

2019

ANNUAL REPORT



**allegiant**

June 2020

Dear Allegiant Shareholder:

Earlier this year I was looking forward to describing our record setting 2019. Our first full year with our all Airbus fleet had gone as well as we had hoped. Allegiant's 2019 operating income was \$364 million, a 50% increase from 2018 and again we led the industry with a 21% operating margin. EBITDA per aircraft was \$6.3 million and leverage declined a full turn from 3.8x to 2.8x debt to EBITDA. Over the years, we have touted the benefits of our all-Airbus fleet highlighting:

- Increased fuel efficiency - 5.7% more ASMs per gallon of fuel year over year
- Increased aircraft utilization – it grew 15.9% for the year
- Improved reliability – our controllable completion factor was 99.96%

2019 checked the box on all accounts.

In addition to the highlights noted above, the simplicity of operating a single fleet type aided in reducing CASM, excluding fuel by 3.3 percent year over year. In 2019, the Airbus proved we had found a worthy replacement aircraft to support our proven low frequency model.

Pandemic

The world has changed. While we are proud of our 2019 results, the sustainability of our company and the airline industry in general was called into question. We have many differences as a species including our cultures and beliefs. But as human beings, our biology connects us as nothing else can. We are marvelous creatures, the product of millions of years of evolution which has focused on making us stronger as a species against these miniature terrorists – the ones we cannot see, who kill from within. They do not discriminate; they will attack anyone who can host them and allow them to propagate and grow.

The coronavirus has existed for many years and has proved to be a problem causing the SARS and MERS outbreaks over the last 20 years. This latest strand has been the most contagious. International travel has allowed the virus to hitch hike its way around the globe since early 2020. Scientists who have been predicting a global pandemic for years have finally been proven correct. These same doctors recommended countries be locked down to 'slow the spread of the virus, to flatten the curve'. This recommendation was based on predictions or beliefs that unless we stopped interacting with each other, our country's hospital facilities could be overrun. But there were severe economic consequences tied to these actions.

The economic impact from shutting not only the US, but the entire world has been devastating. As this letter is being written, there are over 42 million people unemployed in the US alone. Las Vegas, where I live, has seen its entire economy brought to a grinding halt. For a city that never closes its doors, it was eerie to drive a dark Las Vegas Strip. Our once bustling office has been reduced to many empty desks with a few people managing an operation that is a fraction of what it used to be.

What will be the impact?

As I write this letter in early June, the worst appears to be behind us. As an industry, we have received the first part of a \$50 billion federal assistance package, the \$25 billion Payroll Support Program. Each

carrier is entitled to an allocation of aid based on an airline's 2019 Q2/Q3 payroll. Of our \$172 million share, 87% is a grant and will not be repaid and 13% is a long-term loan. These funds are intended to support the company's personnel costs for six months, through September 30th of this year. The thought process behind the bill was that this was sufficient time for the shutdown to occur and the economy to reopen by the fourth quarter of 2020.

By the back half of March, revenues plunged as future bookings ceased and customers with bookings cancelled their trips, asking for refunds. These two events had a devastating impact on the company's cash flow.

These events have affected every air carrier in the US and worldwide. The industry impact could be long lasting. Over 65% of the world's 25,000 jet aircraft are parked. Some experts are predicting up to 1/3 of the world's airline industry will be bankrupt and out of business in the not-too-distant future. In the US, several carriers have suggested it may take years to return to normal, particularly those with significant exposure to business and international travel.

Looking forward, there is another looming problem – the use of technology as a viable alternative to business travel. Modern streaming capabilities from companies such as Zoom, Google and Microsoft have come into their own. Our Allegiant Board has been doing all of its meetings via this method. Prior to the pandemic, we never considered virtual meetings. Just like all things new, there were problems in the first few tries but when you have to use it, when you have no choice, you figure it out. That is what we have done over the past 90 days. I now appreciate the tremendous savings of time and additional productivity.

Recently I attended a 'zoom' board meeting for another company. I could see the other board members; they could present documents, spreadsheets and items relevant to the conversation. I could interact with these presentations. We spent 2.5 hours. Previously we would have consumed upwards of 5 to 6 total days among the three of us for a face-to-face meeting with travel time (they live on the East Coast) plus the cost of travel, hotel and meals. Their company-wide T&E expense for the first quarter was \$200,000. Their budget going forward is a fraction of this amount – less than \$20,000 per quarter. Unlike past slowdowns in the 2000s, this time senior executives understand the power of this technology and appreciate the ability to reduce travel and entertainment expenses in the coming months and years.

While direct expense savings are a part of the benefit, perhaps the larger part of the equation is the increased productivity from personnel not traveling. Executives I have talked to indicate their staff is much more productive, perhaps as much as 3x. Since they were forced to stay at home, they quickly pivoted to remote sales efforts. The initial efforts were clumsy, but given they had no choice, they focused on the problems and quickly became more proficient. Today they do at least 90% of their sales efforts via 'zoom' and have been able to substantially increase the number of calls in a given time frame. They stated they can better concentrate their staff, have more complete meetings and hence fewer meetings and follow up is much quicker given the time eliminated from travel. Efforts that used to take weeks are now coming together in days, reducing the sales cycle by orders of magnitude.

Through the writing of this letter, business demand has not shown any increases in contrast to returning leisure demand. Longer term, there will be a rebound in business travel. Conferences and trade shows still have merit and there are businesses who believe face-to-face meetings are critical competitive requirements. But the combination of substantial dollar savings and increased productivity has to have an impact on the return of business travel in the coming months.

As things improve, old habits will reemerge. But for the next year or two, perhaps longer, the impact of technology on business travel could be substantial. Many others dependent on business travel - hotels, restaurants, travel agents, OTAs like Expedia and others, will also feel the impact from reduced travel. Additionally, those in the office space business will most likely have problems as well. People have shown they can work from home.

The Aircraft Market

In February 2020, new aircraft were sold out for many years in the future – Airbus and Boeing’s backlogs stretched six to seven years. Aircraft financing was plentiful. Aircraft prices were strong. There was a limited supply of used aircraft, all of which were uncomfortably expensive for our purposes. Lastly, we were facing an extensive amount of engine overhaul expenses in the coming years given our growth and the lock GE has had on our CFM motors. In this instance, the industry was facing the razor blade problem. While we owned the razor, they controlled the blades and were not shy about raising prices for their replacement blades.

Fast forward to June. Everything has reversed. Overnight the market has gone from a seller’s to a buyer’s market. There are plenty of used aircraft; prices are down and still declining. I have told Robert Neal, who heads our aircraft management team, that he is the market. He looked at me a bit funny when I first mentioned this idea, but now he understands. Our phone rings daily with deals. Allegiant will be a ‘go to’ company for owners of distressed Airbus aircraft looking to salvage value from their assets. We will be able to purchase or lease less expensive used aircraft for both future growth and for teardowns to supply us with motors and other critical parts. We have a great deal of experience in this arena having used this approach to manage our MD80 fleet. I expect we will thrive in this changed environment.

In my opinion, excess aircraft will dominate the landscape in the coming months and years. We have minimal commitments for future aircraft – only eight total, five of which will be in 2020. Thereafter we will acquire our aircraft, motors and parts in this changed market. Our ownership/maintenance cost structure and capital requirements for additional aircraft will benefit greatly in the coming months and years.

Airbus and Boeing order books for new aircraft have to be evaporating daily. However, a number of carriers have contracts to purchase new aircraft in the coming years, many with sizeable numbers. These contracts were negotiated at prices much higher than they could be sold for today. Furthermore, these carriers must arrange financing. Most of these transactions will be financed through sale/leasebacks. Prior to the pandemic, good financing options were plentiful. In many instances, the aircraft could be financed for more than it cost. Additionally, the lease terms favored the airline. Today no one is sure if this financing will be available and if so at what terms.

The Resurrection

The industry will come back to life. But in the past two months, there has been a frenzy of activity to raise capital, to improve one’s balance sheet to provide the necessary cushion. Southwest has been one of the most active, raising equity, convertible equity and debt. They have as much as \$10 billion of available cash on hand. Their approach during the past fifty years has been to make the most of down turns. The early 1990s, 9/11 and the Global Financial Crisis were opportunistic times for them. While others struggled, their balance sheet strength allowed them to step on the gas. They have announced they plan to do the same in the coming months.

In contrast, major network carriers have dramatically reduced their schedules and have hinted they could have substantial layoffs on October 1st after the prohibition on layoffs contained in the CARES Act expires.

We believe Allegiant will lead the charge out these depths. During the past sixty days, Allegiant has led the industry in percentage of schedule available for sale and flown. During May we had approximately 77% of our schedule available for sale while Southwest's was approximately 37%. The majors and Spirit, JetBlue and Alaska were in the teens with some in single digits. In May, we operated almost half of our scheduled 2020 departures and flew a 47% load factor. For Memorial Day weekend, we were responsible for approximately 8% of all passengers carried in the United States, a 4x increase over last year.

We are seeing the benefits of our model. Compared to operating a hub and spoke or a point-to-point schedule, our basing approach with aircraft and crews together is easier to manage. The out and back nature of our flying has allowed us to offer most of our schedule for sale and within 10 to 14 days before the scheduled flight cancel ones that did not make sense. Our economic justification for flying flights was based on the flight contributing positively to our cash balances, namely covering the direct expenses of fuel and airport costs.

In the coming months we expect to continue to lead the industry in percentage of schedule offered and flown. We also expect to lead the industry in improving daily cash burn. During the second quarter, we forecasted our cash burn would be approximately \$2 million per day including debt service if gross bookings remained at \$750k per day. May's total was less than a \$500,000 per day deficit including debt service of \$11.5 million, a substantial beat. If one looks just at operations cash flow, sales for the month less direct operating expenses, payroll and accounts payable payments, we had a positive cash flow of just over \$2 million for May. Given these results, we are cautiously optimistic about the pace of the recovery and our ability to move back to a 'normal' operation.

What did we do?

In mid to late March, we quickly realized this was going to be a life-threatening event for the company. While we were hopeful there might be some aid from the federal government, we immediately began to conserve cash. Within days, we suspended all construction activity on Sunseeker Resort, eliminated or delayed \$320 million of capital expenditures for the remainder of 2020 and began working with all of our vendors to delay payables as well as renegotiate many of our relationships.

Our accounting and finance teams led the effort. In addition to reducing cash expenditures, we investigated other sources of capital. One source we quickly zeroed in on was the ability to file for net operating loss refunds from the IRS. We will receive approximately \$100 million for 2019 losses and expect to receive another similar amount in early 2021 for 2020 losses. We reviewed multiple alternatives to raise additional capital but concluded we did not require outside capital. We do have resources available should we conclude otherwise, namely the government loan program. We are eligible for as much as \$276 million and have until September 30th to exercise all or a portion of the loan.

We believe we have the most meaningful NOL refunds in the industry. We are benefiting from our aircraft purchase program of the past few years. The size of the refunds is the equivalent of a sizeable equity raise. We have benefited from a good balance sheet and a business model that has the most

flexibility of any carrier to both quickly shrink but to also keep a 'presence' in front of our customers system wide so we can see where our system will begin to reemerge.

Where do we stand?

Our model continues to be key to our success. Our approach to running our airline has sustained us since I came on board in the middle of 2001. We have a unique, non-competitive way to operate the company with over 80% of our routes non-competitive compared to the rest of the industry. We had 68 straight quarters of profitability, many of which led the industry in operating margin. Our recent conversion to an all Airbus fleet plus our focus on a better operation has improved our overall ratings in the industry and with our customers. Our team members are pleased with where their company is going – this past year they voted us the best airline to work for in the airline industry. Our passenger approval ratings have increased by 32 points since 2016 placing us third in the industry. We were recently ranked number one in the Airline Quality Rating 2020 survey. It reviews the statistics published by the DOT on each of the US carriers and ranks them accordingly.

We are reassessing how we should go forward with our business. Our number one goal is to improve our cash balances and debt levels. If there has been one lesson learned, it is liquidity is king – you cannot have too much cash. Additionally, this total should not include our Air Traffic Liability. Reducing our debt levels is also important. Lower debt totals reduce pressure on the balance sheet in times of stress.

Our second major focus is our cost structure. We need to lean ourselves out where possible. As previously discussed, inexpensive aircraft and excess motors and parts should substantially improve our maintenance expense and capex requirements in the coming years, translating into lower unit costs.

Looking forward we want to be opportunistic. We believe our segment of the industry – leisure, will respond quickly. We are already seeing evidence to support this belief. Five of our main markets - IWA, PGD, FLL, PIE and VPS are doing well. LAS and SFB have been laggards because of their delay in reopening. Las Vegas recently reopened on June 4th and is showing signs of life while Disney in Orlando has scheduled its reopening for July 11th. Future bookings by June 10, 2020, were exceeding the same day's bookings in 2019 without the strength of Las Vegas or Orlando.

As previously mentioned, we have led the industry in adding back flying. It will be interesting to see how aggressive the competitors will be as the industry begins to recover. Some are making comments about seizing the moment and looking at a land grab. Southwest is on record about plans to grow aggressively in the coming months and in 2021. Frontier has also commented about being aggressive. At the end of May, they announced 18 new routes that will start within the next thirty days.

What will the network carriers do? Given the overhang of international problems and the potential slow return of business traffic, how will they react? Will they come down market chasing more leisure markets? What will be Spirit's approach? To date they have not been that aggressive. I am a big believer the race goes to the tortoise, not the hare. We have discussed opportunities, but first we must tend to the balance sheet. Aircraft will be available and we may be able to add aircraft without much in the way of capex. We see opportunities to deploy our model in city pairs that particularly suit our flexible approach.

The Travel Company – Upping our Customer Messaging Game

We are still believers in the travel company concept. Just as in 2009, we expect there will be a great many hotel rooms available to us at very reasonable rates thereby benefiting our third party revenues. Our efforts with Sunseeker are on hold. We have told the board we will not restart the project without a partner or third party financing – we have no plans to invest any more capital in the project. One of the hallmarks of our company has been our ability to produce excellent unit revenues. Over the years, additional revenue sources have sustained us as an industry leader in operating margins in what has historically been a difficult space – leisure travel.

