

Allegiant Travel CO  
Form 10-Q  
November 10, 2008  
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## 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, 2008

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-33166

## Allegiant Travel Company

(Exact Name of Registrant as Specified in Its Charter)

**Nevada**

(State or Other Jurisdiction of Incorporation or Organization)

**20-4745737**

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

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

**89113**  
(Zip Code)

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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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares of the registrant's common stock outstanding as of the close of business on November 1, 2008 was 20,337,454.

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Allegiant Travel Company

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September 30, 2008

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CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except for share amounts)**

|   | <b>September 30,<br/>2008<br/>(unaudited)</b> | <b>December 31,<br/>2007</b> |
|---|---|------------------------------|
| <b>Current assets:</b>  |   |                              |
| Cash and cash equivalents   | \$ 133,542                                    | \$ 144,269                   |
| Restricted cash   | 17,311  | 15,383                       |
| Short-term investments  | 5,033   | 27,110                       |
| Accounts receivable, net of allowance for doubtful accounts of \$- at September 30, 2008 and December 31, 2007  | 8,803   | 9,084                        |
| Income tax receivable   | 421   | 6,228                        |
| Expendable parts, supplies and fuel, net of allowance for obsolescence of \$509 and \$374 at September 30, 2008 and December 31, 2007, respectively   | 11,219  | 6,544                        |
| Prepaid expenses  | 12,051  | 14,718                       |
| Other current assets  | 1,801   | 1,552                        |
| Total current assets  | 190,181                                       | 224,888                      |
| Property and equipment, net   | 210,085                                       | 171,170                      |
| Restricted cash, net of current portion   |   | 38                           |
| Investment in and advances to joint venture   | 607   | 1,976                        |
| Deposits and other assets   | 2,119   | 7,353                        |
| Total assets  | \$ 402,992                                    | \$ 405,425                   |
| <b>Current liabilities:</b>   |   |                              |
| Current maturities of notes payable   | \$ 20,177                                     | \$ 11,955                    |
| Current maturities of capital lease obligations   | 1,870   | 6,241                        |
| Accounts payable  | 15,448  | 21,302                       |
| Accrued liabilities   | 13,005  | 13,174                       |
| Air traffic liability   | 77,776  | 74,851                       |
| Deferred income taxes   | 1,733   | 456                          |
| Total current liabilities   | 130,009                                       | 127,979                      |
| <b>Long-term debt and other long-term liabilities:</b>  |   |                              |
| Notes payable, net of current maturities  | 44,073  | 31,890                       |
| Capital lease obligations, net of current maturities  | 3,971   | 22,060                       |
| Deferred income taxes   | 10,472  | 13,165                       |
| Total liabilities   | 188,525                                       | 195,094                      |
| <b>Stockholders' equity:</b>  |   |                              |
| Common stock, par value \$.001, 100,000,000 shares authorized, 20,325,454 shares issued and outstanding as of September 30, 2008 and 20,738,387 shares issued and outstanding as of December 31, 2007 | 20  | 21                           |
| Treasury stock, at cost, 553,700 shares   | (15,808)                                      |                              |
| Additional paid in capital  | 162,675                                       | 159,863                      |

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|   |            |            |
|---|------------|------------|
| Accumulated other comprehensive (loss) income | (62)       | 13         |
| Retained earnings                             | 67,642     | 50,434     |
| Total stockholders' equity                    | 214,467    | 210,331    |
| Total liabilities and stockholders' equity    | \$ 402,992 | \$ 405,425 |

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

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**ALLEGIANT TRAVEL COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(unaudited, in thousands, except for per share amounts)

|   | Three months ended September 30, |                 | Nine months ended September 30, |                  |
|---|----------------------------------|-----------------|---------------------------------|------------------|
|   | 2008                             | 2007            | 2008                            | 2007             |
| <b>OPERATING REVENUE:</b>                   |                                  |                 |                                 |                  |
| Scheduled service revenue                   | \$ 73,796                        | \$ 62,274       | \$ 253,175                      | \$ 186,127       |
| Fixed fee contract revenue                  | 14,234                           | 7,359           | 41,068                          | 28,240           |
| Ancillary revenue                           | 27,591                           | 15,989          | 83,846                          | 44,545           |
| Other revenue                               | 1,265                            | 705             | 3,495                           | 705              |
| Total operating revenue                     | 116,886                          | 86,327          | 381,584                         | 259,617          |
| <b>OPERATING EXPENSES:</b>                  |                                  |                 |                                 |                  |
| Aircraft fuel                               | 56,795                           | 36,628          | 192,357                         | 103,265          |
| Salary and benefits                         | 17,272                           | 13,399          | 51,558                          | 40,286           |
| Station operations                          | 10,309                           | 8,186           | 32,821                          | 25,019           |
| Maintenance and repairs                     | 10,099                           | 5,933           | 31,914                          | 18,152           |
| Sales and marketing                         | 3,099                            | 3,310           | 11,103                          | 9,375            |
| Aircraft lease rentals                      | 517                              | 817             | 2,461                           | 2,125            |
| Depreciation and amortization               | 6,219                            | 4,238           | 17,190                          | 11,613           |
| Other                                       | 4,459                            | 4,273           | 15,024                          | 11,780           |
| Total operating expenses                    | 108,769                          | 76,784          | 354,428                         | 221,615          |
| <b>OPERATING INCOME</b>                     | <b>8,117</b>                     | <b>9,543</b>    | <b>27,156</b>                   | <b>38,002</b>    |
| <b>OTHER (INCOME) EXPENSE:</b>              |                                  |                 |                                 |                  |
| (Gain) loss on fuel derivatives, net        |                                  | (348)           | 11                              | (2,252)          |
| (Earnings) loss from joint venture, net     | (13)                             | (35)            | 30                              | (297)            |
| Other expense                               |                                  |                 |                                 | 63               |
| Interest income                             | (878)                            | (2,542)         | (3,638)                         | (6,835)          |
| Interest expense                            | 1,302                            | 1,368           | 4,206                           | 4,137            |
| Total other (income) expense                | 411                              | (1,557)         | 609                             | (5,184)          |
| <b>INCOME BEFORE INCOME TAXES</b>           | <b>7,706</b>                     | <b>11,100</b>   | <b>26,547</b>                   | <b>43,186</b>    |
| <b>PROVISION FOR INCOME TAXES</b>           | <b>2,816</b>                     | <b>4,085</b>    | <b>9,339</b>                    | <b>16,448</b>    |
| <b>NET INCOME</b>                           | <b>\$ 4,890</b>                  | <b>\$ 7,015</b> | <b>\$ 17,208</b>                | <b>\$ 26,738</b> |
| <b>Earnings Per Share:</b>                  |                                  |                 |                                 |                  |
| Basic                                       | \$ 0.24                          | \$ 0.34         | \$ 0.85                         | \$ 1.33          |
| Diluted                                     | \$ 0.24                          | \$ 0.34         | \$ 0.84                         | \$ 1.30          |
| <b>Weighted average shares outstanding:</b> |                                  |                 |                                 |                  |
| Basic                                       | 20,223                           | 20,625          | 20,295                          | 20,106           |
| Diluted                                     | 20,467                           | 20,936          | 20,531                          | 20,491           |

