Allegiant Travel CO
Form POS AM
August 30, 2007

As filed with the Securities and Exchange Commission on August 30, 2007

Registration No. 333-140579

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

POST-EFFECTIVE

AMENDMENT NO. 2 TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

ALLEGIANT TRAVEL COMPANY

(Exact name of registrant as specified in charter)

NEVADA	**4512**	**20-4745737**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

3301 N. Buffalo Drive, Suite B-9

Las Vegas, Nevada 89129

(702) 851-7300

(Address, including zip code, and telephone number, including

area code, of registrant s principal executive offices)

Andrew C. Levy

Managing Director and Secretary

3301 N. Buffalo Drive, Suite B-9

Las Vegas, Nevada 89129

(702) 851-7300

(Name, address, including zip code, and telephone number,

including area code, of agent for service of process)

With copies to:

Robert B. Goldberg

Ellis Funk, P.C.

3490 Piedmont Road, Suite 400

Atlanta, Georgia 30305

(404) 233-2800

Approximate date of commencement of proposed sale to the public:

As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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CALCULATION OF REGISTRATION FEE

Title of each class of Securities to be Registered	**Amount to be Registered**	**Proposed Maximum Offering Price Per Share(1)**	**Proposed Maximum Aggregate Offering Price(1)**	**Amount of Registration Fee**
Common Stock, $0.001 par value	1,750,000	$ 35.39	$ 61,932,500	$ 6,626.78 (2)

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(a) under the Securities Act of 1933, as amended, based on $35.39 per share, the average of the high and low sales prices of the Common Stock as reported on the Nasdaq Global Market on February 5, 2007.

(2) Previously paid.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective time until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Subject to Completion
Preliminary Prospectus dated August 30, 2007

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is declared effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS

ALLEGIANT TRAVEL COMPANY

1,750,000 Shares

Common Stock

This prospectus relates to shares of common stock of Allegiant Travel Company being sold by the selling stockholder described under Principal and Selling Stockholders . We are not selling any shares under this prospectus. The manner in which the shares of common stock will be offered from time to time by the selling stockholder is discussed under Plan of Distribution .

Investing in our common stock involves risks that are described in the Risk Factors section beginning on page 11 of this prospectus.

The selling stockholder and any underwriter, broker-dealer or agent that participates in the sale of the common stock or interests therein may be deemed underwriters within the meaning of Section 2(11) of the Securities Act of 1933, as amended. Any discounts, commissions, concessions, profit or other compensation any of them earns on any sale or resale of the shares, directly or indirectly, may be underwriting discounts and commissions under the Securities Act of 1933. A selling stockholder who is an underwriter within the meaning of Section 2(11) of the Securities Act of 1933 will be subject to the prospectus delivery requirements of the Securities Act of 1933.

Expenses of this offer, estimated to be $50,000, other than any discounts, commissions or similar fees charged in connection with the sale of any shares of common stock offered hereby, will be borne by us.

Our common stock currently trades on the Nasdaq Global Market under the symbol ALGT. On August 28, 2007, the last reported sale price of our common stock was $29.67 per share.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2007.

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You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell those securities in any jurisdiction where the offer and sale is not permitted. The information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this prospectus, including the sections entitled Management s Discussion and Analysis of Financial Condition and Results of Operations and Business, that are based on our management s beliefs and assumptions and on information currently available to our management. Forward-looking statements include the information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, the effects of future regulation and the effects of competition. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words believe, expect, anticipate, intend, plan, estimate or similar expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in the forward-looking statements. We do not have any intention or obligation to update forward-looking statements after we distribute this prospectus.

You should understand that many important factors, in addition to those discussed elsewhere in this prospectus, could cause our results to differ materially from those expressed in the forward-looking statements. These factors include, without limitation, increases in fuel prices, terrorist attacks, risks inherent to airlines, demand for air services to Las Vegas, Orlando, Tampa/St. Petersburg and our new leisure destinations from the markets served by us, our ability to implement our growth strategy, our fixed obligations, our dependence on our leisure destination markets, our ability to add, renew or replace gate leases, our competitive environment, problems with our aircraft, dependence on fixed fee customers, economic and other conditions in markets in which we operate, governmental regulation, increases in maintenance costs and insurance premiums and cyclical and seasonal fluctuations in our operating results.

SUMMARY

This section summarizes material information that appears later in this prospectus and is qualified in its entirety by the more detailed information and financial statements included elsewhere in this prospectus. In this prospectus, we consider Alaska Airlines, Inc., American Airlines, Inc., Continental Airlines, Inc., Delta Air Lines, Inc., Northwest Airlines, Inc., United Air Lines Inc., Trans World Airlines, Inc. (prior to its acquisition by AMR Corp.) and US Airways, Inc. (prior to 2005) as U.S. legacy carriers, and we consider AirTran Airways, Inc., America West Airlines, Inc., Frontier Airlines, Inc., JetBlue Airways Corporation, Southwest Airlines Co., and US Airways, Inc. (starting in 2005) as U.S. low-cost carriers. This summary may not contain all of the information that may be important to you. As an investor or prospective investor, you should carefully review the entire prospectus, including the risk factors and the more detailed information that appears later.