We want to continue this tradition. We are fortunate to have Scott DeAngelo heading our marketing, ecommerce and loyalty teams. He has been a critical component in enhancing our marketing programs from a data and technology perspective that has enabled us to produce more interactions with our customers through focused use of email and social media. Once again, our ability to talk directly to our customers is paying substantial dividends, particularly in these difficult times.

Just after we hit bottom in mid-April, I watched our marketing group quickly pivot to developing a program to test customer sentiments, how they were thinking and then to follow up with creative, targeted offerings to reengage them with the thought of traveling at the right time. These efforts have greatly aided our quicker than expected rebound. Again great leadership and execution by the marketing group has been critical in allowing us to lead the industry in emerging from this deep and dark hole.

Management

I would be remiss if I did not comment on the quality of your management team. Over the years, one of the areas I have been most proud of is our personnel, our team members. Our people have proven year in and year out to be among the best in the industry. This is particularly true in our management group. In many instances, they have been the thought leaders for this industry. In the early 2000s, we developed our 3rd party revenues including hotel and car rental packages. We were among the first to abandon fuel hedging in 2007, realizing we were in the speculation business, not the hedging business. Today most US air carriers have abandoned fuel hedging. We were the first in the US to introduce ancillary air products including selling our onboard food and snacks in 2003, seat assignments in 2004, checked baggage fees in 2005 and other products thereafter.

Today many of our alumni are sprinkled throughout the industry including senior management positions at major carriers, ULCCs and a number of startup efforts. Our quick response to the pandemic is further proof of the quality of this group. We were among the earliest to cut our schedule, to reign in capital expenditures including the shutdown of Sunseeker and to conserve cash in every way possible. More recently, they have been leading us back towards our normal revenues and operations. Lastly, they have been excellent stewards of the model, the model that has proven itself many times over as one of the best approaches to running a profitable airline. Looking forward, we are extremely well positioned with our all Airbus fleet, the ability to run an excellent operation and the benefits from lower cost aircraft and maintenance events. We believe our team members, customers and you, our shareholders, will be pleased with the results.

Our Culture, Our Principles, Our Team members

Congratulations and thank you to our now 4,000+ team members who come to work every day with the passion for excellence. We have a proven, seasoned model. Our team members are the backbone of our culture which has been defined on the principles summarized earlier, with a primary emphasis on safety.

We are focused on offering our customers a value proposition exceeding their expectations. We are focused on creating a positive, challenging and empowering environment for our team members — one that is stimulating, where they can grow and prosper in such a way they naturally thrive and advance the good of the organization. Financially, we are focused on profits, growth, and the best financial returns for our shareholders.

These principles continue to serve us well.

A handwritten signature in black ink, appearing to read "Maurice J. Gallagher Jr.", written in a cursive style.

Maurice J. Gallagher Jr.
Chairman and CEO
Allegiant Travel Company

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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, 2019

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



(Exact Name of Registrant as Specified in Its Charter)

Nevada

(State or Other Jurisdiction of Incorporation or Organization)

20-4745737

(IRS Employer Identification No.)

1201 North Town Center Drive

Las Vegas, Nevada

(Address of Principal Executive Offices)

89144

(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	Trading Symbol	Name of each exchange on which registered
Common Stock, \$0.001 Par Value	ALGT	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

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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 \$1.9 billion computed by reference to the closing sale price of the common stock on the Nasdaq Global Select Market on June 28, 2019, 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 14, 2020 was 16,370,401.

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 25, 2020, 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 81.

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Allegiant Travel Company
Form 10-K
For the Year Ended December 31, 2019

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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 expenses, revenues, earnings, ASM growth, fuel consumption, expected capital expenditures, number of contracted aircraft to be placed in service in the future, 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, 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 develop and finance 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 and leisure 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 nation-wide 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 operating 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 14, 2020, our operating fleet

consisted of 94 Airbus A320 series aircraft. As of that date, we were selling travel on 521 routes to 127 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 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 and travel point redemptions from the co-branded Allegiant World Mastercard® credit card.

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 generate revenue from our non-airline activities including our Sunseeker Resort related golf course, family entertainment centers, and our management solution to golf courses around the country. We are currently leasing spare engines to a third party and may choose to act as lessor temporarily in the future on an opportunistic basis.

Allegiant 2.0

Throughout our fleet transition, we have realized significant operational improvements which our customers have noticed, as evidenced by our recent *JD Power Most Improved in Customer Satisfaction in 2018* award, and a recent mention in *Forbes* as the #2 best airline to fly, based on customer sentiment. With the completion of the fleet transition, we are sharpening our focus on offerings to meet more of the travel and leisure needs of our customers. We have coined this next stage of our Company strategy as "Allegiant 2.0" which includes the following Company goals:

- maintaining our foundation while refining and strengthening our airline business;
- utilizing our customer data to provide additional direct-to-consumer revenue opportunities;
- transforming our eCommerce strategy to seek to create a frictionless experience for our customers and drive increased ancillary and third party revenue generation;
- expanding our successful co-branded credit card program to launch our first-ever loyalty program;
- enhancing our marketing investment by entering into dynamic agreements, such as the naming rights agreement with the Raiders of the National Football League for the professional football stadium in Las Vegas; and
- expanding our travel company focus and offerings with the construction of Sunseeker Resorts.

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-

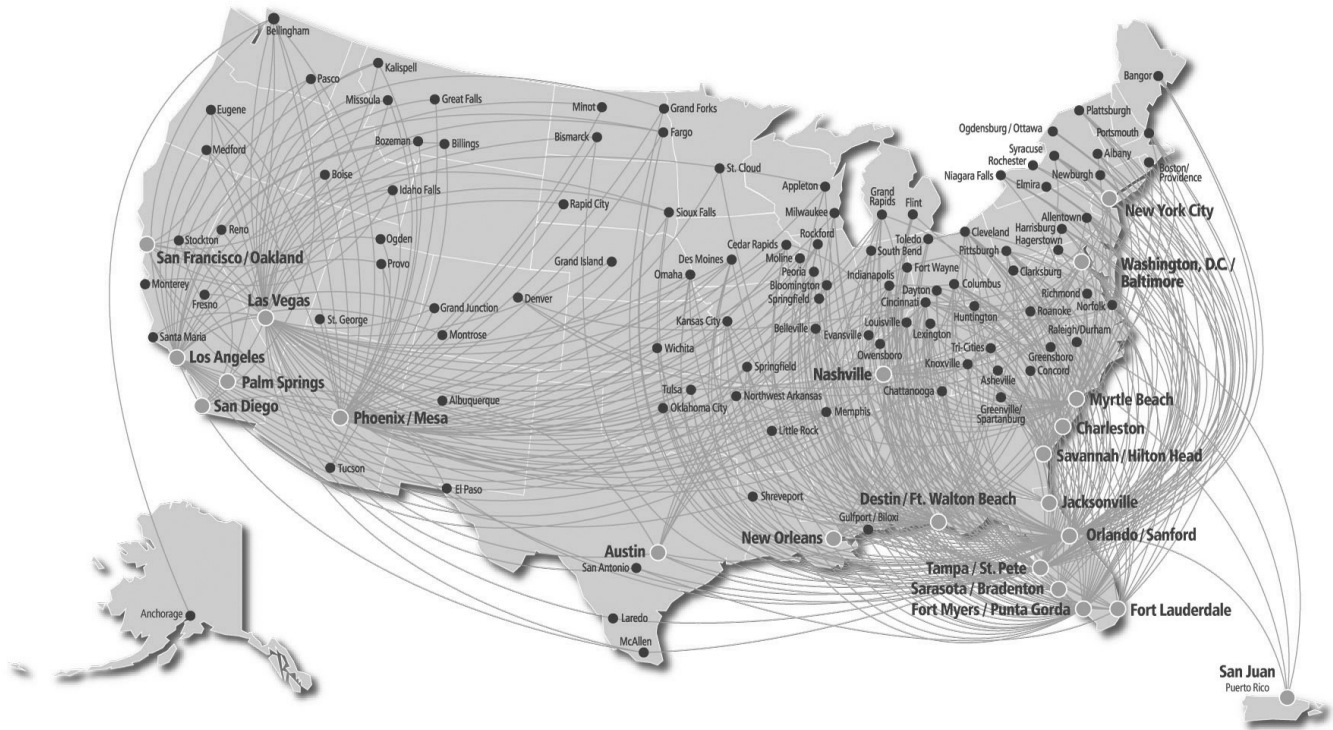
served by traditional airlines. We have consciously developed a business model which distinguishes us from the traditional airline approach:

	Traditional Airline Approach	Allegiant Approach
Customer Base:	Business and leisure	Leisure
Network:	Primarily large and mid-sized markets	Primarily 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:	High base fares/low ancillary revenue	Low base fares/high ancillary revenue

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 463 routes between 97 origination cities and 27 leisure destinations, and serving 43 states and Puerto Rico as of February 14, 2020. As of this same date, we were selling 521 routes. 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.

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 14, 2020, 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 \$56.68 per passenger in 2019. 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 airfares and cumbersome connections, or 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, 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 2019, during our peak demand period in July, we averaged 9.8 system block hours per aircraft per day while in September, our lowest month for demand, we averaged only 5.0 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. Unlike other carriers which provide a fairly consistent number of flights every day of the week, we manage our capacity with a goal of being profitable on each route. We do this by flying only on days with sufficient market demand. In 2019, we were able to profitably fly a disproportionately low 17.4 percent of our scheduled ASMs on off-peak days (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.

Low cost structure

We believe a low cost structure is essential to competitive success in the airline industry. Our airline operating expense per available seat mile ("CASM") was 8.86¢ in 2019 versus 9.42¢ in 2018. Excluding the cost of fuel, our airline-only operating CASM was 6.22¢ in 2019 versus 6.43¢ in 2018.

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 14, 2020, we own all but five of the aircraft in our operating fleet and believe that we properly balance lower aircraft acquisition costs and operating costs to minimize our total costs. As of February 14, 2020, our operating fleet consists of 94 Airbus A320 series aircraft.

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 93.3 percent of our scheduled service revenue during 2019.

Operational efficiencies. With the completion of our transition to an all-Airbus fleet in November 2018, our operating performance has improved, allowing us to achieve industry leading controllable completion of over 99.9 percent, and on-time performance of 78.7 percent. These operational efficiencies and improvements have significantly reduced the high costs associated with irregular operations.

Data driven. We are continuing to focus on capturing data to identify trends and patterns in an effort to gain efficiencies and decrease costs. For example, we utilize predictive maintenance to identify necessary aircraft maintenance before a problem arises, thereby avoiding unscheduled maintenance events which are costly and disruptive to our schedule.

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. In an effort to control costs, we 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.

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 substantially all of 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 partnered exclusively with Enterprise Holdings Inc. for the sale of rental cars packaged with air travel, which generated approximately 60 percent of our third party products revenue in 2019. 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, 2019, we had \$473.4 million of unrestricted cash, cash equivalents and investment securities, and total debt and finance lease obligations of \$1.4 billion. As of February 14, 2020, 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 allow 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 14, 2020 are summarized below (includes 463 routes we are currently serving, and 58 new routes which will begin service in 2020):

Routes to Orlando	72
Routes to Las Vegas	57
Routes to Tampa/St. Petersburg	53
Routes to Punta Gorda	48
Routes to Phoenix	44
Routes to Destin	36
Routes to Los Angeles	27
Other routes	184
Total routes	521

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 or loyalty 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 14, 2020, 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-Clearwater Airport. Although no other mainline domestic scheduled carriers operate in these airports, most U.S. airlines serve the major airports for Orlando, Phoenix, Fort Myers, 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.

There have been recent announcements concerning start-up airlines envisioning service to be initiated to smaller markets in the U.S. Once service begins, these start-up airlines could potentially compete with us or serve routes that we may be considering for future service.

As of February 14, 2020, we face mainline competition on fewer than 20 percent of our operating and announced routes. We compete with Southwest Airlines on 71 routes, Frontier Airlines on 47 routes, Spirit Airlines on 23 routes, American Airlines on 11 routes, Delta Airlines on 12 routes, JetBlue Airlines on six routes and United Airlines on five routes. We may also experience additional competition based on recent route announcements of other airlines.

Indirectly, we compete with various 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.

One of our current and ongoing data security initiatives is the migration of critical business applications into the cloud infrastructure, which will allow us to take advantage of analytics and automation functionality. These improvements also provide further opportunities to increase business intelligence and flexibility, improve business continuity and mitigate disaster scenarios. We intend to continue investing resources in cyber security to protect our data and our customers' privacy.

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, 2019, we employed 4,363 full-time equivalent employees, which consisted of 4,029 full-time and 668 part-time employees. Full-time equivalent employees consisted of 947 pilots, 1,377 flight attendants, 281 airport operations personnel, 346 mechanics, 172 reservation agents, 37 flight dispatchers, and 1,203 management and other personnel.

Salary and benefits expense was our largest expense in 2019, having represented 30 percent of total operating expenses.

Our relations with labor organizations representing our airline 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 collective bargaining agreements for our pilots, flight attendants and dispatchers last for a contractual term of five years each, expiring in 2021, 2022, and 2024, respectively. Our maintenance technicians elected representation in March 2018 and negotiations with this group are ongoing.

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 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, and offer the Allegiant Careers in Aviation Scholarship to encourage students pursuing careers in the aviation industry.

Non-Airline Initiatives

Sunseeker Resort

We are currently constructing Sunseeker Resort in Southwest Florida. Our plans include the construction of a 512-room hotel and two towers offering an estimated 189 one, two and three bedroom suites, numerous bar and restaurant options, and other amenities. We currently own and operate a golf course which is a short drive from the resort site and is considered to be an additional resort amenity.

Teesnap

We operate Teesnap as a golf course management solution. As of December 31, 2019, we were providing these services to approximately 575 golf courses in all 50 states in the country. To date, the financial results have not been significant to our overall performance. As we continue to focus our business on consumer offerings, we are in the process of divesting our interest in Teesnap and, as such, are treating this subsidiary as an asset held-for-sale on our December 31, 2019 balance sheet.

