

Allegiant Travel CO
Form 10-Q
October 31, 2018

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 September 30, 2018

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 Organization) (IRS Employer Identification No.)

1201 North Town Center Drive

Las Vegas, Nevada

89144

(Address of Principal Executive Offices)

(Zip Code)

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

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

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company) Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Edgar Filing: Allegiant Travel CO - Form 10-Q

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 October 26, 2018 was 16,159,816.

Allegiant Travel Company
Form 10-Q
Table of Contents

PART I. FINANCIAL INFORMATION

| | |
|--|-----------|
| ITEM 1. <u>Consolidated Financial Statements</u> | <u>3</u> |
| ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>17</u> |
| ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>28</u> |
| ITEM 4. <u>Controls and Procedures</u> | <u>29</u> |

PART II. OTHER INFORMATION

| | |
|--|-----------|
| ITEM 1. <u>Legal Proceedings</u> | <u>29</u> |
| ITEM 1A. <u>Risk Factors</u> | <u>29</u> |
| ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>30</u> |
| ITEM 3. <u>Defaults Upon Senior Securities</u> | <u>30</u> |
| ITEM 4. <u>Mine Safety Disclosures</u> | <u>30</u> |
| ITEM 5. <u>Other Information</u> | <u>30</u> |
| ITEM 6. <u>Exhibits</u> | <u>31</u> |
| <u>Signatures</u> | <u>32</u> |

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

ALLEGIANT TRAVEL COMPANY
CONSOLIDATED BALANCE SHEETS
(in thousands)

| | September 30, 2018 (unaudited) | December 31, 2017 |
|---|--------------------------------------|----------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 140,752 | \$ 59,449 |
| Restricted cash | 20,317 | 11,190 |
| Short-term investments | 284,616 | 352,681 |
| Accounts receivable | 33,672 | 71,057 |
| Expendable parts, supplies and fuel, net | 23,790 | 17,647 |
| Prepaid expenses | 30,640 | 23,931 |
| Other current assets | 129 | 5,320 |
| TOTAL CURRENT ASSETS | 533,916 | 541,275 |
| Property and equipment, net | 1,816,805 | 1,512,415 |
| Long-term investments | 53,353 | 78,570 |
| Deferred major maintenance, net | 44,402 | 31,326 |
| Deposits and other assets | 32,019 | 16,571 |
| TOTAL ASSETS: | \$ 2,480,495 | \$ 2,180,157 |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 17,299 | \$ 20,108 |
| Accrued liabilities | 110,705 | 105,127 |
| Air traffic liability | 231,731 | 204,299 |
| Current maturities of long-term debt and capital lease obligations, net of related costs | 654,697 | 214,761 |
| TOTAL CURRENT LIABILITIES | 1,014,432 | 544,295 |
| Long-term debt and capital lease obligations, net of current maturities and related costs | 658,352 | 950,131 |
| Deferred income taxes | 140,555 | 119,013 |
| Other noncurrent liabilities | 14,160 | 13,407 |
| TOTAL LIABILITIES: | 1,827,499 | 1,626,846 |
| SHAREHOLDERS' EQUITY | | |
| Common stock, par value \$.001 | 23 | 23 |
| Treasury stock | (607,649) | (605,655) |
| Additional paid in capital | 266,907 | 253,840 |
| Accumulated other comprehensive loss, net | (1,227) | (2,840) |
| Retained earnings | 994,942 | 907,943 |
| TOTAL EQUITY: | 652,996 | 553,311 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY: | \$ 2,480,495 | \$ 2,180,157 |

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

ALLEGIANT TRAVEL COMPANY
CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

(unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-----------------|-------------------|------------------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| OPERATING REVENUE: | | | | |
| Passenger revenue | \$355,100 | \$315,308 | \$1,157,443 | \$1,030,395 |
| Third party products | 15,921 | 12,348 | 44,045 | 39,394 |
| Fixed fee contract revenue | 14,791 | 11,831 | 33,000 | 34,120 |
| Other revenue | 7,297 | 10,708 | 20,845 | 28,140 |
| Total operating revenue | 393,109 | 350,195 | 1,255,333 | 1,132,049 |
| OPERATING EXPENSES: | | | | |
| Aircraft fuel | 113,525 | 80,421 | 342,006 | 250,470 |
| Salary and benefits | 97,706 | 88,788 | 312,314 | 277,307 |
| Station operations | 43,128 | 37,148 | 122,265 | 107,979 |
| Maintenance and repairs | 31,983 | 28,870 | 75,864 | 87,611 |
| Depreciation and amortization | 34,658 | 31,894 | 92,641 | 92,571 |
| Sales and marketing | 16,798 | 13,884 | 54,224 | 40,707 |
| Aircraft lease rentals | 671 | 533 | 767 | 3,098 |
| Other | 28,459 | 24,315 | 74,881 | 68,440 |
| Total operating expenses | 366,928 | 305,853 | 1,074,962 | 928,183 |
| OPERATING INCOME | 26,181 | 44,342 | 180,371 | 203,866 |
| OTHER (INCOME) EXPENSE: | | | | |
| Interest expense | 14,309 | 10,041 | 40,188 | 27,332 |
| Interest income | (2,425) | (1,454) | (6,259) | (4,193) |
| Other, net | (118) | (400) | (408) | (1,254) |
| Total other expense | 11,766 | 8,187 | 33,521 | 21,885 |
| INCOME BEFORE INCOME TAXES | 14,415 | 36,155 | 146,850 | 181,981 |
| PROVISION FOR INCOME TAXES | (732) | 12,771 | 26,494 | 67,208 |
| NET INCOME | \$15,147 | \$23,384 | \$120,356 | \$114,773 |
| Earnings per share to common shareholders: | | | | |
| Basic | \$0.94 | \$1.45 | \$7.46 | \$7.00 |
| Diluted | \$0.94 | \$1.45 | \$7.45 | \$6.99 |
| Shares used for computation: | | | | |
| Basic | 15,957 | 15,852 | 15,929 | 16,142 |
| Diluted | 15,962 | 15,862 | 15,938 | 16,160 |
| Cash dividends declared per share: | \$0.70 | \$0.70 | \$2.10 | \$2.10 |

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 September 30, | | Nine Months Ended September 30, | |
|---|--|-----------------|------------------------------------|------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net income | \$15,147 | \$23,384 | \$120,356 | \$114,773 |
| Other comprehensive income (loss): | | | | |
| Change in available for sale securities, net of tax | (83) | 230 | (926) | 453 |
| Foreign currency translation adjustments | 4 | (117) | 218 | (416) |
| Change in derivatives, net of tax | 1,325 | (368) | 2,321 | (1,452) |
| Total other comprehensive income (loss) | 1,246 | (255) | 1,613 | (1,415) |
| TOTAL COMPREHENSIVE INCOME | \$16,393 | \$23,129 | \$121,969 | \$113,358 |

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

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

| | Nine Months Ended September 30, | |
|---|------------------------------------|------------|
| | 2018 | 2017 |
| OPERATING ACTIVITIES: | | |
| Net income | \$ 120,356 | \$ 114,773 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 92,641 | 92,571 |
| (Gain) loss on aircraft and other equipment disposals | 2,274 | 6,619 |
| Share-based compensation expense | 11,043 | 10,847 |
| Deferred income taxes | 21,760 | 64,788 |
| Other adjustments | 1,833 | 3,959 |
| Changes in certain assets and liabilities: | | |
| (Increase) decrease in accounts receivable | 38,005 | 17,709 |
| (Increase) decrease in prepaid expenses | (6,709) | (8,825) |
| Increase (decrease) in accounts payable | (2,437) | 3,671 |
| Increase (decrease) in accrued liabilities | 5,960 | (11,183) |
| Increase (decrease) in air traffic liability | 27,432 | 27,688 |
| Change in deferred major maintenance | (21,699) | (14,779) |
| Other assets/liabilities | (336) | (5,756) |
| Net cash provided by operating activities | 290,123 | 302,082 |
| INVESTING ACTIVITIES: | | |
| Purchase of investment securities | (263,057) | (273,796) |
| Proceeds from maturities of investment securities | 355,325 | 239,920 |
| Purchase of property and equipment, including capitalized interest | (273,999) | (333,746) |
| Other investing activities | (5,399) | 1,338 |
| Net cash used in investing activities | (187,130) | (366,284) |
| FINANCING ACTIVITIES: | | |
| Cash dividends paid to shareholders | (33,919) | (34,462) |
| Proceeds from the issuance of debt | 191,724 | 292,540 |
| Repurchase of common stock | (3,617) | (90,445) |
| Principal payments on debt and capital lease obligations | (171,438) | (88,026) |
| Other financing activities | 4,687 | (405) |
| Net cash (used in) provided by financing activities | (12,563) | 79,202 |
| Net change in cash, cash equivalents, and restricted cash | 90,430 | 15,000 |
| CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT BEGINNING OF PERIOD | 70,639 | 76,358 |
| CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF PERIOD | \$ 161,069 | \$ 91,358 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| CASH PAYMENTS FOR: | | |
| Interest paid, net of amount capitalized | \$ 43,751 | \$ 31,733 |
| Income tax refunds | \$ 41,145 | \$ 18,757 |

