

Allegiant Travel CO
Form 10-K
March 09, 2010

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**UNITED STATES
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, 2009

OR

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

For the transition period from _____ to _____
Commission file number 001-33166

ALLEGIANT TRAVEL COMPANY

(Exact Name of Registrant as Specified in Its Charter)

Nevada
(State or Other Jurisdiction of
Incorporation or Organization)

20-4745737
(I.R.S. Employer
Identification No.)

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

89113
(Zip Code)

Registrant's telephone number, including area code: **(702) 851-7300**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$.001 par value per share	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

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

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

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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 Web site, 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 the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of common equity held by non-affiliates of the registrant as of June 30, 2009, was approximately \$605,000,000 computed by reference to the closing price at which the common stock was sold on the Nasdaq Global Select Market on that date. This figure has been calculated by excluding shares owned beneficially by directors and executive officers as a group from total outstanding shares solely for the purpose of this response.

The number of shares of the registrant's Common Stock outstanding as of the close of business on March 1, 2010 was 19,909,655.

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 8, 2010, 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 82

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ALLEGIANT TRAVEL COMPANY
ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2009

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PART I

Item 1. Business

Business Overview

We are a leisure travel company focused on residents of small cities in the United States. We operate a low-cost passenger airline marketed to leisure travelers in small cities, allowing us to sell air travel both on a stand-alone basis and bundled with hotel rooms, rental cars and other travel related services. Our route network, pricing philosophy, advertising and diversified product offering 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 from us.

Our business model provides for diversified revenue streams, which we believe distinguishes us from other U.S. airlines and travel companies:

Scheduled service revenue consists of air fare from our limited frequency nonstop flights between our small city markets and our leisure destinations.

Fixed fee contract revenue consists largely of fixed fee flying agreements with affiliates of Harrah's Entertainment Inc. that provide for a predictable revenue stream. We also provide charter service on a seasonal and ad hoc basis for other customers.

Ancillary revenue is generated from air-related charges and third party products. Air-related charges are generated through fees for use of our website to purchase tickets, checked bags, advance seat assignments, priority boarding and other services provided in conjunction with our scheduled air service. We also generate revenue from the sale of third party products such as hotel rooms, ground transportation (rental cars and hotel shuttle products) and attraction and show tickets. We recognize our ancillary revenue net of amounts paid to service providers, travel agent commissions and credit card processing fees.

Our strategy is to develop the leisure travel market in small cities by providing nonstop low fare scheduled service to leisure destinations at low prices. We currently provide service to Las Vegas, Nevada, Orlando, Florida, Phoenix, Arizona, Tampa/St. Petersburg, Florida, Los Angeles, California and Ft. Lauderdale, Florida. We also currently provide limited service to other leisure destinations of Punta Gorda, Florida, San Diego, California, Palm Springs, California and the San Francisco Bay Area, California, along with seasonal service to Myrtle Beach, South Carolina.

Our business strategy has evolved as our experienced management team has looked differently at the traditional way business has been conducted in the airline and travel industry. We have consciously developed a different business model:

Traditional Airline Approach	Allegiant Approach
Focus on business traveler	Focus on leisure traveler
Provide high frequency service	Provide low frequency service from small cities
Use smaller aircraft to provide connecting service from smaller markets through hubs	Use larger jet aircraft to provide nonstop service from small cities direct to leisure destinations
Sell through various intermediaries	Sell only directly to travelers without participation in global distribution systems
Offer flight connections	No connecting flights offered
Use frequent flyer programs and code-share arrangements to increase passenger traffic	Do not use frequent flyer programs or code-share arrangements

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Our Competitive Strengths

We have developed a unique business model that focuses on leisure travelers in small cities. We believe the following strengths allow us to maintain a competitive advantage in the markets we serve:

Focus on Transporting Travelers From Small Cities to Leisure Destinations. As of February 15, 2010, we provide nonstop low fare scheduled air service from 57 small cities (including seasonal service) primarily to the leisure destinations of Las Vegas, Nevada, Orlando, Florida, Phoenix, Arizona, Tampa/St. Petersburg, Florida, Los Angeles, California and Ft. Lauderdale, Florida. Generally, when we enter a new market, there is no existing nonstop service to our leisure destinations. We believe this nonstop service, along with our low prices and premier leisure company relationships, makes it attractive for leisure travelers to purchase air travel and related services from us.

By focusing on small cities, we believe we avoid the intense competition presently seen in high traffic domestic air corridors. In our typical small city market, travelers faced high airfares and cumbersome connections or long drives to major airports to reach our leisure destinations before we started providing service. As of February 15, 2010, we are the only carrier providing nonstop service on all but eight of our 136 routes. Based on published data from the U.S. Department of Transportation ("DOT"), we believe the initiation of our service stimulates demand as there has been a substantial increase in traffic after we have begun service on new routes. We believe our market strategy has had the benefit of not appearing hostile to either legacy carriers, whose historical focus has been connecting small cities to business markets, or traditional low cost carriers or LCCs, which have tended to focus more on larger markets than the small city markets we serve.

Low Operating Costs. We believe low costs are essential to competitive success in the airline industry. Our operating expense per passenger was \$81.77 and \$104.25 in 2009 and 2008, respectively. Excluding the cost of fuel, our operating expense per passenger was \$50.80 for 2009 and \$50.83 for 2008.

