

Allegiant Travel CO
Form 10-Q
May 09, 2014

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 March 31, 2014

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 20-4745737
(State or Other Jurisdiction of Incorporation or (I.R.S. Employer Identification No.)
Organization)

8360 S. Durango Drive,
Las Vegas, Nevada 89113
(Address of Principal Executive Offices) (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

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

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Non-accelerated filer
(Do not check if a smaller reporting company)

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 May 1, 2014 was 17,907,363.

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Allegiant Travel Company

Form 10-Q
March 31, 2014

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PART I. FINANCIAL INFORMATION

Item 1. Unaudited Consolidated Financial Statements

ALLEGIANT TRAVEL COMPANY
CONSOLIDATED BALANCE SHEETS

(in thousands, except for share amounts)

	March 31, 2014 (unaudited)	December 31, 2013
Current assets:		
Cash and cash equivalents	\$90,118	\$97,711
Restricted cash	10,774	10,531
Short-term investments	254,769	253,378
Accounts receivable	18,651	16,857
Expendable parts, supplies and fuel, net of an allowance for obsolescence of \$1,997 and \$1,702 at March 31, 2014 and December 31, 2013, respectively	17,642	19,428
Prepaid expenses	30,116	26,643
Deferred income taxes	3,503	4,206
Other current assets	1,350	1,167
Total current assets	426,923	429,921
Property and equipment, net	442,818	451,584
Restricted cash, net of current portion	305	305
Long-term investments	20,924	36,037
Investment in and advances to unconsolidated affiliates, net	2,138	1,655
Deposits and other assets	11,134	10,689
Total assets	\$904,242	\$930,191
Current liabilities:		
Current maturities of long-term debt	\$20,434	\$20,237
Accounts payable	21,927	15,823
Accrued liabilities	51,488	87,203
Air traffic liability	209,114	167,388
Total current liabilities	302,963	290,651
Long-term debt and other long-term liabilities:		
Long-term debt, net of current maturities	208,905	214,063
Deferred income taxes	49,505	48,160
Total liabilities	561,373	552,874
Stockholders' equity:		
Common stock, par value \$.001, 100,000,000 shares authorized; 22,143,224 and 22,036,893 shares issued; 17,907,911 and 18,544,248 shares outstanding, as of March 31, 2014 and December 31, 2013, respectively	22	22
Treasury stock, at cost, 4,235,313 and 3,492,645 shares at March 31, 2014 and December 31, 2013, respectively	(259,689)	(186,291)
Additional paid in capital	214,093	209,213
Accumulated other comprehensive loss, net	(4)	(12)
Retained earnings	387,020	352,811
Total Allegiant Travel Company stockholders' equity	341,442	375,743
Noncontrolling interest	1,427	1,574
Total equity	342,869	377,317
Total liabilities and stockholders' equity	\$904,242	\$930,191

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

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

	Three Months Ended March 31,	
	2014	2013
OPERATING REVENUE:		
Scheduled service revenue	\$203,521	\$179,933
Ancillary revenue:		
Air-related charges	85,454	76,813
Third party products	10,629	10,717
Total ancillary revenue	96,083	87,530
Fixed fee contract revenue	2,646	5,187
Other revenue	274	309
Total operating revenue	302,524	272,959
OPERATING EXPENSES:		
Aircraft fuel	108,949	108,491
Salary and benefits	46,439	41,162
Station operations	22,233	19,345
Maintenance and repairs	20,600	18,128
Sales and marketing	7,818	5,808
Aircraft lease rentals	9,429	303
Depreciation and amortization	18,431	16,892
Other	11,354	10,463
Total operating expenses	245,253	220,592
OPERATING INCOME	57,271	52,367
OTHER (INCOME) EXPENSE:		
(Earnings) loss from unconsolidated affiliates, net	3	(38)
Interest income	(205)	(262)
Interest expense	3,128	2,188
Total other expense	2,926	1,888
INCOME BEFORE INCOME TAXES	54,345	50,479
PROVISION FOR INCOME TAXES	20,270	18,648
NET INCOME	34,075	31,831
Net loss attributable to noncontrolling interest	(147)	(101)
NET INCOME ATTRIBUTABLE TO ALLEGIANT TRAVEL COMPANY	\$34,222	\$31,932
Earnings per share to common stockholders:		
Basic	\$1.87	\$1.66
Diluted	\$1.86	\$1.65
Weighted average shares outstanding used in computing earnings per share to common stockholders:		
Basic	18,166	19,081
Diluted	18,248	19,207