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets:

| | As of September | |
|---|-----------------|----------|
| | 30, | |
| | 2018 | 2017 |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$140,752 | \$74,023 |
| Restricted cash | 20,317 | 17,335 |
| TOTAL CASH, CASH EQUIVALENTS, AND RESTRICTED CASH | \$161,069 | \$91,358 |

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

ALLEGIANT TRAVEL COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(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. The Company has no independent operations, and all guarantees of the Company's publicly held debt are full and unconditional and joint and several. Any subsidiaries of the parent company other than the subsidiary guarantors are minor. 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 reclassifications have been made to prior year financial statements to conform to classifications used in the current year. 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 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, 2017 and 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 may differ from these estimates.

Recent Accounting Pronouncements

Standards Effective in Future Years

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards update ("ASU") 2016-02, "Leases (topic 842)." This standard will require certain leases with durations greater than twelve months to be recognized on the balance sheet as a lease liability and a corresponding right-of-use asset, and is effective for interim and annual reporting periods beginning after December 15, 2018 with early adoption permitted. The Company will adopt this standard effective January 1, 2019.

In July 2018, the FASB issued ASU 2018-11, "Targeted Improvements - Leases (Topic 842)." This update provides an optional transition method that allows entities to elect to apply the standard prospectively at the adoption date, versus recasting the prior periods presented. If elected, the Company will recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

The Company has not completed the assessment of this new standard but believes adoption will have a significant impact on its consolidated balance sheets due to the recognition of right-of-use assets and lease liabilities for certain leases currently accounted for as operating leases. It is not expected to significantly change the recognition, measurement or presentation of associated expenses within the consolidated statements of income or cash flows.

Recently Adopted Standards

In February 2018, the FASB issued ASU 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220)." This standard provides an option to reclassify stranded tax effects within accumulated other comprehensive income (loss) ("AOCI") to retained earnings. The Company adopted this standard effective January 1, 2018 and a one-time effect of \$0.6 million has been reclassified from AOCI to retained earnings.

In 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" (the "New Revenue Standard"). Under this ASU and subsequently issued amendments, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration received. Entities may use a full retrospective approach or report the cumulative effect as of the date of adoption. The Company adopted this standard using the full retrospective transition method

effective January 1, 2018 and recast prior year results. See Note 2, "Revenue Recognition" for more information on the financial impact of this adoption.

Under the New Revenue Standard, revenue for all Air-related ancillary fees that are directly related to ticket revenue, such as seat fees and baggage fees, are no longer considered distinct performance obligations separate from passenger travel and are reclassified into passenger revenue. These are deemed part of the single performance obligation of providing passenger transportation. While the adoption of the New Revenue Standard did not have a significant effect on earnings, \$150.1 million and \$472.4 million of Air-related ancillary fees for the three and nine months ended September 30, 2018, respectively, are now classified as passenger revenue.

The adoption of the New Revenue Standard resulted in a net reduction to air traffic liability at December 31, 2017 of \$5.9 million. This change resulted from the recognition of breakage revenue on issuance of credit vouchers that are expected to expire unused. In addition, recognition of revenues for fees associated with flight changes or cancellations are now deferred until the time of flight rather than being recognized at the time the fee is incurred. The Company recognizes revenue from the co-branded credit card program on the deferral method.

Bank of America has issued The Allegiant World Mastercard® in which points are earned and awarded to cardholders in exchange for consideration received under an agreement with a seven year scheduled duration expiring in 2023. Under this arrangement, the Company identified the following deliverables: travel points to be awarded (the travel component), use of the Company's brand and access to its member lists, and certain other advertising and marketing elements (collectively the marketing component). Consideration received from the Company's co-brand agreement is allocated between the two components based on the relative selling price of each deliverable. The Company applies a level of management judgment and estimation in determining the best estimate of selling price for each deliverable by considering multiple inputs and methods including, but not limited to, the redemption value of points awarded, discounted cash flows, brand value, volume discounts, published selling prices, number of points to be awarded and number of points to be redeemed.

Note 2 — Revenue Recognition

Certain prior period amounts have been recast to conform to the adoption of the New Revenue Standard as shown in the tables below.

| (in thousands, except per share data) | Three Months Ended September 30, 2017 | | | Nine Months Ended September 30, 2017 | | |
|---------------------------------------|---------------------------------------|-------------|----------------------|--------------------------------------|-------------|----------------------|
| | As Previously Reported | Adjustments | Current Presentation | As Previously Reported | Adjustments | Current Presentation |
| | | | | | | |
| Income Statement: | | | | | | |
| Passenger revenue (1) | \$ 183,064 | \$ 132,244 | \$ 315,308 | \$ 615,777 | \$ 414,618 | \$ 1,030,395 |
| Air-related charges | 130,818 | (130,818) | — | 407,789 | (407,789) | — |
| Sales and marketing | 13,884 | — | 13,884 | 36,744 | 3,963 | 40,707 |
| Income tax provision | 12,436 | 335 | 12,771 | 66,715 | 493 | 67,208 |
| Net income | 22,293 | 1,091 | 23,384 | 112,400 | 2,373 | 114,773 |
| Diluted earnings per share | \$ 1.39 | \$ 0.06 | \$ 1.45 | \$ 6.85 | \$ 0.14 | \$ 6.99 |

(1) Passenger revenue previously reported as Scheduled service revenue.

| (in thousands) | December 31, 2017 | | |
|----------------|------------------------|-------------|----------------------|
| | As Previously Reported | Adjustments | Current Presentation |
| | | | |

Balance Sheet:

| | | | |
|-----------------------|-----------|-------------|------------|
| Air traffic liability | \$210,184 | \$ (5,885) | \$ 204,299 |
| Deferred income taxes | 118,492 | 521 | 119,013 |
| Retained earnings | 902,579 | 5,364 | 907,943 |

9

Passenger Revenue

Passenger revenue is primarily composed of passenger ticket sales, credit voucher breakage, seat fees, baggage fees, and other travel-related services performed in conjunction with a passenger's flight, as well as co-brand point redemptions as outlined below:

| (in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------------|----------------------------------|-----------|---------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Scheduled service | \$202,796 | \$183,294 | \$677,061 | \$618,368 |
| Ancillary air-related charges | 150,095 | 131,388 | 472,443 | 410,500 |
| Co-brand redemptions | 2,209 | 626 | 7,939 | 1,527 |
| Total passenger revenue | \$355,100 | \$315,308 | \$1,157,443 | \$1,030,395 |

Scheduled service

Passenger tickets. The Company provides scheduled air transportation on limited-frequency, nonstop flights predominantly between under-served cities and popular leisure destinations. Sales of passenger tickets not yet flown are recorded in air traffic liability. Passenger revenue is recognized when transportation is provided or when ticket voucher breakage occurs, to the extent different from estimated breakage.

The contract term of passenger tickets is 12 months and revenue associated with future travel will principally be recognized within this time frame. \$192.6 million was recognized into passenger revenue during the nine months ended September 30, 2018 that was recorded in the air traffic liability balance of \$204.3 million at December 31, 2017.

Credit voucher breakage. The Company estimates the value of vouchers that will expire unused and recognizes such revenue at the time the credit voucher is issued.

Ancillary air-related charges

Air-related revenue is primarily composed of services performed in conjunction with a passenger's flight and includes baggage fees, the use of the Company's website to purchase scheduled service transportation, advance seat assignments, and other services. Revenue for these services is recognized when the related transportation service is provided. Prior to the adoption of the New Revenue Standard, the majority of these fees were classified separately as Ancillary air-related charges.

Co-brand redemptions

In relation to the travel component of the contract with Bank of America, the Company has a performance obligation to provide cardholders with points to be used for future travel award redemptions. Therefore, consideration received from Bank of America related to the travel component is deferred based on its relative selling price and is recognized into passenger revenue when the points are redeemed and the transportation is provided.

