Allegiant Travel CO
Form 10-Q
November 10, 2014

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 September 30, 2014

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.)
1201 North Town Center Drive	
Las Vegas, Nevada	89144
(Address of Principal Executive Offices)	(Zip Code)

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

8360 S. Durango Drive, Las Vegas, Nevada 89113
(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 November 1, 2014 was 17,484,393.

Allegiant Travel Company

Form 10-Q
September 30, 2014

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

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

	September 30, 2014 (unaudited)	December 31, 2013
Current assets:		
Cash and cash equivalents	$86,197	$97,711
Restricted cash	17,682	10,531
Short-term investments	272,555	253,378
Accounts receivable	16,508	16,857
Expendable parts, supplies and fuel, net of an allowance for obsolescence of $2,658 and $1,702 at September 30, 2014 and December 31, 2013, respectively	16,402	19,428
Prepaid expenses	24,215	26,643
Deferred income taxes	3,003	4,206
Other current assets	3,751	1,167
Total current assets	440,313	429,921
Property and equipment, net	717,058	451,584
Restricted cash, net of current portion	305	305
Long-term investments	99,143	36,037
Investment in and advances to unconsolidated affiliates, net	1,703	1,655
Deposits and other assets	11,382	10,689
Total assets	$1,269,904	$930,191
Current liabilities:		
Current maturities of long-term debt	$51,895	$20,237
Accounts payable	18,678	15,823
Accrued liabilities	60,260	87,203
Air traffic liability	195,128	167,388
Total current liabilities	325,961	290,651
Long-term debt and other long-term liabilities:		
Long-term debt, net of current maturities	554,421	214,063
Deferred income taxes	48,289	48,160
Total liabilities	928,671	552,874
Stockholders' equity:		
Common stock, par value $.001, 100,000,000 shares authorized; 22,176,778 and 22,036,893 shares issued; 17,484,393 and 18,544,248 shares outstanding, as of September 30, 2014 and December 31, 2013, respectively	22	22
Treasury stock, at cost, 4,692,385 and 3,492,645 shares at September 30, 2014 and December 31, 2013, respectively	(315,614)	(186,291)
Additional paid in capital	220,229	209,213
Accumulated other comprehensive gain (loss), net	672	(12)
Retained earnings	434,690	352,811
Total Allegiant Travel Company stockholders' equity	339,999	375,743
Noncontrolling interest	1,234	1,574
Total equity	341,233	377,317
Total liabilities and stockholders' equity	$1,269,904	$930,191

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
OPERATING REVENUE:				
Scheduled service revenue	$166,893	$148,466	$559,587	$493,700
Ancillary revenue:				
Air-related charges	77,198	66,577	248,432	219,904
Third party products, net	8,051	8,646	28,338	29,733
Total ancillary revenue	85,249	75,223	276,770	249,637
Fixed fee contract revenue	4,899	3,985	10,508	12,267
Other revenue	7,988	1,200	11,229	2,075
Total operating revenue	265,029	228,874	858,094	757,679
OPERATING EXPENSES:				
Aircraft fuel	94,864	89,195	308,308	294,762
Salary and benefits	52,109	38,135	145,845	118,951
Station operations	21,064	19,114	63,453	58,670
Maintenance and repairs	22,562	18,310	64,590	56,773
Sales and marketing	7,808	4,514	22,269	15,727
Aircraft lease rentals	1,565	2,025	12,897	3,693
Depreciation and amortization	22,174	17,106	60,355	51,890
Other	14,016	11,243	37,826	32,758
Total operating expenses	236,162	199,642	715,543	633,224
OPERATING INCOME	28,867	29,232	142,551	124,455
OTHER (INCOME) EXPENSE:				
Earnings from unconsolidated affiliates, net	(101)	(214)	(173)	(384)
Interest income	(106)	(328)	(545)	(806)
Interest expense	7,097	2,257	13,817	6,739
Total other expense	6,890	1,715	13,099	5,549
INCOME BEFORE INCOME TAXES	21,977	27,517	129,452	118,906
PROVISION FOR INCOME TAXES	7,866	10,520	47,900	44,391
NET INCOME	14,111	16,997	81,552	74,515
Net loss attributable to noncontrolling interest	(61)	(109)	(340)	(283)
NET INCOME ATTRIBUTABLE TO ALLEGIANT TRAVEL COMPANY	$14,172	$17,106	$81,892	$74,798
Earnings per share to common stockholders:				
Basic	$0.80	$0.91	$4.56	$3.92
Diluted	$0.80	$0.91	$4.54	$3.90
Weighted average shares outstanding used in computing earnings per share to common stockholders:				
Basic	17,605	18,629	17,848	18,925
Diluted	17,704	18,794	17,912	19,042

