Allegiant Travel CO
Form 10-Q
November 04, 2011

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from to

Commission File Number 001-33166

Allegiant Travel Company
(Exact Name of Registrant as Specified in Its Charter)

Nevada (State or Other Jurisdiction of Incorporation or Organization)	20-4745737 (I.R.S. Employer Identification No.)
8360 S. Durango Drive, Las Vegas, Nevada (Address of Principal Executive Offices)	89113 (Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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 o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares of the registrant's common stock outstanding as of the close of business on November 1, 2011 was 19,068,119.

Allegiant Travel Company

Form 10-Q
September 30, 2011

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PART 1. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

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

	September 30, 2011 (unaudited)	December 31, 2010
Current assets:		
Cash and cash equivalents	$87,338	$113,293
Restricted cash	16,862	19,787
Short-term investments	194,583	35,695
Accounts receivable, net	9,044	7,852
Expendable parts, supplies and fuel, net of allowance for obsolescence of $305 and $170 at September 30, 2011 and December 31, 2010, respectively	14,482	13,383
Prepaid expenses	27,248	24,071
Other current assets	3,584	2,517
Total current assets	353,141	216,598
Property and equipment, net	302,229	267,298
Restricted cash, net of current portion	1,500	1,500
Long-term investments	21,484	1,305
Investment in and advances to unconsolidated affiliates, net	4,054	1,983
Deposits and other assets	7,644	12,582
Total assets	$690,052	$501,266
Current liabilities:		
Current maturities of long-term debt	$7,893	$16,532
Accounts payable	38,478	24,759
Accrued liabilities	17,756	23,679
Air traffic liability	116,967	101,397
Deferred income taxes	255	246
Total current liabilities	181,349	166,613
Long-term debt and other long-term liabilities:		
Long-term debt, net of current maturities	139,951	11,604
Deferred income taxes	29,646	25,314
Total liabilities	350,946	203,531
Stockholders' equity:		
Common stock, par value $.001, 100,000,000 shares authorized; 21,553,794 and 21,455,634 shares issued; 19,062,369 and 19,005,821 shares outstanding, as of September 30, 2011 and December 31, 2010, respectively	22	21
Treasury stock, at cost, 2,491,425 and 2,449,813 shares at September 30, 2011 and December 31, 2010, respectively	(97,713)	(95,913)
Additional paid in capital	185,338	180,704
Accumulated other comprehensive loss	(61)	(9)

Retained earnings	251,520	212,932
Total stockholders' equity	339,106	297,735
Total liabilities and stockholders' equity	$690,052	$501,266

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

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,	
	2011	2010	2011	2010
OPERATING REVENUE:				
Scheduled service revenue	$125,545	$104,188	$387,387	$322,074
Ancillary revenue:				
Air-related charges	44,905	43,372	136,212	129,523
Third party products	7,842	6,730	23,122	18,824
Total ancillary revenue	52,747	50,102	159,334	148,347
Fixed fee contract revenue	9,676	8,972	31,168	30,142
Other revenue	3,532	359	7,291	1,045
Total operating revenue	191,500	163,621	585,180	501,608
OPERATING EXPENSES:				
Aircraft fuel	84,118	62,495	249,759	182,083
Salary and benefits	29,517	28,442	90,266	81,098
Station operations	17,154	16,268	50,180	47,443
Maintenance and repairs	21,075	16,782	57,422	44,221
Sales and marketing	4,919	3,908	15,576	13,109
Aircraft lease rentals	303	489	948	1,567
Depreciation and amortization	10,676	8,779	30,722	25,821
Other	7,007	6,978	25,037	22,460
Total operating expenses	174,769	144,141	519,910	417,802
OPERATING INCOME	16,731	19,480	65,270	83,806
OTHER (INCOME) EXPENSE:				
(Earnings) loss from unconsolidated affiliates, net	(78)	(106)	(92)	3
Interest income	(338)	(241)	(1,000)	(996)
Interest expense	2,255	596	5,286	2,000
Total other (income) expense	1,839	249	4,194	1,007
INCOME BEFORE INCOME TAXES	14,892	19,231	61,076	82,799
PROVISION FOR INCOME TAXES	5,406	6,072	22,488	29,478
NET INCOME	$9,486	$13,159	$38,588	$53,321
Earnings per share to common stockholders:				
Basic	$0.50	$0.68	$2.03	$2.70
Diluted	$0.49	$0.67	$2.01	$2.67
Weighted average shares outstanding used in computing earnings per share to common stockholders:				
Basic	18,940	19,349	18,927	19,637
Diluted	19,128	19,569	19,109	19,899

