholders' equity:   |                              |                   |
| Common stock, par value \$.001, 100,000,000 shares authorized; 22,218,567 and 22,174,241 shares issued; 16,980,329 and 17,413,307 shares outstanding, as of June 30, 2015 and December 31, 2014, respectively | 22                           | 22                |
| Treasury stock, at cost, 5,238,238 and 4,760,934 shares at June 30, 2015 and December 31, 2014, respectively  | (408,183)                    | (325,396)         |
| Additional paid in capital  | 222,319                      | 221,257           |
| Accumulated other comprehensive income, net   | 1,669                        | 1,211             |
| Retained earnings   | 510,354                      | 395,783           |
| Total Allegiant Travel Company stockholders' equity   | 326,181                      | 292,877           |
| Noncontrolling interest   | —                            | 1,188             |
| Total equity  | 326,181                      | 294,065           |
| Total liabilities and stockholders' equity  | \$1,317,481                  | \$1,239,385       |

The accompanying notes are an integral part of these consolidated financial statements.

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ALLEGIANT TRAVEL COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
(in thousands, except per share amounts)  
(unaudited)

|  | Three Months Ended June 30, |                  | Six Months Ended June 30, |                  |
|--|-----------------------------|------------------|---------------------------|------------------|
|  | 2015                        | 2014             | 2015                      | 2014             |
| <b>OPERATING REVENUE:</b>  |                             |                  |                           |                  |
| Scheduled service revenue  | \$ 186,311                  | \$ 189,172       | \$ 386,840                | \$ 392,693       |
| Ancillary revenue:   |                             |                  |                           |                  |
| Air-related charges  | 113,432                     | 85,781           | 218,501                   | 171,235          |
| Third party products   | 10,976                      | 9,657            | 21,773                    | 20,287           |
| Total ancillary revenue  | 124,408                     | 95,438           | 240,274                   | 191,522          |
| Fixed fee contract revenue   | 2,986                       | 2,963            | 7,353                     | 5,610            |
| Other revenue  | 8,397                       | 2,968            | 16,874                    | 3,241            |
| Total operating revenue  | 322,102                     | 290,541          | 651,341                   | 593,066          |
| <b>OPERATING EXPENSES:</b>   |                             |                  |                           |                  |
| Aircraft fuel  | 79,087                      | 104,495          | 148,713                   | 213,444          |
| Salary and benefits  | 53,598                      | 47,297           | 112,151                   | 93,736           |
| Station operations   | 24,462                      | 20,157           | 48,314                    | 42,390           |
| Maintenance and repairs  | 23,727                      | 21,427           | 45,119                    | 42,028           |
| Sales and marketing  | 5,753                       | 6,653            | 12,854                    | 14,461           |
| Aircraft lease rentals   | 680                         | 1,903            | 1,398                     | 11,332           |
| Depreciation and amortization  | 24,904                      | 19,750           | 49,251                    | 38,181           |
| Other  | 17,135                      | 12,446           | 32,687                    | 23,808           |
| Total operating expenses   | 229,346                     | 234,128          | 450,487                   | 479,380          |
| <b>OPERATING INCOME</b>  | <b>92,756</b>               | <b>56,413</b>    | <b>200,854</b>            | <b>113,686</b>   |
| <b>OTHER (INCOME) EXPENSE:</b>   |                             |                  |                           |                  |
| Earnings from unconsolidated affiliates, net   | (55                         | ) (75            | ) (51                     | ) (71            |
| Interest income  | (542                        | ) (234           | ) (647                    | ) (439           |
| Interest expense   | 7,017                       | 3,591            | 13,843                    | 6,720            |
| Total other expense  | 6,420                       | 3,282            | 13,145                    | 6,210            |
| <b>INCOME BEFORE INCOME TAXES</b>  | <b>86,336</b>               | <b>53,131</b>    | <b>187,709</b>            | <b>107,476</b>   |
| <b>PROVISION FOR INCOME TAXES</b>  | <b>31,997</b>               | <b>19,764</b>    | <b>68,548</b>             | <b>40,034</b>    |
| <b>NET INCOME</b>  | <b>54,339</b>               | <b>33,367</b>    | <b>119,161</b>            | <b>67,442</b>    |
| Net loss attributable to noncontrolling interest   | —                           | (132             | ) (44                     | ) (278           |
| <b>NET INCOME ATTRIBUTABLE TO ALLEGIANT TRAVEL COMPANY</b>                                       | <b>\$ 54,339</b>            | <b>\$ 33,499</b> | <b>\$ 119,205</b>         | <b>\$ 67,720</b> |
| Earnings per share to common stockholders:   |                             |                  |                           |                  |
| Basic  | \$ 3.19                     | \$ 1.87          | \$ 6.95                   | \$ 3.74          |
| Diluted  | \$ 3.18                     | \$ 1.86          | \$ 6.93                   | \$ 3.72          |
| Weighted average shares outstanding used in computing earnings per share to common stockholders: |                             |                  |                           |                  |
| Basic  | 16,954                      | 17,777           | 17,073                    | 17,971           |
| Diluted  | 16,992                      | 17,865           | 17,114                    | 18,055           |
| Cash dividend declared per share:  | \$ 0.25                     | \$ —             | \$ 0.50                   | \$ —             |

The accompanying notes are an integral part of these consolidated financial statements.



ALLEGIANT TRAVEL COMPANY  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

|   | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|---|-----------------------------|----------|---------------------------|----------|
|   | 2015                        | 2014     | 2015                      | 2014     |
| Net income  | \$54,339                    | \$33,367 | \$119,161                 | \$67,442 |
| Other comprehensive income:                                   |                             |          |                           |          |
| Net change in available-for-sale securities, net of tax       | 95                          | 32       | 398                       | 40       |
| Foreign currency translation adjustment, net of tax           | 263                         | —        | 263                       | —        |
| Net change in derivatives, net of tax                         | (454                        | ) 165    | 540                       | 165      |
| Reclassification of derivative gains into Other revenue       | (266                        | ) —      | (743                      | ) —      |
| Total other comprehensive (loss) income                       | (362                        | ) 197    | 458                       | 205      |
| Total comprehensive income                                    | 53,977                      | 33,564   | 119,619                   | 67,647   |
| Comprehensive loss attributable to noncontrolling interest    | —                           | (132     | ) (44                     | ) (278   |
| Comprehensive income attributable to Allegiant Travel Company | \$53,977                    | \$33,696 | \$119,663                 | \$67,925 |

The accompanying notes are an integral part of these consolidated financial statements.



ALLEGiant TRAVEL COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(unaudited)

|   | Six Months Ended June 30, |            |
|---|---------------------------|------------|
|   | 2015                      | 2014       |
| <b>OPERATING ACTIVITIES:</b>  |                           |            |
| Net income  | \$ 119,161                | \$ 67,442  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |            |
| Depreciation and amortization   | 49,251                    | 38,181     |
| Loss on aircraft and other equipment disposals                                    | 1,636                     | 2,775      |
| Provision for obsolescence of expendable parts, supplies and fuel                 | 780                       | 613        |
| Amortization of deferred financing costs and original issue discount              | 697                       | 2,679      |
| Stock-based compensation expense  | 6,282                     | 4,486      |
| Deferred income taxes   | 1,719                     | 8,010      |
| Excess tax benefits from stock-based compensation                                 | (1,970)                   | (1,411)    |
| Changes in certain assets and liabilities:  |                           |            |
| Accounts receivable   | 212                       | (3,599)    |
| Prepaid expenses  | (631)                     | (2,892)    |
| Accounts payable  | 1,121                     | 4,023      |
| Accrued liabilities   | 13,909                    | 5,868      |
| Air traffic liability   | 37,269                    | 25,206     |
| Other, net  | 1,309                     | (4,173)    |
| Net cash provided by operating activities   | 230,745                   | 147,208    |
| <b>INVESTING ACTIVITIES:</b>  |                           |            |
| Purchase of investment securities   | (162,090)                 | (69,376)   |
| Proceeds from maturities of investment securities                                 | 168,023                   | 146,001    |
| Purchase of property and equipment, including pre-delivery deposits               | (132,489)                 | (114,991)  |
| Other investing activities  | (271)                     | 1,833      |
| Net cash used in investing activities   | (126,827)                 | (36,533)   |
| <b>FINANCING ACTIVITIES:</b>  |                           |            |
| Cash dividends paid to shareholders   | (52,315)                  | (41,787)   |
| Proceeds from the issuance of long-term debt                                      | 64,000                    | 385,300    |
| Repurchase of common stock  | (82,787)                  | (73,490)   |
| Principal payments on long-term debt  | (29,483)                  | (142,478)  |
| Other financing activities  | 528                       | (668)      |
| Net cash (used in) provided by financing activities                               | (100,057)                 | 126,877    |
| Net change in cash and cash equivalents   | 3,861                     | 237,552    |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD                                  | 89,610                    | 97,711     |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD  | \$ 93,471                 | \$ 335,263 |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>                         |                           |            |
| Long-term debt assumed for aircraft   | \$ —                      | \$ 141,960 |

The accompanying notes are an integral part of these consolidated financial statements.

ALLEGIANT TRAVEL COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share amounts)  
(unaudited)

Note 1 — Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Allegiant Travel Company (the "Company") and its majority-owned operating subsidiaries. Investments in affiliates in which the Company's ownership interest ranges from 20 to 50 percent and in which the Company has the ability to exercise significant influence over operating and financial policies are accounted for under the equity method. All intercompany balances and transactions have been eliminated.

These unaudited consolidated financial statements reflect all normal recurring adjustments, which management believes are necessary to present fairly the financial position, results of operations, and cash flows of the Company for the respective periods presented. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission for Form 10-Q. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company and notes thereto included in the annual report of the Company on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The interim results reflected in the unaudited condensed consolidated financial statements are not necessarily indicative of the results that may be expected for other interim periods, or for the full year.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, intended to create a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. On July 9, 2015, the FASB decided to defer the effective date by one year, to December 15, 2017, for annual and interim periods beginning after that date. The FASB has also proposed permitting early adoption of the standard, but not before the original effective date of December 15, 2016. The Company is evaluating the impact on its financial statements of adopting this new accounting standard.