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

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**ALLEGIANT TRAVEL COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited, in thousands)

|   | Nine months ended September 30, |            |
|---|---------------------------------|------------|
|   | 2008                            | 2007       |
| <b>OPERATING ACTIVITIES:</b>  |                                 |            |
| Net income  | \$ 17,208                       | \$ 26,738  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |            |
| Depreciation and amortization   | 17,190                          | 11,613     |
| Loss (gain) on disposal of aircraft and other equipment                           | 761                             | (79)       |
| Provision for obsolescence of expendable parts, supplies and fuel                 | 135                             | 39         |
| Stock compensation expense  | 1,210                           | 704        |
| Deferred income taxes   | (1,416)                         | 4,802      |
| Excess tax benefits from stock option exercises                                   | (1,105)                         | (1,958)    |
| Changes in certain assets and liabilities:  |                                 |            |
| Restricted cash   | (1,890)                         | (1,798)    |
| Accounts receivable   | 281                             | (4,236)    |
| Income tax receivable   | 5,807                           |            |
| Receivable from related parties   |                                 | 1,489      |
| Expendable parts, supplies and fuel   | (4,810)                         | (6,355)    |
| Prepaid expenses  | (4,783)                         | (2,913)    |
| Other current assets  | (249)                           | 2,237      |
| Accounts payable  | (4,749)                         | 3,594      |
| Accrued liabilities   | (169)                           | (2,421)    |
| Air traffic liability   | 2,925                           | 31,461     |
| Net cash provided by operating activities   | 26,346                          | 62,917     |
| <b>INVESTING ACTIVITIES:</b>  |                                 |            |
| Purchase of short-term investments  | (5,000)                         | (6,904)    |
| Maturities of short-term investments  | 27,002                          | 5,717      |
| Purchase of property and equipment  | (49,201)                        | (32,340)   |
| Proceeds from sale of property and equipment                                      | 165                             | 531        |
| Investment in joint venture, net  | 1,369                           | (2,843)    |
| Decrease (increase) in lease and equipment deposits                               | 1,604                           | (5,088)    |
| Net cash used in investing activities   | (24,061)                        | (40,927)   |
| <b>FINANCING ACTIVITIES:</b>  |                                 |            |
| Excess tax benefits from stock option exercises                                   | 1,105                           | 1,958      |
| Proceeds from exercise of stock options   | 497                             | 741        |
| Proceeds from issuance of common stock, net                                       |                                 | 22,265     |
| Proceeds from issuance of notes payable   | 25,625                          |            |
| Repurchase of common stock  | (15,809)                        |            |
| Principal payments on notes payable   | (12,420)                        | (7,324)    |
| Principal payments on related party notes payable                                 |                                 | (891)      |
| Principal payments on capital lease obligations                                   | (12,010)                        | (3,204)    |
| Net cash (used in) provided by financing activities                               | (13,012)                        | 13,545     |
| Net change in cash and cash equivalents   | (10,727)                        | 35,535     |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD                                  | 144,269                         | 130,273    |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD  | \$ 133,542                      | \$ 165,808 |
| <b>NON-CASH TRANSACTIONS:</b>   |                                 |            |
| Note payable issued for aircraft and equipment                                    | \$ 7,200                        | \$         |
| Acquisition of aircraft under capital lease                                       | \$                              | \$ 7,726   |

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

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited, in thousands, except per share amounts)

**Note 1 Summary of Significant Accounting Policies**

**Basis of Presentation:** The accompanying unaudited condensed consolidated financial statements include Allegiant Travel Company ( Allegiant or the Company ) and its wholly owned operating subsidiaries, Allegiant Air LLC, Allegiant Vacations LLC and AFH, Inc., and its 50% owned subsidiary accounted for under the equity method, SFB Fueling LLC. All intercompany balances and transactions have been eliminated.

These unaudited condensed consolidated financial statements reflect all normal recurring adjustments, which management believes are necessary to present fairly the financial position, results of operations, and cash flows of the Company for the respective periods presented. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission for Form 10-Q. These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company and notes thereto included in the annual report of the Company on Form 10-K for the year ended December 31, 2007, filed with the Securities and Exchange Commission.

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

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

**Reclassifications:** Certain reclassifications have been made to the prior period's financial statements to conform to 2008 classifications. These classifications had no effect on the previously reported net income.

**Note 2 Newly Issued Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 141(R), *Business Combinations* ( SFAS 141(R) ), which replaces SFAS No. 141. SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The Statement also establishes disclosure requirements intended to enable users to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. SFAS 141(R)

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will impact the Company's financial statements if the Company enters into a business combination after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51* ( SFAS 160 ), which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements intended to provide disclosures to identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The Company has not yet determined the effect that the adoption of SFAS 160 will have on its consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of SFAS 157* ( FSP FAS 157-2 ). This FSP amends SFAS 157 to delay the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This FSP defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of FSP FAS 157-2. The Company has not yet determined the effect on the Company's consolidated financial statements that adoption of SFAS 157 will have for those items within the scope of FSP FAS 157-2.

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In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133* ( SFAS 161 ). The Statement requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. The Company has not yet determined the effect that SFAS 161 will have on the Company's consolidated financial statements.

**Note 3 Income Taxes**

For the three and nine months ended September 30, 2008, the Company did not have any material unrecognized tax benefits. The Company estimates that no significant unrecognized tax benefits will be recorded within the next twelve months.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. There was no significant accrued interest at September 30, 2008. No penalties were accrued at September 30, 2008.

The Company files its tax returns as prescribed by the laws of the jurisdictions in which it operates. Prior to May 2004, the Company elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code wherein the taxable income or loss of the Company was included in the income tax returns of its shareholders. In May 2004, the Company reorganized as a limited liability company and was therefore taxed as a partnership for federal income tax purposes until the reorganization into a corporation effected at the time of the Company's initial public offering in December 2006. Under these previous structures, the Company did not pay federal income tax at the entity level on its taxable income for these periods. Instead, the members of the limited liability company or shareholders of the Subchapter S corporation were liable for income tax on the taxable income as it affected their tax returns. The Company was also subject to tax at the entity level in certain states in which it operates. Deferred income taxes to which the Company was subject under these previous structures were not material.

The Company (or its predecessor entities) is no longer subject to U.S. Federal income tax examinations for years before 2004. Various state and local tax returns remain open to examination. The Company believes that any potential assessment resulting from such examinations would be immaterial.

**Note 4 Stockholders Equity**

On May 24, 2007, the Company sold 156 shares in a public offering. In conjunction with the public offering, on June 13, 2007, the underwriters exercised their overallotment option to purchase an additional 592 shares from the Company. The Company received approximately \$22,300 in net proceeds from the sale of these shares.

In January 2008, the Board of Directors authorized a share repurchase program to acquire through open market purchases up to \$25,000 of the Company's common stock. As of September 30, 2008, the Company has repurchased 554 shares of the Company's common stock through open market purchases at an average cost of \$28.55 per share for a total expenditure of \$15,809. No share repurchases were made by the Company during the second or third quarters of 2008.

**Note 5 Earnings Per Share**

The following table sets forth the computation of net income per share, on a basic and diluted basis for the periods indicated:

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|   | Three months ended September 30, |          | Nine months ended September 30, |           |
|---|----------------------------------|----------|---------------------------------|-----------|
|   | 2008                             | 2007     | 2008                            | 2007      |
| <b>Numerator:</b>                                     |                                  |          |                                 |           |
| Net income  | \$ 4,890                         | \$ 7,015 | \$ 17,208                       | \$ 26,738 |
| <b>Denominator:</b>                                   |                                  |          |                                 |           |
| Weighted-average shares outstanding                   | 20,223                           | 20,625   | 20,295                          | 20,106    |
| Weighted-average effect of dilutive securities:       |                                  |          |                                 |           |
| Employee stock options                                | 54                               | 123      | 55                              | 195       |
| Stock purchase warrants                               | 136                              | 139      | 135                             | 140       |
| Restricted stock                                      | 54                               | 49       | 46                              | 50        |
| Adjusted weighted-average shares outstanding, diluted | 20,467                           | 20,936   | 20,531                          | 20,491    |
| Net income per share, basic                           | \$ 0.24                          | \$ 0.34  | \$ 0.85                         | \$ 1.33   |
| Net income per share, diluted                         | \$ 0.24                          | \$ 0.34  | \$ 0.84                         | \$ 1.30   |