In this prospectus, we use the terms Allegiant, we, us and our to refer to Allegiant Travel Company and its subsidiaries.

Business Overview

We are a leisure travel company focused on linking travelers in small cities to world-class leisure destinations such as Las Vegas, Nevada, Orlando, Florida and Tampa/St. Petersburg, Florida. We have announced we will be commencing service in fourth quarter 2007 to the leisure destinations of Ft. Lauderdale, Florida and Phoenix-Mesa, Arizona. We operate a low-cost passenger airline marketed to leisure travelers in small cities, allowing us to sell air travel both on a stand-alone basis and bundled with hotel rooms, rental cars and other travel related services. Our route network, pricing philosophy, advertising and diversified product offering built around relationships with premier leisure companies are all intended to appeal to leisure travelers and make it attractive for them to purchase air travel and related services from us.

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

- *Scheduled service revenues* currently consist of nonstop flights between our leisure destinations and our small city markets.

- *Fixed fee contract revenues* consist largely of fixed fee flying agreements with affiliates of Harrah s Entertainment Inc. that provide for a predictable revenue stream.

- *Ancillary revenues* are generated from the sale of hotel rooms, rental cars, advance seat assignments, in-flight products and other items sold in conjunction with our scheduled air service. We recognize our ancillary revenues on a net basis, net of amounts paid to wholesale providers, travel agent commissions and credit card processing fees.

Our business strategy has evolved as our experienced management team has taken a different approach to the traditional way business has been conducted in the airline industry. In contrast to the traditional airline strategy, we focus primarily on the leisure traveler, provide low frequency nonstop service from small cities in larger jet aircraft, sell direct to travelers, do not offer connections, do not code-share, and provide amenities at a small charge to our passengers. We have developed relationships with many premier leisure companies to generate revenue beyond just air fares. We generated $11.55 of ancillary revenue per scheduled service passenger in 2005, $16.11 per scheduled service passenger in 2006 and $20.02 per scheduled service passenger in the first six months of 2007.

As of August 15, 2007, we provide scheduled air service to customers in 50 small cities (including seasonal service) and have announced service from five additional small cities to commence before the end of 2007. These 55 cities have an aggregate population of over 50 million within a 50-mile radius of the airports in those cities. We have identified at least 45 additional cities in the United States and Canada with similar characteristics and where we do not presently have any arrangements for service. These cities represent an estimated population of over 50 million people we could potentially serve primarily to our leisure destinations.

Our business model has allowed us to grow rapidly and to achieve attractive rates of profitability, even during the present climate of high fuel costs. For the year ended December 31, 2006, we had revenue of $243.3 million, representing substantial growth of 83.7% over the year ended December 31, 2005, while maintaining an operating margin of 9.3%. We had operating income of $8.5 million in 2005 and $22.6 million in 2006. Our net income was $7.3 million in 2005 and, despite a $6.4 million one-time non-cash tax charge resulting from our reorganization to a C-corporation, $8.7 million in 2006. In the first six months of 2007, we had revenue of $173.3 million, operating income of $28.5 million and net income of $19.7 million, reflecting significant growth over revenue of $119.3 million, operating income of $12.3 million and net income of $11.5 million in the first six months of 2006.

Our Competitive Strengths

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

Focus on Linking Small Cities to World-Class Leisure Destinations. As of August 15, 2007, we provide nonstop low fare scheduled air service from 50 small cities (including seasonal service) primarily to the world-class leisure destinations of Las Vegas, Nevada, Orlando, Florida, and Tampa/St. Petersburg, Florida. We have announced we will be commencing service in fourth quarter 2007 to the leisure destinations of Ft. Lauderdale, Florida and Phoenix-Mesa, Arizona. We have also announced service from five new small cities to commence before the end of 2007. Frequently, when we enter a new market, we introduce nonstop service to our leisure destinations which previously did not exist. We believe this nonstop service, combined with our pricing philosophy and premier leisure company relationships, makes it attractive for leisure travelers to purchase air travel and related services from us. As a result, we believe we stimulate new traffic. By focusing on underserved small cities, we believe we avoid the overcapacity and intense competition presently seen in high traffic domestic air corridors. On 70 of our 78 routes as of August 15, 2007, we are the only carrier providing nonstop service. Of the 109 routes we have announced we will be serving by the end of 2007, there are only eight routes with existing or announced nonstop service by other airlines.

We believe it would be difficult for potential competitors to profitably contest our market positions with nonstop service as our markets are generally too small to support either two carriers or the high frequency service provided by most U.S. legacy carriers and U.S. low-cost carriers (LCCs). In addition, leisure routes from small cities are generally too low-yielding to be a priority for most carriers. Moreover, while some of these markets may be suitable for service with regional aircraft, we believe our unit costs are significantly less than the unit costs for most regional aircraft, making it difficult for regional aircraft to effectively compete.

Low Operating Costs. We believe low costs are essential to competitive success in the airline industry today. Our cost per available seat mile, or CASM, was 7.78¢ for the first six months of 2007 and 7.69¢ and 7.41¢ for the years ended December 31, 2006 and 2005, respectively. Our CASM for 2006 increased only 3.8% over the prior year despite significantly higher fuel costs. Excluding the cost of fuel, our CASM was 4.20¢ for the first six months of 2007, 4.15¢ for the year ended December 31, 2006, and 4.27¢ for the year ended December 31, 2005.