Family Entertainment Centers

We opened two family entertainment centers ("FECs") in 2019 in Clearfield, UT and Warren, MI. We currently expect to open a third FEC during 2020 in Chesterfield, MO, near the MidAmerica St. Louis Airport that we serve.

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, including those using trained service animals and emotional support animals. 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 certain communities 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 scheduled air transportation of passengers, property and mail between the United States and Mexico. And, we 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 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.

The FAA periodically conducts extensive or targeted audits of our operations. We have satisfactorily responded to any and all findings on all Certificate Holder Evaluation Process inspections conducted.

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 2020 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. Increasing the overall price charged to passengers could lessen demand for air travel or force carriers, including us, to lower fares to maintain demand. Also in 2020 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 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. In its regulatory agenda issued in Fall 2019, the EPA expressed an intent to publish these proposed regulations in early 2020; based on previous postponements, the agency may or may not meet that target.

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 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 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 14, 2020, our operating fleet consists exclusively of 94 Airbus A320 series aircraft, of which all but 13 were acquired used. Our aircraft range from 1 to 23 years from their manufacture date at February 14, 2020, with an average age of 14 years.

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 or credit card 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. Construction began in the first quarter of 2019 and completion of the hotel is expected in the second quarter 2021. 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 and suites, the desirability of the project's location, competition and the ability to profitably operate the hotel and related offerings once open.

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 constituted approximately 29.0 percent of our total operating expenses in 2019. 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 30 percent of our total operating costs in 2019, our 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. The pilot agreement becomes amendable in August 2021.

An agreement with the Transport Workers Union for the flight attendant group was approved in December 2017, and an agreement with the International Brotherhood of Teamsters for the flight dispatchers was approved in May 2019. These agreements will also increase costs over their respective five-year contract terms.

We are also still in the negotiation process with our maintenance technicians, for which negotiations commenced in January 2019.

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 widespread 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 2020, 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 finance lease obligations as of December 31, 2019 totaled \$1.4 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.

The announced upcoming discontinuance of publishing LIBOR rates may impact the cost or availability of financing for us.

A large portion of our variable rate indebtedness references the London interbank offered rates ("LIBOR") as a benchmark for establishing the rate. As announced in July 2017, LIBOR is expected to be phased out by the end of 2021. Although all of our LIBOR-based borrowings offer prepayment without penalty, uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR may adversely impact the cost and availability of borrowings on which we have relied and intend to rely in the future.

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

We borrowed \$450.0 million under a Credit and Guaranty Agreement (the "Term Loan") in February 2019 and borrowed additional amounts in February 2020 to increase the principal balance to \$545.5 million. 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 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 are 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 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.

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 executive 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 outbreak of the coronavirus and fears of its spread have impacted air traffic generally and our operating results could be affected by this or other outbreaks of communicable diseases.

The outbreak and spread of the coronavirus, which originated in or around Wuhan, China in January 2020, have impacted air traffic and stock prices of airlines have declined disproportionately. Although we do not fly any scheduled service international routes at this time, consumer fears relating to this disease could impact our loads, operating results and stock price.

Generally speaking, 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.

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. If other airlines or new airline start-ups begin to provide nonstop services to and from these or similar markets, or otherwise target these or similar markets, the increase in the amount of direct or indirect competition could cause us to reconsider service to affected markets, could impact our margins or could impact our future planned service.

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. 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 2020 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.

Congress may in the future 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. From time to time legislative proposals have been made to re-regulate the airline industry in varying degrees - for example, to specify minimum seat-size and legroom requirements - which if adopted could affect our costs materially.

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. In its regulatory agenda issued in Fall 2019, the EPA expressed an intent to publish these proposed regulations in early 2020; based on previous postponements, the agency may or may not meet that target. 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.

Existing and proposed state-specific labor laws could affect our ability to schedule and operate flights efficiently, and as a result could increase our operating costs and liability exposure.

Various states and localities across the country are attempting to impose requirements, such as wage and hour requirements, meal and rest break and sick leave laws, on flight attendants and pilots (“flight crew”) who spend the vast majority of their working hours in the air and in various states and jurisdictions on a daily basis. These requirements would create significant operational challenges for air carriers by creating a patchwork of state and local laws which undermine the federal deregulation of the airline industry and, in theory, could require airlines to simultaneously comply with rules which conflict with those of other jurisdictions and the provisions of labor agreements. Courts continue to remain divided on whether federal deregulation preempts these state laws and Congress has not addressed the issue. The impact on flight crew staffing, pay and scheduling technology may potentially increase our costs of doing business and could make certain routes cost prohibitive. Flight crews have filed class action lawsuits against air carriers in a number of states with varied results and, in many cases, the results have been appealed. Such suits are costly to defend and could result in sizeable liability exposure for any air carrier.

Airlines are often affected by factors beyond their control, including air traffic congestion, weather conditions, increased security measures, 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.

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, new market entrants, 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. There is a proposed settlement of the securities class action litigation against us, but related derivative shareholder suits continue. Although we have insurance to cover these claims, these lawsuits 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.

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.

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, 2019:

Aircraft Type	Owned ⁽¹⁾	Seating Capacity (per aircraft)	Age Range (years)	Average Age in Years
Airbus A319 ⁽²⁾	37	156	13-16	14.6
Airbus A320 ⁽³⁾⁽⁴⁾	54	177/180/186	1-23	12.4
Total aircraft	91			

- (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 one aircraft of which we had taken delivery but not placed into service as of December 31, 2019.
- (3) Does not include four aircraft of which we had taken delivery but not placed into service as of December 31, 2019.
- (4) Includes five aircraft under finance lease.

The below table includes the number of aircraft expected in service by March 31, 2020:

A319	38
A320	57
Total	95

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 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 Asheville Regional Airport, Bellingham International Airport, Cincinnati/Northern Kentucky International Airport, Gerald R. Ford International Airport (Grand Rapids, MI), Indianapolis International Airport, Lehigh Valley International Airport (Allentown, PA), McGhee Tyson Airport (Knoxville, TN), and Pittsburgh International Airport. We are also developing a base in Des Moines, IA which is scheduled to open in May 2020. 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, Nashville International Airport, Orlando Sanford International Airport, Phoenix-Mesa Gateway Airport, Punta Gorda Airport, Sarasota Manatee Airport, Savannah/Hilton Head International Airport, and St. Petersburg-Clearwater International 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 14, 2020:

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
Gerald R. Ford International Airport	Grand Rapids, Michigan
Indianapolis International Airport	Indianapolis, Indiana
Lehigh Valley International Airport	Allentown, Pennsylvania
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
Nashville International Airport	Nashville, Tennessee
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
Savannah/Hilton Head International Airport	Savannah, Georgia
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.

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 2020 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 own and operate a golf course consisting of 156 acres and an 18,000 square foot club house in Lake Suzy, Florida.

We have leased approximately 300,000 square feet in buildings in Clearfield, UT, West Jordan, UT, and Warren, MI for our family entertainment centers, and have purchased additional properties in Fort Wayne, IN containing 65,500 square feet on 11 acres as well as Chesterfield, MO containing 60,285 square feet on 6 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.

Item 4. Mine Safety Disclosures

Not applicable.

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 14, 2020, the last sale price of our common stock was \$165.45 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
2019		
1st Quarter	\$ 142.97	\$ 98.18
2nd Quarter	148.80	128.64
3rd Quarter	157.50	136.87
4th Quarter	183.26	143.61
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

As of February 14, 2020, there were 221 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, 2019:

	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⁾	—	—	991,948

- (1) There are no securities to be issued under any equity compensation plans not approved by our security holders.
- (2) The shares shown as being issuable under equity compensation plans exclude unvested restricted stock awards of 294,808 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 495,974 shares of restricted stock are remaining for future issuance under the 2016 Long-Term Incentive Plan.

Dividend Policy

In 2019, we continued the payment of a regular quarterly dividend. The current dividend is set at \$0.70 per share for each quarter, bringing total regular cash dividends declared, and paid, in each of 2019, 2018 and 2017 to \$2.80 per share.

In addition to our regular cash dividends, our Board of Directors may periodically consider 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.

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. Absent an event of default, this restriction does not constrain the continued payment of a quarterly dividend at the current level.

Our Repurchases of Equity Securities

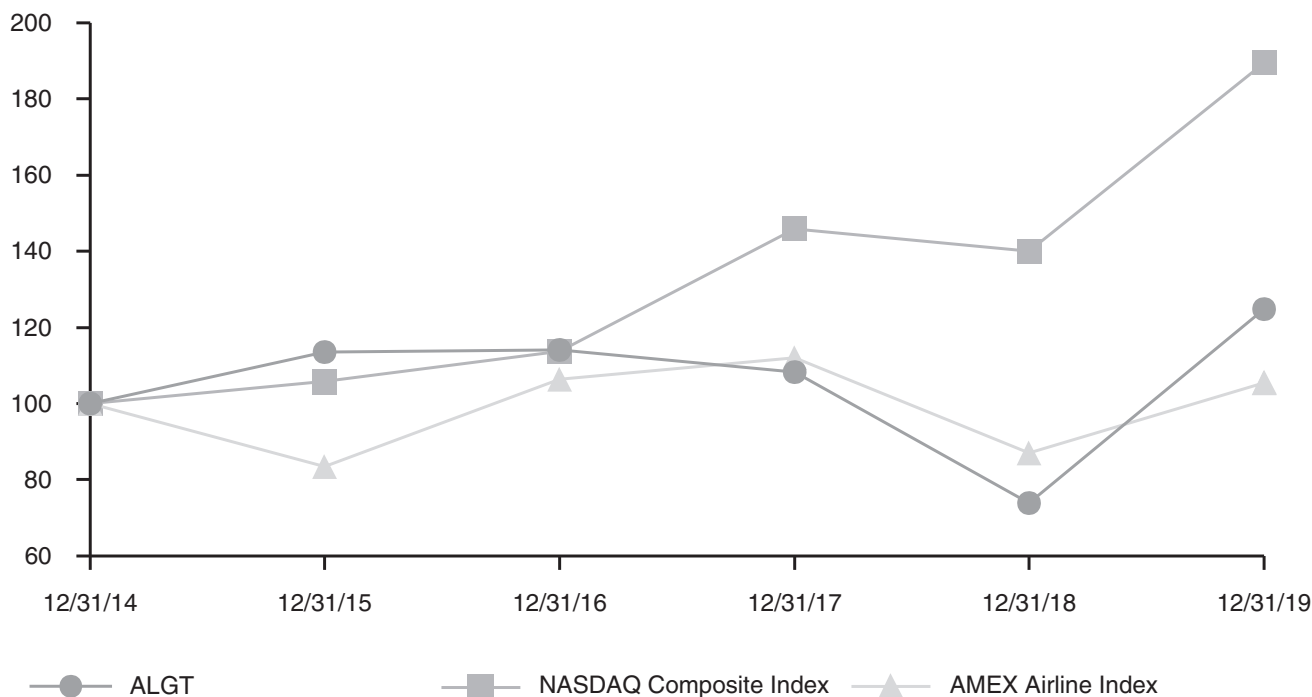
The following table reflects repurchases of our common stock during the fourth quarter 2019:

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	139	\$ 150.48	None	
November	None	N/A	None	
December	None	N/A	None	
Total	139	\$ 150.48	None	\$ 85,277

- (1) Reflects shares repurchased from employees who vested a portion of their restricted stock grants. These share 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, 2014. The graph assumes that the value of the investment in our common stock and each index was \$100 on December 31, 2014 and that all dividends are reinvested. Stock price performance presented for the historical periods presented is not necessarily indicative of future results.



	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
ALGT	\$ 100.00	\$ 113.47	\$ 114.12	\$ 108.23	\$ 73.82	\$ 124.79
Nasdaq Composite Index	100.00	105.73	113.66	145.76	140.10	189.45
AMEX Airline Index	100.00	83.49	106.47	112.04	86.99	105.51

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.

FINANCIAL DATA <i>(in thousands except per share amounts):</i>	For the Year Ended December 31,				
	2019	2018	2017 ⁽³⁾	2016	2015
Total operating revenue	\$ 1,840,965	\$ 1,667,447	\$ 1,511,203	\$ 1,378,942	\$ 1,262,188
Total operating expenses	1,477,015	1,423,988	1,280,573	1,006,375	890,486
Operating income	363,950	243,459	230,630	372,567	371,702
Total other expense ⁽¹⁾	62,703	44,141	31,623	24,600	24,983
Income before income taxes	301,247	199,318	199,007	347,967	346,719
Net income	\$ 232,117	\$ 161,802	\$ 198,148	\$ 220,866	\$ 220,374
Earnings per share to common shareholders: ⁽²⁾					
Basic	\$ 14.27	\$ 10.02	\$ 12.14	\$ 13.31	\$ 12.97
Diluted	14.26	10.00	12.13	13.29	12.94
Cash dividends declared per share	2.80	2.80	2.80	2.40	2.75
Total assets	\$ 3,010,803	\$ 2,498,668	\$ 2,180,157	\$ 1,671,576	\$ 1,358,331
Total long-term debt and finance leases, net of related costs	1,421,853	1,271,733	1,164,892	808,274	641,678
Shareholders' equity	883,551	690,321	553,311	475,740	350,005

- (1) Net of capitalized interest for 2019, 2018, 2017, and 2016 in the amounts of \$4.5 million, \$2.4 million, \$3.2 million, and \$1.8 million, respectively (no capitalized interest was recorded in 2015).
- (2) 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 presented reflect the two-class method mandated by accounting guidance for the calculation of earnings per share. Application of the two-class method did not have a significant impact on the basic or diluted earnings per share for the periods presented.
- (3) Operating expenses, operating income, net income and earnings per share in 2017 was 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 of 2017; and (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.