The following table presents the activity of the current and non-current point liabilities (in thousands):

| | |
|----------------------|----------|
| | 2018 |
| Balance at January 1 | \$8,903 |
| Points awarded | 10,872 |
| Points redeemed | (7,939) |

Balance at September 30 \$11,836

As of September 30, 2018, \$8.1 million of the current points liability is reflected in Accrued liabilities and represents our current estimate of revenue to be recognized in the next twelve months based on historical trends, with the remaining balance reflected in Other noncurrent liabilities expected to be recognized into revenue in periods thereafter. See below, Third Party Products, for discussion of the marketing component.

10

Third Party Products

Third party products revenue is generated from the sale of hotel rooms, rental cars, ticket attractions and co-brand marketing revenue.

Revenue from the sale of hotel rooms, rental cars, and ticket attractions is recognized at the time the product is utilized, such as the time a purchased hotel room is occupied. The Company follows the accounting standards for principal versus agent revenue arrangements to determine the amount of revenue to be recognized for each element of a bundled sale involving air-related charges and third party products, in addition to airfare. Revenue from the sale of third party products is recorded net (treatment as an agent) of amounts paid to wholesale providers, travel agent commissions, and transaction costs.

Pursuant to the co-brand arrangement with Bank of America, the Company has various performance obligations which are collectively referred to as the marketing component. These obligations consist of use of the Company's brand and access to its member lists, and certain other advertising and marketing elements. The marketing component is recorded as third party products revenue in the period in which points are awarded to the credit card holders.

Fixed Fee Contract Revenue

Fixed fee contract revenue consists of agreements to provide charter service on a year-round and ad hoc basis. Fixed fee contract revenue is recognized when transportation is provided.

Other Revenue

Other revenue is generated from leased aircraft, engines, and other miscellaneous sources. Lease revenue is recognized ratably over the lease term.

Accounts Receivable

Accounts receivable, reflected on the accompanying consolidated balance sheets, primarily consist of amounts due from credit card companies associated with passenger revenue. These receivables are short-term, generally settled within a few days of sale. Bad debt expense, which occurs in the form of credit card chargebacks, was not material in any period presented.

Taxes and Fees

Various taxes and fees, assessed on the sale of tickets to customers, are collected by the Company serving as an agent, and remitted to taxing authorities. These taxes and fees are not included as revenue in the Company's consolidated statements of income and are recorded as a liability until remitted to the appropriate taxing authority.

Note 3 — Property and Equipment

Property and equipment (in thousands):

| | As of September 30, 2018 | As of December 31, 2017 |
|---|--------------------------------|-------------------------------|
| Flight equipment, including pre-delivery deposits | \$1,867,655 | \$1,539,433 |
| Computer hardware and software | 137,110 | 123,675 |
| Land and buildings/leasehold improvements | 88,882 | 77,409 |

Edgar Filing: Allegiant Travel CO - Form 10-Q

| | | |
|--|-------------|-------------|
| Other property and equipment | 75,529 | 48,446 |
| Total property and equipment | 2,169,176 | 1,788,963 |
| Less accumulated depreciation and amortization | (352,371) | (276,548) |
| Property and equipment, net | \$1,816,805 | \$1,512,415 |

11

Note 4 — Long-Term Debt

Long-term debt and capital lease obligations (in thousands):

| | As of September 30, 2018 | | As of December 31, 2017 | |
|---|--------------------------|---|-------------------------|---|
| Fixed-rate debt and capital lease obligations due through 2030 | \$ 644,116 | | \$ 465,462 | |
| Variable-rate debt due through 2028 | 668,933 | | 699,430 | |
| Total long-term debt and capital lease obligations, net of related costs | 1,313,049 | | 1,164,892 | |
| Less current maturities, net of related costs | 654,697 | | 214,761 | |
| Long-term debt and capital lease obligations, net of current maturities and related costs | \$ 658,352 | | \$ 950,131 | |
| Weighted average fixed-interest rate on debt | 5.3 | % | 5.4 | % |
| Weighted average variable-interest rate on debt | 4.0 | % | 3.3 | % |

Maturities of long-term debt and capital lease obligations for the remainder of 2018 and for the next five years and thereafter, in the aggregate, are: remaining in 2018 - \$114.6 million; 2019 - \$570.2 million; 2020 - \$118.6 million; 2021 - \$91.9 million; 2022 - \$64.5 million; and \$353.2 million thereafter.

Consolidated Variable Interest Entity

The Company evaluates ownership, contractual lease arrangements and other interests in entities to determine if they are variable interest entities ("VIEs") based on the nature and extent of those interests. These evaluations are complex and involve judgment and the use of estimates and assumptions based on available historical information and management's judgment, among other factors. The Company consolidates a VIE when, among other criteria, it has the power to direct the activities that most significantly impact the VIE's economic performance as well as the obligation to absorb losses or the right to receive benefits of the VIE, thus making the Company the primary beneficiary of the VIE.

In September 2018, the Company, through a wholly owned subsidiary, entered into agreements with a trust to borrow \$44.0 million secured by one Airbus A320 series aircraft. The trust was funded on inception. These borrowings bear interest at a blended rate of 4.0 percent, payable in quarterly installments through September 2028, at which time the Company will have a purchase option at a fixed amount. As this transaction is a common control transaction, the Company, as the primary beneficiary, has measured and recorded the assets and liabilities at their carrying values, which were \$37.8 million and \$44.0 million, respectively, as of September 30, 2018.

Senior Secured Revolving Credit Facility

In 2015, the Company, through a wholly owned subsidiary, entered into a senior secured revolving credit facility under which it was entitled to borrow up to \$56.0 million. In March 2018, the Company paid off the balance of the facility and amended it to increase the borrowing limit to \$81.0 million. The amended facility has a term of 24 months and is based on the value of Airbus A320 series aircraft placed in the collateral pool. In July 2018, the Company drew down \$46.9 million under this facility, and no principal payments have been made as of September 30, 2018. Aircraft may remain in the collateral pool for up to two years, and those currently collateralized were placed into the pool in December 2016. The notes for the amounts borrowed under the facility bear interest at a floating rate based on LIBOR and are due on March 31, 2020.

Other Secured Debt

In September 2018, the Company entered into a senior secured credit facility under which it is able to borrow up to \$75.0 million. In that same month, the Company borrowed \$55.5 million under this agreement secured by three Airbus A320 series aircraft. The remaining \$19.5 million, secured by one Airbus A320 series aircraft, was borrowed in October 2018. The borrowing bears interest at a floating rate based on LIBOR, payable in quarterly installments over seven years.

In July 2018, the Company borrowed \$34.5 million under a loan agreement secured by one Airbus A320 series aircraft. The note bears interest at a floating rate based on LIBOR, payable in quarterly installments over ten years.

In June 2018, the Company borrowed \$10.8 million under a loan agreement secured by various ground equipment. The note bears interest at a fixed rate of 4.2 percent per year, payable in monthly installments over five years.

General Unsecured Senior Notes

In June 2014, the Company completed an offering of \$300.0 million aggregate principal amount of senior unsecured obligations (the "Notes") which will mature in July 2019. In December 2016, the Company completed an offering of an additional \$150.0 million principal amount of these notes, which were issued at a price of 101.5 percent of the principal amount, plus accrued interest from July 15, 2016. The Notes bear interest at a rate of 5.5 percent per year, payable in cash semi-annually, on January 15th and July 15th of each year.

The indenture pursuant to which the Notes were issued includes operating and financial restrictions on the Company. These restrictions limit or restrict, among other things, the Company's ability and the ability of its restricted subsidiaries to (i) incur additional indebtedness; (ii) incur liens; (iii) make restricted payments (including paying dividends on, redeeming, repurchasing or retiring capital stock); (iv) make investments; and (v) consolidate, merge or sell all or substantially all of its assets. These covenants are subject to various exceptions and qualifications under the terms of the indenture. As of December 31, 2017 and September 30, 2018, the Company exceeded the consolidated total leverage ratio limit, which could affect the ability to make restricted payments in future periods after exhaustion of various exceptions. However, it is not expected that this will have any impact on the restricted payments routinely made in the ordinary course of business. The calculation is made on a quarterly basis based on the trailing 12 months.

Capital Leases

The Company has capital lease obligations related to aircraft, which significantly impacted our recognized assets and liabilities as of September 30, 2018, but did not result in any significant cash receipts or cash payments during the quarter.

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 by selling 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. These tiers include: 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; and 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 commercial paper, municipal debt securities, federal agency debt securities, US Treasury Bonds, 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. The Company has no investment securities classified as Level 3.