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

- *Cost-Driven Schedule.* We design our flight schedule to concentrate most of our aircraft each night at our leisure destinations. This concentration allows us to better utilize our personnel, airport facilities, aircraft, spare parts inventories and other assets. As a result, we are able to reduce costs associated with maintenance, airport operations, and flight crews staying overnight away from home.

- *Low Aircraft Ownership Costs.* We believe we properly balance low aircraft ownership costs and low operating costs to minimize our total costs. We currently operate one fleet type consisting of 29 MD80 series aircraft as of August 15, 2007. Used MD80 series equipment is widely available today, and we believe the ownership costs of the used MD80s sought by us are more than 80% lower than that of comparably sized new Airbus A320 and Boeing 737 aircraft. While used MD80 aircraft are less fuel efficient than new aircraft, we believe the ownership cost advantages of the MD80 currently outweigh the operating cost savings of new equipment for our type of operation.

- *Highly Productive Workforce.* We believe we have one of the most productive workforces in the U.S. airline industry with approximately 39.3 full-time equivalent employees per aircraft as of August 1, 2007, which compares to an industry range of from 57 to more than 100 full-time equivalent employees per aircraft, based on publicly available information. Our high level of employee productivity is created by fleet commonality, fewer unproductive labor work rules, cost-driven scheduling, and the effective use of automation and part-time employees.

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

- *Low Distribution Costs.* We do not sell our product through outside sales channels and, as such, avoid the fees charged by travel web sites (such as Expedia, Orbitz or Travelocity) and the traditional global distribution systems (such as Sabre or Worldspan). Our customers can only purchase travel at our airport ticket counters or, for a fee, through our telephone reservations center or website. We actively encourage sales on our website. This is the least expensive form of distribution and accounted for 85.9% of our scheduled service revenue during 2006 and 87.2% of our scheduled service revenue during the first six months of 2007. We believe our percentage of direct website sales is among the highest in the U.S. airline industry.

Growing Ancillary Revenues. Ancillary revenues are earned in conjunction with our sale of scheduled air service and represent a significant, growing revenue stream. On a per scheduled service passenger basis, our ancillary revenues increased from $5.87 per scheduled service passenger in 2004, to $11.55 in 2005 and increased further to $16.11 in 2006 and $20.02 in the first six months of 2007. Ancillary revenue is derived from the sale of vacation packages including hotels, rental cars, show tickets, night club packages and other attractions; the sale of advance seat assignments; the sale of beverages, snacks and other products on board the aircraft; charging a fee for using our reservation center or website to purchase air travel; the collection of checked bag and overweight bag charges; and several other revenue streams. The largest component of our ancillary revenue is from the sale of hotel rooms packaged with air travel. As of August 15, 2007, we have agreements with 40 hotels in Las Vegas, including hotels managed by MGM MIRAGE, Harrah s Entertainment Inc., Boyd s Gaming Corp., Wynn Resorts, Limited, and Las Vegas Sands Corp., 41 hotels in Orlando (plus 17 additional hotels in nearby Daytona Beach, Florida), 12 hotels in Tampa/St. Petersburg and eight hotels in Palm Springs, Califorinia. We have also recently begun to sell rooms at six hotels in Gulfport-Biloxi serving passengers from Florida and eight hotels in Reno serving passengers from Bellingham. In anticipation of our commencement of service, we have agreements with six hotels in the Ft. Lauderdale, Florida area and 18 hotels in the Phoenix-Mesa, Arizona area. During 2006, we generated revenue from the sale of more than 344,000 hotel room nights.

Strong Financial Position. We have a strong financial position with significant cash balances. As of June 30, 2007, we had $185.8 million of cash and cash equivalents, total debt of $65.0 million and a debt to total capitalization ratio of 24.8%. We also have a history of growing profitably, having generated net income in 15 of the last 18 quarters. We believe our strong financial position allows us to have greater financial flexibility to grow the business and weather sudden industry disruptions.

Proven Management Team. We have a strong management team comprised of experienced and motivated individuals. Our management team is led by Maurice J. Gallagher, Jr., who has an extensive background in the airline industry. Mr. Gallagher was the president of WestAir Holdings, Inc. and built WestAir into one of the largest regional airlines in the U.S., prior to its sale in 1992 to Mesa Air Group. He was also one of the founders of ValuJet, Inc., known today as AirTran Holdings, Inc., which we believe was one of the most successful start-ups of a low-cost carrier in industry history. Three of our other executive officers are former managers of ValuJet or WestAir. Our directors also have significant experience in the airline industry and were intimately involved in several airline successes. These include Robert L. Priddy, a founder and former chairman and chief executive officer of ValuJet, Inc.

Our Business Strategy

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

The following are the key elements of our strategy:

Capitalize on Significant Growth Opportunities in Linking Small Cities to Leisure Destinations. We believe small cities represent a large untapped market, especially for leisure travel. We believe small city travelers have limited options to world-class leisure destinations as existing carriers are generally focused on connecting small city spokes to their business hubs. We aim to become the premier travel brand for leisure travelers in small cities. We have identified at least 45 additional small cities in the U.S. and Canada where we could potentially offer our low fare nonstop service to our current and announced leisure destinations. We also believe there are several other world-class leisure destinations we could serve that share many of the same characteristics as our current and announced leisure destinations. These potential markets include several popular vacation destinations in the U.S., Mexico and the Caribbean.

