

Allegiant Travel CO
Form 10-K
February 28, 2019

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)

✓ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

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 20-4745737
(State or Other Jurisdiction of Incorporation or Organization) (IRS 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

Securities registered pursuant to Section 12(b) of the Act:
Title of each class Name of each exchange on which registered
Common Stock, \$0.001 Par Value Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Edgar Filing: Allegiant Travel CO - Form 10-K

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 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 (§ 229.405 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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of common equity held by non-affiliates of the registrant was approximately \$1.8 billion computed by reference to the closing sale price of the common stock on the Nasdaq Global Select Market on June 29, 2018, the last trading day of the registrant's most recently completed second fiscal quarter.

The number of shares of the registrant's common stock outstanding as of the close of business on February 15, 2019 was 16,281,038.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement to be used in connection with the solicitation of proxies to be voted at the registrant's annual meeting to be held on June 27, 2019, and to be filed with the Commission subsequent to the date hereof, are incorporated by reference into Part III of this Report on Form 10-K.

EXHIBIT INDEX IS LOCATED ON PAGE 71.

Allegiant Travel Company
Form 10-K
For the Year Ended December 31, 2018

Table of Contents

PART I

ITEM 1. <u>Business</u>	<u>4</u>
ITEM 1A. <u>Risk Factors</u>	<u>15</u>
ITEM 1B. <u>Unresolved Staff Comments</u>	<u>22</u>
ITEM 2. <u>Properties</u>	<u>22</u>
ITEM 3. <u>Legal Proceedings</u>	<u>23</u>
ITEM 4. <u>Mine Safety Disclosures</u>	<u>24</u>

PART II

ITEM 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>25</u>
ITEM 6. <u>Selected Financial Data</u>	<u>28</u>
ITEM 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>30</u>
ITEM 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>40</u>
ITEM 8. <u>Financial Statements and Supplementary Data</u>	<u>41</u>
ITEM 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>68</u>
ITEM 9A. <u>Controls and Procedures</u>	<u>68</u>
ITEM 9B. <u>Other Information</u>	<u>68</u>

PART III

ITEM 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>70</u>
ITEM 11. <u>Executive Compensation</u>	<u>70</u>
ITEM 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>70</u>
ITEM 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>70</u>
ITEM 14. <u>Principal Accountant Fees and Services</u>	<u>70</u>

PART IV

ITEM 15. <u>Exhibits and Financial Statement Schedules</u>	<u>71</u>
ITEM 16. <u>Form 10-K Summary</u>	<u>73</u>
<u>Signatures</u>	<u>74</u>

PART I

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this annual report on Form 10-K, and in the 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 our statements regarding future expense, capacity growth, expected capital expenditures, number of contracted aircraft to be placed in service in the future, future expansion of our golf management and family entertainment center businesses, the development and financing of our Sunseeker Resort, as well as other information concerning 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", "hope" 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. These risk factors include, without limitation, an accident involving, or problems with, our aircraft, public perception of our safety, our reliance on our automated systems, limitation on growth after our transition to a single fleet type, our reliance on third parties to deliver aircraft under contract to us on a timely basis, risk of breach of security of personal data, volatility of fuel costs, labor issues and costs, the ability to obtain regulatory approvals as needed, the effect of economic conditions on leisure travel, debt covenants and balances, the ability to finance aircraft under contract, terrorist attacks, risks inherent to airlines, our competitive environment, our reliance on third parties who provide facilities or services to us, the possible loss of key personnel, economic and other conditions in markets in which we operate, the ability to successfully finance and develop a resort in Southwest Florida, governmental regulation, increases in maintenance costs 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 1. Business

Overview

We are a leisure travel company focused on providing travel services and products to residents of under-served cities in the United States. We were founded in 1997 and, in conjunction with our initial public offering in 2006, we incorporated in the state of Nevada. Our unique business model provides diversified revenue streams from various travel services and product offerings which distinguish us from other travel companies. We operate a low-cost passenger airline marketed primarily to leisure travelers in under-served cities, allowing us to sell air transportation both on a stand-alone basis and bundled with the sale of air-related and third party services and products. In addition, we provide air transportation under fixed fee flight arrangements. Our developed route network, pricing philosophy, advertising, and product offerings built around relationships with premier leisure companies, are all intended to appeal to leisure travelers and make it attractive for them to purchase air travel and related services and products from us.

Most recently, and in conjunction with our leisure travel focus, we are developing Sunseeker Resort in Florida, operating a golf course near the resort location, managing a golf course management solution and beginning to open

family entertainment centers in cities in our route network.

Below is a brief description of the travel services and products we provide to our customers:

Scheduled service air transportation. We provide scheduled air transportation on limited-frequency, nonstop flights predominantly between under-served cities and popular leisure destinations. As of February 15, 2019, our operating fleet consisted of 79 Airbus A320 series aircraft. As of that date, we were selling travel on 450 routes to 122 cities. In this document, references to "Airbus A320 series aircraft" are intended to describe both Airbus A319 and A320 aircraft.

Ancillary air-related products and services. We provide unbundled air-related services and products in conjunction with air transportation for an additional cost to customers. These optional air-related services and products include baggage fees, advance seat assignments, our own travel protection product, change fees, use of our call center for purchases, priority

4

boarding, a customer convenience fee, food and beverage purchases on board, and other air-related services. The revenue for ancillary air-related products and services is reflected in the Passenger revenue income statement line item, along with scheduled service air transportation revenue.

Third party products and services. We offer third party travel products such as hotel rooms and ground transportation (rental cars and hotel shuttle products) for sale to our passengers. The marketing component of revenue related to our co-branded credit card is also accounted for in this category.

Fixed fee contract air transportation. We provide air transportation through fixed fee agreements and charter service on a year-round and ad-hoc basis.

Other revenue. We may choose to temporarily act as a lessor as an avenue to opportunistically acquire aircraft and/or engines. Upon the expiration of the leases, we have operated the assets ourselves, or are preparing them for future service. We are also currently leasing spare engines to a third party and may choose to act as lessor temporarily in the future on an opportunistic basis. This line item also includes revenue from our golf course acquired in 2018 and our management solution to golf courses around the country.

Our principal executive offices are located at 1201 N. Town Center Drive, Las Vegas, Nevada 89144. Our telephone number is (702) 851-7300. Our website address is <http://www.allegiant.com>. We have not incorporated by reference into this annual report the information on our website and investors should not consider it to be a part of this document. Our website address is included in this document for reference only. Our annual report, quarterly reports, current reports and amendments to those reports are made available free of charge through the investor relations section on our website as soon as reasonably practicable after electronically filed with or furnished to the Securities and Exchange Commission (“SEC”).

Unique Business Model

We have developed a unique business model that focuses on leisure travelers in small and medium-sized cities. The business model has evolved as our experienced management team has looked differently at the traditional way business has been conducted in the airline and travel industries. Our focus on the leisure customer allows us to eliminate the significant costs associated with serving a wide variety of customers and to concentrate our product appeal on a customer base which is under-served by traditional airlines. We have consciously developed a business model which distinguishes us from the traditional airline approach:

	Traditional Airline Approach	Allegiant Approach
Customer Base:	Business and leisure	Leisure
Network:	Primarily large and mid-sized markets	Small/medium-sized under-served markets
Competition:	High	Low
Schedule:	Uniform throughout the week	Low frequency/variable capacity
Distribution:	Sell through various intermediaries	Sell only directly to travelers
Fare Strategy:	Bundled pricing	Unbundled pricing of air-related services and products

By unbundling our air-related services and products such as baggage fees, advance seat assignments, travel protection, change fees, priority boarding, and food and beverage purchases, we are able to lower our airfares and target leisure travelers who are more concerned with price and the ability to customize their experience with us by only purchasing the additional conveniences they value. This strategy allows us to generate additional passenger revenues from these ancillary charges.

We have established a route network with a national footprint, providing service on 405 routes (and currently selling 450 routes) between 99 origination cities and 23 leisure destinations, and serving 42 states and Puerto Rico as of

February 15, 2019. In most of these small and medium-sized cities, we provide service to more than one of our leisure destinations which are offered either on a year-round or seasonal basis.

5

The geographic diversity of our route network protects us from regional variations in the economy and helps insulate us from competitive actions, as it would be difficult for a competitor to materially impact our business by targeting one city or region. Our widespread route network also contributes to the continued growth of our customer base. The below map illustrates our route network as of February 15, 2019, including service announcements as of that date.

In developing a unique business model, our ancillary offerings (ancillary air-related items included in passenger revenue as well as the sale of third party products and services) have been a significant source of our revenue growth. We have increased revenue related to these ancillary items from \$5.87 per passenger in 2004 to \$49.98 per passenger in 2018. We own and manage our own air reservation system, which gives us the ability to modify our system to enhance product offerings based on specific needs, without being dependent on non-customized product upgrades from outside suppliers. We believe the control of our automation systems has allowed us to be innovators in the industry by providing our customers with a variety of different travel services and products, and allowing us to seek to increase revenues through testing of alternative revenue management approaches.

We believe the following strengths from our unique business model allow us to maintain a competitive advantage in the markets we serve:

Focus on leisure traffic from small and medium-sized cities

We believe small and medium-sized cities represent a large, under-served market, especially for leisure travel. Prior to the initiation of our service, leisure travelers from these markets had limited desirable options to reach leisure destinations because existing carriers are generally focused on connecting business customers through their hub-and-spoke networks.

We believe our low fare, nonstop service, along with our leisure company relationships, make it attractive for leisure travelers to purchase airfare and travel-related products from us. The size of the markets we serve, and our focus on the leisure customer,

allow us to adequately serve these markets with less frequency, and to vary our air transportation capacity to match seasonal and day-of-the-week demand patterns.

By focusing primarily on under-served cities and routes, we believe we avoid the intense competition in high traffic domestic air corridors. In most of our small and medium-sized city markets, travelers previously faced high fares and cumbersome connections (long drives) to major airports in order to reach our leisure destinations. Based on published data from the U.S. Department of Transportation (“DOT”), we believe the initiation of our service stimulates demand, as we have typically seen a substantial increase in traffic subsequent to new service beginning. Our market strategy is neither hostile to legacy carriers, whose historical focus has been connecting small cities to business markets with regional jets, nor to traditional low cost or ultra-low cost carriers generally focused on larger markets. Additionally, many major carriers have reduced service to medium-sized cities which we believe they no longer consider to be core hubs.

Capacity management

We actively manage our seat capacity to match leisure demand patterns. Our ability to quickly adjust capacity helps us maintain profitability in the dynamic travel industry. Because of our low fixed costs, our low unit costs are not dependent on high utilization.

Our core business model manages seat capacity by increased utilization of our aircraft during periods of high leisure demand and decreased utilization in low leisure demand periods. In 2018, during our peak demand period in March, we averaged 8.3 system block hours per aircraft per day while in September, our lowest month for demand, we averaged 4.8 system block hours per aircraft per day. Our management of seat capacity also includes changes in weekly frequency of certain markets based on identified peak and off-peak travel demand throughout the year. For example, the leisure destination of Palm Springs, CA, is more desirable for our customers from Bellingham, WA during winter months. Therefore, we seasonally decrease the frequency of our Bellingham-Palm Springs flights in the summer, and increase flights per week in the winter. Unlike other carriers which provide a fairly consistent number of flights every day of the week, we concentrate our flights on high leisure demand travel days and fly a smaller portion of our schedule on low demand days such as Tuesdays and Wednesdays.

Our strong revenue production from ancillary items, coupled with our ability to rapidly deploy or contract capacity, has allowed us to operate profitably throughout periods of high fuel prices and economic recession. We manage our capacity with a goal of being profitable on each route.

Low cost structure

We believe a low cost structure is essential to competitive success in the airline industry. Our operating expense per available seat mile (“CASM”) was 9.56¢ in 2018 and 9.41¢ in 2017. Excluding the cost of fuel, our operating CASM was 6.57¢ in 2018 and also excluding fuel plus a one-time impairment charge to our MD-80 fleet, our operating CASM was 6.63¢ in 2017.

We continue to focus on maintaining low operating costs through the following tactics and strategies:

Low Aircraft Ownership Costs. We achieve low aircraft ownership costs by purchasing primarily used aircraft with meaningful remaining useful lives, at reduced prices. As of February 15, 2019, we own all but five of our aircraft and believe that we properly balance lower aircraft acquisition costs and operating costs to minimize our total costs. Although our 13 newly manufactured Airbus A320 series aircraft have higher purchase prices, we expect the benefits of a greater number of seats, better fuel efficiency, and longer depreciable lives will make these aircraft efficient additions to our fleet. In addition, our network has evolved such that we are maintaining higher levels of daily utilization on the newly manufactured aircraft. As of February 15, 2019, our operating fleet consists of 79 Airbus

A320 series aircraft, of which 74 are owned by the Company.

Highly Productive Workforce. Our high level of employee productivity is due to our cost-driven scheduling, fewer unproductive labor work rules, and the effective use of automation and part-time employees. Although the number of our full-time equivalent employees per operating aircraft increased annually from 2015 to 2017 (largely as a result of the fleet transition), this number remained consistent from 2017 to 2018. In an effort to control costs, we also outsource major maintenance, stations and other functions to reliable third-party service providers.

Simple product. We believe offering a simple product is critical to achieving low operating costs. As such, we sell only nonstop flights; we do not code-share or interline with other carriers; we have a single class cabin; we do not provide any free catered items - everything on board is for sale; we do not provide cargo or mail services; and we do not offer other perks such as airport lounges.

7

Low distribution costs. Our nontraditional marketing approach results in very low distribution costs. We do not sell our product through outside sales channels, thus avoiding the fees charged by travel web sites (Expedia, Orbitz or Travelocity) and traditional global distribution systems (“GDS”) (Sabre or Worldspan). Our customers can only purchase travel at our airport ticket counters or, for a fee, on our website or through our telephone reservation center. The purchase of travel through our website is the least expensive form of distribution for us and accounted for 93.8 percent of our scheduled service revenue during 2018.

Small and medium-sized city market airports. Our business model focuses on residents of small and medium-sized cities in the United States. Typically, the airports in these cities have lower operating costs than airports in larger cities. These lower costs are driven by less expensive passenger facilities, landing, and ground service charges. In addition to inexpensive airport costs, many of our airports provide marketing support.

Cost-driven schedule. We aim to build our scheduled service so that our crews and aircraft return to base each night. This allows us to maximize crew efficiency, and more cost-effectively manage maintenance, spare aircraft and spare parts. Additionally, this structure allows us to add or subtract markets served by a base without incremental costs. We believe leisure travelers are generally less concerned about departure and arrival times than business travelers, so we are able to schedule flights at times that enable us to reduce costs while remaining desirable to our leisure customers.

Ancillary product offerings

We believe many leisure travelers are concerned primarily with purchasing air travel at the least expensive price. As such, we have unbundled the air transportation product by charging fees for services many U.S. airlines have historically bundled in their product offering. This pricing structure allows us to target travelers who are most concerned with low fare travel while also allowing travelers to customize their experience with us by purchasing only the additional conveniences they value. For example, we do not offer complimentary advance seat assignments; however, customers who value this product can purchase advance seat assignments for a small incremental cost. In addition, snacks and beverages are sold individually on the aircraft, allowing passengers to purchase only items they value.

Revenue from ancillary items will continue to be a key component in our total average fare as we believe leisure travelers are less sensitive to ancillary fees than the base fare.

Our third party product offerings give our customers the opportunity to purchase hotel rooms, rental cars and airport shuttle service. Our third party offerings are available to customers based on our agreements with various travel and leisure companies. For example, we have an exclusive agreement with Enterprise Holdings Inc. for the sale of rental cars packaged with air travel, which generated approximately 64 percent of our third party products revenue in 2018. The pricing of each product and our margin can be adjusted based on customer demand because our customers purchase travel directly through our booking engine.

Financial position

As of December 31, 2018, we had \$447.5 million of unrestricted cash, cash equivalents and investment securities, and total debt and capital lease obligations of \$1.3 billion. As of February 15, 2019, we also had 27 unencumbered aircraft available to use as collateral in the secured debt market. As we are profitable and have been able to consistently generate cash from operations, we believe we have more than adequate resources, along with outside financing expected to be available, to invest in the growth of our fleet, information technology, infrastructure, development, Sunseeker Resort, and our other non-airline initiatives, while meeting short-term obligations.

Our financial position and discipline regarding use of capital allows us to have greater financial flexibility to grow our business and to efficiently and effectively adapt to changing economic conditions.

Routes and schedules

Our current scheduled air service (including seasonal service) predominantly consists of limited frequency, nonstop flights into leisure destinations from under-served cities across the continental United States. The scheduled service routes we are selling as of February 15, 2019 are summarized below (includes 405 routes we are currently serving, and 45 new routes which will begin service in 2019):

Routes to Orlando	70
Routes to Tampa/St. Petersburg	53
Routes to Las Vegas	53
Routes to Punta Gorda	43
Routes to Phoenix	43
Routes to Destin	29
Routes to Los Angeles	26
Other routes	133
Total routes	450

The number of routes served varies from time to time as some routes are offered seasonally.

Marketing and Distribution

Our website is our primary distribution method, and we also sell through our call center and at our airport ticket counters. This distribution approach creates significant cost savings and enables us to continue building loyalty with our customers through increased interaction with them. We are also able to utilize customer email addresses in our database, which provides multiple cost effective opportunities to market products and services, including at the time of travel purchase, between purchase and travel, and after travel is complete. In addition, we market products and services to our customers through digital advertising. We believe the breadth of options we offer allows us to provide a “one-stop” shopping solution to enhance the customer travel experience. When we enter new markets, we may advertise in local print publications, on the radio and/or television, to introduce our new service to the community. These activities are often supported by the local airport authority which has sought our initiation of service to the community. We continue to see benefit from marketing contributions of airport authorities and destination marketing organizations.

We continue to enhance our automation and expect the continuous improvements to our website and other automation enhancements will create additional revenue opportunities by allowing us to capitalize on customer loyalty with additional product offerings.

Our low cost distribution strategy results in reduced expenses by avoiding the fees associated with the use of GDS distribution points. This distribution strategy also permits us to closely manage ancillary product offerings and pricing while developing and maintaining a direct relationship with our customers. We believe this continuous communication will result in substantial benefits over time. With our own automation system, we have the ability to continually change ancillary product offerings and pricing points, which allows us to find the optimal pricing levels for our various offerings. We believe this would be difficult and impractical to achieve through the use of the GDS.

Competition

The airline industry is highly competitive. Passenger demand and fare levels have historically been influenced by, among other things, the general state of the economy, international events, fuel prices, industry capacity, and pricing actions taken by other airlines. The principal competitive factors in the airline industry are price, schedule, customer

service, routes served, types of aircraft, safety record and reputation, code-sharing relationships, and frequent flyer programs.

Our competitors include legacy airlines, low cost carriers ("LCCs"), ultra-low cost carriers ("ULCC"), regional airlines, new entrant airlines, and other forms of transportation to a much lesser extent. Many of the airlines are larger, have significantly greater financial resources, are better known, and have more established reputations than us. In a limited number of cases, following our entry into a market, competitors have chosen to add service, reduce their fares, or both. Competitors may also choose to enter after we have developed a market.

We believe our under-served city strategy has reduced the intensity of competition we might otherwise face. As of February 15, 2019, we are the only mainline domestic scheduled carrier operating out of the Orlando Sanford International Airport, Phoenix-Mesa Gateway Airport, Punta Gorda Airport, and St. Petersburg Airport. Although no other mainline domestic scheduled carriers operate in these airports, most U.S. airlines serve the major airports for Orlando, Phoenix, and Tampa. In addition, many U.S. airlines serve our other leisure destinations. As a result, there is potential for increased competition on our routes.

As of February 15, 2019, we face mainline competition on approximately 25 percent of our operating routes. We compete with Southwest Airlines on 61 routes, Frontier Airlines on 60 routes, Spirit Airlines on 27 routes, American Airlines on ten routes, Delta Airlines on ten routes, JetBlue Airlines on eight routes, United Airlines on six routes, and Sun Country Airlines on two routes. We may also experience additional competition based on recent route announcements of other airlines.

Indirectly, we compete with Southwest and other carriers that provide nonstop service to our leisure destinations from airports near our cities. We also face indirect competition from legacy carriers offering hub-and-spoke connections to our markets, although these fares tend to be substantially higher, with much longer elapsed travel times. Several airlines also offer competitive one-stop service from the medium-sized cities we serve.

In our fixed fee operations, we compete with other scheduled airlines in addition to independent passenger charter airlines. We also compete with aircraft owned or controlled by large tour companies. The basis of competition in the fixed fee market is cost, equipment capabilities, service, reputation, and schedule flexibility.

Data Security

We continue to invest heavily in cyber-security, cyber-risk, and privacy initiatives. We employ experienced staff dedicated to cyber-security and cyber-risk analysis, process and technology. We continue to evaluate and proactively implement new preventive and detective processes and technologies including forward-looking threat intelligence and data-centric security measures.

An example of our adoption of advanced security technologies is the use of Format Preserving Encryption to protect e-commerce payment card transactions. In essence, we do not store any credit card data, but rather we use stateless tokenization.

Aircraft Fuel

The cost of fuel is volatile, as it is subject to many economic and geopolitical factors we can neither control nor predict. Significant increases in fuel costs could materially affect our operating results and profitability. We have not used financial derivative products to hedge our exposure to fuel price volatility in many years, nor do we have any plans to do so in the future.

Employees

As of December 31, 2018, we employed 3,901 full-time equivalent employees, which consisted of 3,643 full-time and 516 part-time employees. Full-time equivalent employees consisted of approximately 860 pilots, 1,160 flight attendants, 260 airport operations personnel, 330 mechanics, 170 reservation agents, 40 flight dispatchers, and 1,080 management and other personnel.

Salary and benefits expense was our second largest expense in 2018, having represented 29 percent of total operating expenses. The collective bargaining agreement with our Flight Attendants went into effect in December 2017.



Our relations with labor organizations representing our employee groups are governed by the Railway Labor Act ("RLA"). Under this act, if direct negotiations do not result in an agreement, either party may request the National Mediation Board ("NMB") to appoint a federal mediator. If no agreement is reached in these mediated discussions, the NMB may offer binding arbitration to the parties. If either party rejects binding arbitration, a "cooling off" period begins. At the end of this "cooling-off" period, the parties may engage in self-help, which among other events, could result in a strike from employees or for us to hire new employees to replace any striking workers. The table below identifies the status of pending collective bargaining negotiations with employee groups:

Employee Group	Representative	Status of Agreement
Flight Dispatchers	International Brotherhood of Teamsters, Airline Division, Local 986	Elected representation in October 2016. Negotiations are ongoing.
Maintenance Technicians	International Brotherhood of Teamsters, Airline Division, Local 986	Elected representation in March 2018. Negotiations began in January 2019.