In April 2015, the FASB issued ASU 2015-03, which amends existing guidance and requires the presentation of debt issuance costs on the balance sheet as a reduction of the carrying amount of the related debt liability rather than a deferred charge. This ASU is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2015, and early adoption is permitted. The Company is evaluating the impact on its financial statements of adopting this new accounting standard.

Note 2 — Investment Securities

The Company's investments in marketable securities are classified as available-for-sale and are reported at fair market value with the net unrealized gain or loss reported as a component of accumulated other comprehensive income ("AOCI") in stockholders' equity. Excluded from the table below is the change in fair value attributable to the foreign currency risk being hedged. Refer to Note 6 - Derivative Instruments for additional information related to the Company's foreign currency hedge. Investment securities are classified as cash equivalents, short-term investments, and long-term investments based on maturity date. Cash equivalents have maturities of three months or less, short-term investments have maturities of greater than three months but equal to or less than one year, and long-term investments are those with a maturity date greater than one year.

Investment securities consisted of the following:

|                                | As of June 30, 2015 |                |          |              | As of December 31, 2014 |                |          |              |
|--------------------------------|---------------------|----------------|----------|--------------|-------------------------|----------------|----------|--------------|
|                                | Cost                | Net Unrealized |          | Market Value | Cost                    | Net Unrealized |          | Market Value |
|                                |                     | Gains          | (Losses) |              |                         | Gains          | (Losses) |              |
| Money market funds             | \$9,857             | \$—            | \$—      | \$9,857      | \$8,377                 | \$—            | \$—      | \$8,377      |
| Certificates of deposit        | —                   | —              | —        | —            | 10,049                  | 2              | —        | 10,051       |
| Commercial paper               | 91,283              | 7              | (7       | ) 91,283     | 47,941                  | 3              | (4       | ) 47,940     |
| Municipal debt securities      | 68,411              | 5              | (6       | ) 68,410     | 105,933                 | 14             | (2       | ) 105,945    |
| Government debt securities     | 35,316              | 9              | (6       | ) 35,319     | 24,028                  | —              | (31      | ) 23,997     |
| Corporate debt securities      | 124,875             | 5              | (28      | ) 124,852    | 134,770                 | 1              | (106     | ) 134,665    |
| Federal agency debt securities | 6,710               | 1              | —        | 6,711        | 4,711                   | —              | (1       | ) 4,710      |
| Total                          | \$336,452           | \$27           | \$(47    | ) \$336,432  | \$335,809               | \$20           | \$(144   | ) \$335,685  |

### Note 3 — Property and Equipment

As of June 30, 2015, the Company owned 53 MD-80 aircraft, six Boeing 757-200 aircraft, 13 Airbus A320 aircraft and 19 Airbus A319 aircraft, including 12 Airbus A319 aircraft on lease to a third party. The Airbus A320 aircraft and Airbus A319 aircraft are frequently referred to collectively as Airbus A320 series aircraft.

Property and equipment consisted of the following:

|  | As of June 30, 2015 | As of December 31, 2014 |
|--|---------------------|-------------------------|
| Flight equipment                               | \$1,047,985         | \$947,082               |
| Ground property and equipment                  | 125,026             | 100,916                 |
| Total property and equipment                   | 1,173,011           | 1,047,998               |
| Less accumulated depreciation and amortization | 354,050             | 309,215                 |
| Property and equipment, net                    | \$818,961           | \$738,783               |

The following table summarizes the Company's total in service aircraft fleet as of June 30, 2015:

| Aircraft Type  | Owned (1) | Seating Capacity (per aircraft) | Average Age in Years |
|----------------|-----------|---------------------------------|----------------------|
| MD-88/83       | 53        | 166                             | 25.6                 |
| B757-200       | 6         | 215                             | 22.3                 |
| A319 (2)       | 7         | 156                             | 10.6                 |
| A320 (3)       | 9         | 177                             | 14.6                 |
| Total aircraft | 75        |                                 |                      |

(1) Refer to Note 4 - Long-Term Debt for further information on the Company's notes payable secured by aircraft.

(2) Excludes 12 Airbus A319 aircraft currently on lease to a European carrier until 2018.

(3) Excludes four Airbus A320 aircraft owned on June 30, 2015 but not yet in service.



## Note 4 — Long-Term Debt

Long-term debt consisted of the following:

|   | As of June 30,<br>2015 | As of December<br>31, 2014 |
|---|------------------------|----------------------------|
| 5.50% Senior Notes, due July 2019   | \$300,000              | \$300,000                  |
| Notes payable, secured by aircraft, interest at LIBOR plus 3.08%, due May 2018      | 122,234                | 131,454                    |
| Notes payable, secured by aircraft, interest at LIBOR plus 2.46%, due November 2019 | 38,455                 | 41,703                     |
| Note payable, secured by aircraft, interest at LIBOR plus 2.95%, due April 2018     | 32,148                 | 38,505                     |
| Notes payable, secured by aircraft, interest at 3.99%, due October 2018             | 32,244                 | 36,844                     |
| Notes payable, secured by aircraft, interest at LIBOR plus 2.95%, due May 2018      | 30,479                 | 34,915                     |
| Notes payable, secured by aircraft, interest at LIBOR plus 1.70%, due March 2020    | 28,569                 | —                          |
| Notes payable, secured by aircraft, interest at LIBOR plus 1.70%, due June 2020     | 26,500                 | —                          |
| Note payable, secured by real estate, interest at 2.86%, due October 2018           | 9,537                  | 9,678                      |
| Note payable, secured by real estate, interest at 2.86%, due March 2020             | 7,450                  | —                          |
| Total long-term debt  | 627,616                | 593,099                    |
| Less current maturities   | 65,234                 | 53,819                     |
| Long-term debt, net of current maturities   | \$562,382              | \$539,280                  |

Maturities of long-term debt for the remainder of 2015 and for the next four years and thereafter, in aggregate, are:

|                   | As of June 30, 2015 |
|-------------------|---------------------|
| Remaining in 2015 | \$32,402            |
| 2016              | 66,289              |
| 2017              | 68,340              |
| 2018              | 123,991             |
| 2019              | 325,727             |
| Thereafter        | 10,867              |
| Total             | \$627,616           |

## Secured Debt

In June 2015, the Company borrowed \$26.5 million secured by two A319 aircraft. The notes bear interest at a floating rate based on LIBOR plus 1.70 percent and will be payable in quarterly installments through June 2020.

In March 2015, the Company borrowed \$30.0 million secured by two A319 aircraft. The notes bear interest at a floating rate based on LIBOR plus 1.70 percent, and are payable in quarterly installments through March 2020, beginning in June 2015.

In March 2015, the Company borrowed \$7.5 million secured by the real estate purchased by the Company in October 2014. The note bears a fixed interest rate of 2.86 percent per annum, and provides for a 25-year amortization and a five-year term.



Note 5 — Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value on a recurring basis. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Accounting standards pertaining to fair value measurements establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

Level 2 - Defined as inputs other than Level 1 inputs that are either directly or indirectly observable

Level 3 - Defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions

The Company uses the market approach valuation technique to determine fair value for investment securities. The assets classified as Level 1 consist of money market funds for which original cost approximates fair value. The assets classified as Level 2 consist of certificates of deposit, commercial paper, municipal debt securities, federal agency debt securities, government debt securities, and corporate debt securities, which are valued using quoted market prices or alternative pricing sources including transactions involving identical or comparable assets and models utilizing market observable inputs.

For those assets classified as Level 2 that are not in active markets, the Company obtained fair value from pricing sources using quoted market prices for identical or comparable instruments and based on pricing models which include all significant observable inputs, including maturity dates, issue dates, settlement dates, benchmark yields, reported trades, broker-dealer quotes, issue spreads, benchmark securities, bids, offers and other market related data. These inputs are observable or can be derived from, or corroborated by, observable market data for substantially the full term of the asset.

The fair value of the Company's derivative instrument is determined using standard valuation models. The significant inputs used in these models are readily available in public markets or can be derived from observable market transactions and therefore have been classified as Level 2. Inputs used in these standard valuation models for derivative instruments include the applicable exchange and interest rates.





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Financial instruments measured at fair value on a recurring basis at June 30, 2015 and December 31, 2014 were as follows:

| Description                    | June 30, 2015 | Fair Value Measurements at Reporting Date Using                |   |
|--------------------------------|---------------|--|---|
|                                |               | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) |
| Cash equivalents               |               |  |   |
| Money market funds             | \$9,857       | \$9,857  | \$—   |
| Commercial paper               | 4,949         | —  | 4,949   |
| Municipal debt securities      | 154           | —  | 154   |
| Total cash equivalents         | 14,960        | 9,857  | 5,103   |
| Short-term investments         |               |  |   |
| Corporate debt securities      | 124,852       | —  | 124,852                                       |
| Municipal debt securities      | 65,999        | —  | 65,999  |
| Commercial paper               | 86,334        | —  | 86,334  |
| Government debt securities     | 3,001         | —  | 3,001   |
| Federal agency debt securities | 6,711         | —  | 6,711   |
| Total short-term investments   | 286,897       | —  | 286,897                                       |
| Long-term investments          |               |  |   |
| Government debt securities     | 32,318        | —  | 32,318  |
| Municipal debt securities      | 2,257         | —  | 2,257   |
| Derivative instruments         | 2,718         | —  | 2,718   |
| Total long-term investments    | 37,293        | —  | 37,293  |
| Total investment securities    | \$339,150     | \$9,857  | \$329,293                                     |

| Description                    | December 31, 2014 | Fair Value Measurements at Reporting Date Using                |   |
|--------------------------------|-------------------|--|---|
|                                |                   | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) |
| Cash equivalents               |                   |  |   |
| Money market funds             | \$8,377           | \$8,377  | \$—   |
| Municipal debt securities      | 101               | —  | 101   |
| Total cash equivalents         | 8,478             | 8,377  | 101   |
| Short-term investments         |                   |  |   |
| Corporate debt securities      | 103,961           | —  | 103,961                                       |
| Municipal debt securities      | 103,155           | —  | 103,155                                       |
| Commercial paper               | 47,940            | —  | 47,940  |
| Certificates of deposit        | 10,051            | —  | 10,051  |
| Federal agency debt securities | 4,710             | —  | 4,710   |
| Total short-term investments   | 269,817           | —  | 269,817                                       |
| Long-term investments          |                   |  |   |
| Corporate debt securities      | 30,704            | —  | 30,704  |
| Government debt securities     | 23,997            | —  | 23,997  |
| Municipal debt securities      | 2,689             | —  | 2,689   |
| Derivative instruments         | 1,858             | —  | 1,858   |