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$14,111	$16,997	$81,552	$74,515
Other comprehensive income:				
Unrealized (loss) gain on available-for-sale securities, net	(202)	63	(139)	158
Income tax benefit (expense) related to unrealized gain or loss on available-for-sale securities	66	(23)	54	(59)
Unrealized gain on derivative instrument, net	959	—	1,221	—
Income tax expense related to unrealized gain or loss on derivative activities	(343)	—	(452)	—
Total other comprehensive income	480	40	684	99
Total comprehensive income	14,591	17,037	82,236	74,614
Comprehensive loss attributable to noncontrolling interest	(61)	(109)	(340)	(283)
Comprehensive income attributable to Allegiant Travel Company	$14,652	$17,146	$82,576	$74,897

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

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

	Nine Months Ended September 30, 2014	2013
OPERATING ACTIVITIES:		
Net income	$81,552	$74,515
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	60,355	51,890
Loss on aircraft and other equipment disposals	3,967	4,967
Provision for obsolescence of expendable parts, supplies and fuel	956	540
Amortization of deferred financing costs and original issue discount	(2,209)	481
Stock-based compensation expense	13,813	7,930
Deferred income taxes	1,332	(980)
Excess tax benefits from stock-based compensation	(3,339)	(1,628)
Changes in certain assets and liabilities:		
Restricted cash	(7,151)	(3,803)
Accounts receivable	349	2,046
Expendable parts, supplies and fuel	2,070	(3,182)
Prepaid expenses	4,928	2,134
Other current assets	(3,741)	2,911
Accounts payable	6,194	(1,167)
Accrued liabilities	8,338	1,193
Air traffic liability	27,740	12,585
Net cash provided by operating activities	195,154	150,432
INVESTING ACTIVITIES:		
Purchase of investment securities	(285,918)	(226,763)
Proceeds from maturities and sale of investment securities	204,306	219,387
Purchase of property and equipment, including pre-delivery deposits	(188,131)	(161,560)
Interest during refurbishment of aircraft	—	(123)
Proceeds from sale of property and equipment	295	494
Investment in unconsolidated affiliates, net	(48)	(2,310)
Change in deposits and other assets	506	10,224
Net cash used in investing activities	(268,990)	(160,651)
FINANCING ACTIVITIES:		
Cash dividends paid to shareholders	(41,787)	—
Excess tax benefits from stock-based compensation	3,339	1,628
Proceeds from exercise of stock options and stock-settled SARs	370	2,041
Proceeds from the issuance of long-term debt	385,300	48,000
Proceeds from sale of ownership interest in subsidiary	—	1,400
Repurchase of common stock	(129,323)	(79,990)
Principal payments on long-term debt	(155,577)	(19,225)
Payments for deferred financing costs	—	(204)
Net cash provided by (used in) financing activities	62,322	(46,350)
Net change in cash and cash equivalents	(11,514)	(56,569)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	97,711	89,557
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$86,197	$32,988
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		

Non- cash transactions:		
Assets acquired in sale of ownership interest in subsidiary	$—	$473
Long-term debt assumed for aircraft	$141,960	$—
Assets sold in acquisition of ownership interest in subsidiary	$—	$1,225

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, 2013, filed with the Securities and Exchange Commission.

Use of estimates

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.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("FASB") issued new guidance related to reporting discontinued operations. This new standard raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The new standard is effective for fiscal years beginning on or after December 15, 2014. Early adoption is permitted but only for disposals that have not been reported in financial statements previously issued. The Company is evaluating the impact, if any, of adopting this new accounting standard on its financial statements.