The collective bargaining agreements for our pilots and flight attendants last for a contractual term of five years each, expiring in 2021 and 2022, respectively.

If we are unable to reach a labor agreement with any employee group, they may seek to institute work interruptions or stoppages. We have not previously experienced any work interruptions or stoppages from our non-unionized or unionized employee groups.

Aircraft Maintenance

We have a Federal Aviation Administration ("FAA") approved maintenance program, which is administered by our maintenance department headquartered in Las Vegas. Technicians employed by us have appropriate experience and hold required licenses issued by the FAA. We provide them with comprehensive training and maintain our aircraft in accordance with FAA regulations. The maintenance performed on our aircraft can be divided into three general categories: line maintenance, major maintenance, and component and engine overhaul and repair. Line maintenance is generally performed by our personnel in certain cities of our network and by contractors elsewhere. We contract with outside organizations to provide major maintenance and component and engine overhaul and repair. We have chosen not to invest in facilities or equipment to perform our own major maintenance, engine overhaul or component work. Our management closely supervises all maintenance functions performed by our personnel and contractors employed by us, and by outside organizations. In addition to the maintenance contractors we presently utilize, we believe there are sufficient qualified alternative providers of maintenance services that we can use to satisfy our ongoing maintenance needs.

Community Involvement

We have worked with the Make-A-Wish® Foundation since 2012 by flying "wish kids" and their families to their desired destinations, at no cost, and donating the proceeds from our in-flight Wingz Snack Pack program to the Foundation. Additionally, we donate the use of 7,500 square feet of office space at our headquarters' campus to the Southern Nevada chapter of Make-A-Wish® Foundation, providing a home for the nonprofit organization's administrative headquarters. The site also serves as the host location for volunteer training, meetings and a place of support for families of children receiving wishes.

We also support Science, Technology, Engineering and Mathematics ("STEM") education programs that provide access to careers in aeronautical sciences. In 2018, we donated over \$0.4 million in aircraft parts to a Las Vegas high school in support of its aviation magnet program.

Non-Airline Initiatives

Sunseeker Resort

We are developing a hotel resort in Southwest Florida. We have purchased approximately 24 acres on the harbor in Port Charlotte, Florida for the construction of Sunseeker Resort - Charlotte Harbor. We have also purchased a nearby golf course we plan to market with the resort. Our current plans include the construction of a 500-room hotel and two towers offering an estimated 180 one, two and three bedroom suites, bar and restaurant options, and other amenities.

11

We intend to begin construction on the project in the first quarter 2019 with completion of the hotel in late 2020. We intend to finance a significant portion of the project. Upon completion, we expect we will continue to own the hotel and all food and beverage options on the property.

This location was particularly attractive to us because of the number of flights we operate to the Punta Gorda airport, which is a short drive from the resort site. During 2018, we operated over 9,000 flights to Punta Gorda from our small and medium-sized cities and carried approximately 1.4 million passengers. The resort is also within driving distance from the nearby airports in Fort Myers, Sarasota and St. Petersburg. During 2018, we operated over 14,000 flights to St. Petersburg from our small and medium-sized cities and carried more than 2.0 million passengers to that destination. In addition, we currently offer service to Sarasota from three cities, and have recently announced service from nine additional cities, with routes planned to start in the first two quarters of 2019. Southwest Florida also attracts a substantial number of tourists by car.

Teesnap

We have worked to adapt our “buy-on-board” technology into a golf course management solution. As of December 31, 2018, we were providing these services to approximately 590 golf courses in 48 states throughout the country. To date, the financial results have not been significant to our overall performance.

Family Entertainment Centers

Our first family entertainment center opened in January 2019 in Clearfield, UT, near the Ogden, UT airport. It features games, attractions, and food. We plan to expand our family entertainment center offerings in locations near airports we serve. Plans for future locations of entertainment centers include Warren, MI (near the Flint, MI airport), and Fort Wayne, IN (near the Fort Wayne, IN airport).

Other travel and leisure initiatives

Consistent with our travel and leisure company focus, we intend to pursue other travel and leisure initiatives in the future.

Insurance

We maintain insurance policies we believe are of types customary in the airline industry and as required by the DOT, and are in amounts we believe to be adequate to protect us against material loss. The policies principally provide coverage for public liability, war-risk, passenger liability, baggage and cargo liability, property damage, including coverages for loss or damage to our flight equipment, directors and officers, workers’ compensation, and cyber security insurance. There is no assurance, however, that the amount of insurance we carry will be sufficient to protect us from material loss in all cases. Available commercial insurance in the future could be more expensive, could have material differences in coverage than is currently provided, and may not be adequate to protect us from risk of loss.

Government Regulation

We are subject to federal, state and local laws affecting the airline industry and to extensive regulation by the DOT, the FAA, and other governmental agencies.

DOT. The DOT primarily regulates economic issues affecting air transportation such as certification and fitness of carriers, insurance requirements, consumer protection, competitive practices, and statistical reporting. The DOT also regulates requirements for accommodation of passengers with disabilities. The DOT monitors the continuing fitness of carriers and has the authority to promulgate regulations and to investigate (including by on-site inspections) and institute proceedings to enforce its regulations and related federal statutes, and may assess civil penalties, suspend or revoke operating authority, and seek criminal sanctions. The DOT also has authority to restrict or prohibit a carrier’s cessation of service to a particular community if such cessation would leave the community without scheduled airline service.

We hold DOT certificates of public convenience and necessity authorizing us to engage in scheduled air transportation of passengers, property and mail within the United States, its territories and possessions, and between the United States and all countries that maintain a liberal aviation trade relationship with the United States (known as “open skies” countries). We also hold DOT authority to engage in charter air transportation of passengers, property, and mail on a domestic and international basis.

FAA. The FAA primarily regulates flight operations and safety, including matters such as airworthiness and maintenance requirements for aircraft, pilot, mechanic, dispatcher and flight attendant training and certification, flight and duty time limitations, and air traffic control. The FAA requires each commercial airline to obtain and hold an FAA air carrier certificate. This certificate, in combination with operation specifications issued to the airline by the FAA, authorizes the airline to operate

12

at specific airports using aircraft certificated by the FAA. We have and maintain in effect FAA certificates of airworthiness for all of our aircraft, and we hold the necessary FAA authority to fly to all of the cities we currently serve. Like all U.S. certificated carriers, our provision of scheduled service to certain destinations may require specific governmental authorization. The FAA has the authority to investigate all matters within its purview, to modify, suspend or revoke our authority to provide air transportation, to approve or disapprove the addition of aircraft to our operation specifications, and to modify, suspend or revoke FAA licenses issued to individual personnel, for failure to comply with FAA regulations. The FAA can assess civil penalties for such failures and institute proceedings for the collection of monetary fines after notice and hearing. The FAA also has authority to seek criminal sanctions. The FAA can suspend or revoke our authority to provide air transportation on an emergency basis, without notice and hearing, if, in the FAA's judgment, safety requires such action. A legal right to an independent, expedited review of such FAA action exists. Emergency suspensions or revocations have been upheld with few exceptions. The FAA monitors our compliance with maintenance, flight operations and safety regulations on an ongoing basis, maintains a continuous working relationship with our operations and maintenance management personnel, and performs pre-scheduled inspections as well as frequent spot inspections of our aircraft, employees and records.

The FAA also has the authority to promulgate rules and regulations and issue maintenance directives and other mandatory orders relating to, among other things, inspection, repair and modification of aircraft and engines, increased security precautions, aircraft equipment requirements, noise abatement, mandatory removal and replacement of aircraft parts and components, mandatory retirement of aircraft, and operational requirements and procedures. Such rules, regulations and directives are normally issued after an opportunity for public comment, however, they may be issued without advance notice or opportunity for comment if, in the FAA's judgment, safety requires such action. We believe we are operating in compliance with applicable DOT and FAA regulations, interpretations and policies and we hold all necessary operating and airworthiness authorizations, certificates and licenses.

Security. Within the United States, civil aviation security functions, including review and approval of the content and implementation of air carriers' security programs, passenger and baggage screening, cargo security measures, airport security, assessment and distribution of intelligence, threat response, and security research and development are the responsibility of the Transportation Security Administration ("TSA") of the Department of Homeland Security. The TSA has enforcement powers similar to the DOT's and FAA's described above. It also has the authority to issue regulations, including in cases of emergency, the authority to do so without advance notice, including issuance of a grounding order as occurred on September 11, 2001.

Aviation Taxes and Fees. The authority of the federal government to collect most types of aviation taxes, which are used, in part, to finance the nation's airport and air traffic control systems, and the authority of the FAA to expend those funds must be periodically reauthorized by the U.S. Congress. On October 5, 2018, the FAA Reauthorization Act of 2018 was signed into law extending certain commercial aviation taxes (known generally as Federal Excise Taxes or "FET") through September 30, 2023. All carriers are required to collect these taxes from passengers and pass them through to the federal government.

In addition to FET, there are federal fees related to services provided by the TSA, and, in the case of international flights, U.S. Customs and Border Protection ("CBP"), U.S. Citizenship and Immigration Services ("CIS"), and the U.S. Department of Agriculture's Animal and Plant Health Inspection Service ("APHIS"). There are also FAA-approved Passenger Facility Charges ("PFCs") imposed by most of the airports we serve. Like FET, air carriers are required to collect these fees from passengers and pass them through to the respective federal agency or airport authority. These fees do not need to be reauthorized, although their amounts may be revised periodically.

In 2019 or thereafter, Congress may consider legislation that could increase the amount of FET and/or one or more of the other federally imposed or approved fees identified above. By thus increasing the overall price charged to passengers, such action could lessen demand for air travel or force carriers, including us, to lower fares to maintain demand. Also in 2019 or thereafter, Congress may consider privatization of the U.S air traffic control ("ATC") system with user fee based funding. The effect of such action, if adopted as law, on our operating costs is unknown.

Additionally, federal funding to airports and/or airport bond financing could be affected through future legislation, which could result in higher fees, rates, and charges at many of the airports we serve.

Environmental. We are subject to various federal, state and local laws and regulations relating to the protection of the environment and affecting matters such as aircraft engine emissions, aircraft noise emissions, and the discharge or disposal of materials and chemicals, which laws and regulations are administered by numerous state and federal agencies. These agencies have enforcement powers similar to the DOT's and FAA's described above. In addition, we may be required to conduct an environmental review of the effects projected from the addition of our service at airports.

In July 2016 the U.S. Environmental Protection Agency ("EPA") formally concluded that current and projected concentrations of greenhouse gases emitted by various aircraft, including all of the aircraft we and other air carriers operate, threaten public

health and welfare. This finding is a precursor to EPA regulation of commercial aircraft emissions in the United States, as has taken effect for operations within the European Union under EU legislation. Binding international measures adopted under the auspices of the International Civil Aviation Organization ("ICAO"), a specialized agency of the United Nations, are scheduled to become effective over the next several years. In 2016 the EPA indicated the regulations it intends to propose will be no less stringent than the ICAO standards.

Federal law recognizes the right of airport operators with special noise problems to implement local noise abatement procedures so long as those procedures do not interfere unreasonably with interstate and foreign commerce and the national air transportation system. These restrictions can include limiting nighttime operations, directing specific aircraft operational procedures during takeoff and initial climb, and limiting the overall number of flights at an airport. None of the airports we serve currently imposes restrictions on the number of flights or hours of operation that have a meaningful impact on our operations. It is possible one or more such airports may impose additional future restrictions with or without advance notice, which may impact our operations.

Foreign Ownership. To maintain our DOT and FAA certificates, our airline operating subsidiary and we (as the airline's holding company) must qualify continuously as citizens of the United States within the meaning of U.S. aeronautical laws and regulations. This means we must be under the actual control of U.S. citizens and we must satisfy certain other requirements, including that our president/chief executive officer and at least two-thirds of our board of directors and other managing officers are U.S. citizens, and that not more than 25 percent of our voting stock is owned or controlled by non-U.S. citizens. The amount of non-voting stock that may be owned or controlled by non-U.S. citizens is strictly limited as well. We believe we are in compliance with these ownership and control criteria.

Other Regulations. Air carriers are subject to certain provisions of federal laws and regulations governing communications because of their extensive use of radio and other communication facilities, and are required to obtain an aeronautical radio license from the Federal Communications Commission ("FCC"). To the extent we are subject to FCC requirements, we intend to continue to comply with those requirements.

The quality of water used for drinking and hand-washing aboard aircraft is subject to regulation by the EPA. To the extent we are subject to EPA requirements, we intend to continue to comply with those requirements.

Working conditions of cabin crewmembers while onboard aircraft are subject to regulation by the Occupational Safety and Health Administration ("OSHA") of the Department of Labor. To the extent we are subject to OSHA requirements, we intend to continue to comply with those requirements.

Our operations may become subject to additional federal requirements in the future under certain circumstances.

During a period of past fuel scarcity, air carrier access to jet fuel was subject to allocation regulations promulgated by the Department of Energy. Changes to the federal excise tax and other government fees imposed on air transportation have been proposed and implemented from time to time and may result in an increased tax burden for airlines and their passengers.

We are also subject to state and local laws, regulations, and ordinances at locations where we operate and to the rules and regulations of various local authorities that operate the airports we serve. None of the airports in the cities in which we operate have slot control, gate availability, or curfews that pose meaningful limitations on our operations. However, some airports we serve have short runways that require us to operate some flights at less than full capacity. International air transportation, whether provided on a scheduled or charter basis, is subject to the laws, rules, regulations, and licensing requirements of the foreign countries to, from, and over which the international flights operate. Foreign laws, rules, regulations and licensing requirements governing air transportation are generally similar, in principle, to the regulatory scheme of the United States as described above, although in some cases foreign requirements are comparatively less onerous and in others, more onerous. We must comply with the laws, rules and regulations of each country to, from, or over which we operate. International flights are also subject to U.S. Customs and Border Protection, Immigration and Agriculture requirements and the requirements of equivalent foreign governmental agencies.

Future Laws and Regulations. Congress, the DOT, the FAA, the TSA, and other governmental agencies have under consideration, and in the future may consider and adopt, new laws, regulations, interpretations and policies regarding a wide variety of matters that could affect, directly or indirectly, our operations, ownership, and profitability. We

Edgar Filing: Allegiant Travel CO - Form 10-K

cannot predict what other matters might be considered in the future by the FAA, the DOT, the TSA, other agencies, or Congress, nor can we judge what impact, if any, the implementation of any of these proposals or changes might have on our business.

Civil Reserve Air Fleet. We are a participant in the Civil Reserve Air Fleet (“CRAF”) Program which affords the U.S. Department of Defense the right to charter our aircraft during national emergencies when the need for military airlift exceeds

14

the capability of available military resources. During the Persian Gulf War of 1990-91 and on other occasions, CRAF carriers were required to permit the military to use their aircraft in this manner. As a result of our CRAF participation, we are eligible to bid on and be awarded peacetime airlift contracts with the military.

Item 1A. Risk Factors

Readers should carefully consider the risks described below before making an investment decision. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The trading price of our common stock could decline due to any of these risks, and investors may lose all or part of their investment.

Risks Related to Allegiant

Our reputation and financial results could be harmed in the event of an accident or restrictions affecting aircraft in our fleet.

As of February 15, 2019, our operating fleet consists exclusively of 79 Airbus A320 series aircraft, of which all but 13 were acquired used. Our used aircraft range from 9 to 22 years from their manufacture date at February 15, 2019. All of our MD-80 series aircraft were retired as of the end of November 2018.

An accident involving one of our aircraft, even if fully insured, could result in a public perception that we are less safe or reliable than other airlines, which would harm our business. Further, there is no assurance that the amount of insurance we carry would be sufficient to protect us from material loss. Because we are smaller than most airlines, an accident would likely adversely affect us to a greater degree than a larger, more established airline.

In-flight emergencies affecting our aircraft, and resulting media attention, could also contribute to a public perception regarding safety concerns and a loss of business.

The FAA could suspend or restrict the use of our aircraft in the event of actual or perceived mechanical problems or safety issues while it conducts its own investigation, whether involving our aircraft or another U.S. or foreign airline's aircraft. Our business could also be significantly harmed if the public avoids flying our aircraft due to an adverse perception of the aircraft we utilize because of safety concerns or other problems, whether real or perceived, or in the event of an accident involving these aircraft.

A breach in the security of personal data could severely damage our reputation, cause considerable additional costs and result in regulatory penalties.

We receive, retain, and transmit certain personal information about our customers. Our on-line operations also rely on the secure transmission of this customer data. We use third-party systems, software, and tools in order to protect the customer data we obtain through the course of our business. Although we use these security measures to protect this customer information, a compromise of our physical or network security systems through a cyber-security attack would create the risk that our customers' personal information might be obtained by unauthorized persons. A compromise in our security systems could adversely affect our reputation, which could impact customers' willingness to do business with us using credit or debit cards, disrupt operations, and could also result in litigation or the imposition of penalties. In addition, it could be costly to remediate.

The way businesses handle customer data is subject to increasing legislation and regulation typically intended to protect the privacy of customer data received, retained, and transmitted. We could be adversely affected if we fail to comply with existing rules or practices, or if legislation or regulations are expanded to require changes in our business practices. These privacy developments are difficult to anticipate and could adversely affect our business, financial

condition, and results of operations.

The successful development of our first Sunseeker Resort is dependent on commercial and economic factors, some of which are beyond our control.

We are developing a hotel resort in Southwest Florida with construction expected to begin in the first quarter of 2019 and completion of the hotel expected in late 2020. The successful development of the project will be subject to various risks inherent in construction projects (such as securing sufficient financing on a timely basis, cost overruns and construction delays) as well as risks of gaining sufficient interest from vacationers to stay in our hotel or suites, the desirability of the project's location, competition and the ability to profitably operate the hotel and related offerings once open.

15

We rely heavily on automated systems to operate our business and any failure of these systems could harm our business.

We depend on automated systems to operate our business, including our air reservation system, telecommunication systems, our website, and other automated systems. Our continuing initiatives to enhance the capabilities of our automated systems could increase the risk of automation failures. Any failure by us to handle our automation needs could negatively affect our internet sales (on which we rely heavily) and customer service, and result in lost revenues and increased costs.

Our website and reservation system must be able to accommodate a high volume of traffic and deliver necessary functionality to support our operations. Our automated systems cannot be completely protected against events that are beyond our control, such as natural disasters, telecommunications failures, malware, ransom ware, security breaches or cyber-security attacks. Although we have implemented security measures, have information systems disaster recovery plans in place and carry cyber-security insurance, we cannot assure investors that these measures are adequate to prevent disruptions or that the insurance would cover all losses. Substantial or repeated website, reservations system, or telecommunication system failures could decrease the attractiveness of our services. Any disruption to these systems could result in the loss of important data and revenue, increase in expenses, and harm to our business.

Increases in fuel prices or unavailability of fuel would harm our business and profitability.

Fuel costs constitute a significant portion of our total operating expenses, representing 31.3 percent, 26.8 percent and 25.6 percent during 2018, 2017 and 2016, respectively. Significant increases in fuel costs have negatively affected our operating results in the past, and future fuel cost volatility could materially affect our financial condition and results of operations.

Both the cost and availability of aircraft fuel are subject to many economic and political factors and events occurring throughout the world over which we have no control. Meteorological events may also result in short-term disruptions in the fuel supply. Aircraft fuel availability is also subject to periods of market surplus and shortage, and is affected by demand for heating oil, gasoline, and other petroleum products. Due to the effect of these events on the price and availability of aircraft fuel, our ability to control this cost is limited, and the price and future availability of fuel cannot be predicted with any degree of certainty. Due to the high percentage of our operating costs represented by fuel, a relatively small increase in the price of fuel could have a significantly negative impact on our operating costs. A fuel supply shortage or higher fuel prices could result in reduction of our service during the period affected.

We have made a business decision not to purchase financial derivatives to hedge against increases in the cost of fuel. This decision may make our operating results more vulnerable to the impact of fuel price increases.

Increased labor costs could result from industry conditions and could be impacted by labor-related disruptions.

Labor costs constituted approximately 29 percent of our total operating costs in 2018, our second largest expense line item. Industry demand for pilots and the supply of available pilots will impact our labor costs as we seek to retain our employees and compete against other airlines for qualified personnel.

Further, we have four employee groups (pilots, flight attendants, flight dispatchers and maintenance technicians) which have elected union representation. These groups represent approximately 57 percent of our employees. In 2016, we reached a collective bargaining agreement with the International Brotherhood of Teamsters, representing our pilots, which became effective as of August 1, 2016. The agreement provides for enhancements to pay scales, benefits, and limited work rules.

An agreement with the Transport Workers Union for the flight attendant group was approved in December 2017, which will also increase costs over the five-year term of the contract. We are also still in the negotiation process with our flight dispatchers and our maintenance technicians, for which negotiations commenced in February 2017 and January 2019, respectively.

Union contracts with these, or other, work groups could put additional pressure on our labor costs.

If we are unable to reach agreement on the terms of collective bargaining agreements in the future, or we experience wide-spread employee dissatisfaction, we could be subject to work slowdowns or stoppages. Any of these events could have an adverse effect on our operations and future results.

Increases in taxes could impact demand for our services.

In 2019, Congress may consider legislation that could increase the amount of Federal Excise Tax and/or one or more of the other government fees imposed on air travel. By increasing the overall price charged to passengers, any additional taxes or fees could lessen the demand for air travel or force carriers to lower fares to maintain demand. Increased taxes and fees per passenger may impact our load factors more than other airlines as our lower fares are designed to stimulate demand for our services.

FAA limitations could impact our ability to grow in the future.

As with all airlines, the FAA must approve all aircraft and cities to be added to our operation specifications. Although there are no restrictions in place at the current time, future limitations from the FAA could potentially hinder our growth.

Unfavorable economic conditions may adversely affect travel from our markets to our leisure destinations.

The airline industry is particularly sensitive to changes in economic conditions. Unfavorable U.S. economic conditions have historically driven changes in travel patterns and have resulted in reduced discretionary spending for leisure travel. Unfavorable economic conditions could impact demand for airline travel in our small and medium-sized cities to our leisure destinations. During difficult economic times, we may be unable to raise prices in response to fuel cost increases, labor, or other operating costs, which could adversely affect our results of operations and financial condition.

Our indebtedness, debt service obligations and other commitments could adversely affect our business, financial condition and results of operations as well as limit our ability to react to changes in the economy or our industry and prevent us from servicing our debt and operating our business.