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

- *Unbundling the Traditional Airline Product.* We believe most leisure travelers are concerned primarily with purchasing air travel for the least expensive price and do not value many of the amenities provided by most other airlines for free. As such, we have created new sources of revenue by charging fees for services most U.S. airlines currently bundle in their product offering. We believe by offering a simple base product at an attractive low fare we can drive demand and generate incremental revenue as customers pay additional amounts for conveniences they value. We aim to continue to create new revenue sources by further unbundling our product.

- *Expand and Add Partnerships with Premier Leisure Companies.* We currently work with many premier leisure companies in our leisure destination markets that provide ancillary products and services we sell to our customers. By expanding our existing relationships and seeking additional partnerships with premier leisure companies, we believe we can increase the number of products and services offered to our customers and generate more ancillary revenue.

- *Leverage Direct Relationships With Our Customers.* Since approximately 85.9% of our scheduled service revenue was purchased directly through our website in 2006, we are able to establish direct relationships with our customers by capturing their email addresses for our database. This information provides us multiple opportunities to market products and services, including: at the time they purchase their travel, between the time they purchase and initiate their travel, and after they have completed their travel. In addition, we market products and services to our customers during the flight. We believe the breadth of options we can offer them allows us to provide a one-stop shopping solution.

Continue to Reduce Our Operating Costs. We intend to continue to focus on lowering our costs to remain one of the lowest cost airlines in the world, which we believe is instrumental to increasing profitability. We will drive operational efficiency and lower costs principally by growing our network. We will expand our network by increasing the frequency of our flights in existing markets, expanding the number of small cities we serve, and serving additional world-class leisure destinations, all of which permits us to increase the utilization of our employees and assets, spreading our fixed costs over a larger number of available seat miles. In 2005, we averaged 184.7 block hours per aircraft per month while during 2006, we averaged 202.5 block hours per aircraft per month.

Minimize Fixed Costs to Increase Strategic Flexibility. We believe our low aircraft ownership costs and the lower fixed costs associated with our small city market strategy provide us with a lower level of fixed costs than other U.S. airlines. We believe minimizing our level of fixed costs will provide us with added flexibility in scheduling our services and controlling our profitability. For example, with lower fixed costs we are better able to enter or exit markets as well as match the size and utilization of our fleet to limit unprofitable flying and maximize profitability. We match our frequency with the market demand on a daily and seasonal basis.

Our principal executive offices are located at 3301 N. Buffalo Drive, Suite B-9 Las Vegas, Nevada 89129. Our telephone number is (702) 851-7300. Our website s address is http://www.allegiantair.com. We have not incorporated by reference into this prospectus the information on our website and you should not consider it to be a part of this document. Our website address is included in this document for reference only.

Allegiant Travel Company, Allegiant Air and Allegiant Vacations are service marks of Allegiant Travel Company in the U.S. This prospectus also contains trademarks and tradenames of other companies.

The Offering

Common stock offered by us	None
Common stock offered by selling stockholders	1,750,000 shares
Shares outstanding before and after the offering	20,739,740 shares
Use of proceeds	We are not selling any shares of common stock under this prospectus and will not receive any of the proceeds from the sale of common stock by the selling stockholders.
Risk Factors	See Risk Factors and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.
Nasdaq Global Market Symbol	ALGT

The number of shares outstanding before and after this offering:

- excludes 213,667 shares of common stock reserved for issuance upon exercise of outstanding stock options at a weighted average exercise price of $5.59 per share; and

- excludes 162,500 shares of common stock subject to issuance upon exercise of outstanding warrants at an exercise price of $4.40 per share;

Certain of our existing stockholders sold 1,750,000 shares of our common stock to PAR Investment Partners, L.P. (PAR) on December 13, 2006, simultaneously with the closing of our initial public offering. We agreed to register the shares purchased by PAR for resale. This prospectus relates to shares of our common stock being offered solely by PAR. The manner in which the shares of common stock will be offered from time to time by the selling stockholder is discussed under Plan of Distribution.

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below before making an investment decision. The risks described below are not the only ones facing our company. Additional risks not presently known to us or that we currently deem immaterial may also impair our business and operations. 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 you may lose all or part of your investment.

Risks Related to Allegiant

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

Fuel costs constitute a significant portion of our total operating expenses (46.0% during 2006). Significant increases in fuel costs would harm our financial condition and results of operations.

Our MD80 series aircraft are less fuel efficient than new aircraft. An increase in the price of aircraft fuel would therefore result in a disproportionately higher increase in our average total costs than our competitors using more fuel efficient aircraft.

Historically, fuel costs have been subject to wide price fluctuations. Aircraft fuel availability is also subject to periods of market surplus and shortage and is affected by demand for heating oil, gasoline and other petroleum products. Because of the effect of these events on the price and availability of aircraft fuel, the cost and future availability of fuel cannot be predicted with any degree of certainty. A fuel supply shortage or higher fuel prices could result in the curtailment of our service. Some of our competitors may be better positioned to obtain fuel in the event of a shortage. We cannot assure you increases in the price of fuel can be offset by higher revenue.

