

Allegiant Travel CO  
Form 10-Q  
May 09, 2008

**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 March 31, 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)

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

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3301 N. Buffalo, Suite B-9, Las Vegas, NV 89129

(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 May 1, 2008 was 20,260,415.

Allegiant Travel Company

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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)

	March 31, 2008 (unaudited)	December 31, 2007
<b>Current assets:</b>		
Cash and cash equivalents	\$ 180,763	\$ 144,269
Restricted cash	13,819	15,383
Short-term investments	7,428	27,110
Accounts receivable, net of allowance for doubtful accounts of \$- at March 31, 2008 and December 31, 2007	14,709	9,084
Income tax receivable		6,228
Expendable parts, supplies and fuel, net of allowance for obsolescence of \$419 and \$374 at March 31, 2008 and December 31, 2007, respectively	9,267	6,544
Prepaid expenses	11,263	14,718
Other current assets	1,012	1,552
<b>Total current assets</b>	<b>238,261</b>	<b>224,888</b>
Property and equipment, net	177,407	171,170
Restricted cash, net of current portion		38
Investment in and advances to joint venture	467	1,976
Deposits and other assets	8,088	7,353
<b>Total assets</b>	<b>\$ 424,223</b>	<b>\$ 405,425</b>
<b>Current liabilities:</b>		
Current maturities of notes payable	\$ 12,722	\$ 11,955
Current maturities of capital lease obligations	6,365	6,241
Accounts payable	22,815	21,302
Accrued liabilities	12,539	13,174
Air traffic liability	96,392	74,851
Deferred income taxes	2,290	456
<b>Total current liabilities</b>	<b>153,123</b>	<b>127,979</b>
<b>Long-term debt and other long-term liabilities:</b>		
Notes payable, net of current maturities	31,481	31,890
Capital lease obligations, net of current maturities	20,418	22,060
Deferred income taxes	13,898	13,165
<b>Total liabilities</b>	<b>218,920</b>	<b>195,094</b>
<b>Stockholders' equity:</b>		
Common stock, par value \$.001, 100,000,000 shares authorized, 20,250,915 shares issued and outstanding as of March 31, 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	160,992	159,863
Accumulated other comprehensive (loss) income	(7)	13
Retained earnings	60,106	50,434
<b>Total stockholders' equity</b>	<b>205,303</b>	<b>210,331</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 424,223</b>	<b>\$ 405,425</b>

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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)

	<b>Three months ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>OPERATING REVENUE:</b>		
Scheduled service revenue	\$ 91,736	\$ 58,231
Fixed fee contract revenue	14,257	13,348
Ancillary revenue	27,147	12,770
Total operating revenue	133,140	84,349
<b>OPERATING EXPENSES:</b>		
Aircraft fuel	63,494	31,179
Salary and benefits	17,126	12,906
Station operations	12,019	8,635
Maintenance and repairs	10,453	6,527
Sales and marketing	4,334	3,032
Aircraft lease rentals	1,008	651
Depreciation and amortization	5,015	3,660
Other	5,327	3,458
Total operating expenses	118,776	70,048
<b>OPERATING INCOME</b>	<b>14,364</b>	<b>14,301</b>
<b>OTHER (INCOME) EXPENSE:</b>		
Loss (gain) on fuel derivatives, net	11	(1,524)
Earnings from joint venture, net	(10)	(67)
Other expense		63
Interest income	(1,732)	(1,884)
Interest expense	1,415	1,408
Total other (income) expense	(316)	(2,004)
<b>INCOME BEFORE INCOME TAXES</b>	<b>14,680</b>	<b>16,305</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>5,008</b>	<b>6,558</b>
<b>NET INCOME</b>	<b>\$ 9,672</b>	<b>\$ 9,747</b>
<b>Earnings Per Share:</b>		
Basic	\$ 0.47	\$ 0.49
Diluted	\$ 0.47	\$ 0.48
<b>Weighted average shares outstanding:</b>		
Basic	20,471	19,796
Diluted	20,710	20,290