Our debt and capital lease obligations as of December 31, 2018 totaled \$1.3 billion. This indebtedness and other commitments with debt service and fixed charge obligations could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness, and any failure to comply with the obligations of any of our debt instruments, including financial and other restrictive covenants, could result in an event of default under agreements governing our indebtedness;
- make it more difficult to satisfy our other future obligations, including our obligations to pay the purchase price in respect of current and future aircraft purchase contracts;
- require us to dedicate a substantial portion of our cash flow to pay principal and interest on our debt, which will reduce the funds available to fund internal growth through working capital, capital expenditures, and for other purposes;
- limit our flexibility in planning for, or reacting to, changes in our business, the competitive environment, legislation and our industry;
- make us more vulnerable to adverse changes in our business, economic, industry, market or competitive conditions and adverse changes in government regulation;
- expose us to interest rate and pricing increases on indebtedness and financing arrangements;
- restrict us from pursuing strategic acquisitions or exploiting certain business opportunities;
- subject us to a greater risk of non-compliance with financial and other restrictive covenants in financing arrangements;
- limit, among other things, our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, execution of our business strategy and other purposes or raise equity capital in the future and increasing the costs of such additional financings; and

place us at a competitive disadvantage compared to our competitors who may not be as highly leveraged or who have less debt in relation to cash flow.

In addition, our ability to service our indebtedness will depend on our future performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors. Many of these factors are beyond our control and could materially adversely affect our business, results of operations, cash flows and financial condition.

At maturity, or in the event of an acceleration of payment obligations, we may be unable to pay our outstanding indebtedness with our cash and cash equivalents then on hand. In such event, we would be required to seek alternative sources of funding, which may not be available on commercially reasonable terms, terms as favorable as our current agreements, or at all. If we are unable to refinance our indebtedness or find alternative means of financing our operations, we may be required to take actions that are inconsistent with our current business practices or strategy.

17

Covenants in our senior secured term loan facility could limit how we conduct our business, which could affect our long-term growth potential.

On February 5, 2019, we borrowed \$450.0 million under a Credit and Guaranty Agreement (the “Term Loan”). The Term Loan contains covenants limiting our ability to, among other things, make certain types of restricted payments, including paying dividends, incur debt or liens, merge or consolidate with others, dispose of assets, enter into certain transactions with affiliates, engage in certain business activities or make certain investments. In addition, the Credit and Guaranty Agreement contains financial covenants, including requiring us, at the end of each calendar quarter, to maintain a maximum total leverage ratio of 5.00:1.00 and to maintain a minimum aggregate amount of liquidity of \$300.0 million. We have pledged our assets to secure the Term Loan with the exceptions of aircraft and aircraft engines, the Sunseeker Resort and certain other exceptions. This will limit our ability to obtain debt secured by these pledged assets while the Term Loan is outstanding.

The Credit and Guaranty Agreement contains various events of default (including failure to comply with the covenants under the Credit and Guaranty Agreement), and upon an event of default the lenders may, subject to various cure rights, require the immediate payment of all amounts outstanding under the Term Loan.

As a result of these restrictive covenants, we may be limited in how we conduct business, and we may be unable to raise additional debt or equity financing to operate during difficult times or to take advantage of new business opportunities.

Any inability to obtain financing for aircraft under contract could harm our fleet retirement and growth plan.

We typically finance our aircraft through debt financing after purchase. Although we believe debt financing will be available

for the aircraft we will acquire, we cannot provide assurance that we will be able to secure such financing on terms attractive to

us or at all. To the extent we cannot secure such financing on acceptable terms or at all, we may be required to modify our

aircraft acquisition plans, incur higher than anticipated financing costs, or use more of our cash balances for aircraft acquisitions than we currently expect.

Our maintenance costs may increase as our fleet ages.

In general, the cost to maintain aircraft increases as they age, and exceeds the cost to maintain newer aircraft. FAA regulations, including the Aging Aircraft Airworthiness Directives, require additional and enhanced maintenance inspections for older aircraft. These regulations can directly impact the frequency of inspections as an aircraft ages, and vary by aircraft or engine type, depending on the unique characteristics of each aircraft and/or engine.

Engine overhaul expenses for our Airbus A320 series aircraft will be significantly higher than similar expenses for our MD-80 aircraft, which were all retired as of the end of November 2018. These major maintenance expenses for the Airbus aircraft are capitalized and amortized as part of depreciation and amortization expense.

In addition, we may be required to comply with any future law changes, regulations, or airworthiness directives. We cannot assure investors our maintenance costs will not exceed our expectations.

We rely on third parties to provide us with facilities, aircraft and services that are integral to our business.

We have entered into agreements with third-party contractors to provide certain facilities and services required for our operations, such as aircraft maintenance, ground handling, baggage services, and ticket counter space. Our reliance on

others to provide essential services on our behalf gives us less control over costs and the efficiency, timeliness and quality of contract services.

We also rely on the owners of aircraft under contract to be able to deliver, or redeliver, aircraft in accordance with the terms of executed agreements in a timely manner. Our planned initiation of service with these aircraft in the future could be adversely affected if the third parties fail to perform as contractually obligated.

18

We may not be able to maintain or grow our ancillary revenues.

Our business strategy includes expanding our ancillary products and services. We cannot ensure that passengers will pay for additional ancillary products and services we offer in the future, or that they will continue to pay for the ancillary products and services we currently offer. Regulatory changes could also adversely affect our ancillary revenue opportunities. Failure to maintain our ancillary revenues could have a material adverse effect on our results of operations, financial condition and stock price. If we are unable to maintain and grow these revenues, we may be unable to execute our strategy to continue to offer low base fares in order to stimulate demand.

Our business could be harmed if we lose the services of our key personnel.

Our business depends upon the efforts of our chief executive officer, Maurice J. Gallagher, Jr., president, John Redmond, and a small number of senior management and operating personnel. We do not currently maintain key-man life insurance on Mr. Gallagher, Mr. Redmond or any other executives. We may have difficulty replacing management or other key personnel who leave and, therefore, the loss of the services of any of these individuals could harm our business.

Risks Associated with the Airline and Travel Industry

The airline industry is highly competitive and future competition in our under-served markets could harm our business.

The airline industry is highly competitive. The smaller cities we serve on a scheduled basis have traditionally attracted considerably less attention from our potential competitors than larger markets, and in most of our small city markets, we are the only provider of nonstop service to our leisure destinations. In 2014, we began service to medium-sized cities which we believe to be under-served for nonstop service to our leisure destinations, and as of February 15, 2019, approximately 37 percent of our routes are serving these medium-sized cities. If other airlines begin to provide nonstop services to and from these markets, or otherwise target these markets, the increase in the amount of direct or indirect competition could cause us to reconsider service to affected markets or could impact our margins.

A future act of terrorism, the threat of such acts, or escalation of U.S. military involvement overseas could adversely affect our industry.

Even if not directed at the airline industry, a future act of terrorism, the threat of such acts, or escalation of U.S. military involvement overseas could have an adverse effect on the airline industry. In the event of a terrorist attack, the industry would likely experience significantly reduced demand for travel services. These actions, or consequences resulting from these actions, would likely harm our business and the airline and travel industry. If we are called on to provide aircraft in the event of national emergencies as a result of our participation in the CRAF program, our operations would be disrupted.

Changes in government laws and regulations imposing additional requirements and restrictions on our operations could increase our operating costs.

Airlines are subject to extensive regulatory and legal compliance requirements, both domestically and internationally, that involve significant costs. In the last several years, the FAA has issued a number of directives and other regulations relating to the maintenance and operation of aircraft that have required us to incur significant expenditures. FAA requirements cover, among other things, retirement of older aircraft, fleet integration of newer aircraft, security measures, collision avoidance systems, airborne windshear avoidance systems, noise abatement, weight and payload limits, assumed average passenger weight, and increased inspection and maintenance procedures to be conducted on

aging aircraft. Proposals have also been made to re-regulate the airline industry in varying degrees. The future cost of complying with these and other laws, rules and regulations, including new federal legislative and DOT regulatory requirements in the consumer-protection area, cannot be predicted and could significantly increase our costs of doing business.

In recent years, the DOT has adopted revisions and expansions to a variety of its consumer protection regulations and policies. Additional new regulations or policies may be proposed or take effect in 2019 or thereafter, whether on DOT's initiative or as directed by Congress. We are not able to predict the impact of any new consumer protection rules on our business, though we monitor the progress of potential rulings. We are subject to fines or other enforcement actions if the DOT believes we are not in compliance with these or other rules or regulations or with the federal consumer protection laws administered by the DOT. Even if our practices are found to be in compliance with the DOT rules, we could incur substantial costs defending our practices.

19

In November 2013, the FAA proposed revisions to the method by which air carriers calculate and control aircraft weight-and-balance. The proposal is based on a continuing increase in the average weight of persons in the United States. The FAA accepted industry comments on its proposal as amended, through mid-2017, but to date, no decision has been issued. If the revisions are adopted as proposed by the FAA, the ability of carriers to rely on average weights for this purpose will be complicated significantly, additional costs may result, and we may be required to carry less than full loads on certain flights.

Congress also may consider privatization of the U.S. Air Traffic Control system with user fee based funding; the potential effect on our operating costs is unknown. Additionally, federal funding to airports and/or airport bond financing could be affected through future deficit reduction legislation, which could result in higher fees, rates, and charges at many of the airports we serve.

In the past, legislation to address climate change issues has been introduced in the U.S. Congress, including a proposal to require transportation fuel producers and importers to acquire market-based allowances to offset the emissions resulting from combustion of their fuels. We cannot predict whether this or any similar legislation will be introduced or pass the Congress or, if enacted into law, how it would apply to the airline industry. In addition, the EPA concluded in 2016 that current and projected concentrations of greenhouse gases emitted by various aircraft, including all of the aircraft we and other carriers operate, threaten public health and welfare. This finding is a precursor to EPA regulation of commercial aircraft emissions in the United States, as has taken effect for operations within the European Union under EU legislation. Binding international measures adopted under the auspices of the International Civil Aviation Organization (“ICAO”), a specialized agency of the United Nations, are scheduled to become effective over the next several years. In 2016, the EPA indicated the regulations it intends to propose will be no less stringent than the ICAO standards. These developments and any additional legislation or regulations addressing climate change are likely to increase our costs of doing business in the future and the increases could be material.

With respect to aircraft weight and balance, consumer protection, climate change, taxation, and other matters affecting the airline industry, whether the source of new requirements is legislative or regulatory, increased costs will adversely affect our profitability if we are unable to pass the costs on to our customers or adjust our operations to offset the new costs.

Airlines are often affected by factors beyond their control, including air traffic congestion, weather conditions, increased security measures, the outbreak of disease and a reduction in demand to any particular market, any of which could harm our operating results and financial condition.

Like other airlines, we are subject to delays caused by factors beyond our control, including air traffic congestion at airports and en route, adverse weather conditions, increased security measures, and the outbreak of disease. Delays frustrate passengers and increase costs, which in turn could affect profitability. During periods of fog, snow, rain, storms or other adverse weather conditions, flights may be canceled or significantly delayed. Cancellations or delays due to weather conditions, traffic control problems, and breaches in security could harm our operating results and financial condition. Contagious illness and fear of contagion could have a material adverse impact on the airline industry. Any general reduction in airline passenger traffic as a result of an outbreak of disease or other travel advisories could dampen demand for our services even if not applicable to our markets. Resulting decreases in passenger volume would harm our load factors, could increase our cost per passenger and adversely affect our profitability.

A substantial proportion of our scheduled flights have Las Vegas, Orlando, Phoenix, Tampa/St. Petersburg, Los Angeles, Punta Gorda, or Destin as either their destination or origin. Our business could be harmed by any circumstances causing a reduction in demand for air transportation to one or more of these markets, or our other leisure destinations, such as adverse changes in local economic conditions, negative public perception of the particular city, significant price increases, or the impact of future terrorist attacks or natural disasters.



Risks Related to Our Stock Price

The market price of our common stock may be volatile, which could cause the value of an investment in our stock to decline.

The market price of our common stock may fluctuate substantially due to a variety of factors, many of which are beyond our control, including:

- fuel price volatility, and the effect of economic and geopolitical factors and worldwide oil supply and consumption on fuel availability
- announcements concerning our competitors, the airline industry, or the economy in general
- strategic actions by us or our competitors, such as acquisitions or restructurings
- media reports and publications about the safety of our aircraft or the aircraft types we operate
- new regulatory pronouncements and changes in regulatory guidelines
- announcements concerning our business strategy
- our ability to grow service in the future as rapidly as the market anticipates as we continue to add more cities to our network
- general and industry-specific economic conditions
- changes in financial estimates or recommendations by securities analysts
- substantial sales of our common stock or other actions by investors with significant shareholdings
- additional issuances of our common stock
- labor work actions
- general market conditions

The stock markets in general have experienced substantial volatility that has often been unrelated to the operating performance of particular companies. These types of broad market fluctuations may adversely affect the trading price of our common stock.

In the past, stockholders have sometimes instituted securities class action litigation against companies following periods of volatility in the market price of their securities and we have been sued as a result of adverse publicity and stock price declines during 2018. This or similar litigation could result in substantial costs, divert management's attention and resources, and harm our business or results of operations.

Other companies may have difficulty acquiring us, even if doing so would benefit our stockholders, due to provisions under our corporate charter and bylaws, as well as Nevada law.

Provisions in our articles of incorporation, our bylaws, and under Nevada law could make it more difficult for other companies to acquire us, even if doing so would benefit our stockholders. Our articles of incorporation and bylaws contain the following provisions, among others, which may inhibit an acquisition of our company by a third party:

- advance notification procedures for matters to be brought before stockholder meetings
- a limitation on who may call stockholder meetings
- the ability of our board of directors to issue up to 5,000,000 shares of preferred stock without a stockholder vote

We are also subject to provisions of Nevada law that prohibit us from engaging in any business combination with any "interested stockholder," meaning generally that a stockholder who beneficially owns 10 percent or more of our stock cannot acquire us for a period of time after the date this person became an interested stockholder, unless various conditions are met, such as approval of the transaction by our board of directors and stockholders.

Edgar Filing: Allegiant Travel CO - Form 10-K

Under U.S. laws and the regulations of the DOT, U.S. citizens must effectively control us. As a result, our president and at least two-thirds of our board of directors must be U.S. citizens and not more than 25 percent of our voting stock may be owned by non-U.S. citizens (although subject to DOT approval, the percent of foreign economic ownership may be as high as 49 percent). Any of these restrictions could have the effect of delaying or preventing a change in control.

21

Our corporate charter and bylaws include provisions limiting voting by non-U.S. citizens.

To comply with restrictions imposed by federal law on foreign ownership of U.S. airlines, our articles of incorporation and bylaws restrict voting of shares of our capital stock by non-U.S. citizens. The restrictions imposed by federal law currently require no more than 25 percent of our stock be voted, directly or indirectly, by persons who are not U.S. citizens, and that our president and at least two-thirds of the members of our board of directors be U.S. citizens. Our bylaws provide no shares of our capital stock may be voted by or at the direction of non-U.S. citizens unless such shares are registered on a separate stock record, which we refer to as the foreign stock record. Our bylaws further provide no shares of our capital stock will be registered on the foreign stock record if the amount so registered would exceed the foreign ownership restrictions imposed by federal law. Registration on the foreign stock record is made in chronological order based on the date we receive a written request for registration. Non-U.S. citizens will be able to own and vote shares of our common stock only if the combined ownership by all non-U.S. citizens does not violate these requirements.

Item 1B. Unresolved Staff Comments

Not Applicable.

Item 2. Properties

Aircraft

The following table summarizes our total in-service aircraft as of December 31, 2018:

Aircraft Type	Owned (1)	Seating Capacity (per aircraft)	Age Range (years)	Average Age in Years
Airbus A319 (2)	32	156	12-15	13.5
Airbus A320 (3) (4)	44	177/186	1-22	12.3
Total aircraft	76			

(1) Refer to Item 8 – Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 6 – Long-Term Debt for discussion of notes payable collateralized by our aircraft.

(2) Does not include five aircraft of which we had taken delivery but not placed into service as of December 31, 2018.

(3) Does not include two aircraft of which we had taken delivery but not placed into service as of December 31, 2018.

(4) Includes five aircraft under capital lease.

The below table includes the number of aircraft expected in service by March 31, 2019:

A319	37
A320	46
Total	83

Ground Facilities

We lease facilities at the majority of our leisure destinations and several other airports we serve. Our leases for terminal passenger service facilities (which include ticket counter and gate space, and operations support areas) generally have a term ranging from month-to-month to several years, and may typically be terminated with a 30 to

Edgar Filing: Allegiant Travel CO - Form 10-K

90 day notice. We have also entered into use agreements at each of the airports we serve which provide for non-exclusive use of runways, taxiways, and other facilities. Landing fees under these agreements are based on the number of landings and weight of the aircraft.

We have operational bases at airports for many of the leisure destinations we serve, as well as Bellingham International Airport, Pittsburgh International Airport, Cincinnati/Northern Kentucky International Airport, Indianapolis International Airport, McGhee Tyson Airport, and Asheville Regional Airport. We are also developing a base in Grand Rapids, MI which is scheduled to open in June 2019. Our operational base in Myrtle Beach is maintained on a seasonal basis.

We use leased facilities at our operational bases to perform line maintenance, overnight parking of aircraft, and other operations' support. We lease additional space in cargo areas at McCarran International Airport, Orlando Sanford International Airport and Phoenix-Mesa Gateway Airport for our primary line maintenance operations. We also lease approximately 100,000 square feet of warehouse space in Las Vegas, Orlando Sanford, and Phoenix-Mesa for aircraft spare parts and supplies.

The following details the airport locations we utilize as operational bases as of February 15, 2019:

Airport	Location
Asheville Regional Airport	Fletcher, North Carolina
Bellingham International Airport	Bellingham, Washington
Cincinnati/Northern Kentucky International Airport	Hebron, Kentucky
Destin-Fort Walton Beach Airport	Destin, Florida
Ft. Lauderdale-Hollywood International Airport	Ft. Lauderdale, Florida
Indianapolis International Airport	Indianapolis, Indiana
Los Angeles International Airport	Los Angeles, California
McCarran International Airport	Las Vegas, Nevada
McGhee Tyson Airport	Knoxville, Tennessee
Myrtle Beach International Airport	Myrtle Beach, South Carolina
Oakland International Airport	Oakland, California
Orlando Sanford International Airport	Sanford, Florida
Phoenix-Mesa Gateway Airport	Mesa, Arizona
Pittsburgh International Airport	Pittsburgh, Pennsylvania
Punta Gorda Airport	Punta Gorda, Florida
St. Petersburg-Clearwater International Airport	St. Petersburg, Florida

We believe we have sufficient access to gate space for current and presently contemplated future operations at all airports we serve.

Our primary corporate offices are located in Las Vegas, where we own approximately 11 acres of property containing approximately 211,000 square feet of office space. To date, we occupy approximately 182,000 square feet and the remaining space will be used for growth and expansion as needed.

We also lease and/or own other facilities in Las Vegas and Florida, with approximately 350,000 square feet of space used for training and other corporate purposes. These leases expire between 2019 and 2036.

Non-airline Initiatives

We own approximately 24 acres on the harbor in Port Charlotte, Florida for the construction of Sunseeker Resort - Charlotte Harbor. Additionally, we have purchased a golf course consisting of 156 acres and an 18,000 square foot club house in Lake Suzy, Florida.

We also have leased approximately 200,000 square feet in buildings in Clearfield, UT and Warren, MI for our family entertainment centers, and have purchased a property in Fort Wayne, IN containing an additional 65,500 square feet on 11 acres.

Item 3. 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 effect on our financial position, liquidity, or results of operations.

23

Item 4. Mine Safety Disclosures

Not applicable.

24

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Market for our common stock

Our common stock is quoted on the Nasdaq Global Select Market (symbol: ALGT). On February 15, 2019, the last sale price of our common stock was \$139.21 per share. The following table sets forth the range of high and low sale prices for our common stock for the periods indicated.

Period	High	Low
2018		
1st Quarter	\$181.45	\$147.50
2nd Quarter	\$177.00	\$135.75
3rd Quarter	\$147.00	\$117.30
4th Quarter	\$135.48	\$98.21
2017		
1st Quarter	\$182.25	\$153.40
2nd Quarter	\$169.15	\$134.65
3rd Quarter	\$147.00	\$111.54
4th Quarter	\$162.35	\$125.95

As of February 15, 2019, there were 199 holders of record of our common stock. Because many of our shares are held by brokers and other institutions on behalf of shareholders, we are unable to estimate the total number of beneficial holders.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information regarding options, warrants and other rights to acquire equity securities under our equity compensation plans as of December 31, 2018:

	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (2)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (3)
Equity compensation plans approved by security holders (1)	9,737	\$ 108.59	1,398,808

(1) There are no securities to be issued under any equity compensation plans not approved by our security holders.

The shares shown as being issuable under equity compensation plans exclude unvested restricted stock awards of (2) 196,194 as all restricted stock awards are deemed to have been issued, and exclude all outstanding stock appreciation rights ("SARs") which are settled in cash.

(3) Our 2016 Long-Term Incentive Plan applies a fungible ratio such that a full-value award, such as a restricted stock grant or restricted stock unit grant, will be counted at two times its number for purposes of the plan limit. As a

result, a maximum of 699,404 shares of restricted stock are remaining for future issuance under the 2016 Long-Term Incentive Plan.

Dividend Policy

In 2018, we continued the payment of a regular quarterly dividend we began in 2016. The current dividend is set at \$0.70 per share for each quarter, bringing total regular cash dividends declared, and paid, in 2018 to \$2.80 per share. Regular cash dividends declared and paid in 2017 and 2016 were \$2.80 per share and \$2.40 per share, respectively. In January 2016, we also paid a \$1.65 per share special dividend that was declared in December 2015.

In addition to our regular cash dividends, our Board of Directors periodically considers the payment of special cash dividends based on our results of operations, cash flow generation, liquidity, capital commitments, loan covenant compliance and other relevant factors.

At December 31, 2018, the indenture governing our senior unsecured notes contained limitations on restricted payments, which include stock repurchases and cash dividends. These restrictions were eliminated pursuant to the third supplemental indenture finalized in February 2019.

The Credit and Guaranty Agreement we entered into in February 2019 in connection with the Term Loan provides that absent an event of default, regularly scheduled dividends in any four-quarter period may be paid up to the lesser of \$75.0 million or 20 percent of our consolidated EBITDA (as defined in the Credit and Guaranty Agreement) for the previous four-quarter period.

Our Repurchases of Equity Securities

The following table reflects repurchases of our common stock during the fourth quarter 2018:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of our Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (in thousands) (2)
October	234	\$ 117.06	None	
November	41	121.98	None	
December	None	N/A	None	
Total	275	\$ 117.79	None	\$ 100,000

Reflects shares repurchased from employees who vested a portion of their restricted stock grants. These share (1) repurchases were made at the election of each employee pursuant to an offer to repurchase by us. In each case, the shares repurchased constituted a portion of vested shares necessary to satisfy income tax withholding requirements.

(2) Represents the remaining dollar amount of open market purchases of our common stock which has been authorized by the Board under a share repurchase program.