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|                             |           |         |           |
|-----------------------------|-----------|---------|-----------|
| Total long-term investments | 59,248    | —       | 59,248    |
| Total investment securities | \$337,543 | \$8,377 | \$329,166 |

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The carrying amounts and estimated fair value of the Company's long-term debt (including current maturities), as well as the applicable fair value hierarchy tier, at June 30, 2015, are presented in the following table. The fair value of the Company's publicly held long-term debt is determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets; therefore, the Company has categorized its publicly held debt as Level 2. The remaining debt agreements are not publicly held. The Company has determined the estimated fair value of these notes to be Level 3, as certain inputs used to determine the fair value of these agreements are unobservable and, therefore, are sensitive to changes in inputs. The Company utilizes indicative pricing from counterparties and the discounted cash flow method to estimate the fair value of the Level 3 items.

|   | As of June 30, 2015 |                      | As of December 31, 2014 |                      | Hierarchy Level |
|---|---------------------|----------------------|-------------------------|----------------------|-----------------|
|   | Carrying Value      | Estimated Fair Value | Carrying Value          | Estimated Fair Value |                 |
| 5.50% Senior Notes, due July 2019   | \$300,000           | \$307,500            | \$300,000               | \$304,875            | Level 2         |
| Notes payable, secured by aircraft, interest at LIBOR plus 3.08%, due May 2018      | 122,234             | 112,608              | 131,454                 | 119,809              | Level 3         |
| Notes payable, secured by aircraft, interest at LIBOR plus 2.46%, due November 2019 | 38,455              | 35,955               | 41,703                  | 38,735               | Level 3         |
| Note payable, secured by aircraft, interest at LIBOR plus 2.95%, due April 2018     | 32,148              | 30,555               | 38,505                  | 36,330               | Level 3         |
| Notes payable, secured by aircraft, interest at 3.99%, due October 2018             | 32,244              | 30,059               | 36,844                  | 34,000               | Level 3         |
| Notes payable, secured by aircraft, interest at LIBOR plus 2.95%, due May 2018      | 30,479              | 28,958               | 34,915                  | 32,923               | Level 3         |
| Notes payable, secured by aircraft, interest at LIBOR plus 1.70%, due March 2020    | 28,569              | 27,373               | —                       | —                    | Level 3         |
| Notes payable, secured by aircraft, interest at LIBOR plus 1.70%, due June 2020     | 26,500              | 25,326               | —                       | —                    | Level 3         |
| Note payable, secured by real estate, interest at 2.86%, due October 2018           | 9,537               | 8,676                | 9,678                   | 8,693                | Level 3         |
| Note payable, secured by real estate, interest at 2.86%, due March 2020             | 7,450               | 6,566                | —                       | —                    | Level 3         |
| Total long-term debt  | \$627,616           | \$613,576            | \$593,099               | \$575,365            |                 |

Due to the short term nature, carrying amounts of cash, cash equivalents, restricted cash, accounts receivable and accounts payable approximate fair value.

#### Note 6 — Derivative Instruments

In 2014, the Company entered into a foreign currency swap in order to mitigate the foreign currency exchange rate risk associated with the forecasted lease revenue from 12 Airbus A320 series aircraft leased to a European carrier until 2018. The Company uses a cash flow hedge to minimize the variability in cash flows of assets, liabilities or forecasted transactions caused by fluctuations in foreign currency exchange rates. At June 30, 2015, the net change in fair value recorded in AOCI related to the unrealized gain on the hedge was \$631, when compared to the fair value at December 31, 2014.

At inception, the Company formally designated and documented this financial instrument as a hedge of a specific underlying exposure, the risk management objective, and the strategy for undertaking the hedge transaction. The Company also assessed whether the financial instrument used in the hedging transactions was effective at offsetting changes in either the fair values or cash flows of the related underlying exposures. This assessment is monitored on at

least a quarterly basis, and the change in fair market value of any ineffective portion of a financial instrument is immediately recognized into earnings. For the six months ended June 30, 2015, the Company realized \$475 in net gains from its cash flow hedge into Other revenue, and as of June 30, 2015, expects \$646 to be reclassified from Other comprehensive income into Other revenue within the next 12 months.

At June 30, 2015, the fair value of the Company's derivative instrument was \$2,718 and is reported in the Company's consolidated balance sheet within deposits and other assets. Refer to Note 5 - Fair Value Measurements for additional information related to the estimated fair value.

## Note 7 — Stockholders' Equity

The Company is authorized by the Board of Directors to acquire the Company's stock through open market purchases under its share repurchase program. As the share repurchase authority is used, the Board of Directors has, on several occasions, authorized additional expenditures for share repurchases.

Share repurchases consisted of the following during the periods indicated:

|                         | Three Months Ended June 30, |      | Six Months Ended June 30, |          |
|-------------------------|-----------------------------|------|---------------------------|----------|
|                         | 2015                        | 2014 | 2015                      | 2014     |
| Shares repurchased      | 178,327                     | —    | 469,461                   | 730,162  |
| Average price per share | \$160.38                    | —    | \$173.03                  | \$98.82  |
| Total (in thousands)    | \$28,600                    | —    | \$81,232                  | \$72,157 |

During the three months ended June 30, 2015, the Company declared and paid cash dividends of \$0.25 per share, or \$4,243. During the six months ended June 30, 2015, the Company declared and paid cash dividends of \$0.50 per share, or \$8,577. In July, the Company's Board of Directors approved an increase in the recurring quarterly cash dividend to \$0.30 per share.

## Note 8 — Earnings per Share

Basic and diluted earnings per share are computed pursuant to the two-class method. Under this method, the Company attributes net income to two classes- common stock and unvested restricted stock awards. Unvested restricted stock awards granted to employees under the Company's Long-Term Incentive Plan are considered participating securities as they receive non-forfeitable rights to cash dividends at the same rate as common stock.

Diluted net income per share is calculated using the more dilutive of the two methods. Under both methods, the exercise of employee stock options is assumed using the treasury stock method. The assumption of vesting of restricted stock, however, differs:

1. Assume vesting of restricted stock using the treasury stock method.
2. Assume unvested restricted stock awards are not vested, and allocate earnings to common shares and unvested restricted stock awards using the two-class method.

For the three and six months ended June 30, 2015, the second method, which assumes unvested awards are not vested, was used in the computation because it was more dilutive than the first method. The following table sets forth the computation of net income per share, on a basic and diluted basis, for the periods indicated (shares shown in the following table are in thousands):

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|   | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|---|-----------------------------|----------|---------------------------|----------|
|   | 2015                        | 2014     | 2015                      | 2014     |
| Basic:  |                             |          |                           |          |
| Net income attributable to Allegiant Travel Company   | \$54,339                    | \$33,499 | \$119,205                 | \$67,720 |
| Less net income allocated to participating securities   | (265                        | ) (239   | ) (609                    | ) (492   |
| Net income attributable to common stock   | \$54,074                    | \$33,260 | \$118,596                 | \$67,228 |
| Net income per share, basic   | \$3.19                      | \$1.87   | \$6.95                    | \$3.74   |
| Weighted-average shares outstanding   | 16,954                      | 17,777   | 17,073                    | 17,971   |
| Diluted:  |                             |          |                           |          |
| Net income attributable to Allegiant Travel Company   | \$54,339                    | \$33,499 | \$119,205                 | \$67,720 |
| Less net income allocated to participating securities   | (265                        | ) (238   | ) (607                    | ) (490   |
| Net income attributable to common stock   | \$54,074                    | \$33,261 | \$118,598                 | \$67,230 |
| Net income per share, diluted   | \$3.18                      | \$1.86   | \$6.93                    | \$3.72   |
| Weighted-average shares outstanding   | 16,954                      | 17,777   | 17,073                    | 17,971   |
| Dilutive effect of stock options, restricted stock and stock-settled stock appreciation rights  | 59                          | 128      | 71                        | 120      |
| Adjusted weighted-average shares outstanding under treasury stock method  | 17,013                      | 17,905   | 17,144                    | 18,091   |
| Participating securities excluded under two-class method  | (21                         | ) (40    | ) (30                     | ) (36    |
| Adjusted weighted-average shares outstanding under two-class method   | 16,992                      | 17,865   | 17,114                    | 18,055   |
| For the three and six months ended June 30, 2014, anti-dilutive shares excluded from the calculation of earnings per share were not material. |                             |          |                           |          |

Note 9 — Commitments and Contingencies

The Company is subject to certain legal and administrative actions it considers routine to its business activities. The Company believes the ultimate outcome of any pending legal or administrative matters will not have a material adverse impact on its financial position, liquidity or results of operations.

As of June 30, 2015, the Company had firm commitments to purchase the following aircraft:

| Aircraft Type | Number of Firm Commitments |
|---------------|----------------------------|
| Airbus A319   | 11                         |
| Airbus A320   | 6                          |

Future minimum fixed payments for the Company's commitments related to the acquisition of aircraft, airport fees under use and lease agreements, and other operating lease obligations:

|                   | As of June 30, 2015 |
|-------------------|---------------------|
| Remaining in 2015 | \$113,353           |
| 2016              | 118,495             |
| 2017              | 73,533              |
| 2018              | 2,758               |

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|                   |           |
|-------------------|-----------|
| 2019              | 5,009     |
| Thereafter        | 2,703     |
| Total commitments | \$315,851 |

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Note 10 — Related Party Transactions

The Company previously leased approximately 70,000 square feet of corporate office space under a lease that expires in April 2018, where the Company maintained its corporate headquarters. The Company took action to exercise its option to terminate this lease as of May 2015. The Company also currently leases approximately 10,000 square feet of office space in an adjacent building which was previously utilized for training and other corporate purposes (expires in 2019). Both buildings are owned by limited liability companies in which the Company's Chairman and Chief Executive Officer owns a significant interest as a non-controlling member. Another member of the Company's Board of Directors also owns a minority interest in these limited liability companies. Under the terms of these agreements, the Company made rent payments totaling \$991 for the six months ended June 30, 2015 and \$1,703 for the same period in 2014.