For those assets classified as Level 2 that are not in active markets, the Company obtains fair value from pricing sources using quoted market prices for identical or comparable instruments, and uses pricing models which include all

significant observable inputs: 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.

Edgar Filing: Allegiant Travel CO - Form 10-Q

Financial instruments measured at fair value on a recurring basis (in thousands):

| | As of September 30, 2018 | | | As of December 31, 2017 | | |
|--------------------------------|--------------------------|----------|-----------|-------------------------|---------|-----------|
| | Total | Level 1 | Level 2 | Total | Level 1 | Level 2 |
| Cash equivalents | | | | | | |
| Money market funds | \$45,227 | \$45,227 | \$— | \$1,297 | \$1,297 | \$— |
| Commercial paper | 42,157 | — | 42,157 | 27,910 | — | 27,910 |
| Municipal debt securities | 2,053 | — | 2,053 | 2,782 | — | 2,782 |
| Total cash equivalents | 89,437 | 45,227 | 44,210 | 31,989 | 1,297 | 30,692 |
| Short-term | | | | | | |
| Commercial paper | 143,961 | — | 143,961 | 108,678 | — | 108,678 |
| Corporate debt securities | 99,556 | — | 99,556 | 107,878 | — | 107,878 |
| Municipal debt securities | 27,191 | — | 27,191 | 101,290 | — | 101,290 |
| Federal agency debt securities | 12,227 | — | 12,227 | 31,428 | — | 31,428 |
| US Treasury Bonds | 1,681 | — | 1,681 | 3,407 | — | 3,407 |
| Total short-term | 284,616 | — | 284,616 | 352,681 | — | 352,681 |
| Long-term | | | | | | |
| Corporate debt securities | 40,343 | — | 40,343 | 60,396 | — | 60,396 |
| Federal agency debt securities | 10,026 | — | 10,026 | 5,775 | — | 5,775 |
| US Treasury Bonds | 2,984 | — | 2,984 | 2,994 | — | 2,994 |
| Municipal debt securities | — | — | — | 9,405 | — | 9,405 |
| Derivative instruments | — | — | — | 282 | — | 282 |
| Total long-term | 53,353 | — | 53,353 | 78,852 | — | 78,852 |
| Total financial instruments | \$427,406 | \$45,227 | \$382,179 | \$463,522 | \$1,297 | \$462,225 |

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 Company's remaining debt is not publicly held, and the Company has determined the estimated fair value of these notes to be Level 3, as certain inputs used to determine the fair value are unobservable and, therefore, could be sensitive to changes in inputs. The Company utilizes the discounted cash flow method to estimate the fair value of Level 3 debt.

Carrying value and estimated fair value of long-term debt, including current maturities and without reduction for related costs (in thousands):

| | As of September 30, 2018 | | As of December 31, 2017 | | Hierarchy Level |
|------------------------|--------------------------|----------------------|-------------------------|----------------------|-----------------|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value | |
| Publicly held debt | \$450,679 | \$455,749 | \$451,321 | \$462,604 | 2 |
| Non-publicly held debt | 742,878 | 663,776 | 719,681 | 660,065 | 3 |
| Total long-term debt | \$1,193,557 | \$1,119,525 | \$1,171,002 | \$1,122,669 | |

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

Note 6 — Shareholders' Equity

The Company is authorized by the Board of Directors to acquire up to \$100.0 million of its stock through open market purchases under its share repurchase program. As repurchase authority is used, the Board of Directors has, to date, authorized additional expenditures for share repurchases.

For the three and nine months ended September 30, 2018 and 2017, open market share repurchases consisted of the following:

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
|---|--|------|---|----------|
| Shares repurchased (not in thousands) (1) | None | None | None | 604,497 |
| Average price per share | NA | NA | NA | \$142.66 |
| Total (in thousands) | None | None | None | \$86,240 |

(1) Does not include shares withheld from employees for tax withholding obligations related to restricted stock vestings.

During the nine months ended September 30, 2018, the Company declared and paid recurring cash dividends of \$2.10 per share, or \$33.9 million.

Note 7 — 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. 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 nine months ended September 30, 2018, the second method, which assumes unvested awards are not vested, was used in the computation because it was more dilutive than the first method.

Edgar Filing: Allegiant Travel CO - Form 10-Q

The following table sets forth the computation of net income per share, on a basic and diluted basis, for the periods indicated (share count and dollar amounts other than per-share amounts in table are in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|--|----------|------------------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Basic: | | | | |
| Net income | \$15,147 | \$23,384 | \$120,356 | \$114,773 |
| Less net income allocated to participating securities | (194) | (331) | (1,602) | (1,784) |
| Net income attributable to common stock | \$14,953 | \$23,053 | \$118,754 | \$112,989 |
| Earnings per share, basic | \$0.94 | \$1.45 | \$7.46 | \$7.00 |
| Weighted-average shares outstanding | 15,957 | 15,852 | 15,929 | 16,142 |
| Diluted: | | | | |
| Net income | \$15,147 | \$23,384 | \$120,356 | \$114,773 |
| Less net income allocated to participating securities | (194) | (330) | (1,601) | (1,782) |
| Net income attributable to common stock | \$14,953 | \$23,054 | \$118,755 | \$112,991 |
| Earnings per share, diluted | \$0.94 | \$1.45 | \$7.45 | \$6.99 |
| Weighted-average shares outstanding | 15,957 | 15,852 | 15,929 | 16,142 |
| Dilutive effect of stock options and restricted stock | 35 | 18 | 42 | 60 |
| Adjusted weighted-average shares outstanding under treasury stock method | 15,992 | 15,870 | 15,971 | 16,202 |
| Participating securities excluded under two-class method | (30) | (8) | (33) | (42) |
| Adjusted weighted-average shares outstanding under two-class method | 15,962 | 15,862 | 15,938 | 16,160 |

For the three and nine months ended September 30, 2018, anti-dilutive shares excluded from the calculation of earnings per share were 39,943 and 74,873 shares (not in thousands), respectively.

Note 8 — Commitments and Contingencies

As of September 30, 2018, the Company had firm commitments to purchase ten Airbus A320 series aircraft. In addition, the Company has entered into lease agreements for 12 Airbus A320 aircraft, four of which have been delivered and are in service, and one of which has been delivered but was not in service as of September 30, 2018.

Future minimum fixed payments for the Company's commitments related to the acquisition of aircraft (including aircraft lease obligations), airport fees under use and lease agreements, and other operating lease obligations are as follows as of September 30, 2018 (in thousands):

| | As of September 30, 2018 |
|-------------------|--------------------------------|
| Remaining in 2018 | \$ 44,154 |
| 2019 | 116,322 |
| 2020 | 62,382 |
| 2021 | 21,248 |
| 2022 | 19,159 |
| Thereafter | 122,414 |
| Total commitments | \$ 385,679 |

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.

Note 9 — Related Party Transactions

During the three and nine months ended September 30, 2018, no related party transactions occurred requiring disclosure.

Entities owned or controlled by the Company's Chairman and CEO have been paid for the building of corporate training content. During the nine months ended September 30, 2017, the Company made payments to these entities of \$0.2 million. No further payments are expected.

Note 10 — Subsequent Events

In October 2018, the Company executed a purchase agreement for one Airbus A320 series aircraft, for which delivery is expected in the second quarter 2019.

Also in October 2018, the remaining \$19.5 million was borrowed under a senior secured credit facility entered into by the Company in September, which is secured by one Airbus A320 series aircraft.

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 nine months ended September 30, 2018 and 2017. Also discussed is our financial position as of September 30, 2018 and December 31, 2017. 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, 2017. This discussion and analysis contains forward-looking statements. Please refer to the section below entitled “Cautionary Note Regarding Forward-Looking Statements” for a discussion of the uncertainties, risks and assumptions associated with these statements.

Third Quarter Review

AIRCRAFT

The following table sets forth the aircraft in service and operated by us as of the dates indicated:

| | September 30, 2018 | December 31, 2017 | September 30, 2017 |
|-----------|-----------------------|----------------------|-----------------------|
| MD-80 | 19 | 37 | 40 |
| B757-200— | | — | 2 |
| A319 (1) | 31 | 22 | 21 |
| A320 (2) | 43 | 30 | 26 |
| Total | 93 | 89 | 89 |

(1) Does not include A319 aircraft on lease to a European carrier as of the respective date.

(2) Does not include A320 aircraft for which we have taken delivery but were not yet in service as of the respective date.

