Allegiant Travel CO
Form 10-Q
August 07, 2013

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2013

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý 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 x	Accelerated filer o

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 ý

The number of shares of the registrant's common stock outstanding as of the close of business on August 1, 2013 was 18,872,360.

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Allegiant Travel Company

Form 10-Q
June 30, 2013

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PART I. FINANCIAL INFORMATION
Item 1. Unaudited Consolidated Financial Statements

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

	June 30, 2013 (unaudited)	December 31, 2012
Current assets:		
Cash and cash equivalents	$86,379	$89,557
Restricted cash	10,184	10,046
Short-term investments	272,063	239,139
Accounts receivable, net	16,916	18,635
Expendable parts, supplies and fuel, net of allowance for obsolescence of $1,235 and $875 as of June 30, 2013 and December 31, 2012, respectively	17,831	18,432
Prepaid expenses	22,829	24,371
Deferred income taxes	818	796
Other current assets	4,168	14,291
Total current assets	431,188	415,267
Property and equipment, net	390,310	351,204
Restricted cash, net of current portion	305	150
Long-term investments	32,841	24,030
Investment in and advances to unconsolidated affiliates, net	2,913	2,007
Deposits and other assets	4,995	5,536
Total assets	$862,552	$798,194
Current liabilities:		
Current maturities of long-term debt	$12,020	$11,623
Accounts payable	17,281	14,533
Accrued liabilities	45,342	36,476
Air traffic liability	172,874	147,914
Total current liabilities	247,517	210,546
Long-term debt and other long-term liabilities:		
Long-term debt, net of current maturities	133,093	139,229
Deferred income taxes	49,638	46,695
Total liabilities	430,248	396,470
Stockholders' equity:		
Common stock, par value $.001, 100,000,000 shares authorized; 22,013,140 and 21,899,155 shares issued; 19,044,049 and 19,333,516 shares outstanding, as of June 30, 2013 and December 31, 2012, respectively	22	22
Treasury stock, at cost, 2,969,091 and 2,565,639 shares as of June 30, 2013 and December 31, 2012, respectively	(135,784)	(102,829)
Additional paid in capital	205,348	201,012
Accumulated other comprehensive loss, net	(10)	(69)
Retained earnings	360,017	302,325
Total Allegiant Travel Company stockholders' equity	429,593	400,461
Noncontrolling interest	2,711	1,263
Total equity	432,304	401,724

Total liabilities and stockholders' equity	$862,552	$798,194

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

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
OPERATING REVENUE:				
Scheduled service revenue	$165,301	$151,648	$345,234	$313,282
Ancillary revenue:				
Air-related charges	76,514	57,478	153,327	112,622
Third party products	10,370	9,782	21,087	18,904
Total ancillary revenue	86,884	67,260	174,414	131,526
Fixed fee contract revenue	3,095	9,815	8,282	19,446
Other revenue	566	2,443	875	4,763
Total operating revenue	255,846	231,166	528,805	469,017
OPERATING EXPENSES:				
Aircraft fuel	97,076	94,218	205,567	196,629
Salary and benefits	39,654	33,229	80,816	66,497
Station operations	20,211	19,572	39,556	39,101
Maintenance and repairs	20,335	15,092	38,463	36,557
Sales and marketing	5,405	5,491	11,213	10,951
Aircraft lease rentals	1,365	—	1,668	—
Depreciation and amortization	17,892	13,162	34,784	25,132
Other	11,052	8,534	21,515	15,971
Total operating expenses	212,990	189,298	433,582	390,838
OPERATING INCOME	42,856	41,868	95,223	78,179
OTHER (INCOME) EXPENSE:				
(Earnings) loss from unconsolidated affiliates, net	(132)	81	(170)	36
Interest income	(216)	(267)	(478)	(511)
Interest expense	2,294	2,200	4,482	4,274
Total other (income) expense	1,946	2,014	3,834	3,799
INCOME BEFORE INCOME TAXES	40,910	39,854	91,389	74,380
PROVISION FOR INCOME TAXES	15,223	14,671	33,871	27,494
NET INCOME	25,687	25,183	57,518	46,886
Net loss attributable to noncontrolling interest	(73)	—	(174)	—
NET INCOME ATTRIBUTABLE TO ALLEGIANT TRAVEL COMPANY	$25,760	$25,183	$57,692	$46,886
Earnings per share to common stockholders:				
Basic	$1.35	$1.31	$3.01	$2.45
Diluted	$1.34	$1.30	$3.00	$2.42
Weighted average shares outstanding used in computing earnings per share to common stockholders:				
Basic	18,921	19,053	19,001	19,021
Diluted	19,041	19,303	19,119	19,234