For the Year Ended December 31,

OPERATING DATA: (unaudited)	2019	2018	2017	2016	2015
Total system statistics:					
Passengers	15,012,149	13,750,199	12,310,122	11,128,191	9,500,611
Available seat miles (ASMs) (thousands)	16,174,240	14,899,874	13,612,003	12,375,505	10,526,610
Operating expense per ASM (CASM) (cents) ⁽¹⁾⁽²⁾⁽³⁾	9.13	9.56	9.41	8.13	8.45
Fuel expense per ASM (cents) ⁽²⁾	2.65	2.99	2.52	2.08	2.64
Operating CASM, excluding fuel (cents) ⁽¹⁾⁽³⁾	6.48	6.57	6.89	6.05	5.81
ASMs per gallon of fuel	82.34	77.82	72.96	71.62	70.20
Departures	110,542	101,212	93,061	82,341	68,653
Block hours	248,513	230,123	212,405	190,706	160,431
Average stage length (miles)	855	868	870	889	900
Average number of operating aircraft during period	85.6	91.0	87.3	83.3	74.3
Average block hours per aircraft per day	8.0	6.9	6.7	6.3	5.9
Full-time equivalent employees at end of period	4,363	3,901	3,752	3,416	2,846
Fuel gallons consumed (thousands)	196,442	191,471	186,563	172,796	149,951
Average fuel cost per gallon ⁽²⁾	\$ 2.18	\$ 2.33	\$ 1.84	\$ 1.49	\$ 1.86
Scheduled service statistics:					
Passengers	14,823,267	13,606,103	12,138,146	11,003,864	9,355,097
Revenue passenger miles (RPMs) (thousands)	13,038,003	12,145,601	10,901,161	10,130,675	8,821,908
Available seat miles (ASMs) (thousands)	15,545,818	14,340,674	13,031,824	11,921,733	10,236,075
Load factor	83.9%	84.7%	83.7%	85.0%	86.2%
Departures	105,690	96,554	88,432	78,747	65,683
Block hours	238,361	220,760	202,752	183,290	155,403
Total passenger revenue per ASM (TRASM) (cents) ⁽³⁾	11.28	11.10	10.93	11.02	11.82
Average fare - scheduled service ⁽⁴⁾	\$ 61.58	\$ 67.01	\$ 67.90	\$ 69.86	\$ 78.63
Average fare - ancillary air-related charges ⁽⁴⁾	\$ 51.96	\$ 45.71	\$ 45.14	\$ 45.47	\$ 46.43
Average fare - third party products	\$ 4.72	\$ 4.27	\$ 4.34	\$ 4.08	\$ 4.29
Average fare - total	\$ 118.26	\$ 116.99	\$ 117.38	\$ 119.41	\$ 129.35
Average stage length (miles)	859	875	876	895	915
Fuel gallons consumed (thousands)	188,596	183,798	178,298	166,528	145,654
Percent of sales through website during period	93.3%	93.8%	94.0%	94.2%	95.1%
OTHER DATA: (unaudited)					
Hotel room nights	415,593	409,164	390,986	439,942	452,272
Rental car days	1,921,930	1,823,451	1,415,901	1,502,326	1,204,982

(1) Includes effect of special items in 2017.

(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 costs and 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 total system available seat miles.

“*Operating CASM, excluding fuel*” represents operating expenses, less aircraft fuel, divided by total system 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 passenger 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, 2019, 2018 and 2017. Also discussed is our financial position as of December 31, 2019 and 2018. 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.

2019 highlights

- Achieved improved operating performance both in industry leading controllable completion of over 99.9 percent, and on-time performance of 78.7 percent (a 1.8 percentage point improvement year over year) - with both contributing to a significant reduction in irregular operations costs;
- achieved airline-only operating margin of 21.3 percent, a 5.9 percentage point increase year over year;
- realized operating revenue growth of 10.4 percent, which outpaced our increase in capacity of 8.6 percent;
- increased TRASM 1.6 percent year over year, despite the increase in capacity;
- recognized ancillary air-related revenue per passenger exceeding \$50 each quarter during the year, with an average of \$51.96 for 2019 (a 13.7 percent increase year over year);

- achieved a 3.3 percent decline in airline operating CASM-excluding fuel;
- produced fixed fee contract revenue of \$65.1 million during 2019, the highest annual total in Company history;
- refinanced high-yield debt;
- named Best Airline Co-Branded Credit Card by the USA Today 10Best Readers Choice Awards;
- increased net promoter score (an indicator of customer satisfaction) by 32 points since 2016;
- ranked as one of the Top 100 Best Places to Work according to Glassdoor's national survey; and
- began construction of, and obtained debt commitment for, Sunseeker Resort in Southwest Florida.

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:

	As of December 31,		
	2019	2018	2017
A320 ⁽¹⁾⁽²⁾	54	44	30
A319 ⁽³⁾	37	32	22
MD-80	—	—	37
Total	91	76	89

(1) Does not include four aircraft of which we have taken delivery as of December 31, 2019.

(2) Includes five aircraft under finance lease as of December 31, 2019.

(3) Does not include one aircraft of which we have taken delivery as of December 31, 2019.

As of February 14, 2020, we are party to forward purchase agreements for nine Airbus A320 series aircraft. We have taken delivery of two aircraft in 2020 as of the date of this filing, expect delivery of six additional aircraft throughout the remainder of 2020, two in 2021, and one in 2022. In early February 2020, the Company also received two aircraft under operating leases. 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 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 14, 2020 and including recent service announcements, we were selling seats on 521 routes. This includes our recent announcement in January 2020 of 44 new routes - the largest service expansion in company history, plus an additional nine routes announced in February 2020. The recent announcements include the addition of three new leisure destinations: Chicago, IL; Boston, MA; and Houston, TX.

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

	As of December 31,		
	2019	2018	2017
Leisure destinations	27	23	19
Origination cities	97	98	101
Total cities	124	121	120
Total routes	466	417	401

TRENDS

Our transition to an all-Airbus fleet has proven successful as evidenced by continued positive operating results. This more efficient and reliable fleet has enabled us to increase capacity by 8.6 percent during the year, despite a 5.9 percent decrease in average number of operating aircraft.

Fuel efficiency (ASMs per gallon of fuel) increased by 5.8 percent compared to 2018, which, along with a 6.4 decrease in fuel cost per gallon, was the main driver of a 4.5 percent decrease in operating CASM. Airline-only CASM, excluding fuel, decreased 3.3 percent due to continued operational improvement and Airbus fleet maintenance efficiencies. Operating expenses on an ASM basis decreased on every operating expense line item except depreciation and amortization, for which the declines are largely attributable to our transition to an all-Airbus fleet.

Recent years have been capital and debt intensive for us due to the fleet transition. Capital outlays for the airline are expected to return to a more normalized level in 2020.

During 2019 we achieved industry-leading controllable completion of over 99.9 percent, and on-time performance (A-14) of 78.7 percent, up 1.8 percentage points from 2018, despite growth in ASM production and a fewer average number of operating aircraft in service.

In March 2018, our maintenance technicians, who represent approximately 8.0 percent of our total employee base (approximately 350 employees), voted for union representation by the International Brotherhood of Teamsters ("IBT"). Negotiations for an agreement with this group began in January 2019 and are ongoing.

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.

The construction of our Sunseeker Resort is well underway, with a plan to open in the second quarter 2021. To ready ourselves for opening, we have opened our Sunseeker Resort website for the sale of rooms for stays beginning in summer 2021.

We are in negotiations for the sale of Teesnap.

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, Sunseeker Resort - Charlotte Harbor, and our Allegiant Nonstop 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

2019 compared to 2018

Operating Revenue

Passenger revenue. Passenger revenue for 2019 increased 9.7 percent compared with 2018. The increase was driven primarily by a 9.5 percent increase in scheduled service departures which resulted in an 8.9 percent increase in scheduled service passengers. Average total fare per passenger increased 1.1 percent over 2018 as a 13.7 percent increase in air-related ancillary revenue per passenger (due mostly to increases in our customer convenience fees and baggage fees) more than offset an 8.1 percent decrease in scheduled service average fare.

Third party products revenue. Third party products revenue increased 20.6 percent in 2019 from 2018, due primarily to an increase in revenue from our co-branded credit card program, with a 43.7 percent increase per passenger year over year. Additionally, a 12.2 percent net revenue growth from hotel and rental car sales contributed to the increase.

Fixed fee contract revenue. Fixed fee contract revenue for 2019 increased 29.4 percent compared with 2018 primarily due to a 28.6 percent increase in related departures. This was the result of greater availability of dedicated aircraft due to improved operations of an all-Airbus fleet, reduced sparing requirements for scheduled service flights, and focused efforts to pursue this revenue stream.

Other revenue. Other revenue for 2019 decreased \$2.5 million, primarily due to a decrease in aircraft lease revenue, as we had ten aircraft on lease to a European carrier in 2018, of which we took redelivery throughout 2018. The effects of this decrease were slightly offset by increases in revenue from our non-airline activities.

Operating Expenses

The following table presents airline-only unit costs on a per ASM basis, defined as Operating CASM, for the indicated periods. Excluding fuel on a per ASM basis 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.

	For the Year Ended December 31,		Percent Change
	2019	2018	
Airline only unitized costs (in cents)			
Salary and benefits	2.69	2.73	(1.5)%
Station operations	1.06	1.08	(1.9)
Depreciation and amortization	0.93	0.86	8.1
Maintenance and repairs	0.57	0.66	(13.6)
Sales and marketing	0.48	0.49	(2.0)
Aircraft lease rentals	—	0.01	NM
Other	0.49	0.60	(18.3)
Airline only CASM, excluding fuel	6.22	6.43	(3.3)
Aircraft fuel	2.64	2.99	(11.7)
Airline only CASM	8.86	9.42	(5.9)%
Consolidated CASM (in cents)			
Airline only CASM	8.86	9.42	(5.9)%
Non-airline operating CASM ⁽¹⁾	0.27	0.14	92.9
Operating CASM (consolidated) ⁽¹⁾	9.13	9.56	(4.5)%

(1) Includes operating costs associated with Sunseeker Resort and other non-airline related activity which are accounted for in our income statement in salary and benefits, sales and marketing, depreciation and amortization, and other expense. Various components of this measure do not have a direct correlation to ASMs but must be included to calculate total operating CASM. Consolidated operating CASM is reported to facilitate comparison with airlines reporting total costs on a per ASM basis.

Salary and benefits expense. Salary and benefits expense for 2019 increased \$36.6 million, or 8.8 percent, compared with 2018. The increase was primarily the result of an 11.8 percent increase in the number of full-time equivalent employees supporting an 8.0 percent increase in system block hours, as well as increased activity in our non-airline subsidiaries. A nearly 80 percent increase in our company-wide profit sharing payments (due to meeting company goals) also contributed to the increase. Additionally, flight crew salaries and wages per ASM decreased for the year due to improved productivity efficiencies gained from our fleet transition.

Aircraft fuel expense. System fuel gallons consumed increased only 2.6 percent despite an 8.6 percent increase in ASMs in 2019 compared with 2018. ASM growth outpaced fuel consumption as fuel efficiency (measured as ASMs per gallon) increased 5.8 percent year over year. In addition, the system average fuel cost per gallon decreased by 6.4 percent year over year. As a result of the increased fuel efficiency and fuel cost decline, aircraft fuel expense for 2019 decreased \$18.0 million, or 4.0 percent.

Station operations expense. Station operations expense for 2019 increased \$10.4 million, or 6.5 percent, on a 9.5 percent increase in scheduled service departures compared with 2018. Stations expense per departure decreased by 2.5 percent year

over year due mostly to a decrease in irregular operations costs resulting from efficiencies realized from the Airbus fleet, as well as additional incentives realized and contractor efficiencies gained.

Depreciation and amortization expense. Depreciation and amortization expense for 2019 increased \$26.5 million, or 20.5 percent, compared with 2018. The average number of Airbus aircraft in service increased 30.7 percent year over year.

Amortization of major maintenance costs was \$26.0 million in 2019 compared to \$12.5 million in 2018, with increases expected to continue as our Airbus aircraft count and related deferred maintenance costs grow.

Maintenance and repairs expense. Maintenance and repairs expense for 2019 decreased \$7.3 million, or 7.4 percent, compared with 2018, primarily due to a decrease in routine maintenance costs driven by our predictive maintenance efforts. Additionally, the cost of major maintenance being capitalized in accordance with the deferral method of accounting.

Sales and marketing expense. Sales and marketing expense for 2019 increased \$5.4 million, or 7.3 percent, compared to 2018, due to an increase in net credit card fees paid as a result of a 9.7 percent increase in passenger revenue year over year. We have improved our utilization of customer data to optimize marketing efforts, allowing us to decrease advertising spend per passenger (excluding credit card fees) by 8.2 percent year over year, despite increased payments on more high-profile sponsorships.

Income Tax Expense

Our effective tax rate was 22.9 percent and 18.8 percent for 2019 and 2018, respectively. The components of the 2019 effective tax rate were primarily 21 percent federal income tax and 1.7 percent state income taxes. The 2018 effective tax rate was lower due to one-time tax benefits resulting from the “Tax Cuts and Jobs Act” (the “Tax Act”) enacted in 2017 (which impacted the 2017 income tax returns filed in 2018), a one-time tax refund claim, and the dissolution of foreign entities. We expect our effective tax rate to be between 23 percent and 24 percent in the near term.

2018 compared to 2017

Operating Revenue

Passenger revenue. Passenger revenue for these years was recast to include both scheduled service revenue and ancillary air-related revenue, due to the adoption 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 a year-over-year increase 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 also contributed to the revenue increase.

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 continued 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

The following table presents airline-only unit costs on a per ASM basis, defined as Operating CASM, for the indicated periods.

	For the Year Ended December 31,		Percentage Change
	2018	2017	
Airline only unitized costs (in cents)			
Salary and benefits	2.73	2.71	0.7%
Station operations	1.08	1.05	2.9
Depreciation and amortization	0.86	0.88	(2.3)
Maintenance and repairs	0.66	0.83	(20.5)
Sales and marketing	0.49	0.39	25.6
Aircraft lease rentals	0.01	0.02	(50.0)
Special charge ⁽¹⁾	—	0.26	NM
Other	0.60	0.64	(6.3)
Airline only CASM, excluding fuel	6.43	6.78	(5.2)
Aircraft fuel	2.99	2.53	18.2
Airline only CASM	9.42	9.31	1.2%
Consolidated CASM (in cents)			
Airline only CASM	9.42	9.31	1.2%
Non-airline operating CASM ⁽²⁾	0.14	0.10	40.0
Operating CASM (consolidated) ⁽²⁾	9.56	9.41	1.6%

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

(2) Includes operating costs associated with Sunseeker Resort and other non-airline related activity which are accounted for in our income statement in salary and benefits, sales and marketing, depreciation and amortization, and other expense. Various components of this measure do not have a direct correlation to ASMs but must be included to calculate total operating CASM. Consolidated operating CASM is reported to facilitate comparison with airlines reporting total costs on a per ASM basis.