For the six months ended June 30, 2015, Game Plane, LLC, a wholly owned subsidiary of the Company, paid \$365 in program development costs to Alpine Labs, LLC and \$1,635 during the same period in 2014. Alpine Labs, LLC partnered with Game Plane, LLC to produce and distribute game shows filmed on Company flights. The game shows were part of promotional efforts for the Company for which payments concluded in July 2015. The Company's Chairman and Chief Executive Officer owns a 25 percent interest in, and is on the managing board of, Alpine Labs, LLC.

For the six months ended June 30, 2015, the Company made payments totaling \$1,031 to entities owned or controlled by the Company's Chairman and Chief Executive Officer for the building of corporate training content. No such payments were made during the same period in 2014.

GMS Racing, LLC competes in the NASCAR Camping World Truck Series and ARCA Racing Series. The Company's Chairman and Chief Executive Officer owns a controlling interest in GMS Racing, LLC. The Company has sponsored GMS Racing, LLC since 2013 and has committed to \$2,500 for sponsorship and branding opportunities in 2015, of which \$1,500 was paid during the six months ended June 30, 2015. No payments were made to GMS Racing, LLC during the six months ended June 30, 2014.

Note 11 — Subsequent Events

In July 2015, the Company's Board of Directors increased the authorization under the stock repurchase plan to \$100.0 million and announced an increase in the quarterly recurring dividend to \$.30 per share.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis presents factors that had a material effect on our results of operations during the three and six months ended June 30, 2015 and 2014. Also discussed is our financial position as of June 30, 2015 and December 31, 2014. You should read this discussion in conjunction with our unaudited consolidated financial statements, including the notes thereto, appearing elsewhere in this Form 10-Q and our consolidated financial statements appearing in our annual report on Form 10-K for the year ended December 31, 2014. This discussion and analysis contains forward-looking statements. Please refer to the section below entitled "Special Note About Forward-Looking Statements" for a discussion of the uncertainties, risks and assumptions associated with these statements.

Second quarter 2015 results

The second quarter of 2015 was our 50th consecutive profitable quarter, with net income of \$54.3 million and \$3.18 earnings per share (diluted) on operating revenues of \$322.1 million and an operating margin of 28.8 percent. Total operating revenue increased \$31.6 million or 10.9 percent over 2014, primarily due to a \$27.7 million increase in

ancillary air-related revenue and a \$5.4 million increase in other revenue. Total ancillary revenue per passenger was \$51.26 during the quarter, which was 13.3 percent higher than 2014. Other revenue increased by \$5.4 million, primarily due to aircraft lease revenue received from a European carrier, which began in June 2014.

Cost per available seat mile ("CASM") decreased 16.6 percent for the second quarter 2015 when compared to the same period in 2014, mostly due to a 24.3 percent decrease in fuel expense which was driven by a 35.0 percent decrease in our system average price per gallon. This decrease was offset by a 16.4 percent increase in system gallons consumed needed to support a 17.5 percent increase in available seat miles ("ASMs"). The addition of Airbus aircraft has also positively affected our fuel efficiency.

Except for changes in fuel price per gallon, our operating expenses are historically driven by changes in capacity. For the second quarter 2015, CASM, excluding fuel, decreased 1.4 percent from 2014, as we were able to grow the number of

routes served by 14.8 percent. On a total expense basis, salary and benefits expense increased 13.3 percent, reflecting a more than 14 percent growth in full time equivalent employees needed to support flying, as well as a significant increase in our bonus accrual, which is directly correlated to our operating income. Our Other expenses line item also reflected a 37.7 percent quarter over quarter increase to support IT initiatives and company growth.

As of June 30, 2015, we had \$414.9 million in unrestricted cash and investment securities, down slightly from \$416.8 million as of December 31, 2014. For the six months ended June 30, 2015, we deployed cash of \$132.5 million for capital expenditures, returned \$82.8 million to shareholders through share repurchases, and paid \$52.3 million in dividends. These cash outlays were offset by \$230.7 million in cash flows from operations, as well as raising debt of \$64.0 million during the first half of 2015. In addition, Standard & Poor's Rating Services raised our corporate credit rating to BB from BB-.

In July, our Board of Directors approved an increase to our recurring quarterly cash dividend to \$.30 per share.

#### Aircraft

##### Operating Fleet

As of June 30, 2015, our operating fleet consisted of 53 MD-80 aircraft, six Boeing 757-200 aircraft, seven Airbus A319 aircraft, and nine Airbus A320 aircraft. The following table sets forth the number and type of aircraft in service and operated by us as of the dates indicated:

|             | As of June 30, 2015 |       |       | As of December 31, 2014 |       |       | As of June 30, 2014 |       |       |
|-------------|---------------------|-------|-------|-------------------------|-------|-------|---------------------|-------|-------|
|             | Own (1)             | Lease | Total | Own (a)                 | Lease | Total | Own (a)             | Lease | Total |
| MD82/83/88s | 53                  | —     | 53    | 53                      | —     | 53    | 53                  | —     | 53    |
| B757-200    | 6                   | —     | 6     | 6                       | —     | 6     | 6                   | —     | 6     |
| A319 (2)    | 7                   | —     | 7     | 4                       | —     | 4     | 1                   | 2     | 3     |
| A320        | 9                   | —     | 9     | 7                       | —     | 7     | 7                   | —     | 7     |
| Total       | 75                  | —     | 75    | 70                      | —     | 70    | 67                  | 2     | 69    |

(1) Excludes aircraft owned, but not added to our operating fleet.

(2) Excludes 12 aircraft on lease to a European carrier until 2018.

#### Airbus Aircraft

In January 2015, we entered into a forward purchase agreement for four Airbus A320 series aircraft. We expect to take delivery of these aircraft in 2017.

In February 2015, we entered into forward purchase agreements for eight Airbus A320 series aircraft. We expect to take delivery of these aircraft from the second half of 2015 through 2017.

In April 2015, we purchased and took delivery of three Airbus A320 series aircraft which are expected to enter our operating fleet in the second half of 2015.



## Fleet Plan

The following table provides the number of operating aircraft expected to be in service at the end of the respective quarters:

|          | September 30,<br>2015 | December 31,<br>2015 | December 31,<br>2016 |
|----------|-----------------------|----------------------|----------------------|
| MD-80    | 52                    | 52                   | 50                   |
| B757-200 | 6                     | 5                    | 4                    |
| A319     | 7                     | 10                   | 17                   |
| A320     | 12                    | 15                   | 15                   |
| Total    | 77                    | 82                   | 86                   |

## Network

As of June 30, 2015, we offered scheduled service on 271 routes into 16 leisure destinations, and serviced 89 under-served cities in 41 states (including cities and destinations) in our route network. The following shows the number of destinations and under-served cities served, and routes operated as of the dates indicated (includes cities served seasonally):

|                      | June 30, 2015 | December 31, 2014 | June 30, 2014 |
|----------------------|---------------|-------------------|---------------|
| Leisure destinations | 16            | 13                | 13            |
| Under-served cities  | 89            | 83                | 85            |
| Total cities         | 105           | 96                | 98            |
| Total routes         | 271           | 233               | 236           |

## Trends and Uncertainties

Fuel costs, in the long-term, remain uncertain and fuel cost volatility could materially affect our future operating costs.

Of our 271 routes as of June 30, 2015, new markets (cities added within the last year) accounted for 91 percent of the quarter over quarter ASM growth, and over 50 percent of our network is now on the East Coast. In addition, we announced four new Fort Lauderdale routes expected to begin service in the fourth quarter 2015, and inaugural service to Rochester, NY starting in October 2015. This geographical shift is expected to have a continuing impact on our ancillary third party product sales as rental car day sales have historically performed better on the East Coast, while hotel room night sales have historically been driven by our Las Vegas passengers. We also continue to increase service to more medium-sized cities such as Cincinnati, OH; Pittsburgh, PA; and Indianapolis, IN. To date, these markets have performed well and have not attracted any significant competition, but additional competition in these markets could affect their profitability.

A significant portion of our growth in the second quarter and into the third quarter is attributable to off-peak flying (Tuesdays, Wednesdays and Saturdays). Off-peak flying puts pressure on unit revenues, but has had a positive effect on our profitability. We expect to continue to add off-peak flying as long as it remains accretive to our income.

We have two employee groups which have voted for union representation: pilots and flight attendants. These employees make up approximately 51 percent of our total employee base.

In March 2015, concerned about rumors of a threatened strike by our pilots, we commenced an action in the United States District Court for the District of Nevada seeking to enjoin the pilots from striking, on the grounds that such an action would be unlawful under the Railway Labor Act. We prevailed as the Court has issued a preliminary injunction

against a strike at this time.

In December 2010, our flight attendants elected union representation with the Transport Workers Union. In July 2015, a group of our flight attendants began the process to seek decertification from representation by having an applicant file for a representation election. If the National Mediation Board approves holding an election, a vote will be held to determine whether the union will be decertified.

In December 2012, our flight dispatchers elected union representation with the International Brotherhood of Teamsters, Airline Division. In April 2015, they elected to discontinue representation.

Any labor actions following an inability to reach collective bargaining agreements could materially impact our operations during the continuance of any such activity. See Part II, Item 1, Legal Proceedings, of this quarterly report for further information.