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

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

	Three months ended March 31,	
	2008	2007
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 9,672	\$ 9,747
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,015	3,660
Loss (gain) on aircraft and other equipment disposals	367	(99)
Provision for obsolescence of expendable parts, supplies and fuel	45	45
Stock compensation expense	302	241
Deferred income taxes	2,567	2,554
Excess tax benefits from stock option exercises	(579)	
Changes in certain assets and liabilities:		
Restricted cash	1,602	480
Accounts receivable	(5,625)	(1,594)
Income tax receivable	6,228	-
Receivable from related parties		921
Expendable parts, supplies and fuel	(2,768)	689
Prepaid expenses	3,455	(2,389)
Other current assets	540	(1,568)
Accounts payable	2,092	3,802
Accrued liabilities	(635)	4,326
Air traffic liability	21,541	32,569
Net cash provided by operating activities	43,819	53,384
<b>INVESTING ACTIVITIES:</b>		
Maturities of short-term investments	19,663	5,808
Purchase of property and equipment	(8,019)	(10,366)
Proceeds from sale of property and equipment		377
Investment in joint venture, net	1,509	(67)
(Increase) decrease in lease and equipment deposits	(735)	229
Net cash provided by (used in) investing activities	12,418	(4,019)
<b>FINANCING ACTIVITIES:</b>		
Excess tax benefits from stock option exercises	579	
Proceeds from exercise of stock options	247	
Shares repurchased by the Company	(15,809)	
Principal payments on notes payable	(3,242)	(2,400)
Principal payments on related party notes payable		(891)
Principal payments on capital lease obligations	(1,518)	(1,008)
Net cash used in financing activities	(19,743)	(4,299)
Net change in cash and cash equivalents	36,494	45,066
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	144,269	130,273
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 180,763	\$ 175,339
<b>NON-CASH TRANSACTIONS:</b>		
Note payable issued for aircraft and equipment	\$ 3,600	\$

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





**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 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 accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America 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**

The Company adopted Financial Accounting Standards Board ( FASB ) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* ( FIN 48 ), effective January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements and requires the impact of a tax position to be recognized in the financial statements if that position is more likely than not of being sustained by the taxing authority. The adoption of FIN 48 has not had a material effect on the Company's consolidated financial position or results of operations.

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In September 2006, the FASB issued Statement of Financial Accounting Standards ( SFAS ) No. 157, *Fair Value Measurements*, SFAS 157, which clarifies the definition of fair value, establishes guidelines for measuring fair value, and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 became effective for the Company as of January 1, 2008. On December 14, 2007, the FASB issued proposed FASB Staff Position No. FAS 157-b, *Effective Date of SFAS 157* ( Proposed FSP ). The Proposed FSP would amend 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). The Proposed 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 the Proposed FSP. The adoption of SFAS 157 has not had a material effect on the Company's consolidated financial statements. 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 the Proposed FSP.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. This statement permits, but does not require, entities to measure certain financial instruments and other assets and liabilities at fair value on an instrument-by-instrument basis. Unrealized gains and losses on items for which the fair value option has been elected should be recognized in earnings at each subsequent reporting date. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, and cannot be adopted early unless SFAS No. 157, *Fair Value Measurements*, is also adopted. The adoption of SFAS 159 has not had a material effect on the Company's consolidated financial statements.

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In December 2007, the FASB issued 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 which will 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. The Company has not yet determined the effect that the adoption of SFAS 141(R) will have on the Company's consolidated financial statements.

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 that provide sufficient disclosures that clearly 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 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 months ended March 31, 2008, the Company did not have any material unrecognized tax benefits and there was no material effect on the Company's financial condition or results of operation as a result of implementing FIN 48. The Company estimates that the unrecognized tax benefit will not change significantly 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 March 31, 2008. No penalties were accrued at March 31, 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. 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 stockholders 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 155,714 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 592,000 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 March 31, 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 \$15,809.