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 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. Airport expense is viewed 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 continued 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.

The cost of major maintenance events for our Airbus aircraft was capitalized in accordance with the deferral method of accounting and the amortization of these expenses was 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 was 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 Act.

LIQUIDITY AND CAPITAL RESOURCES

Cash, cash equivalents and investment securities (short-term and long-term) increased at December 31, 2019 to \$473.4 million from \$447.5 million in 2018. Investment securities represent highly liquid marketable securities which are available-for-sale.

Restricted cash represents escrowed funds under fixed fee contracts and cash collateral 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 our 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.

Our operating cash flows, long-term debt borrowings and non-cash tax paying status have allowed us to invest in our fleet, return capital to shareholders in the form of recurring regular quarterly dividends and share repurchases, and invest in Sunseeker Resort and our Allegiant Nonstop family entertainment centers. Future capital needs are primarily for the acquisition of additional aircraft, including our existing aircraft commitments, as well as planned capital outlay related to Sunseeker Resort and other travel and leisure initiatives.

We believe we have more than adequate liquidity resources through our operating cash flows, borrowings, debt commitments and cash balances, to meet our future contractual obligations. We will 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 \$85.3 million. There is no expiration date for the program.

Debt

Our total long-term debt and finance lease obligations balance, without reduction for related issuance costs, increased from \$1.3 billion as of December 31, 2018 to \$1.4 billion as of December 31, 2019. During 2019, we borrowed \$874.9 million, including \$450.0 million under the Credit and Guaranty Agreement (the "Term Loan"), additional debt secured by aircraft and engines of \$343.9 million, and \$81.0 million against our senior secured revolving credit facility. During 2019, we retired our unsecured notes of \$450.0 million and made additional debt and finance lease repayments, resulting in \$705.8 million in total principal debt and finance lease repayments during 2019.

As of February 13, 2020, we entered into an amendment to our Term Loan under which the interest rate has been reduced by 150 basis points, the principal amount of the debt was increased by \$100.0 million to \$545.5 million, and the quarterly payments of principal were increased to \$1.4 million. The remaining provisions of the Term Loan remain substantially unchanged, including the maturity date of February 2024. The proceeds from the increased loan will be used to repay debt, to pay transaction expenses and for general corporate purposes.

In March 2019, we entered into a Construction Loan Agreement with certain lenders affiliated with TPG Sixth Street Partners, LLC under which we may borrow up to \$175.0 million to fund the completion of construction of Phase 1 of Sunseeker Resort - Charlotte Harbor. No amount under this loan agreement has been drawn to date as we are required to first fund \$295.0 million of the \$470.0 million estimated total construction costs.

Sources and Uses of Cash

Operating Activities. Operating cash inflows are primarily derived from providing air transportation and related ancillary products and services to customers. During 2019, our operating activities provided \$442.2 million of cash compared to \$356.6 million during 2018. The increase is largely due to a \$70.3 million increase in net income in 2019.

During 2018, our operating activities provided \$356.6 million of cash compared to \$390.7 million in 2017. The year-over-year decrease in reported cash inflows largely resulted from the decrease in net income.

Investing Activities. During 2019, cash used for investing activities was \$476.5 million compared to \$269.0 million in 2018. The increase in cash used is mostly due to a \$172.1 million year-over-year increase in cash outlays for the purchase of property and equipment, as cash used for capital expenditures was \$506.8 million in 2019 (of which \$437.1 million related to the airline) compared to \$334.8 million in 2018 (of which \$285.9 million related to the airline).

Furthermore, the proceeds from maturities and sales of investment securities decreased year over year, as proceeds (net of purchases) were \$18.6 million during 2019 compared to \$65.1 million during 2018. The use of cash for investing activities in 2019 was reduced by an \$11.1 million difference in cash provided by other investing activities compared to 2018, largely related to proceeds received from the sales of MD-80 parts.

During 2017, our primary use of cash was for capital expenditures of \$580.2 million. Cash was also used for the purchase of investment securities, net of maturities, of \$43.4 million.

Financing Activities. Cash provided by financing activities during 2019 was \$75.1 million compared to cash used in financing activities of \$62.4 million in 2018. The year-over-year change is primarily due to debt financing. In 2019, proceeds from debt issuance in excess of principal payments on debt were \$169.2 million, compared to principal payments on debt in excess of proceeds from debt issuance of \$21.0 million during 2018.

In 2017, cash provided by financing activities was \$222.1 million. Proceeds from the issuance of long-term debt in excess of principal payments were \$358.7 million, which was offset by \$45.7 million in cash dividends paid to shareholders and \$90.5 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, 2019 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
Long-term debt obligations ⁽¹⁾	\$ 1,502,718	\$ 220,537	\$ 377,339	\$ 682,119	\$ 222,723
Aircraft acquisition obligations ⁽²⁾	263,421	204,521	58,900	—	—
Finance and operating lease obligations	179,417	16,229	30,570	27,228	105,390
Total future payments under contractual obligations	\$ 1,945,556	\$ 441,287	\$ 466,809	\$ 709,347	\$ 328,113

(1) Long-term debt obligations (including variable interest entities) include scheduled interest payments, using LIBOR rates as of December 31, 2019, and excludes debt issuance costs.

(2) Includes aircraft and engine acquisition obligations under existing purchase agreements, which are not reflected on our balance sheet.

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, 2019 represented 29.0 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 2019 fuel consumption, a hypothetical ten percent increase in the average price per gallon of aircraft fuel would have increased fuel expense by approximately \$43.6 million for the 2019 year. We have not hedged fuel price risk in many years.

Interest Rates

As of December 31, 2019, we had \$1.2 billion of variable-rate debt, including current maturities and without reduction of \$23.1 million in related costs. A hypothetical 100 basis point change in interest rates would have affected interest expense by approximately \$9.2 million for 2019.

As of December 31, 2019, we had \$120.0 million of fixed-rate debt, including current maturities and without reduction of \$0.5 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, 2019 and 2018 are summarized below. Amounts are shown in thousands, except for per share amounts.

	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
2019				
Operating revenues	\$ 451,622	\$ 491,759	\$ 436,509	\$ 461,074
Operating income	91,078	108,105	72,116	92,652
Net income	57,124	70,543	43,929	60,522
Earnings per share to common shareholders:				
Basic	\$ 3.52	\$ 4.33	\$ 2.70	\$ 3.72
Diluted	3.52	4.33	2.70	3.72
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

The quarterly earnings per share amounts for a year will not add to the earnings per share for that year due to the weighting of shares used in calculating per share data.

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 of Allegiant Travel Company and subsidiaries (the Company) as of December 31, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, 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, 2019, 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 27, 2020 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 has changed its method of accounting for leases in 2019 due to the modified retrospective adoption of Accounting Standards Update 2016-02, *Leases (Topic 842)*.

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.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgment. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Evaluation of the amortization period of deferred engine major maintenance costs

As discussed in Note 2 to the consolidated financial statements, the Company accounts for major maintenance costs of its Airbus fleet using the deferral method. For the year ended December 31, 2019, the Company recognized \$11.1 million of amortization expense for the cost of engine major maintenance as a component of depreciation and amortization. The amortization period associated with major maintenance costs is based on the estimated period until the next scheduled major maintenance event. The timing of next major maintenance events is based on certain assumptions, which are dependent upon forecasted aircraft utilization levels.

We identified the evaluation of the amortization period of deferred engine major maintenance costs as a critical audit matter. The Company uses historical aircraft utilization as a significant indicator to estimate future aircraft utilization in the determination of the amortization period. A higher degree of auditor judgment was required to evaluate the relevance of the use of historical aircraft utilization data to predict future aircraft utilization levels.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's aircraft major maintenance cost process, including controls over the development of the estimated future aircraft utilization levels. We developed an independent estimate of the amortization period using actual aircraft utilization data and compared our independent estimate to that of the Company. We further analyzed the amortization period by performing sensitivity analyses on the forecasted aircraft utilization levels to assess the impact on the Company's amortization expense.

/s/ KPMG LLP

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

Dallas, Texas

February 27, 2020

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

	December 31, 2019	December 31, 2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 121,888	\$ 81,520
Restricted cash	14,897	14,391
Short-term investments	335,928	314,464
Accounts receivable	25,516	36,014
Expendable parts, supplies and fuel, net of reserve of \$2,748 and \$14,410	28,375	19,516
Prepaid expenses	34,605	29,122
Other current assets	1,012	221
TOTAL CURRENT ASSETS	562,221	495,248
Property and equipment (including \$195,796 and \$145,393 from VIEs, Note 6), net of accumulated depreciation of \$484,510 and \$373,977	2,236,808	1,847,268
Long-term investments	15,542	51,526
Deferred major maintenance, net of accumulated amortization of \$34,423 and \$13,694	129,654	67,873
Operating lease right-of-use asset	22,081	—
Deposits and other assets	44,497	36,753
TOTAL ASSETS:	\$ 3,010,803	\$ 2,498,668
CURRENT LIABILITIES		
Accounts payable	\$ 27,667	\$ 27,452
Accrued liabilities	161,693	122,027
Air traffic liability	249,950	212,230
Current maturities of long-term debt and finance lease obligations (including \$17,327 and \$11,538 from VIEs, Note 6), net of related costs of \$5,694 and \$1,443	173,274	152,287
TOTAL CURRENT LIABILITIES	612,584	513,996
LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES		
Long-term debt and finance lease obligations (including \$159,324 and \$123,696 from VIEs, Note 6), net of current maturities and related costs of \$17,930 and \$3,591	1,248,579	1,119,446
Deferred income taxes	232,520	164,027
Other noncurrent liabilities	33,569	10,878
TOTAL LIABILITIES:	2,127,252	1,808,347
COMMITMENTS AND CONTINGENCIES (NOTE 13)		
SHAREHOLDERS' EQUITY		
Common stock, par value \$.001, 100,000,000 shares authorized; 22,835,715 and 22,622,548 shares issued; 16,303,262 and 16,183,274 shares outstanding in 2019 and 2018, respectively	23	23
Treasury shares, at cost, 6,532,453 and 6,439,274 shares in 2019 and 2018, respectively	(617,579)	(605,037)
Additional paid in capital	289,933	270,935
Accumulated other comprehensive gain (loss), net	98	(661)
Retained earnings	1,211,076	1,025,061
TOTAL EQUITY:	883,551	690,321
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY:	\$ 3,010,803	\$ 2,498,668

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,

	2019	2018	2017
OPERATING REVENUES:			
Passenger	\$ 1,682,955	\$ 1,533,701	\$ 1,372,037
Third party products	70,012	58,060	52,707
Fixed fee contract	65,057	50,286	48,708
Other	22,941	25,400	37,751
Total operating revenues	<u>1,840,965</u>	<u>1,667,447</u>	<u>1,511,203</u>
OPERATING EXPENSES:			
Salary and benefits	450,448	413,892	371,599
Aircraft fuel	427,827	445,814	343,333
Station operations	171,420	161,019	142,581
Depreciation and amortization	155,852	129,351	121,713
Maintenance and repairs	91,713	99,015	113,481
Sales and marketing	78,910	73,514	56,675
Aircraft lease rentals	—	868	3,098
Other	100,845	100,515	92,840
Special charge	—	—	35,253
Total operating expenses	<u>1,477,015</u>	<u>1,423,988</u>	<u>1,280,573</u>
OPERATING INCOME	<u>363,950</u>	<u>243,459</u>	<u>230,630</u>
OTHER (INCOME) EXPENSES:			
Interest income	(12,523)	(9,226)	(5,808)
Capitalized interest	(4,472)	(2,354)	(3,188)
Loss on extinguishment of debt	3,677	—	—
Interest expense	76,801	56,116	42,178
Other, net	(780)	(395)	(1,559)
Total other expenses	<u>62,703</u>	<u>44,141</u>	<u>31,623</u>
INCOME BEFORE INCOME TAXES	<u>301,247</u>	<u>199,318</u>	<u>199,007</u>
PROVISION FOR INCOME TAXES	<u>69,130</u>	<u>37,516</u>	<u>859</u>
NET INCOME	<u>\$ 232,117</u>	<u>\$ 161,802</u>	<u>\$ 198,148</u>
Earnings per share to common shareholders:			
Basic	<u>\$ 14.27</u>	<u>\$ 10.02</u>	<u>\$ 12.14</u>
Diluted	<u>\$ 14.26</u>	<u>\$ 10.00</u>	<u>\$ 12.13</u>
Shares used for computation:			
Basic	16,027	15,941	16,073
Diluted	16,041	15,967	16,095
Cash dividends declared per share:			
	\$ 2.80	\$ 2.80	\$ 2.80

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,

	2019	2018	2017
NET INCOME	\$ 232,117	\$ 161,802	\$ 198,148
Other comprehensive income (loss):			
Change in available for sale securities, net of tax	750	(1,153)	49
Foreign currency translation adjustments	9	177	(681)
Change in derivatives, net of tax	—	3,155	(1,978)
Total other comprehensive income (loss)	759	2,179	(2,610)
TOTAL COMPREHENSIVE INCOME	\$ 232,876	\$ 163,981	\$ 195,538

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

ALLEGIANT TRAVEL COMPANY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except share amounts)

	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, 2016	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	—	—	—	—	198,148	—	198,148
Balance at December 31, 2017	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
Share-based compensation	213	—	18,998	—	—	—	18,998
Shares repurchased by the Company and held as treasury shares	(132)	—	—	—	—	(18,569)	(18,569)
Stock issued under employee stock purchase plan	39	—	—	—	—	6,027	6,027
Cash dividends declared, \$2.80 per share	—	—	—	—	(45,552)	—	(45,552)
Other comprehensive income	—	—	—	759	—	—	759
Net income	—	—	—	—	232,117	—	232,117
Cumulative effect of the New Lease Standard (see Note 7)	—	—	—	—	(550)	—	(550)
Balance at December 31, 2019	16,303	\$ 23	\$ 289,933	\$ 98	\$ 1,211,076	\$ (617,579)	\$ 883,551

