

Allegiant Travel CO  
Form 10-Q  
August 08, 2012

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, 2012

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  
(I.R.S. Employer Identification No.)

8360 S. Durango Drive,  
Las Vegas, Nevada  
(Address of Principal Executive Offices)

89113  
(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 Web site, 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

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

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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 August 1, 2012 was 19,234,359.

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Allegiant Travel Company

Form 10-Q  
June 30, 2012

INDEX

<b>PART I. FINANCIAL INFORMATION</b>	
<b>ITEM 1. Unaudited Condensed Consolidated Financial Statements</b>	<b>3</b>
· Condensed Consolidated Balance Sheet as of June 30, 2012 (unaudited) and December 31, 2011	3
· Condensed Consolidated Statement of Income for the three and six months ended June 30, 2012 and 2011 (unaudited)	4
· Condensed Consolidated Statement of Comprehensive Income for the three and six months ended June 30, 2012 and 2011 (unaudited)	5
· Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2012 and 2011 (unaudited)	6
· Notes to Condensed Consolidated Financial Statements (unaudited)	7
<b>ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</b>	<b>12</b>
<b>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</b>	<b>24</b>
<b>ITEM 4. Controls and Procedures</b>	<b>25</b>
<b>PART II. OTHER INFORMATION</b>	<b>25</b>
<b>ITEM 1. Legal Proceedings</b>	<b>25</b>
<b>ITEM 1A. Risk Factors</b>	<b>25</b>
<b>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</b>	<b>26</b>
<b>ITEM 6. Exhibits</b>	<b>26</b>

## PART 1. FINANCIAL INFORMATION

## Item 1. Unaudited Condensed Consolidated Financial Statements

ALLEGIANT TRAVEL COMPANY  
CONDENSED CONSOLIDATED BALANCE SHEET  
(in thousands, except for share amounts)

	June 30, 2012 (unaudited)	December 31, 2011
<b>Current assets:</b>		
Cash and cash equivalents	\$ 170,981	\$ 150,740
Restricted cash	13,736	13,986
Short-term investments	201,226	154,779
Accounts receivable, net	14,305	12,866
Expendable parts, supplies and fuel, net of allowance for obsolescence of \$575 and \$395 at June 30, 2012 and December 31, 2011, respectively	14,240	14,539
Prepaid expenses	27,406	24,861
Deferred income taxes	13	13
Other current assets	5,122	4,577
Total current assets	447,029	376,361
Property and equipment, net	342,169	307,842
Restricted cash, net of current portion	1,500	1,500
Long-term investments	17,924	14,007
Investment in and advances to unconsolidated affiliates, net	2,227	1,980
Deposits and other assets	9,872	5,053
Total assets	\$ 820,721	\$ 706,743
<b>Current liabilities:</b>		
Current maturities of long-term debt	\$ 11,445	\$ 7,885
Accounts payable	22,961	16,756
Accrued liabilities	41,913	34,096
Air traffic liability	157,719	118,768
Total current liabilities	234,038	177,505
<b>Long-term debt and other long-term liabilities:</b>		
Long-term debt, net of current maturities	144,731	138,184
Deferred income taxes	38,962	39,550
Total liabilities	417,731	355,239
<b>Stockholders' equity:</b>		
Common stock, par value \$.001, 100,000,000 shares authorized; 21,738,881 and 21,573,794 shares issued; 19,234,359 and 19,079,907 shares outstanding, as of June 30, 2012 and December 31, 2011, respectively	22	22
Treasury stock, at cost, 2,504,522 and 2,493,887 shares at June 30, 2012 and December 31, 2011, respectively	(98,412 )	(97,835 )
Additional paid in capital	192,212	187,013
Accumulated other comprehensive loss, net	(48 )	(26 )
Retained earnings	309,216	262,330

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Total stockholders' equity	402,990	351,504
Total liabilities and stockholders' equity	\$820,721	\$706,743

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

**ALLEGIANT TRAVEL COMPANY**  
**CONDENSED CONSOLIDATED STATEMENT OF INCOME**  
(unaudited, in thousands, except for per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
<b>OPERATING REVENUE:</b>				
Scheduled service revenue	\$ 151,648	\$ 133,309	\$ 313,282	\$ 261,842
<b>Ancillary revenue:</b>				
Air-related charges	57,478	45,991	112,622	91,307
Third party products	9,782	8,291	18,904	15,280
Total ancillary revenue	67,260	54,282	131,526	106,587
Fixed fee contract revenue	9,815	9,470	19,446	21,492
Other revenue	2,443	3,388	4,763	3,759
Total operating revenue	231,166	200,449	469,017	393,680
<b>OPERATING EXPENSES:</b>				
Aircraft fuel	94,218	86,454	196,629	165,641
Salary and benefits	33,229	29,884	66,497	60,749
Station operations	19,572	16,553	39,101	33,026
Maintenance and repairs	15,092	20,132	36,557	36,347
Sales and marketing	5,491	5,407	10,951	10,657
Aircraft lease rentals	-	330	-	645
Depreciation and amortization	13,162	10,156	25,132	20,046
Other	8,534	10,821	15,971	18,030
Total operating expenses	189,298	179,737	390,838	345,141
<b>OPERATING INCOME</b>	<b>41,868</b>	<b>20,712</b>	<b>78,179</b>	<b>48,539</b>
<b>OTHER (INCOME) EXPENSE:</b>				
Loss (earnings) from unconsolidated affiliates, net	81	(20 )	36	(14 )
Interest income	(267 )	(386 )	(511 )	(662 )
Interest expense	2,200	2,235	4,274	3,031
Total other (income) expense	2,014	1,829	3,799	2,355
<b>INCOME BEFORE INCOME TAXES</b>	<b>39,854</b>	<b>18,883</b>	<b>74,380</b>	<b>46,184</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>14,671</b>	<b>6,934</b>	<b>27,494</b>	<b>17,082</b>
<b>NET INCOME</b>	<b>\$ 25,183</b>	<b>\$ 11,949</b>	<b>\$ 46,886</b>	<b>\$ 29,102</b>
<b>Earnings per share to common stockholders:</b>				
Basic	\$ 1.31	\$ 0.63	\$ 2.45	\$ 1.53
Diluted	\$ 1.30	\$ 0.62	\$ 2.42	\$ 1.52
<b>Weighted average shares outstanding used in computing earnings per share to common stockholders:</b>				
Basic	19,053	18,931	19,021	18,920
Diluted	19,303	19,131	19,234	19,116