**Note 6 Long-Term Debt**

|  | As of September 30, | As of December 31, |
|--|---------------------|--------------------|
|  | 2008                | 2007               |
| Notes payable, secured by aircraft, interest at 8%, due at varying dates through December 2010 | \$ 11,919           | \$ 15,747          |
| Notes payable, secured by aircraft, interest at 8.5%, due November 2011                        | 12,321              | 14,113             |
| Notes payable, secured by aircraft, interest at 6%, due April 2012                             | 16,302              |                    |
| Notes payable, secured by aircraft, interest at 6%, due at varying dates through February 2011 | 11,471              | 7,108              |
| Notes payable, secured by aircraft, interest at 6.8%, due June 2011                            | 7,285               |                    |
| Notes payable, secured by aircraft, interest at 8%, due June 2011                              | 4,910               | 6,071              |
| Note payable, secured by aircraft, interest at 9%  |                     | 747                |
| Other notes payable  | 42                  | 59                 |
| Capital lease obligations  | 5,841               | 28,301             |
| Total long-term debt   | 70,091              | 72,146             |
| Less current maturities  | (22,047)            | (18,196)           |
| Long-term debt, net of current maturities  | \$ 48,044           | \$ 53,950          |

**Note 7 Investment in Joint Venture**

AFH, Inc., a wholly owned subsidiary of Allegiant Travel Company, entered into a joint venture agreement with Orlando Sanford International, Inc. ( OSI ) to handle certain fuel operations for the Orlando Sanford International Airport. The joint venture, which began operations in January 2007, is responsible for the purchase and transport of jet fuel to a fuel farm facility owned and operated by OSI, and for the sale of jet fuel to air carriers. In addition, AFH, Inc. is responsible for the administrative functions for the joint venture. The Company accounts for its 50% interest in the joint venture agreement under the equity method. AFH, Inc.'s proportionate allocation of net income is reported in the Company's consolidated statements of income in Other (income) expense with an adjustment to the recorded investment in the Company's consolidated balance sheets.

**Note 8 Financial Instruments and Risk Management**

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Airline operations are inherently dependent on energy, and are therefore impacted by changes in jet fuel prices. Aircraft fuel expense represented approximately 52.2% and 47.7% of the Company's operating expenses for the three months ended September 30, 2008 and 2007, respectively. For the nine months ended September 30, 2008 and 2007, aircraft fuel expense represented approximately 54.3% and 46.6%, respectively, of the Company's operating expenses. The Company endeavors to acquire jet fuel at the lowest possible cost.

The Company has in the past entered into financial derivative contracts to manage fuel price risk. These financial derivative instruments were not purchased nor held for trading purposes. The Company suspended this hedging strategy in 2007 and the last contract settled in January 2008. The Company does not have any derivative instruments as of September 30, 2008.

The Company's fuel hedging program and the financial derivative instruments purchased pursuant to this program did not qualify for financial reporting in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. Therefore, changes in the fair value of such derivative contracts, which amounted to gains of \$348 for the three months ended September 30, 2007, and losses of \$11 and gains of \$2,252 for the nine months ended September 30, 2008 and 2007, respectively, were recorded as a (Gain) loss on fuel derivatives, net within Other (income) expense in the condensed consolidated statements of income. These amounts include both realized gains and losses and mark-to-market adjustments of the fair value of the derivative instruments at the end of each period. The fair value of hedge contracts amounted to \$81 as of December 31, 2007 and was recorded in Other current assets in the condensed consolidated balance sheet.

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**Note 9 Commitments and Contingencies**

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

**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 month periods ended September 30, 2008 and 2007. Also discussed is our financial position as of September 30, 2008 and December 31, 2007. You should read this discussion in conjunction with our unaudited condensed consolidated financial statements, including the notes thereto, appearing elsewhere in this Form 10-Q and our consolidated financial statements appearing in our annual report on Form 10-K for the year ended December 31, 2007. This discussion and analysis contains forward-looking statements. Please refer to the section below entitled *Special Note About Forward-Looking Statements* for a discussion of the uncertainties, risks and assumptions associated with these statements.*

**Overview**

We are a leisure travel company. The focus of our business is a low-cost passenger airline marketed to leisure travelers in small cities. Our business model emphasizes low operating costs, diversified revenue sources, and the transport of passengers from small cities to leisure destinations. Our route network, pricing philosophy, product offering and advertising are all intended to appeal to leisure travelers and make it attractive for them to purchase air travel and related services from us.

We provide service primarily to Las Vegas (Nevada), Phoenix (Arizona), Ft. Lauderdale (Florida), Orlando (Florida), and Tampa/St. Petersburg (Florida), five of the most popular leisure destinations in the United States. We have positioned our business to take advantage of current lifestyle and demographic trends in the U.S. we believe are positive drivers for the leisure travel industry. The most notable demographic shift occurring in the U.S. is the aging of the baby boomer generation as they enter their peak earning years and have more time and disposable income to spend on leisure travel. We believe a large percentage of our customers fall within the baby boomer demographic and we target these customers through the use of advertisements in more than 300 print circulations.

We also fly charter ( fixed fee ) services under long-term contracts (primarily for Harrah's Entertainment Inc.) and on an on-demand basis.

**Our Fleet:**

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

|              | September 30, 2008 |          |           | December 31, 2007 |          |           | September 30, 2007 |          |           |
|--------------|--------------------|----------|-----------|-------------------|----------|-----------|--------------------|----------|-----------|
|              | Own(a)(b)          | Lease    | Total     | Own(a)            | Lease    | Total     | Own(a)             | Lease    | Total     |
| MD82/83/88s  | 31                 | 2        | 33        | 24                | 4        | 28        | 22                 | 4        | 26        |
| MD87s        | 4                  | 0        | 4         | 4                 | 0        | 4         | 3                  | 0        | 3         |
| <b>Total</b> | <b>35</b>          | <b>2</b> | <b>37</b> | <b>28</b>         | <b>4</b> | <b>32</b> | <b>25</b>          | <b>4</b> | <b>29</b> |

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(a) Aircraft owned includes the following number subject to capital leases: September 30, 2008 two, December 31, 2007 seven, and September 30, 2007 five.

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(b) Does not include six owned MD-80 aircraft leased to a third party.

**Our Markets:**

Our scheduled service consists of limited frequency nonstop flights into leisure destinations from small cities. As of September 30, 2008, we offered scheduled service from 54 small cities primarily into our major leisure destinations of Las Vegas, Phoenix, Ft. Lauderdale, Orlando, and Tampa/St. Petersburg, including seasonal service, and additional service to other leisure destinations from Bellingham (Washington). The following shows the number of destinations and small cities served as of the dates indicated:

|                            | As of September 30,<br>2008 | As of December 31,<br>2007 | As of September 30,<br>2007 |
|----------------------------|-----------------------------|----------------------------|-----------------------------|
| Major leisure destinations | 5                           | 5                          | 3                           |
| Other leisure destinations | 4                           | 2                          | 2                           |
| Small cities               | 54                          | 51                         | 51                          |

**Economic Conditions**

In the third quarter of 2008, the U.S. economy continued to be impacted by the ongoing credit crisis and rising energy prices. This created a challenging environment for the airline industry, including uncertainty for airline travel demand given perceived tightening of consumer discretionary spending. In response, we focused on appropriate capacity reductions to ensure continued profitability. Our third quarter route adjustments reflected long-haul route eliminations and frequency reductions, along with new short-haul routes that together drove lower average stage length for the period compared with the prior year. Another focus was to increase passenger loads, which was reflected in greater than 90% load factors for the quarter. Together these measures resulted in significantly lower fuel consumption per passenger, while higher passenger loads helped drive larger ancillary revenues, both factors contributing to higher profits sequentially over second quarter 2008.