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

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

	Three Months Ended March 31,	
	2014	2013
Net income	\$34,075	\$31,831
Other comprehensive income:		
Unrealized gain on available-for-sale securities	13	83
Income tax expense related to unrealized gain or loss on available-for-sale securities	(5	) (31
Total other comprehensive income	8	52
Total comprehensive income	34,083	31,883
Comprehensive loss attributable to noncontrolling interest	(147	) (101
Comprehensive income attributable to Allegiant Travel Company	\$34,230	\$31,984

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

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

	Three Months Ended March 31,	
	2014	2013
OPERATING ACTIVITIES:		
Net income	\$34,075	\$31,831
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,431	16,892
Loss on aircraft and other equipment disposals	1,350	1,315
Provision for obsolescence of expendable parts, supplies and fuel	295	180
Amortization of deferred financing costs and original issue discount	149	183
Stock-based compensation expense	2,189	2,309
Deferred income taxes	2,048	4,207
Excess tax benefits from stock-based compensation	(1,323)	) (607)
Changes in certain assets and liabilities:		
Restricted cash	(243)	) (1,827)
Accounts receivable	(1,794)	) 4,019
Expendable parts, supplies and fuel	1,491	2,748
Prepaid expenses	(3,473)	) (2,287)
Other current assets	(183)	) 420
Accounts payable	7,427	5,123
Accrued liabilities	5,200	5,331
Air traffic liability	41,726	37,987
Net cash provided by operating activities	107,365	107,824
INVESTING ACTIVITIES:		
Purchase of investment securities	(66,086)	) (147,591)
Proceeds from maturities and sale of investment securities	79,802	95,627
Purchase of property and equipment, including pre-delivery deposits	(11,070)	) (13,097)
Interest during refurbishment of aircraft	—	(123)
Proceeds from sale of property and equipment	55	243
Investment in unconsolidated affiliates, net	(483)	) (709)
Change in deposits and other assets	(272)	) 10,187
Net cash provided by (used in) investing activities	1,946	(55,463)
FINANCING ACTIVITIES:		
Cash dividends paid to shareholders	(41,787)) —
Excess tax benefits from stock-based compensation	1,323	607
Proceeds from exercise of stock options and stock-settled SARs	2,240	189
Repurchase of common stock	(73,397)	) (23,180)
Principal payments on long-term debt	(4,987)	) (2,877)
Payments for deferred financing costs	(296)) —
Payments for sale of ownership interest in subsidiary	—	(50)
Net cash used in financing activities	(116,904)	) (25,311)
Net change in cash and cash equivalents	(7,593)	) 27,050
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	97,711	89,557
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$90,118	\$116,607
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Non- cash transactions:		
Assets acquired in sale of ownership interest in subsidiary	\$—	\$56

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

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ALLEGIANT TRAVEL COMPANY
 NOTES TO 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 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, 2013, 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 consolidated financial statements are not necessarily indicative of the results that may be expected for other interim periods or for the full year.

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 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 March 31, 2014, all of the Company's long-term investments consisted of government debt securities and municipal debt securities with contractual maturities of less than 18 months. Investment securities consisted of the following:

	As of March 31, 2014				As of December 31, 2013			
	Cost	Gains	(Losses)	Market Value	Cost	Gains	(Losses)	Market Value
Money market funds	\$239	\$—	\$—	\$239	\$20,172	\$—	\$—	\$20,172
Certificates of deposit	10,014	—	(4)	10,010	—	—	—	—
Commercial paper	77,790	8	(2)	77,796	75,905	8	(2)	75,911
Municipal debt securities	139,159	23	(1)	139,181	181,870	17	(19)	181,868

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Government debt securities	10,003	—	—	10,003	10,008	—	—	10,008
Corporate debt securities	39,073	—	(28)	39,045	45,150	—	(16)	45,134
Total	\$276,278	\$31	\$(35)	\$276,274	\$333,105	\$25	\$(37)	\$333,093

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 minimal realized losses for the three-months ended March 31, 2014 and 2013.

Note 3 — Long-Term Debt

Long-term debt consisted of the following:

	As of March 31, 2014	As of December 31, 2013
Senior secured term loan facility, interest at LIBOR plus 4.25% with LIBOR floor of 1.5%, due March 2017	\$ 120,944	\$ 121,230
Notes payable, secured by aircraft, interest at LIBOR plus 2.46%, due November 2019	46,450	48,000
Note payable, secured by real estate, interest at 2.86%, due October 2018	9,884	9,953
Notes payable, secured by aircraft, interest at 3.99%, due October 2018	43,575	45,775
Note payable, secured by aircraft, interest at 4.65%, due July 2016	8,486	9,342
Total long-term debt	229,339	234,300
Less current maturities	20,434	20,237
Long-term debt, net of current maturities	\$ 208,905	\$ 214,063

Senior Secured Term Loan Facility

In March 2011, the Company borrowed \$125,000 under a senior secured term loan facility (the “Term Loan”). The Term Loan matures in March 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 percent. The Term Loan contains restrictions 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 percent of the initial loan, the Term Loan also provides for mandatory and optional prepayment provisions.