Our low operating costs are the result of our focus on the following:

Cost-Driven Schedule. We design our flight schedule to concentrate our aircraft each night in our crew bases. This concentration allows us to better utilize personnel, airport facilities, aircraft, spare parts inventories, and other assets. We can do this because we believe leisure travelers are generally less concerned about departure and arrival times than business travelers. Therefore, we are able to schedule flights at times that enable us to reduce our costs.

Low Aircraft Ownership Costs. We believe we properly balance low aircraft ownership costs and low operating costs to minimize our total costs. As of February 1, 2010, our operating fleet consists of 46 MD-80 series aircraft and we have made commitments to acquire another 15 MD-80 aircraft we expect to be introduced into service by the end of 2011. MD-80 aircraft are substantially less expensive to acquire than A320 and B737 aircraft and have been highly reliable aircraft.

Highly Productive Workforce. We believe we have one of the most productive workforces in the U.S. airline industry with approximately 34 full-time equivalent employees per operating aircraft as of February 1, 2010. We believe this compares favorably with the same ratio for other airlines based on recent publicly available industry data for other airlines. Our high level of employee productivity is created by fleet commonality, fewer unproductive labor work rules, cost-driven scheduling, and the effective use of automation and part-time employees. We benefit from a motivated, enthusiastic workforce committed to high standards of friendly and reliable service. We invest a significant amount of time and resources into carefully developing our training practices and selecting individuals to join our team who share our focus on ingenuity and continuous improvement. We conduct ongoing training programs to incorporate industry best

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practices and encourage strong and open communication channels among all of the members of our team so we can continue to improve the quality of the services we provide.

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 overbook our flights; we do not provide cargo or mail services; and we do not offer other perks such as airport lounges.

Low Distribution Costs. Our nontraditional approach results in very low distribution costs. We do not sell our product through outside sales channels and, as such, avoid the fees charged by travel web sites (such as Expedia, Orbitz or Travelocity) and the traditional global distribution systems ("GDS") (such as Sabre or Worldspan). Our customers can only purchase travel at our airport ticket counters or, for a fee, through our telephone reservation center or website. We actively encourage sales on our website. This is the least expensive form of distribution and accounted for 86.3% of our scheduled service revenue during 2009. We believe our percentage of website sales is among the highest in the U.S. airline industry. Further, we are 100% ticketless, which saves printing, postage, and back-office processing expenses.

Strong Ancillary Revenues. We earn ancillary revenue in conjunction with the sale of scheduled air service which represents a significant percentage of our total operating revenue. Our ancillary revenues have grown from \$65.0 million in 2007, to \$114.6 million in 2008, and \$162.7 million in 2009, representing 18.0%, 22.7% and 29.2% of total operating revenues, respectively. On a per scheduled service passenger basis, our ancillary revenues increased from \$21.53 per scheduled service passenger in 2007 to \$29.43 in 2008 and \$33.07 in 2009. We believe ancillary revenue will continue to be a key component in our total average fare and we have proven during 2009 we can sustain high ancillary revenue per passenger levels in a difficult revenue environment.

Capacity Management. We actively manage our capacity in our routes to match the supply of seats to the demand existing in a given market, considering any seasonal shifts in demand that may exist. We believe our ability to quickly adjust capacity allows us to operate profitably throughout a changing environment. For example, as a result of the dramatic fuel price increase in late 2007 and the first three quarters of 2008, we reduced capacity with the elimination of some of our long-haul flights and made substantial frequency variations in other markets. These adjustments enabled us to achieve profitability in each quarter of 2008 despite the large losses incurred in the industry. We believe we can adjust appropriately our capacity to achieve a desired level of profitability during 2010 if industry base airfare levels increase closer to historical amounts and fuel prices remain stable. In addition, we believe our low cost aircraft facilitate our ability to adjust service levels quickly and maintain profitability during difficult economic times.

Strong Financial Position. We have a strong financial position with significant cash balances. On December 31, 2009, we had \$231.5 million of unrestricted cash, cash equivalents and short-term investments. As of December 31, 2009, our total debt was \$45.8 million and our debt to total capitalization ratio was 13.6%. We also have a history of growing profitably, having generated net income in 25 of the last 28 quarters. We believe our strong financial position allows us to have greater financial flexibility to grow the business and weather sudden industry disruptions.

Proven Management Team. We have a strong management team comprised of experienced and motivated individuals. Our management team is led by Maurice J. Gallagher, Jr. and Andrew C. Levy, each of whom has an extensive background in the airline industry. Mr. Gallagher was the president of WestAir Holdings, Inc. and built WestAir into one of the largest regional airlines in the U.S. prior to its sale in 1992 to Mesa Air Group. He was also one of the founders of ValuJet, Inc., which is known today as AirTran Holdings, Inc. Mr. Levy was a former manager of ValuJet where he quickly advanced into roles of increasing responsibility and later worked for an airline investment and advisory firm.

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Our Business Strategy

To continue the growth of our business and increase our profitability, our strategy will be to continue to offer a single class of air travel service at low fares, while maintaining high quality standards, keeping our operating costs low and pursuing ways to make our operations more efficient. We intend to grow by adding flights on existing routes, entering additional small cities, connecting our existing small cities to more of our leisure destinations, providing service to more leisure destinations and expanding our relationships with premier leisure companies.