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



ALLEGIANT TRAVEL COMPANY  
 CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
 (unaudited, in thousands)

	Three months ended June		Six months ended June 30,	
	2012	30, 2011	2012	2011
Net income	\$25,183	\$11,949	\$46,886	\$29,102
Other comprehensive income (loss):				
Unrealized income (loss) on available-for-sale securities	101	64	(35 )	50
Income tax (benefit) expense related to unrealized loss on available-for-sale securities	(37 )	(24 )	13	(18 )
Total other comprehensive income (loss)	64	40	(22 )	32
Total comprehensive income	\$25,247	\$11,989	\$46,864	\$29,134

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



ALLEGIANT TRAVEL COMPANY  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
(unaudited, in thousands)

	Six months ended June 30,	
	2012	2011
<b>OPERATING ACTIVITIES:</b>		
Net income	\$46,886	\$29,102
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,132	20,046
Loss on aircraft and other equipment disposals	1,473	3,816
Provision for obsolescence of expendable parts, supplies and fuel	180	90
Amortization of deferred financing costs and original issue discount	275	150
Stock-based compensation expense	2,130	2,387
Deferred income taxes	(588)	5,943
Excess tax benefits from stock-based compensation	(604)	(173)
Changes in certain assets and liabilities:		
Restricted cash	250	904
Accounts receivable	(1,439)	(1,578)
Expendable parts, supplies and fuel	119	(3,759)
Prepaid expenses	(10,045)	(2,055)
Other current assets	(545)	(303)
Accounts payable	6,826	14,514
Accrued liabilities	7,639	(5,299)
Air traffic liability	38,951	40,485
Net cash provided by operating activities	116,640	104,270
<b>INVESTING ACTIVITIES:</b>		
Purchase of investment securities	(199,574)	(212,013)
Proceeds from maturities of investment securities	149,187	103,938
Purchase of property and equipment, including pre-delivery deposits	(61,095)	(51,246)
Interest during refurbishment of aircraft	(235)	-
Proceeds from sale of property and equipment	398	230
Investment in unconsolidated affiliates, net	(247)	(3,140)
Increase in deposits and other assets	2,458	5,608
Net cash used in investing activities	(109,108)	(156,623)
<b>FINANCING ACTIVITIES:</b>		
Excess tax benefits from stock-based compensation	604	173
Proceeds from exercise of stock options	2,646	1,047
Proceeds from the issuance of long-term debt	13,981	132,000
Repurchase of common stock	(577)	(1,800)
Principal payments on long-term debt	(3,945)	(17,831)
Payments for deferred financing costs	-	(2,325)
Net cash provided by financing activities	12,709	111,264
Net change in cash and cash equivalents	20,241	58,911
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	150,740	113,293
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 170,981	\$ 172,204

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Non- cash transactions:

Deposits applied against flight equipment purchase	\$-	\$1,277
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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

Note 1 — Summary of Significant Accounting Policies

**Basis of Presentation:** The accompanying unaudited condensed consolidated financial statements include the accounts of Allegiant Travel Company (the “Company”) and its wholly-owned operating subsidiaries. Investments in affiliates in which ownership interest ranges from 20 to 50 percent and provide the Company 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 condensed 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 have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission for Form 10-Q. These unaudited interim condensed 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, 2011, filed with the Securities and Exchange Commission.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

**Reclassifications:** Certain reclassifications have been made to the prior period’s financial statements to conform to 2012 classifications. These reclassifications had no effect on the previously reported net income.

Note 2 — Newly Issued Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2011-05, “Presentation of Comprehensive Income” (“ASU 2011-05”), which amends Topic 220 in the FASB Accounting Standards Codification (“ASC”) for the presentation of comprehensive income in the financial statements. This new guidance allows companies the option to present other comprehensive income in either a single continuous statement or in two separate but consecutive statements. Under both alternatives, companies are required to present each component of net income and comprehensive income. In December 2011, FASB issued Accounting Standards Update No. 2011-12, “Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05” (“ASU 2011-12”), to defer the effective date of the specific requirement to present items reclassified out of accumulated other comprehensive income to net income alongside their respective components of net income and other comprehensive income. All other provisions of this update, which are to be applied retrospectively, are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company adopted the updated guidance during the first quarter of 2012. Adoption impacts the presentation of the Company’s consolidated financial statements, but does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income.

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (“IFRS”),” which amends Topic 820 in the ASC and relates to a major convergence project of the FASB and the International Accounting Standards Board to improve IFRS and U.S. GAAP. This new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between IFRS and U.S. GAAP. The new guidance also changes some fair value measurement principles and enhances disclosure requirements related to activities in Level 3 of the fair value hierarchy. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. Adoption of the new guidance has not had a material effect on the Company’s consolidated financial statements.

## Note 3 — 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 loss in stockholders' equity. 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. As of June 30, 2012, all of the Company's long-term investments had contractual maturities of less than 18 months. Investment securities consisted of the following:

	As of June 30, 2012				As of December 31, 2011			
	Cost	Gains	(Losses)	Market Value	Cost	Gains	(Losses)	Market Value
Money market funds	\$34,195	\$-	\$-	\$34,195	\$50,559	\$-	\$-	\$50,559
Certificates of deposit	5,908	-	(10 )	5,898	-	-	-	-
Commercial paper	87,557	6	(26 )	87,537	63,466	4	(19 )	63,451
Municipal debt securities	145,046	2	(7 )	145,041	140,249	11	(14 )	140,246
Government debt securities	17,002	1	(6 )	16,997	14,008	-	(1 )	14,007
Corporate debt securities	45,846	10	(18 )	45,838	26,847	2	(9 )	26,840
<b>Total</b>	<b>\$335,554</b>	<b>\$19</b>	<b>\$(67 )</b>	<b>\$335,506</b>	<b>\$295,129</b>	<b>\$17</b>	<b>\$(43 )</b>	<b>\$295,103</b>

The amortized cost of investment securities sold is determined by the specific identification method with any realized gains or losses reflected in other (income) expense. The Company had no realized losses during the three and six months ended June 30, 2012 or 2011.