**Results of Operations*****Comparison of three months ended September 30, 2008 to three months ended September 30, 2007***

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

|                                | Three Months Ended September 30, |               |
|--------------------------------|----------------------------------|---------------|
|                                | 2008                             | 2007          |
| <b>Total operating revenue</b> | <b>100.0%</b>                    | <b>100.0%</b> |
| Operating expenses:            |                                  |               |

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|                                 |              |              |
|---------------------------------|--------------|--------------|
| Aircraft fuel                   | 48.6         | 42.4         |
| Salary and benefits             | 14.8         | 15.6         |
| Station operations              | 8.8          | 9.5          |
| Maintenance and repairs         | 8.7          | 6.9          |
| Sales and marketing             | 2.7          | 3.8          |
| Aircraft lease rentals          | 0.4          | 0.9          |
| Depreciation and amortization   | 5.3          | 4.9          |
| Other                           | 3.8          | 4.9          |
| <b>Total operating expenses</b> | <b>93.1%</b> | <b>88.9%</b> |
| <b>Operating margin</b>         | <b>6.9%</b>  | <b>11.1%</b> |

We recorded total operating revenue of \$116.9 million, income from operations of \$8.1 million and net income of \$4.9 million for the three months ended September 30, 2008. During the same period in 2007, we recorded total operating revenue of \$86.3 million, income from operations of \$9.5 million and net income of \$7.0 million.

### Operating Revenue

Our operating revenue increased 35.4% to \$116.9 million in the three months ended September 30, 2008 from \$86.3 million in the same period of 2007 due to increases in scheduled service, fixed fee contract, ancillary and other revenue.

A 14.1% increase in total system departures and an increase in load factor to 90.7% combined to increase passengers by 20.9%, while available seat miles ( ASMs ) increased by only 3.7% due to a 9.2% decline in average stage length. Increases in all revenue line items outpaced the increase in ASMs resulting in a 30.5% increase in operating revenue per ASM ( RASM ).

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**Scheduled service revenue.** Scheduled service revenue increased 18.5% to \$73.8 million for the three months ended September 30, 2008, from \$62.3 million in the same period of 2007, because we carried more passengers at a higher average fare. Passengers increased 14.0% due to a 3.7% increase in departures and a 7.6 percentage point increase in load factor to 93.8%. Average fare increased by 4.0% despite a 7.0% decrease in average stage length.

**Fixed fee contract revenue.** Fixed fee contract revenue was \$14.2 million in the three months ended September 30, 2008 compared to \$7.4 million in the same period of 2007. The substantial increase in fixed fee contract revenue is primarily due to services provided to a third Harrah's Entertainment, Inc. subsidiary and a contract with MLT Vacations, neither of which were in place a year ago. The fixed fee contract services for MLT Vacations ended in October 2008.

**Ancillary revenue.** Ancillary revenue increased 72.6% to \$27.6 million in the three months ended September 30, 2008 up from \$16.0 million in the same period of 2007. The increase in ancillary revenue was due to a 14.0% increase in scheduled service passengers and a 51.5% increase in ancillary revenue per passenger from \$21.31 to \$32.28 due primarily to the sale of new products and higher prices charged for certain existing products.

**Other revenue.** Other revenue of \$1.3 million was generated during the three months ended September 30, 2008 as a result of the purchase of six MD-80 aircraft and three engines on lease to another airline. We took possession of one of the six aircraft during the fourth quarter of 2008 with the expectation it will be placed in service by the end of 2008. The remaining aircraft and engines are expected to be returned to us during the fourth quarter of 2008 and during 2009. Other revenue of \$0.7 million was generated during the three months ended September 30, 2007 due to the lease of eight engines to another airline. These engines were returned to us in the fourth quarter of 2007.

**Operating Expenses**

Our operating expenses increased by 41.7% to \$108.8 million in the three months ended September 30, 2008, up from \$76.8 million during the same period in 2007.

We primarily evaluate our expense management by comparing our costs per passenger across different periods which enable us to assess trends in each expense category. The following table presents Operating expense per passenger for the indicated periods ( per-passenger costs ). The table also presents Operating expense per passenger, excluding fuel, which represents operating expenses, less aircraft fuel expense, divided by the number of passengers carried. This statistic provides management and investors the ability to measure and monitor our cost performance absent fuel price volatility. Both the cost and availability of fuel are subject to many economic and political factors and are therefore beyond our control.

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|   | Three Months Ended<br>September 30, |          | Percentage<br>Change |
|---|-------------------------------------|----------|----------------------|
|   | 2008                                | 2007     |                      |
| Aircraft fuel                                   | \$ 58.27                            | \$ 45.45 | 28.2%                |
| Salary and benefits                             | 17.72                               | 16.63    | 6.6                  |
| Station operations                              | 10.58                               | 10.16    | 4.1                  |
| Maintenance and repairs                         | 10.36                               | 7.36     | 40.1                 |
| Sales and marketing                             | 3.18                                | 4.11     | (22.6)               |
| Aircraft lease rentals                          | 0.53                                | 1.01     | (47.5)               |
| Depreciation and amortization                   | 6.38                                | 5.26     | 21.3                 |
| Other   | 4.58                                | 5.30     | (13.6)               |
| Operating expense per passenger                 | \$ 111.60                           | \$ 95.28 | 17.1%                |
| Operating expense per passenger, excluding fuel | \$ 53.33                            | \$ 49.83 | 7.0%                 |

Our per-passenger costs increased at a substantially slower pace than our overall expenses due largely to our increase in total system load factor to 90.7% in the three months ended September 30, 2008 as compared with 84.2% during the prior year period.

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

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|                                | Three Months Ended<br>September 30, |       | Percentage<br>Change |
|--------------------------------|-------------------------------------|-------|----------------------|
|                                | 2008                                | 2007  |                      |
| Aircraft fuel                  | 6.00¢                               | 4.01¢ | 49.6%                |
| Salary and benefits            | 1.82                                | 1.47  | 23.8                 |
| Station operations             | 1.09                                | 0.90  | 21.1                 |
| Maintenance and repairs        | 1.07                                | 0.65  | 64.6                 |
| Sales and marketing            | 0.33                                | 0.36  | (8.3)                |
| Aircraft lease rentals         | 0.05                                | 0.09  | (4.4)                |
| Depreciation and amortization  | 0.66                                | 0.46  | 43.5                 |
| Other                          | 0.47                                | 0.47  |                      |
| Operating CASM                 | 11.49¢                              | 8.41¢ | 36.6%                |
| Operating CASM, excluding fuel | 5.49¢                               | 4.40¢ | 24.8%                |

We believe CASM is not the most appropriate measure by which to evaluate our cost management due to the evolving nature of our route network, our aggressive approach to managing capacity (i.e., ASMs) on a seasonal basis, and the low utilization of our fleet which results in many of our expenses being more fixed as opposed to varying significantly with our ASM production. We provide this table as a convenience because we recognize that CASM is widely used to compare costs across airlines.

**Aircraft fuel expense.** Aircraft fuel expense increased 55.1% to \$56.8 million in the three months ended September 30, 2008 up from \$36.6 million in the same period of 2007. This increase was due to a 48.3% increase in the average cost per gallon to \$3.44 from \$2.32 combined with a 4.4% increase in gallons consumed to 16.5 million from 15.8 million compared with the same period in 2007. Higher load factors resulted in a smaller increase of 28.2% on a per passenger basis from \$45.45 to \$58.27.

**Salary and benefits expense.** Salary and benefits expense increased 28.9% to \$17.3 million in the three months ended September 30, 2008 up from \$13.4 million in the same period of 2007. This increase is largely attributable to a 23.9% increase in full-time equivalent employees as the average fleet size increased to 37.0 during the three months ended September 30, 2008 compared to 28.8 during the same period a year ago. We employed 1,282 full-time equivalent employees as of September 30, 2008 compared to 1,035 full-time equivalent employees during the year ago period. Our per-passenger costs increased by 6.6% from \$16.63 to \$17.72. The quarter-over-quarter increase was primarily a result of a deeper seasonal proportionate reduction in flying for the three months ended September 30, 2008, compared to the same period in 2007. This was partially offset by higher load factors.