The following are the key elements of our strategy:

Capitalize on Significant Growth Opportunities in Transporting Travelers from Small Cities to Leisure Destinations. We believe small cities represent a large untapped market, especially for leisure travel. We believe small city travelers have limited options to leisure destinations as existing carriers are generally focused on connecting the small city "spokes" to their business hubs. We aim to become the premier travel brand for leisure travelers in the small cities served by us.

Since the beginning of 2004, we have expanded our scheduled air service from six to 57 small cities as of February 15, 2010, including seasonal service. These 57 small cities have an aggregate population in excess of 50 million people within a 50-mile radius of the airports in those cities. In most of these cities, we provide service to more than one of our leisure destinations. We expect to grow our service to leisure destinations by adding frequency from some existing small city markets and initiating service from additional small cities. We believe our business model would be suitable for approximately 100 small cities in the U.S., Canada and Mexico.

We also believe there are several other major leisure destinations that share many of the same characteristics as Las Vegas, Orlando, Phoenix, Tampa/St. Petersburg, Los Angeles and Ft. Lauderdale. These potential markets include Hawaii, several other popular vacation destinations in the U.S. (including the possible expansion of our current limited service to destinations such as Punta Gorda, Florida and San Diego, California), Mexico and the Caribbean.

Develop New Sources of Revenue. We have identified three key areas where we have built and believe we can grow our ancillary revenues:

Unbundling the Traditional Airline Product. We believe most leisure travelers are concerned primarily with purchasing air travel for the least expensive price. As such, we have created new sources of revenue by charging fees for services many U.S. airlines historically bundled in their product offering. We believe by offering a simple base product at an attractive low fare we can drive demand and generate incremental revenue as customers pay additional amounts for conveniences they value. For example, we do not offer complimentary advance seat assignments; however, any customer can purchase advance seat assignments for a small incremental cost. We also sell snacks and beverages on board the aircraft so our customers can pay for only the items they value. We aim to continue to increase ancillary revenue by further unbundling our air travel product.

Expand and Add Partnerships with Premier Leisure Companies. We currently work with many premier leisure companies in our leisure destinations that provide ancillary products and services we sell to our customers. For example, we have contracts with Harrah's Entertainment and MGM MIRAGE, among others, that allow us to provide hotel rooms sold in packages to our customers. During 2009, we generated revenue from the sale of more than 500,000 hotel rooms. By expanding our existing relationships and seeking additional partnerships with premier leisure companies, we believe we can increase the number of products and services offered to our customers and generate more ancillary revenue. In 2010, we began an initiative to emphasize and focus on revenue growth from third party products. We believe our efforts to enhance

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software capabilities and provide additional offerings, along with our loyal customer base could result in meaningful long-term revenue growth.

Leverage Direct Relationships With Our Customers. Since approximately 86% (during 2006 through 2009) of our scheduled service revenue is purchased directly through our website, we are able to establish direct relationships with our customers by capturing their email addresses for our database. This information provides us multiple opportunities to market products and services, including at the time they purchase their travel, between the time they purchase and initiate their travel, and after they have completed their travel. In addition, we market products and services to our customers during the flight. We believe the breadth of options we can offer them allows us to provide a "one-stop" shopping solution to enhance their travel experience.

Continue to Focus on Reducing Our Operating Costs. We intend to continue to focus on reducing our costs to remain one of the lowest cost airlines in the world, which we believe is instrumental to increasing profitability. We expect to drive operational efficiency and reduce costs in part by growing our network. We will expand our network by increasing the frequency of our flights in existing small city markets, expanding the number of small cities we serve, and increasing the number of leisure destinations, all of which permits us to increase the utilization of our employees and assets, spreading our fixed costs over a larger number of departures and passengers.

Minimize Fixed Costs to Increase Strategic Flexibility. We believe our low aircraft ownership costs and the lower costs associated with our small city market strategy provide us with a lower level of fixed costs than other U.S. airlines. We believe our low level of fixed costs provides us with added flexibility in scheduling our services and controlling our profitability. For example, with lower fixed costs we are better able to quickly adjust capacity to suit market, fuel or economic conditions, enter or exit markets and match the size and utilization of our fleet to limit unprofitable flying and increase profitability.

Routes and Schedules

Our current scheduled air service predominantly consists of limited frequency, nonstop flights into Las Vegas, Orlando, Phoenix, Tampa/St. Petersburg, Los Angeles and Ft. Lauderdale from small cities (including seasonal service) across the continental United States. As of February 15, 2010, we offered scheduled service from 57 small cities on 136 routes in 35 states. We believe our route network expansion has provided us geographic diversity with which provides protection from competitive influences in the markets we serve and continued growth in our customer base.

We attempt to match the frequency of flights with market demand. We rarely have daily flights in our markets, nor do we generally offer multiple flights per day. In most cases, we offer several flights per week in each of our markets. We regularly adjust frequency in our markets as demand warrants.

In addition, we temporarily suspend flying some of our Florida and Phoenix, Arizona routes for varying periods (depending on the route) between the middle of August and the beginning of November as leisure demand to these destinations tends to be quite weak during this time. We schedule crew training, aircraft maintenance and additional charter flying to coincide with these periods. We also fly on a seasonal basis routes to Myrtle Beach, South Carolina during the summer months when demand is stronger.