## RESULTS OF OPERATIONS

Comparison of three months ended June 30, 2015 to three months ended June 30, 2014

### Operating Revenue

**Scheduled service revenue.** Scheduled service revenue for the second quarter 2015 decreased \$2.9 million, or 1.5 percent compared with 2014. The decrease was primarily driven by a 14.3 percent decrease in scheduled service average fare, offset by a 15.0 percent increase in scheduled service passengers attributable to a 19.7 percent increase in scheduled service departures. The decline in scheduled service average base fare is consistent with industry performance as more capacity has been added throughout the industry in response to lower fuel prices and other economic factors.

**Air-related charges.** Ancillary air-related charges for the second quarter 2015 increased \$27.7 million, or 32.2 percent compared with 2014. Scheduled service passengers increased 15.0 percent, and optimization efforts related to certain ancillary products and fees drove a 15.0 percent increase in average ancillary air-related fare per passenger. Our ongoing optimization efforts include a focus on seat assignment fees, customer convenience fees and other miscellaneous initiatives.

**Third party products.** Third party products revenue in the second quarter 2015 increased 13.7 percent over the same period in 2014. This was driven by a 34.9 percent increase in rental car days, a 15.0 percent increase in scheduled service passengers, and a higher proportion of routes serving the East Coast. The increase in rental car revenue was offset by the effect of a 9.6 percent decrease in hotel room night production, mostly due to a 2.2 percent decline in Las Vegas passengers (our largest hotel market) as well as weakness in the Canadian dollar, which has negatively affected our hotel take rate.

The following table details ancillary revenue per scheduled service passenger from air-related charges and third party products:

|   | Three Months Ended June 30, |         | Percentage |   |
|---|-----------------------------|---------|------------|---|
|   | 2015                        | 2014    | Change     |   |
| Air-related charges                                     | \$46.74                     | \$40.65 | 15.0       | % |
| Third party products                                    | 4.52                        | 4.58    | (1.3       | ) |
| Total ancillary revenue per scheduled service passenger | \$51.26                     | \$45.23 | 13.3       | % |

The following table details the calculation of ancillary revenue from third party products. Third party products consist of revenue from the sale of hotel rooms, ground transportation (rental cars and hotel shuttle products), attraction and show tickets, and fees we receive from other merchants selling products through our website:

|   | Three Months Ended June 30, |           | Percentage |   |
|---|-----------------------------|-----------|------------|---|
| (in thousands except room nights and rental car days) | 2015                        | 2014      | Change     |   |
| Gross ancillary revenue - third party products        | \$35,978                    | \$32,362  | 11.2       | % |
| Cost of goods sold                                    | (24,681                     | ) (22,184 | ) 11.3     |   |
| Transaction costs (a)                                 | (321                        | ) (521    | ) (38.4    | ) |
| Ancillary revenue - third party products              | \$10,976                    | \$9,657   | 13.7       |   |

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|   |         |         |          |   |
|---|---------|---------|----------|---|
| As percent of gross ancillary revenue - third party | 30.5    | % 29.8  | % 0.7 pp |   |
| Hotel room nights                                   | 123,412 | 136,485 | (9.6     | ) |
| Rental car days                                     | 330,570 | 245,033 | 34.9     | % |

(a) Includes payment expenses and travel agency commissions.

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Fixed fee contract revenue. Fixed fee contract revenue for the second quarter 2015 increased nominally from 2014, as no significant changes to fixed fee flying agreements occurred.

Other revenue. Other revenue for the second quarter 2015 increased \$5.4 million compared with 2014, primarily from aircraft lease revenue related to 12 Airbus A320 series aircraft currently on lease to a European carrier, for which revenue was not generated until June 2014.

#### Operating Expenses

We primarily evaluate our expense management by comparing our costs per passenger and per ASMs across different periods, which enables us to assess trends in each expense category. The following table presents operating expense per passenger for the indicated periods. The table also presents operating expense per passenger, excluding fuel, a statistic which provides management and investors the ability to measure and monitor our cost performance absent fuel price volatility. Both the cost and availability of fuel are subject to many economic and political factors beyond our control.

|   | Three Months Ended June 30, |          | Percentage<br>Change |
|---|-----------------------------|----------|----------------------|
|   | 2015                        | 2014     |                      |
| Aircraft fuel                                   | \$32.11                     | \$48.75  | (34.1)%              |
| Salary and benefits                             | 21.76                       | 22.06    | (1.4)                |
| Station operations                              | 9.93                        | 9.40     | 5.6                  |
| Maintenance and repairs                         | 9.63                        | 10.00    | (3.7)                |
| Sales and marketing                             | 2.34                        | 3.10     | (24.5)               |
| Aircraft lease rentals                          | 0.28                        | 0.89     | (68.5)               |
| Depreciation and amortization                   | 10.11                       | 9.21     | 9.8                  |
| Other   | 6.96                        | 5.81     | 19.8                 |
| Operating expense per passenger                 | \$93.12                     | \$109.22 | (14.7)%              |
| Operating expense per passenger, excluding fuel | \$61.01                     | \$60.47  | 0.9%                 |

The following table presents unit costs, defined as Operating CASM, for the indicated periods. The table also presents Operating CASM, excluding fuel, which represents operating expenses, less aircraft fuel expense, divided by ASMs. As on a per passenger basis, excluding fuel on a per ASM basis provides management and investors the ability to measure and monitor our cost performance absent fuel price volatility.

|                                  | Three Months Ended June 30, |         | Percentage<br>Change |
|----------------------------------|-----------------------------|---------|----------------------|
|                                  | 2015                        | 2014    |                      |
| Aircraft fuel                    | 2.95                        | ¢ 4.57  | ¢ (35.4)%            |
| Salary and benefits              | 1.99                        | 2.07    | (3.9)                |
| Station operations               | 0.91                        | 0.88    | 3.4                  |
| Maintenance and repairs          | 0.88                        | 0.94    | (6.4)                |
| Sales and marketing              | 0.21                        | 0.29    | (27.6)               |
| Aircraft lease rentals           | 0.03                        | 0.08    | (62.5)               |
| Depreciation and amortization    | 0.93                        | 0.86    | 8.1                  |
| Other                            | 0.63                        | 0.54    | 16.7                 |
| Operating expense per ASM (CASM) | 8.53                        | ¢ 10.23 | ¢ (16.6)%            |
| CASM, excluding fuel             | 5.58                        | ¢ 5.66  | ¢ (1.4)%             |

Aircraft fuel expense. Aircraft fuel expense decreased \$25.4 million, or 24.3 percent, for the second quarter 2015 compared to 2014. The decrease was primarily the result of a 35.0 percent decrease in system average fuel cost per gallon, offset by a 16.4 percent increase in system fuel gallons consumed, which was the result of a 17.5 percent increase in total system capacity. The Airbus aircraft flew 30.7 percent of our scheduled service ASMs in the second quarter 2015, compared to 21.9 percent in 2014. The additional Airbus flying positively affected fuel efficiency as

reflected in a slight increase of ASMs per gallon to 70.1 in the second quarter 2015.

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**Salary and benefits expense.** Salary and benefits expense for the second quarter 2015 increased \$6.3 million, or 13.3 percent, compared to 2014. The increase is partially attributable to a 14.1 percent increase in full-time equivalent employees ("FTE"), specifically a substantial increase in flight crew FTEs necessary to support the growth in our average number of in service aircraft. This growth led to a significant reduction in seniority and a reduced average per-employee cost. We also experienced a 64.1 percent increase in our bonus accrual as a result of a 64.4 percent increase in operating income quarter over quarter, offset by a decrease in stock compensation expense of 44.0 percent due to a decline in our stock price during the quarter.

**Station operations expense.** Station operations expense for the second quarter 2015 increased \$4.3 million, or 21.4 percent. This change is in line with a 19.7 percent increase in scheduled service departures and a marginal increase in station expense per departure, resulting from an increased number of flights into larger cities with higher airport fees.

**Maintenance and repairs expense.** Maintenance and repairs expense for the second quarter 2015 increased \$2.3 million, or 10.7 percent, compared to the same period in 2014, as our average number of aircraft in service increased by 9.4 percent. We also had one additional heavy maintenance event in 2015 compared to 2014.

**Sales and marketing expense.** Sales and marketing expense for the second quarter 2015 decreased \$0.9 million compared to the same period in 2014, primarily due to a reduction in credit card fees incurred as the credit card surcharge implemented in the fourth quarter 2014 is applied as a reduction to this expense.

**Aircraft lease rentals expense.** Taking into consideration a \$2.0 million supplemental rent accrual reversal, in June 2014, for two Airbus A320 series aircraft purchased in the second quarter 2014 (previously leased), aircraft lease rental expense for the second quarter 2015 decreased \$1.2 million compared to the same period in 2014, as we flew fewer sub-service flights in 2015.

**Depreciation and amortization expense.** Depreciation and amortization expense for the second quarter 2015 increased \$5.2 million, or 26.1 percent, compared to 2014. This increase is due to a 9.4 percent increase in the average number of operating aircraft, as well as depreciation taken on 12 purchased aircraft leased to a European carrier since June 2014, which are non-ASM producing.

**Other expense.** Other expense for the second quarter 2015 increased \$4.7 million, or 37.7 percent, compared to 2014. This increase is primarily due to expenses incurred to support improvement and development of technology projects.

#### Other (Income) Expense

Other (income) expense for the second quarter 2015 increased \$3.1 million compared to the same period in 2014. The increase is due to additional interest expense from increased borrowings, primarily driven by the issuance of \$300.0 million of senior unsecured notes which did not occur until June 2014.

#### Income Tax Expense

Our effective income tax rate was 37.1 percent for the three months ended June 30, 2015, down slightly from 37.2 percent for the same period of 2014.

#### Comparison of six months ended June 30, 2015 to six months ended June 30, 2014

##### Operating Revenue

**Scheduled service revenue.** Scheduled service revenue for the six months ended June 30, 2015 decreased \$5.9 million, or 1.5 percent, compared with 2014. The decrease was primarily the result of a 12.0 percent decrease in scheduled service average fare, offset by an 11.9 percent increase in scheduled service passengers attributable to a 14.9 percent increase in scheduled service departures. The decline in scheduled service average base fare is consistent with industry performance as more capacity has been added throughout the industry in response to lower fuel prices and other economic factors.