In addition, although we implemented a fuel derivatives program to partially protect against fuel price volatility, our hedging program does not protect us against ordinary course price increases and is limited in fuel volume and duration. We cannot assure you our fuel hedging program is sufficient to protect us against increases in the price of fuel.

We carry limited fuel inventory and we rely heavily on our fuel suppliers. We cannot assure you we will always have access to adequate supplies of fuel in the event of shortages or other disruptions in the fuel supply. In May 2007, we were notified by our fuel supplier in Las Vegas that they would limit fuel purchases of all airlines supplied by them in that market. This resulted in a reduction of our fuel supply by approximately 21% of our usage from this supplier. Although this restriction expired in June 2007, we do not know whether further cuts may be imposed at a later time. Restrictions like this one could result in a higher fuel cost or could restrict our ability to grow our operations.

If our credit card processing company were to require significant holdbacks for processing credit card transactions for the purchase of air travel and other services, our cash flow would be adversely affected.

Credit card companies frequently require significant holdbacks when future air travel and other future services are purchased through credit card transactions. We rely on a single credit card processing company at this time, and our agreement is terminable on 30 days notice. As virtually all of our scheduled service and ancillary revenue is paid with credit cards and our credit card processing agreement does not require a significant holdback, our cash flow would suffer in the event the terms of our current agreement were changed or terminated. Although we believe that we would be able to secure a replacement credit card processing agreement if our current agreement is terminated, the terms of any new agreement may not be as favorable to us. These cash flow issues could be exacerbated during periods of rapid growth as we would be incurring additional costs associated with our growth, but our receipt of these revenues would be delayed.

Our failure to successfully implement our growth strategy and generate demand for our services could harm our business.

Successfully implementing our growth strategy is critical for our business to achieve economies of scale and to sustain or increase our profitability. Increasing the number of small city markets we serve depends on our ability to identify and effectively evaluate new target markets and then access suitable airports located in these markets in a manner consistent with our cost strategy.

Most of our scheduled air service is sold to customers traveling from our small city markets to our leisure destinations of Las Vegas, Orlando, Tampa/St. Petersburg, Ft. Lauderdale or Phoenix-Mesa. While we seek to generate demand for our services in these markets, the smaller size of these markets makes it more difficult to create this demand. If we are unable to do so in a particular market, our revenues could be negatively affected and our ability to grow could be constrained. Under those circumstances, we may decide to reduce or terminate service to that market, which could result in additional costs.

We will also need to obtain additional gates in our leisure destination markets, and obtain access to markets we seek to serve in the future. Any condition that would deny, limit or delay our access to airports we seek to serve in the future would constrain our ability to grow. Opening new markets may require us to commit a substantial amount of resources, even before the new services commence, including additional skilled personnel, equipment and facilities. An inability to hire and retain skilled personnel or to secure the required equipment and facilities efficiently and cost-effectively may affect our ability to implement our growth strategy. We cannot assure you we will be able to successfully establish new markets and our failure to do so could harm our business.

In fourth quarter 2007, we will add Ft. Lauderdale and Phoenix-Mesa as new leisure destinations. As we do not have any historical data on the performance of these markets as our leisure destinations, we may not be able to profitably operate these routes.

We expect to serve other leisure destinations, in addition to Las Vegas, Orlando, Tampa/St. Petersburg, Ft. Lauderdale and Phoenix-Mesa, which we believe are attractive to small city markets. However, if we fail to successfully implement service to additional leisure destinations, our growth prospects will be limited and our profitability could be adversely impacted.

Expansion of our markets and services may also strain our existing management resources and operational, financial and management information systems to the point they may no longer be adequate to support our operations, requiring us to make significant expenditures in these areas. We expect we will need to develop further financial, operational and management controls, reporting systems and procedures to accommodate future growth. We cannot assure you we will be able to develop these controls, systems or procedures on a timely basis and the failure to do so could harm our business.

Additionally, we are subject to regulation by the Federal Aviation Administration (FAA) and must receive its approval to add aircraft to our operating certificate. If the FAA does not grant us approval to add aircraft to our fleet as quickly as we desire, our growth may be limited and our profitability could be adversely impacted.

Any inability to acquire and maintain additional compatible aircraft, engines or parts on favorable terms or at all would increase our operating costs and could harm our profitability.

Our fleet currently consists of MD80 series aircraft equipped with Pratt & Whitney JT8D-200 series engines. Although our management believes there is currently an adequate supply of suitable MD80 series aircraft available at favorable prices and terms, we are unable to predict how long these conditions will continue. Any increase in demand for the MD80 aircraft or the Pratt & Whitney JT8D-200 series engine could restrict our ability to obtain additional MD80 aircraft, engines and spare parts. Because the aircraft and the engine are no longer being manufactured, we may be unable to obtain additional suitable aircraft, engines or spare parts on satisfactory terms or at the time needed for our operations or for our implementation of our growth plan.