We generally begin our route selection process by identifying markets in which there is no nonstop service to our leisure destinations, which have a large enough population in the airport's catchment area to support at least two weekly flights, and which are typically no more than eight hours round-trip flight time from the destination. The eight hour limit permits one flight crew to perform the mission, avoiding costly crew overnight expenses and increasing crew utilization and efficiency. We then study publicly available data from the DOT showing the historical number of passengers, capacity, and average fares over time in the identified markets. We also study general demographic information

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about the population base for the targeted market area to assist in our determination whether we believe a service from a particular market would likely be successful.

We forecast the level of demand in a particular market that will result from the introduction of our service as well as our judgment of the likely competitive response of other airlines. We focus on markets where competitors are unlikely to initiate service and we prioritize routes that can be started at low marginal crew and ground operations costs.

Once a market is classified as attractive, we begin a rigorous analysis of the costs of providing service to that market. The major costs under consideration would be the initial and ongoing advertising costs to gain and maintain name recognition, airport charges, ground handling and fuel costs. The demand for nonstop air service in our markets often gives us leverage to attract financial support from the cities and airports we serve in the form of shared advertising costs or abatement or reduction of airport fees.

Our fixed fee flying predominately consists of flying under an agreement with Harrah's Entertainment Inc. with one aircraft based in Tunica, Mississippi and two aircraft in Laughlin, Nevada. Tunica also utilizes one aircraft three days a week from our Florida scheduled service operations to support its fixed fee flying. We are a participant in the Civil Reserve Air Fleet ("CRAF") which allows us to bid on and be awarded peacetime airlift contracts with the military. During periods when aircraft are not utilized for scheduled service flying, we typically seek out additional charter service and ad hoc flying.

Safety and Security

We believe we provide a safe and healthy working environment for our employees. We are committed to an accident prevention program which includes the identification and correction of hazards and the training of employees in safe work practices. We strive to comply with or exceed health and safety regulation standards. In pursuing these goals, we maintain an active aviation safety program and all company personnel are expected to participate in the program and take an active role in the identification, reduction and elimination of hazards.

Our ongoing focus on safety relies on hiring good people, training them to proper standards, and providing them with the tools and equipment they require so they can perform their job functions in a safe and efficient manner. Safety in the workplace targets five areas of our operation: flight operations, maintenance, in-flight, dispatch, and station operations. We maintain a formal internal evaluation program which focuses on these operational areas. In the maintenance area, we maintain an active Continuing Analysis and Surveillance Program. All operational areas support an active event and hazard reporting program. In the flight operations department, we maintain an active Operational Performance Enhancement Committee and a Flight Standards Board comprised of management and check airmen. The station operations area conducts safety meetings and completes a safety checklist at all locations on a monthly basis. Maintenance bases, dispatch and in-flight also perform documented periodic evaluations of various functions and documentation within their areas to ensure compliance with company policies and regulatory requirements.

The Transportation Security Administration ("TSA") is charged with aviation security for both airlines and airports. We maintain active, open lines of communication with the TSA at all of our locations to ensure proper standards for security of our personnel, customers, equipment and facilities are exercised throughout the operation.

Sales and Distribution

We sell air transportation that may be packaged, at the passenger's discretion, with other products such as hotels, rental cars, and tickets to popular tourist attractions in our leisure destinations. We have

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chosen to maintain full control over our inventory and only distribute our product through our website, our call center, or at our airport ticket counters. We do not sell through Expedia, Travelocity, Orbitz or any other internet travel agencies nor is our product displayed and sold through the global distribution systems which include Sabre, Galileo, Worldspan and Amadeus. This distribution strategy results in reduced expenses by avoiding the fees associated with the use of GDS distribution points and also permits us to develop and maintain a direct relationship with our customers. The direct relationship enables us to engage continuously in communications with our customers which we believe will result in substantial benefits over time.

In March 2009, we completed an acquisition of the operating software we have used since our inception. This will provide us more control over our automation. We are focused on the development of our software and have made further hardware and database platform purchases to provide us with the necessary capacity to continue our growth. The hardware and database upgrades will allow for additional offerings of web based products. We believe our control over the development will enable us to provide our customers with products unique to us, will further differentiate us in the travel industry and will expand our customers' travel experience.

In 2010, we have begun a Company initiative to emphasize and focus on revenue growth from third party products. We do not anticipate significant short-term revenue growth. We believe our efforts to enhance software capabilities and provide additional product offerings, along with our loyal customer base could result in meaningful revenue growth.

We market our services through advertising and promotions in newspapers, magazines, television and radio and through targeted public relations and promotional efforts in our small city markets. We currently advertise in more than 400 print circulations. We also rely on public relations and word-of-mouth to promote our brand. We generally run special promotions in coordination with the inauguration of service into new markets. Starting approximately 60 days before the launch of a new route, we undertake a major advertising campaign in the target market and local media attention frequently focuses on the introduction of our new service.

We have a database of more than one million email addresses from past customers and visitors to our website, and use blast emails to communicate special offers to this group. The heaviest concentration of air-only sales occurs in the period 30 to 60 days before departure, and occurs 30 to 90 days before departure for air-hotel package sales. We commonly use email promotions directed toward the customers in our database as a vehicle for selling unsold seats in the period two to three weeks before departure.

All of our bookings must be made on our website, through our call center or at our airport ticket counters, even if booked through travel agents. The percentage of our scheduled service bookings on our website has exceeded 85% in each of the last four years. This distribution mix creates significant cost savings for us and enables us to continue to build loyalty with our customers through increased interaction with them.