**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 (shares and dollars in thousands):

	Three months ended March 31,	
	2008	2007
<b>Numerator:</b>		
Net income	\$ 9,672	\$ 9,747
<b>Denominator:</b>		
Weighted-average shares outstanding	20,471	19,796
Weighted-average effect of dilutive securities:		
Employee stock options	64	354
Stock purchase warrants	136	140
Restricted stock	39	
Adjusted weighted-average shares outstanding, diluted	20,710	20,290
Net income per share, basic	\$ 0.47	\$ 0.49
Net income per share, diluted	\$ 0.47	\$ 0.48

**Note 6 Long-Term Debt**

Long-term debt, including capital lease obligations, consists of the following:

	As of March 31, 2008	As of December 31, 2007
Notes payable, secured by aircraft, interest at 8%, due at varying dates through December 2010	\$ 14,434	\$ 15,747
Notes payable, secured by aircraft, interest at 8.5%, due November 2011	13,528	14,113
Notes payable, secured by aircraft, interest at 6%, due at varying dates through February 2011	10,064	7,108
Notes payable, secured by aircraft, interest at 8%, due June 2011	5,691	6,071
Note payable, secured by aircraft, interest at 9%, due July 2008	431	747
Other notes payable	54	59
Capital lease obligations	26,784	28,301
Total long-term debt	70,986	72,146
Less current maturities	(19,087)	(18,196)
Long-term debt, net of current maturities	\$ 51,899	\$ 53,950

**Note 7 Investment in Joint Venture**

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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**

Airline operations are inherently dependent on energy, and are therefore impacted by changes in jet fuel prices. Aircraft fuel expense represented approximately 53.5% and 44.5% of the Company's operating expenses for the three months ended March 31, 2008 and 2007, respectively. The Company endeavors to acquire jet fuel at the lowest possible cost. To manage a portion of the aircraft fuel price risk, the Company from time to time used jet fuel and heating oil option contracts or swap agreements. The Company does not purchase or hold any derivative financial instruments for trading purposes.

The Company's derivatives have historically not qualified as hedges for financial reporting purposes in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Accordingly, changes in the fair value of such derivative contracts, which amounted to losses of \$11 and gains of \$1,524 for the three months ended March 31, 2008 and 2007, respectively, were recorded as a Loss (gain) on fuel derivatives, net within Other income (expense) in the accompanying 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. As of March 31, 2008, the Company had no derivative instruments on its projected fuel consumption, while the fair value of one hedge contract amounted to \$81 as of December 31, 2007. The fair value of hedge contracts was recorded in Other current assets in the accompanying condensed consolidated balance sheets.

#### **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.

#### **Note 10 Subsequent Events**

In April 2008, the Company took delivery of one MD-88 aircraft which the Company had a commitment to purchase with seller financing. The Company made cash payment for the non-financed portion of the purchase price.

In April 2008, the Company purchased six MD-80 aircraft and three spare Pratt and Whitney engines. The purchased aircraft and engines are under existing leases to a third party expiring in 2008 and 2009, and in conjunction with the purchase, the Company has become the lessor under the existing lease agreements. The Company expects delivery of three aircraft during the fourth quarter of 2008 and one aircraft during the first quarter of 2009, to enter service during the first and second quarters of 2009. The final two aircraft are expected to be delivered to the Company during the fourth quarter of 2009 to enter service in 2010.

In April 2008, the Company borrowed \$18,000 under a loan agreement secured by unencumbered aircraft. The notes payable issued under the loan agreement bear interest at 6% per annum and are payable in installments through April 2012.

**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 month periods ending March 31, 2008 and 2007. Also discussed is our financial position as of March 31, 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.



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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.

As an adjunct to our scheduled service business, we also fly charter ( fixed fee ) services, both on a long-term contract basis (primarily for Harrah's Entertainment Inc.) and on an on-demand adhoc basis.

### **Our Fleet:**

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

	March 31, 2008			December 31, 2007			March 31, 2007		
	Own(a)	Lease	Total	Own(a)	Lease	Total	Own(b)	Lease	Total
MD82/83/88s	28	4	32	24	4	28	22	2	24
MD87s	4	0	4	4	0	4	2	0	2
Total	32	4	36	28	4	32	24	2	26

(a) Aircraft owned includes seven subject to capital leases.

(b) Aircraft owned includes five subject to capital leases.