In April 2006, the FAA indicated it intends to issue regulations limiting the age of aircraft that may be flown in the U.S. The announcement did not indicate the maximum age that would be allowed, the effective date of the regulation or any grandfathering provisions. These regulations, if and when implemented, may have a material effect on our future operations.

We cannot assure you we will be able to purchase additional MD80s on favorable terms, or at all. Instead, we may be required to lease MD80s from current owners. Because, in our experience, the cost of leasing generally exceeds the ownership costs associated with the purchase of the MD80, our operating costs would increase if we are required to lease, instead of purchase, additional MD80 aircraft, and this could harm our profitability.

If the available MD80 series aircraft, whether by purchase or lease, are not compatible with the rest of our fleet in terms of takeoff weight, avionics, engine type or other factors, the costs of operating and maintaining our fleet would likely increase. Similarly, our aircraft ownership costs will likely increase if we decide to acquire aircraft which are not MD80 series aircraft.

There is also a greater risk with acquiring used aircraft because we may incur additional costs to remedy any mechanical issues not found in our inspection and acceptance process and, generally, the cost to maintain used aircraft exceeds the cost to maintain new aircraft.

Any inability to obtain financing for additional aircraft could harm our growth plan.

We typically finance our aircraft through either mortgage debt or lease financing. Although we believe debt and/or lease financing will be available for the aircraft we will acquire, we cannot assure you 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.

Aircraft lenders often require that they receive the benefit of Section 1110 protection under the U.S. Bankruptcy Code. It is more difficult to provide lenders Section 1110 protection for aircraft manufactured before 1994. Most MD80s, and almost all of our MD80s, were manufactured before 1994. As a result, we may face difficulty obtaining financing for aircraft transactions.

Our maintenance costs will increase as our fleet ages.

Our aircraft range from 11 to 21 years old, with an average age of 17 years as of August 15, 2007. Our aircraft are significantly older than the U.S. industry average. In general, the cost to maintain aircraft increases as they age and exceeds the cost to maintain new aircraft. FAA regulations require additional maintenance inspections for older aircraft. For example, a repair assessment program must be implemented for each of our aircraft once they reach 60,000 cycles. A cycle is defined as one take-off and landing. As of August 15, 2007, the average cycles on our fleet was approximately 27,000 cycles and the highest number of cycles on any of our aircraft was approximately 44,000. Based on our current and expected aircraft utilization rates of approximately 1,000 cycles per year, we will not have to comply with the repair assessment program for several years. We will also need to comply with other programs which require enhanced inspections of aircraft including Aging Aircraft Airworthiness Directives, which typically increase as an aircraft ages and vary by aircraft or engine type depending on the unique characteristics of each aircraft and/or engine.

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

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

We may be subject to unionization, work stoppages, slowdowns or increased labor costs.

Unlike most airlines, we have a non-union workforce. If our employees unionize, it could result in demands that may increase our operating expenses and adversely affect our profitability. Our pilots have formed an in-house pilot association. Our flight attendants are in the process of also forming an in-house association to negotiate matters of concern with us. Although we have negotiated a mutually acceptable arrangement with our pilots, our costs could be adversely affected by the cumulative results of discussions with employee groups in the future.

Each of our different employee groups could unionize at any time and would require separate collective bargaining agreements. If any group of our employees were to unionize and we were unable to agree on the terms of their collective bargaining agreement or we were to experience widespread employee dissatisfaction, we could be subject to work slowdowns or stoppages. In addition, we may be subject to disruptions by organized labor groups protesting our non-union status. Any of these events would be disruptive to our operations, could harm our business, and therefore have an adverse effect on our future results.

Our reputation and financial results could be harmed in the event of an accident or incident involving our aircraft or other MD80 aircraft.

An accident or incident involving one of our aircraft could involve repair or replacement of a damaged aircraft and its consequential temporary or permanent loss from service, and significant potential claims of injured passengers and others. Although we believe we currently maintain liability insurance in amounts and of the type generally consistent with industry practice, the amount of such coverage may not be adequate and we may be forced to bear substantial losses from an accident. Substantial claims resulting from an accident in excess of our related insurance coverage would harm our business and financial results. Moreover, any aircraft accident or incident, even if fully insured, could cause a public perception that we are less safe or reliable than other airlines, which would harm our business. Because we are a relatively new company and because we are smaller than most airlines, an accident would be likely to adversely affect us to a greater degree than a larger, more established airline.

In March 2007, the nose landing gear failed to deploy on a flight to Orlando Sanford International Airport. The aircraft landed safely with only minor injuries to ten passengers. Although the FAA and National Transportation Safety Board (NTSB) have conducted their usual investigation, they have yet to release their final report. The damage to the aircraft was covered by our insurance, but we were responsible for the $250,000 deductible. The aircraft was out of service for two months.

Additionally, our dependence on this single type of aircraft and engine for all of our flights makes us particularly vulnerable to any problems that might be associated with this aircraft type or these engines. Our business would be significantly harmed if a mechanical problem with the MD80 series aircraft or the Pratt & Whitney JT8D-200 series engine were discovered causing our aircraft to be grounded while any such problem is being corrected, assuming it could be corrected at all. The FAA could also suspend or restrict the use of our aircraft in the event of any actual or perceived mechanical problems, whether involving our aircraft or another U.S. or foreign airline s aircraft, while it conducts its own investigation. Our business would also be significantly harmed if the public avoids flying our aircraft due to an adverse perception of the MD80 series aircraft or the Pratt & Whitney JT8D-200 series engine because of safety concerns or other problems, whether real or perceived, or in the event of an accident involving an MD80 aircraft.