Pricing, Revenue Management and Ancillary Revenue

Our low fares are designed to stimulate demand from price-sensitive leisure travelers who might not have traveled to our leisure destinations due to the expense and inconvenience involved prior to our initiation of non-stop service. Our fare structure generally comprises six "buckets," with prices generally increasing as the number of days prior to travel decreases. Prices in the highest bucket are typically less than three times the prices in the lowest bucket. All our fares are one-way and non-refundable, although they may be changed for a \$50 charge per segment. Customers may avoid change fees by buying our travel protection product (Trip-Flex) at the time of purchase.

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We try to maximize the overall revenue of our flights by watching inherent demand on a given route on any given day and managing the number of seats we offer for sale in these six "buckets". The number of seats offered at each fare is established through a continual process of forecasting, optimization and competitive analysis. Generally, past booking history and seasonal trends are used to forecast anticipated demand. These historical forecasts are combined with current bookings, upcoming events, competitive pressures and other factors to establish a mix of fares designed to maximize revenue. This ability to accurately adjust prices based on fluctuating demand patterns allows us to balance loads and capture more revenue from existing capacity. We believe effective yield management has contributed to our strong financial operating performance and is a key to our continued success.

Ancillary revenue is derived from third party products and air-related charges associated with the trip of our customer. Air-related charges include fees for using our reservation center or website to purchase air travel; checked bags and overweight bags; unlimited changes to reservations (our Trip-Flex product); seat selection; priority boarding; and several other aspects of air travel. Pricing of certain air-related charges such as our customer convenience fee and booking fee is based on an established fixed price. Other air-related charges such as baggage fees and priority boarding fees are adjusted market to market based on customer demand to seek to increase revenue potential.

Along with our air-related charges, the sale of third party products is the other component of our ancillary revenue. We offer our customers the opportunity to purchase hotels, rental cars, show tickets, night club packages and other attractions packaged with air travel. Our third party offerings are available to customers based on our agreements with various premier travel and leisure companies. As of February 1, 2010, we have agreements to offer rooms from approximately 330 hotels and tickets to over 40 attractions in our leisure destinations. In addition, we have an exclusive agreement with one rental car operator for the sale of rental cars packaged with air travel at all of our major leisure destinations and most of our other leisure destinations. Pricing of attractions, shows and tours are based on a net-pricing model. Each product can be adjusted market to market based on customer demand and take rate.

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, industry capacity and pricing actions taken by other airlines. The principal competitive factors in the airline industry are fare pricing, customer service, routes served, flight schedules, types of aircraft, safety record and reputation, code-sharing relationships and frequent flyer programs.

Our competitors and potential competitors include legacy airlines, LCCs, regional airlines and new entrant airlines. Many of these airlines are larger, have significantly greater financial resources and serve more routes than we do. In a limited number of cases, competitors have chosen to add service, reduce their fares or both, in some of our markets following our entry. In a few cases, other airlines have entered after we have developed a market.

We believe a key to our initial and long-term success is that we seek to offer customers in our markets a better alternative for airline travel. We offer a simple, affordable product with excellent customer service and reliability using clean and comfortable aircraft. We sell only nonstop flights. We do not require Saturday night stays or the purchase of round-trip travel. We do not overbook our flights. We understand that our leisure customer only has a limited number of vacation days and relies on us to get them to their destination and back in a timely manner.

Our 150-seat MD-80 aircraft, with an average seat pitch of 31 to 32 inches, offer a comfortable alternative to the 37 to 86 seat regional jets that secondary market travelers are accustomed to flying as part of the hub and spoke networks of the legacy carriers. Additionally, we believe the MD-80's three-by-two seating configuration is well liked by the traveling public because 80% of all seats are

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window or aisle seats. We adhere to the successful model pioneered by Southwest by offering a single class of service; however, unlike Southwest, we offer assigned seating at the airport. We also offer advance seat assignments and priority boarding for a fee which depends on the route served and location of the seat on the aircraft.

Our small city strategy has reduced the intensity of competition we might otherwise face. We are the only scheduled carrier in five of the small city airports we serve as of February 1, 2010, the only domestic scheduled carrier operating out of the Orlando Sanford International Airport, the only scheduled carrier operating out of Phoenix-Mesa Gateway Airport in Phoenix, and one of only three carriers serving the St. Petersburg-Clearwater International Airport. Virtually all U.S. airlines serve Las Vegas, Orlando, Phoenix, Tampa/St. Petersburg, Los Angeles and Ft. Lauderdale and could become more competitive in the future.

As of February 1, 2010, we face direct competition on only eight of our 136 routes. We compete with AirTran on four routes into Orlando. We face competition with US Airways on one route to Las Vegas (Fresno); however, most of the flights US Airways operates in that market use smaller regional jet aircraft. We also compete with United Express turboprops in the Fresno to Las Vegas route and the Eugene to San Francisco Bay Area route. In addition, we compete with Horizon Air turboprops on one route to Los Angeles (Medford) and with Alaska Airlines on one route to Las Vegas (Bellingham).