Air-related charges. Ancillary air-related charges for the six months ended June 30, 2015 increased \$47.3 million, or 27.6 percent, compared with 2014. This increase was primarily due to an 11.9 percent increase in scheduled service passengers as well as our optimization efforts related to certain ancillary products and fees, which drove a 14.0 percent increase in average ancillary air-related fare per passenger in 2015 compared to 2014. Our ongoing optimization efforts include a focus on seat assignment fees, customer convenience fees and other miscellaneous initiatives.

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Third party products. Third party products revenue for the six months ended June 30, 2015 increased \$1.5 million, or 7.3 percent, over the same period in 2014, partially due to an 11.9 percent increase in scheduled service passengers. We also achieved a 20.5 percent increase in rental car days sold, primarily in our East Coast markets. The revenue impact of this growth was offset by the effect of a 7.6 percent decrease in hotel room nights driven by a 5.0 percent decline in Las Vegas passengers (our largest hotel market) as well as weakness in the Canadian dollar, which has negatively affected our hotel take rate.

The following table details ancillary revenue per scheduled service passenger from air-related charges and third party products:

|   | Six Months Ended June 30, |         | Percentage |   |
|---|---------------------------|---------|------------|---|
|   | 2015                      | 2014    | Change     |   |
| Air-related charges                                     | \$46.98                   | \$41.21 | 14.0       | % |
| Third party products                                    | 4.68                      | 4.88    | (4.1)      | ) |
| Total ancillary revenue per scheduled service passenger | \$51.66                   | \$46.09 | 12.1       | % |

The following table details the calculation of ancillary revenue from third party products. Third party products consist of revenue from the sale of hotel rooms, ground transportation (rental cars and hotel shuttle products), attraction and show tickets, and fees we receive from other merchants selling products through our website:

| (in thousands except room nights and rental car days) | Six Months Ended June 30, |          | Percentage |   |
|---|---------------------------|----------|------------|---|
|   | 2015                      | 2014     | Change     |   |
| Gross ancillary revenue - third party products        | \$73,293                  | \$68,101 | 7.6        | % |
| Cost of goods sold                                    | (50,650)                  | (46,835) | 8.1        | ) |
| Transaction costs (a)                                 | (870)                     | (979)    | (11.1)     | ) |
| Ancillary revenue - third party products              | \$21,773                  | \$20,287 | 7.3        | ) |
| As percent of gross ancillary revenue - third party   | 29.7                      | % 29.8   | % (0.1) pp | ) |
| Hotel room nights                                     | 258,842                   | 280,245  | (7.6)      | ) |
| Rental car days                                       | 634,138                   | 526,344  | 20.5       | % |

(a) Includes payment expenses and travel agency commissions.

Fixed fee contract revenue. Fixed fee contract revenue for the six months ended June 30, 2015 increased \$1.7 million compared with 2014, mostly due to NCAA March Madness flights in which we did not participate in the prior year as a result of flight crew availability.

Other revenue. Other revenue for the six months ended June 30, 2015 increased \$13.6 million compared with 2014, primarily from aircraft lease revenue related to 12 Airbus A320 series aircraft currently on lease to a European carrier, for which revenue was not generated until June 2014.



## Operating Expenses

The following table presents operating expense per passenger for the indicated periods.

|   | Six Months Ended June 30, |          | Percentage<br>Change |    |
|---|---------------------------|----------|----------------------|----|
|   | 2015                      | 2014     |                      |    |
| Aircraft fuel                                   | \$31.51                   | \$50.62  | (37.8                | )% |
| Salary and benefits                             | 23.77                     | 22.23    | 6.9                  |    |
| Station operations                              | 10.24                     | 10.05    | 1.9                  |    |
| Maintenance and repairs                         | 9.56                      | 9.97     | (4.1                 | )  |
| Sales and marketing                             | 2.72                      | 3.43     | (20.7                | )  |
| Aircraft lease rentals                          | 0.30                      | 2.69     | (88.8                | )  |
| Depreciation and amortization                   | 10.44                     | 9.06     | 15.2                 |    |
| Other   | 6.94                      | 5.64     | 23.0                 |    |
| Operating expense per passenger                 | \$95.48                   | \$113.69 | (16.0                | )% |
| Operating expense per passenger, excluding fuel | \$63.97                   | \$63.07  | 1.4                  | %  |

The following table presents unit costs, defined as Operating CASM, for the indicated periods.

|                                  | Six Months Ended June 30, |         | Percentage<br>Change |    |
|----------------------------------|---------------------------|---------|----------------------|----|
|                                  | 2015                      | 2014    |                      |    |
| Aircraft fuel                    | 2.85                      | ¢ 4.57  | ¢ (37.6              | )% |
| Salary and benefits              | 2.15                      | 2.01    | 7.0                  |    |
| Station operations               | 0.93                      | 0.91    | 2.2                  |    |
| Maintenance and repairs          | 0.86                      | 0.90    | (4.4                 | )  |
| Sales and marketing              | 0.25                      | 0.31    | (19.4                | )  |
| Aircraft lease rentals           | 0.03                      | 0.24    | (87.5                | )  |
| Depreciation and amortization    | 0.94                      | 0.82    | 14.6                 |    |
| Other                            | 0.63                      | 0.50    | 26.0                 |    |
| Operating expense per ASM (CASM) | 8.64                      | ¢ 10.26 | ¢ (15.8              | )% |
| CASM, excluding fuel             | 5.79                      | ¢ 5.69  | ¢ 1.8                | %  |

**Aircraft fuel expense.** Aircraft fuel expense decreased \$64.7 million, or 30.3 percent, for the six months ended June 30, 2015 compared to 2014. The decrease was primarily due to a 37.3 percent decrease in system average fuel cost per gallon, offset by an 11.1 percent increase in system fuel gallons consumed, which was the result of an 11.7 percent increase in system capacity. The Airbus aircraft flew 28.9 percent of our scheduled service ASMs during the six months ended June 30, 2015, compared to 19.9 percent in 2014. The additional Airbus flying positively affected fuel efficiency as reflected in a slight increase of ASMs per gallon to 70.2 for the first half of 2015.

**Salary and benefits expense.** Salary and benefits expense for the six months ended June 30, 2015 increased \$18.4 million, or 19.6 percent, compared to 2014. The increase is primarily attributable to a 14.1 percent increase in the number of FTEs necessary to support a 14.9 percent increase in scheduled service departures, enabled by 7.4 percent growth in average number of operating aircraft, and our overall operational needs. Additionally, we experienced a 76.2 percent increase in our bonus accrual as a result of a 76.7 percent increase in operating income, as well as a 41.7 percent increase to stock compensation expense due to meaningful stock price appreciation year over year.

**Station operations expense.** Station operations expense for the six months ended June 30, 2015 increased \$5.9 million, or 14.0 percent, on a 14.9 percent increase in scheduled service departures.

**Maintenance and repairs expense.** Maintenance and repairs expense for the six months ended June 30, 2015 increased \$3.1 million, or 7.4 percent, compared with the same period in 2014, as our average number of aircraft in service increased by 7.4 percent.





Sales and marketing expense. Sales and marketing expense for the six months ended June 30, 2015 decreased \$1.6 million, or 11.1 percent, compared to the same period in 2014, largely due to a reduction in credit card fees incurred as the credit card surcharge implemented in the fourth quarter 2014 is applied as a reduction to this expense.

Aircraft lease rentals expense. Taking into consideration a \$2.0 million supplemental rent accrual reversal for two Airbus A320 series aircraft purchased in the second quarter 2014 (previously leased), aircraft lease rentals expense for the six months ended June 30, 2015 decreased \$9.9 million compared to the same period in 2014. This decrease was primarily due to a significant reduction in sub-service flights needed as pilot availability stabilized in 2015.

Depreciation and amortization expense. Depreciation and amortization expense for the six months ended June 30, 2015 increased \$11.1 million, or 29.0 percent, compared to 2014, due to a 7.4 percent increase in the average number of operating aircraft, as well as depreciation taken on 12 purchased aircraft leased to a European carrier since June 2014, which are non-ASM producing.

Other expense. Other expense for the six months ended June 30, 2015 increased \$8.9 million, or 37.3 percent, compared to 2014. This increase is primarily due to elevated crew training events during the first quarter as well as expenses incurred to support improvement and development of technology projects.

#### Other (Income) Expense

Other (income) expense for the six months ended June 30, 2015 increased \$6.9 million compared to the same period in 2014. The increase is due to additional interest expense from increased borrowings, primarily driven by the issuance of \$300.0 million of senior unsecured notes which did not occur until June 2014.

#### Income Tax Expense

Our effective income tax rate decreased to 36.5 percent for the six months ended June 30, 2015, down from 37.2 percent for the same period of 2014. The decrease is primarily due to a reduction in the executive compensation deduction limitation and a one-time tax benefit related to the liquidation of a subsidiary.