As of September 30, 2018, we had firm commitments to purchase ten Airbus A320 series aircraft and had executed lease agreements for seven Airbus A320 aircraft which have yet to be delivered. We expect delivery of three aircraft in 2018 and the remaining aircraft in 2019 and 2020. We continually consider aircraft acquisitions on an opportunistic basis.

Fleet Plan

The below table indicates the number of aircraft expected to be in service as of the dates indicated, based on currently scheduled additions to, and retirements from, our operating fleet.

| | As of December 31, 2018 | As of March 31, 2019 |
|--------|-------------------------------|-------------------------------|
| MD-80— | — | — |
| A319 | 32 | 37 |
| A320 | 44 | 48 |
| Total | 76 | 85 |

NETWORK

As of September 30, 2018, we were operating 411 routes versus 373 as of the same date last year, which represents a 10.2 percent increase. Our total numbers of origination cities and leisure destinations were 96 and 22, respectively, as of September 30, 2018. Based on our currently published schedule through May 2019, and service announcements and cancellations by other airlines to date, we will have direct competition (which we consider to be non-stop service between similar markets) on 101 of our routes as of that date.

We also announced service to three new cities: Albany, New York; St. George, Utah and Tucson, Arizona. These routes are planned to begin in November and December 2018.

TRENDS

We added eight Airbus A320 series aircraft to our operating fleet during the third quarter of 2018 as we near the conclusion of our fleet transition. Two additional aircraft are expected to be added by year-end, and the remaining MD-80 aircraft will be retired by the end of November 2018. Airbus aircraft flew 86.5 percent of our scheduled service ASMs for the quarter, compared to 62.6 percent for the same time period in 2017, which drove a 6.7 percent increase in fuel efficiency (measured as ASMs per gallon).

Although the number of aircraft in our fleet will decline by the end of the year with the retirement of all our MD-80 aircraft, we intend to continue increasing capacity through higher utilization rates on our Airbus fleet than we have had on our MD-80 aircraft. Additionally, our Airbus fleet has more available seats, on average, than our MD-80 fleet. However, our capacity growth through the end of 2018 will be lower than in prior years as a result of our fleet transition and the effects of aircraft delivery delays throughout the year.

Planning and development for Sunseeker Resort - Charlotte Harbor is ongoing. Construction is expected to begin in the first quarter of 2019, with the opening of the resort planned for 2020.

Our flight dispatchers voted for union representation by the International Brotherhood of Teamsters ("IBT") and negotiations began in February 2017. The dispatchers failed to ratify a tentative agreement reached in May 2018 and, as a result, negotiations continue. There are approximately 40 employees in this operating group.

In March 2018, our maintenance technicians who represent approximately nine percent of our total employee base (approximately 340 employees), voted for union representation by the IBT. Negotiations for an agreement with this group are expected to begin in the near future.

In July 2018, the IBT announced that our pilots were supportive of a strike as a result of delays in our implementation of a new preferential bidding system for pilot flight assignments. We do not believe we are in violation of the collective bargaining agreement with our pilots in this regard, nor do we believe the pilots have a legal right to strike because of this issue. As a result, we have filed suit against the IBT seeking to foreclose the possibility of a strike at this time.

Any labor actions whether following an inability to reach a collective bargaining agreement with any employee group or otherwise could impact our operations during the continuance of any such activity. Any labor agreement reached following negotiations would also likely increase our operating costs.

RESULTS OF OPERATIONS

Comparison of three months ended September 30, 2018 to three months ended September 30, 2017

Operating Revenue

Passenger revenue. Passenger revenue now includes both scheduled service revenue and ancillary air-related revenue, due to the implementation of the New Revenue Standard. For the third quarter 2018, passenger revenue increased 12.6 percent compared to third quarter 2017. The increase was driven primarily by a 12.9 percent increase in scheduled service departures and a 0.5 percentage point increase in load factor, which resulted in 15.4 percent more scheduled service passengers traveling. The higher number of passengers resulted in quarter-over-quarter increases in ancillary revenue products such as baggage, seat and convenience fees.

Third party products revenue. Third party products revenue for the third quarter 2018 increased 28.9 percent overall compared to 2017, due primarily to an increase in net revenue from rental cars resulting from the increase in scheduled service passengers, as well as revenue generated from our co-branded credit card.

Fixed fee contract revenue. Fixed fee contract revenue for the third quarter 2018 increased 25.0 percent from 2017. This is primarily due to increased flying for the Department of Defense, as we have refocused on increasing our fixed fee flying as our fleet has grown, and due to the greater desirability of Airbus aircraft for fixed fee flights.

Other revenue. Other revenue decreased by \$3.4 million for the third quarter 2018 from 2017 primarily as six aircraft which generated lease revenue from a European carrier during the third quarter 2017, had been delivered to us prior to the third quarter 2018.

Operating Expenses

We primarily evaluate our expense management by comparing our costs per passenger and per ASM 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 gives 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 September 30, | | Percent |
| | 2018 | 2017 | Change |
| Aircraft fuel | \$32.40 | \$26.41 | 22.7 % |
| Salary and benefits | 27.89 | 29.15 | (4.3) |
| Station operations | 12.31 | 12.20 | 0.9 |
| Maintenance and repairs | 9.13 | 9.48 | (3.7) |
| Depreciation and amortization | 9.89 | 10.47 | (5.5) |
| Sales and marketing | 4.79 | 4.56 | 5.0 |
| Aircraft lease rentals | 0.19 | 0.18 | 5.6 |
| Other | 8.12 | 7.97 | 1.9 |
| Operating expense per passenger | \$104.72 | \$100.42 | 4.3 % |
| Operating expense per passenger, excluding fuel | \$72.32 | \$74.01 | (2.3)% |

The following table presents unit costs on a per ASM basis, or CASM, for the indicated periods. 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 September 30, | | Percent |
| | 2018 | 2017 | Change |
| Aircraft fuel | 3.12 ¢ | 2.50 ¢ | 24.8 % |
| Salary and benefits | 2.68 | 2.76 | (2.9) |
| Station operations | 1.18 | 1.15 | 2.6 |
| Maintenance and repairs | 0.88 | 0.90 | (2.2) |
| Depreciation and amortization | 0.95 | 0.99 | (4.0) |

Edgar Filing: Allegiant Travel CO - Form 10-Q

| | | | |
|---|--------|-------|---------|
| Sales and marketing | 0.46 | 0.43 | 7.0 |
| Aircraft lease rentals | 0.02 | 0.02 | — |
| Other | 0.78 | 0.75 | 4.0 |
| CASM | 10.07¢ | 9.50¢ | 6.0 % |
| Operating CASM, excluding fuel | 6.95 | 7.00 | (0.7) |
| Non-airline CASM* | 0.16 | 0.08 | 100.0 |
| Operating CASM, excluding fuel and non-airline expenses | 6.79 ¢ | 6.92¢ | (1.9)% |

*Operating cost per ASM for non-airline subsidiaries

19

Aircraft fuel expense. Aircraft fuel expense increased \$33.1 million, or 41.2 percent, for the third quarter 2018 compared to 2017 as the system average fuel cost per gallon increased by 33.1 percent, coupled with a 6.0 percent increase in system fuel gallons consumed on a 13.2 percent increase in system ASMs. ASM growth outpaced fuel consumption as fuel efficiency (measured as ASMs per gallon) increased 6.7 percent year over year due to increased flying on our Airbus aircraft which are more fuel efficient than our MD-80 aircraft.

Salary and benefits expense. Salary and benefits expense increased \$8.9 million, or 10.0 percent, for the third quarter 2018 when compared to the same period last year. The increase is largely due to a 3.5 percent increase in full-time equivalent employees. Maintaining a larger number of flight crew personnel until the fleet transition is complete, as well as effects of the collective bargaining agreement with our flight attendants (which went into effect in December 2017) contributed to salary expense for our flight crew employees increasing by 17.0 percent compared to 2017.

Station operations expense. Station operations expense for the third quarter 2018 increased 16.1 percent on a 12.9 percent increase in scheduled service departures compared to the same period in 2017. The increase in expense outpaced the increase in departures due primarily to rate increases for airport, landing and ground handling fees at our larger airports which tend to be more expensive.

Maintenance and repairs expense. Maintenance and repairs expense for the third quarter 2018 increased \$3.1 million, or 10.8 percent, compared to the same period in 2017. The year-over-year increase is due primarily to a one-time fleet-wide maintenance campaign to baseline our Airbus aircraft which was mostly completed in third quarter 2018, coupled with a 6.6 percent increase in the average number of operating aircraft in service. These increases were partially offset by fewer heavy maintenance events performed on our MD-80 aircraft, as they are being systematically retired from our operating fleet. Additionally, the cost of major maintenance events for our Airbus aircraft is deferred in accordance with the deferral method of accounting and the amortization of these expenses is included in depreciation and amortization expense.