In May 2014, the FASB issued new accounting guidance related to revenue recognition. This new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective for the Company beginning January 1, 2017 and at that time, can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is evaluating the impact of adopting this new accounting standard on its financial statements.

Note 2 — Investment Securities

The Company’s investments in marketable securities are classified as available-for-sale and are reported at fair market value with the net unrealized gain or loss reported as a component of accumulated other comprehensive income ("AOCI") in stockholders’ equity. Excluded from the table below is the change in fair value attributable to the foreign currency risk being hedged. Refer to Note 7 - Derivative Instruments for additional information related to the Company's foreign currency hedge. 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 and 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, 2014				As of December 31, 2013			
		Gross Unrealized				Gross Unrealized		
	Cost	Gains	(Losses)	Market Value	Cost	Gains	(Losses)	Market Value
Money market funds	$35,795	$—	$—	$35,795	$20,172	$—	$—	$20,172
Certificates of deposit	10,038	3	—	10,041	—	—	—	—
Commercial paper	66,956	6	(10)	66,952	75,905	8	(2)	75,911
Municipal debt securities	137,936	30	(3)	137,963	181,870	17	(19)	181,868
Government debt securities	28,992	—	(29)	28,963	10,008	—	—	10,008
Corporate debt securities	141,153	1	(99)	141,055	45,150	—	(16)	45,134
Federal agency debt securities	$4,709	$1	$—	$4,710	$—	$—	$—	$—
Total	$425,579	$41	$(141)	$425,479	$333,105	$25	$(37)	$333,093

The amortized cost of investment securities sold is determined by the specific identification method with any realized gains or losses reflected in other (income) expense. The Company had minimal realized gains for the nine months ended September 30, 2014 and 2013.

Note 3 — Property and Equipment

As of September 30, 2014, the Company owned 53 MD-80 aircraft, six Boeing 757-200 aircraft, seven Airbus A320 aircraft and 15 Airbus A319 aircraft, which include 12 Airbus A319 aircraft on lease to a third party. The Airbus A320 aircraft and Airbus A319 aircraft are sometimes referred to collectively as Airbus A320 series aircraft.

Property and equipment consist of the following:

	As of September 30, 2014	As of December 31, 2013
Flight equipment	$936,462	$629,715
Ground property and equipment	90,065	73,638
Total property and equipment	1,026,527	703,353
Less accumulated depreciation and amortization	(309,469)	(251,769)
Property and equipment, net	$717,058	$451,584

In August 2014, the Company terminated the existing lease agreements and agreed to purchase eight Airbus A320 series aircraft subject to previously executed lease agreements. Concurrently with the execution of the agreement, the Company closed on the purchase of two of these aircraft which were previously on lease to the Company and were part of the Company's operating fleet. The Company expects to take delivery of the remaining aircraft between December 2014 and December 2015. The financial impact of this transaction is reflected in the table above for the two purchased aircraft and in the contractual obligations table included in Note 10 - Commitments and Contingencies.

In June 2014, the Company entered into separate agreements to acquire the ownership interests in 12 special purpose companies each owning one Airbus A320 series aircraft currently on lease to a European carrier until 2018. The purchase price for the special purpose companies was approximately $236.1 million, of which approximately $142.0

million was by assumption of debt secured by the aircraft with the remaining balance funded by cash. Refer to Note 4 - Long Term Debt for details on the assumed notes payable.

The Company performed a fair value assessment of the assumed debt and the in-place leases and determined both to be at fair value. Upon expiration of the current leases in 2018, the Company intends to bring these aircraft into its operating fleet. Currently, the Company recognizes lease revenue and incurs minimal administrative costs to maintain the leases during the term these Airbus A320 series aircraft are under lease. Lease revenue and administrative costs related to this transaction are reflected in the Company's results of operations. Additionally, interest expense and depreciation expense related to the assumed notes payable and asset ownership of the acquired Airbus A320 series aircraft since their acquisition in June 2014 are reflected in the Company's results of operations.

The following table summarizes the Company's total aircraft fleet as of September 30, 2014:

Aircraft Type	Owned (1)	Seating Capacity (per aircraft)	Average Age in Years
MD-88/83	53	166	24.8
B757-200	6	215	21.6
A319 (2)	15	156	10.0
A320	7	177	14.0
Total aircraft	81		

(1) Two of the Company's owned Airbus A319 aircraft are unencumbered. Refer to Note 4 - Long-Term Debt for further information on the Company's notes payable.