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,		
	2019	2018	2017
OPERATING ACTIVITIES:			
Net income	\$ 232,117	\$ 161,802	\$ 198,148
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	155,852	129,351	121,713
(Gain)/loss on aircraft and other equipment disposals	(8,475)	2,360	9,334
Special charge	—	—	35,253
Share-based compensation expense	18,226	15,098	13,856
Deferred income taxes	68,466	38,222	42,689
Other adjustments	5,521	4,541	5,933
Changes in certain assets and liabilities:			
Accounts receivable	10,498	35,624	(30,568)
Prepaid expenses	(5,483)	(5,191)	(7,654)
Accounts payable	(2,103)	8,633	4,798
Accrued liabilities	21,331	12,005	9,251
Air traffic liability	37,720	7,931	12,721
Deferred major maintenance	(81,133)	(49,622)	(20,687)
Other assets/liabilities	(10,327)	(4,142)	(4,113)
Net cash provided by operating activities	<u>442,210</u>	<u>356,612</u>	<u>390,674</u>
INVESTING ACTIVITIES:			
Purchase of investment securities	(436,237)	(371,461)	(363,300)
Proceeds from maturity and sale of investment securities	454,813	436,581	319,915
Purchase of property and equipment, including capitalized interest	(506,845)	(334,774)	(580,249)
Other investing activities	11,806	677	5,115
Net cash used in investing activities	<u>(476,463)</u>	<u>(268,977)</u>	<u>(618,519)</u>
FINANCING ACTIVITIES:			
Cash dividends paid to shareholders	(45,552)	(45,247)	(45,720)
Proceeds from the issuance of debt	874,936	211,225	497,540
Repurchase of common stock	(18,569)	(3,650)	(90,457)
Principal payments on debt and finance lease obligations	(705,763)	(232,227)	(138,858)
Debt issuance costs	(33,333)	(1,666)	(3,349)
Other financing activities	3,408	9,202	2,970
Net cash provided by (used in) financing activities	<u>75,127</u>	<u>(62,363)</u>	<u>222,126</u>
NET CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	<u>40,874</u>	<u>25,272</u>	<u>(5,719)</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT BEGINNING OF PERIOD	<u>95,911</u>	<u>70,639</u>	<u>76,358</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF PERIOD	<u>\$ 136,785</u>	<u>\$ 95,911</u>	<u>\$ 70,639</u>
CASH PAYMENTS/(RECEIPTS) FOR:			
Interest paid, net of amount capitalized	\$ 65,152	\$ 52,323	\$ 35,998
Income tax refunds	(2,157)	(41,610)	(17,954)
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS			
Property capitalized under operating leases	\$ 25,830	\$ —	\$ —
Flight equipment acquired under finance leases	—	127,625	—

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

ALLEGiant TRAVEL COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2019, 2018 and 2017

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 ancillary 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 and related golf course, Allegiant Nonstop family entertainment centers, and Teesnap golf course management solution.

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 its airline activities operate under one reportable segment and does not separately track expenses for scheduled service and fixed fee air transportation services. The Company's non-airline related entities represent separate reportable segments and include Sunseeker Resort, and other non-airline activities. Refer to Note 15 for additional information.

Note 2 — Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Allegiant Travel Company and its majority-owned operating subsidiaries. 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 Accounting Standards Update (ASU) 2016-02, Leases (Topic 842), (the "New Lease Standard") effective January 1, 2019 using the modified retrospective transition approach. Under this method, the cumulative effect adjustment to the opening balance of retained earnings was recognized at the adoption date. As a result, the Company was not required to adjust its comparative period financial information for effects of the standard or make the new required lease disclosures for periods before the date of adoption on January 1, 2019. See Recent Accounting Pronouncements below for further information.

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.

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, 2019 and 2018, of which \$11.4 million and \$12.7 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 with original maturities of three months or less are classified as cash equivalents. Investment securities with original maturities greater than three months are classified as either short-term investments or long-term investments based on the maturity date in relation to the balance sheet date. Short term investments have a maturity date less than or equal to one year from the balance sheet date, and long-term investments have a maturity date greater than one year from the balance sheet date. As of December 31, 2019, 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, 2019, 2018, and 2017. 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 salvage values and the average remaining useful life of the Airbus fleet. The allowance for expendable parts and supplies was \$2.7 million and \$14.4 million at December 31, 2019 and 2018, respectively, the decrease related to the retirement of the MD-80 fleet type in November 2018. Rotable aircraft parts inventories are included in property and equipment.

Operating Lease Right-of-Use Asset and Liability

The Company determines if an arrangement is a lease at inception and has lease agreements for office facilities, office equipment, certain airport and terminal facilities, and other space and assets with non-cancelable lease terms. Certain real estate and property leases, and various other operating leases are measured on the balance sheet with a lease liability and right-of-use asset ("ROU"). Airport terminal leases mostly include variable lease payments outside of those based on a fixed index, and are therefore excluded from consideration.

ROU assets represent the Company's right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make scheduled lease payments. ROU assets and liabilities are recognized on the lease commencement date based on the present value of lease payments over the lease term. The present value of lease payments is calculated using the incremental borrowing rate at lease commencement, which takes into consideration recent debt issuances as well as other applicable market data available.

Lease payments include fixed payments, variable payments based on an index or rate, reasonably certain purchase options, termination penalties, and others as required by the New Lease Standard. Lease payments do 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.

Lease terms include options to extend when it is reasonably certain that the option will be exercised. Leases with a term of twelve months or less are not recorded on the balance sheet. Additionally, lease and non-lease components are accounted for as a single lease component for real estate agreements.

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 finance 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
Buildings and leasehold improvements	10-25 years
Equipment	3-10 years
Computer hardware and software	3-10 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 related asset(s) acquired/developed. Capitalized interest for the years ended December 31, 2019, 2018 and 2017 was \$4.5 million, \$2.4 million and \$3.2 million, respectively.

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 ten years. The Company had unamortized computer software development costs of \$55.7 million and \$41.3 million as of December 31, 2019 and 2018, respectively. Amortization expense related to computer software was \$12.2 million, \$14.1 million and \$15.9 million for the years ended December 31, 2019, 2018 and 2017, respectively. Costs incurred during the preliminary and post-implementation stages are expensed as incurred.

Aircraft Maintenance and Repair Costs

The Company accounts for all non-major maintenance and repair costs incurred for its Airbus fleet 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.

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 2019 and 2018, the Company capitalized \$64.1 million and \$34.2 million of costs for engines with associated amortization expense of \$11.1 million and \$4.5 million, respectively. During 2019 and 2018, the Company capitalized \$18.4 million and \$15.5 million of costs for airframes with associated amortization expense of \$14.9 million and \$8.0 million, respectively.

Until the full retirement of the MD-80 aircraft in November 2018, the Company accounted for major maintenance costs of the MD-80 airframes and JT8D-219 engines, as well as all non-major maintenance and repair costs incurred for the MD-80 fleet, under the direct expense method.

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, 2019 and 2018, the Company did not incur any impairment losses. For the year ended December 31, 2017, the Company incurred impairment losses related to various aircraft parts of \$1.3 million, which were classified within Other operating expense.

For the year ended December 31, 2017, the Company also 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.

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 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 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.

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.

Revenue from travel point redemptions from the co-branded credit card are described in the Affinity Credit Card Program section.

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 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 non-airline activities as well as leasing aircraft and engines. Lease revenue is recognized ratably over the lease term.

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 \$29.1 million, \$28.8 million and \$20.9 million for the years ended December 31, 2019, 2018 and 2017, respectively. In third quarter 2019, the Company entered into a naming rights agreement with the Raiders of the National Football League for the professional football stadium in Las Vegas set to open in 2020. Prepayments and other associated advertising expenses will be recognized beginning in mid-2020 through the term of this agreement.

Earnings per Share

Basic and diluted earnings per share are computed pursuant to the two-class method as opposed to the treasury method. Under the two-class 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:

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, 2019, 2018 and 2017, 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 data)	Year ended December 31,		
	2019	2018	2017
Basic:			
Net income	\$ 232,117	\$ 161,802	\$ 198,148
Less net income allocated to participating securities	(3,413)	(2,106)	(2,965)
Net income attributable to common stock	\$ 228,704	\$ 159,696	\$ 195,183
Earnings per share, basic	\$ 14.27	\$ 10.02	\$ 12.14
Weighted-average shares outstanding	16,027	15,941	16,073
Diluted:			
Net income	\$ 232,117	\$ 161,802	\$ 198,148
Less net income allocated to participating securities	(3,410)	(2,104)	(2,962)
Net income attributable to common stock	\$ 228,707	\$ 159,698	\$ 195,186
Earnings per share, diluted	\$ 14.26	\$ 10.00	\$ 12.13
Weighted-average shares outstanding	16,027	15,941	16,073
Dilutive effect of stock options and restricted stock	51	53	74
Adjusted weighted-average shares outstanding under treasury stock method	16,078	15,994	16,147
Participating securities excluded under two-class method	(37)	(27)	(52)
Adjusted weighted-average shares outstanding under two-class method	16,041	15,967	16,095

Stock awards outstanding of 19,928; 77,037; and 5,752 shares (not in thousands) for 2019, 2018, and 2017, 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 12.

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 and provisions of the enacted tax law. 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.

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

In February 2016, the FASB issued the New Lease Standard. This standard requires leases, other than short-term, to be recognized on the balance sheet as a liability and a corresponding right-of-use asset.

This standard was effective for interim and annual reporting periods beginning after December 15, 2018 and the Company adopted the New Lease Standard as of January 1, 2019. The Company also elected the package of practical expedients, which among other things, does not require reassessment of lease classification.

The Company adopted the New Lease Standard using the modified retrospective transition approach as of the effective date as permitted by the amendments in ASU 2018-11, "Targeted Improvements - Leases (Topic 842)." Under this method, the cumulative effect adjustment to the opening balance of retained earnings was recognized at the adoption date. As a result, the Company was not required to adjust its comparative period financial information for effects of the standard or make the new required lease disclosures for periods before the date of adoption on January 1, 2019.

The Company's consolidated balance sheet was affected by this standard, but the consolidated statement of income and liquidity were not significantly impacted. The most significant change to the consolidated balance sheet upon adoption on January 1, 2019 related to the recognition of new right-of-use (ROU) assets of \$18.0 million and operating liabilities of \$19.1 million. The Company's accounting for finance leases remains substantially unchanged. See Note 7 for more information on the impact of this standard.

Note 3 — Revenue Recognition

Passenger revenue allocation

Passenger revenue is the most significant category in our reported operating revenues, as outlined below:

(in thousands)	Year Ended December 31,		
	2019	2018	2017
Scheduled service	\$ 897,631	\$ 898,653	\$ 821,621
Ancillary air-related charges	770,206	621,939	547,860
Co-brand redemptions	15,118	13,109	2,556
Total passenger revenue	<u>\$ 1,682,955</u>	<u>\$ 1,533,701</u>	<u>\$ 1,372,037</u>

Sales of passenger tickets not yet flown are recorded in air traffic liability. Passenger revenue is recognized when transportation is provided or when ticket voucher breakage occurs, to the extent different from estimated breakage.

The contract term of passenger tickets is twelve months and revenue associated with future travel will principally be recognized within this time frame. Substantially all of the \$212.2 million that was recorded in the air traffic liability balance at December 31, 2018 was recognized into passenger revenue during the twelve months ended December 31, 2019.

Co-brand redemptions

In relation to the travel component of the co-branded credit card contract with Bank of America, 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 co-brand point liability as of the dates indicated:

(in thousands)	Year Ended December 31,	
	2019	2018
Balance at January 1	\$ 10,708	\$ 8,903
Points awarded	20,023	14,914
Points redeemed	(15,118)	(13,109)
Balance at December 31	<u>\$ 15,613</u>	<u>\$ 10,708</u>

As of December 31, 2019 and 2018, \$11.6 million and \$9.6 million, respectively, 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 and 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,	
	2019	2018
Flight equipment	\$ 2,289,157	\$ 1,905,157
Computer hardware and software	171,516	140,385
Land and buildings/leasehold improvements	98,885	85,925
Other property and equipment	161,760	89,778
Total property and equipment	2,721,318	2,221,245
Less accumulated depreciation and amortization	(484,510)	(373,977)
Property and equipment, net	\$ 2,236,808	\$ 1,847,268

As of December 31, 2019, the Company had firm commitments to purchase 11 Airbus A320 series aircraft and seven engines which are expected to be delivered between 2020 and 2022.

As of December 31, 2019, the majority of the year-over-year increase in Other property and equipment noted above is related to the development of Sunseeker Resort.

Accrued capital expenditures as of December 31, 2019 and 2018 were \$16.5 million and \$5.5 million, respectively.

Note 5 — Accrued Liabilities

Accrued liabilities consisted of the following:

(in thousands)	As of December 31,	
	2019	2018
Salaries, wages and benefits	\$ 44,441	\$ 34,406
Sunseeker Resort development	15,209	721
Passenger taxes and fees	14,653	10,982
Station expenses	14,573	12,918
Maintenance and repairs	12,713	11,016
Property taxes	12,272	8,017
Loyalty card program liability	11,567	9,625
Interest	6,514	14,276
Advertising accruals	3,303	4,337
Other accruals	26,448	15,729
Total accrued liabilities	\$ 161,693	\$ 122,027

Note 6 — Long-Term Debt

Long-term debt consisted of the following:

(in thousands)	As of December 31,	
	2019	2018
Fixed-rate debt and finance lease obligations due through 2029 ⁽¹⁾	\$ 235,071	\$ 640,806
Variable-rate debt due through 2029	1,186,782	630,927
Total long-term debt and finance lease obligations, net of related costs	1,421,853	1,271,733
Less current maturities, net of related costs ⁽¹⁾	173,274	152,287
Long-term debt and finance lease obligations, net of current maturities and related costs	<u>\$ 1,248,579</u>	<u>\$ 1,119,446</u>
Weighted average fixed-interest rate on debt	3.7%	5.3%
Weighted average variable-interest rate on debt	4.5%	4.2%

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

Maturities of long-term debt as of December 31, 2019, for the next five years and thereafter, in the aggregate, are:

(in thousands)	As of December 31, 2019	
2020	\$	173,275
2021		185,025
2022		117,016
2023		104,183
2024		542,943
Thereafter		299,411
Total debt and finance lease obligations, net of related costs	<u>\$</u>	<u>1,421,853</u>

Total long-term debt is presented net of related costs of \$23.6 million and \$5.0 million at December 31, 2019 and 2018, 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 October 2019, the Company, through a wholly owned subsidiary, entered into agreements with a trust to borrow \$23.5 million secured by one Airbus A320 series aircraft. The trust was funded on inception. These borrowings bear interest at a blended rate of 3.2 percent and are payable in monthly installments through October 2024, 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 \$18.6 million and \$23.5 million, respectively, at the time of borrowing.