Depreciation and amortization expense. Depreciation and amortization expense for the third quarter 2018 increased 8.7 percent year over year, primarily related to a 6.6 percent increase in average number of aircraft in service. We continue to add Airbus aircraft into service, and this fleet type has a higher monthly depreciation expense. Depreciation expense for this fleet was \$23.0 million for the third quarter 2018 compared to \$15.7 million for the same period in 2017. Amortization of major maintenance costs under the deferral method of accounting for the Airbus aircraft was \$2.9 million for the third quarter 2018 compared to \$1.7 million for the third quarter 2017.

Additionally, as an impairment charge was taken on our MD-80 aircraft in the fourth quarter 2017, no depreciation expense for this fleet has been recognized during the year. Depreciation expense related to the MD-80 aircraft and Boeing 757-200 aircraft (retired in late 2017) for the three months ended September 30, 2017 was \$5.0 million and \$1.4 million, respectively.

Sales and marketing expense. Sales and marketing expense for the third quarter 2018 increased \$2.9 million compared to the same period in 2017, partly due to an increase in net credit card fees paid as a result of the 12.6 percent increase in passenger revenue year over year. There were also increased expenses related to various marketing initiatives.

Aircraft lease rentals expense. Aircraft lease rentals expense for the third quarter 2018, consisting solely of sub-service expenses, remained relatively flat compared to 2017. We do not currently have aircraft under operating leases.

Other expense. Other operating expense for the third quarter 2018 increased \$4.1 million compared to 2017. The increase is due to various administrative expenses incurred to support our airline operations, golf course management business and Sunseeker Resorts.

Non-airline expenses

Non-airline expenses are included in the various line items discussed above, as appropriate. The non-airline expenses include expenses from our Teesnap golf management business, expenses incurred to operate the Kingsway golf course since we acquired it in August 2018, operating expenses attributable to Sunseeker Resorts (most of the Sunseeker Resort expenses are being capitalized at this time) and expenses incurred in connection with the pilot program of family entertainment centers currently in development.

Income Tax Expense

Our effective tax rate was negative 5.1 percent for the three months ended September 30, 2018, compared to 35.3 percent for the three months ended September 30, 2017. The effective tax rate for the three months ended September 30, 2018 differed from the statutory federal income tax rate of 21.0 percent primarily due to a one-time benefit of an income tax refund for tax deductions not previously claimed, which was offset by state taxes. 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 nine months ended September 30, 2018 to nine months ended September 30, 2017

Operating Revenue

Passenger revenue. Passenger revenue now includes both scheduled service revenue and ancillary air-related revenue, due to the implementation of the New Revenue Standard. For the nine months ended September 30, 2018, passenger revenue increased 12.3 percent compared with 2017. The increase was mostly attributable to a 10.8 percent increase in scheduled service departures and a 1.4 percentage point increase in load factor, which resulted in 14.4 percent more scheduled service passengers traveling. The higher number of passengers resulted in year-to-date increases in ancillary revenue products such as baggage, seat and convenience fees.

Third party products revenue. Third party products revenue for the nine months ended September 30, 2018 increased 11.8 percent over the same period in 2017 primarily due to an increase in net revenue from rental cars.

Fixed fee contract revenue. Fixed fee contract revenue for the nine months ended September 30, 2018 decreased 3.3 percent compared with 2017. This was planned and expected due to less availability of aircraft for charter flying in the first half of 2018. The decrease was partially offset by increased flying for the Department of Defense in the third quarter 2018.

Other revenue. Other revenue decreased \$7.3 million for the nine months ended September 30, 2018 compared to 2017 primarily as six aircraft which generated lease revenue from a European carrier during the nine months ended September 30, 2017 were delivered to us in the first half of 2018. The effects of this decrease were slightly offset by increases in revenue from our golf course management solution as well as revenue generated from the leasing of spare RB-211 engines.

Operating Expenses

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

| | Nine Months | | |
|---|---------------------|----------|---------|
| | Ended September 30, | | Percent |
| | 2018 | 2017 | Change |
| Aircraft fuel | \$32.54 | \$27.13 | 19.9 % |
| Salary and benefits | 29.71 | 30.03 | (1.1) |
| Station operations | 11.63 | 11.69 | (0.5) |
| Maintenance and repairs | 7.22 | 9.49 | (23.9) |
| Depreciation and amortization | 8.81 | 10.03 | (12.2) |
| Sales and marketing | 5.16 | 4.41 | 17.0 |
| Aircraft lease rentals | 0.07 | 0.34 | (79.4) |
| Other | 7.13 | 7.41 | (3.8) |
| Operating expense per passenger | \$102.27 | \$100.53 | 1.7 % |
| Operating expense per passenger, excluding fuel | \$69.73 | \$73.40 | (5.0)% |

The following table presents unit costs on a per ASM basis, defined as Operating CASM, for the indicated periods:

| | Nine Months Ended September 30, | | Percent Change |
|---|---|--------|-------------------|
| | 2018 | 2017 | |
| Aircraft fuel | 3.03 ¢ | 2.46 ¢ | 23.2 % |
| Salary and benefits | 2.77 | 2.72 | 1.8 |
| Station operations | 1.08 | 1.06 | 1.9 |
| Maintenance and repairs | 0.67 | 0.86 | (22.1) |
| Depreciation and amortization | 0.82 | 0.91 | (9.9) |
| Sales and marketing | 0.48 | 0.40 | 20.0 |
| Aircraft lease rentals | 0.01 | 0.03 | (66.7) |
| Other | 0.66 | 0.68 | (2.9) |
| CASM | 9.52 ¢ | 9.12 ¢ | 4.4 % |
| Operating CASM, excluding fuel | 6.49 | 6.66 | (2.6) |
| Non-airline CASM* | 0.11 | 0.07 | 57.1 |
| Operating CASM, excluding fuel and non-airline expenses | 6.38 ¢ | 6.59 ¢ | (3.2)% |

*Operating cost per ASM for non-airline subsidiaries

Aircraft fuel expense. Aircraft fuel expense increased \$91.5 million, or 36.5 percent, for the nine months ended September 30, 2018 compared to the same period in 2017 as the system average fuel cost per gallon increased by 30.3 percent, coupled with a 4.3 percent increase in system fuel gallons consumed on a 10.9 percent increase in system ASMs. ASM growth outpaced fuel consumption as fuel efficiency (measured as ASMs per gallon) increased 6.3 percent year over year, due to increased flying on our Airbus aircraft which are more fuel efficient than our MD-80 aircraft.

Salary and benefits expense. Salary and benefits expense increased \$35.0 million, or 12.6 percent, for the nine months ended September 30, 2018 compared to the same period in 2017. The increase is largely attributable to a 3.5 percent increase in the number of full-time equivalent employees. Maintaining a larger number of flight crew personnel until the fleet transition is complete, as well as effects of the collective bargaining agreement with our flight attendants (which went into effect in December 2017) contributed to salary expense for our flight crew employees increasing by 19.0 percent compared to 2017.

Station operations expense. Station operations expense for the nine months ended September 30, 2018 increased 13.2 percent on a 10.8 percent increase in scheduled service departures compared to the same period in 2017. The increase in expense outpaced the increase in departures due to certain station incentives which expired during the first quarter of 2018, coupled with rate increases for airport, landing and ground handling fees at our larger airports which tend to be more expensive.

Maintenance and repairs expense. Maintenance and repairs expense for the nine months ended September 30, 2018 decreased \$11.7 million, or 13.4 percent, compared with the same period in 2017. The year-over-year decrease is due to fewer heavy maintenance events performed on our MD-80 series aircraft, as they are being systematically retired from our operating fleet. Additionally, the cost of major maintenance events for our Airbus aircraft is deferred in accordance with the deferral method of accounting and the amortization of these expenses is included under depreciation and amortization expense.

Depreciation and amortization expense. Depreciation and amortization expense for the nine months ended September 30, 2018 remained flat year over year which resulted from an increase in Airbus depreciation, offset by the elimination of depreciation on our MD-80 fleet due to the effect of the impairment charge in 2017. Our average number of operating aircraft increased 6.7 percent, with the increase attributable to the addition of Airbus aircraft, and

this fleet type has a higher monthly depreciation expense. The total depreciation expense for this fleet was \$61.0 million for the nine months ended September 30, 2018 compared to \$42.2 million for the same period in 2017. Additionally, amortization of major maintenance costs under the deferral method of accounting for the Airbus aircraft was \$8.0 million for the nine months ended September 30, 2018 compared to \$4.6 million for 2017.