We depend on our ability to maintain existing and develop new relationships with hotels and other providers of travel related services. Any adverse changes in these relationships could adversely affect our business, financial condition and results of operations, as well as our ability to provide air-hotel packages in our leisure destination markets.

An important component of our business success depends on our ability to maintain our existing, as well as build new, relationships with hotels and other travel suppliers in our leisure destination markets. We do not currently have long-term contracts with any of our hotel room suppliers, nor do we anticipate entering into long-term contracts with them in the future. Adverse changes in or the failure to renew existing relationships, or our inability to enter into arrangements with new hotel suppliers on favorable terms, if at all, could reduce the amount, quality and breadth of attractively priced travel products and services we are able to offer, which could adversely affect our business, financial condition and results of operations. Our ability to continue to grow and enter new markets also depends on our ability to obtain a sufficient supply of suitable hotel rooms on favorable terms in our existing and new leisure destinations.

Hotels and other travel suppliers are increasingly seeking to lower their distribution costs by promoting direct online bookings through their own websites, and we expect this trend to continue. Hotels and travel suppliers may choose not to make their travel products and services available through our distribution channels. To the extent consumers increase the percentage of their travel purchases through supplier direct websites and/or if travel suppliers choose not to make their products and services available to us, our business may suffer.

We have a significant amount of fixed obligations and we expect to incur significantly more fixed obligations which could hurt our ability to meet our strategic goals.

As of June 30, 2007, maturities of our long-term debt (including capital leases) were $10.1 million in 2007, $18.3 million in 2008, $19.8 million in 2009, $16.0 million in 2010 and $13.1 million in 2011. All of our long-term and short-term debt has fixed interest rates. In addition to long-term debt, we have a significant amount of other fixed obligations under operating leases related to our aircraft, airport terminal space, other airport facilities and office space. As of June 30, 2007, future minimum lease payments under noncancelable operating leases with initial or remaining terms in excess of one year were approximately $1.2 million in 2007, $2.3 million in 2008, $2.3 million in 2009, $1.8 million in 2010, $1.8 million in 2011 and $12.3 million thereafter. We expect to incur additional debt and other fixed obligations as we take delivery of additional aircraft and other equipment and continue to expand into new markets.

The amount of our debt and other fixed obligations could:

- limit our ability to obtain additional financing to support capital expansion plans and for working capital and other purposes;
- divert substantial cash flow from our operations and expansion plans to service our fixed obligations;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete; and
- place us at a possible competitive disadvantage compared to less leveraged competitors and competitors with better access to capital resources.

Our ability to make scheduled payments on our debt and other fixed obligations will depend upon our future operating performance and cash flow, which in turn will depend upon prevailing economic and political conditions and financial, competitive, regulatory, business and other factors, many of which are beyond our control. We cannot assure you we will be able to generate sufficient cash flow from our operations to pay our debt and other fixed obligations as they become due, and our failure to do so could harm our business. If we are unable to make payments on our debt and other fixed obligations, we could be forced to renegotiate those obligations or obtain additional equity or debt financing. To the extent we finance our activities or future aircraft acquisitions with additional debt, we may become subject to financial and other covenants that may restrict our ability to pursue our growth strategy. We cannot assure you any renegotiation efforts would be successful or timely or that we could refinance our obligations on acceptable terms, if at all.

Our lack of an established line of credit or borrowing facility makes us highly dependent upon our cash balances and operating cash flows.

We have no lines of credit and rely on operating cash flows to provide working capital. Unless we secure a line of credit or borrowing facility, we will be dependent upon our operating cash flows and cash balances to fund our operations and to make scheduled payments on our debt and other fixed obligations. If we fail to generate sufficient funds from operations to meet these cash requirements or do not secure a line of credit, other borrowing facility or equity financing, we could default on our debt and other fixed obligations. Our inability to meet our obligations as they become due would materially restrict our ability to grow and seriously harm our business and financial results.

Our business is heavily dependent on the attractiveness of our leisure destinations and a reduction in demand for air travel to these markets would harm our business.

Almost all of our scheduled flights and announced service have Las Vegas, Orlando, Tampa/St. Petersburg, Ft. Lauderdale or Phoenix-Mesa as either their destination or origin. Our business would be harmed by any circumstances causing a reduction in demand for air transportation to these markets, such as adverse changes in local economic conditions, negative public perception of the particular city, significant price increases, or the impact of past or future terrorist attacks.

We serve Orlando Sanford International Airport, which is not the principal airport in the Orlando market. A refusal by passengers to view Orlando Sanford International Airport as a reasonable alternative to Orlando International Airport, the main airport serving Orlando, could harm our business.

We serve St. Petersburg-Clearwater International Airport, which is not the principal airport in the Tampa Bay market. A refusal by passengers to view the St. Petersburg-Clearwater International Airport as a reasonable alternative to Tampa International Airport, the main airport serving the Tampa Bay area, could harm our business.