The Company believes unrealized losses related to debt securities are not other-than-temporary.

## Note 4 — Long-Term Debt

Long-term debt consisted of the following:

	As of June 30, 2012	As of December 31, 2011
Senior secured term loan facility, interest at LIBOR plus 4.25% with LIBOR floor of 1.5%, due March 2017	\$122,949	\$123,522
Notes payable, secured by aircraft, interest at 4.65%, due July 2016	14,000	-
Notes payable, secured by aircraft, interest at 4.95%, due October 2015	5,930	6,739
Notes payable, secured by aircraft, interest at 6.28%, due March 2015	4,995	5,814
Notes payable, secured by aircraft, interest at 6.26%, due August 2014	8,302	9,994
Total long-term debt	156,176	146,069
Less current maturities	(11,445 )	(7,885 )
Long-term debt, net of current maturities	\$144,731	\$138,184

### Senior Secured Term Loan Facility

On March 10, 2011, the Company borrowed \$125,000 under a senior secured term loan facility (the "Term Loan"). The Term Loan matures on March 10, 2017, bears interest based on the London Interbank Offered Rate ("LIBOR") or prime rate with interest payable quarterly or more frequently until maturity and includes a LIBOR floor of 1.5%. The Term Loan contains a restriction on future borrowing, provides for maximum annual capital expenditures and contains other affirmative and negative covenants. In addition to quarterly principal payments equal to 0.25% of the initial loan, the Term Loan also provides for mandatory and optional prepayment provisions. In connection with the borrowing under the Term Loan, the Company made early payments in February 2011 of all existing debt obligations secured by its MD-80 aircraft. Proceeds from the Term Loan are also being used for the funding of current and future capital expenditure programs and general corporate purposes.

As of June 30, 2012, management believes the Company was in compliance with all covenants under the Term Loan.

Other

In June 2012, the Company borrowed \$14,000 under loan agreements secured by two Boeing 757-200 aircraft purchased in the first half of 2012. The notes payable issued under the loan agreements bear interest at 4.65% per annum and are payable in monthly installments through July 2016.

Note 5 — 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. No share repurchases were made under the program during the three or six months ended June 30, 2012. During the three months ended June 30, 2011, the Company repurchased 34,323 shares through open market purchases at an average cost of \$43.49 per share for a total expenditure of \$1,493. No share repurchases were made under the program during the first quarter of 2011. As of June 30, 2012, the Company had \$44,934 in unused stock repurchase authority remaining under the Board approved program.

Note 6 — Fair Value Measurements

Fair value measurements accounting standards define fair value, establish a consistent framework for measuring fair value, and require disclosures for each major asset and liability category measured at fair value on either a recurring or a nonrecurring 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. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a three-tier fair value hierarchy is established in accounting standards. The hierarchy prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of June 30, 2012, the Company held cash equivalents, short-term, and long-term investments that are required to be measured at fair value on a recurring basis. The Company uses the market approach valuation technique to determine fair value for these 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, corporate debt securities, and government 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 date, 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.

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Assets measured at fair value on a recurring basis at June 30, 2012 and December 31, 2011 were as follows:

Description	June 30, 2012	Fair Value Measurements at Reporting Date Using Quoted Prices		
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Cash equivalents</b>				
Money market funds	\$34,195	\$34,195	\$-	\$-
Commercial paper	1,211	-	1,211	-
Municipal debt securities	80,950	-	80,950	-
<b>Total cash equivalents</b>	<b>116,356</b>	<b>34,195</b>	<b>82,161</b>	<b>-</b>
<b>Short-term investments</b>				
Certificates of deposit	5,898	-	5,898	-
Commercial paper	86,326	-	86,326	-
Municipal debt securities	54,166	-	54,166	-
Corporate debt securities	45,838	-	45,838	-
Government debt securities	8,998	-	8,998	-
<b>Total short-term investments</b>	<b>201,226</b>	<b>-</b>	<b>201,226</b>	<b>-</b>
<b>Long-term investments</b>				
Municipal debt securities	9,925	-	9,925	-
Government debt securities	7,999	-	7,999	-
<b>Total long-term investments</b>	<b>17,924</b>	<b>-</b>	<b>17,924</b>	<b>-</b>
<b>Total investment securities</b>	<b>\$335,506</b>	<b>\$34,195</b>	<b>\$301,311</b>	<b>\$-</b>

Description	December 31, 2011	Fair Value Measurements at Reporting Date Using Quoted Prices		
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Cash equivalents</b>				
Money market funds	\$50,559	\$50,559	\$-	\$-
Commercial paper	12,030	-	12,030	-
Municipal debt securities	63,728	-	63,728	-
<b>Total cash equivalents</b>	<b>126,317</b>	<b>50,559</b>	<b>75,758</b>	<b>-</b>
<b>Short-term investments</b>				
Commercial paper	51,421	-	51,421	-
Municipal debt securities	76,518	-	76,518	-
Corporate debt securities	26,840	-	26,840	-
<b>Total short-term investments</b>	<b>154,779</b>	<b>-</b>	<b>154,779</b>	<b>-</b>



Long-term investments				
Government debt securities	14,007	-	14,007	-
Total long-term investments	14,007	-	14,007	-
Total investment securities	\$295,103	\$50,559	\$244,544	\$-

There were no significant transfers between Level 1 and Level 2 assets for the six month periods ended June 30, 2012 and 2011.