In March 2019, the Company, through a wholly owned subsidiary, entered into agreements with a trust to borrow \$44.0 million secured by one aircraft. The trust was funded on inception. These borrowings bear interest at a blended rate of 3.8 percent and are payable in quarterly installments through April 2029, 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 \$38.5 million and \$44.0 million, respectively, at the time of borrowing.

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 blended rate of 4.0 percent and are 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.

Senior Secured Revolving Credit Facility

The Company has a senior secured revolving credit facility under which it is entitled to borrow up to \$81.0 million. The 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 December 2019, the Company drew down \$81.0 million under this facility. Aircraft may remain in the collateral pool for up to two years, and, as of December 31, 2019, there were eight aircraft in the pool. The notes for the amounts borrowed under the facility bear interest at a floating rate based on LIBOR and are due in March 2021.

Other Secured Debt

In June 2019, the Company entered into an agreement to borrow \$213.0 million secured by 23 aircraft, for which a portion of the proceeds were used to repay \$112.2 million in debt. The borrowing bears interest at a floating rate based on LIBOR, and is payable in quarterly installments through June 2024.

During the second quarter 2019, the Company borrowed a total of \$63.4 million under loan agreements secured by spare engines. The borrowings bear interest at a floating rate based on LIBOR, and are payable in quarterly installments, with terms ranging from seven to ten years.

Term Loan

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"). The Term Loan 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, bears interest based on LIBOR and 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.

General Unsecured Senior Notes

Until February 2019, the Company had outstanding \$450.0 million aggregate principal amount of senior unsecured obligations (the "Notes") which bore interest at 5.5 percent per year and matured in July 2019.

In connection with the Term Loan discussed above, the Company completed a tender offer in February 2019, whereby it purchased \$347.9 million of the Notes, and incurred related debt extinguishment costs of \$3.7 million. The remaining \$102.1 million of the Notes were paid at their maturity in July 2019.

Construction Loan Agreement

In March 2019, Sunseeker Florida, Inc. ("SFI"), a wholly-owned subsidiary of the Company, entered into a Construction Loan Agreement with certain lenders affiliated with TPG Sixth Street Partners, LLC (the "Lender"). Under the Construction Loan Agreement, SFI may borrow up to \$175.0 million (the "Loan") to fund the construction of Phase 1 of Sunseeker Resort -Charlotte Harbor (the "Project"). No amount has been drawn under this agreement as of December 31, 2019.

Under the Construction Loan Agreement, the Lender is to provide the final \$175.0 million of funding for the Project, with initial funding to come from the Company. The loan is secured by the Project and, for a period of time, the surrounding land owned by SFI. The Company has guaranteed one-third of the debt, has agreed to bear responsibility under a Non-Recourse Carve-Out Guaranty, and has agreed to guarantee completion of the Project in accordance with approved plans and specifications. All of the shares in SFI are also pledged to secure the loan. The Loan bears interest based on LIBOR and matures in March 2023.

Finance Leases

The Company has finance lease obligations related to five aircraft, which impacted the Company's recognized assets and liabilities as of December 31, 2019, but did not result in any significant cash receipts or cash payments during the year. See Note 7 for more information on finance lease obligations.

Note 7 — Leases

Total rental expense for operating leases for the years ended December 31, 2019, 2018 and 2017 was \$15.0 million, \$12.7 million and \$9.0 million, respectively.

The Company had five aircraft under finance leases as of December 31, 2019 with remaining terms to 2029.

Lease Costs

The components of lease costs recognized on the statements of income were as follows:

(in thousands)	Classification on the Statements of Income	Year ended December 31, 2019
Finance lease costs:		
Amortization of assets	Depreciation and amortization	\$ 6,517
Interest on lease liabilities	Interest expense	5,264
Operating lease cost	Station operations; Maintenance and repairs; Other operating expense	3,541
Variable lease cost	Station operations; Maintenance and repairs; Other operating expense	2,274
Total lease cost		<u>\$ 17,596</u>

Lease position as of December 31, 2019

The table below presents the lease-related assets and liabilities recorded on the balance sheet.

(in thousands)	Classification on the Balance Sheet	As of December 31, 2019
Assets		
Operating lease assets	Operating lease right-of-use assets, net	\$ 22,081
Finance lease assets	Property and equipment, net	111,665
Total lease assets		<u>\$ 133,746</u>
Liabilities		
Current		
Operating	Accrued liabilities	\$ 2,662
Finance	Current maturities of long-term debt and finance lease obligations	7,666
Noncurrent		
Operating	Other noncurrent liabilities	21,290
Finance	Long-term debt and finance lease obligations	107,930
Total lease liabilities		<u>\$ 139,548</u>
Weighted-average remaining lease term		
Operating leases		9.1 years
Finance leases		9.9 years
Weighted-average discount rate		
Operating leases		4.3%
Finance leases		4.4%

Other Information

The table below presents supplemental cash flow information related to leases during the twelve months ended December 31, 2019.

(in thousands)	Year ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows for operating leases	\$ 2,927
Operating cash flows for finance leases	5,264
Financing cash flows for finance leases	7,336

Maturities of Lease Liabilities

The table below indicates the future minimum payments of lease liabilities as of December 31, 2019.

(in thousands)	Operating Leases	Finance Leases
2020	\$ 3,629	\$ 12,600
2021	3,447	12,600
2022	3,428	11,095
2023	3,282	10,500
2024	2,946	10,500
Thereafter	12,431	92,959
Total lease payments	29,163	150,254
Less imputed interest	(5,211)	(34,658)
Total lease obligations	23,952	115,596
Less current obligations	(2,662)	(7,666)
Long-term lease obligations	<u>\$ 21,290</u>	<u>\$ 107,930</u>

The Company adopted the New Lease Standard on January 1, 2019 as noted above, and as required, the following disclosure is provided for periods prior to adoption. Future annual minimum lease payments as of December 31, 2018 were as follows:

(in thousands)	Operating Leases	Finance Leases
2019	\$ 8,102	\$ 12,600
2020	6,031	12,600
2021	3,643	12,600
2022	1,630	11,095
2023	1,626	10,500
Thereafter	8,297	103,458
Total lease payments	<u>\$ 29,329</u>	162,853
Less imputed interest		(39,922)
Total lease obligations		122,931
Less current obligations		(7,336)
Long-term lease obligations		<u>\$ 115,595</u>

Note 8 — Shareholders' Equity

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

Share repurchases consisted of the following during the periods indicated:

	Year Ended December 31,		
	2019	2018	2017
Shares repurchased ⁽¹⁾	103,943	—	604,497
Average price per share	\$ 141.64	NA	\$ 142.66
Total (in thousands)	\$ 14,723	\$ —	\$ 86,240

(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 27,700, 22,981, and 27,606 shares for 2019, 2018, and 2017 respectively.

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

	Year Ended December 31,		
	2019	2018	2017
Total quarterly cash dividends declared, per share	\$ 2.80	\$ 2.80	\$ 2.80
Total cash dividends paid (in thousands)	45,552	45,247	45,720

As of December 31, 2019, the Company had \$85.3 million in unused share repurchase authority remaining under the Board approved program.

Note 9 — 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 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, 2019			As of December 31, 2018		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Cash equivalents						
Money market funds	\$ 42,653	\$ 42,653	\$ —	\$ 43,281	\$ 43,281	\$ —
Commercial paper	5,807	—	5,807	29,138	—	29,138
Municipal debt securities	1,202	—	1,202	—	—	—
US Treasury Bonds	—	—	—	1,415	—	1,415
Total cash equivalents	49,662	42,653	7,009	73,834	43,281	30,553
Short-term						
Commercial paper	161,286	—	161,286	180,846	—	180,846
Corporate debt securities	145,975	—	145,975	101,489	—	101,489
Federal agency debt securities	13,515	—	13,515	11,887	—	11,887
Municipal debt securities	12,237	—	12,237	14,252	—	14,252
US Treasury Bonds	2,915	—	2,915	5,990	—	5,990
Total short-term	335,928	—	335,928	314,464	—	314,464
Long-term						
Corporate debt securities	15,396	—	15,396	37,334	—	37,334
US Treasury Bonds	146	—	146	2,901	—	2,901
Federal agency debt securities	—	—	—	11,291	—	11,291
Total long-term	15,542	—	15,542	51,526	—	51,526
Total financial instruments	\$ 401,132	\$ 42,653	\$ 358,479	\$ 439,824	\$ 43,281	\$ 396,543

There were no significant transfers between Level 1 and Level 2 assets for the years ended December 31, 2019 or 2018.

Long-term Debt

As of December 31, 2019, none of the Company's debt agreements are publicly held and, therefore, the estimated fair value of these notes is considered to be Level 3, as certain inputs used to determine the fair value of these agreements are unobservable and 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, 2019		As of December 31, 2018		Fair Value Level
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	
Non-publicly held debt	\$ 1,329,882	\$ 1,140,232	\$ 703,372	\$ 619,379	3
Publicly held debt	—	—	450,463	451,026	2
Total long-term debt	\$ 1,329,882	\$ 1,140,232	\$ 1,153,835	\$ 1,070,405	

Other

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

Note 10 — Income Taxes

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 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.

In 2019, 2018, and 2017, the Company recorded net tax provisions of \$69.1 million, \$37.5 million and \$0.9 million, respectively. Cash taxes, net of refunds, were \$2.2 million, \$41.6 million and \$18.0 million, respectively.

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,		
	2019	2018	2017
Domestic	\$ 299,330	\$ 195,843	\$ 180,314
Foreign	1,917	3,475	18,693
Total	\$ 301,247	\$ 199,318	\$ 199,007

Income Tax Provision/(Benefit)

The provision for income taxes is composed of the following:

(in thousands)	Year ended December 31,		
	2019	2018	2017
Current:			
Federal	\$ (34)	\$ (3,707)	\$ (44,385)
State	505	(650)	664
Foreign	530	1,086	558
Total current	1,001	(3,271)	(43,163)
Deferred:			
Federal	63,430	41,593	41,015
State	4,699	3,744	1,978
Foreign	—	(4,550)	1,029
Total deferred	68,129	40,787	44,022
Total income tax provision	\$ 69,130	\$ 37,516	\$ 859

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,		
	2019	2018	2017
Income tax expense at federal statutory rate	\$ 63,262	\$ 41,857	\$ 68,639
State income taxes, net of federal income tax benefit	5,070	3,560	2,739
Federal tax reform impact	—	—	(74,738)
Foreign income tax expense	530	(3,464)	1,587
Other	268	(4,437)	2,632
Total income tax expense	\$ 69,130	\$ 37,516	\$ 859

Deferred Taxes

The major components of the Company's net deferred tax assets and liabilities are as follows:

(in thousands)	As of December 31,	
	2019	2018
Deferred tax assets:		
Accrued vacation	\$ 907	\$ 595
Accrued bonus	5,523	3,792
State taxes	88	86
Accrued property taxes	1,742	1,615
Stock-based compensation expense	1,415	1,310
Net operating loss	58,066	38,875
Less: valuation allowance	1,193	1,193
Total deferred tax assets	66,548	45,080
Deferred tax liabilities:		
Prepaid expenses	6,211	4,436
Depreciation	278,554	202,595
Other	14,522	2,103
Total deferred tax liabilities	299,287	209,134
Net deferred tax liabilities	\$ 232,739	\$ 164,054

Net Operating Loss and Tax Credit Carryforwards

As of December 31, 2019, the Company recognized federal and state net operating loss carryforwards for income tax purposes in the amount of \$56.5 million and \$1.5 million, respectively. Federal net operating loss carryforwards will not expire per the Tax Act. The majority of the state net operating loss carryforward amounts will expire between 2022 and 2037 while some state net operating losses have an indefinite carryforward period.

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, 2019, the Company also recognized foreign tax credit and R&D tax credit carryforward in the amount of \$2.5 million and \$1.9 million which begin to expire in 2028 and 2024, respectively.

Tax Contingencies

The reconciliation of the Company's tax contingencies is as follows:

(in thousands)	As of December 31,		
	2019	2018	2017
Beginning Balance	\$ 4,175	\$ 778	\$ 837
Increases for tax position of prior years	—	3,364	251
Increases for tax position of current year	146	293	46
Decreases for tax positions of prior years	(135)	(10)	—
Settlements	(216)	(110)	(356)
Decreases for lapses in statute of limitations	—	(140)	—
Ending Balance	\$ 3,970	\$ 4,175	\$ 778

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. The Company's income tax returns are subject to examination by the Internal Revenue Service as well as other taxing jurisdictions. The timing of the resolution of income tax examinations is uncertain, and the ultimate resolution with these 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 11— Related Party Transactions

During the years ended December 31, 2019 and 2018, there were no related party transactions that required 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.

Entities owned or controlled by the Company's Chairman and CEO were paid for the building of corporate training content. The Company made no payments during 2019 and 2018 and paid \$0.2 million in 2017. No further payments are expected.