**Station operations expense.** Station operations expense increased 25.9% to \$10.3 million in the three months ended September 30, 2008 compared to \$8.2 million in the same period of 2007. On a per passenger basis, station operations expense increased by 4.1% mainly due to a higher percentage of fixed fee contract flying which usually results in higher station operations expense per passenger than scheduled service flying.

**Maintenance and repairs expense.** Maintenance and repairs expense increased by 70.2% to \$10.1 million in the three months ended September 30, 2008 up from \$5.9 million in the same period of 2007. The increase is largely

attributable to more costly scheduled airframe maintenance based on timing of aircraft life cycles, higher parts and repair expenses, and an increase in engine maintenance events in the three months ended September 30, 2008 compared to unusually low engine maintenance event expenses in the same period of 2007. Our per-passenger costs increased by only 40.1% to \$10.36 per passenger in the period ended September 30, 2008 from \$7.36 per passenger in the year ago period. The lower increase in per-passenger costs was due to higher load factors. The timing of maintenance events can cause our maintenance and repairs expense to vary significantly from period to period.

**Sales and marketing expense.** Sales and marketing expense decreased 6.4% from \$3.3 million for the three months ended September 30, 2007 to \$3.1 million for the same period of 2008. The decrease is primarily due to a reduction in advertising expenses during the quarter offset by an increase in credit card discount fees associated with the 18.5% increase in scheduled service revenue in the three months ended September 30, 2008 compared to the same period in 2007. Advertising expenses have decreased for the three months ended September 30, 2008 compared to the same period in the prior year in part due to higher advertising expenses incurred last year in conjunction with the announcements of new destinations in Phoenix and Ft. Lauderdale.

**Aircraft lease rentals expense.** Aircraft lease rentals expense decreased by 36.7% to \$0.5 million in the three months ended September 30, 2008 down from \$0.8 million in the same period of 2007 due to a decrease in the number of leased aircraft from four as of September 30, 2007 to two as of September 30, 2008. In July 2008, we purchased for cash two MD-80 aircraft that had been operated under operating leases.

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***Depreciation and amortization expense.*** Depreciation and amortization expense was \$6.2 million in the three months ended September 30, 2008 compared to \$4.2 million in the same period of 2007, an increase of 46.7%, as the number of aircraft owned or subject to capital lease increased from 25 as of September 30, 2007 to 41 as of September 30, 2008. The 16 additional owned aircraft contributed to an increase in depreciation and amortization expense per passenger from \$5.26 for the three months ended September 30, 2007 to \$6.38 for the same period in 2008.

***Other expense.*** Other expense increased by 4.4% to \$4.5 million during the three months ended September 30, 2008 compared to \$4.3 million in same period of 2007 due mainly to increased aviation insurance, administrative and facilities expenses associated with our company's growth, offset by reduced crew member travel and other expenses as a result of our route network changes and capacity reductions.

**Other (Income) Expense**

Other (income) expense was \$0.4 million during the period ended September 30, 2008 compared to income of \$1.6 million in the three months ended September 30, 2007. The change was principally due to a \$1.7 million reduction in interest income earned by our cash balances as a result of lower prevailing interest rates.

**Income Tax Expense**

Our effective tax rate remained relatively constant at 36.5% for the three months ended September 30, 2008 compared to 36.8% in the same period of 2007. Our reported effective tax rate for the third quarter of 2008 may not be indicative of our effective tax rate for the fourth quarter of 2008 or fiscal year 2008.

***Comparison of nine months ended September 30, 2008 to nine months ended September 30, 2007***

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

|                                | Nine Months Ended September 30, |               |
|--------------------------------|---------------------------------|---------------|
|                                | 2008                            | 2007          |
| <b>Total operating revenue</b> | <b>100.0%</b>                   | <b>100.0%</b> |
| Operating expenses:            |                                 |               |
| Aircraft fuel                  | 50.4                            | 39.8          |
| Salary and benefits            | 13.5                            | 15.6          |
| Station operations             | 8.6                             | 9.6           |
| Maintenance and repairs        | 8.4                             | 7.0           |

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|                                 |              |              |
|---------------------------------|--------------|--------------|
| Sales and marketing             | 2.9          | 3.6          |
| Aircraft lease rentals          | 0.7          | 0.8          |
| Depreciation and amortization   | 4.5          | 4.5          |
| Other                           | 3.9          | 4.5          |
| <b>Total operating expenses</b> | <b>92.9%</b> | <b>85.4%</b> |
| <b>Operating margin</b>         | <b>7.1%</b>  | <b>14.6%</b> |

We recorded total operating revenue of \$381.6 million, income from operations of \$27.2 million and net income of \$17.2 million for the nine months ended September 30, 2008. During the same period a year ago, we recorded total operating revenue of \$259.6 million, income from operations of \$38.0 million, and net income of \$26.7 million.

### Operating Revenue

Our operating revenue increased 47.0%, or \$122.0 million, to \$381.6 million during the nine months ended September 30, 2008 from \$259.6 million in the same period of 2007 due to increases in scheduled service, fixed fee contract, ancillary and other revenue.

A 32.8% increase in total system departures and an increase in load factor to 87.1% combined to increase passengers by 38.5%, while ASMs increased by only 22.4% due to a 7.9% decline in average stage length. Increases in all revenue line items outpaced the increase in ASMs resulting in a 20.1% increase in RASM.

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**Scheduled service revenue.** Scheduled service revenue increased 36.0% to \$253.2 million in the nine months ended September 30, 2008 from \$186.1 million in the same period of 2007, because we carried more passengers.

Passengers increased 35.9% due to a 26.0% increase in departures and a 5.4 percentage point increase in load factor to 90.0%. Average fare remained unchanged despite a 4.2% decline in average stage length.

**Fixed fee contract revenue.** Fixed fee contract revenue increased 45.4% to \$41.1 million during the nine months ended September 30, 2008, up from \$28.2 million for the same period of 2007. The substantial increase in fixed fee contract revenue is primarily due to services provided to a third Harrah's Entertainment, Inc. subsidiary and a contract with MLT Vacations, neither of which were in place a year ago. The increase in flying from these new programs more than offset the loss of revenue from our contract with Apple Vacations West which ended in April 2007. The fixed fee contract services for MLT Vacations ended in October 2008.

**Ancillary revenue.** Ancillary revenue increased 88.2% to \$83.8 million in the nine months ended September 30, 2008, up from \$44.5 million in the same period of 2007. The increase in ancillary revenue was due to a 35.9% increase in scheduled service passengers and a 38.5% increase in ancillary revenue per passenger from \$20.46 to \$28.34 due primarily to the sale of several new products and higher prices charged for certain existing products.

**Other revenue.** Other revenue of \$3.5 million was generated during the nine months ended September 30, 2008 as a result of the purchase of six MD-80 aircraft and three engines on lease to another airline. We took possession of one of the six aircraft during the fourth quarter of 2008 with the expectation it will be placed in service by the end of 2008. The remaining aircraft and engines are expected to be returned to us during the fourth quarter of 2008 and during 2009. Other revenue of \$0.7 million was generated during the three months ended September 30, 2007 due to the lease of eight engines to another airline. These engines were returned to us in the fourth quarter of 2007.

**Operating Expenses**

Our operating expenses increased by 59.9% to \$354.4 million during the nine months ended September 30, 2008, up from \$221.6 million during the same period in 2007.

We primarily evaluate our expense management by comparing our costs per passenger across different periods which enable us to assess trends in each expense category. The following table presents Operating expense per passenger and Operating expense per passenger, excluding fuel, for the indicated periods ( per-passenger costs ).