Indirectly, we compete with Southwest, US Airways, AirTran, Delta and other carriers that provide nonstop service to our leisure destinations from airports near our small city markets. For example, we fly to Bellingham, Washington, which is a two-hour drive from Seattle-Tacoma International Airport, where travelers can access nonstop service to Las Vegas on Alaska Airlines, Southwest or US Airways. We also face indirect competition from legacy carriers offering hub-and-spoke connections to our markets. For example, travelers can travel to Las Vegas from Peoria on United, American or Northwest, although all of these legacy carriers currently utilize regional aircraft to access their hubs and then mainline jets to access Las Vegas. Legacy carriers offering these segments with connecting flights and use of regional aircraft, tend to charge higher and restrictive fares. In addition, these alternatives to our direct flight service have a much longer elapsed time of travel.

We also face indirect competition from automobile travel in our short-haul flights, primarily to our Florida leisure destinations. We believe our low cost pricing model, customer service, and the convenience of air transportation help us compete favorably against automobile travel.

In our fixed fee operations, we compete with the aircraft of other scheduled airlines as well as with independent passenger charter airlines such as Xtra. 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 and reputation.

People

We believe our growth potential and the achievement of our corporate goals are directly linked to our ability to attract and retain some of the best professionals available in the airline business. Full-time equivalent employees at February 1, 2010 consisted of 302 pilots, 359 flight attendants, 309 airport operations personnel, 231 mechanics, 118 reservation agents, and 218 management and other personnel. As of February 1, 2010, we employed 1,328 full-time and 406 part-time employees, which we consider to be 1,537 full-time equivalent employees.

We place great emphasis on the selection and training of enthusiastic employees with potential to add value to our business and who we believe fit in with and contribute to our business culture. The recruiting and training process begins with an evaluation and screening process, followed by multiple interviews and experience verification. We provide extensive training intended to meet all Federal

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Aviation Administration ("FAA") requirements for security, safety and operations for our pilots, flight attendants and customer service agents.

To help retain talented and highly motivated employees, we offer competitive compensation packages as well as affordable health and retirement savings options. We offer medical, dental and 401(k) plans to full-time employees. Other salaried benefits include paid time off, as well as supplemental life insurance and long-term disability. We do not have a defined benefit pension plan for any employees. We review our compensation packages on a regular basis in an effort to ensure that we remain competitive and are able to hire and retain the best people possible.

In addition to offering competitive compensation and benefits, we take a number of steps to make our company an attractive place to work and build a career such as maintaining various employee recognition programs and consistently communicating our vision and mission statement to our employees. We believe creating a great place for our people to work motivates them to treat our customers beyond their expectations.

We have never experienced an organized work stoppage, strike or labor dispute. We currently do not have any labor unions. We have in-house pilot and flight attendant associations with whom we have negotiated mutually satisfactory arrangements for pay increases. We meet with these associations on a regular basis to address relevant issues and matters of concern.

In February 2010, we agreed with our in-house pilot association on a new compensation and benefits arrangement for our pilots. The terms of the arrangement will become effective in May 2010, will become amendable in November 2013 and include base pay scale variability based on profitability. The base pay scale is determined twice a year based on a rolling twelve month operating margin ranging up to and above 20%.

Aircraft and Fleet

Our operating fleet of 46 aircraft consists of 28 MD-83, four MD-87, eight MD-82 aircraft, and six MD-88 aircraft as of February 1, 2010. We generally utilize our 130-seat aircraft (MD-87) for our fixed fee flying and our 150-seat aircraft (MD-82/83/88) for our scheduled service. As of February 1, 2010, we own 40 of our aircraft 17 are owned free and clear, and 23 are owned subject to financing scheduled to be fully paid over the next four years. An additional two aircraft are subject to capital leases under which we expect to take ownership within the next three years. We lease the remaining four aircraft under operating leases which expire through 2014.

In the fourth quarter of 2009, we entered into purchase agreements for 20 MD-80 series aircraft for delivery in the first three quarters of 2010. The aircraft include 15 MD-82/83 aircraft which we expect to place into service by the end of 2011. The remaining five aircraft are MD-87 aircraft which we expect to use as a source of spare engines and spare parts.

We believe conditions in the market for high quality used MD-80 class aircraft are favorable for buyers and believe there is ample availability of suitable aircraft to permit growth well beyond the aircraft recently contracted for. However, MD-80 series aircraft and Pratt & Whitney JT8D-200 series engines are no longer manufactured. This could cause a shortage of additional suitable aircraft, engines or spare parts over the long term. If the FAA adopts regulations to limit the age of aircraft in the U.S., we may need to seek replacement of our current aircraft fleet sooner than anticipated. From time to time, we consider the acquisition of a newer aircraft type to replace our existing fleet or to expand our operations. Before making any decision to acquire a newer aircraft type, we carefully evaluate its effect on our cost structure and the potential additional revenue to be generated.

In March 2010, we entered into a purchase contract for six Boeing 757 aircraft with delivery dates from 2010 to 2012. These aircraft will provide us the ability to serve longer haul markets, including the expectation to serve Hawaii after we receive regulatory approval for extended over water operations.

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Our aircraft range from 14 to 24 years old with an average age of 20.4 years as of February 1, 2010. As of February 1, 2010, the average number of cycles on our fleet was approximately 29,700 cycles and the highest number of cycles on any of our aircraft was approximately 47,000. A cycle is defined as one take-off and landing and is a measure often used by regulators in determining the applicability of aging aircraft requirements. We historically operate approximately 1000 cycles per aircraft per year.