The carrying value for all long-term debt, including current maturities, owed by the Company as of June 30, 2012 and December 31, 2011, approximates fair value. The Company has determined the estimated fair value of its debt to be Level 3 as certain inputs used are unobservable. The fair value of the Company's long-term debt was estimated based on the current rates available to the Company for debt of the same remaining maturities and consideration of default and credit risk.

## Note 7 — Income Taxes

For the three and six months ended June 30, 2012, the Company did not have any material unrecognized tax benefits. The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. There was no significant accrued interest or penalties at June 30, 2012.

## 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 two methods. Under both methods, the exercise of employee stock options and stock-settled stock appreciation rights are 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.

Both methods resulted in the same diluted net income per share for the three months ended June 30, 2012 and 2011 and for the six months ended June 30, 2011. For the six months ended June 30, 2012, the second method above, which assumes unvested awards are not vested, was used in the computation because it was more dilutive than the first method above, which assumes vesting of awards using the treasury stock method. The following table sets forth the computation of net income per share, on a basic and diluted basis for the periods indicated (shares in table below in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
<b>Basic:</b>				
Net income	\$ 25,183	\$ 11,949	\$ 46,886	\$ 29,102
Less: Net income allocated to participating securities	(198 )	(73 )	(357 )	(165 )
Net income attributable to common stock	\$ 24,985	\$ 11,876	\$ 46,529	\$ 28,937
Net income per share, basic	\$ 1.31	\$ 0.63	\$ 2.45	\$ 1.53
Weighted-average shares outstanding	19,053	18,931	19,021	18,920
<b>Diluted:</b>				
Net income	\$ 25,183	\$ 11,949	\$ 46,886	\$ 29,102
Less: Net income allocated to participating securities	-	-	(353 )	-
Net income attributable to common stock	\$ 25,183	\$ 11,949	\$ 46,533	\$ 29,102
Net income per share, diluted	\$ 1.30	\$ 0.62	\$ 2.42	\$ 1.52

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Weighted-average shares outstanding	19,053	18,931	19,021	18,920
Dilutive effect of stock options, restricted stock and stock-settled stock appreciation rights	250	200	244	196
Adjusted weighted-average shares outstanding under treasury stock method	19,303	19,131	19,265	19,116
Participating securities excluded under two-class method	NA	NA	(31 )	NA
Adjusted weighted-average shares outstanding under two-class method	NA	NA	19,234	NA

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.

In November 2011, the Company entered into a purchase agreement to purchase up to 13 MD-80 aircraft and 12 JT8D-219 spare aircraft engines. As of June 30, 2012, the remaining contractual obligations under the purchase agreement were \$13,233 to be paid in 2012 and 2013, upon taking ownership of the remaining aircraft and spare engines.

## 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 month periods ended June 30, 2012 and 2011. Also discussed is our financial position as of June 30, 2012 and December 31, 2011. You should read this discussion in conjunction with our unaudited condensed 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, 2011. 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 2012 results

During the second quarter of 2012, we achieved an 18.1% operating margin resulting in net income of \$25.2 million on operating revenues of \$231.2 million. Our second quarter 2012 operating margin was the highest since the first quarter of 2010. Our strong operating results were driven by our unit cost performance for the quarter, with a reduction in our operating expense per ASM ("CASM") of 10.9%, from 11.40¢ to 10.16¢. Our total average fare per passenger of \$129.10 for the second quarter of 2012 decreased 2.7% from our record during the first quarter of 2012 of \$132.70 but was comparable to the \$128.30 we achieved in the second quarter of 2011. We were able to maintain our total average fare per passenger despite a 16.0% year-over-year increase in scheduled service passengers.

Our overall cost performance was favorably impacted by the recent decline in fuel prices, which resulted in an average fuel cost per gallon of \$3.14, down from \$3.28 in the first quarter of 2012, and \$3.22 in the second quarter of 2011. In addition, our operating expense per passenger, excluding fuel, decreased 11.4% during the quarter compared to the prior year as we had a 15.1% increase in system passengers with only a 1.9% increase in total non-fuel operating expenses. A major contributor to the non-fuel cost performance was a decrease in maintenance and repairs expense of 25.0% with the completion of our 2011 engine overhaul program.

Our scheduled service revenues in the second quarter 2012 increased \$18.3 million or 13.8% over second quarter 2011 due to a 16.0% increase in scheduled service passengers, offset by the effect of a 1.9% lower scheduled service average base fare. We substantially grew our average number of aircraft in revenue service by 16.3% from 51.0 aircraft during second quarter 2011 to 59.3 aircraft during second quarter 2012. The increase in average number of aircraft and the combination of increased seats in our MD-80 fleet and the utilization of our Boeing 757-200 aircraft with 223 seats (primarily one aircraft during the quarter with two aircraft beginning service in late June) drove a 20.4% increase in scheduled service available seat miles ("ASMs") during the quarter.

We achieved our record ancillary revenue per passenger of \$39.67 during the second quarter of 2012, a 6.8% increase from the same quarter in the prior year. The increase more than offset a 1.9% lower scheduled service average base fare. The increase was primarily attributable to the implementation of a fee for carry-on bin bags in April 2012. The fee for carry-on bin bags ranges from \$10 to \$30 (varying by routes and markets) if booked on the website and \$35 if purchased at the airport.

During the second quarter 2012, we successfully completed all requirements to enable us to gain flag carrier status and ETOPS certification. As a result of this certification, we were able to begin service to Hawaii in late June 2012

with routes from Las Vegas and Fresno, California to Honolulu. During the quarter, we also announced further expansion of service from five of our existing markets to begin in November 2012, which consists of service to Honolulu on five routes and service to Maui on one route.

In addition to Hawaii, we continue to expand our route network and extend our national footprint. In April 2012, we established an operational base and expanded service at Oakland International Airport with seven new routes to serve the San Francisco Bay Area. With the addition of these seven new routes, we serve a total of nine routes into the San Francisco Bay Area. We have also established a base of operations at Punta Gorda (Florida) with the expansion of service in June 2012 on four new routes into Punta Gorda. With the addition of these four new routes, we serve a total of seven routes into Punta Gorda.