**Nine Months Ended  
September 30,**

**Percentage**

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|   | 2008      |    | 2007  | Change |
|---|-----------|----|-------|--------|
| Aircraft fuel                                   | \$ 58.60  | \$ | 43.58 | 34.5%  |
| Salary and benefits                             | 15.71     |    | 17.00 | (7.6)  |
| Station operations                              | 10.00     |    | 10.56 | (5.3)  |
| Maintenance and repairs                         | 9.71      |    | 7.66  | 26.8   |
| Sales and marketing                             | 3.38      |    | 3.96  | (14.6) |
| Aircraft lease rentals                          | 0.75      |    | 0.90  | (16.7) |
| Depreciation and amortization                   | 5.24      |    | 4.90  | 6.9    |
| Other   | 4.58      |    | 4.96  | (7.7)  |
| Operating expense per passenger                 | \$ 107.97 | \$ | 93.52 | 15.5%  |
| Operating expense per passenger, excluding fuel | \$ 49.37  | \$ | 49.94 | (1.1)% |

Our per-passenger costs increased at a substantially slower pace than our overall expenses due to our increase in total system load factor to 87.1% in the period ended September 30, 2008 as compared with 82.6% in the prior year period.

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

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|                                | Nine Months Ended<br>September 30, |       | Percentage<br>Change |
|--------------------------------|------------------------------------|-------|----------------------|
|                                | 2008                               | 2007  |                      |
| Aircraft fuel                  | 5.66¢                              | 3.72¢ | 52.1%                |
| Salary and benefits            | 1.52                               | 1.45  | 4.8                  |
| Station operations             | 0.97                               | 0.90  | 7.8                  |
| Maintenance and repairs        | 0.94                               | 0.65  | 44.6                 |
| Sales and marketing            | 0.33                               | 0.34  | (2.9)                |
| Aircraft lease rentals         | 0.07                               | 0.08  | (12.5)               |
| Depreciation and amortization  | 0.51                               | 0.42  | 21.4                 |
| Other                          | 0.44                               | 0.43  | 2.3                  |
| Operating CASM                 | 10.44¢                             | 7.99¢ | 30.7%                |
| Operating CASM, excluding fuel | 4.77¢                              | 4.27¢ | 11.7%                |

We believe CASM is not the most appropriate measure by which to evaluate our cost management due to the evolving nature of our route network, our aggressive approach to managing capacity (i.e., ASMs) on a seasonal basis, and the low utilization of our fleet which results in many of our expenses being more fixed as opposed to varying significantly with our ASM production. We provide this table as a convenience because we recognize that CASM is widely used to compare costs across airlines.

**Aircraft fuel expense.** Aircraft fuel expense increased 86.3% to \$192.4 million in the nine months ended September 30, 2008, up from \$103.3 million in the same period of 2007 due to an increase in the average cost per gallon to \$3.26 during the nine months ended September 30, 2008 compared to \$2.17 in the same period of 2007, coupled with a 24.1% increase in gallons consumed to 59.0 million from 47.5 million gallons.

**Salary and benefits expense.** Salary and benefits expense increased 28.0% to \$51.6 million in the nine months ended September 30, 2008, up from \$40.3 million in the same period of 2007. The increase is largely attributable to a 23.9% increase in full-time equivalent employees to support our system growth during this period as the average fleet increased to 36.1 aircraft during the nine month period in 2008 from 27.0 during the same period in 2007. We employed 1,282 full-time equivalent employees as of September 30, 2008, compared to 1,035 full-time equivalent employees as of September 30, 2007. Our per-passenger costs declined by 7.6% to \$15.71 from \$17.00 primarily because of the benefits of a higher load factor.

**Station operations expense.** Station operations expense increased 31.2% to \$32.8 million in the nine months ended September 30, 2008 compared to \$25.0 million in the same period of 2007. On a per passenger basis, station operations expense declined by 5.3% to \$10.00 from \$10.56 in the prior year period. The decline in per-passenger costs is due to the benefit of higher load factors outweighing higher costs associated with more departures and passengers attributed to both in our fixed fee contract flying.

**Maintenance and repairs expense.** Maintenance and repairs expense increased by 75.8% to \$31.9 million in the nine months ended September 30, 2008 up from \$18.2 million in the same period of 2007. An increase in scheduled heavy maintenance checks to 16 for the nine months ended September 30, 2008 from 11 in the same period of 2007,

increased engine maintenance events, and increased repair of rotatable parts were primary drivers for the higher maintenance and repairs expense in the current year. The timing of maintenance events may cause our maintenance and repairs expense to vary significantly from period to period.

**Sales and marketing expense.** Sales and marketing expense increased 18.4% to \$11.1 million in the nine months ended September 30, 2008, compared to \$9.4 million in the same period of 2007. The increase is primarily due to an increase in credit card discount fees associated with the 36.0% increase in scheduled service revenue in the nine months ended September 30, 2008 compared to the same period of 2007.

**Aircraft lease rentals expense.** Aircraft lease rentals expense increased by 15.8% to \$2.5 million in the nine months ended September 30, 2008 up from \$2.1 million in the same period of 2007. The average number of aircraft under operating leases during the first nine months of 2008 was comparable to the average for the same period of 2007. The increase is attributable to higher lease costs associated with those aircraft under operating leases during 2008.

**Depreciation and amortization expense.** Depreciation and amortization expense was \$17.2 million in the nine months ended September 30, 2008 compared to \$11.6 million in the same period of 2007, an increase of 48.0% as the number of aircraft owned and subject to capital leases increased from 25 as of September 30, 2007 to 41 as of September 30, 2008.

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**Other expense.** Other expense increased by 27.5% to \$15.0 million in the nine months ended September 30, 2008 compared to \$11.8 million in same period of 2007 due mainly to increased aviation insurance, administrative, facilities, and training expenses associated with our company's growth.

**Other (Income) Expense**

Other expense was \$0.6 million in the nine month period ended September 30, 2008 compared with income of \$5.2 million in the nine months ended September 30, 2007. The change is primarily due to a \$3.2 million decline in interest income earned by our cash balances as a result of lower prevailing interest rates, along with a minimal net loss on fuel derivatives during 2008 compared to a net gain on fuel derivatives of \$2.3 million in the nine months ended September 30, 2007.

**Income Tax Expense**

Our tax rate is affected by recurring items, such as tax rates in various states and the relative amount of income we earn in each jurisdiction, which we expect to be fairly consistent in the near term. It is also affected by discrete items that may occur in any given year, but are not consistent from year to year. Our effective tax rate was 35.2% for the nine months ended September 30, 2008 compared to 38.1% in the same period of 2007. The tax rate during the first nine months of 2007 was higher due to a non-recurring tax provision adjustment impacting the nine months ended September 30, 2007, that resulted from the reorganization consummated at the time of our initial public offering in December 2006. The lower effective tax rate for the nine months ended September 30, 2008 was also attributable to the geographic mix of our flying and the impact this had on the state income tax portion of the tax provision. Our reported effective tax rate for the first nine months of 2008 may not be indicative of our effective tax rates for the fourth quarter of 2008 or for fiscal year 2008.