### **Our Markets:**

Our scheduled service consists of limited frequency nonstop flights into leisure destinations from small cities. As of March 31, 2008, we offered scheduled service from 53 small cities primarily into Las Vegas, Phoenix, Ft. Lauderdale, Orlando, and Tampa/St. Petersburg, including seasonal service. The following shows the number of destinations and small cities served as of the dates indicated:

	As of March 31, 2008	As of December 31, 2007	As of March 31, 2007
Destinations	5	5	3
Small Cities	53	53	46

### **Results of Operations**

*Comparison of three months ended March 31, 2008 to three months ended March 31, 2007*

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

	2008	Three Months Ended March 31, 2007
<b>Total operating revenue</b>	<b>100.0%</b>	<b>100.0%</b>
Operating expenses:		
Aircraft fuel	47.7	37.0
Salary and benefits	12.9	15.3
Station operations	9.0	10.2
Maintenance and repairs	7.9	7.7
Sales and marketing	3.3	3.6
Aircraft lease rentals	0.8	0.8
Depreciation and amortization	3.8	4.3
Other	4.0	4.1
<b>Total operating expenses</b>	<b>89.2%</b>	<b>83.0%</b>
<b>Operating margin</b>	<b>10.8%</b>	<b>17.0%</b>

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We recorded total operating revenue of \$133.1 million, income from operations of \$14.4 million and net income of \$9.7 million for the first quarter of 2008. By comparison, for the same period in 2007, we recorded total operating revenue of \$84.3 million, income from operations of \$14.3 million and net income of \$9.7 million.

As of March 31, 2008, we had a fleet of 36 aircraft in service, compared with a fleet of 26 aircraft in service as of March 31, 2007. The growth of our fleet permitted us to increase available seat miles ( ASMs ) by 36.2% for the first quarter of 2008 compared to the same period in 2007. Departures increased by 48.1% with an average stage length decrease of 8.2%.

Our ASM growth in the first quarter of 2008 compared to the same period of 2007 was solely attributable to increases in scheduled service which represented 88.2% of total ASMs in the first quarter of 2008 compared to 83.3% in the same period of 2007. Scheduled service ASMs increased 44.1% while other flying (including fixed fee and non-revenue) ASMs decreased by 6.7%.

### Operating Revenue

Our operating revenue increased 57.8%, or \$48.8 million, to \$133.1 million in the first quarter of 2008 from \$84.3 million in the same period of 2007. This was primarily driven by a 41.6% increase in revenue passenger miles ( RPMs ) and a 15.8% increase in total revenue per ASM. The increase in RPMs resulted from the 36.2% increase in ASMs and the increase of our scheduled service load factor to 86.9% for the first three months of 2008, up 4.4 percentage points from the prior year. The increase in total revenue per ASM resulted from an increase in our scheduled service total average fare per passenger to \$112.75 for the first quarter of 2008 from \$105.53 in the same period of 2007 along with a 4.4 percentage point increase in the total scheduled service load factor.

**Scheduled service revenue.** Scheduled service revenue increased 57.5%, or \$33.5 million, to \$91.7 million in the first quarter of 2008 from \$58.2 million in the same period of 2007 due to a 51.7% increase in scheduled service RPMs. The scheduled service average fare increased 0.5% from \$86.55 in the first quarter of 2007 to \$87.00 for the same period of 2008. Coupled with this average fare increase, was an increase of 4.4 percentage points in the total scheduled service load factor, that resulted in a 9.3% year-over-year increase in total scheduled service revenue per ASM from 7.49¢ to 8.19¢.

**Fixed fee contract revenue.** Fixed fee contract revenue was \$14.3 million in the first quarter of 2008 compared to \$13.3 million in the same period of 2007. Fixed fee revenue increased principally because of increased flying for Harrah's Entertainment Inc. during the first quarter of 2008 from initiation of service for our third Harrah's subsidiary under an agreement signed in October 2007. The new Harrah's flying was offset by a reduction in seasonal charter service in the first quarter of 2008 for Apple Vacations West, Inc. compared to 2007.

**Ancillary revenue.** Ancillary revenue increased 112.6% to \$27.1 million in the first quarter of 2008 up from \$12.8 million in the same period of 2007. The increase in ancillary revenue was due to a 56.7% increase in scheduled service passengers and a 35.7% increase in ancillary revenue per passenger from \$18.98 to \$25.75 due primarily to the sale of new products and increased pricing on certain existing products.