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

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

	Nine months ended September 30,	
	2011	2010
OPERATING ACTIVITIES:		
Net income	$38,588	$53,321
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	30,722	25,821
Loss on aircraft and other equipment disposals	4,001	1,354
Provision for obsolescence of expendable parts, supplies and fuel	135	135
Amortization of deferred financing costs and original issue discount	273	-
Stock-based compensation expense	3,571	3,337
Deferred income taxes	4,341	3,305
Excess tax benefits from stock-based compensation	(225)	(733)
Changes in certain assets and liabilities:		
Restricted cash	2,925	(5,669)
Accounts receivable	(1,192)	(300)
Expendable parts, supplies and fuel	(1,234)	(3,232)
Prepaid expenses	(3,177)	(29,872)
Other current assets	(2,344)	(201)
Accounts payable	13,815	4,070
Accrued liabilities	(6,270)	(12,052)
Air traffic liability	15,570	11,219
Net cash provided by operating activities	99,499	50,503
INVESTING ACTIVITIES:		
Purchase of investment securities	(343,212)	(57,653)
Proceeds from maturities of investment securities	164,094	179,381
Purchase of property and equipment, including pre-delivery deposits	(68,966)	(82,236)
Proceeds from sale of property and equipment	589	374
Investment in unconsolidated affiliates, net	(2,071)	(1,217)
Decrease in deposits and other assets	7,060	2,992
Net cash (used in) provided by investing activities	(242,506)	41,641
FINANCING ACTIVITIES:		
Cash dividends paid to shareholders	-	(14,942)
Excess tax benefits from stock-based compensation	225	733
Proceeds from exercise of stock options	1,314	2,983
Proceeds from exercise of warrants	-	715
Proceeds from the issuance of long-term debt	139,000	14,000
Repurchase of common stock	(1,800)	(53,612)
Principal payments on long-term debt	(19,350)	(25,938)
Payments for deferred financing costs	(2,337)	-
Net cash provided by (used in) financing activities	117,052	(76,061)
Net change in cash and cash equivalents	(25,955)	16,083
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	113,293	90,239

CASH AND CASH EQUIVALENTS AT END OF PERIOD	$87,338	$106,322
NON-CASH TRANSACTIONS:		
Deposits applied against flight equipment purchase	$1,277	$-

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 share and per share amounts)

Note 1 — Summary of Significant Accounting Policies

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

These unaudited condensed consolidated financial statements reflect all normal recurring adjustments, which management believes are necessary to present fairly the financial position, results of operations, and cash flows of the Company for the respective periods presented. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission for Form 10-Q. These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company and notes thereto included in the annual report of the Company on Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission.

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

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

Reclassifications: Certain reclassifications have been made to the prior period's financial statements to conform to 2011 classifications. These reclassifications had no effect on the previously reported net income.

Note 2 — Newly Issued Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-05, "Presentation of Comprehensive Income," which amends Topic 220 in the FASB Accounting Standards Codification ("ASC") for the presentation of comprehensive income in the financial statements. This new guidance allows companies the option to present other comprehensive income in either a single continuous statement or in two separate but consecutive statements. Under both alternatives, companies will be required to present each component of net income and comprehensive income. The adoption of this updated guidance will impact the presentation of the Company's consolidated financial statements, but it will not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This requirement will become effective on a retrospective basis at the beginning of the Company's 2012 fiscal year.

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

In September 2009, the FASB ratified Emerging Issues Task Force Issue No. 08-01, "Revenue Arrangements with Multiple Deliverables" ("EITF 08-1"). EITF 08-1 updates the current guidance pertaining to multiple-element revenue arrangements included in ASC Topic 605 and changes the allocation methods used in determining how to account for multiple payment streams. It also results in the ability to separately account for more deliverables and potentially less revenue deferrals. This accounting standard is effective for new revenue arrangements entered into by the Company after January 1, 2011. Adoption of the new accounting guidance has not had a material effect on the Company's consolidated financial statements.

Note 3 — Investment Securities

The Company's investments in marketable securities are classified as available-for-sale and are reported at fair market value with the net unrealized gain or (loss) reported as a component of accumulated other comprehensive loss in stockholders' equity. Investment securities are classified as cash equivalents, short-term investments and long-term investments based on maturity date. Cash equivalents have maturities of three months or less, short-term investments have maturities of greater than three months but equal to or less than one year and long-term investments are those with a maturity date greater than one year. Investment securities consisted of the following:

	As of September 30, 2011				As of December 31, 2010			
		Gross Unrealized				Gross Unrealized		
	Cost	Gains	(Losses)	Market Value	Cost	Gains	(Losses)	Market Value
Municipal debt securities	$ 116,078	$ 41	$ (6)	$ 116,113	$ 132,267	$ 2	$ (11)	$ 132,258
Government debt securities	21,764	-	(18)	21,746	-	-	-	-
Commercial paper	95,273	12	(72)	95,213	-	-	-	-
Corporate debt securities	36,866	-	(53)	36,813	4,870	-	(2)	4,868
Total	$ 269,981	$ 53	$ (149)	$ 269,885	$ 137,137	$ 2	$ (13)	$ 137,126

The amortized cost of investment securities sold is determined by the specific identification method with any realized gains or losses reflected in other (income) expense. The Company had minimal realized losses during the three and nine months ended September 30, 2011 and no realized gains or losses during the three and nine months ended September 30, 2010.