Stock Price Performance Graph

The following graph compares the cumulative total shareholder return on our common stock with the cumulative total return on the Nasdaq Composite Index and the AMEX Airline Index since December 31, 2013. The graph assumes that the value of the investment in our common stock and each index was \$100 on December 31, 2013 and that all dividends are reinvested. Stock price performance presented for the historical periods presented is not necessarily indicative of future results.

	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
ALGT	\$ 100.00	\$ 144.94	\$ 164.15	\$ 165.07	\$ 156.68	\$ 107.62
Nasdaq Composite Index	\$ 100.00	\$ 113.40	\$ 119.89	\$ 128.89	\$ 165.29	\$ 158.87
AMEX Airline Index	\$ 100.00	\$ 149.36	\$ 124.70	\$ 159.03	\$ 167.34	\$ 129.94

The stock price performance graph shall not be deemed incorporated by reference by any general statement incorporating by reference this annual report on Form 10-K into any filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934, except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed filed under such Acts.

Item 6. Selected Financial Data

The following financial information for each of the five years ended December 31, has been derived from our audited consolidated financial statements. Readers should consider the selected consolidated financial data set forth below along with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes.

We adopted ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" (the "New Revenue Standard") and ASU 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220) effective January 1, 2018. As such, certain prior period results have been recast. See Note 2 to the Consolidated Financial Statements for further information.

FINANCIAL DATA (in thousands except per share amounts):	For the Year Ended December 31,				
	2018	2017 (3)	2016	2015	2014 (3)
		As recast	As recast		
Total operating revenue	\$1,667,447	\$1,511,203	\$1,378,942	\$1,262,188	\$1,137,046
Total operating expenses	1,423,988	1,280,573	1,006,375	890,486	979,701
Operating income	243,459	230,630	372,567	371,702	157,345
Total other expense (1)	44,141	31,623	24,600	24,983	20,214
Income before income taxes	199,318	199,007	347,967	346,719	137,131
Net income	\$161,802	\$198,148	\$220,866	\$220,374	\$86,689
Earnings per share to common shareholders (2):					
Basic	\$10.02	\$12.14	\$13.31	\$12.97	\$4.87
Diluted	10.00	12.13	13.29	12.94	4.86
Cash dividends declared per share	2.80	2.80	2.40	2.75	2.50
Total assets	\$2,498,668	\$2,180,157	\$1,671,576	\$1,358,331	\$1,240,986
Total long-term debt, net of related costs	1,271,733	1,164,892	808,274	641,678	588,794
Shareholders' equity	690,321	553,311	475,740	350,005	294,065

(1) Net of capitalized interest for 2018, 2017, and 2016 in the amounts of \$2.4 million, \$3.2 million, and \$1.8 million, respectively.

Our unvested restricted stock awards are considered participating securities as they receive non-forfeitable rights to cash dividends at the same rate as common stock. The Basic and Diluted earnings per share for the periods

(2) presented reflect the two-class method mandated by accounting guidance for the calculation of earnings per share.

The two-class method adjusts both the net income and shares used in the calculation. Application of the two-class method did not have a significant impact on the basic or diluted earnings per share for the periods presented.

Operating expenses, operating income, net income and earnings per share in these years were impacted by special items: (a) a non-cash impairment charge of \$35.3 million to our MD-80 fleet and related assets in the fourth quarter (3) of 2017; (b) a \$74.7 million income tax benefit from the remeasurement of deferred taxes due to the passage of the Tax Cuts and Jobs Act of 2017; and (c) a non-cash impairment charge of \$43.3 million to six Boeing 757-200 aircraft and related assets in the fourth quarter of 2014.

Edgar Filing: Allegiant Travel CO - Form 10-K

OPERATING DATA: (unaudited)	For the Year Ended December 31,				
	2018	2017 As recast	2016 As recast	2015	2014
Total system statistics:					
Passengers	13,750,199	12,310,122	11,128,191	9,500,611	8,154,357
Revenue passenger miles (RPMs) (thousands)	12,307,247	11,106,772	10,282,827	8,944,952	7,825,962
Available seat miles (ASMs) (thousands)	14,899,874	13,612,003	12,375,505	10,526,610	8,945,616
Load factor	82.6 %	81.6 %	83.1 %	85.0 %	87.5 %
Operating expense per ASM (CASM) (cents) (1) (2)	9.56	9.41	8.13	8.45	10.95
Fuel expense per ASM (cents) (2)	2.99	2.52	2.08	2.64	4.34
Operating CASM, excluding fuel (cents) (1)	6.57	6.89	6.05	5.81	6.61
ASMs per gallon of fuel	77.82	72.96	71.62	70.20	69.38
Departures	101,212	93,061	82,341	68,653	56,961
Block hours	230,123	212,405	190,706	160,431	135,572
Average stage length (miles)	868	870	889	900	918
Average number of operating aircraft during period	91.0	87.3	83.3	74.3	68.8
Average block hours per aircraft per day	6.9	6.7	6.3	5.9	5.4
Full-time equivalent employees at end of period	3,901	3,752	3,416	2,846	2,411
Fuel gallons consumed (thousands)	191,471	186,563	172,796	149,951	128,933
Average fuel cost per gallon (2)	\$2.33	\$1.84	\$1.49	\$1.86	\$3.01
Scheduled service statistics:					
Passengers	13,606,103	12,138,146	11,003,864	9,355,097	8,017,442
Revenue passenger miles (RPMs) (thousands)	12,145,601	10,901,161	10,130,675	8,821,908	7,711,696
Available seat miles (ASMs) (thousands)	14,340,674	13,031,824	11,921,733	10,236,075	8,693,631
Load factor	84.7 %	83.7 %	85.0 %	86.2 %	88.7 %
Departures	96,554	88,432	78,747	65,683	54,440
Block hours	220,760	202,752	183,290	155,403	131,210
Total scheduled service revenue per ASM (TRASM) (cents) (3)	11.10	10.93	11.02	11.82	12.66
Average fare - scheduled service (4)	\$67.01	\$67.90	\$69.86	\$78.63	\$91.30
Average fare - ancillary air-related charges (4)	\$45.71	\$45.14	\$45.47	\$46.43	\$41.37
Average fare - third party products	\$4.27	\$4.34	\$4.08	\$4.29	\$4.56
Average fare - total	\$116.99	\$117.38	\$119.41	\$129.35	\$137.23
Average stage length (miles)	875	876	895	915	934
Fuel gallons consumed (thousands)	183,798	178,298	166,528	145,654	125,173
Percent of sales through website during period	93.8 %	94.0 %	94.2 %	95.1 %	93.8 %
OTHER DATA: (unaudited)					
Hotel room nights	409,164	390,986	439,942	452,272	528,329
Rental car days	1,823,451	1,415,901	1,502,326	1,204,982	916,640
Golf courses under agreement with Teesnap	590	296	186	50	3

(1) Includes effects of special items in 2017 and 2014.

(2) Includes effect of fuel tax refund of \$8.3 million (approximately \$0.05 per gallon) in 2016.

(3) Various components of this measure do not have a direct correlation to ASMs. These figures are provided on a per ASM basis so as to facilitate comparisons with airlines reporting revenues on a per ASM basis.

(4) Reflects division of passenger revenue between scheduled service and air-related charges in the Company's booking path.

The following terms used in this section and elsewhere in this annual report have the meanings indicated below:

“Available seat miles” or “ASMs” represents the number of seats available for passengers multiplied by the number of miles the seats are flown.

“Average fuel cost per gallon” represents total aircraft fuel expense for our total system divided by the total number of fuel gallons consumed in our total system.

“Average stage length” represents the average number of miles flown per flight.

“Block hours” represents the number of hours during which the aircraft is in revenue service, measured from the time of gate departure until the time of gate arrival at the destination.

“Load factor” represents the percentage of aircraft seating capacity utilized (revenue passenger miles divided by available seat miles).

“Operating expense per ASM” or “CASM” represents operating expenses divided by available seat miles.

“Operating CASM, excluding fuel” represents operating expenses, less aircraft fuel, divided by available seat miles. Although Operating CASM, excluding fuel, is not a calculation based on generally accepted accounting principles and should not be considered as an alternative to Operating Expenses as an indicator of our financial performance, 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 therefore are beyond our control.

“Passengers” represents the total number of passengers flown on all flight segments.

“Revenue passenger miles” or “RPMs” represents the number of miles flown by revenue passengers.

“Total scheduled service revenue per ASM” or “TRASM” represents passenger revenue divided by scheduled service available seat miles.

Item 7. 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 years ended December 31, 2018, 2017 and 2016. Also discussed is our financial position as of December 31, 2018 and 2017. Investors should read this discussion in conjunction with our consolidated financial statements, including the notes thereto, appearing elsewhere in this annual report. This discussion and analysis contains forward-looking statements. Please refer to the section entitled “Disclosure Regarding Forward-Looking Statements” at the beginning of this annual report on Form 10-K for a discussion of the uncertainties, risks and assumptions associated with these statements.

AIRCRAFT

Operating Fleet

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

December	December	December
31, 2018	31, 2017	31, 2016

Edgar Filing: Allegiant Travel CO - Form 10-K

A320 (1) (2)	44	30	16
A319 (3)	32	22	17
MD-80	—	37	47
B757-200	—	—	4
Total	76	89	84

(1) Does not include two aircraft for which we have taken delivery as of December 31, 2018.

(2) Includes five aircraft under capital lease as of December 31, 2018.

(3) Does not include five aircraft for which we have taken delivery as of December 31, 2018.

30

As of February 15, 2019, we are party to forward purchase agreements for 14 Airbus A320 series aircraft. We expect delivery of 11 of these aircraft in 2019, two in 2020, and one in 2022. In January 2019, we took delivery of two aircraft for which we had a purchase agreement as of December 31, 2018. Refer to Part I - Item 2 - Properties for further detail regarding our aircraft fleet. We continuously consider aircraft acquisitions on an opportunistic basis.

NETWORK

We use profitability management tools to manage capacity and route expansion through optimization of our flight schedule to, among other things, better match demand in certain markets. We continually adjust our network through the addition of new markets and routes, adjusting the frequencies into existing markets, and exiting under-performing markets, as we seek to achieve and maintain profitability on each route we serve.

As of February 15, 2019 and including recent service announcements, we were selling 450 routes.

Our route network as of December 31, 2018 represents a 4.0 percent increase in the number of routes flown compared to the end of 2017, and the number of medium-sized cities served is now up to 24 since we began service to these larger cities in 2014.

The following table shows the number of leisure destinations and cities served as of the dates indicated (includes cities served seasonally):

	December 31, 2018	December 31, 2017	December 31, 2016
Leisure destinations	23	19	21
Origination cities	98	101	97
Total cities	121	120	118
Total routes	417	401	360

TRENDS

As of the end of November 2018, we have fully transitioned to an all-Airbus A320 series fleet with the addition of 24 Airbus A320 series aircraft and the retirement of 37 MD-80 aircraft during 2018. We expect to add 17 additional Airbus aircraft to our operating fleet by the end of 2019.

An all-Airbus fleet is expected to bring about many improvements, including greater fuel efficiency and enhanced reliability, which should allow us to reduce spare counts and fly more during peak days. Airbus aircraft flew 82.1 percent of our scheduled service ASMs in 2018, compared to 59.7 percent in 2017, which drove a 6.7 percent increase in fuel efficiency (measured as ASMs per gallon).

Throughout the transition to an all-Airbus fleet, we have also seen improvements in our operations, which is a trend expected to continue now that the transition is complete. Our controllable flight completion rate for 2018 was 99.7 percent (among the best in the industry) and our on-time arrival rate increased by nearly 4 percentage points.

In 2016, we announced certain initiatives intended to increase our profitability by 2020. These include fuel cost savings from increased ASM production per gallon of fuel, efforts to decrease cost per ASM excluding fuel, revenue from our credit card program, eCommerce initiatives and a new pricing engine, increased revenues from fixed fee flying, the modification of certain of our Airbus aircraft to 186 seats and greater fleet productivity.

In 2018, we increased ASM production per gallon of fuel (which we estimate saved approximately \$30 million of fuel cost) and increased revenue over 2016 levels of fixed fee flying (over \$18 million of increased fixed fee revenues). In addition, we have recognized approximately \$33 million in third party product revenue from our co-brand credit card program since its introduction in 2016. We maintained additional personnel and incurred higher training expenses in connection with the fleet transition, and expect our labor efficiency to improve, and our training expenses to decline, as we now have an all-Airbus fleet.

As of February 15, 2019, we were offering service on 151 medium-sized city routes compared to 140 as of the same date in 2018. We initiated service on nine new network routes in the fourth quarter of 2018, including service into three new cities:

31

Saint George, UT; Tucson, AZ; and Albany, NY. Our recently announced routes also include new service to Anchorage, AK in 2019.

Of the 450 routes we were selling as of February 15, 2019, approximately 75 percent are not competitive routes, and of the recent service announcements, approximately 85 percent are not competitive routes. We are continually expanding our network, and have identified approximately 600 potential routes for future growth.

In November 2018, we opened a new operational base in Knoxville, TN and announced plans to open a new operational base in Grand Rapids, MI in June 2019, which will be our 16th year-round base of operations.

Planning and development for Sunseeker Resort - Charlotte Harbor is ongoing. Construction is expected to begin in the first quarter of 2019, with the opening of the resort planned for late 2020.

We believe that disclosing non-airline information separately will allow investors to better understand and analyze our principal operating performance, and we intend to begin reporting distinct operating segments (airline and non-airline) in 2019.

Our flight dispatchers voted for union representation by the International Brotherhood of Teamsters ("IBT") and negotiations began in February 2017. The dispatchers failed to ratify a tentative agreement in May 2018 and, as a result, negotiations continue. There are approximately 40 employees in this operating group.

In March 2018, our maintenance technicians, who represent approximately nine percent of our total employee base (approximately 330 employees), voted for union representation by the IBT. Negotiations for an agreement with this group began in late January 2019.

Any labor actions whether following an inability to reach a collective bargaining agreement with any employee group or otherwise could impact our operations during the continuance of any such activity. Any labor agreement reached following negotiations would also likely increase our operating costs.

Our Operating Expenses

A brief description of the items included in our operating expense line items follows.

Aircraft fuel expense includes the cost of aircraft fuel, fuel taxes, into plane fees and airport fuel flowage, storage or through-put fees.

Salary and benefits expense includes wages, salaries, and employee bonuses, sales commissions for in-flight personnel, as well as expenses associated with employee benefit plans, stock compensation expense related to equity grants, and employer payroll taxes.

Station operations expense includes the fees charged by airports for the use or lease of airport facilities and fees charged by third party vendors for ground handling services, commissary expenses and other related services.

Depreciation and amortization expense includes the depreciation of all owned fixed assets, including aircraft and engines. Also included is the amortization of major maintenance expenses on our Airbus A320 series aircraft and engines, which are capitalized under the deferral method of accounting and amortized as a component of depreciation and amortization expense over the estimated period until the next scheduled major maintenance event.

Maintenance and repairs expense includes all parts, materials and spares required to maintain our aircraft as well as major maintenance costs for our MD-80 aircraft (which have all been retired as of the end of November 2018). Also

included are fees for repairs performed by third party vendors.

Sales and marketing expense includes all advertising, promotional expenses, sponsorships, travel agent commissions and debit and credit card processing fees associated with the sale of scheduled service and air-related ancillary charges.

Aircraft lease rentals expense consists of the cost for sub-service which may be contracted out in conjunction with operational disruptions.

Other expense includes travel and training expenses for crews and ground personnel, facility lease expenses, professional fees, personal property taxes, information technology consulting, non-salary expenses for non-airline initiatives (including Teesnap,

32

Sunseeker Resort - Charlotte Harbor, and the family entertainment centers), the cost of passenger liability insurance, aircraft hull insurance and all other insurance policies excluding employee welfare insurance. Additionally, this expense includes loss on disposals of aircraft and other equipment disposals, and all other administrative and operational overhead expenses not included in other line items above.

Special charge includes the non-cash impairment charge taken in 2017 on our MD-80 series aircraft, engines and related assets.

RESULTS OF OPERATIONS

2018 compared to 2017

Operating Revenue

Passenger revenue. Passenger revenue now includes both scheduled service revenue and ancillary air-related revenue, due to the implementation of the New Revenue Standard. Passenger revenue for 2018 increased 11.8 percent compared with 2017. The increase was driven primarily by a 9.2 percent increase in scheduled service departures and a 1.0 percentage point increase in load factor, which resulted in a 12.1 percent increase in scheduled service passengers. The higher number of passengers resulted in year-over-year increases in ancillary revenue from products such as baggage, seat and convenience fees.

Third party revenue. Ancillary third party revenue increased 10.2 percent in 2018 from 2017, due primarily to an increase in net revenue from rental cars resulting from the increase in scheduled service passengers. Our co-branded credit card program continues to contribute to revenue and we expect meaningful incremental revenues in 2019 and going forward.

Fixed fee contract revenue. Fixed fee contract revenue for 2018 increased 3.2 percent compared with 2017 due to an increase in ad-hoc charter flying as well as continuing fixed fee flying for Apple Vacations and the Department of Defense.

Other revenue. Other revenue for 2018 decreased \$12.4 million, primarily as 12 aircraft generating lease revenue from a European carrier during 2017 were redelivered to us throughout 2017 and 2018. The effects of this decrease were partially offset by increases in revenue from our golf course management solution as well as revenue generated from the leasing of spare RB-211 engines.

Operating Expenses

We primarily evaluate our expense management by comparing our costs per passenger and per ASM across different periods, which enables us to assess trends in each expense category. The following table presents operating expense per passenger for the indicated periods. The table also presents operating expense per passenger, excluding fuel, a statistic which 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 beyond our control.

The following table presents operating expense per passenger for the indicated periods.

For the Year		
Ended December	Percent	
31,		
2018	2017	Change

Edgar Filing: Allegiant Travel CO - Form 10-K

		As recast	
Aircraft fuel	\$32.42	\$27.89	16.2 %
Salary and benefits	30.10	30.19	(0.3)
Station operations	11.71	11.58	1.1
Depreciation and amortization	9.41	9.89	(4.9)
Maintenance and repairs	7.20	9.22	(21.9)
Sales and marketing	5.35	4.61	16.1
Aircraft lease rentals	0.06	0.25	(76.0)
Other	7.31	7.54	(3.1)
Special charge (1)	—	2.86	NM
Operating expense per passenger	\$103.56	\$104.03	(0.5)%
Operating expense per passenger, excluding fuel	\$71.14	\$76.14	(6.6)%

(1) \$35.3 million impairment charge on MD-80 fleet in 2017.

Edgar Filing: Allegiant Travel CO - Form 10-K

The following table presents unit costs on a per ASM basis, or CASM, for the indicated periods. As on a per-passenger basis, excluding fuel on a per ASM basis provides management and investors the ability to measure and monitor our cost performance absent fuel price volatility.

The following table presents unit costs on a per ASM basis, or CASM, for the indicated periods.

	For the Year		
	Ended		Percent
	December		
	31,		
	2018	2017	Change
	As		
	recast		
Aircraft fuel	2.99 ¢	2.52 ¢	18.7 %
Salary and benefits	2.78	2.73	1.8
Station operations	1.08	1.05	2.9
Depreciation and amortization	0.87	0.89	(2.2)
Maintenance and repairs	0.66	0.83	(20.5)
Sales and marketing	0.49	0.42	16.7
Aircraft lease rentals	0.01	0.02	(50.0)
Other	0.68	0.69	(1.4)
Special charge (1)	—	0.26	NM
CASM	9.56 ¢	9.41 ¢	1.6 %
CASM, excluding fuel	6.57 ¢	6.89 ¢	(4.6)%

(1) \$35.3 million impairment charge on MD-80 fleet in 2017.

Salary and benefits expense. Salary and benefits expense for 2018 increased \$42.3 million, or 11.4 percent, compared with 2017. The increase was primarily the result of a 4.0 percent increase in the number of full-time equivalent employees ("FTE") as well as an 8.3 percent increase in system block hours.

Aircraft fuel expense. Aircraft fuel expense for 2018 increased \$102.5 million, or 29.8 percent, compared with 2017 as the system average fuel cost per gallon increased by 26.6 percent, coupled with a 2.6 percent increase in system fuel gallons consumed on a 9.5 percent increase in system ASMs. ASM growth outpaced fuel consumption as fuel efficiency (measured as ASMs per gallon) increased 6.7 percent year over year due to increased flying on our Airbus aircraft which are more fuel efficient than our MD-80 aircraft.

Station operations expense. Station operations expense for 2018 increased \$18.4 million, or 12.9 percent, on a 9.2 percent increase in scheduled service departures compared with 2017. The increase in expense outpaced the increase in departures due primarily to rate increases, including landing and ground handling fees, at our larger airports which tend to be more expensive. We continue to view airport expense as a key factor when considering new market entrance.

Depreciation and amortization expense. Depreciation and amortization expense for 2018 increased \$7.6 million, or 6.3 percent, compared with 2017, partially related to a 4.2 percent increase in the average number of aircraft in service as we continue to add Airbus aircraft into our fleet. Depreciation expense for the Airbus fleet was \$85.3 million in 2018 compared to \$56.8 million in 2017 as a result of the addition of 24 Airbus aircraft during the year. Amortization of major maintenance costs under the deferral method of accounting for the Airbus aircraft was \$12.5 million for 2018 compared to \$6.7 million for 2017 due to the growing number of Airbus aircraft in service and related scheduled major maintenance events.

No depreciation expense was recognized in 2018 for our MD-80 fleet as an impairment charge was taken in the fourth quarter 2017 which reduced the carrying value of this fleet to zero. Depreciation expense for our MD-80 fleet and related assets in 2017 was \$20.9 million. Our remaining Boeing 757-200 aircraft and related assets were retired in 2017.

Maintenance and repairs expense. Maintenance and repairs expense for 2018 decreased \$14.5 million, or 12.7 percent, compared with 2017. The year-over-year decrease is partially due to fewer heavy maintenance events performed on our MD-80 series aircraft, as they were systematically retired from our operating fleet throughout 2018. Additionally, the cost of major maintenance events for our Airbus aircraft is capitalized in accordance with the deferral method of accounting and the amortization of these expenses is included under depreciation and amortization expense.

Sales and marketing expense. Sales and marketing expense for 2018 increased \$16.8 million, or 29.7 percent, compared to 2017, partly due to an increase in net credit card fees paid as a result of an 11.8 percent increase in passenger revenue year over year. There were also increased expenses related to various marketing initiatives, including our multi-year partnerships with the Vegas Golden Knights and Minor League Baseball.

Other expense. Other expense for 2018 increased by \$7.7 million, or 8.3 percent, compared with 2017. The increase is primarily due to information technology administration expenses, as well as other expenses incurred to support our airline operations and non-airline initiatives.