### Operating Expenses

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Our operating expenses increased by 69.5%, or \$48.7 million, to \$118.8 million in the first quarter of 2008 up from \$70.0 million during the same period in 2007.

In general, our operating expenses are significantly affected by changes in our capacity, as measured by ASMs. The following table presents our unit costs, defined as operating expense per ASM ( CASM ), for the indicated periods. In addition, the table presents CASM, excluding fuel, which represents operating expenses, less aircraft fuel, divided by available seat miles. 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 March 31,		Percentage Change
	2008	2007	
Aircraft fuel	5.00¢	3.34¢	49.7%
Salary and benefits	1.35	1.38	(2.2)
Station operations	0.95	0.93	2.2
Maintenance and repairs	0.82	0.70	17.1
Sales and marketing	0.34	0.33	3.0
Aircraft lease rentals	0.08	0.07	14.3
Depreciation and amortization	0.39	0.39	
Other	0.42	0.37	13.5
Operating CASM	9.35¢	7.51¢	24.5%
Operating CASM, excluding fuel	4.35¢	4.17¢	4.3%

Overall, CASM and CASM, excluding fuel, increased by 24.5% and 4.3%, respectively, in part due to the 8.2% decline in average stage length from 930 for the first quarter of 2007 to 854 for the same period of 2008. The average stage length can affect CASM and CASM, excluding fuel, because many fixed costs are not directly dependent on the length of haul.

**Aircraft fuel expense.** Aircraft fuel expense increased 103.6%, or \$32.3 million, to \$63.5 million in the first quarter of 2008 up from \$31.2 million in the same period of 2007. This change was due to a 39.0% increase in gallons consumed and a 46.2% increase in the average cost per gallon to \$2.88 per gallon during the first quarter of 2008 compared to \$1.97 per gallon in the same period of 2007.

**Salary and benefits expense.** Salary and benefits expense increased 32.7% to \$17.1 million in the first quarter of 2008 up from \$12.9 million in the same period of 2007. This increase is largely attributable to a 39.9% increase in full-time equivalent employees to support our system growth along with an increase in accrued employee bonus expense during the first quarter of 2008 compared to the same period of 2007 which has been reclassified during the period from Other expense. We employed 1,280 full-time equivalent employees as of March 31, 2008, compared to 915 full-time equivalent employees as of March 31, 2007.

**Station operations expense.** Station operations expense increased 39.2%, or \$3.4 million, to \$12.0 million in the first quarter of 2008 compared to \$8.6 million in the same period of 2007. The percentage increase in station operations expense lagged the 48.1% increase in departures as station expense per departure decreased by 6.0%.

**Maintenance and repairs expense.** Maintenance and repairs expense increased by 60.2% to \$10.5 million in the first quarter of 2008 from \$6.5 million in the same period of 2007. The increase is largely attributable to four heavy maintenance checks performed in the first quarter of 2008 compared to three performed in the same period of 2007 and a non-recurring inventory adjustment for the expensing of low-value high usage expendables. In addition, the growth of our fleet resulted in an increase of rotatable part repairs and routine maintenance expenditures for the first quarter of 2008 compared to the same period in 2007.

**Sales and marketing expense.** Sales and marketing expense increased 42.9%, or \$1.3 million, to \$4.3 million in the first quarter of 2008 compared to \$3.0 million in the same period of 2007. This increase is primarily due to an increase in advertising and credit card discount fees associated with the 57.5% increase in scheduled service revenue in the first quarter of 2008 compared to the same period in 2007.

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**Aircraft lease rentals expense.** Aircraft lease rentals expense increased by 54.8% to \$1.0 million in the first quarter of 2008 from \$0.7 million in the same period of 2007 due to an increase in the number of leased aircraft.

**Depreciation and amortization expense.** Depreciation and amortization expense was \$5.0 million in the first quarter of 2008 compared to \$3.7 million in the same period of 2007, an increase of 37.0% as the number of in-service aircraft owned or subject to capital lease increased from 24 as of March 31, 2007 to 32 as of March 31, 2008.

**Other expense.** Other expense increased by 54.0% to \$5.3 million in the first quarter 2008 compared to \$3.5 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 (income) expense decreased from a net other income amount of \$2.0 million in the first quarter of 2007 to a net other income amount of \$0.3 million in the same period of 2008. This change is primarily attributable to a net gain on fuel derivatives of \$1.5 million in the first quarter of 2007 which was not repeated in 2008.