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

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net income	$25,687	$25,183	$57,518	$46,886
Other comprehensive income (loss):				
Unrealized income (loss) on available-for-sale securities	11	101	94	(35)
Income tax (expense) benefit related to unrealized income (loss) on available-for-sale securities	(4)	(37)	(35)	13
Total other comprehensive income (loss)	7	64	59	(22)
Total comprehensive income	25,694	25,247	57,577	46,864
Comprehensive loss attributable to noncontrolling interest	(73)	—	(174)	—
Comprehensive income attributable to Allegiant Travel Company	$25,767	$25,247	$57,751	$46,864

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

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

	Six months ended June 30, 2013	2012
OPERATING ACTIVITIES:		
Net income	$57,518	$46,886
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	34,784	25,132
Loss on aircraft and other equipment disposals	2,933	1,473
Provision for obsolescence of expendable parts, supplies and fuel	360	180
Amortization of deferred financing costs and original issue discount	366	275
Stock-based compensation expense	5,208	2,130
Deferred income taxes	2,921	(588)
Excess tax benefits from stock-based compensation	(1,158)	(604)
Changes in certain assets and liabilities:		
Restricted cash	(293)	250
Accounts receivable	1,719	(1,439)
Expendable parts, supplies and fuel	241	119
Prepaid expenses	1,542	(10,045)
Other current assets	123	(545)
Accounts payable	4,071	6,826
Accrued liabilities	5,786	7,639
Air traffic liability	24,960	38,951
Net cash provided by operating activities	141,081	116,640
INVESTING ACTIVITIES:		
Purchase of investment securities	(198,658)	(199,574)
Proceeds from maturities of investment securities	156,982	149,187
Purchase of property and equipment, including pre-delivery deposits	(77,045)	(61,095)
Interest during refurbishment of aircraft	(123)	(235)
Proceeds from sale of property and equipment	401	398
Investment in unconsolidated affiliates, net	(906)	(247)
Change in deposits and other assets	10,227	2,458
Net cash used in investing activities	(109,122)	(109,108)
FINANCING ACTIVITIES:		
Excess tax benefits from stock-based compensation	1,158	604
Proceeds from exercise of stock options	1,051	2,646
Proceeds from issuance of long-term debt	—	13,981
Proceeds from sale of ownership interest in subsidiary	1,400	—
Repurchase of common stock	(32,955)	(577)
Principal payments on long-term debt	(5,791)	(3,945)
Net cash (used in) provided by financing activities	(35,137)	12,709
Net change in cash and cash equivalents	(3,178)	20,241
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	89,557	150,740
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$86,379	$170,981
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Non- cash transactions:		
Assets acquired in sale of ownership interest in subsidiary	$56	$—

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

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

Note 1 — Summary of Significant Accounting Policies

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

These unaudited consolidated financial statements reflect all normal recurring adjustments, which management believes are necessary to present fairly the financial position, results of operations, and cash flows of the Company for the respective periods presented. Certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission for Form 10-Q. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company and notes thereto included in the annual report of the Company on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission.

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

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

Property and Equipment: In accordance with its policy, the Company reviews estimated useful lives and residual values of its aircraft and engines when deemed necessary. Based on the changing market conditions and planned use of its MD-80 fleet, the Company identified the actual expected remaining lives to be longer than the current estimated useful lives for certain engines. As a result, during the quarter the Company changed its estimate of useful lives of certain engines to better reflect the estimated periods they are expected to remain in service. In addition, based on this extension of the useful lives for these engines, the Company determined a reduction in the expected residual values was appropriate. These changes in estimates will result in additional depreciation as the majority of the impact is attributable to the residual value reduction. The effect of the change in estimate was $0.9 million of additional depreciation for the three and six month periods ended June 30, 2013.

Note 2 — Newly Issued Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2013-02, “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income” (“ASU 2013-02”), which requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income (“AOCI”) either in a single note or on the face of the financial statements. Significant amounts reclassified out of AOCI should be presented by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For amounts not required to be reclassified in their entirety to net income, a cross-reference to other disclosures provided for in accordance with U.S. GAAP is required. The update is effective prospectively for reporting periods beginning after December 15, 2012. Adoption of the new guidance has not had a material effect on the Company's consolidated financial statements. For the periods presented, the Company did not have any amounts reclassified out of AOCI.