During the second quarter of 2012, we continued our progress in the MD-80 aircraft seat reconfiguration program. As of June 30, 2012, we had 26 MD-80 aircraft with 166 seats in revenue service. These additional 16 seats have allowed us to grow capacity without adding incremental aircraft into our operating fleet. Our strategy is to convert each base to 166-seat MD-80 aircraft as soon as possible to optimize the selling effort in that particular base. Currently all of our MD-80 aircraft serving Bellingham, Phoenix-Mesa, Los Angeles and Oakland have been reconfigured to 166 seats with completion of the reconfiguration for our MD-80 aircraft serving Las Vegas to take place during the third quarter of 2012.

#### Aircraft

#### Operating Fleet

As of June 30, 2012, our total aircraft in service consisted of 58 MD-80 aircraft and three Boeing 757-200 aircraft. During the second quarter of 2012, we placed two Boeing 757-200 aircraft into service. 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, 2012			As of December 31, 2011			As of June 30, 2011		
	Own (a)(b)	Lease	Total (b)	Own (a)(b)	Lease (c)	Total(b)	Own (a)	Lease	Total
MD82/83/88s	56	-	56	52	2	54	47	2	49
MD87s (d)	2	-	2	2	-	2	2	-	2
B757-200	3	-	3	1	-	1	-	-	-
Total	61	-	61	55	2	57	49	2	51

(a) Does not include aircraft owned, but not added to our operating fleet as of the date indicated. See below for further information on our aircraft not yet in our operating fleet.

(b) Includes MD-80 aircraft (MD-82/83/88s) modified to a 166-seat configuration: June 30, 2012 – 26 and December 31, 2011 – seven.

(c) In December 2011, we exercised purchase options on two MD-80 aircraft and took ownership of these aircraft in January 2012. Subsequent to taking ownership of these two aircraft in January 2012, we no longer have any aircraft under operating leases.

(d) Used almost exclusively for fixed fee flying.

#### MD-80 Aircraft not in service

As of June 30, 2012, we had one MD-80 aircraft in storage which could be used for future growth opportunities. We continue to remove up to four of our MD-80 aircraft from service at a time in connection with reconfiguring them

from 150 to 166 seats.

#### Boeing 757-200 Aircraft

During the quarter, we acquired our sixth Boeing 757-200 aircraft which was the last of those under an existing purchase contract. As of June 30, 2012, we owned six Boeing 757-200 aircraft, of which three were in revenue service, two were leased out to third parties on a short-term basis and one was being prepared for revenue service. In July 2012, we placed this aircraft being prepared for revenue service into our operating fleet. We expect the remaining two aircraft currently leased out to be returned off lease during the fourth quarter of 2012 and added to revenue service in the first half of 2013.

## Network

We have increased the number of routes into our leisure destinations from 162 at June 30, 2011 to 182 routes at June 30, 2012, primarily from the expansion of service into the San Francisco Bay area and Punta Gorda, along with the introduction of service into Hawaii. We now serve 79 cities in 40 states (including small cities and destinations) through our route network. The following shows the number of destinations and small cities served, and routes operated as of the dates indicated (includes cities served seasonally):

	As of June 30, 2012	As of December 31, 2011	As of June 30, 2011
Leisure destinations	12	11	11
Small cities served	67	65	62
Total cities served	79	76	73
Total routes	182	171	162

## Trends and Uncertainties

We continue to experience volatility in fuel prices with a decrease in the second quarter of 2012. Our system average fuel cost per gallon for the second quarter of 2012 was \$3.14, a 2.5% year-over-year decrease from the same period of 2011 and a 4.3% sequential decrease compared to the three months ended March 31, 2012. The sequential decrease was after a 6.3% increase on our system average cost per gallon of \$3.08 during the fourth quarter of 2011 compared to \$3.28 during the first quarter of 2012. Fuel availability is subject to periods of market surplus and shortage and is affected by demand for heating oil, gasoline and other petroleum products. The cost of fuel cannot be predicted with any degree of certainty and fuel cost volatility will most likely have a significant impact on our future results of operations. We will continue to try to offset high fuel prices through our continued focus on capacity management, driving additional ancillary revenues and the execution of our low fixed, high variable cost model. We remain pleased with the strength and flexibility of our model and believe it has proven successful to maintain profitability in a high fuel price environment.

Our total average fare increased year-over-year by 6.0% during the first quarter and, in the second quarter of 2012, increased slightly despite a 16.0% year-over-year increase in scheduled service passengers. We believe drivers of this strong performance are our pricing strategy and capacity management along with a continued strong leisure travel demand environment. We believe our customer booking activity for future travel represents a demand for leisure travel which will continue to have a favorable impact on our scheduled service and ancillary revenues.

We continue to make progress on our automation projects including the upgrade of our current system platform and the transfer to our new website. During the second quarter of 2012, our new website went live and is currently utilized for a limited portion of our website traffic. We look to fully integrate all our traffic to the website during the second half of the year. We expect the continued improvement to our website and other automation enhancements will create additional revenue opportunities by allowing us to capitalize on customer loyalty with additional product offerings.

A recently reported settlement of a class action lawsuit against Visa and MasterCard may result in significant decreases in retailers' credit card transaction costs or may allow retailers to seek to recoup these costs by imposing charges on customers paying with credit cards. The lawsuit alleged anticompetitive practices by the credit card companies. The settlement remains subject to approval by the court and certain other parties. Further, it is uncertain as to the particulars of how the credit card companies will revise their rules in response to the settlement. In the meantime, we have in late July 2012 implemented a discount for paying with debit cards to drive higher debit card



usage in light of the significantly lower processing costs for our debit card transactions. We are hopeful that these developments will enable us to significantly lower our transaction processing costs or allow us to recoup these costs from customers in future periods, but the impact of these changes is far from certain at this time.