Income Tax Expense

Our effective tax rate was 18.8 percent and 0.4 percent for 2018 and 2017, respectively. The increase in the effective tax rate year over year was primarily due to a \$74.7 million one-time tax benefit related to the remeasurement of deferred tax balances recognized in 2017 per the "Tax Cuts and Jobs Act" (the "Tax Act"). We expect our tax rate to be between 24 percent and 25 percent in the near term primarily as a result of the 21 percent federal income tax rate, as well as the estimated impact of state taxes.

2017 compared to 2016

Operating Revenue

Passenger revenue. Passenger revenue for these years has been recast to include both scheduled service revenue and ancillary air-related revenue, due to the implementation of the New Revenue Standard. Passenger revenue for 2017 increased 8.1 percent, or \$103.0 million, compared with 2016. The increase was mostly the result of a 10.3 percent increase in the number of scheduled service passengers offset by a 1.5 percent decrease in average scheduled service fare coupled with a 0.8 percent decrease in average fare for air-related charges. Hurricane Irma's largest impact was evident in Florida markets during the third quarter 2017. The tragic Las Vegas shooting on October 1, 2017 negatively impacted scheduled service demand in this market for several weeks in the fourth quarter 2017. Combined, the negative impact to revenue of these two events was in excess of \$8.5 million.

Third party revenue. Third party revenue increased \$7.8 million, or 17.3 percent, in 2017 from 2016, primarily due to revenue generated from our co-branded credit card program. The increase from co-branded credit card revenue was offset by a decrease in net revenue from third party products (hotel rooms, rental cars, attraction and show tickets) resulting from an 11.1 percent and 5.8 percent decrease in hotel room nights and rental car days, respectively. Hurricane Irma had a significant impact on rental car sales in our Florida markets during the third quarter 2017. Overall, there was a 6.4 percent increase in third party revenue per passenger year over year as increases from the co-branded credit card more than offset declines in other areas.

Fixed fee contract revenue. Fixed fee contract revenue for 2017 increased \$16.7 million, or 52.3 percent, compared with 2016 due to routes added to our Apple Vacations charter, as well as increased flying for the Department of Defense due to additional spare MD-80 aircraft available as additional Airbus aircraft were placed into revenue service.

Other revenue. Other revenue for 2017 increased \$4.8 million, or 14.5 percent, due mostly to engine lease revenue generated from leasing spare engines to a third party.

Operating Expenses

The following table presents operating expense per passenger for the indicated periods.

	For the Year		Percentage	
	Ended	December 31,	Change	
	2017	2016		
	As	As		
	recast	recast		
Salary and benefits	\$30.19	\$26.24	15.1	%
Aircraft fuel (1)	27.89	23.12	20.6	
Station operations	11.58	11.15	3.9	
Maintenance and repairs	9.22	9.98	(7.6)
Depreciation and amortization	9.89	9.45	4.7	
Sales and marketing	4.61	3.11	48.2	
Aircraft lease rentals	0.25	0.08	212.5	
Other	7.54	7.29	3.4	
Special charge (2)	2.86	—	NM	
Operating expense per passenger	\$104.03	\$90.42	15.1	%
Operating expense per passenger, excluding fuel	\$76.14	\$67.30	13.1	%

(1) Includes effect of \$8.3 million fuel tax refunds in the second quarter of 2016.

(2) \$35.3 million impairment charge on MD-80 fleet in 2017.

The following table presents unit costs on a per ASM basis, or CASM, for the indicated periods.

	For the Year		Percentage	
	Ended	December	Change	
	2017	2016		
	As	As		
	recast	recast		
Salary and benefits	2.73 ¢	2.36 ¢	15.7	%
Aircraft fuel (1)	2.52	2.08	21.2	
Station operations	1.05	1.00	5.0	
Maintenance and repairs	0.83	0.90	(7.8)
Depreciation and amortization	0.89	0.85	4.7	
Sales and marketing	0.42	0.28	50.0	
Aircraft lease rental	0.02	0.01	100.0	
Other	0.69	0.65	6.2	
Special charge (2)	0.26	—	NM	
CASM	9.41 ¢	8.13 ¢	15.7	%
CASM, excluding fuel	6.89 ¢	6.05 ¢	13.9	%

(1) Includes effect of \$8.3 million fuel tax refunds in the second quarter of 2016.

(2) \$35.3 million impairment charge on MD-80 fleet in 2017.

Salary and benefits expense. Salary and benefits expense for 2017 increased \$79.6 million, or 27.3 percent, compared with 2016. The increase is largely attributable to \$52.0 million in incremental expense related to the collective bargaining agreement with our pilots (effective August 1, 2016), which also takes into consideration a 14.1 percent

increase in pilot FTEs. The overall increase also reflects costs associated with an 8.4 percent increase in the number of all other FTEs needed to support additional operating aircraft and the transition to a single fleet type.

Aircraft fuel expense. Aircraft fuel expense for 2017 increased \$86.0 million, or 33.4 percent, compared with 2016. Excluding the effect of one-time \$8.3 million in fuel tax refunds in the second quarter 2016, fuel expense would have increased 29.3 percent and the system average fuel cost per gallon would have increased by 19.5 percent. Additionally, there was an 8.0 percent increase in system fuel gallons consumed due to a 10.0 percent increase in system capacity. ASM growth outpaced fuel consumption as average ASMs per gallon increased 1.9 percent year over year due to the fuel efficiency of the Airbus fleet.

Station operations expense. Station operations expense for 2017 increased \$18.5 million, or 14.9 percent, on a 12.3 percent increase in scheduled service departures compared with 2016. The increase in expense outpaced the increase in departures due to servicing more medium-sized cities at higher frequencies (these cities generally have higher costs than smaller city airports) as well as various supplementary station expenses.

Depreciation and amortization expense. Depreciation and amortization expense for 2017 increased \$16.5 million, or 15.7 percent, compared with 2016, partially related to a 4.8 percent increase in the average number of operating aircraft. Amortization of major maintenance costs under the deferral method of accounting for the Airbus aircraft was \$6.7 million for 2017 compared to \$1.5 million for 2016, as our first major maintenance event on our Airbus aircraft did not occur until second quarter 2016. Depreciation expense related to Airbus A320 series aircraft was \$56.8 million for 2017 compared to \$44.9 million for 2016.

Depreciation expense related to MD-80 aircraft declined to approximately \$20.9 million for 2017 from \$30.0 million in 2016 as we have continued to retire these aircraft.

Maintenance and repairs expense. Maintenance and repairs expense for 2017 increased \$2.4 million, or 2.2 percent, compared with 2016 due primarily to a 4.8 percent increase in average number of operating aircraft in service, offset by fewer major maintenance events performed on our MD-80 series aircraft. The cost of major maintenance events for our Airbus aircraft is capitalized in accordance with the deferral method of accounting and the amortization of these expenses is included under depreciation and amortization expense.

Sales and marketing expense. Sales and marketing expense for 2017 increased \$22.0 million compared to 2016, primarily due to an increase in net credit card fees paid as a result of an 8.1 percent increase in passenger revenue year over year. There were also year-over-year increased expenses related to various marketing initiatives for our nationwide network.

Other expense. Other expense for 2017 increased by \$11.7 million, or 14.4 percent, compared with 2016. The increase is due to flight crew training needed to support our fleet transition and growing route network, information technology expenses, as well as other administrative expenses incurred to support our operational growth.

Special charge. We incurred a \$35.3 million non-cash impairment charge to our MD-80 series aircraft, engines and related assets, triggered in the fourth quarter of 2017.

Income Tax Expense

Our effective tax rate was 0.4 percent and 36.5 percent for 2017 and 2016, respectively. The decrease in the effective tax rate was primarily due to a \$74.7 million one-time tax benefit related to the remeasurement of deferred tax balances per the Tax Act enacted in December 2017.

LIQUIDITY AND CAPITAL RESOURCES

Unrestricted cash and investment securities (short-term and long-term) decreased at December 31, 2018 to \$447.5 million from \$490.7 million in 2017. Restricted cash represents escrowed funds under fixed fee contracts and cash collateralized against letters of credit required by hotel properties for guaranteed room availability, airports, and certain other parties. Under our fixed fee flying contracts, we require customers to prepay for flights to be provided by us. The prepayments are escrowed until the flight is completed and are recorded as restricted cash with a corresponding amount reflected as air traffic liability. Investment securities represent liquid marketable securities which are available-for-sale.

During 2018, our primary source of funds was \$356.6 million generated by our operations in addition to \$211.2 million in proceeds from notes payable. Our operating cash flows and long-term debt borrowings have allowed us to invest in our fleet transition and return capital to shareholders. Our future capital needs are primarily for the acquisition of additional aircraft, including our existing Airbus A320 series aircraft commitments, as well as capital outlay for Sunseeker Resort and our other non-airline initiatives.

We believe we have more than adequate liquidity resources through our operating cash flows, borrowings, and cash balances, to meet our future contractual obligations. We continue to consider raising funds through debt financing on an opportunistic basis.

In addition to our recurring quarterly cash dividend, our current share repurchase authority is \$100.0 million. There is no expiration date for the program.

Debt

Our total long-term debt and capital lease obligations balance, without reduction for related issuance costs, remained relatively consistent at \$1.3 billion and \$1.2 billion as of December 31, 2018 and 2017, respectively. We borrowed additional funds secured largely by aircraft, while making \$232.2 million in scheduled repayments on existing debt. During 2018 we borrowed \$153.5 million secured by aircraft, \$46.9 million against our senior secured revolving credit facility, and \$10.8 million secured by various ground equipment. In February 2019, we also borrowed \$450.0 million under a Credit and Guaranty Agreement, the proceeds from which were used to purchase \$347.9 million aggregate principal amount of our outstanding senior unsecured Notes. We expect to call the remaining balance of our senior unsecured Notes in advance of their maturity in July 2019.

Sources and Uses of Cash

Operating Activities. During 2018, our operating activities provided \$356.6 million of cash compared to \$390.7 million during 2017. Operating cash inflows are primarily derived from providing air transportation and related ancillary products and services to customers, for which the vast majority of tickets are purchased prior to the day travel occurs. The year-over-year decrease in reported cash inflows resulted primarily from a decrease in net income. During 2017, our operating activities provided \$390.7 million of cash compared to \$348.2 million in 2016. The year-over-year increase in reported cash inflows largely resulted from the increase in earnings after adjustments made for non-cash items such as depreciation and amortization (\$16.5 million higher in 2017) and the special charge in 2017 (\$35.3 million), and as a result of a \$12.7 million increase in air traffic liability.

Investing Activities. During 2018, cash used for investing activities was \$269.0 million compared to \$618.5 million in 2017. Cash used for capital expenditures was \$334.8 million in 2018 compared to \$580.2 million in 2017. The year-over-year decrease is also due partially to investment security activity, as cash proceeds from maturities of investment securities (net of purchases) were \$65.1 million during 2018 compared to \$43.4 million cash used for the purchase of investments (net of maturities) during 2017.

During 2016, our primary use of cash was for capital expenditures of \$325.2 million. Cash was also used for the purchase of investment securities, net of maturities, of \$83.5 million.

Financing Activities. Cash used in financing activities during 2018 was \$62.4 million compared to cash provided by financing activities of \$222.1 million in 2017. The year-over-year change is primarily due to debt activity. In 2018, principal payments net of proceeds from debt issuance were \$21.0 million compared to proceeds of \$358.7 million from the issuance of long-term debt net of principal payments during 2017. This was slightly offset by less share repurchase activity in 2018 compared with 2017.

In 2016, cash provided by financing activities was \$32.6 million. Proceeds from the issuance of long-term debt net of principal payments of \$167.1 million were offset by \$67.5 million in cash dividends paid to shareholders and \$66.4 million in stock repurchases.

OFF-BALANCE SHEET ARRANGEMENTS, COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The following table discloses aggregate information about our contractual cash obligations and off-balance sheet arrangements as of December 31, 2018 and the periods in which payments are due (in thousands):

Total	Less than 1 year	2-3 years	4-5 years	More than 5 years
-------	---------------------	-----------	-----------	-------------------------

Edgar Filing: Allegiant Travel CO - Form 10-K

Long-term debt obligations (1)	\$1,290,626	\$626,982	\$286,015	\$132,186	\$245,443
Aircraft acquisition obligations (2) (5)	311,460	259,160	34,300	18,000	—
Operating lease obligations (3) (5)	29,329	8,102	9,674	3,256	8,297
Airport fees under use and lease agreements (4) (5)	15,766	10,480	5,286	—	—
Total future payments under contractual obligations	\$1,647,181	\$904,724	\$335,275	\$153,442	\$253,740

38

- (1) Long-term debt obligations (including variable interest entities) include scheduled interest payments, using LIBOR rates as of December 31, 2018, and excludes debt issuance costs.
- (2) Includes aircraft acquisition obligations under existing aircraft and engine purchase agreements.
- (3) Operating lease obligations include the lease and use of gate space and areas surrounding gates, operating support areas in airport terminals under use and lease agreements, and leases of office, warehouse and other space.
- (4) Includes obligations for common and joint use space in the airport terminal facilities under use and lease agreements.
- (5) Not reflected on our balance sheet.

In February 2019, we entered into the Term Loan to refinance our senior unsecured Notes due July 2019. The proceeds from the Term Loan were used to purchase \$347.9 million of the Notes and we will use the balance of the proceeds to call the remainder of the Notes.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements based on events and transactions occurring during the periods reported. Note 2 to our Consolidated Financial Statements provides a detailed discussion of our significant accounting policies.

Critical accounting policies are defined as those policies that reflect significant judgments about matters that are inherently uncertain. Our actual results may differ from these estimates under different assumptions or conditions. We believe our critical accounting policies are limited to those described below.

Affinity Credit Card Program

The Allegiant World Mastercard® is issued by Bank of America through which arrangement points are sold and consideration is received under an agreement with a seven year scheduled duration which expires in 2023. Under this arrangement, we identified the following deliverables: travel points to be awarded (the travel component), use of our brand and access to our member lists, and certain other advertising and marketing elements (collectively the marketing component). Applying guidance under Accounting Standards Update (“ASU”) 2009-13 - Revenue Recognition (Topic 606): Multiple-Deliverable Revenue Arrangements, each of these deliverables is accounted for separately and allocation of the consideration from the agreement is determined based on the relative selling price of each deliverable. We applied a level of management judgment and estimation in determining the best estimate of selling price for each deliverable by considering multiple inputs and methods including, but not limited to, the redemption value of points awarded, discounted cash flows, brand value, volume discounts, published selling prices, number of points to be awarded and number of points to be redeemed.

Revenue from the travel component is deferred based on its relative selling price and is recognized into scheduled service revenue when the points are redeemed by cardholders. Revenue from the marketing component is considered earned in the period in which points are sold and is therefore recognized into third party products revenue in the same period.

Accounting for Long-Lived Assets

We record impairment losses on long-lived assets used in operations, consisting principally of property and equipment, when events or changes in circumstances indicate, in management’s judgment, that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. In making these determinations, we utilize certain assumptions, including, but not limited to: (i) estimated fair value of the assets; and (ii) estimated future cash flows expected to be generated by those assets which

are based on additional assumptions such as (but not limited to) asset utilization, average fare, block hours, fuel costs, length of service the asset will be used in operations, and estimated salvage values.

In estimating the useful lives and residual values of our aircraft, we have primarily relied upon actual experience with the same or similar aircraft types, current and projected future market information, and recommendations from other industry sources. Subsequent revisions to these estimates could be caused by changing market prices of our aircraft, changes in utilization of the aircraft, and other fleet events. We evaluate these estimates used for each reporting period and adjust when deemed necessary. To the extent a change in estimate for useful lives or salvage values of our property and equipment occurs, there could be an acceleration of depreciation expense associated with the change in estimate. See Note 2 to the Consolidated Financial Statements for further detail.

Aircraft Maintenance and Repair Costs and Major Maintenance Deferral

We account for major maintenance costs of Airbus airframes and the related CFM engines using the deferral method. Under this method, the cost of major maintenance events is capitalized and amortized as a component of depreciation and amortization expense over the estimated period until the next scheduled major maintenance event. The timing of the next major maintenance event is estimated based on assumptions including estimated cycles, hours and months, required maintenance intervals, and the age/condition of related parts. These assumptions may change based on forecasted aircraft utilization changes, updates to government regulations, and manufacturer maintenance intervals, as well as unplanned incidents causing damage requiring a major maintenance event prior to a scheduled visit. If the estimated timing of the next maintenance event changes, the related amortization period would also change.

RECENT ACCOUNTING PRONOUNCEMENTS

See related disclosure in Note 2 of our Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are subject to certain market risks, including changes in interest rates and commodity prices (specifically, aircraft fuel). The adverse effects of changes in markets could pose 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.

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 year ended December 31, 2018 represented 31.3 percent of our total operating expenses. Increases in fuel prices or a shortage of supply could have a material effect on our operations and operating results. Based on our 2018 fuel consumption, a hypothetical ten percent increase in the average price per gallon of aircraft fuel would have increased fuel expense by approximately \$44.4 million for the 2018 year. We have not hedged fuel price risk in many years.

Interest Rates

As of December 31, 2018, we had \$635.0 million of variable-rate debt, including current maturities and without reduction of \$4.1 million in related costs. A hypothetical 100 basis point change in interest rates would have affected interest expense by approximately \$6.7 million for 2018.

As of December 31, 2018, we had \$518.8 million of fixed-rate debt, including current maturities and without reduction of \$0.9 million in related costs. A hypothetical 100 basis point change in market interest rates would not impact interest expense on our fixed-rate debt instruments as of such date.

Item 8. Financial Statements and Supplementary Data

Selected Quarterly Financial Data (unaudited)

Quarterly results of operations for the years ended December 31, 2018 and 2017 are summarized below and reflect amounts as recast related to adoption of ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" (the "New Revenue Standard"). Amounts are shown in thousands, except for per share amounts.

	March 31	June 30	September 30	December 31
2018				
Operating revenues	\$425,444	\$436,780	\$393,109	\$412,114
Operating income	79,968	74,222	26,181	63,088
Net income	55,193	50,016	15,147	41,447
Earnings per share to common shareholders:				
Basic	\$3.43	\$3.10	\$0.94	\$2.56
Diluted	3.42	3.10	0.94	2.56
2017				
Operating revenues	\$380,011	\$401,844	\$350,195	\$379,154
Operating income	73,729	85,795	44,342	26,764
Net income attributable to Allegiant Travel Company	42,351	49,038	23,384	83,376
Earnings per share to common shareholders:				
Basic	\$2.54	\$2.98	\$1.45	\$5.18
Diluted	2.54	2.97	1.45	5.18

The sum of the quarterly earnings per share amounts does not equal the annual amount reported as per share amounts are computed independently for each quarter and for the full year, based on respective weighted average common shares outstanding and other potentially dilutive common shares.

Income and earnings per share in the fourth quarter of 2017 were impacted by a non-cash impairment charge of \$35.3 million on the Company's MD-80 fleet and related assets and a \$74.7 million income tax benefit from the remeasurement of deferred tax assets and liabilities due to the passage of the Tax Cuts and Jobs Act in December 2017.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Allegiant Travel Company:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets Allegiant Travel Company and subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the years in the three year period ended December 31, 2018, and the related notes (collectively, the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 28, 2019 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for revenue from contracts with customers due to the full retrospective adoption of Accounting Standards Update 2014 09, Revenue from Contracts with Customers (Topic 606), as amended.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company’s auditor since 2016.

Dallas, Texas

February 28, 2019

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

	December 31, 2018	December 31, 2017 As recast
CURRENT ASSETS		
Cash and cash equivalents	\$ 81,520	\$ 59,449
Restricted cash	14,391	11,190
Short-term investments	314,464	352,681
Accounts receivable	36,014	71,057
Expendable parts, supplies and fuel, net of reserve of \$14,410 and \$13,756	19,516	17,647
Prepaid expenses	29,122	23,931
Other current assets	221	5,320
TOTAL CURRENT ASSETS	495,248	541,275
Property and equipment (including \$145,393 and \$112,750 from VIEs, Note 6), net of accumulated depreciation of \$373,977 and \$276,548	1,847,268	1,512,415
Long-term investments	51,526	78,570
Deferred major maintenance, net of accumulated amortization of \$13,694 and \$8,218	67,873	31,326
Deposits and other assets	36,753	16,571
TOTAL ASSETS:	\$ 2,498,668	\$ 2,180,157
CURRENT LIABILITIES		
Accounts payable	\$ 27,452	\$ 20,108
Accrued liabilities	122,027	105,127
Air traffic liability	212,230	204,299
Current maturities of long-term debt and capital lease obligations (including \$11,538 and \$8,935 from VIEs, Note 6), net of related costs of \$1,443 and \$2,298	152,287	214,761
TOTAL CURRENT LIABILITIES	513,996	544,295
LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES		
Long-term debt and capital lease obligations (including \$123,696 and \$92,424 from VIEs, Note 6), net of current maturities and related costs of \$3,591 and \$3,812	1,119,446	950,131
Deferred income taxes	164,027	119,013
Other noncurrent liabilities	10,878	13,407
TOTAL LIABILITIES:	1,808,347	1,626,846
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
SHAREHOLDERS' EQUITY		
Common stock, par value \$.001, 100,000,000 shares authorized; 22,622,548 and 22,515,997 shares issued; 16,183,274 and 16,066,404 shares outstanding in 2018 and 2017, respectively	23	23
Treasury stock, at cost, 6,439,274 and 6,449,593 shares in 2018 and 2017, respectively	(605,037) (605,655)
Additional paid in capital	270,935	253,840
Accumulated other comprehensive loss, net	(661) (2,840)
Retained earnings	1,025,061	907,943
TOTAL EQUITY:	690,321	553,311
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY:	\$ 2,498,668	\$ 2,180,157

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



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

	Year ended December 31,		
	2018	2017	2016
		As recast	As recast
OPERATING REVENUES:			
Passenger	\$1,533,701	\$1,372,037	\$1,269,067
Third party products	58,060	52,707	44,940
Fixed fee contract	50,286	48,708	31,972
Other	25,400	37,751	32,963
Total operating revenues	1,667,447	1,511,203	1,378,942
OPERATING EXPENSES:			
Aircraft fuel	445,814	343,333	257,332
Salary and benefits	413,892	371,599	291,974
Station operations	161,019	142,581	124,052
Depreciation and amortization	129,351	121,713	105,216
Maintenance and repairs	99,015	113,481	111,070
Sales and marketing	73,514	56,675	34,629
Aircraft lease rentals	868	3,098	924
Other	100,515	92,840	81,178
Special charge	—	35,253	—
Total operating expenses	1,423,988	1,280,573	1,006,375
OPERATING INCOME	243,459	230,630	372,567
OTHER (INCOME) EXPENSES:			
Interest income	(9,226)	(5,808)	(3,010)
Interest expense	53,762	38,990	28,836
Other, net	(395)	(1,559)	(1,226)
Total other expenses	44,141	31,623	24,600
INCOME BEFORE INCOME TAXES	199,318	199,007	347,967
PROVISION FOR INCOME TAXES	37,516	859	127,101
NET INCOME	\$161,802	\$198,148	\$220,866
Earnings per share to common shareholders:			
Basic	\$10.02	\$12.14	\$13.31
Diluted	\$10.00	\$12.13	\$13.29
Shares used for computation:			
Basic	15,941	16,073	16,465
Diluted	15,967	16,095	16,489
Cash dividend declared per share:	\$2.80	\$2.80	\$2.40