**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. The Company's effective tax rate was 34.1% in the first quarter of 2008 compared to 40.2% in the same period of 2007. The tax rate in the first quarter of 2007 was higher due a non-recurring tax provision adjustment that resulted from the reorganization consummated at the time of our initial public offering in December 2006. The lower effective tax rate for the first quarter of 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 quarter of 2008 may not be indicative of our effective tax rates for future quarters of 2008 or for 2008 as a whole.

**Comparative Consolidated Operating Statistics**

The following tables set forth our operating statistics for the three months ended March 31, 2008 and 2007:

	Three months ended March 31,		Percent
	2008	2007	Change
<b>Operating statistics (unaudited):</b>			
<b>Total system statistics:</b>			
Passengers	1,154,710	753,239	53.3
Revenue passenger miles (RPMs) (thousands)	1,062,464	749,237	41.6
Available seat miles (ASMs) (thousands)	1,270,247	932,530	36.2
Load factor	83.6%	80.3%	3.3pts.
Operating revenue per ASM (cents)	10.48	9.05	15.8
Operating CASM (cents)	9.35	7.51	24.5
Fuel expense per ASM (cents)	5.00	3.34	49.7
Operating CASM, excluding fuel (cents)	4.35	4.17	4.3
Operating expense per passenger	\$ 102.86	\$ 93.00	10.6
Fuel expense per passenger	54.99	41.40	32.8
Operating expense per passenger, excluding fuel	\$ 47.87	\$ 51.60	(7.2)
Departures	10,022	6,767	48.1
Block hours	23,413	16,560	41.4
Average stage length (miles)	854	930	(8.2)
Average number of operating aircraft during period	34.5	25.9	33.2
Total aircraft in service end of period	36	26	38.5
Full-time equivalent employees at period end	1,280	915	39.9
Fuel gallons consumed (thousands)	22,028	15,848	39.0
Average fuel cost per gallon	\$ 2.88	\$ 1.97	46.2

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**Scheduled service statistics:**

Passengers	1,054,398	672,840	56.7
Revenue passenger miles (RPMs) (thousands)	973,248	641,479	51.7
Available seat miles (ASMs) (thousands)	1,120,013	777,141	44.1
Load factor	86.9%	82.5%	4.4pts.
Departures	8,291	5,674	46.1
Block hours	20,346	13,847	46.9
Yield (cents)	9.43	9.08	3.9
Scheduled service revenue per ASM (cents)	8.19	7.49	9.3
Ancillary revenue per ASM (cents)	2.42	1.65	47.6
Total revenue per ASM (cents)	10.61	9.14	16.1
Average fare scheduled service	\$ 87.00	\$ 86.55	0.5
Average fare ancillary	\$ 25.75	\$ 18.98	35.7
Average fare total	\$ 112.75	\$ 105.53	6.9
Average stage length (miles)	907	926	(2.1)
Percent of sales through website during period	87.8%	88.1%	(0.3) pts.



**Liquidity and Capital Resources:**

**Current liquidity.** Cash and cash equivalents, restricted cash and short-term investments increased from \$186.8 million at December 31, 2007 to \$202.0 million at March 31, 2008. Restricted cash represents 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:** Cash flows provided by operations for the three months ended March 31, 2008 were \$43.8 million compared to \$53.4 million in the same period 2007. The cash flows provided by operations in 2008 were primarily the result of an increase in passenger bookings for future travel and operating income.

**Investing Activities:** Cash flows provided by investing activities for the three months ended March 31, 2008 were \$12.4 million compared to cash flows used in investing activities of \$4.0 million in the same period of 2007. During the first three months of 2008, our purchases of property and equipment were more than offset by maturities of short-term investments. The \$8.0 million of purchases of property and equipment during the first three months of 2008 included two aircraft with partial financing.