In July 2012, we received notification from the National Mediation Board (“NMB”) that the International Brotherhood of Teamsters, Airline Division has filed an application for a representation election on behalf of our pilots. This will be the first time our pilots have voted on union representation. If our employees unionize in the future and we are unable to reach agreement on the terms of their collective bargaining agreement, or we were to experience wide-spread employee dissatisfaction, we could be subject to work slowdowns or stoppages. Any of these events could have an adverse effect on our future results.

In July 2012, we announced our intention to acquire 19 Airbus A319 aircraft with 156 seats. We believe the introduction of the A319 into our operating fleet will support our future growth opportunities and is a continuation of our existing business model. We believe the current environment to acquire this type of aircraft presents similar opportunities as we experienced when we began adding MD-80 aircraft to our fleet.

## RESULTS OF OPERATIONS

Comparison of three months ended June 30, 2012 to three months ended June 30, 2011

The table below presents our operating expenses as a percentage of operating revenue for the periods indicated:

	Three months ended June 30,	
	2012	2011
Total operating revenues	100.0%	100.0%
Operating expenses:		
Aircraft fuel	40.8	43.1
Salaries and benefits	14.4	14.9
Station operations	8.5	8.3
Maintenance and repairs	6.5	10.1
Sales and marketing	2.4	2.7
Aircraft lease rentals	-	0.1
Depreciation and amortization	5.7	5.1
Other	3.6	5.4
Total operating expenses	81.9%	89.7%
Operating margin	18.1%	10.3%

## Operating Revenue

Our operating revenue increased 15.3% to \$231.2 million for the three months ended June 30, 2012, up from \$200.4 million for the same period of 2011 primarily due to a 13.8% increase in scheduled service revenue and a 23.9% increase in ancillary revenue. Scheduled service revenue and ancillary revenue increases were primarily driven by a 16.0% increase in scheduled service passengers on a 12.7% increase in scheduled service departures.

Scheduled service revenue. Scheduled service revenue increased 13.8% to \$151.6 million for the three months ended June 30, 2012, up from \$133.3 million in the same period of 2011. The increase was primarily driven by a 16.0% increase in the number of scheduled service passengers, offset by a 1.9% reduction in the scheduled service average base fare for the three months ended June 30, 2012, compared to the same period of 2011. Passenger growth was driven by a 12.7% increase in the number of scheduled service departures as we increased the average number of aircraft in service by 16.3% and by a 2.9% increase in the average number of passengers per departure. Of our year-over-year departure increase, 35.5% of the increase was on Orlando routes and 18.6% of the increase was on Oakland routes.

Ancillary revenue. Ancillary revenue increased 23.9% to \$67.3 million for the three months ended June 30, 2012, up from \$54.3 million in the same period of 2011, driven by a 16.0% increase in scheduled service passengers and a 6.8% increase in ancillary revenue per scheduled passenger from \$37.13 to \$39.67. The increase in our ancillary revenue per scheduled service passenger of \$2.54 was primarily attributable to increased bag fees from the implementation of a fee for carry-on bags in April 2012. The following table details ancillary revenue per scheduled service passenger from air-related charges and third party products:

	Three months ended			
	June 30,			
	2012	2011		% Change
Air-related charges	\$ 33.90	\$ 31.45		7.8%

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Third party products		5.77		5.68		1.6%
Total ancillary revenue per scheduled service passenger	\$	39.67	\$	37.13		6.8%

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)	Three months ended		% Change	
	2012	June 30, 2011		
Gross ancillary revenue - third party products	\$32,909	\$29,547	11.4	%
Cost of goods sold	(21,909)	(20,046)	9.3	%
Transaction costs (a)	(1,218)	(1,210)	0.7	%
Ancillary revenue - third party products	\$9,782	\$8,291	18.0	%
As percent of gross ancillary revenue - third party	29.7	28.1	1.6	pp
Hotel room nights	204,327	186,161	9.8	%
Rental car days	201,605	156,989	28.4	%

(a) Includes credit card fees and travel agency commissions

During the three months ended June 30, 2012, we generated gross revenue of \$32.9 million from third party products, which resulted in net revenue of \$9.8 million. For the second quarter in a row, we achieved rental car days in excess of 200,000. These rental car days grew year-over-year by 28.4% which outpaced our scheduled service passenger growth of 16.0%.

Fixed fee contract revenue. Fixed fee contract revenue increased 3.6% to \$9.8 million for the three months ended June 30, 2012, from \$9.5 million in the same period of 2011. The increase was mainly a result of a higher per-block hour rate on a reduction in total block hours from certain fixed fee agreements, primarily our agreement with Caesars Entertainment Inc. (“Caesars”). Under our agreement with Caesars, the per-block hour rate increases during periods of lower fuel cost reimbursements.

Other revenue. We generated other revenue of \$2.4 million for the three months ended June 30, 2012 compared to \$3.4 million in the same period of 2011, primarily from lease revenue for aircraft and flight equipment. In the first quarter of 2011, we leased three Boeing 757-200 aircraft to third parties on a short-term basis. In April 2012, one of these leased out aircraft was returned to us. The expected return dates of the remaining two leased out aircraft are in the fourth quarter of 2012.