(2) Of the 15 Airbus A319 aircraft at September 30, 2014, three Airbus A319 aircraft are in revenue service and included in the Company's operating fleet and 12 Airbus A319 aircraft currently are on lease to a European carrier until 2018.

Note 4 — Long-Term Debt

Long-term debt consisted of the following:

	As of September 30, 2014	As of December 31, 2013
5.50% Senior Notes, due July 2019	$300,000	$—
Notes payable, secured by aircraft, interest at LIBOR plus 3.08%, due November 2018	135,995	—
Notes payable, secured by aircraft, interest at LIBOR plus 2.46%, due November 2019	43,302	48,000
Note payable, secured by aircraft, interest at LIBOR plus 2.95%, due April 2018	41,053	—
Notes payable, secured by aircraft, interest at 3.99%, due October 2018	39,110	45,775
Notes payable, secured by aircraft, interest at LIBOR plus 2.95%, due May 2018	37,108	—
Note payable, secured by real estate, interest at 2.86%, due October 2018	9,748	9,953
Senior secured term loan facility, interest at LIBOR plus 4.25% with LIBOR floor of 1.5%, due March 2017	—	121,230
Note payable, secured by aircraft, interest at 4.65%, due July 2016	—	9,342
Total long-term debt	606,316	234,300
Less current maturities	51,895	20,237
Long-term debt, net of current maturities	$554,421	$214,063

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Maturities of long-term debt, as of September 30, 2014, for the remainder of 2014 and for the next four years and thereafter, in aggregate, are:

	September 30, 2014
2014	$13,200
2015	53,879
2016	55,554
2017	57,323
2018	112,601
Thereafter	313,759
Total	$606,316

General Unsecured Senior Notes

In June 2014, the Company completed an offering of $300.0 million aggregate principal amount of senior unsecured obligations (the "Notes") which will mature in July 2019. The Notes constitute general unsecured senior obligations of the Company and rank equally in right of payment with all existing and future senior unsecured indebtedness and liabilities (including trade payables) of the Company. The Notes are effectively junior to the Company's existing and future secured indebtedness. The Notes are guaranteed by all of the Company's wholly-owned domestic subsidiaries and rank equally in right of payment with all existing and future unsecured indebtedness and liabilities (including trade payables) of the Company's guarantor subsidiaries, but effectively junior to the guarantors' existing and future secured indebtedness.

The Notes bear interest at a rate of 5.50 percent per year, payable in cash semi-annually, on January 15 and July 15 of each year, commencing on January 15, 2015, and will mature on July 15, 2019.

At any time, the Company may redeem the Notes, in whole or in part, at a price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest, plus a “make-whole premium”. The occurrence of specific kinds of changes in control will be a triggering event requiring the Company to offer to purchase from the holders all or a portion of the Notes at a price equal to 101% of the principal amount, together with accrued and unpaid interest, if any, to the date of purchase.

The indenture pursuant to which the Notes were issued includes operating and financial restrictions on the Company. These restrictions limit or restrict, among other things, the Company's ability and the ability of its restricted subsidiaries to (i) incur additional indebtedness; (ii) incur liens; (iii) make restricted payments (including paying dividends on, redeeming, repurchasing or retiring capital stock); (iv) make investments; and (v) consolidate, merge or sell all or substantially all of its assets. These covenants are subject to various exceptions and qualifications under the terms of the indenture.

Other

In June 2014, the Company assumed $142.0 million of debt in connection with the acquisition of 12 separate special purpose companies, each owning one Airbus A320 series aircraft. The notes payable assumed bear interest at LIBOR plus 3.08 percent and are payable in monthly installments through November 2018 when a balloon payment is due.

In May 2014, the Company borrowed $40.0 million secured by six Boeing 757-200 aircraft. The notes payable bear interest at LIBOR plus 2.95 percent and are payable in monthly installments through May 2018 when a balloon payment is due.