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

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

	Year ended December 31,		
	2018	2017	2016
		As recast	As recast
NET INCOME	\$ 161,802	\$ 198,148	\$ 220,866
Other comprehensive income (loss):			
Change in available for sale securities, net of tax	(1,153)	49	318
Foreign currency translation adjustments	177	(681)	88
Change in derivatives, net of tax	3,155	(1,978)	(1,470)
Total other comprehensive income (loss)	2,179	(2,610)	(1,064)
TOTAL COMPREHENSIVE INCOME	\$ 163,981	\$ 195,538	\$ 219,802

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

ALLEGIANT TRAVEL COMPANY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands)

	Common stock outstanding	Par value	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury shares	Total shareholders' equity
Balance at December 31, 2015	16,803	\$ 22	\$ 228,945	\$ 834	\$ 573,619	\$(453,415)	\$ 350,005
Share-based compensation	219	—	9,291	—			9,291
Shares repurchased by the Company and held as treasury shares	(402)	—	—	—		(66,371)	(66,371)
Stock issued under employee stock purchase plan	13	—	—	—		1,983	1,983
Cash dividends declared, \$2.40 per share	—	—	—	—	(39,812)		(39,812)
Other comprehensive (loss)	—	—	—	(1,064)			(1,064)
Net income (as recast)	—	—	—	—	220,866		220,866
Cumulative effect of the New Revenue Standard (see Note 2)	—	—	—	—	842		842
Balance at December 31, 2016 (as recast)	16,633	\$ 22	\$ 238,236	\$ (230)	\$ 755,515	\$(517,803)	\$ 475,740
Share-based compensation	47	1	15,604	—			15,605
Shares repurchased by the Company and held as treasury shares	(632)	—	—	—		(90,457)	(90,457)
Stock issued under employee stock purchase plan	18	—	—	—		2,605	2,605
Cash dividends declared, \$2.80 per share	—	—	—	—	(45,720)		(45,720)
Other comprehensive (loss)	—	—	—	(2,610)			(2,610)
Net income (as recast)	—	—	—	—	198,148		198,148
Balance at December 31, 2017 (as recast)	16,066	\$ 23	\$ 253,840	\$ (2,840)	\$ 907,943	\$(605,655)	\$ 553,311
Share-based compensation	107	—	17,095	—			17,095
Shares repurchased by the Company and held as treasury shares	(23)	—	—	—		(3,650)	(3,650)
Stock issued under employee stock purchase plan	33	—	—	—		4,268	4,268
Cash dividends declared, \$2.80 per share	—	—	—	—	(45,247)		(45,247)
Other comprehensive income	—	—	—	2,179	563		2,742
Net income	—	—	—	—	161,802		161,802
Balance at December 31, 2018	16,183	\$ 23	\$ 270,935	\$ (661)	\$ 1,025,061	\$(605,037)	\$ 690,321

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

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

	Year ended December 31,		
	2018	2017	2016
		As recast	As recast
OPERATING ACTIVITIES:			
Net income	\$ 161,802	\$ 198,148	\$ 220,866
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	129,351	121,713	105,216
Loss on aircraft and other equipment disposals	2,360	9,334	4,981
Special charge	—	35,253	—
Share-based compensation expense	15,098	13,856	9,389
Deferred income taxes	38,222	42,689	30,579
Other adjustments	4,541	5,933	4,286
Changes in certain assets and liabilities:			
(Increase) decrease in accounts receivable	35,624	(30,568)	(18,201)
(Increase) decrease in prepaid expenses	(5,191)	(7,654)	1,999
Increase (decrease) in accounts payable	8,633	4,798	9,209
Increase (decrease) in accrued liabilities	12,005	9,251	7,596
Increase (decrease) in air traffic liability	7,931	12,721	(6,144)
Change in deferred major maintenance	(49,622)	(20,687)	(18,857)
Other assets/liabilities	(4,142)	(4,113)	(2,769)
Net cash provided by operating activities	356,612	390,674	348,150
INVESTING ACTIVITIES:			
Purchase of investment securities	(371,461)	(363,300)	(444,532)
Proceeds from maturities of investment securities	436,581	319,915	361,082
Aircraft pre-delivery deposits	—	(11,810)	(125,434)
Purchase of property and equipment, including capitalized interest	(334,774)	(568,439)	(199,743)
Other investing activities	677	5,115	6,790
Net cash used in investing activities	(268,977)	(618,519)	(401,837)
FINANCING ACTIVITIES:			
Cash dividends paid to shareholders	(45,247)	(45,720)	(67,540)
Proceeds from the issuance of debt	211,225	497,540	321,160
Repurchase of common stock	(3,650)	(90,457)	(66,371)
Principal payments on debt and capital lease obligations	(232,227)	(138,858)	(154,080)
Other financing activities	7,536	(379)	(594)
Net cash (used in) provided by financing activities	(62,363)	222,126	32,575
Net change in cash, cash equivalents, and restricted cash	25,272	(5,719)	(21,112)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT BEGINNING OF PERIOD	70,639	76,358	97,470
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF PERIOD	\$95,911	\$70,639	\$76,358
CASH PAYMENTS/(RECEIPTS) FOR:			
Interest paid, net of amount capitalized	\$52,323	\$35,998	\$26,454
Income tax (refunds)/payments	\$(41,610)	\$(17,954)	\$110,612
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS			

Edgar Filing: Allegiant Travel CO - Form 10-K

Flight equipment under capital lease	\$127,625	\$—	\$—
--------------------------------------	-----------	-----	-----

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

47

ALLEGIANT TRAVEL COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2018, 2017 and 2016

Note 1 — Organization and Business of Company

Allegiant Travel Company (the "Company") is a leisure travel company focused on providing travel services and products to residents of under-served cities in the United States. The Company operates a low-cost passenger airline which sells air transportation both on a stand-alone basis and bundled with the sale of air-related and third party services and products. The Company also provides air transportation under fixed fee flying arrangements, generates other ancillary revenues, and operates non-airline related entities which include the development of Sunseeker Resort, family entertainment centers, and Teesnap.

Scheduled service and fixed fee air transportation services have similar operating margins, economic characteristics, and production processes (check-in, baggage handling and flight services) which target the same class of customers, and are subject to the same regulatory environment. As a result, the Company believes it currently operates one reportable segment and does not separately track expenses for scheduled service and fixed fee air transportation services.

Note 2 — Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Allegiant Travel Company (the "Company") and its majority-owned operating subsidiaries. The Company has no independent assets or operations, and all guarantees of the Company's publicly held debt are full and unconditional and joint and several. Any subsidiaries of the parent company other than the subsidiary guarantors are minor. The Company's investments in unconsolidated affiliates, which are 50 percent or less owned, are accounted for under the equity or cost method. All intercompany balances and transactions have been eliminated.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from these estimates.

The Company adopted the New Revenue Standard and ASU 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220)" effective January 1, 2018. All amounts and disclosures in this Form 10-K reflect the adoption of these standards. See below for further information.

The Company has reclassified certain amounts for the years ended December 31, 2017 and 2016, respectively, to conform with current year presentation. Such reclassifications had no impact on operating income or net income.

Cash and Cash Equivalents

Cash and cash equivalents include investments and interest bearing instruments with maturities of three months or less at the balance sheet date. Such investments are carried at cost which approximates fair value.

Restricted Cash

Restricted cash represents escrowed funds under fixed fee contracts, and cash collateral held against letters of credit required by hotel properties for guaranteed room availability, airports and certain other parties. Restricted cash at December 31, 2018 and 2017 was \$14.4 million and \$11.2 million, respectively.

Accounts Receivable

Accounts receivable are carried at face amount which approximates fair value. They consist primarily of amounts due from credit card companies associated with the sale of tickets for future travel. These receivables are short-term and generally settle within a few days of sale. There are also receivables related to commission amounts due from Enterprise Holdings Inc. based on terms in the rental car provider agreement, as well as income tax receivables, and amounts due related to fixed fee charter agreements. If deemed necessary, the Company records charges to its allowance for doubtful accounts for amounts not expected to be collected, for which the balance was immaterial for all years presented. The Company also had outstanding receivables from a third party as of December 31, 2018 and 2017, for which \$12.7 million and \$6.3 million, respectively, was due more than one year after the balance sheet date and is classified with the Company's other assets.

Short-term and Long-term Investments

The Company's investments in marketable securities are classified as available-for-sale and are reported at fair value with the net unrealized gain or (loss) reported as a component of accumulated other comprehensive income in shareholders' equity.

Investment securities are classified as cash equivalents, short-term investments and long-term investments based on maturity date as of the balance sheet date. Cash equivalents have maturities of three months or less, short-term investments have maturities of greater than three months but equal to or less than one year, and long-term investments are those with a maturity date greater than one year. As of December 31, 2018, the Company's long-term investments consisted of corporate debt securities, federal agency debt securities, US Treasury Bonds, and municipal debt securities with contractual maturities of less than 24 months.

The amortized cost of investment securities sold is determined by the specific identification method with any realized gains or losses reflected in other (income) expense. The Company had minimal realized losses during the years ended December 31, 2018, 2017, and 2016. The Company believes unrealized losses related to debt securities are not other-than-temporary and does not intend to sell these securities prior to amortized cost recoverability.

The Company attempts to minimize its concentration risk with regard to its cash, cash equivalents, and investment portfolio. This is accomplished by diversifying and limiting amounts among different counterparties, the type of investment, and the amount invested in any individual security, commercial paper, or money market fund.

Expendable Parts, Supplies and Fuel, Net

Expendable parts, supplies and fuel inventories are valued at cost using the first-in, first-out method. Such inventories are charged to expense as they are used in operations. An obsolescence allowance for expendable parts and supplies is based on the remaining useful lives of the corresponding fleet type and salvage values. The allowance for expendable parts and supplies was \$14.4 million and \$13.8 million at December 31, 2018 and 2017, respectively. Rotable aircraft parts inventories are included in property and equipment.

Software Capitalization

The Company capitalizes certain internal and external costs related to the acquisition and development of computer software during the application development stage of projects. The Company amortizes these capitalized costs using the straight-line method over the estimated useful life of the software, which typically ranges from three to seven years. The Company had unamortized computer software development costs of \$41.3 million and \$41.0 million as of December 31, 2018 and 2017, respectively. Amortization expense related to computer software was \$14.1 million, \$15.9 million and \$13.3 million for the years ended December 31, 2018, 2017 and 2016, respectively. Costs incurred during the preliminary and post-implementation stages are expensed as incurred.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives less any estimated salvage value. Property under capital leases and related obligations are initially recorded at an amount equal to the present value of future minimum lease payments computed on the basis of the Company's incremental borrowing rate, and depreciation is recorded on a straight-line basis and is included within depreciation and amortization expense. The estimated useful lives of the principal asset classes are shown below.

Aircraft, engines and related rotatable parts 10-25 years

Edgar Filing: Allegiant Travel CO - Form 10-K

Buildings	25 years
Equipment and leasehold improvements	3-7 years
Computer hardware and software	3-7 years

In estimating the useful lives and residual values of aircraft, the Company primarily relies upon actual experience with the same or similar aircraft types, current and projected future market information, and recommendations from other industry sources. Subsequent revisions to these estimates could be caused by changing market prices of the Company's aircraft, changes in utilization of the aircraft, and other fleet events. These estimates are evaluated each reporting period and adjusted if

necessary. Changes in the estimate for useful lives or residual values of the Company's property and equipment could result in changes in depreciation expense.

Interest is capitalized using the Company's weighted average borrowing rate and depreciated over the estimated useful life of the asset(s). Capitalized interest for 2018 and 2017 was \$2.4 million and \$3.2 million, respectively.

Aircraft Maintenance and Repair Costs

The Company accounts for MD-80 airframes and JT8D-219 engine major maintenance, as well as all non-major maintenance and repair costs incurred, for both the MD-80 and Airbus fleets, under the direct expense method. Under this method, maintenance and repair costs for aircraft are charged to operating expenses as incurred. Maintenance and repair costs includes all parts, materials, and line maintenance activities required to maintain the Company's fleet types.

The Company accounts for major maintenance costs of its Airbus airframes and the related CFM engines using the deferral method. Under this method, the Company capitalizes the cost of major maintenance events, which are amortized as a component of depreciation and amortization expense, over the estimated period until the next scheduled major maintenance event. During 2018 and 2017, the Company capitalized \$49.6 million and \$20.7 million of costs for major maintenance with associated amortization expense charged to depreciation and amortization of \$12.5 million and \$6.7 million, respectively.

Measurement of Impairment of Long-Lived Assets

The Company records impairment losses on long-lived assets used in operations, consisting principally of property and equipment, when events or changes in circumstances indicate, in management's judgment, that the assets might be impaired, and the undiscounted future cash flows estimated to be generated by those assets are less than the carrying amount of those assets. In making these determinations, the Company utilizes certain assumptions, including, but not limited to: (i) estimated fair value of the assets; and (ii) estimated future cash flows expected to be generated by these assets, which are based on additional assumptions such as asset utilization, length of service for which the asset will be used in operations, and estimated salvage values.

For the years ended December 31, 2017 and 2016, the Company incurred impairment losses related to various aircraft parts of \$1.3 million and \$3.0 million, respectively, which are classified within Other operating expense. For the year ended December 31, 2018, the Company did not incur any related impairment losses.

For the year ended December 31, 2017, the Company recorded a non-cash impairment charge of \$35.3 million on its fleet of MD-80 aircraft, engines, and related assets, as a result of its review of fleet value. This represented a full impairment of these assets, and as such, these assets had no remaining book value as of December 31, 2017. The Company analyzed many factors, including the accelerated retirement dates of the MD-80 fleet, a reduction in aircraft utilization due to the continued induction of Airbus A320 series aircraft, and the significantly decreased level of demand in the secondary market for MD-80 aircraft, spare engines, and parts.

Revenue Recognition

Passenger revenue

Passenger revenue includes scheduled service revenue, ancillary air-related charges, and travel point redemptions from the co-branded Allegiant World Mastercard® credit card.

Scheduled service revenue, a component of passenger revenue, consists of ticket revenue generated from nonstop flights in the Company's route network, recognized either when the transportation is provided or when the itinerary expires unused. Nonrefundable scheduled itineraries expire on the date of the intended flight, unless the date is extended by notification from the customer in advance. Itineraries sold for transportation not yet used, as well as unexpired credits, are included in air traffic liability.

Ancillary air-related charges, a component of passenger revenue, include various unbundled services and products related to the flight such as baggage fees, the use of the Company's website to purchase scheduled service transportation, advance seat assignments, and other services. Revenues from air-related charges are recognized when the transportation is provided. If a customer cancels a flight, a voucher may be issued for a future flight, at which time the associated revenue is recognized. Additionally, the Company estimates the value of vouchers that will expire unused and recognizes such revenue at the time of issuance.

Third party products revenue

Ancillary third party products revenue is generated from the sale of hotel rooms, rental cars and ticket attractions, as well as marketing revenue associated with the co-branded credit card. Revenue from the sale of third party products is recognized at the time the product is utilized, such as the time a purchased hotel room is occupied. The Company follows accounting standards for determining the amount of revenue to be recognized for each element of a bundled sale involving third party products in addition to airfare. Revenue from the sale of third party products is recorded net (treatment as an agent) of amounts paid to wholesale providers, travel agent commissions, and transaction costs.

Pursuant to the co-brand arrangement with Bank of America, the Company has various performance obligations which are collectively referred to as the marketing component. These obligations consist of use of the Company's brand and access to its member lists, and certain other advertising and marketing elements. The marketing component is recorded as third party products revenue in the period in which points are awarded to the credit card holders.

Fixed fee contract revenue

Fixed fee contract revenue consists of agreements to provide charter service on a year-round and ad hoc basis. Fixed fee contract revenue is recognized when the transportation is provided.

Other revenue

Other revenue is generated from leasing aircraft and engines, and other miscellaneous sources, including revenue from non-airline activities. Lease revenue is recognized ratably over the lease term.

Taxes and fees

Various taxes and fees, assessed on the sale of tickets to customers, are collected by the Company serving as an agent, and remitted to taxing authorities. These taxes and fees are not included as revenue in the Company's consolidated statements of income and are recorded as a liability until remitted to the appropriate taxing authority.

Affinity Credit Card Program

The Allegiant World Mastercard® is issued by Bank of America through which arrangement points are sold and consideration is received under an agreement with a seven year scheduled duration expiring in 2023. Under this arrangement, the Company identified the following deliverables: travel points to be awarded (the travel component), use of the Company's brand and access to its member lists, and certain other advertising and marketing elements (collectively the marketing component). Applying guidance under Accounting Standards Update ("ASU") 2009-13 - Revenue Recognition (Topic 606): Multiple-Deliverable Revenue Arrangements, each of these deliverables is accounted for separately and allocation of the consideration from the agreement is determined based on the relative selling price of each deliverable. The Company applied a level of management judgment and estimation in determining the best estimate of selling price for each deliverable by considering multiple inputs and methods including, but not limited to, the redemption value of points awarded, discounted cash flows, brand value, volume discounts, published selling prices, number of points to be awarded and number of points to be redeemed. Revenue from the travel component is deferred based on its relative selling price and is recognized into passenger revenue when the points are redeemed by cardholders. Revenue from the marketing component is considered earned in the period in which points are sold and is therefore recognized into third party products revenue in the same period.

Advertising Costs

Advertising costs are charged to expense in the period incurred. Advertising expense was \$28.8 million, \$20.9 million and \$13.6 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Earnings per Share

Basic and diluted earnings per share are computed pursuant to the two-class method as opposed to the treasury 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 because 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 is assumed using the treasury stock method. The assumption of vesting of restricted stock, however, differs as described below:

51

Edgar Filing: Allegiant Travel CO - Form 10-K

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.

For the years ended December 31, 2018, 2017 and 2016, the second method above 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 (in thousands, except per share amounts):

	Year ended December 31, 2018	2017 As recast	2016 As recast
Basic:			
Net income	\$ 161,802	\$ 198,148	\$ 220,866
Less net income allocated to participating securities	(2,106)	(2,965)	(1,758)
Net income attributable to common stock	\$ 159,696	\$ 195,183	\$ 219,108
Earnings per share, basic	\$ 10.02	\$ 12.14	\$ 13.31
Weighted-average shares outstanding	15,941	16,073	16,465
Diluted:			
Net income	\$ 161,802	\$ 198,148	\$ 220,866
Less net income allocated to participating securities	(2,104)	(2,962)	(1,756)
Net income attributable to common stock	\$ 159,698	\$ 195,186	\$ 219,110
Earnings per share, diluted	\$ 10.00	\$ 12.13	\$ 13.29
Weighted-average shares outstanding	15,941	16,073	16,465
Dilutive effect of stock options and restricted stock	53	74	42
Adjusted weighted-average shares outstanding under treasury stock method	15,994	16,147	16,507
Participating securities excluded under two-class method	(27)	(52)	(18)
Adjusted weighted-average shares outstanding	15,967	16,095	16,489

under two-class
method

Stock awards outstanding of 77,037; 5,752; and 51,439 shares (not in thousands) for 2018, 2017, and 2016, respectively, were excluded from the computation of diluted earnings per share as they were antidilutive.

Share-Based Compensation

The Company accounts for share-based compensation in accordance with accounting standards which require the compensation cost related to share-based payment transactions be recognized in the Company's consolidated statements of income. The share-based cost is measured based on grant date fair value. The Company's share-based employee compensation plan is more fully discussed in Note 11.

Income Taxes

The Company recognizes deferred income taxes based on the asset and liability method required by accounting standards. Deferred tax assets and liabilities are determined based on the timing differences between book basis for financial reporting purposes and tax basis of the asset and liability and measured using the enacted tax rates. A valuation allowance for deferred tax assets is provided if it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company determines the net non-current deferred tax assets or liabilities separately for federal, state, foreign and other local jurisdictions.

The Company's income tax returns are subject to examination by the Internal Revenue Service ("IRS") and other tax authorities in the jurisdictions where the Company operates. The Company assesses potentially unfavorable outcomes of such examinations based on the criteria set forth in uncertain tax position accounting standards. The accounting standards prescribe a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements.

52

Accounting standards for income taxes utilize a two-step approach for evaluating tax positions. Recognition (Step I) occurs when the Company concludes that a tax position, based on its technical merits, is more likely than not to be sustained upon examination. Measurement (Step II) is only addressed if the position is deemed to be more likely than not to be sustained. Under Step II, the tax benefit is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement.

The tax positions failing to qualify for initial recognition are recognized in the first subsequent interim period they meet the “more likely than not” standard. If it is subsequently determined that a previously recognized tax position no longer meets the “more likely than not” standard, it is required that the tax position be derecognized. As applicable, the Company will recognize accrued penalties and interest related to unrecognized tax benefits in the provision for income taxes.

Recent Accounting Pronouncements

Standards Effective in Future Years

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-02, Leases (Topic 842), which is effective for interim and annual reporting periods beginning after December 15, 2018 with early adoption permitted. This standard will require leases, other than short-term, to be recognized on the balance sheet as a lease liability and a corresponding right-of-use asset. Lease payments will include fixed payments, variable payments based on an index or rate, reasonably certain purchase options, termination penalties, and others as required by the standard. Lease payments will not include variable lease payments other than those that depend on an index or rate, any guarantee by the lessee of the lessor’s debt, or any amount allocated to non-lease components.

In July 2018, the FASB issued ASU 2018-11, “Targeted Improvements - Leases (Topic 842).” This update provides an optional modified retrospective adoption method. Under this new method, the cumulative effect adjustment to the opening balance of retained earnings is recognized at the adoption date.

The Company is in the process of assessing the impact of this standard. Real estate operating leases and various other operating leases are expected to be placed on the balance sheet as a result of this standard but it is not expected that airport terminal leases will have a significant impact, as they mostly include variable lease payments outside of those based on a fixed index and, as a result, are excluded from consideration. The expected impact of applying this standard will be the recognition of between \$15 million and \$25 million in right-of-use assets and corresponding lease liability. Adoption is not expected to significantly change the recognition, measurement or presentation of associated expenses within the consolidated statements of income or cash flows, or impact existing debt covenants. The Company also plans to elect the package of practical expedients and will adopt this standard under the modified retrospective transition method effective January 1, 2019.