Maintenance

We have an FAA-approved maintenance program, which is administered by our maintenance department headquartered in Las Vegas. Consistent with our core value of safety, all mechanics and avionics specialists employed by us have appropriate training and experience and hold required licenses issued by the FAA. We provide them with comprehensive training and maintain our aircraft and associated maintenance records in accordance with FAA regulations. The maintenance performed on our aircraft can be divided into three general categories: line maintenance, heavy maintenance, and component and engine overhaul and repair. Scheduled line maintenance is generally performed by our personnel. We contract with outside organizations to provide heavy maintenance and component and engine overhaul and repair. We have chosen not to invest in facilities or equipment to perform our own heavy 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. We closely supervise the outsourced work performed by our heavy maintenance and engine overhaul contractors.

Line maintenance consists of routine daily and weekly scheduled maintenance checks on our aircraft, including pre-flight, daily, weekly and overnight checks and any diagnostics and routine repairs. We perform this work at our maintenance bases in Las Vegas, Orlando (at both Orlando International Airport where we opened a base in February 2010 and Orlando Sanford International Airport), Phoenix, Tampa/St. Petersburg, Los Angeles, Ft. Lauderdale, Bellingham (Washington), Tunica (Mississippi), and Laughlin (Nevada) with the Laughlin and Tunica bases supporting our fixed fee flying services. In addition, we have announced we will establish a new operational aircraft base at Grand Rapids, Michigan, one of our small cities, in April 2010. For unscheduled requirements that arise away from our maintenance bases, we subcontract our line maintenance to outside organizations under customary industry terms.

Heavy maintenance checks consist of more complex inspections and servicing of the aircraft that cannot be accomplished during an overnight visit. These checks occur approximately every 18 months on each aircraft and can range in duration from two to six weeks, depending on the magnitude of the work prescribed in the particular check. In December 2009, we entered into a contract with AAR Corp., one of the largest maintenance, repair and overhaul facilities, to perform airframe heavy maintenance checks through the end of 2015. We also utilize AAR Corp., along with Flight Star, another FAA approved airframe heavy maintenance vendor, for induction services to ready newly acquired aircraft to enter our operating fleet.

Component and engine overhaul and repair involves sending certain parts, such as engines, landing gear and avionics, to FAA-approved maintenance repair stations for repair and overhaul. We presently utilize Pratt & Whitney controlled Christchurch Engine Centre and TIMCO Aviation Services, Inc. for overhaul and repair of our engines on a non-exclusive basis.

We also have a non-exclusive general terms agreement with Avioserv for the consignment of engine parts.

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.

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Aircraft Fuel

Fuel is our largest operating expense. 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 do not currently use financial derivative products to hedge our exposure to jet fuel price volatility.

In an effort to reduce our fuel costs, we have sought to become involved at an earlier stage in the fuel distribution channels. In this regard, we formed a wholly-owned subsidiary which entered into a limited liability company operating agreement with an affiliate of Orlando Sanford International Airport to engage in contract fueling transactions for the provision of aviation fuel to airline users at that airport. In addition, we have invested in fuel storage units and fuel transportation facilities involved in the fuel distribution process. These efforts could result in the creation of additional joint ventures to further our involvement in the fuel distribution process. By reason of these activities, we could potentially incur material liabilities, including possible environmental liabilities, to which we would not otherwise be subject.

Government Regulation

We are subject to regulation by the DOT, 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 has the authority to investigate and institute proceedings to enforce its regulations and may assess civil penalties, suspend or revoke operating authority and seek criminal sanctions. 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 a DOT certificate of public convenience and necessity authorizing us to engage in: (i) 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), and (ii) 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 operations specifications issued to the airline by the FAA, authorizes the airline to operate 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, providing scheduled service to certain destinations may require governmental authorization. The FAA has the authority to investigate all matters within its purview and to modify, suspend or revoke our authority to provide air transportation, or 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

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our operations and maintenance management personnel, and performs 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 with the opportunity to 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 TSA of the Department of Homeland Security. The TSA has enforcement powers similar to 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.

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 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 service at airports.

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 restricts the number of flights or hours of operation, although it is possible one or more of such airports may do so in the future with or without advance notice.

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 a citizen 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 and at least two-thirds of our board of directors and other managing officers must be U.S. citizens, and that not more than 25% of our voting stock may be 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 will continue to comply with those requirements.

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The quality of water used for drinking and hand-washing aboard aircraft is subject to regulation by the Environmental Protection Agency ("EPA"). To the extent we are subject to EPA requirements, we will continue to comply with those requirements.

We are responsible for collection and remittance of federally imposed and federally approved taxes and fees applicable to air transportation passengers. We believe we are in compliance with these requirements, and we will continue to comply with them.

Our operations may become subject to additional federal requirements in the future under certain circumstances. For example, our labor relations are covered under Title II of the Railway Labor Act of 1926, as amended, and are subject to the jurisdiction of the National Mediation Board. During a period of past fuel scarcity, air carrier access to jet fuel was subject to allocation regulations promulgated by the Department of Energy.

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 airports we serve. None of the airports in the small cities in which we operate have slot control, gate availability or curfews that pose meaningful limitations on our operations. However, some small city airports 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 and regulations of the foreign countries to, from and over which the international flights operate. Foreign laws, rules and regulations 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 Regulation. Congress, the DOT, the FAA, the EPA 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 cannot predict what other matters might be considered in the future by the FAA, the DOT, the EPA, 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. In February 2009 we received approval to become 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 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 approval, we are eligible to bid on and be awarded peacetime airlift contracts with the military. We have been awarded several contracts since we obtained our approval in February 2009.