**Comparative Consolidated Operating Statistics**

The following tables set forth our operating statistics for the three and nine months ended September 30, 2008 and 2007:

|  | Three months ended September 30,<br>2008 | 2007    | Percent<br>Change* |
|--|--|---------|--------------------|
| <b>Operating statistics (unaudited):</b>   |  |         |                    |
| <b>Total system statistics:</b>            |  |         |                    |
| Passengers                                 | 974,600                                  | 805,878 | 20.9               |
| Revenue passenger miles (RPMs) (thousands) | 858,100                                  | 767,930 | 11.7               |
| Available seat miles (ASMs) (thousands)    | 946,366                                  | 912,496 | 3.7                |
| Load factor                                | 90.7%                                    | 84.2%   | 6.5                |
| Operating revenue per ASM (RASM) (cents)   | 12.35                                    | 9.46    | 30.5               |
| Operating CASM (cents)                     | 11.49                                    | 8.41    | 36.6               |
| Fuel expense per ASM (cents)               | 6.00                                     | 4.01    | 49.6               |
| Operating CASM, excluding fuel (cents)     | 5.49                                     | 4.40    | 24.8               |

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|  |    |         |    |         |       |
|--|----|---------|----|---------|-------|
| Operating expense per passenger                    | \$ | 111.60  | \$ | 95.28   | 17.1  |
| Fuel expense per passenger                         | \$ | 58.27   | \$ | 45.45   | 28.2  |
| Operating expense per passenger, excluding fuel    | \$ | 53.33   | \$ | 49.83   | 7.0   |
| Departures   |    | 7,835   |    | 6,867   | 14.1  |
| Block hours  |    | 17,153  |    | 15,956  | 7.5   |
| Average stage length (miles)                       |    | 815     |    | 898     | (9.2) |
| Average number of operating aircraft during period |    | 37.0    |    | 28.8    | 28.5  |
| Total aircraft in service end of period            |    | 37      |    | 29      | 27.6  |
| Full-time equivalent employees at period end       |    | 1,282   |    | 1,035   | 23.9  |
| Fuel gallons consumed (thousands)                  |    | 16,507  |    | 15,812  | 4.4   |
| Average fuel cost per gallon                       | \$ | 3.44    | \$ | 2.32    | 48.3  |
| <b>Scheduled service statistics:</b>               |    |         |    |         |       |
| Passengers   |    | 854,833 |    | 750,170 | 14.0  |
| Revenue passenger miles (RPMs) (thousands)         |    | 745,188 |    | 703,442 | 5.9   |
| Available seat miles (ASMs) (thousands)            |    | 794,730 |    | 816,408 | (2.7) |
| Load factor  |    | 93.8%   |    | 86.2%   | 7.6   |
| Departures   |    | 6,223   |    | 6,000   | 3.7   |
| Block hours  |    | 14,210  |    | 14,245  | (0.2) |
| Yield (cents)                                      |    | 9.90    |    | 8.85    | 11.9  |
| Scheduled service revenue per ASM (cents)          |    | 9.28    |    | 7.63    | 21.6  |
| Ancillary revenue per ASM (cents)                  |    | 3.47    |    | 1.96    | 77.0  |
| Total revenue per ASM (cents)                      |    | 12.75   |    | 9.59    | 33.0  |
| Average fare scheduled service                     | \$ | 86.32   | \$ | 83.02   | 4.0   |
| Average fare ancillary                             | \$ | 32.28   | \$ | 21.31   | 51.5  |
| Average fare total                                 | \$ | 118.60  | \$ | 104.33  | 13.7  |
| Average stage length (miles)                       |    | 856     |    | 920     | (7.0) |
| Percent of sales through website during period     |    | 85.8%   |    | 85.8%   |       |

\* Except load factor and percent of sales through website, which is percentage point change

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|  | Nine months ended September 30, |           | Percent |
|--|---------------------------------|-----------|---------|
|  | 2008                            | 2007      | Change* |
| <b>Operating statistics (unaudited):</b>           |                                 |           |         |
| <b>Total system statistics:</b>                    |                                 |           |         |
| Passengers   | 3,282,810                       | 2,369,672 | 38.5    |
| Revenue passenger miles (RPMs) (thousands)         | 2,957,915                       | 2,291,995 | 29.1    |
| Available seat miles (ASMs) (thousands)            | 3,395,714                       | 2,773,203 | 22.4    |
| Load factor  | 87.1%                           | 82.6%     | 4.5     |
| Operating revenue per ASM (RASM) (cents)           | 11.24                           | 9.36      | 20.1    |
| Operating CASM (cents)                             | 10.44                           | 7.99      | 30.7    |
| Fuel expense per ASM (cents)                       | 5.66                            | 3.72      | 52.2    |
| Operating CASM, excluding fuel (cents)             | 4.77                            | 4.27      | 11.7    |
| Operating expense per passenger                    | \$ 107.97                       | \$ 93.52  | 15.4    |
| Fuel expense per passenger                         | \$ 58.60                        | \$ 43.58  | 34.5    |
| Operating expense per passenger, excluding fuel    | \$ 49.37                        | \$ 49.94  | (1.1)   |
| Departures   | 27,361                          | 20,596    | 32.8    |
| Block hours  | 62,083                          | 48,886    | 27.0    |
| Average stage length (miles)                       | 837                             | 909       | (7.9)   |
| Average number of operating aircraft during period | 36.1                            | 27.0      | 33.7    |
| Total aircraft in service end of period            | 37                              | 29        | 27.6    |
| Full-time equivalent employees at period end       | 1,282                           | 1,035     | 23.9    |
| Fuel gallons consumed (thousands)                  | 58,995                          | 47,523    | 24.1    |
| Average fuel cost per gallon                       | \$ 3.26                         | \$ 2.17   | 50.2    |
| <b>Scheduled service statistics:</b>               |                                 |           |         |
| Passengers   | 2,958,101                       | 2,176,726 | 35.9    |
| Revenue passenger miles (RPMs) (thousands)         | 2,656,359                       | 2,053,537 | 29.4    |
| Available seat miles (ASMs) (thousands)            | 2,951,035                       | 2,427,024 | 21.6    |
| Load factor  | 90.0%                           | 84.6%     | 5.4     |
| Departures   | 22,413                          | 17,795    | 26.0    |
| Block hours  | 53,223                          | 42,772    | 24.4    |
| Yield (cents)                                      | 9.53                            | 9.06      | 5.2     |
| Scheduled service revenue per ASM (cents)          | 8.58                            | 7.66      | 12.0    |
| Ancillary revenue per ASM (cents)                  | 2.84                            | 1.84      | 54.3    |
| Total revenue per ASM (cents)                      | 11.42                           | 9.50      | 20.2    |
| Average fare scheduled service                     | \$ 85.59                        | \$ 85.51  | 0.1     |
| Average fare ancillary                             | \$ 28.34                        | \$ 20.46  | 38.5    |
| Average fare total                                 | \$ 113.93                       | \$ 105.97 | 7.5     |
| Average stage length (miles)                       | 884                             | 923       | (4.2)   |
| Percent of sales through website during period     | 86.6%                           | 86.7%     | (0.1)   |

\* Except load factor and percent of sales through website, which is percentage point change

**Liquidity and Capital Resources:**

**Current liquidity.** Cash and cash equivalents, restricted cash and short-term investments decreased from \$186.8 million at December 31, 2007 to \$155.9 million at September 30, 2008. Restricted cash includes credit card deposits, escrowed funds under our fixed fee flying contracts and cash collateral against letters of credit issued to our hotel vendors, airports and certain other parties.

Sources and Uses of Cash.

Operating Activities: During the nine months ended September 30, 2008, our operating activities provided \$26.3 million of cash compared to \$62.9 million during the same period of 2007. The cash flows provided by operations for the period in 2008 were primarily the result of net income plus non-cash depreciation and amortization expense. During the same period in 2007, a higher net income and a large increase in passenger bookings for future travel accounted for a significantly larger amount of cash from operating activities for the nine months ended September 30, 2007. Passenger bookings for future travel as of September 30, 2008, did not increase substantially over the amount at December 31, 2007 due to planned capacity reductions in response to higher fuel prices and general economic conditions.

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**Investing Activities:** Cash used in investing activities for the nine months ended September 30, 2008 was \$24.0 million compared to \$40.9 million used in the same period of 2007. During the nine months ended September 30, 2008, our primary use of cash was for the purchase of property and equipment of \$49.2 million offset by maturities of short-term investments of \$22.0 million, net of purchases of short-term investments. We used less cash for investing activities in the 2008 period as a result of the increased cash provided from maturities of short-term investments during the nine months ended September 30, 2008 compared to the same period in 2007.