The mandatory prepayment provisions are associated with cash proceeds from the sale of certain assets (which are not reinvested), cash proceeds from the issuance or incurrence of indebtedness for money borrowed in violation of the covenants in the Term Loan, cash proceeds from insurance or condemnation awards (which are not reinvested) and for 25 percent of the Company’s excess cash flow (as defined in the Term Loan) if the Company’s leverage ratio exceeds 1.5:1 as of the end of any year. In the event the Company does not reinvest the cash proceeds from the sale of certain assets or from insurance or condemnation awards or if the Company incurs indebtedness in violation of the covenants in the Term Loan, the prepayment will be due within three business days following the date of the event requiring the prepayment. The prepayment associated with a failure to meet the leverage ratio test would be payable within a specified number of days after the end of the year for the covenant calculation.

As of March 31, 2014, the Company is in compliance with all covenants under the Term Loan and no events occurred which would have required any prepayment of the debt.

In April 2014, the Company prepaid in full the \$120.9 million balance and accrued interest of \$0.2 million of the Company's Term Loan. See Note 9 — Subsequent Events for additional information related to the Term Loan repayment.

Other

In April 2014, the Company borrowed \$45.3 million under a loan agreement secured by 53 MD-80 aircraft. The note payable issued under the loan agreement bears interest at LIBOR plus 2.95 percent and is payable in monthly installments through April 2018.

In September 2013, the Company borrowed \$48,000 under a modified loan agreement secured by four Airbus A320 series aircraft. The notes payable issued under the modified loan agreement bear interest at 3.99 percent per annum and are payable in monthly installments through October 2018.

In October 2013, the Company borrowed \$10,000 under a loan agreement secured by real estate purchased for the Company's headquarter offices in the second quarter of 2013. The note payable issued under the loan agreement bears interest at 2.86 percent per annum and is payable in monthly installments through October 2018 when a balloon payment is due.

In November 2013, the Company borrowed \$48,000 under a loan agreement secured by four Airbus A320 series aircraft. The notes payable issued under the loan agreement bear interest at LIBOR plus 2.46 percent per annum and are payable in monthly installments through November 2019.

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 note payable issued under the loan agreements bears interest at 4.65 percent per annum and is payable in monthly installments through July 2016. In April 2014, the Company prepaid the portion of the note relating to one Boeing 757-200 aircraft in the amount of \$4.1 million. Currently, only one Boeing 757-200 remains encumbered under this loan agreement. See Note 9 — Subsequent Events.

Note 4 — 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. During the three months ended March 31, 2014, the Company repurchased 730,162 shares through open market purchases at an average price of \$98.82 per share for a total expenditure of \$72,157. During the three months ended March 31, 2013, the Company repurchased 284,283 shares through open market purchases at an average price of \$78.15 per share for a total expenditure of \$22,218. After an increase in repurchase authority approved in February 2014, the Company had \$67,657 in unused stock repurchase authority remaining as of March 31, 2014.

On November 14, 2013, the Company's Board of Directors declared a special cash dividend of \$2.25 per share on its outstanding common stock payable to stockholders of record on December 13, 2013. On January 3, 2014, the Company paid cash dividends of \$41,787 to these stockholders.

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, 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 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 March 31, 2014 and December 31, 2013 were as follows:

Description	March 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)	Significant Unobservable Inputs (Level 3)
Cash equivalents				
Money market funds	\$239	\$239	\$—	\$—
Municipal debt securities	342	—	342	—
Total cash equivalents	581	239	342	—
Short-term investments				
Certificates of deposit	10,010	—	10,010	—
Commercial paper	77,796	—	77,796	—
Municipal debt securities	117,915	—	117,915	—
Corporate debt securities	39,045	—	39,045	—
Government debt securities	10,003	—	10,003	—
Total short-term investments	254,769	—	254,769	—
Long-term investments				
Municipal debt securities	20,924	—	20,924	—
Total long-term investments	20,924	—	20,924	—
Total investment securities	\$276,274	\$239	\$276,035	\$—
Description	December 31, 2013	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)
Cash equivalents				
Money market funds	\$20,172	\$20,172	\$—	\$—
Municipal debt securities	23,506	—	23,506	—
Total cash equivalents	43,678	20,172	23,506	—
Short-term investments				
Commercial paper	75,911	—	75,911	—
Municipal debt securities	122,325	—	122,325	—
Corporate debt securities	45,134	—	45,134	—
Government debt securities	10,008	—	10,008	—
Total short-term investments	253,378	—	253,378	—
Long-term investments				