No depreciation expense is being recognized in the current year for our MD-80 fleet as an impairment charge was taken in the fourth quarter 2017. Depreciation expense related to the MD-80 aircraft and Boeing 757-200 aircraft (retired in late 2017) for the nine months ended September 30, 2017 was \$16.4 million and \$4.3 million, respectively.

Sales and marketing expense. Sales and marketing expense for the nine months ended September 30, 2018 increased \$13.5 million compared to the same period in 2017, partly due to an increase in net credit card fees paid as a result of a 12.3 percent increase in passenger revenue year over year. There were also increased expenses related to various marketing initiatives.

Aircraft lease rentals expense. Aircraft lease rentals expense for the nine months ended September 30, 2018 decreased \$2.3 million compared to the same period in 2017 due to improved operations which drove fewer sub-service flights in the current year. We do not currently have aircraft under operating leases.

Other expense. Other operating expense for the nine months ended September 30, 2018 increased \$6.4 million compared to 2017. The increase is primarily due to information technology administration expenses, as well as other expenses incurred to support our airline operations, golf course management business and Sunseeker Resorts.

Non-airline expenses

Non-airline expenses are included in the various line items discussed above, as appropriate. The non-airline expenses include expenses from our Teesnap golf management business, expenses incurred to operate the Kingsway golf course since we acquired it in August 2018, operating expenses attributable to Sunseeker Resorts (most of the Sunseeker Resorts expenses are being capitalized at this time) and expenses incurred in connection with the pilot program of family entertainment centers currently in development.

Income Tax Expense

Our effective tax rate was 18.0 percent for the nine months ended September 30, 2018, compared to 36.9 percent for the nine months ended September 30, 2017. The effective tax rate for the nine months ended September 30, 2018 differed from the statutory federal income tax rate of 21.0 percent primarily due to a one-time benefit of an income tax refund for tax deductions not previously claimed, and the tax benefit from dissolution of foreign subsidiaries, the effects of which were offset by state taxes. 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.

Comparative Consolidated Operating Statistics

The following tables set forth our operating statistics for the periods indicated:

| | Three Months | | Percent Change (1) |
|---|--------------------------------|-----------|--------------------------|
| | Ended September 30, 2018 | 2017 | |
| Operating statistics (unaudited): | | | |
| Total system statistics: | | | |
| Passengers | 3,503,848 | 3,045,642 | 15.0 |
| Revenue passenger miles (RPMs) (thousands) | 3,037,540 | 2,672,963 | 13.6 |
| Available seat miles (ASMs) (thousands) | 3,643,948 | 3,220,246 | 13.2 |
| Load factor | 83.4 % | 83.0 % | 0.4 |
| Operating expense per ASM (CASM) (cents) | 10.07 | 9.50 | 6.0 |
| Fuel expense per ASM (cents) | 3.12 | 2.50 | 24.8 |
| Operating CASM, excluding fuel (cents) | 6.95 | 7.00 | (0.7) |
| ASMs per gallon of fuel | 77.5 | 72.6 | 6.7 |
| Departures | 25,601 | 22,723 | 12.7 |
| Block hours | 56,329 | 49,932 | 12.8 |
| Average stage length (miles) | 838 | 842 | (0.5) |
| Average number of operating aircraft during period | 95.6 | 89.7 | 6.6 |
| Average block hours per aircraft per day | 6.4 | 6.1 | 4.9 |
| Full-time equivalent employees at end of period | 3,835 | 3,704 | 3.5 |
| Fuel gallons consumed (thousands) | 47,016 | 44,346 | 6.0 |
| Average fuel cost per gallon | \$2.41 | \$ 1.81 | 33.1 |
| Scheduled service statistics: | | | |
| Passengers | 3,461,267 | 2,998,476 | 15.4 |
| Revenue passenger miles (RPMs) (thousands) | 2,988,962 | 2,618,446 | 14.2 |
| Available seat miles (ASMs) (thousands) | 3,485,800 | 3,073,360 | 13.4 |
| Load factor | 85.7 % | 85.2 % | 0.5 |
| Departures | 24,281 | 21,498 | 12.9 |
| Block hours | 53,723 | 47,481 | 13.1 |
| Total passenger revenue per ASM (TRASM) (cents) (2) | 10.64 | 10.66 | (0.2) |
| Average fare - scheduled service (3) | \$59.23 | \$61.34 | (3.4) |
| Average fare - air-related charges (3) | \$43.36 | \$43.81 | (1.0) |
| Average fare - third party products | \$4.60 | \$4.12 | 11.7 |
| Average fare - total | \$107.19 | \$109.27 | (1.9) |
| Average stage length (miles) | 845 | 849 | (0.5) |
| Fuel gallons consumed (thousands) | 44,910 | 42,193 | 6.4 |
| Average fuel cost per gallon | \$2.41 | \$1.80 | 33.9 |
| Rental car days sold | 472,301 | 338,212 | 39.6 |
| Hotel room nights sold | 95,690 | 90,996 | 5.2 |
| Percent of sales through website during period | 93.7 % | 93.3 % | 0.4 |

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

(2) Various components of this measure do not have a direct correlation to ASMs. This measure is provided on a per ASM basis so as to facilitate comparison with airlines reporting revenues on a per ASM basis.

(3) Reflects division of passenger revenue between scheduled service and air-related charges in the Company's booking path.

25

Edgar Filing: Allegiant Travel CO - Form 10-Q

| | Nine Months Ended | | Percent Change (1) |
|---|-------------------|------------|--------------------------|
| | 2018 | 2017 | |
| Operating statistics (unaudited): | | | |
| Total system statistics: | | | |
| Passengers | 10,510,903 | 9,233,083 | 13.8 |
| Revenue passenger miles (RPMs) (thousands) | 9,408,944 | 8,340,269 | 12.8 |
| Available seat miles (ASMs) (thousands) | 11,294,800 | 10,181,292 | 10.9 |
| Load factor | 83.3 % | 81.9 % | 1.4 |
| Operating expense per ASM (CASM) (cents) | 9.52 | 9.12 | 4.4 |
| Fuel expense per ASM (cents) | 3.03 | 2.46 | 23.2 |
| Operating CASM, excluding fuel (cents) | 6.49 | 6.66 | (2.6) |
| ASMs per gallon of fuel | 76.8 | 72.2 | 6.3 |
| Departures | 76,912 | 69,739 | 10.3 |
| Block hours | 174,838 | 159,181 | 9.8 |
| Average stage length (miles) | 868 | 870 | (0.2) |
| Average number of operating aircraft during period | 92.4 | 86.6 | 6.7 |
| Average block hours per aircraft per day | 6.9 | 6.7 | 3.0 |
| Full-time equivalent employees at end of period | 3,835 | 3,704 | 3.5 |
| Fuel gallons consumed (thousands) | 147,172 | 141,054 | 4.3 |
| Average fuel cost per gallon | \$2.32 | \$ 1.78 | 30.3 |
| Scheduled service statistics: | | | |
| Passengers | 10,422,579 | 9,110,745 | 14.4 |
| Revenue passenger miles (RPMs) (thousands) | 9,299,355 | 8,183,636 | 13.6 |
| Available seat miles (ASMs) (thousands) | 10,883,630 | 9,747,395 | 11.7 |
| Load factor | 85.4 % | 84.0 % | 1.4 |
| Departures | 73,537 | 66,355 | 10.8 |
| Block hours | 167,947 | 151,988 | 10.5 |
| Total passenger revenue per ASM (TRASM) (cents) (2) | 11.04 | 10.98 | 0.5 |
| Average fare - scheduled service (3) | \$65.72 | \$68.04 | (3.4) |
| Average fare - air-related charges (3) | \$45.33 | \$45.06 | 0.6 |
| Average fare - third party products | \$4.23 | \$4.32 | (2.1) |
| Average fare - total | \$115.28 | \$117.42 | (1.8) |
| Average stage length (miles) | 874 | 875 | (0.1) |
| Fuel gallons consumed (thousands) | 141,452 | 134,906 | 4.9 |
| Average fuel cost per gallon | \$2.31 | \$1.76 | 31.3 |
| Rental car days sold | 1,408,357 | 1,104,933 | 27.5 |
| Hotel room nights sold | 313,360 | 304,234 | 3.0 |
| Percent of sales through website during period | 93.8 % | 94.1 % | (0.3) |

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

(2) Various components of this measure do not have a direct correlation to ASMs. This measure is provided on a per ASM basis so as to facilitate comparison with airlines reporting revenues on a per ASM basis.