## Comparative Consolidated Operating Statistics

The following tables set forth our operating statistics for the three and six months ended June 30, 2015 and 2014:

|   | Three Months Ended June 30, |           | Percent  |
|---|-----------------------------|-----------|----------|
|   | 2015                        | 2014      | Change*  |
| Operating statistics (unaudited):                         |                             |           |          |
| Total system statistics:                                  |                             |           |          |
| Passengers  | 2,462,822                   | 2,143,662 | 14.9     |
| Revenue passenger miles (RPMs) (thousands)                | 2,307,065                   | 2,030,638 | 13.6     |
| Available seat miles (ASMs) (thousands)                   | 2,690,457                   | 2,289,201 | 17.5     |
| Load factor   | 85.7                        | % 88.7    | % (3.0 ) |
| Operating revenue per ASM (RASM)** (cents)                | 11.97                       | 12.69     | (5.7 )   |
| Operating expense per ASM (CASM) (cents)                  | 8.53                        | 10.23     | (16.6 )  |
| Fuel expense per ASM (cents)                              | 2.95                        | 4.56      | (35.3 )  |
| Operating CASM, excluding fuel (cents)                    | 5.58                        | 5.66      | (1.4 )   |
| Operating expense per passenger                           | \$93.12                     | \$109.22  | (14.7 )  |
| Fuel expense per passenger                                | \$32.11                     | \$48.75   | (34.1 )  |
| Operating expense per passenger, excluding fuel           | \$61.01                     | \$60.47   | 0.9      |
| ASMs per gallon of fuel                                   | 70.1                        | 69.5      | 0.9      |
| Departures  | 17,659                      | 14,675    | 20.3     |
| Block hours   | 40,919                      | 34,466    | 18.7     |
| Average stage length (miles)                              | 896                         | 912       | (1.8 )   |
| Average number of operating aircraft during period        | 74.4                        | 68.0      | 9.4      |
| Average block hours per aircraft per day                  | 6.0                         | 5.6       | 7.1      |
| Full-time equivalent employees at end of period           | 2,557                       | 2,241     | 14.1     |
| Fuel gallons consumed (thousands)                         | 38,361                      | 32,944    | 16.4     |
| Average fuel cost per gallon                              | \$2.06                      | \$3.17    | (35.0 )  |
| Scheduled service statistics:                             |                             |           |          |
| Passengers  | 2,426,985                   | 2,110,481 | 15.0     |
| Revenue passenger miles (RPMs) (thousands)                | 2,279,600                   | 2,002,546 | 13.8     |
| Available seat miles (ASMs) (thousands)                   | 2,628,205                   | 2,238,546 | 17.4     |
| Load factor   | 86.7                        | % 89.5    | % (2.8 ) |
| Departures  | 16,949                      | 14,157    | 19.7     |
| Average passengers per departure                          | 143                         | 149       | (4.0 )   |
| Scheduled service seats per departure                     | 167.6                       | 168.8     | (0.7 )   |
| Block hours   | 39,794                      | 33,577    | 18.5     |
| Yield (cents)   | 8.17                        | 9.45      | (13.5 )  |
| Scheduled service revenue per ASM (PRASM) (cents)         | 7.09                        | 8.45      | (16.1 )  |
| Total ancillary revenue per ASM** (cents)                 | 4.73                        | 4.26      | 11.0     |
| Total scheduled service revenue per ASM (TRASM)** (cents) | 11.82                       | 12.71     | (7.0 )   |
| Average fare — scheduled service                          | \$76.77                     | \$89.63   | (14.3 )  |
| Average fare — ancillary air-related charges              | \$46.74                     | \$40.65   | 15.0     |
| Average fare — ancillary third party products             | \$4.52                      | \$4.58    | (1.3 )   |
| Average fare — total                                      | \$128.03                    | \$134.86  | (5.1 )   |
| Average stage length (miles)                              | 912                         | 924       | (1.3 )   |
| Fuel gallons consumed (thousands)                         | 37,379                      | 32,159    | 16.2     |
| Average fuel cost per gallon                              | \$2.08                      | \$3.20    | (35.0 )  |
| Percent of sales through website during period            | 95.0                        | % 93.2    | % 1.8    |

\* Except load factor and percent of sales through website during period, which are presented as a percentage point change.

\*\* Various components of these measures do not have a direct correlation to ASMs. These figures are provided on a per ASM basis so as to facilitate comparison with airlines reporting revenues on a per ASM basis.

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|   | Six Months Ended June 30, |           | Percent  |
|---|---------------------------|-----------|----------|
|   | 2015                      | 2014      | Change*  |
| Operating statistics (unaudited):                         |                           |           |          |
| Total system statistics:                                  |                           |           |          |
| Passengers  | 4,719,057                 | 4,216,382 | 11.9     |
| Revenue passenger miles (RPMs) (thousands)                | 4,498,533                 | 4,112,138 | 9.4      |
| Available seat miles (ASMs) (thousands)                   | 5,216,488                 | 4,670,340 | 11.7     |
| Load factor   | 86.2                      | % 88.0    | % (1.8 ) |
| Operating revenue per ASM (RASM)** (cents)                | 12.49                     | 12.70     | (1.7 )   |
| Operating expense per ASM (CASM) (cents)                  | 8.64                      | 10.26     | (15.8 )  |
| Fuel expense per ASM (cents)                              | 2.85                      | 4.57      | (37.6 )  |
| Operating CASM, excluding fuel (cents)                    | 5.79                      | 5.69      | 1.8      |
| Operating expense per passenger                           | \$95.48                   | \$113.69  | (16.0 )  |
| Fuel expense per passenger                                | \$31.51                   | \$50.62   | (37.8 )  |
| Operating expense per passenger, excluding fuel           | \$63.97                   | \$63.07   | 1.4      |
| ASMs per gallon of fuel                                   | 70.2                      | 69.8      | 0.6      |
| Departures  | 33,646                    | 29,176    | 15.3     |
| Block hours   | 79,652                    | 70,814    | 12.5     |
| Average stage length (miles)                              | 912                       | 936       | (2.6 )   |
| Average number of operating aircraft during period        | 73.0                      | 68.0      | 7.4      |
| Average block hours per aircraft per day                  | 6.0                       | 5.8       | 3.4      |
| Full-time equivalent employees at end of period           | 2,557                     | 2,241     | 14.1     |
| Fuel gallons consumed (thousands)                         | 74,363                    | 66,945    | 11.1     |
| Average fuel cost per gallon                              | \$2.00                    | \$3.19    | (37.3 )  |
| Scheduled service statistics:                             |                           |           |          |
| Passengers  | 4,650,688                 | 4,155,509 | 11.9     |
| Revenue passenger miles (RPMs) (thousands)                | 4,443,218                 | 4,061,734 | 9.4      |
| Available seat miles (ASMs) (thousands)                   | 5,085,910                 | 4,566,481 | 11.4     |
| Load factor   | 87.4                      | % 88.9    | % (1.5 ) |
| Departures  | 32,270                    | 28,092    | 14.9     |
| Average passengers per departure                          | 144                       | 148       | (2.7 )   |
| Scheduled service seats per departure                     | 167.8                     | 168.6     | (0.5 )   |
| Block hours   | 77,340                    | 68,962    | 12.1     |
| Yield (cents)   | 8.71                      | 9.67      | (9.9 )   |
| Scheduled service revenue per ASM (PRASM) (cents)         | 7.61                      | 8.60      | (11.5 )  |
| Total ancillary revenue per ASM** (cents)                 | 4.72                      | 4.19      | 12.6     |
| Total scheduled service revenue per ASM (TRASM)** (cents) | 12.33                     | 12.79     | (3.6 )   |
| Average fare — scheduled service                          | \$83.18                   | \$94.50   | (12.0 )  |
| Average fare — ancillary air-related charges              | \$46.98                   | \$41.21   | 14.0     |
| Average fare — ancillary third party products             | \$4.68                    | \$4.88    | (4.1 )   |
| Average fare — total                                      | \$134.84                  | \$140.59  | (4.1 )   |
| Average stage length (miles)                              | 926                       | 950       | (2.5 )   |
| Fuel gallons consumed (thousands)                         | 72,379                    | 65,366    | 10.7     |
| Average fuel cost per gallon                              | \$2.02                    | \$3.22    | (37.3 )  |
| Percent of sales through website during period            | 95.2                      | % 93.7    | % 1.5    |

\* Except load factor and percent of sales through website during period, which are presented as a percentage point change.

\*\* Various components of these measures do not have a direct correlation to ASMs. These figures are provided on a per ASM basis so as to facilitate comparison with airlines reporting revenues on a per ASM basis.



## LIQUIDITY AND CAPITAL RESOURCES

### Current liquidity

Cash, restricted cash and investment securities (short-term and long-term) decreased from \$428.8 million at December 31, 2014 to \$423.8 million at June 30, 2015. Restricted cash represents escrowed funds under fixed fee contracts and cash collateral against letters of credit required by hotel properties for guaranteed room availability, airports and certain other parties. Investment securities represent highly liquid marketable securities which are available-for-sale. Under our fixed fee flying contracts, we require our customers to prepay for flights to be provided by us. The prepayments are escrowed until the flight is completed and are recorded as restricted cash with a corresponding amount as air traffic liability. Our restricted cash balance decreased from \$12.0 million at December 31, 2014 to \$8.9 million at June 30, 2015.

As of June 30, 2015, our unrestricted cash balances and investment securities (including short-term and long-term investments) were \$414.9 million.

During the first six months of 2015, our primary source of funds was \$230.7 million generated by our operations, as well as \$64.0 million of financing proceeds. Our operating cash flows and recent borrowings have allowed us to return value to shareholders and invest in the growth of our fleet, information technology infrastructure and development, and maintain our cash position, while meeting short-term obligations. Our future capital needs are primarily for the acquisition of additional aircraft, including our existing Airbus A320 series aircraft purchase agreements. We believe we have more than adequate liquidity resources through our operating cash flows, borrowings, and cash balances, to meet our future contractual obligations. We continue to consider raising funds through debt financing on an opportunistic basis.

In addition to our recurring quarterly cash dividend, we plan to continue to repurchase our stock in the open market and consider special cash dividends, subject to availability of cash resources and compliance with our debt covenants. In July 2015, our Board of Directors increased the authorization under our stock repurchase plan to \$100.0 million. There is no expiration date for the program.

### Debt

Our long-term debt obligations increased from \$593.1 million as of December 31, 2014 to \$627.6 million as of June 30, 2015.

### Sources and Uses of Cash

**Operating Activities.** During the six months ended June 30, 2015, our operating activities provided \$230.7 million of cash compared to \$147.2 million during the same period of 2014. Operating cash inflows are primarily derived from providing air transportation to customers, for which the majority of tickets are purchased prior to the day travel is provided.

Operating cash flows for the six months ended June 30, 2015 and 2014 were impacted primarily by our results of operations, as well as changes in air traffic liability and accrued liabilities. Net cash provided during the six months ended June 30, 2015 increased compared to the same period of 2014 primarily due to our increased net income, after adjustments for non-cash items such as an increase of \$11.1 million in depreciation and amortization expense and an increase of \$12.1 million in air traffic liability in 2015.