#### Operating Expenses

Our operating expenses increased only 5.3% to \$189.3 million for the three months ended June 30, 2012 compared to \$179.7 million in the same period of 2011 despite an 18.1% increase in capacity. 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 (“per-passenger costs”). The table also presents operating expense per passenger, excluding fuel, which represents operating expenses, less aircraft fuel expense, divided by the number of passengers carried. This statistic 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		Percentage Change
	2012	June 30, 2011	
Aircraft fuel	\$ 52.50	\$ 55.43	(5.3) %
Salary and benefits	18.52	19.16	(3.3)
Station operations	10.91	10.61	2.8
Maintenance and repairs	8.41	12.91	(34.9)
Sales and marketing	3.06	3.47	(11.8)
Aircraft lease rentals	-	0.21	(100.0)
Depreciation and amortization	7.33	6.51	12.6
Other	4.75	6.94	(31.6)
Operating expense per passenger	\$ 105.48	\$ 115.24	(8.5)
Operating expense per passenger, excluding fuel	\$ 52.98	\$ 59.81	(11.4)%

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 Change
	2012	2011	
Aircraft fuel	5.06¢	5.48¢	(7.7)%
Salary and benefits	1.78	1.90	(6.3)
Station operations	1.05	1.05	-
Maintenance and repairs	0.81	1.28	(36.7)
Sales and marketing	0.29	0.34	(14.7)
Aircraft lease rentals	-	0.02	(100.0)
Depreciation and amortization	0.71	0.64	10.9
Other	0.46	0.69	(33.3)
Operating expense per ASM (CASM)	10.16¢	11.40¢	(10.9)%
CASM, excluding fuel	5.10¢	5.92¢	(13.9)%

Our CASM, excluding fuel, decreased 13.9%, primarily due to an 18.1% increase in system capacity, lower aircraft utilization of 4.9% and a slight increase in our average stage length of 1.3%. The system capacity increase enabled us to spread our increased operating expenses over more ASMs.

**Aircraft fuel expense.** Aircraft fuel expense increased \$7.8 million, or 9.0%, to \$94.2 million for the three months ended June 30, 2012, up from \$86.5 million in the same period of 2011. This change was due to an 11.8% increase in gallons consumed from 26.9 million to 30.0 million, offset by a 2.5% decrease in the average fuel cost per gallon from \$3.22 to \$3.14. The increase in gallons consumed is attributable to a 10.8% increase in our total system departures.

**Salary and benefits expense.** Salary and benefits expense increased 11.2% to \$33.2 million for the three months ended June 30, 2012 up from \$29.9 million in the same period of 2011. Excluding accrued employee bonus expense and stock compensation expense, salaries and benefits expense increased 7.0% attributable to a 12.3% increase in the number of full-time equivalent employees offset by a 4.7% reduction in salary and benefits expense per full-time equivalent employee. The number of full-time equivalent employees increased from 1,559 at June 30, 2011 to 1,750 at June 30, 2012 to support the growth of our aircraft fleet, our ongoing significant information technology enhancements and other company growth activities. The decrease in salary and benefits expense per full-time equivalent employee was attributable to the pilot base pay scale and the outsourcing of our station operations in Las Vegas in May 2011. The pilot base pay scale is variable based on operating margin which was lower in the prior periods on which the quarter's pilot base pay scale was based. Another major contributor to our salary and benefits expense increase was an increase in accrued employee bonus expense as a result of the year-over-year increase in operating income.

**Station operations expense.** Station operations expense increased 18.2% to \$19.6 million for the three months ended June 30, 2012 compared to \$16.6 million in the same period of 2011. The increase was primarily due to a year-over-year increase of 10.8% in system departures. In addition, our station operations expense per departure increased 6.8% compared to the prior year, as a result of increased fees at airports where we operate larger aircraft (Boeing 757-200) along with the outsourcing of our station operations in Las Vegas beginning in May 2011.

**Maintenance and repairs expense.** Maintenance and repairs expense decreased 25.0% to \$15.1 million for the three months ended June 30, 2012, compared to \$20.1 million in the same period of 2011. The decrease is primarily

attributable to a reduction in engine overhauls and heavy airframe maintenance events. We experienced higher engine overhaul expenses during the prior year as a result of our 2011 engine overhaul program. Throughout 2011, we made a substantial investment to increase the reliability and reduce the overall age of our engine portfolio.

Sales and marketing expense. Sales and marketing expense increased 1.6% to \$5.5 million for the three months ended June 30, 2012, compared to \$5.4 million for the same period of 2011. We experienced an 11.8% decrease in sales and marketing expense per passenger from \$3.47 to \$3.06 primarily due to a reduction in payment processing costs per passenger as a result of increased debit card usage.

Aircraft lease rentals expense. We had no aircraft lease rentals expense for the three months ended June 30, 2012 compared to \$0.3 million in the same period of 2011. In early January 2012, we took ownership of two MD-80 aircraft for which we exercised purchase options in December 2011 and which we were operating under operating lease agreements. Subsequent to taking ownership of these two aircraft, we no longer have any aircraft under operating leases.

Depreciation and amortization expense. Depreciation and amortization expense increased to \$13.2 million for the three months ended June 30, 2012, from \$10.2 million for the same period of 2011. The increase was driven by a 16.3% increase in the average number of operating aircraft and from MD-80 seat reconfiguration costs. As of June 30, 2012, we owned 61 aircraft in service (including three Boeing 757-200 aircraft and 26 MD-80 aircraft reconfigured to 166 seats) compared to 49 aircraft at the end of the same period in 2011. Of the three Boeing 757-200 aircraft in service at June 30, 2012, two were placed into service in June 2012.

Other expense. Other expense decreased to \$8.5 million for the three months ended June 30, 2012 from \$10.8 million for the same period of 2011. The decrease was primarily driven by a lower write-down of engine values in our consignment program for the three months ended June 30, 2012 compared to the same period in 2011. In addition, we experienced losses in the second quarter of 2011 from one MD-87 aircraft we permanently grounded and the disposal of one engine.

#### Other (Income) Expense

Other (income) expense increased from a \$1.8 million net other expense for the three months ended June 30, 2011 to \$2.0 million net other expense for the same period in 2012. The increase was primarily due to a reduction in interest income earned on unrestricted cash and investment securities balances for the three months ended June 30, 2012 compared to the same period in 2011 and from a loss from unconsolidated affiliates in second quarter 2012 compared to earnings in second quarter 2011.

#### Income Tax Expense

Our effective income tax rate was relatively flat at 36.8% for the three months ended June 30, 2012 compared to 36.7% for the same period of 2011. While we expect our tax rate to be fairly consistent in the near term, it will vary depending on recurring items such as the amount of income we earn in each state and the state tax rate applicable to such income. Discrete items during interim periods may also affect our tax rates.