Insurance

We maintain insurance policies we believe are of types customary in the industry and as required by the DOT and in amounts we believe are adequate to protect us against material loss. The policies principally provide coverage for public liability, passenger liability, baggage and cargo liability, property damage, including coverages for loss or damage to our flight equipment and workers' compensation insurance. There is no assurance, however, that the amount of insurance we carry will be sufficient to protect us from material loss.

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General Information

Our principal executive offices are located at 8360 South Durango Drive, Las Vegas, Nevada 89113. Our telephone number is (702) 851-7300. Our website addresses are <http://www.allegiantair.com> and <http://www.allegianttravelcompany.com>. We have not incorporated by reference into this annual report the information on our websites and you should not consider it to be a part of this document. Our website addresses are 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 our website at ir.allegiantair.com, as soon as reasonably practicable after electronically filed with or furnished to the Securities and Exchange Commission ("SEC").

Item 1A. Risk Factors

An investment in our common stock involves a high degree of risk. Investors 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

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 approximately 38% during 2009 and 51% during 2008. Although we experienced a reduction in the average cost per gallon to \$1.76 during 2009, down from \$2.98 during 2008, our average cost per gallon increased sequentially each quarter of 2009 and costs remain higher than long-term historical averages. The cost of fuel cannot be predicted with any degree of certainty and further fuel cost volatility could significantly affect our future results of operations. Significant increases in fuel costs have negatively affected our operating results in the past and future price increases could harm our financial condition and results of operations.

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. Because of the effect of these events on the price and availability of aircraft fuel, the price and future availability of fuel cannot be predicted with any degree of certainty. A fuel supply shortage or higher fuel prices could result in curtailment of our service.

Current negative economic conditions may adversely affect travel from our small city markets to our leisure destinations.

The U.S. economy continues to be impacted by high unemployment and other factors which may reduce the wealth and tighten spending of consumers. Leisure travel is aligned with discretionary spending and it is uncertain to what extent these economic conditions will affect consumers and leisure travel. These conditions could impact demand for airline travel in our small city markets or to our leisure destinations.

Our reputation and financial results could be harmed in the event of an accident or new regulations affecting our aircraft or other MD-80 aircraft.

An accident or incident involving one of our aircraft, even if fully insured, could cause a public perception that we are less safe or reliable than other airlines, which would harm our business. Because we are smaller than most airlines, an accident would likely adversely affect us to a greater degree than a larger, more established airline.

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Additionally, our dependence on this single type of aircraft and engine for all of our flights makes us particularly vulnerable to any problems that might be associated with, or aging aircraft requirements affecting, this aircraft type or these engines. Our business would be significantly harmed if a mechanical problem with the MD-80 series aircraft or the Pratt & Whitney JT8D-200 series engine were discovered causing our aircraft to be grounded while any such problem is being corrected, assuming it could be corrected at all. The Federal Aviation Administration ("FAA") could also suspend or restrict the use of our aircraft in the event of any actual or perceived mechanical problems, whether involving our aircraft or another U.S. or foreign airline's aircraft, while it conducts its own investigation. Our business would also be significantly harmed if the public avoids flying our aircraft due to an adverse perception of the MD-80 series aircraft or the Pratt & Whitney JT8D-200 series engine because of safety concerns or other problems, whether real or perceived, or in the event of an accident involving an MD-80 aircraft.

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 computerized airline reservation system, our telecommunication systems, our website and other automated systems. Any failure by us to handle our automation needs could negatively affect our Internet sales and customer service and result in increased costs.

Our website and reservation system must be able to accommodate a high volume of traffic and deliver important flight information. Substantial or repeated website, reservations system or telecommunication systems failures could reduce the attractiveness of our services. Any disruption in these systems could result in the loss of important data, loss of revenue, increase our expenses and generally harm our business.

In the processing of our customer transactions, we receive and store credit card and other identifiable personal data. This data is increasingly subject to legislation and regulation typically intended to protect the privacy of personal data that is collected, processed and transmitted. We could be adversely affected if legislation or regulations are expanded to require changes in our business practices in ways that negatively affect our business, financial condition and results of operations. As privacy and data protection become more sensitive issues, we may also become exposed to potential liability. These and other privacy developments are difficult to anticipate and could adversely affect our business, financial condition and results of operations.

Our maintenance costs will increase as our fleet ages.

Our aircraft range from 14 to 24 years old, with an average age of 20.4 years as of February 2010. In general, the cost to maintain aircraft increases as they age and exceeds the cost to maintain new aircraft. FAA regulations require additional and enhanced maintenance inspections for older aircraft. These regulations include Aging Aircraft Airworthiness Directives, which typically increase as an aircraft ages and vary by aircraft or engine type depending on the unique characteristics of each aircraft and/or engine.

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

We believe our aircraft are and will continue to be mechanically reliable. We cannot assure you our aircraft will continue to be sufficiently reliable over longer periods of time. Furthermore, given the age of our fleet, any public perception that our aircraft are less than completely reliable could have an adverse effect on our bookings and profitability.

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We may be subject to unionization which could increase our labor costs.

Unlike most airlines, we have a non-union workforce. If our employees unionize, it could result in demands that may increase our operating expenses and adversely affect our profitability. Our pilots and flight attendants have