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

In September 2013, the Company borrowed $48.0 million under a modified loan agreement secured by four Airbus A320 series aircraft. The notes payable issued under the modified loan agreement bear interest at 3.99 percent per annum and are payable in monthly installments through October 2018.

In October 2013, the Company borrowed $10.0 million under a loan agreement secured by real estate now used as the Company's headquarter offices. The note payable issued under the loan agreement bears interest at 2.86 percent per annum and is payable in monthly installments through October 2018 when a balloon payment of $8.5 million is due.

In November 2013, the Company borrowed $48.0 million under a loan agreement secured by four Airbus A320 series aircraft. The notes payable issued under the loan agreement bear interest at LIBOR plus 2.46 percent per annum and are payable in monthly installments through November 2019 when a balloon payment is due.

In the second quarter 2014, the Company prepaid in full the $8.5 million balance owed on its note payable secured by two Boeing 757-200 aircraft originally due in July 2016.

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. During the nine months ended September 30, 2014, the Company repurchased 953,309 shares through open market purchases at an average cost of $103.44 per share for a total expenditure of $98,606. In addition to open market purchases during the nine months ended September 30, 2014, the Company repurchased shares through private transactions totaling 246,431 shares at current market prices. Refer to Part II Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds for detail on these transactions. Open market and private repurchases bring total repurchases for the first nine months of 2014 to 1,199,740 shares for a total expenditure of $129,323. During the nine months ended September 30, 2013, the Company repurchased 880,991 shares through open market purchases at an average price of $85.64 per share for a total expenditure of $75,449.

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. Accounting standards pertaining to fair value measurements establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

Level 2 - Defined as inputs other than Level 1 inputs that are either directly or indirectly observable

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

The Company uses the market approach valuation technique to determine fair value for investment securities. The assets classified as Level 1 consist of money market funds for which original cost approximates fair value. The assets classified as Level 2 consist of certificates of deposit, commercial paper, municipal debt securities, government debt securities, federal agency 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 dates, benchmark yields, reported trades, broker-dealer quotes, issue spreads, benchmark securities, bids, offers and other market related data. These inputs are observable or can be derived from or corroborated by observable market data for substantially the full term of the asset.

Derivative Financial Instruments

The fair value of the Company's derivative instrument is determined using standard valuation models. The significant inputs used in these models are readily available in public markets or can be derived from observable market transactions and therefore have been classified as Level 2. Inputs used in these standard valuation models for derivative instruments include the applicable exchange and interest rates.

Assets measured at fair value on a recurring basis at September 30, 2014 and December 31, 2013 were as follows:

Description	September 30, 2014	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents				
Money market funds	$35,795	$35,795	$—	$—
Commercial paper	9,999	—	9,999	—
Municipal debt securities	7,283	—	7,283	—
Corporate debt securities	704	—	704	—
Total cash equivalents	53,781	35,795	17,986	—
Short-term investments				
Municipal debt securities	122,204	—	122,204	—
Corporate debt securities	78,647	—	78,647	—
Commercial paper	56,953	—	56,953	—
Certificates of deposit	10,041	—	10,041	—
Federal agency debt securities	4,710	—	4,710	—
Total short-term investments	272,555	—	272,555	—
Long-term investments				
Corporate debt securities	61,704	—	61,704	—
Government debt securities	28,963	—	28,963	—
Municipal debt securities	8,476	—	8,476	—
Derivative instrument	1,221	—	1,221	—
Total long-term investments	100,364	—	100,364	—
Total financial assets	$426,700	$35,795	$390,905	$—

Description	December 31, 2013	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents				
Money market funds	$20,172	$20,172	$—	$—
Municipal debt securities	23,506	—	23,506	—
Total cash equivalents	43,678	20,172	23,506	—
Short-term investments				
Municipal debt securities	122,325	—	122,325	—
Commercial paper	75,911	—	75,911	—
Corporate debt securities	45,134	—	45,134	—
Government debt securities	10,008	—	10,008	—
Total short-term investments	253,378	—	253,378	—
Long-term investments				
Municipal debt securities	36,037	—	36,037	—
Total long-term investments	36,037	—	36,037	—
Total investment securities	$333,093	$20,172	$312,921	$—

The Company had no transfers between Level 1 and Level 2 assets for the nine months ended September 30, 2014 and no significant transfers between Level 1 and Level 2 assets during the year ended December 31, 2013.