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 income (loss) in stockholders' equity. Investment securities are classified as cash equivalents, short-term investments and long-term investments based on maturity date. Cash equivalents have maturities of three months or less, short-term investments have maturities of greater than three months but equal to or less than one year and long-term investments are those with a maturity date greater than one year. As of June 30, 2013, all of the Company's long-term investments had contractual maturities of less than 18 months. Investment securities consisted of the following:

	As of June 30, 2013				As of December 31, 2012			
		Gross Unrealized				Gross Unrealized		
	Cost	Gains	(Losses)	Market Value	Cost	Gains	(Losses)	Market Value
Money market funds	$37,703	$—	$—	$37,703	$3,689	$—	$—	$3,689
Certificates of deposit	—	—	—	—	5,862	1	—	5,863
Commercial paper	139,504	33	(5)	139,532	82,163	16	(42)	82,137
Municipal debt securities	127,529	12	(7)	127,534	190,507	—	(33)	190,474
Government debt securities	13,006	—	(3)	13,003	22,011	2	—	22,013
Corporate debt securities	36,754	—	(40)	36,714	33,310	—	(13)	33,297
Total	$354,496	$45	$(55)	$354,486	$337,542	$19	$(88)	$337,473

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

Note 4 — Long-Term Debt

Long-term debt consisted of the following:

	As of June 30, 2013	As of December 31, 2012
Senior secured term loan facility, interest at LIBOR plus 4.25% with LIBOR floor of 1.5%, due March 2017	$121,803	$122,376
Notes payable, secured by aircraft, interest at 4.65%, due July 2016	11,024	12,668
Notes payable, secured by aircraft, interest at 4.95%, due October 2015	4,253	5,102
Notes payable, secured by aircraft, interest at 6.28%, due March 2015	3,277	4,150
Notes payable, secured by aircraft, interest at 6.26%, due August 2014	4,756	6,556
Total long-term debt	145,113	150,852
Less current maturities	12,020	11,623
Long-term debt, net of current maturities	$133,093	$139,229

Senior Secured Term Loan Facility

In March 2011, the Company borrowed $125,000 under a senior secured term loan facility (the "Term Loan"). The Term Loan matures in March 2017, bears interest based on the London Interbank Offered Rate ("LIBOR") or prime rate with interest payable quarterly or more frequently until maturity and includes a LIBOR floor of 1.5%. The Term Loan contains restrictions on future borrowing, provides for maximum annual capital expenditures and contains other affirmative and negative covenants. In addition to quarterly principal payments equal to 0.25% of the initial loan, the Term Loan also provides for mandatory and optional prepayment provisions.

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

As of June 30, 2013, management believes the Company is in compliance with all covenants under the Term Loan and no events occurred which would have required any prepayment of the debt.

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. On April 23, 2013, the Board increased the remaining authority to $100,000. During the six months ended June 30, 2013, the Company repurchased 390,473 shares through open market purchases at an average cost of $81.75 per share for a total expenditure of $31,920. No share repurchases were made under the program during the six months ended June 30, 2012. As of June 30, 2013, the Company had $90,298 in unused stock repurchase authority remaining under the Board approved program.

Note 6 — Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value on a recurring basis. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A three-tier fair value hierarchy is established in accounting standards which prioritizes the inputs used in measuring fair value as follows:

Level 1 - observable inputs such as quoted prices in active markets for identical assets or liabilities

Level 2 - inputs other than Level 1 inputs that are either directly or indirectly observable, such as quoted prices in active markets for similar assets or liabilities

Level 3 - unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions

The Company uses the market approach valuation technique to determine fair value for investment securities. The assets classified as Level 1 consist of money market funds for which original cost approximates fair value. The assets classified as Level 2 consist of certificates of deposit, commercial paper, municipal debt securities, government debt securities, and corporate debt securities, which are valued using quoted market prices or alternative pricing sources including transactions involving identical or comparable assets and models utilizing market observable inputs.

For those assets classified as Level 2 that are not in active markets, the Company obtained fair value from pricing sources using quoted market prices for identical or comparable instruments and based on pricing models which include all significant observable inputs, including maturity dates, issue dates, settlement date, benchmark yields, reported trades, broker-dealer quotes, issue spreads, benchmark securities, bids, offers and other market related data. These inputs are observable or can be derived from or corroborated by observable market data for substantially the full term of the asset.

Assets measured at fair value on a recurring basis at June 30, 2013 and December 31, 2012 were as follows:

		Fair Value Measurements at Reporting Date Using		
Description	June 30, 2013	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	$37,703	$37,703	$—	$—
Municipal debt securities	11,879	—	11,879	—
Total cash equivalents	49,582	37,703	11,879	—
Short-term investments				
Commercial paper	139,532	—	139,532	—
Municipal debt securities	92,817	—	92,817	—