**Financing Activities:** Cash flows used in financing activities for the three months ended March 31, 2008 were \$19.7 million compared to \$ 4.3 million during the same period of 2007. Financing activities during the first three months of 2008 primarily consisted of \$ 15.8 million to purchase common stock in open market purchases and debt repayments related to aircraft financing and capital lease obligations of \$4.8 million. As of March 31, 2008, we had secured debt financing on 15 aircraft and capital lease financing on seven aircraft compared to debt financing on 12 aircraft and capital lease financing on five aircraft as of March 31, 2007. The increase of financed aircraft and aircraft under capital lease resulted in more principal payments in the first quarter of 2008 compared to the same period of 2007.

### Commitments and Contractual Obligations

The following table discloses aggregate information about our contractual cash obligations as of March 31, 2008 and the periods in which payments are due (in thousands):

	Total	Less than 1 year	1 to 3 years	4 to 5 years	More than 5 years
Long-term debt obligations					
(1)	\$ 50,221	\$ 11,952	\$ 30,459	\$ 7,810	\$
Capital lease obligations	24,570	6,165	13,185	5,220	
Operating lease obligations					
(2)	24,891	3,989	6,570	4,824	10,508
Aircraft purchase obligations					
(3)	9,050	9,050			
Total future payments on contractual obligations	\$ 108,732	\$ 31,156	\$ 50,214	\$ 17,854	\$ 10,508

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- (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.
- (3) Aircraft purchase obligations include three aircraft. Two of these aircraft are currently under operating leases with forward purchase agreements to take delivery and purchase at the end of the lease term in July 2008. Also included is the purchase of one aircraft with seller financing that closed and was delivered in April 2008. The amount of aircraft purchase obligations in the table includes the entire purchase price of the aircraft.

### 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 three months ended March 31, 2008.

### Recent Accounting Pronouncements

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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, 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 and registration statements filed with the Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov). These risk factors include, without limitation, increases in fuel prices, terrorist attacks, risks inherent to airlines, demand for air services to Las Vegas, Orlando, Tampa/St. Petersburg, Phoenix-Mesa 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.

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 for the three months ended March 31, 2008 and 2007 represented approximately 53.5% and 44.5% of our operating expenses, respectively. Increases in fuel prices or a shortage of supply could have a material effect on our operations and operating results. Based on fuel consumption for the three months ended March 31, 2008, a hypothetical ten percent increase in the average price per gallon of aircraft fuel would have increased fuel expense by approximately \$6.3 million for the three months ended March 31, 2008. While we are not currently pursuing fuel hedging programs, in the past we entered into forward contracts or other financial products to reduce our exposure to fuel price volatility. As of March 31, 2008 we have 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 \$180.8 million, and short term investments of \$7.4 million at March 31, 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 first quarter of 2008 would have affected interest income from cash and investments by \$0.2 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 March 31, 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.**

(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

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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 March 31, 2008, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Part II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are subject to certain legal and administrative actions we consider routine to our business activities. We believe the ultimate outcome of any pending legal or administrative matters will not have a material adverse impact on our financial position, liquidity or results of operations.

**Item 1A. Risk Factors**



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We have evaluated our risk factors and determined that there have been no changes to our risk factors 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.

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





**Use of Proceeds from Initial Public Offering**

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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 March 31, 2008, we have used \$50.1 million of the proceeds of our initial public offering for capital expenditures.



**Our Repurchases of Equity Securities**

The following table reflects repurchases of our common stock during the first quarter of 2008. 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 March 31, 2008, we have repurchased 553,700 shares of our common stock through open market purchases at an average cost of \$28.55 per share for a total expenditure of \$15.8 million.

**ISSUER PURCHASES OF EQUITY SECURITIES**

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 2008	700	\$ 27.13	700	\$ 24,981,009
February 2008	525,300	28.61	525,300	9,952,176
March 2008	27,700	26.96	27,700	9,205,384
<b>Total</b>	<b>553,700</b>	<b>\$ 28.55</b>	<b>553,700</b>	<b>\$ 9,205,384</b>

**Item 6. Exhibits**

3 .1 Articles of Incorporation (1)

3 .2 Bylaws of the Company

31.1 Rule 13a - 14(a) / 15d - 14(a) Certification of Principal Executive Officer

31.2 Rule 13a - 14(a) / 15d - 14(a) Certification of Principal Financial Officer

32. Section 1350 Certifications

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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.

**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: May 9, 2008

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