Recently Adopted Standards

In 2014, the FASB issued the New Revenue Standard. Under this ASU and subsequently issued amendments, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration received. Entities may use a full retrospective approach or report the cumulative effect as of the date of adoption. The Company adopted this standard using the full retrospective transition method effective January 1, 2018 and has recast prior year results. See Note 3 for more information on the impact of this adoption.

While the adoption of the New Revenue Standard did not have a significant effect on earnings, \$621.9 million of ancillary air-related fees for the twelve months ended December 31, 2018 are now classified as passenger revenue. Adoption also resulted in a net reduction to air traffic liability at December 31, 2017 of \$5.9 million. This change resulted from the recognition of breakage revenue on issuance of credit vouchers that are expected to expire unused. The Company recognizes revenue from the co-branded credit card program using the deferral method.

In February 2018, the FASB issued ASU 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220)." This standard provides an option to reclassify stranded tax effects within accumulated other comprehensive income (loss) ("AOCI") to retained earnings. The Company adopted this standard effective January 1, 2018 and a one-time effect of \$0.6 million has been reclassified from AOCI to retained earnings.

Note 3 — Revenue Recognition

Certain prior period amounts have been recast to conform to the adoption of the New Revenue Standard as shown in the tables below. See Note 2 for additional information on each revenue component.

53

Edgar Filing: Allegiant Travel CO - Form 10-K

(in thousands, except per share data)	Year Ended December 31, 2017			Year Ended December 31, 2016		
	As Previously Reported	Adjustments	Current Presentation	As Previously Reported	Adjustments	Current Presentation
Consolidated Statements of Income:						
Passenger revenue (1)	\$818,136	\$553,901	\$1,372,037	\$753,414	\$515,653	\$1,269,067
Air-related charges	546,476	(546,476)	—	499,542	(499,542)	—
Sales and marketing	52,711	3,964	56,675	20,527	14,102	34,629
Income tax provision	644	215	859	126,368	733	127,101
Net income	194,902	3,246	198,148	219,590	1,276	220,866
Diluted earnings per share	\$11.93	\$0.20	\$12.13	\$13.21	\$0.08	\$13.29

(1) Passenger revenue previously reported as Scheduled service revenue.

(in thousands)	December 31, 2017		
	As Previously Reported	Adjustments	Current Presentation
Consolidated Balance Sheets:			
Air traffic liability	\$210,184	\$ (5,885)	\$ 204,299
Deferred income taxes	118,492	521	119,013
Retained earnings	902,579	5,364	907,943

(in thousands)	Year ended December 31, 2017			Year ended December 31, 2016		
	As Previously Reported	Adjustments	Current Presentation	As Previously Reported	Adjustments	Current Presentation
Consolidated Statements of Cash Flow:						
Operating activities:						
Net income	\$194,902	\$3,246	\$198,148	\$219,590	\$1,276	\$220,866
Deferred income taxes	42,473	216	42,689	29,846	733	30,579
Change in air traffic liability	16,183	(3,462)	12,721	(4,135)	(2,009)	(6,144)
Net cash provided by operating activities	\$253,558	\$—	\$253,558	\$245,301	\$—	\$245,301

Passenger revenue allocation

Passenger revenue is primarily composed of passenger ticket sales, credit voucher breakage, seat fees, baggage fees, and other travel-related services performed in conjunction with a passenger's flight, as well as co-brand point redemptions as outlined below:

(in thousands)	Year Ended December 31,		
	2018	2017	2016
Scheduled service	\$898,653	\$821,621	\$768,721
Ancillary air-related charges	621,939	547,860	500,346
Co-brand redemptions	13,109	2,556	—
Total passenger revenue	\$1,533,701	\$1,372,037	\$1,269,067

The contract term of passenger tickets is 12 months and revenue associated with future travel will principally be recognized within this time frame. Substantially all of the \$204.3 million that was recorded in the air traffic liability balance at December 31, 2017 was recognized into passenger revenue during the twelve months ended December 31, 2018.

Co-brand redemptions

Bank of America has issued The Allegiant World Mastercard® in which points are earned and awarded to cardholders in exchange for consideration received under an agreement with a seven year scheduled duration expiring in 2023. Under this arrangement, the Company identified the following deliverables: travel points to be awarded (the travel component), use of the Company's brand and access to its member lists, and certain other advertising and marketing elements (collectively the marketing component). Consideration received from the Company's co-brand agreement is allocated between the two components based on the relative selling price of each deliverable. The Company applies a level of management judgment and estimation in determining the best estimate of selling price for each deliverable by considering multiple inputs and methods including, but not limited to, the redemption value of points awarded, discounted cash flows, brand value, volume discounts, published selling prices, number of points to be awarded and number of points to be redeemed.

In relation to the travel component, the Company has a performance obligation to provide cardholders with points to be used for future travel award redemptions. Therefore, consideration received from Bank of America related to the travel component is deferred based on its relative selling price and is recognized into passenger revenue when the points are redeemed and the transportation is provided.

The following table presents the activity of the current and non-current point liabilities (in thousands):

	2018	2017
Balance at January 1	\$8,903	\$790
Points awarded	14,914	10,669
Points redeemed	(13,109)	(2,556)
Balance at December 31	\$10,708	\$8,903

As of December 31, 2018, \$9.6 million of the current points liability is reflected in Accrued liabilities and represents the current estimate of revenue to be recognized in the next twelve months based on historical trends, with the remaining balance reflected in Other noncurrent liabilities expected to be recognized into revenue in periods thereafter.

Note 4 — Property and Equipment

Property and equipment consisted of the following (in thousands):

	As of December 31, 2018	As of December 31, 2017
Flight equipment, including pre-delivery deposits	\$1,905,157	\$1,539,433
Computer hardware and software	140,385	123,675
Land and buildings/leasehold improvements	85,925	77,409
Other property and equipment	89,778	48,446
Total property and equipment	2,221,245	1,788,963
Less accumulated depreciation and amortization	(373,977)	(276,548)
Property and equipment, net	\$1,847,268	\$1,512,415

As of December 31, 2018, the Company had firm commitments to purchase 14 new and used Airbus A320 series aircraft which are expected to be delivered between 2019 and 2022.

As of December 31, 2018, the majority of the year-over-year increase in Other property and equipment noted above is related to the development of Sunseeker Resort as well as the family entertainment center initiatives.

55

Note 5 — Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	As of December 31, 2018	As of December 31, 2017
Salaries, wages and benefits	\$ 34,406	\$ 35,516
Interest	14,276	13,326
Station expenses	12,918	12,026
Maintenance and repairs	11,016	5,481
Passenger fees	10,465	11,420
Loyalty card program liability	9,625	—
Property taxes	8,017	7,851
Advertising accruals	4,337	4,154
Passenger taxes	517	447
Other accruals	16,450	14,906
Total accrued liabilities	\$ 122,027	\$ 105,127

Note 6 — Long-Term Debt

Long-term debt consisted of the following (in thousands):

	As of December 31, 2018	As of December 31, 2017		
Fixed-rate debt and capital lease obligations due through 2030 (1) (2)	\$ 640,806	\$ 465,462		
Variable-rate debt due through 2028	630,927	699,430		
Total long-term debt and capital lease obligations, net of related costs	1,271,733	1,164,892		
Less current maturities, net of related costs (1)	152,287	214,761		
Long-term debt and capital lease obligations, net of current maturities and related costs	\$ 1,119,446	\$ 950,131		
Weighted average fixed-interest rate on debt	5.3	% 5.4	%	
Weighted average variable-interest rate on debt	4.2	% 3.3	%	

(1) As of December 31, 2018, \$428.0 million of the Company's Unsecured Senior Notes were classified as long-term as management had the intent and ability to refinance the borrowings on a long-term basis. The Notes were refinanced in February 2019, as discussed below.

(2) As of December 31, 2018, includes capital lease obligations secured by five A320 series aircraft.

Maturities of long-term debt as of December 31, 2018, for the next five years and thereafter, in the aggregate, are: 2019 - \$580.3 million; 2020 - \$168.3 million; 2021 - \$94.6 million; 2022 - \$67.2 million; 2023 - \$54.2 million; and \$307.1 million thereafter. Total long-term debt is presented net of related costs of \$5.0 million and \$6.1 million at December 31, 2018 and 2017, respectively.

Consolidated Variable Interest Entities

The Company evaluates ownership, contractual lease arrangements and other interests in entities to determine if they are variable interest entities ("VIEs") based on the nature and extent of those interests. The Company consolidates a VIE when, among other criteria, it has the power to direct the activities that most significantly impact the VIE's

economic performance as well as the obligation to absorb losses or the right to receive benefits of the VIE, thus making the Company the primary beneficiary of the VIE.

In September 2018, the Company, through a wholly owned subsidiary, entered into agreements with a trust to borrow \$44.0 million secured by one Airbus A320 series aircraft. The trust was funded on inception. These borrowings bear interest at a

56

blended rate of 4.0 percent, payable in quarterly installments through September 2028, at which time the Company will have a purchase option at a fixed amount. As this transaction is a common control transaction, the Company, as the primary beneficiary, has measured and recorded the assets and liabilities at their carrying values, which were \$37.8 million and \$44.0 million, respectively, at the time of borrowing.

In December 2017, the Company entered into an agreement with a trust to finance three Airbus A320 aircraft, under which the aircraft serve as collateral for the financing. The trust was funded on inception by a \$102.0 million long-term debt agreement entered into by the trust. These borrowings bear interest at a floating rate based on LIBOR and are payable in quarterly installments through December 2027. As this transaction is a common control transaction, the Company, as the primary beneficiary, has measured and recorded the assets and liabilities at their carrying values, which were \$112.8 million and \$102.0 million, respectively, at the time of borrowing.

Senior Secured Revolving Credit Facility

In 2015, the Company, through a wholly owned subsidiary, entered into a senior secured revolving credit facility under which it was entitled to borrow up to \$56.0 million. In March 2018, the Company paid off the balance of the facility and amended it to increase the borrowing limit to \$81.0 million. The amended facility has a term of 24 months and the borrowing ability is based on the value of the Airbus A320 series aircraft placed in the collateral pool. In July 2018, the Company drew down \$46.9 million under this facility, and no principal payments have been made as of December 31, 2018. Aircraft may remain in the collateral pool for up to two years, and, as of December 31, 2018, there were nine aircraft in the collateral pool, having been placed into the pool in September and December 2018. The notes for the amounts borrowed under the facility bear interest at a floating rate based on LIBOR and are due in March 2020.

Other Secured Debt

In September 2018, the Company entered into a senior secured credit facility under which it borrowed \$75.0 million in September and October 2018 secured by four Airbus A320 series aircraft. The borrowing bears interest at a floating rate based on LIBOR, and is payable in quarterly installments over seven years.

In July 2018, the Company borrowed \$34.5 million under a loan agreement secured by one Airbus A320 series aircraft. The note bears interest at a floating rate based on LIBOR, and is payable in quarterly installments over ten years.

In June 2018, the Company borrowed \$10.8 million under a loan agreement secured by various ground equipment. The note bears interest at a fixed rate of 4.2 percent per year, and is payable in monthly installments over five years.

In February 2019, the Company entered into a Credit and Guaranty Agreement (the "Term Loan") to borrow \$450.0 million, guaranteed by all of the Company's subsidiaries excluding Sunseeker Resorts Inc. and its subsidiaries and other insignificant subsidiaries (the "Term Loan Guarantors"). \$428.0 million net proceeds from the Term Loan have been, or will be, used to purchase the Company's senior unsecured obligations (the "Notes") as outlined below. See Note 14 for further detail.

General Unsecured Senior Notes

In June 2014, the Company completed an offering of \$300.0 million aggregate principal amount of the Notes which mature in July 2019. In December 2016, the Company completed an offering of an additional \$150.0 million principal amount of these notes, which were issued at a price of 101.5 percent of the principal amount, plus accrued interest from July 15, 2016. The Notes bear interest at a rate of 5.5 percent per year, payable in cash semi-annually, on January

15th and July 15th of each year.

In February 2019, the Company purchased \$347.9 million aggregate principal amount of its outstanding senior unsecured Notes validly tendered pursuant to a tender offer for such Notes, using the net proceeds of the Term Loan. The Company expects to call the remaining balance of the Notes in advance of their maturity in July 2019.

As of December 31, 2018, the indenture pursuant to which the Notes were issued included operating and financial restrictions on the Company. These restrictions limited or restricted, 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 were subject to various exceptions and qualifications under the terms of the indenture, and the restrictions were eliminated pursuant to the third supplemental indenture for these notes. For the four quarters ended December 31, 2018, the Company exceeded the consolidated total leverage ratio limit, which had no effect on the ability to make restricted payments during 2018.

57

Capital Leases

The Company has capital lease obligations related to aircraft, which significantly impacted the Company's recognized assets and liabilities as of December 31, 2018, but did not result in any significant cash receipts or cash payments during the year.

Note 7 — Shareholders' Equity

The Company is authorized by its Board of Directors to acquire the Company's stock through open market and private purchases under its share repurchase program. As repurchase authority is used, the Board of Directors has, to date, authorized additional expenditures for share repurchases.

Share repurchases consisted of the following during the periods indicated:

	Twelve Months Ended December 31,	
	2018	2017
Shares repurchased (1)	604,497	391,972
Average price per share	\$142.66	\$164.99
Total (in thousands)	\$86,240	\$64,673

(1) Share amounts shown above include only open market repurchases and do not include shares withheld from employees for tax withholding obligations related to restricted stock vestings, which were 22,981, 27,606, and 10,103 shares for 2018, 2017 and 2016, respectively.

Cash dividends declared by the Board and paid by the Company consisted of the following during the periods indicated:

	Twelve Months Ended December 31,		
	2018	2017	2016
Total quarterly cash dividends declared, per share	\$2.80	\$2.80	\$2.40
Total cash dividends paid (in thousands) (1)	45,247	45,720	67,540

(1) 2016 includes \$27.7 million paid on January 8, 2016, as part of a special cash dividend of \$1.65 per share declared by the Board prior to year-end 2015, for shareholders of record on December 18, 2015.

As of December 31, 2018, the Company had \$100.0 million in unused share repurchase authority remaining under the Board approved program.

Note 8 — Fair Value Measurements

Investments

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 commercial paper, municipal debt securities, federal agency debt securities, corporate debt securities, and US treasury bonds, which are valued using quoted market prices or alternative pricing sources including transactions involving

58

Edgar Filing: Allegiant Travel CO - Form 10-K

identical or comparable assets and models utilizing market observable inputs. The Company has no investment securities classified as Level 3.

For those assets classified as Level 2 that are not in active markets, the Company obtains fair value from pricing sources using quoted market prices for identical or comparable instruments, and uses pricing models which include all significant observable inputs: 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.

Financial instruments measured at fair value on a recurring basis (in thousands):

	As of December 31, 2018			As of December 31, 2017		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Cash equivalents						
Money market funds	\$43,281	\$43,281	\$—	\$1,297	\$1,297	\$—
Commercial paper	29,138	—	29,138	27,910	—	27,910
US Treasury Bonds	1,415	—	1,415	—	—	—
Municipal debt securities	—	—	—	2,782	—	2,782
Total cash equivalents	73,834	43,281	30,553	31,989	1,297	30,692
Short-term						
Commercial paper	180,846	—	180,846	108,678	—	108,678
Corporate debt securities	101,489	—	101,489	107,878	—	107,878
Municipal debt securities	14,252	—	14,252	101,290	—	101,290
Federal agency debt securities	11,887	—	11,887	31,428	—	31,428
US Treasury Bonds	5,990	—	5,990	3,407	—	3,407
Total short-term	314,464	—	314,464	352,681	—	352,681
Long-term						
Corporate debt securities	37,334	—	37,334	60,396	—	60,396
Federal agency debt securities	11,291	—	11,291	5,775	—	5,775
US Treasury Bonds	2,901	—	2,901	2,994	—	2,994
Municipal debt securities	—	—	—	9,405	—	9,405
Derivative instruments	—	—	—	282	—	282
Total long-term	51,526	—	51,526	78,852	—	78,852
Total financial instruments	\$439,824	\$43,281	\$396,543	\$463,522	\$1,297	\$462,225

There were no significant transfers between Level 1 and Level 2 assets for the years ended December 31, 2018 or 2017.

Long-term Debt

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 debt agreements are not publicly held. The Company has determined the estimated fair value of these notes to be Level 3, as certain inputs used to determine the fair value of these agreements are unobservable and, therefore, could be sensitive to changes in inputs. The Company utilizes the discounted cash flow method to estimate the fair value of Level 3 debt.



Carrying value and estimated fair value of long-term debt, including current maturities and without reduction for related costs (in thousands):

	As of December 31, 2018		As of December 31, 2017		Fair Value Level
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	
Publicly held debt	\$450,463	\$451,026	\$451,321	\$462,604	2
Non-publicly held debt	703,372	619,379	719,681	660,065	3
Total long-term debt	\$1,153,835	\$1,070,405	\$1,171,002	\$1,122,669	

Other

In the fourth quarter of 2017, the Company recorded a non-cash impairment charge of \$35.3 million on its fleet of MD-80 aircraft, engines, and related assets as a result of a review of fleet value. The Company concluded that the carrying value of these aircraft and related assets was no longer fully recoverable when compared to the estimated remaining future undiscounted cash flows from these assets. Therefore, an adjustment to their fair value with inputs classified as Level 3 was recorded. As of December 31, 2018, the MD-80 aircraft and related engines have been retired and there was zero carrying value remaining.

Due to the short term nature, carrying amounts of cash, cash equivalents, restricted cash, accounts receivable and accounts payable approximate fair value.

Note 9 — Income Taxes

Impact of U.S. Federal Income Tax Reform

The Company is subject to income taxation in the United States, foreign countries and various state jurisdictions in which it operates. In accordance with income tax reporting accounting standards, the Company recognizes tax benefits or expenses on the temporary differences between the financial reporting and tax bases of its assets and liabilities. The Company has recorded reserves for tax contingencies which relate primarily to an outstanding one-time tax refund claim.

The "Tax Cuts and Jobs Act" (the "Tax Act") signed into law in 2017 significantly changed the U.S. corporate income tax rules including, but not limited to, the reduction of U.S. corporate income tax rate from 35.0 percent to 21.0 percent, ability to claim 100 percent bonus depreciation on qualified property placed in service from September 28, 2017 through December 31, 2022, and elimination of certain deductions.

ASC 740, Income Taxes, requires companies to recognize the effect of the tax law changes in the period of enactment. On December 22, 2017, the SEC staff issued Staff Accounting Bulletin 118 which allows companies to record provisional amounts during a one-year measurement period in order to complete the accounting for income tax effects of the Tax Act. The Company recognized a one-time tax benefit of \$74.7 million due to the remeasurement of deferred tax assets and deferred tax liabilities to the new statutory rate. The Company recognized provisional estimates which may be impacted by the Company's understanding and application of the Tax Act related to the deductibility of acquired assets, state conformity and additional guidance from federal and state agencies as well as the FASB and the SEC. In 2018, the Company completed its determination of the accounting implications of the Tax Act, and there were no material changes.

Components of Income before Income Taxes from Continuing Operations

The components of income before taxes for domestic and foreign operations consisted of the following (in thousands):

Year ended December 31,			
2018	2017	2016	

Edgar Filing: Allegiant Travel CO - Form 10-K

		As Recast	As Recast
Domestic	\$195,843	\$180,314	\$331,827
Foreign	3,475	18,693	16,140
Total	\$199,318	\$199,007	\$347,967

60

Income Tax Provision/(Benefit)

The provision for income taxes is composed of the following (in thousands):

	Year ended December 31,		
	2018	2017	2016
		As recast	As recast
Current:			
Federal	\$(3,707)	\$(44,385)	\$89,014
State	(650)	664	5,204
Foreign	1,086	558	1,262
Total current	(3,271)	(43,163)	95,480
Deferred:			
Federal	41,593	41,015	28,653
State	3,744	1,978	1,703
Foreign	(4,550)	1,029	1,265
Total deferred	40,787	44,022	31,621
Total income tax provision	\$37,516	\$859	\$127,101

Reconciliation of Effective Tax Rate

The effective tax rate on income before income taxes differed from the federal statutory income tax rate as follows (in thousands):

	Year ended December 31,		
	2018	2017	2016
		As recast	As recast
Income tax expense at federal statutory rate	\$41,857	\$68,639	\$121,789
State income taxes, net of federal income tax benefit	3,560	2,739	5,517
Federal tax reform impact	—	(74,738)	—
Domestic production activities deduction	(3,539)	—	—
Other	(4,362)	4,219	(205)
Total income tax expense	\$37,516	\$859	\$127,101

Deferred Taxes

The major components of the Company's net deferred tax assets and liabilities are as follows (in thousands)

	As of December 31,	
	2018	2017
		As recast
Deferred tax assets:		
Accrued vacation	\$595	\$690
Accrued bonus	3,792	628
State taxes	86	318
Accrued property taxes	1,615	1,573
Stock-based compensation expense	1,310	1,983
Net operating loss	38,875	635
Other	—	3,160
Less: valuation allowance	1,193	422
Total deferred tax assets	45,080	8,565
Deferred tax liabilities:		
Prepaid expenses	4,436	4,275
Depreciation	202,595	118,743
Foreign deferred	—	4,569
Other	2,103	—
Total deferred tax liabilities	209,134	127,587
Net deferred tax liabilities	\$164,054	\$119,022

Net Operating Loss and Tax Credit Carryforwards

At December 31, 2018, the Company recognized federal and state net operating loss carryforwards for income tax purposes in the amount of \$37.4 million and \$1.5 million, respectively. The federal net operating loss carryforward will not expire per the Tax Act and the state net operating loss carryforwards will expire between 2032 and 2038.

The Company previously recognized a federal capital loss carryforward of \$0.7 million, as remeasured pursuant to the Tax Act, as of December 31, 2016 which begins to expire in 2021. As of December 31, 2018, the Company also recognized foreign tax credit and R&D tax credit in the amount of \$1.8 million and \$0.9 million which will expire in 2029 and 2024, respectively.

Tax Contingencies

The reconciliation of the Company's tax contingencies is as follows (in thousands):

	As of December 31,		
	2018	2017	2016
Beginning Balance	\$778	\$837	\$512
Increases for tax position of prior years	3,364	251	140
Increases for tax position of current year	293	46	492
Decreases for tax positions of prior years	(10)	—	(307)
Settlements	(110)	(356)	—
Decreases for lapses in statute of limitations	(140)	—	—
Ending Balance	\$4,175	\$778	\$837



The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. The timing of the resolution of income tax examinations is uncertain, and the tax liability of the issues raised by taxing authorities may differ from the amounts accrued. Therefore, the Company cannot currently provide an estimate of the range of possible outcomes in the next twelve months.

Note 10— Related Party Transactions

During the year ended December 31, 2018, no related party transactions occurred requiring disclosure.