Note 12 — 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 \$19.0 million, \$19.1 million and \$14.2 million for the years ended December 31, 2019, 2018 and 2017, 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, 2019, a portion of unexercised 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 2019, 2018, and 2017:

	Total number of shares purchased	Average price paid per share	Weighted-average fair value of discount under the ESPP (1)
As of December 31, 2017	18,498	\$ 126.81	\$ 14.09
As of December 31, 2018	33,300	\$ 134.31	\$ 16.79
As of December 31, 2019	38,464	\$ 133.54	\$ 23.51

(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, 2019, 2018 and 2017, the Company recorded compensation expense of \$19.2 million, \$15.6 million and \$14.0 million, respectively, related to restricted stock, stock options, 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 \$28.5 million for unvested restricted stock expected to be recognized over a weighted-average period of 1.22 years. As of December 31, 2019, there was 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, 2019, 2018 and 2017, 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, 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	\$ —
Exercised	(9,737)	108.59		
Outstanding at December 31, 2019	—	\$ —	0.00	\$ —

During the years ended December 31, 2019, 2018 and 2017, the total intrinsic value of options exercised was \$0.2 million, \$1.4 million and \$1.3 million, respectively. Cash received from option exercises for the years ended December 31, 2019, 2018 and 2017 was \$1.1 million, \$1.6 million and \$1.0 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, 2019, 2018 and 2017 is presented below:

	Shares	Weighted Average Grant Date Fair Value Per Share
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
Granted	218,477	143.72
Vested	(104,816)	152.07
Forfeited	(15,047)	148.97
Non-vested at December 31, 2019	294,808	\$ 147.25

The total fair value of restricted stock that vested during the years ended December 31, 2019, 2018 and 2017 was \$15.9 million, \$13.4 million and \$13.3 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 (all cash-settled SARs were fully vested as of December 31, 2019):

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

These rights were fully vested as of December 31, 2019. 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 2019, 2018 and 2017 using historical award exercise activity and employee termination activity.

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.

A summary of cash-settled SARs awards activity during the years ended December 31, 2019, 2018 and 2017 is presented below:

	# of SARs	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (thousands)
Balance at December 31, 2016	104,608	\$ 153.86		
Forfeited	(14,682)	177.60		
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		
Exercised	(9,886)	135.53		
Balance at December 31, 2019	44,046	\$ 169.40	0.68	\$ 204
Vested at December 31, 2019	44,046	\$ 169.40	0.68	\$ 204
Exercisable at December 31, 2019	44,046	\$ 169.40	0.68	\$ 204

Note 13 — 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 2020 to 2048. Refer to Note 7 for more information on the Company's lease agreements.

The Company's contractual purchase commitments consist primarily of aircraft and engine acquisitions. The total future commitments are as follows:

(in thousands)	As of December 31, 2019
2020	\$ 204,521
2021	37,900
2022	21,000
Total purchase commitments	\$ 263,421

The Company had no aircraft sub-service expense in 2019. In 2018 and 2017 aircraft sub-service expense was \$0.9 million, and \$3.1 million, respectively.

Aircraft Commitments

During 2019, 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, eight aircraft are expected to be

acquired in 2020, two in 2021, and one in 2022. The seven spare engines are all expected to be acquired in 2020.

During 2018, the Company entered into a purchase agreement for one Airbus A320 series aircraft that has yet to be purchased as of the end of 2019. This aircraft is expected to be acquired in 2022.

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

Contingencies

The Company is party to collective bargaining agreements with the employee groups listed below. As of December 31, 2019 the percentage of full-time equivalent employees for these pay groups were as follows:

	As of December 31, 2019
Flight Attendants	31.6%
Pilots	21.7
Flight Dispatchers	0.8
Total	<u>54.1%</u>

See Item I - Business, for further discussion on the status of each group which has elected union representation.

The Company is subject to certain other 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 14 — 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, 2019 ⁽¹⁾	\$ 14,410	\$ 2,257	\$ (13,919)	\$ 2,748
For the Year Ended December 31, 2018	13,756	2,624	(1,970)	14,410
For the Year Ended December 31, 2017 ⁽²⁾	7,205	6,551	—	13,756

(1) Increase in write offs mostly related to disposal of MD-80 fleet parts in 2019.

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

Note 15 — Segments

Operating segments are components of a company for which separate financial and operating information is regularly evaluated and reported to the Chief Operating Decision Maker ("CODM"), and is used to allocate resources and analyze performance. The Company's CODM is the executive leadership team, which reviews information about the Company's three operating segments: Airline, Sunseeker Resort, and other non-airline.

Airline Segment

The Airline segment operates as a single business unit and includes all scheduled service air transportation, ancillary air-related products and services, third party products and services, fixed fee contract air transportation and other airline-related revenue. The CODM evaluation includes, but is not limited to, route and flight profitability data, ancillary and third party product and service offering statistics, and fixed fee contract information when making resource allocation decisions with the goal of optimizing consolidated financial results.

Sunseeker Resort Segment

The Sunseeker Resort segment represents activity related to the development and construction of Sunseeker Resort in Southwest Florida, as well as the operation of Kingsway golf course. The golf course is a short drive from the resort site and is considered, from a planning and strategic perspective, to be an additional resort amenity.

Other non-Airline Segment

The other non-airline segment includes the Teesnap golf course management solution and Allegiant Nonstop family entertainment centers. Allegiant Nonstop family entertainment centers are comprised of games, attractions, and food facilities.

In July 2019, management began evaluating strategic alternatives for Teesnap, and its business-to-business software as a service offering. As the Company's current strategy has a business to customer focus, rather than business to business, management determined that the best course of action for both entities would be to sell Teesnap and management is actively pursuing this avenue. The carrying value of the disposal group expected to be transferred in the sale is approximately \$7.6 million as of December 31, 2019.

Selected information for the Company's segments and the reconciliation to the consolidated financial statement amounts are as follows:

(in thousands)	Airline	Sunseeker Resort	Other non- airline	Consolidated
Year Ended December 31, 2019				
Operating revenue:				
Passenger	\$ 1,682,955	\$ —	\$ —	\$ 1,682,955
Third party products	70,012	—	—	70,012
Fixed fee contract	65,057	—	—	65,057
Other	4,474	2,048	16,419	22,941
Operating income (loss)	388,740	(6,588)	(18,202)	363,950
Interest expense, net	58,112	1,694	—	59,806
Depreciation and amortization	151,060	1,250	3,542	155,852
Capital expenditures	438,765	66,659	18,304	523,728
Year Ended December 31, 2018				
Operating revenue:				
Passenger	\$ 1,533,701	\$ —	\$ —	\$ 1,533,701
Third party products	58,060	—	—	58,060
Fixed fee contract	50,286	—	—	50,286
Other	17,125	601	7,674	25,400
Operating income (loss)	255,888	(3,299)	(9,130)	243,459
Interest expense, net	44,534	2	—	44,536
Depreciation and amortization	127,460	129	1,762	129,351
Capital expenditures	290,998	32,635	16,657	340,290
Year Ended December 31, 2017				
Operating revenue:				
Passenger	\$ 1,372,037	\$ —	\$ —	\$ 1,372,037
Third party products	52,707	—	—	52,707
Fixed fee contract	48,708	—	—	48,708
Other	34,456	20	3,275	37,751
Operating income (loss)	237,055	(70)	(6,355)	230,630
Interest expense, net	33,182	—	—	33,182
Depreciation and amortization	119,421	—	2,292	121,713
Capital expenditures	543,706	22,287	2,446	568,439

Total assets were as follows as of the dates indicated:

(in thousands)	As of December 31, 2019	As of December 31, 2018
Airline	\$ 2,830,236	\$ 2,422,522
Sunseeker Resort	133,362	56,047
Other non-airline	47,205	20,099
Consolidated	<u>\$ 3,010,803</u>	<u>\$ 2,498,668</u>

Note 16 — Subsequent Events

As of February 13, 2020, the Company entered into an amendment to the Term Loan under which the interest rate has been reduced by 150 basis points, the principal amount of the debt was increased by \$100.0 million to \$545.5 million and the quarterly payments of principal were increased to \$1.4 million. The remaining provisions of the Term Loan remain substantially unchanged, including the maturity date of February 2024.

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, 2019, 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, 2019. 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, 2019, 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, 2019.

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, 2019, 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, 2019, 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, 2019 and 2018, 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, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated February 27, 2020 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 27, 2020

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 25, 2020, 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 25, 2020, 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 25, 2020, 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 25, 2020, 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 25, 2020, 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.

Exhibit Number	Description
3.1	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).
3.2	Bylaws of Allegiant Travel Company as amended on October 23, 2019. (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K, filed with the Commission on October 24, 2019).
3.3	Specimen Stock Certificate (Incorporated by reference to Exhibit 3.3 to the Form 8-A filed with the Commission on November 22, 2006).
10.1	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)
10.2	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).
10.3	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).
10.4	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)
10.5	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)
10.6	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)
10.7	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)
10.8	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)
10.9	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)
10.10	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.)
10.11	Construction Loan Agreement dated as of March 18, 2019 between TPG Specialty Lending, Inc., SSPC 1, LLC, and SSPC 2, LLC (as "Lenders"), TPG Specialty Lending, Inc. (as "Agent") and Sunseeker Florida, Inc. (Incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 filed with the Commission on May 8, 2019) (2)
10.12	Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing dated as of March 18, 2019 between TPG Specialty Lending, Inc. ("Agent") and Sunseeker Florida, Inc. (Incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 filed with the Commission on May 8, 2019)
10.13	Guaranty of Completion dated as of March 18, 2019 among Allegiant Travel Company and Sunrise Asset Management, LLC for the benefit of TPG Specialty Lending, Inc., SSPC 1, LLC and SSPC 2, LLC. (Incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 filed with the Commission on May 8, 2019)
10.14	Non-Recourse Carve-out Guaranty Agreement dated as of March 18, 2019 from Allegiant Travel Company for the benefit of TPG Specialty Lending, Inc., SSPC 1, LLC and SSPC 2, LLC. (Incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 filed with the Commission on May 8, 2019)
10.15	Guaranty of Payment dated as of March 18, 2019 from Allegiant Travel Company for the benefit of TPG Specialty Lending, Inc., SSPC 1, LLC and SSPC 2, LLC. (Incorporated by reference to Exhibit 10.6 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 filed with the Commission on May 8, 2019)

Exhibit Number	Description
10.16	Pledge and Security Agreement dated as of March 18, 2019 by Sunseeker Resorts, Inc. for the benefit of TPG Specialty Lending, Inc., SSPC 1, LLC and SSPC 2, LLC. (Incorporated by reference to Exhibit 10.7 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 filed with the Commission on May 8, 2019)
10.17	Credit Agreement dated as of June 24, 2019 among Sunrise Asset Management, Bank of America Leasing and Capital, LLC, Sumitomo Mitsui Banking Corporation and Bank of Utah, as agent. (Incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 filed with the Commission on July 31, 2019) (3)
10.18	Employment Agreement dated as of October 1, 2019, between the Company and John Redmond. (1)
10.19	First Amendment dated February 13, 2020, to 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 Bank PLC, as administrative agent. (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Commission on February 18, 2020).
12	Calculation of Ratio of Earnings to Fixed Charges of Allegiant Travel Company.
21	List of Subsidiaries
23.1	Consent of KPMG LLP, independent registered public accounting firm
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Section 1350 Certifications
101	The following financial information from the Company's Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 27, 2020, formatted in XBRL includes (i) Consolidated Balance Sheets as of December 31, 2019 and December 31, 2018 (ii) Consolidated Statements of Income for the years ended December 31, 2019, 2018 and 2017 (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018 and 2017 (iv) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2019, 2018 and 2017 (v) Consolidated Cash Flow Statements for the years ended December 31, 2019, 2018 and 2017 (vi) the Notes to the Consolidated Financial Statements. (4)
(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)	Portions of the indicated document have been omitted pursuant to a grant of confidential treatment and the document indicated has been filed separately with the Commission as required by Rule 24b-2 of the Securities Exchange Act of 1934, as amended.
(3)	Certain confidential information in this agreement has been omitted because it (i) is not material and (ii) would be competitively harmful if publicly disclosed.
(4)	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 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

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 27, 2020.

Allegiant Travel Company

By: /s/ Gregory Anderson

Gregory Anderson, as duly authorized officer of the Company (Chief Financial Officer) and as Principal Financial Officer

POWERS OF ATTORNEY

Each person whose signature appears below hereby appoints Gregory Anderson 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
<u>/s/ Maurice J. Gallagher, Jr.</u> Maurice J. Gallagher, Jr.	Chief Executive Officer and Director (Principal Executive Officer)	February 27, 2020
<u>/s/ John Redmond</u> John Redmond	President and Director	February 27, 2020
<u>/s/ Gregory Anderson</u> Gregory Anderson	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 27, 2020
<u>Montie Brewer</u>	Director	February 27, 2020
<u>/s/ Gary Ellmer</u> Gary Ellmer	Director	February 27, 2020
<u>/s/ M. Ponder Harrison</u> M. Ponder Harrison	Director	February 27, 2020
<u>/s/ Linda Marvin</u> Linda Marvin	Director	February 27, 2020
<u>/s/ Charles W. Pollard</u> Charles W. Pollard	Director	February 27, 2020

Board of Directors

Maurice J. Gallagher, Jr.
Chairman of the Board,
Chief Executive Officer

John Redmond
President,
Director

Montie Brewer
Director

Gary Ellmer
Director

Ponder Harrison
Director

Linda A. Marvin
Director

Charles Pollard
Director

Executive Officers

Maurice J. Gallagher, Jr.
Chairman of the Board,
Chief Executive Officer

John Redmond
President,
Director

Scott Sheldon
Executive Vice President,
Chief Operating Officer

Gregory C. Anderson
Executive Vice President,
Chief Financial Officer,
Principal Accounting Officer

Robert Wilson
Executive Vice President,
Chief Information Officer

Scott DeAngelo
Executive Vice President,
Chief Marketing Officer

Corporate Headquarters

1201 N. Town Center Drive
Las Vegas, NV 89144
702.851.7300
www.allegiant.com

Form 10-K

Additional copies of the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission are available to stockholders without charge upon request in writing to:

Sherry Wilson
Allegiant Travel Company
Investor Relations
1201 N. Town Center Drive
Las Vegas, NV 89144

Independent Public Accounting Firm

KPMG LLP
Dallas, TX

Transfer Agent

Broadridge Financial Solutions, Inc.
51 Mercedes Way
Edgewood, NY 11711