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

Investment securities had the following maturities as of September 30, 2011:

Maturities	Amount
Year 2011	$ 109,627
Year 2012	146,265
Year 2013	13,993
Thereafter	-
Total	$ 269,885

Note 4 — Long-Term Debt

Long-term debt consisted of the following:

	As of September 30, 2011	As of December 31, 2010
	$123,808	$-

Senior secured term loan facility, interest at LIBOR plus 4.25% with LIBOR floor of 1.5%, due March 2017		
Note payable, secured by aircraft, interest at 4.95%, due October 2015	7,000	-
Notes payable, secured by aircraft, interest at 6.28%, due March 2015	6,215	-
Notes payable, secured by aircraft, interest at 6.26%, due August 2014	10,821	13,224
Notes payable, secured by aircraft, interest at 6%, due April 2012	-	6,437
Notes payable, secured by aircraft, interest at 8.5%, due November 2011	-	6,209
Notes payable, secured by aircraft, interest at 6.8%, due June 2011	-	1,616
Notes payable, secured by aircraft, interest at 6%, due at varying dates through February 2011	-	650
Total long-term debt	147,844	28,136
Less current maturities	(7,893)	(16,532)
Long-term debt, net of current maturities	$139,951	$11,604

Senior Secured Term Loan Facility

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

As of September 30, 2011, management believes the Company was in compliance with all covenants under the Term Loan.

Other

In March 2011, the Company borrowed $7,000 under a loan agreement secured by one Boeing 757-200 aircraft purchased in February 2011. The note payable issued under the loan agreement bears interest at 6.28% per annum and is payable in monthly installments through March 2015.

In September 2011, the Company borrowed $7,000 under a loan agreement secured by one Boeing 757-200 aircraft purchased in March 2011. The note payable issued under the loan agreement bears interest at 4.95% per annum and is payable in monthly installments through October 2015.

Note 5 — Stockholders’ Equity

The Company is authorized by the Board of Directors to acquire the Company’s stock through open market purchases under its share repurchase program. No share repurchases were made under the program during the three months ended September 30, 2011. During the nine months ended September 30, 2011, the Company repurchased 34,323 shares through open market purchases at an average cost of $43.49 per share for a total expenditure of $1,493. During the three months ended September 30, 2010, the Company repurchased 954,041 shares at an average cost of $42.39 per share for a total expenditure of $40,441. During the nine months ended September 30, 2010, the Company repurchased 1,206,689 shares through open market purchases at an average cost of $44.40 per share for a total expenditure of $53,574. As of September 30, 2011, the Company had $44,934 in unused stock repurchase authority remaining under the Board approved program.

Note 6 – Comprehensive Income

The components of comprehensive income included the following for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net income	$ 9,486	$ 13,159	$ 38,588	$ 53,321
Other comprehensive (loss) income :				
	$ (83)	$ 7	$ (52)	$ (96)

Unrealized (loss) gain on investment securities, net of tax				
Total comprehensive income	$ 9,403	$ 13,166	$ 38,536	$ 53,225

Note 7 — Fair Value Measurements

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

As of September 30, 2011, the Company held cash equivalents and available-for-sale securities that are required to be measured at fair value on a recurring basis. The Company uses the market approach valuation technique to determine fair value for these cash equivalents and 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 municipal debt securities, government debt securities, U.S. government corporation agency debt securities, and commercial paper which are valued using quoted market prices or alternative pricing sources including transactions involving identical or comparable assets and models utilizing market observable inputs.

Assets measured at fair value on a recurring basis at September 30, 2011 and December 31, 2010 were as follows:

		Fair Value Measurements at Reporting Date Using		
Description	September 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents				
Money market funds	$ 16,988	$ 16,988	$ -	$ -
Municipal debt securities	45,733	-	45,733	-
Commercial paper	8,085	-	8,085	-
Total cash equivalents	$ 70,806	$ 16,988	$ 53,818	$ -
Short-term investments				
Corporate debt securities	$ 29,322	$ -	$ 29,322	$ -
Municipal debt securities	70,381	-	$ 70,381	-
Commercial paper	87,128	-	$ 87,128	-
Government debt securities	7,752	-	$ 7,752	-
Total short-term investments	194,583	-	194,583	-
Long-term investments				
Corporate debt securities	7,491	-	7,491	-
Government debt securities	13,993	-	13,993	-
Total long-term investments	21,484	-	21,484	-
Total investment securities	$ 286,873	$ 16,988	$ 269,885	$ -

		Fair Value Measurements at Reporting Date Using		
Description	December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents				
Money market funds	$ 4,390	$ 4,390	$ -	$ -
Municipal debt securities	100,127	-	100,127	-
Total cash equivalents	$ 104,517	$ 4,390	$ 100,127	$ -
Short-term investments				
Corporate debt securities	$ 4,868	$ -	$ 4,868	$ -
Municipal debt securities	30,827	-	30,827	-
Total short-term investments	35,695	-	35,695	-
Long-term investments				