In December 2017, the Company completed a transaction with ISM Connect, LLC ("ISM"), an entity in which the Company's Chairman and Chief Executive Officer ("CEO") owns a majority interest. In exchange for a noncontrolling minority interest in ISM, the Company licensed the right to use certain portions of its internally developed software, but strictly limited to ISM's digital media signage business. The Company retains all rights in the software without restriction. This interest was valued at \$2.3 million and no subsequent transactions with ISM are expected.

The Company previously entered into lease agreements for approximately 70,000 and 10,000 square feet of office space in buildings in which the Company's Chairman and CEO and the Company's President own minority interests as limited partners. The Company exercised its option to terminate the lease for 70,000 square feet of office space effective in May 2015. In connection with the termination of this lease, the Company paid \$1.3 million for unamortized expenses in January 2016.

Entities owned or controlled by the Company's Chairman and CEO have been paid for the building of corporate training content. The Company made no payments during 2018 and paid \$0.2 million and \$1.7 million in 2017 and 2016, respectively. No further payments are expected.

Note 11 — Employee Benefit Plans

401(k) Plan

The Company has a defined contribution plan covering all eligible employees. Under the plan, employees may contribute up to 90 percent of their eligible annual compensation with the Company making matching contributions on employee deferrals of up to 5 percent of eligible employee wages. In January 2017, the Company increased its matching contributions on pilot deferrals to 10 percent of eligible wages resulting from the pilot collective bargaining agreement.

The Company recognized expense under this plan of \$19.1 million, \$14.2 million and \$5.8 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Share-based employee compensation

The Company reserved 2,000,000 shares of common stock for the Company to grant stock options, restricted stock, cash-settled stock appreciation rights ("SARs") and other stock-based awards to certain officers, directors and employees of the Company under the 2016 Long-Term Incentive Plan (the "2016 Plan"). The 2016 Plan is administered by the Company's compensation committee of the Board of Directors. As of December 31, 2018, a portion of unvested restricted stock, and unexercised stock options and cash-settled SARs remain outstanding under the 2006 Long-Term Incentive Plan which has otherwise expired.

Employee Stock Purchase Plan

The Company reserved 1,000,000 shares of common stock for employee purchases under the 2014 Employee Stock Purchase Plan ("ESPP"). Shares are purchased semi-annually, at a discount, based on the market value at period-end. Employees may contribute up to 25 percent of their base pay per offering period, not to exceed \$25,000 each calendar year, for the purchase of common stock. The ESPP is a compensatory plan under applicable accounting guidance and results in the recognition of compensation expense.

The following table provides information about the Company's ESPP activity during 2018, 2017, and 2016:

	Total number of shares purchased	Average price paid per share	Weighted-average fair value of discount under the ESPP (1)
As of December 31, 2016	13,400	\$120.63	\$ 14.80
As of December 31, 2017	18,498	\$126.81	\$ 14.09
As of December 31, 2018	33,300	\$134.31	\$ 16.79

(1) The weighted-average fair value of the discount under the ESPP granted is equal to a percentage discount from the market value of the Common Stock at the end of each semi-annual purchase period. The Company increased the discount from 10 percent to 15 percent for the second offering period of 2018. 15 percent is the maximum allowable discount under the ESPP.

Compensation expense

For the years ended December 31, 2018, 2017 and 2016, the Company recorded compensation expense of \$15.6 million, \$14.0 million and \$9.6 million, respectively, related to stock options, restricted stock, cash-settled SARs and the ESPP. Forfeiture rates are estimated at the time of grant based on historical actuals for similar grants, and are matched to actuals over the vesting period.

The unrecognized compensation cost was \$17.5 million for unvested restricted stock expected to be recognized over a weighted-average period of 1.49 years. As of December 31, 2018, there is no unrecognized compensation cost for either cash-settled SARs or stock options.

Stock options

The fair value of stock options granted is estimated as of the grant date using the Black-Scholes option pricing model. The contractual terms of the Company's stock option awards granted range from five to ten years. A summary of option activity as of December 31, 2018, 2017 and 2016, and changes during the years then ended, is presented below:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (thousands)
Outstanding at December 31, 2015	48,781	\$ 86.65	2.62	\$ 3,960
Exercised	(5,192)	108.59		
Outstanding at December 31, 2016	43,589	\$ 84.04	1.55	\$ 3,590
Exercised	(16,014)	60.20		
Outstanding at December 31, 2017	27,575	\$ 97.88	0.72	\$ 1,568
Exercised	(17,838)	92.04		
Outstanding at December 31, 2018	9,737	\$ 108.59	0.18	\$ —
Fully vested and expected to vest at December 31, 2018	9,737	\$ 108.59	0.18	\$ —
Exercisable at December 31, 2018	9,737	\$ 108.59	0.18	\$ —

During the years ended December 31, 2018, 2017 and 2016, the total intrinsic value of options exercised was \$1.4 million, \$1.3 million and \$0.2 million, respectively. Cash received from option exercises for the years ended December 31, 2018, 2017 and 2016 was \$1.6 million, \$1.0 million and \$0.6 million, respectively.



Restricted stock awards

The closing price of the Company's stock on the date of grant is used as the fair value for the issuance of restricted stock. A summary of the status of non-vested restricted stock grants during the years ended December 31, 2018, 2017 and 2016 is presented below:

	Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2015	82,957	\$ 155.30
Granted	224,018	144.74
Vested	(43,310)	129.96
Forfeited	(10,007)	158.74
Non-vested at December 31, 2016	253,658	\$ 146.01
Granted	125,442	165.61
Vested	(91,338)	145.08
Forfeited	(94,872)	157.95
Non-vested at December 31, 2017	192,890	\$ 153.32
Granted	102,842	155.02
Vested	(85,410)	153.85
Forfeited	(14,128)	154.65
Non-vested at December 31, 2018	196,194	\$ 153.88

The total fair value of restricted stock that vested during the years ended December 31, 2018, 2017 and 2016 was \$13.4 million, \$13.3 million and \$5.6 million, respectively.

Cash-settled SARs

Cash-settled SARs are liability classified awards for which the fair value and compensation expense recognized are updated monthly using the Black-Scholes option pricing model.

The following range of assumptions in the Black-Scholes pricing model was used to determine fair value as of December 31 of the years indicated below:

	2018	2017	2016	
Weighted-average volatility	35.0%	32.8	% 33.2	%
Expected term (in years)	0.8	0.2 - 1.9	0.3 - 3.1	
Risk-free interest rate	2.6 %	0.6% - 1.9%	0.4% - 1.5%	
Dividend yield	1.68%	1.62	% 1.51	%

Expected volatilities used for award valuation are based on the historical volatility of the Company's common stock price.

Expected term represents the weighted average time between the award's grant date and its expected exercise date. The Company estimated the expected term assumption in 2018, 2017 and 2016 using historical award exercise activity and employee termination activity.

Edgar Filing: Allegiant Travel CO - Form 10-K

The risk-free interest rate for periods equal to the expected term of an award is based on a blended historical rate using Federal Reserve rates for U.S. Treasury securities.

The dividend yield reflects the effect that paying a dividend has on the fair value of the Company's stock.

The contractual term of the Company's cash-settled SARs awards granted is five years.

65

Edgar Filing: Allegiant Travel CO - Form 10-K

A summary of cash-settled SARs awards activity during the years ended December 31, 2018, 2017 and 2016 is presented below:

	# of SARs	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (thousands)
Balance at December 31, 2015	131,741	\$ 136.13		
Granted	15,000	146.03		
Forfeited	(10,083)	170.21		
Exercised	(32,050)	89.19		
Balance at December 31, 2016	104,608	\$ 153.86		
Forfeited	(14,682)	177.6		
Exercised	(9,462)	106.25		
Balance at December 31, 2017	80,464	\$ 155.13		
Forfeited	(12,890)	181.47		
Exercised	(13,642)	98.37		
Balance at December 31, 2018	53,932	\$ 163.19	1.47	\$ —
Vested or expected to vest at December 31, 2018	53,482	\$ 163.34	1.46	\$ —
Exercisable at December 31, 2018	48,932	\$ 164.95	1.34	\$ —

Note 12 — Commitments and Contingencies

The Company leases assets including office facilities, office equipment, certain airport and terminal facilities, and other space. These commitments have remaining non-cancelable lease terms, which range from 2019 to 2036. Total rental expense for operating leases for the years ended December 31, 2018, 2017 and 2016 was \$12.7 million, \$9.0 million and \$8.1 million, respectively. Future minimum fixed payments for commitments under aircraft acquisition, certain airport and terminal facilities, and other operating lease obligations as of December 31, 2018 (in thousands) are:

	2019	2020	2021	2022	2023	2024 - Thereafter
Aircraft and engine purchase obligations	\$259,160	\$33,800	\$500	\$18,000	\$—	\$ —
Airport fees under use and lease agreements	10,480	5,223	63	—	—	—
Operating lease obligations	8,102	6,031	3,643	1,630	1,626	8,297
Total future payments	\$277,742	\$45,054	\$4,206	\$19,630	\$1,626	\$ 8,297

Aircraft sub-service expense was \$0.9 million, \$3.1 million, and \$0.9 million, in 2018, 2017 and 2016, respectively.

The Company's Airbus fleet also includes five aircraft currently under capital lease.

Aircraft Commitments

During 2018, the Company entered into purchase agreements for eight Airbus A320 series aircraft as well as a purchase agreement for seven spare engines. Under these contracts and others previously entered into, we expect 11 aircraft to be acquired in 2019, two in 2020, and one in 2022. The seven spare engines are all expected to be acquired in 2019. Additionally, in February 2019, the Company entered into an agreement for two Airbus A320 series aircraft, for which delivery is expected in the first half of 2019.

During 2017, the Company entered into purchase agreements for six Airbus A320 series aircraft. Four of these aircraft were acquired in 2017 and the remaining two were acquired in 2018.

66

During 2017, the Company also entered into 13 capital lease agreements, each for one Airbus A320 series aircraft. Of these agreements, the Company received five aircraft in 2018, and the remaining eight agreements were terminated in the fourth quarter 2018 due to extensive delivery delays.

During 2016, the Company entered into purchase agreements for six Airbus A320 series aircraft that have yet to be purchased as of the end of 2018. These aircraft are expected to be acquired in 2019 and 2020.

Facility Lease Obligations

The Company leases other facilities in Las Vegas, Florida and throughout the network with approximately 650,000 square feet of space used for other corporate purposes. These leases expire between 2019 and 2036. The Company is responsible for its share of common area maintenance charges under each lease.

Airport and terminal facility leases are entered into with a number of local governments and other third parties. These lease arrangements have a variety of terms and conditions.

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 13 — Valuation and Qualifying Accounts (in thousands)

	Balance at Beginning of Year	Changes Charged to Statement of Income Accounts	Write Offs (net of recoveries)	Balance at End of Year
Allowance for expendable parts and supplies				
For the Year Ended December 31, 2018	\$ 13,756	\$ 2,624	\$ (1,970)	\$ 14,410
For the Year Ended December 31, 2017 (1)	7,205	6,551	—	13,756
For the Year Ended December 31, 2016	4,607	2,598	—	7,205

(1) Changes during the year and ending balance include additional reserve of \$2.0 million related to the MD-80 impairment charge.

Note 14 — Subsequent Events

In February 2019, the Company entered into the Term Loan to borrow \$450.0 million, guaranteed by the Term Loan Guarantors, which is secured by substantially all property and assets of the Company and the Term Loan Guarantors, excluding aircraft and aircraft engines, and excluding certain other assets. The Term Loan has a five-year term and bears interest based on LIBOR plus 4.5 percent or an alternate base rate plus 3.5 percent, respectively, subject to certain adjustments. The Term Loan provides for quarterly interest payments along with quarterly principal payments of \$1.1 million through February 2024, at which time the Term Loan is due. The Term Loan may be prepaid at any time without penalty.

In connection with the Term Loan, the Company conducted a tender offer for its 5.5 percent Notes due 2019. As a result of the tender offer, the Company purchased \$347.9 million of its Notes and the indenture governing the Notes was amended to eliminate most of the restrictive covenants and certain events of default, reduce the minimum notice

period required for redemptions of the Notes from 30 days as previously required by the indenture to three business days, and amend certain other provisions applicable to the Notes. The Company expects to call the remaining balance of the Notes in advance of their maturity in July 2019.

In February 2019, the Company executed a purchase agreement for two Airbus A320 series aircraft. The Company expects delivery of one of these aircraft in the first quarter 2019 and the other in the second quarter 2019.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

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 CEO and chief financial officer (“CFO”), we evaluated the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, or the “Exchange Act”) as of the end of the period covered by this report. Based on that evaluation, 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 and is accumulated and communicated to the Company’s management, including the CEO and the CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in internal controls. There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the fourth quarter of our year ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management’s Annual Report on Internal Control over Financial Reporting. Management, under the supervision of the CEO and CFO, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) Internal Control- Integrated Framework (2013 Framework). Based on the assessment, management has concluded that, as of December 31, 2018, our internal control over financial reporting was effective based on those criteria.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. As such, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives.

We intend to review and evaluate the design and effectiveness of our disclosure controls and procedures and internal control over financial reporting on a regular basis, to improve these controls and procedures over time, and to correct any deficiencies that may be discovered. Future events affecting our business may cause us to modify our controls and procedures.

Our independent registered public accounting firm has issued an attestation report regarding its assessment of the effectiveness of our internal control over financial reporting as of December 31, 2018.

Item 9B. Other Information

Not applicable.

Report of Independent Registered Public Accounting Firm
To the Shareholders and Board of Directors
Allegiant Travel Company:

Opinion on Internal Control Over Financial Reporting

We have audited Allegiant Travel Company's and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the "consolidated financial statements"), and our report dated February 28, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Dallas, Texas
February 28, 2019

69

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

The information required by this Item is incorporated herein by reference to the data under the headings “ELECTION OF DIRECTORS,” “EXECUTIVE OFFICERS” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement to be used in connection with the solicitation of proxies for our annual meeting of shareholders to be held June 27, 2019, which Proxy Statement is to be filed with the Commission.

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the data under the headings “EXECUTIVE COMPENSATION” and “REPORT OF THE COMPENSATION COMMITTEE” in the Proxy Statement to be used in connection with the solicitation of proxies for our annual meeting of shareholders to be held June 27, 2019, which Proxy Statement is to be filed with the Commission.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated herein by reference to the data under the heading “STOCK OWNERSHIP” in the Proxy Statement to be used in connection with the solicitation of proxies for our annual meeting of shareholders to be held June 27, 2019, which Proxy Statement is to be filed with the Commission. The information required by this item with respect to securities authorized for issuance under our equity compensation plans is included in Part II, Item 5 of this Annual Report on Form 10-K.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated herein by reference to the data under the heading “RELATED PARTY TRANSACTIONS” and “Director Independence” in the Proxy Statement to be used in connection with the solicitation of proxies for our annual meeting of shareholders to be held June 27, 2019, which Proxy Statement is to be filed with the Commission.

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated herein by reference to the data under the heading “PRINCIPAL ACCOUNTANT FEES AND SERVICES” in the Proxy Statement to be used in connection with the solicitation of proxies for our annual meeting of shareholders to be held June 27, 2019, which Proxy Statement is to be filed with the Commission.

PART IV

Item 15. Exhibits and Financial Statement Schedules

Financial Statements and Supplementary Data. The financial statements included in Item 8 - Financial Statements and Supplementary Data above are filed as part of this annual report.

Financial Statement Schedules. Schedules are not submitted because they are not required or are not applicable, or the required information is shown in the consolidated financial statements or notes thereto.

Exhibits. The Exhibits listed below are filed or incorporated by reference as part of this Form 10-K. Where so indicated, exhibits which were previously filed are incorporated by reference.

71

Exhibit Number	Description
3.1	<u>Articles of Incorporation of Allegiant Travel Company. (Incorporated by reference to Exhibit 3.1 to Registration Statement No. 333-134145 filed with the Commission on July 6, 2006).</u>
3.2	<u>Bylaws of Allegiant Travel Company as amended on February 17, 2015. (Incorporated by reference to Exhibit 3.2 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, filed with the Commission on November 1, 2016).</u>
3.3	<u>Specimen Stock Certificate (Incorporated by reference to Exhibit 3.3 to the Form 8-A filed with the Commission on November 22, 2006).</u>
4.1	<u>Indenture dated as of June 13, 2014, between Allegiant Travel Company and Wells Fargo Bank, National Association, as trustee. (Incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-3 (Reg. No. 333-196738) filed with the Commission on June 13, 2014.)</u>
4.2	<u>First Supplemental Indenture dated as of June 25, 2014, among the Company, the guarantors named therein and Wells Fargo Bank, National Association, as trustee (including the Form of Note). (Incorporated by reference to Exhibit 4.2 to Form 8-K filed with the Commission on June 25, 2014.)</u>
4.3	<u>Second Supplemental Indenture dated as of December 5, 2016, among the Company, the guarantors named therein and Wells Fargo Bank, National Association, as trustee (including the form of New Note). (Incorporated by reference to Exhibit 4.3 to Form 8-K filed with the Commission on December 5, 2016.)</u>
4.4	<u>Form of 5.50% Notes due 2019 (included as Exhibit A in Exhibit 4.2 incorporated by reference).</u>
4.5	<u>Form of Additional 5.50% Notes due 2019 (included as Exhibit A in Exhibit 4.3 incorporated by reference.)</u>
4.6	<u>Third Supplemental Indenture, dated as of February 5, 2019, among the Company, the subsidiary guarantors party thereto and Wells Fargo Bank, National Association, as trustee. (Incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed with the Commission on February 5, 2019.)</u>
10.1	<u>2006 Long-Term Incentive Plan, as amended on July 19, 2009. (Incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, filed with the Commission on November 9, 2009-SEC File No. 001-33166). (1)</u>
10.2	<u>Form of Indemnification Agreement. (Incorporated by reference to Exhibit 10.4 to the Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Commission on February 26, 2013-SEC File No. 001-33166).</u>
10.5	<u>Airport Use and Lease Agreement signed on March 17, 2011 between the Company and Clark County Department of Aviation. (Incorporated by reference to Exhibit 10.20 to the Annual Report on Form 10-K for the year ended December 31, 2011, filed with the Commission on February 27, 2012-SEC File No. 001-33166).</u>

Edgar Filing: Allegiant Travel CO - Form 10-K

Exhibit Number	Description
10.9	<u>Employment Agreement dated as of September 9, 2016, between the Company and John Redmond. (Incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, filed with the Commission on November 1, 2016.) (1)</u>
10.10	<u>Stock Appreciation Rights Agreement dated September 9, 2016, between the Company and John Redmond. (Incorporated by reference to Exhibit 10.4 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, filed with the Commission on November 1, 2016.) (1)</u>
10.11	<u>Restricted Stock Agreement dated September 9, 2016, between the Company and John Redmond. (Incorporated by reference to Exhibit 10.5 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, filed with the Commission on November 1, 2016.) (1)</u>
10.12	<u>2016 Long-Term Incentive Plan. (Incorporated by reference to Exhibit 10.6 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, filed with the Commission on November 1, 2016.) (1)</u>
10.13	<u>Form of Restricted Stock Agreement used for Directors of the Company. (Incorporated by reference to Exhibit 10.7 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, filed with the Commission on November 1, 2016.) (1)</u>
10.14	<u>Form of Stock Option Agreement used for Employees of the Company. (Incorporated by reference to Exhibit 10.8 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, filed with the Commission on November 1, 2016.) (1)</u>
10.15	<u>Form of Restricted Stock Agreement used for Employees of the Company. (Incorporated by reference to Exhibit 10.9 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, filed with the Commission on November 1, 2016.) (1)</u>
10.16	<u>Form of Stock Appreciation Rights Agreement used for Employees of the Company. (Incorporated by reference to Exhibit 10.10 to Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, filed with the Commission on November 1, 2016.) (1)</u>
10.17	<u>Separation agreement and Mutual Release of All Claims dated January 12, 2018, between the Company and Scott M. Allard (Incorporated by reference to Exhibit 10.17 to Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Commission on February 28, 2018).</u>
10.18	<u>Credit and Guaranty Agreement, dated as of February 5, 2019, among the Company, as borrower, certain subsidiaries of the Company party thereto, as guarantors, the lenders party thereto and Barclays PLC, as administrative agent, syndication agent and lead arranger. (Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed with the Commission on February 5, 2019.)</u>
12	<u>Calculation of Ratio of Earnings to Fixed Charges of Allegiant Travel Company.</u>
21	<u>List of Subsidiaries</u>
23.1	<u>Consent of KPMG LLP, independent registered public accounting firm</u>
31.1	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer</u>
31.2	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer</u>
32	<u>Section 1350 Certifications</u>
101	The following financial information from the Company's Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 28, 2018, formatted in XBRL includes (i) Consolidated Balance Sheets as of December 31, 2017 and December 31, 2016 (ii) Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016 (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016 (iv) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2018, 2017 and 2016 (v) Consolidated Cash Flow Statements for the years ended December 31, 2018, 2017 and 2016 (vi) the Notes to the Consolidated Financial Statements. (2)

(1) Management contract or compensation plan or agreement required to be filed as an Exhibit to this Report on Form 10-K pursuant to Item 15(b) of Form 10-K.

(2) Pursuant to Rule 406 of Regulation S-T, the XBRL related information in Exhibit 101 to this annual report on Form 10-K shall be deemed to be not filed for purposes of Section 18 of the Exchange Act, or otherwise subject to

Edgar Filing: Allegiant Travel CO - Form 10-K

the liability of that section, and shall not be deemed part of a registration statement, prospectus or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Item 16. Form 10-K Summary

None

73

Signatures

Pursuant to the requirements of Section 13 or 15(d) 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 in the City of Las Vegas, State of Nevada on February 28, 2019.

Allegiant Travel Company

By: /s/ Scott Sheldon
 Scott Sheldon
 Chief Financial Officer

POWERS OF ATTORNEY

Each person whose signature appears below hereby appoints Scott Sheldon and Maurice J. Gallagher, Jr., and each of them acting alone, as his or her true and lawful attorneys-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this annual report on Form 10-K, and to file the same, with all exhibits thereto and all other documents in connection therewith, with the Commission, granting unto said attorneys-in-fact and agents full power and authority to perform each and every act and thing appropriate or necessary to be done, as fully and for all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Maurice J. Gallagher, Jr Maurice J. Gallagher, Jr.	Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2019
/s/ John Redmond John Redmond	President and Director	February 28, 2019
/s/ Scott Sheldon Scott Sheldon	Chief Financial Officer (Principal Financial Officer)	February 28, 2019
/s/ Gregory Anderson Gregory Anderson	Principal Accounting Officer	February 28, 2019
Montie Brewer	Director	February 28, 2019
/s/ Gary Ellmer Gary Ellmer	Director	February 28, 2019
/s/ Linda Marvin Linda Marvin	Director	February 28, 2019
/s/ Charles W. Pollard	Director	February 28, 2019

Charles W. Pollard

74