**Investing Activities.** Cash used in investing activities was \$126.8 million for the six months ended June 30, 2015 compared to \$36.5 million for the same period in 2014. During the six months ended June 30, 2015 and 2014, our primary use of cash was for the purchase of property and equipment of \$132.5 million and \$115.0 million, respectively. These purchases were offset by proceeds from the maturities of investment securities, net of purchases,

of \$5.9 million and \$76.6 million, for 2015 and 2014, respectively.

Financing Activities. Cash used in financing activities for the six months ended June 30, 2015 was \$100.1 million, compared to \$126.9 million of cash provided by financing activities for the same period in 2014. During the six months ended June 30, 2015, we paid cash dividends of \$52.3 million and repurchased common stock for \$82.8 million. These were offset by \$34.5 million of proceeds from the issuance of debt, net of principal payments. During the same period in 2014, our primary use of cash was the payment of cash dividends of \$41.8 million and repurchase of common stock for \$73.5 million. These uses were more than offset by \$242.8 million of proceeds from the issuance of debt, net of principal payments, including \$300.0 million from the closing of our high yield bond in June 2014.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A description of our critical accounting policies is included in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2014. There has been no material change to these policies during the six months ended June 30, 2015.

## SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this quarterly report on Form 10-Q, and in this section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” that are based on our management’s beliefs and assumptions and on information currently available to our management. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, fleet plan, financing plans, competitive position, industry environment, potential growth opportunities, future service to be provided and the effects of future regulation and competition. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words “believe,” “expect,” “anticipate,” “intend,” “plan,” “estimate,” “project” or similar expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in the forward-looking statements. Important risk factors that could cause our results to differ materially from those expressed in the forward-looking statements may be found in our periodic reports filed with the Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov). These risk factors include, without limitation, volatility of fuel costs, labor issues, the ability to obtain regulatory approvals as needed, the effect of economic conditions on leisure travel, debt balances, debt covenants, terrorist attacks, risks inherent to airlines, demand for air services to our leisure destinations from the markets served by us, our dependence on our leisure destination markets, the competitive environment, an accident involving, or problems with, our aircraft, our reliance on our automated systems, our reliance on third parties who provide facilities or services to us, the possible loss of key personnel, economic and other conditions in markets in which we operate, aging aircraft and other governmental regulation, increases in maintenance costs and cyclical and seasonal fluctuations in our operating results.

Any forward-looking statements are based on information available to us today and we undertake no obligation to update publicly any forward-looking statements, whether as a result of future events, new information or otherwise.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are subject to certain market risks, including commodity prices (specifically aircraft fuel). The adverse effects of changes in these markets could pose potential losses as discussed below. The sensitivity analysis provided does not consider the effects that such adverse changes may have on overall economic activity, nor does it consider additional actions we may take to mitigate our exposure to such changes. Actual results may differ.

**Aircraft Fuel.** Our results of operations can be significantly impacted by changes in the price and availability of aircraft fuel. Aircraft fuel expense represented 33.0 percent of our operating expenses for the six months ended June 30, 2015. Increases in fuel prices, or a shortage of supply, could have a material effect on our operations and operating results. Based on our fuel consumption for the three and six months ended June 30, 2015, a hypothetical ten percent increase in the average price per gallon of fuel would have increased fuel expense by approximately \$7.8 million and \$14.9 million, respectively.

**Interest Rates.** We have market risk associated with changing interest rates due to the short-term nature of our cash and investment securities at June 30, 2015, which totaled \$93.5 million in cash and cash equivalents and \$286.9 million of short-term investments. We invest available cash in government and corporate debt securities, investment grade commercial paper, and other highly rated financial instruments. Because of the short-term nature of these



investments, the returns earned closely parallel short-term floating interest rates. A hypothetical 100 basis point change in interest rates for the three and six months ended June 30, 2015 would have affected interest income from cash and investment securities by \$0.7 million and \$1.8 million, respectively.

As of June 30, 2015, we had \$278.4 million, including current maturities, of variable-rate notes payable. A hypothetical 100 basis point change in market interest rates for the three and six ended June 30, 2015 would not have a material effect on the fair value of our variable-rate debt instruments or impact on our earnings or cash flow associated with our variable-rate debt.

As of June 30, 2015, we had \$349.2 million, including current maturities, of fixed-rate debt, which had a fair value of \$352.8 million. A hypothetical 100 basis point change in market rates would not have a material impact on the fair value of this fixed-rate debt nor would it impact our earnings or cash flow associated with this fixed-rate debt.

See Item 7A "Quantitative and Qualitative Disclosures About Market Risk" in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, for further information about market risk.

#### Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures. As of the end of the period covered by this report, under the supervision and with the participation of our management, including our chief executive officer ("CEO") and chief financial officer ("CFO"), we evaluated the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, or the "Exchange Act"). Based on this evaluation, our management, including our CEO and CFO, has concluded that our disclosure controls and procedures are designed, and are effective, to give reasonable assurance that the information we are required to disclose is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Based upon this evaluation, the CEO and CFO concluded that our disclosure controls and procedures are effective in providing reasonable assurance that information required to be disclosed in our reports filed with or submitted to the SEC under the Exchange Act is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal controls. There were no changes in our internal control over financial reporting that occurred during the quarter ending June 30, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings

In November 2013, the International Brotherhood of Teamsters ("IBT") commenced an action in the United States District Court for the District of Nevada on behalf of Allegiant Air's pilots claiming that we unilaterally changed existing work rules in violation of the Railway Labor Act (RLA). The suit focuses, in large part, on our implementation of a new flight duty crew scheduling system to comply with revised FAA pilot flight, duty, and rest regulations that became effective in January 2014. The proceeding seeks injunctive and make-whole relief, requiring Allegiant to return to the "status quo" as it existed before the implementation of the FAA compliant work rules, pending negotiations on this issue and other collateral issues. The court issued a preliminary injunction in July 2014 requiring us to make certain changes to our policies to be consistent with prior practices affecting the pilots, including changes to our FAA compliant crew scheduling system, to better account for pilot seniority and to provide greater predictability for the pilots. We appealed that decision to the U.S. Court of Appeals for the Ninth Circuit which issued a decision in June 2015 vacating the injunction on the ground that Allegiant's pilots had not been represented for collective bargaining purposes prior to the IBT's certification, and thus Allegiant was not under any obligation to maintain the status quo during its negotiations with the IBT. The IBT has petitioned the Ninth Circuit to rehear the case en banc. The underlying litigation has been stayed while the petition is pending and would likely be dismissed should the petition be denied.

On March 30, 2015, concerned about rumors of a threatened strike by our pilots, we commenced an action in the United States District for the District of Nevada seeking to enjoin the pilots from striking, on the grounds that such an action would be unlawful under the Railway Labor Act. We obtained a temporary restraining order enjoining the strike on April 1, 2015. The court subsequently held a hearing on our preliminary injunction motion and, on May 1, 2015, granted that motion and issued a preliminary injunction against the threatened strike. IBT appealed that order. Both the appellate proceedings and the underlying litigation have been stayed pending resolution of IBT's petition for rehearing of the Ninth Circuit's decision in the prior litigation, as that decision, if upheld, would dispose of this case in its entirety, in Allegiant's favor.

In January 2015, we filed a declaratory judgment action in the Nevada District Court in Clark County, Nevada, against Windmill Durango Office, LLC in connection with our exercise of the early termination option with respect to our ten year lease of our former Company headquarters. The lawsuit seeks clarification as to the amount of unamortized broker commissions and tenant improvements owed to the landlord on lease termination, and whether the early termination option was properly exercised. Our chairman of the board and another director own a 30 percent and 11.4 percent interest in Windmill Durango Office, LLC, respectively. Neither Mr. Gallagher nor Mr. Redmond has the right to direct or participate in the management of the limited liability company.

There are inherent risks in any litigation. We are subject to certain other legal and administrative actions we consider routine to our business activities. We believe the ultimate outcome of any pending legal or administrative matters will not have a material adverse impact on our financial position, liquidity or results of operations.

## Item 1A. Risk Factors

We have evaluated our risk factors and determined there are no changes to the risk factors set forth in Part I, Item 1A in the Form 10-K since we filed our Annual Report on Form 10-K on February 26, 2015.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Our Repurchases of Equity Securities

The following table reflects the repurchases of our common stock during the second quarter of 2015:

| Period         | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (in thousands) (1) |
|----------------|----------------------------------|------------------------------|--|---|
| April 2015 (2) | 743                              | \$168.12                     | —  |   |
| May 2015       | 178,327                          | 160.38                       | 178,327  |   |
| June 2015 (2)  | 240                              | 175.99                       | —  |   |
| Total          | 179,310                          | \$160.43                     | 178,327  | \$8,991   |

(1) Represents the remaining dollar amount of open market purchases of our common stock which has been authorized by the Board of Directors under a share repurchase program.

(2) Total number of shares purchased during the quarter from employees who vested a portion of their restricted stock grants. These stock repurchases were made at the election of each employee pursuant to an offer to repurchase by us. In each case, the shares repurchased constituted the portion of vested shares necessary to satisfy income tax withholding requirements.

In July 2015, our Board of Directors increased the authorization of stock repurchases to \$100.0 million. There is no expiration date for the program.

## Item 3. Defaults Upon Senior Securities

None

## Item 4. Mine Safety Disclosures

Not applicable

## Item 5. Other Information

None

Item 6. Exhibits

- 3.1 Articles of Incorporation (1)
- 3.2 Bylaws of the Company (2)
- 31.1 Rule 13a - 14(a) / 15d - 14(a) Certification of Principal Executive Officer
- 31.2 Rule 13a - 14(a) / 15d - 14(a) Certification of Principal Financial Officer
- 32 Section 1350 Certifications
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Labels Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

- (1) Incorporated by reference to Exhibit filed with Registration Statement #333-134145 filed by the Company with the Commission and amendments thereto.
- (2) Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the Commission on February 23, 2015.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALLEGIANT TRAVEL COMPANY

Date: July 31, 2015

By: /s/ Scott Sheldon  
Scott Sheldon, as duly authorized officer of the Company  
(Chief Financial Officer) and as Principal Financial Officer