Comparison of six months ended June 30, 2012 to six months ended June 30, 2011

The table below presents our operating expenses as a percentage of operating revenue for the periods indicated:

	Six months ended June 30,	
	2012	2011
Total operating revenues	100.0%	100.0%
Operating expenses:		
Aircraft fuel	41.9	42.1
Salaries and benefits	14.2	15.4
Station operations	8.3	8.4
Maintenance and repairs	7.8	9.2
Sales and marketing	2.3	2.7
Aircraft lease rentals	-	0.2
Depreciation and amortization	5.4	5.1
Other	3.4	4.6
Total operating expenses	83.3%	87.7%
Operating margin	16.7%	12.3%

#### Operating Revenue

Our operating revenue increased 19.1 % to \$469.0 million for the six months ended June 30, 2012 from \$393.7 million for the same period in 2011 primarily due to a 19.6% increase in scheduled service revenue and a 23.4% increase in ancillary revenue. Scheduled service revenue and ancillary revenue increases were primarily driven by a 16.9% increase in scheduled service passengers on a 14.4% increase in scheduled service departures.

Scheduled service revenue. Scheduled service revenue increased 19.6% to \$313.3 million for the six months ended June 30, 2012, from \$261.8 million in the same period of 2011. The increase was primarily driven by a 16.9% increase in scheduled service passengers and an increase of 2.3% in the scheduled service average base fare for the six months ended June 30, 2012 compared to the same period of 2011. Passenger growth was driven by a 14.4% increase in the number of scheduled service departures as we increased the average number of aircraft in service by 14.5%. Of our year-over-year departure increase, 33.6% of the increase was on Orlando routes and 16.3% of the increase was on Phoenix routes.



Ancillary revenue. Ancillary revenue increased 23.4% to \$131.5 million for the six months ended June 30, 2012, up from \$106.6 million in the same period of 2011, driven by a 16.9% increase in scheduled service passengers and a 5.5% increase in ancillary revenue per scheduled passenger from \$36.68 to \$38.70. The increase in our ancillary revenue per scheduled service passenger of \$2.02 was primarily attributable to increased bag fees from the implementation of a fee for carry-on bags in April 2012. The following table details ancillary revenue per scheduled service passenger from air-related charges and third party products:

	Six months ended June 30,		% Change
	2012	2011	
Air-related charges	\$ 33.14	\$ 31.42	5.5%
Third party products	5.56	5.26	5.7%
Total ancillary revenue per scheduled service passenger	\$ 38.70	\$ 36.68	5.5%

The following table details the calculation of ancillary revenue from third party products:

(in thousands)	Six months ended June 30,		% Change	
	2012	2011		
Gross ancillary revenue - third party products	\$65,777	\$56,084	17.3	%
Cost of goods sold	(44,353 )	(38,362 )	15.6	%
Transaction costs (a)	(2,520 )	(2,442 )	3.2	%
Ancillary revenue - third party products	\$18,904	\$15,280	23.7	%
As percent of gross ancillary revenue - third party	28.7	27.2	1.5	pp
Hotel room nights	389,171	340,537	14.3	%
Rental car days	410,943	314,472	30.7	%

(a) Includes credit card fees and travel agency commissions

During the six months ended June 30, 2012, we generated gross revenue of \$65.8 million from third party products, which resulted in net revenue of \$18.9 million. We achieved rental car days in excess of 200,000 for both the first and second quarters of 2012. These rental car days grew year-over-year by 30.7% which outpaced our scheduled service passenger growth of 16.9%.

Fixed fee contract revenue. Fixed fee contract revenue decreased 9.5% to \$19.4 million for the six months ended June 30, 2012, from \$21.5 million in the same period of 2011. The decrease in fixed fee contract revenue was primarily attributable to an overall decrease in block hours flown of 12.6% to 4,580 for the six months ended June 30, 2012 from 5,243 for the same period of 2011, based on our decision to reduce the availability of aircraft for ad-hoc flying compared to the prior year. We typically seek out additional ad-hoc flying during periods when aircraft are not utilized for scheduled service flying.

Other revenue. We generated other revenue of \$4.8 million for the six months ended June 30, 2012, compared to \$3.8 million in the same period of 2011, primarily from lease revenue for aircraft and flight equipment. In the first quarter of 2011, we leased three Boeing 757-200 aircraft to third parties on a short term basis of which one was returned to us in April 2012. The expected return dates of the remaining aircraft, under their respective leases, are through the fourth quarter of 2012.

Operating Expenses

Our operating expenses increased by 13.2% to \$390.8 million for the six months ended June 30, 2012, compared to \$345.1 million in the same period of 2011, largely due to an 18.7% increase in our aircraft fuel expense. 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:

	Six Months Ended		Percentage Change
	2012	June 30, 2011	
Aircraft fuel	\$ 54.71	\$ 53.43	2.4%
Salary and benefits	18.50	19.59	(5.6)
Station operations	10.88	10.65	2.2
Maintenance and repairs	10.17	11.72	(13.2)
Sales and marketing	3.06	3.44	(11.0)
Aircraft lease rentals	-	0.21	(100.0)
Depreciation and amortization	6.99	6.47	8.0
Other	4.45	5.82	(23.5)
Operating expense per passenger	\$ 108.76	\$ 111.33	(2.3)
Operating expense per passenger, excluding fuel	\$ 54.05	\$ 57.90	(6.6)%

The following table presents unit costs, defined as Operating CASM, and Operating CASM, excluding fuel, for the indicated periods:

	Six Months Ended June 30,		Percentage Change
	2012	2011	
Aircraft fuel	5.20¢	5.19¢	0.2%
Salary and benefits	1.76	1.90	(7.4)
Station operations	1.03	1.03	-
Maintenance and repairs	0.96	1.14	(15.8)
Sales and marketing	0.29	0.33	(12.1)
Aircraft lease rentals	-	-	-