**Financing Activities:** During the nine months ended September 30, 2008, we used \$13.0 million in cash in financing activities compared to \$13.5 million provided by financing activities for the same period of 2007. During the nine months ended September 30, 2008, we used \$15.8 million to purchase common stock in open market purchases and \$24.4 million to retire capital lease obligations and make other debt repayments. These uses of cash were offset by \$25.6 million obtained from the financing of ten aircraft. During the nine months ended September 30, 2007, the \$22.3 million proceeds from a public stock offering more than offset debt and capital lease financing payments during that period.

**Commitments and Contractual Obligations**

The following table discloses aggregate information about our contractual cash obligations as of September 30, 2008 and the periods in which payments are due (in thousands):

|  | Total      | Less than 1 year | 1-3 years | 4 to 5 years | More than 5 years |
|--|------------|------------------|-----------|--------------|-------------------|
| Long term debt obligations (1)                   | \$ 76,758  | \$ 6,026         | \$ 54,078 | \$ 16,654    | \$                |
| Capital lease obligations                        | 6,475      | 555              | 4,440     | 1,480        |                   |
| Operating lease obligations (2)                  | 22,863     | 962              | 6,569     | 4,824        | 10,508            |
| Total future payments on contractual obligations | \$ 106,096 | \$ 7,543         | \$ 65,087 | \$ 22,958    | \$ 10,508         |

(1) Long-term debt obligations include scheduled interest payments.

(2) Operating lease obligations include aircraft operating leases and leases of airport station property and office space.

**Critical Accounting Policies and Estimates**

A description of our critical accounting policies is included in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2007. There has been no material change to these policies for the nine months ended September 30, 2008.

## Recent Accounting Pronouncements

See related disclosure at Item 1 Unaudited Condensed Consolidated Financial Statements - Notes to Condensed Consolidated Financial Statements Note 2 Newly Issued Accounting Pronouncements.

## Special Note about Forward-Looking Statements

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

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in the forward-looking statements. Important risk factors that could cause our results to differ materially from those expressed in the forward-looking statements generally may be found in our periodic reports filed with the Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov). These risk factors include, without limitation, the effect of the economic downturn on leisure travel, increases in fuel prices, terrorist attacks, risks inherent to airlines, demand for air services to Las Vegas, Orlando, Tampa/St. Petersburg, Phoenix and Ft. Lauderdale from the markets served by us, our ability to implement our growth strategy, our fixed obligations, our dependence on our leisure destination markets, our ability to add, renew or replace gate leases, our competitive environment, problems with our aircraft, dependence on fixed fee customers, our reliance on our automated systems, economic and other conditions in markets in which we operate, governmental regulation, increases in maintenance costs and insurance premiums and cyclical and seasonal fluctuations in our operating results.

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

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

We are subject to certain market risks, including commodity prices (specifically, aircraft fuel). The adverse effects of changes in these markets could pose a potential loss as discussed below. The sensitivity analysis 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. See the notes to our consolidated financial statements in our annual report on Form 10-K filed with the Securities and Exchange Commission for a description of our significant accounting policies and additional information.

*Aircraft Fuel*

Our results of operations can be significantly impacted by changes in the price and availability of aircraft fuel. Aircraft fuel expense represented more than 52% of our operating expenses during the three months ended September 30, 2008. Increases in fuel prices or a shortage of supply could have a material effect on our operations and operating results. Based on our fuel consumption for the three and nine months ended September 30, 2008, a hypothetical ten percent increase in the average price per gallon of aircraft fuel would have increased fuel expense by approximately \$5.6 million for the three months ended September 30, 2008, and by approximately \$19.4 million for the nine months ended September 30, 2008. While we do not currently hedge fuel price risk, in the past we entered into forward contracts or other financial products to reduce our exposure to fuel price volatility. As of September 30, 2008, we had no fuel derivative contracts outstanding.

*Interest Rates*

We have market risk associated with changing interest rates due to the short-term nature of our invested cash, which totaled \$133.5 million, and short term investments of \$5.0 million at September 30, 2008. We invest available cash in certificates of deposit, investment grade commercial paper, and other highly rated financial instruments. Because of the short-term nature of these investments, the returns earned closely parallel short-term floating interest rates. A hypothetical 100 basis point change in interest rates in the three months ended September 30, 2008 would not have had a significant impact on our interest income. For the nine months ended September 30, 2008, a hypothetical 100 basis point change would have affected interest income from cash and investments by \$0.4 million.

Our long term debt consists of fixed-rate notes payable and capital lease arrangements. A hypothetical 100 basis point change in market interest rates as of September 30, 2008, would not have a material effect on the fair value of our fixed-rate debt instruments. Also, a hypothetical 100 basis point change in market rates would not impact our earnings or cash flow associated with our fixed-rate debt.

**Item 4. Controls and Procedures.**

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

(b) Changes in internal controls. There were no changes in our internal control over financial reporting that occurred during our quarter ending September 30, 2008, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**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**



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We have evaluated our risk factors and determined that there have been no changes to our risk factors, other than the following, set forth in Part I, Item 1A in the Form 10-K since we filed our Annual Report on Form 10-K on March 11, 2008:

**The airline and travel industry tends to experience adverse financial results during economic downturns.**

The U.S. economy has been weakened by a financial crisis and significant declines in the stock markets, which may reduce the wealth and tighten spending of consumers. It is uncertain to what extent these economic conditions may impact demand for airline travel in our small city markets or to our leisure destinations. Since a substantial portion of airline travel, for both business and leisure, is discretionary, the airline and travel industries tend to experience adverse financial results during economic downturns.

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



**Use of Proceeds from Initial Public Offering**

On December 13, 2006, we consummated the initial public offering of our common stock, \$0.001 par value. The shares of common stock sold in the offering were registered under the Securities Act of 1933, as amended, on a Registration Statement (Registration No. 333-134145) that was declared effective by the Securities and Exchange Commission on December 8, 2006. The estimated aggregate net proceeds to us from the offering were approximately \$94.5 million after deducting underwriting discounts and commissions paid to the underwriters and other expenses incurred in connection with the offering.



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Approximately \$0.9 million of the proceeds were applied to the repayment of debt owed to our chief executive officer and chairman of the board. No other portion of the proceeds from the offering was paid, directly or indirectly, to any of our officers or directors or any of their associates, or to any persons owning ten percent or more of our outstanding common stock or to any of our affiliates. We have invested the remaining net proceeds in short-term, investment-grade, interest bearing instruments, pending their use to fund working capital and capital expenditures, including capital expenditures related to the purchase of aircraft. As of September 30, 2008, we have used \$91.3 million of the proceeds of our initial public offering for capital expenditures.



**Our Repurchases of Equity Securities**

On January 29, 2008 we announced a share repurchase program to acquire through open market purchases up to \$25.0 million of our common stock over a period not to exceed 12 months. As of September 30, 2008, the Company has repurchased 553,700 shares of the Company's common stock through open market purchases at an average cost of \$28.55 per share for a total expenditure of \$15.8 million. We did not repurchase any shares during the second and third quarters of 2008.

**Item 6. Exhibits**

|      |   |
|------|---|
| 3.1  | Articles of Incorporation (1)   |
| 3.2  | Bylaws of the Company (2)   |
| 31.1 | Rule 13a - 14(a) / 15d - 14(a) Certification of Principal Executive Officer |
| 31.2 | Rule 13a - 14(a) / 15d - 14(a) Certification of Principal Financial Officer |
| 32   | Section 1350 Certifications   |

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(1) Incorporated by reference to Exhibit filed with Registration Statement #333-134145 filed by the Company with the Commission on July 6, 2006.

(2) Incorporated by reference to Exhibit filed to the Quarterly Report on Form 10-Q filed with the Commission on May 9, 2008.

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**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: November 10, 2008

By: */s/ Andrew C. Levy*  
Andrew C. Levy  
*Principal Financial Officer*