(3) Reflects division of passenger revenue between scheduled service and air-related charges in the Company's booking path.

LIQUIDITY AND CAPITAL RESOURCES

Current liquidity

Cash, restricted cash and investment securities (short-term and long-term) remained relatively flat from December 31, 2017 to September 30, 2018, at \$501.9 million and \$499.0 million, respectively. 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. 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 reflected as air traffic liability. Investment securities represent highly liquid marketable securities which are available-for-sale.

During the first nine months of 2018, our primary source of funds was \$290.1 million generated by operations. Our operating cash flows and long-term debt borrowings have allowed us to invest in our fleet transition and return capital to shareholders. Our future capital needs are primarily for the acquisition of additional aircraft, including our existing Airbus A320 series aircraft commitments, as well as planned capital outlay related to Sunseeker Resorts and other travel and leisure initiatives.

We believe we have more than adequate liquidity resources through our operating cash flows, borrowings, and cash balances, to meet our future contractual obligations. In addition, we continue to consider raising funds through debt financing on an opportunistic basis. We plan to refinance our \$450.0 million of unsecured notes in advance of their maturities in July 2019.

In addition to our recurring quarterly cash dividend, our current share repurchase authority is \$100 million. There is no expiration to this program.

Debt

Our long-term debt and capital lease obligations balance, without reduction for related issuance costs, increased from \$1.2 billion as of December 31, 2017 to \$1.3 billion as of September 30, 2018 as we borrowed additional funds secured by aircraft, while making scheduled repayments on our existing debt. During the third quarter of 2018, we borrowed \$134.0 million secured by aircraft and \$46.9 million against our senior secured revolving credit facility.

Sources and Uses of Cash

Operating Activities. During the nine months ended September 30, 2018, our operating activities provided \$290.1 million of cash compared to \$302.1 million during the same period of 2017. The year-over-year decrease in cash inflows resulted from adjustments made for non-cash items such as deferred income taxes (\$43.0 million lower in 2018) which more than offset a \$5.6 million increase in net income.

Operating cash inflows are primarily derived from providing air transportation and related ancillary products and services to customers, and we expect to use that cash flow to purchase aircraft and equipment, make scheduled debt payments, invest in Sunseeker Resort - Charlotte Harbor and other travel and leisure initiatives, and return capital to shareholders through share repurchases and dividends.

Investing Activities. Cash used in investing activities was \$187.1 million during the nine months ended September 30, 2018 compared to \$366.3 million for the same period in 2017. The year-over-year decrease is mostly due to investment security activity, as cash proceeds from maturities of investment securities (net of purchases) were \$92.3 million in the first nine months of 2018 compared to cash used to purchase investment securities (net of proceeds) of \$33.9 million for the same period in 2017. Cash used to purchase property and equipment was \$274.0 million for the

first nine months of 2018 compared to \$333.7 million in the same period of 2017.

Financing Activities. Cash used in financing activities for the nine months ended September 30, 2018 was \$12.6 million while cash provided by financing activities was \$79.2 million for the same period in 2017. This year-over-year fluctuation is primarily due to an increase in principal payments on long-term debt and capital lease obligations in the current year, as we paid \$171.4 million in debt and capital lease payments during the nine months ended September 30, 2018 compared to \$88.0 million for the same period in 2017. Our debt payments in the first three quarters of 2018 also included various scheduled balloon payments. Additionally, we received \$191.7 million in loan proceeds during the nine months ended September 30, 2018, compared to \$292.5 million for the same period in 2017. For the nine months ended September 30, 2018, we paid cash dividends of \$33.9 million, compared to \$34.5 million in 2017, in addition to \$86.2 million in open market common stock repurchases.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this quarterly report on Form 10-Q, and in the 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, the effects of future regulation and competition, and the development of a resort in Southwest Florida. 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. These risk factors include, without limitation, an accident involving or problems with our aircraft, public perception of our safety, our reliance on automation systems, limitation on growth as we transition to a single fleet type, our reliance on third parties to deliver aircraft under contract to us on a timely basis, risk of breach of security of personal data, volatility of fuel costs, labor issues and costs, the ability to obtain regulatory approvals as needed, the effect of economic conditions on leisure travel, debt covenants and balances, the ability to finance aircraft under contract, terrorist attacks, risks inherent to airlines, the competitive environment, 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, the ability to successfully develop a resort in Southwest Florida, the continued successful operation of the airline to generate cash flow for use to develop Sunseeker Resort - Charlotte Harbor, governmental regulation, increases in maintenance costs and cyclical and seasonal fluctuations to our operating results.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Except as discussed below relating to the New Revenue Standard, in the third quarter of 2018, there were no changes to our critical accounting policies and estimates from those disclosed in the Consolidated Financial Statements and accompanying notes contained in our 2017 Form 10-K.

Effective January 1, 2018, we adopted the New Revenue Standard using the full retrospective method, which resulted in the recast of the 2017 prior period data presented. Under this ASU and subsequently issued amendments, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration received.

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, as aircraft fuel expense represented 31.8 percent of our operating expenses for the nine months ended September 30, 2018. Increases in fuel prices, or a shortage of supply, could have a material impact on our operations and operating results. Based on our fuel consumption for the three and nine months ended September 30, 2018, a hypothetical ten percent increase in the average price per gallon of fuel would have increased fuel expense by approximately \$11.1 million and \$33.3 million, respectively. We have not hedged fuel price risk for many years.

Interest Rates

As of September 30, 2018, we had a total of \$673.2 million in variable-rate debt, including current maturities and without reduction for related costs. A hypothetical 100 basis point change in market interest rates for the nine months ended September 30, 2018, would have affected interest expense by approximately \$5.2 million.

As of September 30, 2018, we had \$520.3 million of fixed-rate debt, including current maturities and without reduction for related costs. A hypothetical 100 basis point change in market interest rates would not impact interest expense on our fixed rate debt as of such date.

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, 2017, for further information about market risk.

Item 4. Controls and Procedures

As of September 30, 2018, 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") as of the end of the period covered by this report. Based on that evaluation, 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 and is accumulated and communicated to the Company's management, including the CEO and the CFO, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting that occurred during the quarter ending September 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Effective January 1, 2018, we adopted Accounting Standards Codification 606, "Revenue from Contracts with Customers." Although the New Revenue Standard is not expected to have a material impact on our ongoing net income, changes were made to relevant business processes and the related control activities, including information systems, in order to monitor and maintain appropriate controls over financial reporting. The operating effectiveness of these changes will be evaluated as part of our annual assessment on the effectiveness of internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to certain 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 the following changes to those set forth in Part I, Item 1A of our Annual Report on Form 10-K.

If we finance the construction of Sunseeker Resort - Charlotte Harbor without the incurrence of debt at the subsidiary level, our balance sheet will be weakened if the airline does not generate sufficient cash flow for this purpose or if there are cost overruns.

We have announced we may finance the construction of Sunseeker Resort - Charlotte Harbor on our balance sheet without the incurrence of debt at the subsidiary level. To accomplish this, we will be using our cash balances and cash

flow expected to be generated by our airline operations. Our balance sheet will be weakened if the airline does not produce sufficient cash flow for this purpose or if there are cost overruns. We have hired experienced construction management to mitigate the risk of cost overruns. In addition, we have indicated we would consider financing at the subsidiary level during or after construction. If we decide to secure debt at the subsidiary level, these cash flow and balance sheet risks will be mitigated to the extent of any financing funded.

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 third quarter 2018:

| Period | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of our Publicly Announced Plan | Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (in thousands) (2) |
|-----------|--------------------------------------|------------------------------|---|---|
| July | 783 | \$ 130.30 | None | |
| August | — | — | None | |
| September | 3,935 | 132.55 | None | |
| Total | 4,718 | \$ 132.18 | | \$ 100,000 |

(1) Includes shares repurchased from employees who vested a portion of their restricted stock grants. These share 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.

(2) Represents the remaining dollar amount of open market purchases of our common stock which has been authorized by the Board under a share repurchase 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 as amended on April 24, 2018 (2)

12 Calculation of Ratio of Earnings to Fixed Charges of Allegiant Travel Company

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 April 25, 2018.

31

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: October 31, 2018 By: /s/ Scott Sheldon
Scott Sheldon, as
duly authorized
officer of the
Company (Chief
Financial Officer)
and as Principal
Financial Officer