The carrying amounts and estimated fair value of the Company's long-term debt (including current maturities), as well as the applicable fair value hierarchy tier, at September 30, 2014, are presented in the table below. The fair value of the Company's publicly held long-term debt is determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets; therefore, the Company has categorized its publicly held debt as Level 2. The remaining six of the Company's debt agreements are not publicly held. The Company has determined the estimated fair value of this debt to be Level 3, as certain inputs used to determine the fair value of these agreements are unobservable. The Company utilizes indicative pricing from counterparties and a discounted cash flow method to estimate the fair value of the Level 3 items.

	As of September 30, 2014		
	Carrying value	Estimated fair value	Fair value level hierarchy
5.50% Senior Notes, due July 2019	$300,000	$307,500	Level 2
Notes payable, secured by aircraft, interest at LIBOR plus 3.08%, due November 2018	135,995	134,842	Level 3
Notes payable, secured by aircraft, interest at LIBOR plus 2.46%, due November 2019	43,302	43,037	Level 3
Note payable, secured by aircraft, interest at LIBOR plus 2.95%, due April 2018	41,053	40,753	Level 3
Notes payable, secured by aircraft, interest at 3.99%, due October 2018	39,110	38,724	Level 3
Notes payable, secured by aircraft, interest at LIBOR plus 2.95%, due May 2018	37,108	36,836	Level 3
Note payable, secured by real estate, interest at 2.86%, due October 2018	9,748	9,679	Level 3
Total	$606,316	$611,371	

Note 7 — Derivative Instruments

The Company is directly and indirectly affected by changes in certain market conditions. These changes in market conditions may adversely impact the Company's financial performance and are referred to as "market risks." When deemed appropriate, the Company will use derivatives as a risk management tool to mitigate the potential impact of certain market risks. The market risk managed by the Company through the use of a derivative instrument is foreign currency exchange rate risk. The Company is currently using a foreign currency swap which is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. The Company does not enter into derivative financial instruments for trading purposes.

For derivatives that will be accounted for as hedging instruments, the Company formally designates and documents, at inception, the financial instrument as a hedge of a specific underlying exposure, the risk management objective and the strategy for undertaking the hedge transaction. In addition, the Company formally assesses, both at inception and at least quarterly thereafter, whether the financial instruments used in hedging transactions are effective at offsetting changes in either the fair values or cash flows of the related underlying exposures. Any change in fair market value of any ineffective portion of a financial instrument is immediately recognized into earnings.

The Company determines the fair value of its derivative based on quoted market prices or pricing models using current market rates. Refer to Note 6 - Fair Value Measurements. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the derivatives, such as interest rates, foreign currency exchange rates or other financial indices. The Company does not view the fair value of its derivative in isolation, but rather in relation to the fair value or cash flows of the underlying hedged transaction or other exposures. The Company's derivative is a straightforward over-the-counter instrument with liquid markets.

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The following table presents the fair value of the Company's derivative instrument that was designated and qualified as part of a hedging relationship (in thousands):

		Fair Value (1)(2)	
Derivative Designated as Hedging Instrument	Balance Sheet Location (1)	September 30, 2014	December 31, 2013
Foreign currency swap	Deposits and other assets	$1,221	$—

(1) The Company's derivative instrument is carried at fair value in its consolidated balance sheet after considering the impact of legally enforceable master netting agreements and cash collateral held or placed with the same counterparties, as applicable. At September 30, 2014, no amounts were netted under a master netting arrangement and no collateral was held or placed with the counterparty.
(2) Refer to Note 6 - Fair Value Measurements for additional information related to the estimated fair value.

Cash Flow Hedging Strategy

The Company has entered into a foreign currency swap in order to mitigate the foreign currency exchange rate risk associated with the forecasted lease revenue from 12 Airbus A320 series aircraft leased to a European based company. The Company uses a cash flow hedge to minimize the variability in cash flows of assets or liabilities or forecasted transactions caused by fluctuations in foreign currency exchange rates. The change in the fair value of a derivative designated as a cash flow hedge is recorded in AOCI.

The Company maintains a foreign currency cash flow hedge to reduce the risk that its eventual U.S. dollar net cash inflows from leased aircraft outside the United States will be adversely affected by fluctuations in foreign currency exchange rates. The Company entered into a forward swap to hedge certain portions of forecasted cash flows denominated in euros. When the U.S. dollar strengthens against the foreign currency, the decline in the present value of future foreign currency cash flows is partially offset by gains in the fair value of the derivative instrument. Conversely, when the U.S. dollar weakens, the increase in the present value of future foreign currency cash flows is partially offset by losses in the fair value of the derivative instrument.

The total notional value of the Company's derivative instrument that was designated and qualified for the Company's foreign currency cash flow hedge was $1.2 million as of September 30, 2014.

The following table presents the pretax impact that changes in the fair values of the derivative instrument designated as a cash flow hedge had on AOCI during the three and nine months ended September 30, 2014 and 2013 (in thousands):

	Gain (Loss) Recognized in Other Comprehensive Income ("OCI")			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Foreign currency swap	$343	$—	$452	$—

Note 8 — Income Taxes

For the three and nine months ended September 30, 2014, the Company did not have any material unrecognized tax benefits. 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 accrued interest or penalties at September 30, 2014.

Note 9 — Earnings per Share

Basic and diluted earnings per share are computed pursuant to the two-class method. Under this method, the Company attributes net income to two classes, common stock and unvested restricted stock awards. Unvested restricted stock awards granted to employees under the Company's Long-Term Incentive Plan are considered participating securities as they receive non-forfeitable rights to cash dividends at the same rate as common stock.

Diluted net income per share is calculated using the more dilutive of two methods. Under both methods, the exercise of employee stock options and stock-settled stock appreciation rights are assumed using the treasury stock method. The assumption of vesting of restricted stock, however, differs:

1. Assume vesting of restricted stock using the treasury stock method.
2. Assume unvested restricted stock awards are not vested, and allocate earnings to common shares and unvested restricted stock awards using the two-class method.

Both methods resulted in the same diluted net income per share for the three months ended September 30, 2014 and 2013. For the nine months ended September 30, 2014 and 2013, the second method which assumes unvested awards are not vested, was used in the computation because it was more dilutive than the first method. The following table sets forth the computation of net income per share, on a basic and diluted basis for the periods indicated (shares shown in and below the following table are in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Basic:				
Net income attributable to Allegiant Travel Company	$14,172	$17,106	$81,892	$74,798
Less: Net income allocated to participating securities	(90)	(135)	(586)	(563)
Net income attributable to common stock	$14,082	$16,971	$81,306	$74,235
Net income per share, basic	$0.80	$0.91	$4.56	$3.92
Weighted-average shares outstanding	17,605	18,629	17,848	18,925
Diluted:				
Net income attributable to Allegiant Travel Company	$14,172	$17,106	$81,892	$74,798
Less: Net income allocated to participating securities	—	—	(584)	(559)
Net income attributable to common stock	$14,172	$17,106	$81,308	$74,239
Net income per share, diluted	$0.80	$0.91	$4.54	$3.90
Weighted-average shares outstanding	17,605	18,629	17,848	18,925
Dilutive effect of stock options, restricted stock and stock-settled stock appreciation rights	99	165	101	151
Adjusted weighted-average shares outstanding under treasury stock method	17,704	18,794	17,949	19,076
Participating securities excluded under two-class method	N/A	N/A	(37)	(34)
Adjusted weighted-average shares outstanding under two-class method	N/A	N/A	17,912	19,042

Stock awards outstanding of 50 shares for the three months ended September 30, 2014 and 75 shares for the nine months ended September 30, 2014 were excluded from the computation of diluted earnings per share as they were antidilutive. For the three and nine months ended September 30, 2013, stock awards outstanding of 33 shares and 191 shares were excluded, respectively.

Note 10 — Commitments and Contingencies

As of September 30, 2014, the Company had firm commitments to purchase the following aircraft:

Aircraft Type	Number of Firm Commitments
Airbus A319	7
Airbus A320	3

The aircraft listed in the table above are scheduled for delivery starting in the last quarter of 2014 through 2016.

The table below summarizes the Company's commitments as of September 30, 2014