In the Phoenix-Mesa market, we will serve Williams Gateway Airport, which is not the principal airport in this market. A refusal by passengers to view Williams Gateway Airport as a reasonable alternative to Phoenix Sky Harbor International Airport, the main airport serving the Phoenix area, could harm our business.

We may face increased competition in our markets which could harm our business.

The small 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 markets, we are the only provider of nonstop service to our leisure destinations. It is possible other airlines will begin to provide nonstop services to and from these markets or otherwise target these markets. An increase in the amount of direct or indirect competition could harm our business.

We may be unable to renew our lease or increase our facilities at Las Vegas McCarran International Airport.

McCarran International Airport was the 11th busiest airport in the world in 2006 and its gate space, terminal space, aircraft parking space and facilities in general are constrained. To meet our growth plan, we will require additional facilities at McCarran. However, we may not be able to maintain sufficient or obtain additional facilities at McCarran on favorable terms, or at all. In addition, our present agreement can be terminated at any time upon 30 days notice. Since Las Vegas is one of our principal destinations, our inability to maintain sufficient facilities or to obtain additional facilities as needed would harm our business by limiting our ability to grow and increasing our costs.

We also currently rely on the availability of overnight aircraft parking space at McCarran. However, due to anticipated airport growth, we may find it difficult to obtain sufficient overnight aircraft parking space in the future. Over time, this may result in our having to overnight aircraft in other cities, which could increase our costs and could adversely impact our business and results of operations.

We may be unable to renew our lease or increase our facilities at Fort Lauderdale-Hollywood International Airport.

There is a shortage of capacity at commercial airports in South Florida, including Fort Lauderdale-Hollywood International Airport, where gate space, terminal space, airport parking space and facilities in general are constrained. To grow our service at the Ft. Lauderdale airport, we will require additional facilities. However, we may not be able to maintain sufficient or obtain additional facilities at Ft. Lauderdale on favorable terms, or at all. In addition, our present agreement can be terminated at any time upon 30 days notice. Since Ft. Lauderdale is one of our announced leisure destinations, our inability to maintain sufficient facilities or to obtain additional facilities as needed would harm our business by limiting our ability to grow and increasing our costs. We will also rely on the availability of overnight aircraft parking space at Ft. Lauderdale. However, due to anticipated airport growth, we may find it difficult to obtain sufficient overnight aircraft parking space. Over time, this may result in our having to overnight aircraft in other cities, which could increase our costs and could adversely impact our business and results of operations.

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., and a small number of management and operating personnel. We do not currently have an employment agreement with or maintain key-man life insurance on Mr. Gallagher. 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.

Our results of operations will fluctuate.

We expect our quarterly operating results to fluctuate in the future based on a variety of factors, including:

- the timing and success of our growth plans as we enter new markets;
- changes in fuel, security and insurance costs;
- mark-to-market adjustments attributable to our fuel hedging transactions;
- increases in personnel, marketing, aircraft ownership and other operating expenses to support our anticipated growth; and
- the timing and amount of maintenance expenditures.

In addition, seasonal variations in traffic, the timing of significant repair events and weather affect our operating results from quarter to quarter. Quarter-to-quarter comparisons of our operating results may not be good indicators of our future performance. In addition, it is possible our operating results in any future quarter could be below the expectations of investors and any published reports or analyses regarding Allegiant. In that event, the price of our common stock could decline, perhaps substantially.

Due to our limited fleet size, if any of our aircraft becomes unavailable, we may suffer greater damage to our service, reputation and profitability than airlines with larger fleets.

As of August 15, 2007, we operate a fleet of 29 aircraft. Given the limited number of aircraft we operate, if an aircraft becomes unavailable due to unscheduled maintenance, repairs or other reasons, we could suffer greater adverse financial and reputational impacts than larger airlines if our flights are delayed or cancelled due to the absence of replacement aircraft. Our business strategy involves concentrating our aircraft overnight at our destination airports. If we are unable to operate those aircraft for a prolonged period of time for reasons outside of our control, for example, a catastrophic event or a terrorist act, our results of operations and business could be disproportionately harmed.

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

We depend on automated systems to operate our business, including our computerized airline reservation system, our telecommunication systems, our website and other automated systems. We rely on a single vendor to support many of these systems and it would be difficult to readily replace this vendor on whom we have relied since our inception. A failure of this vendor to satisfactorily service our automation needs could negatively affect our Internet sales and customer service and result in increased costs.

Unlike many other airlines, which issue traditional paper tickets to some or all of their passengers, we issue only electronic tickets. Our website and reservation system must be able to accommodate a high volume of traffic and deliver important flight information. Substantial or repeated website, reservations system or telecommunication systems failures or a failure by our vendor could reduce the attractiveness of our services. Any disruption in these systems could result in the loss of important data, increase our expenses and generally harm our business.

Currently, our fixed fee flying business is substantially dependent on a single customer and the loss of this business could have a material adverse effect on our continuing fixed fee contract revenue.

During 2006, approximately 58.9% of our fixed fee contract revenue was derived from Harrah s Entertainment Inc. We provide these services under contracts which expire in December 2008. If Harrah s suffers a decline in business, decides to change its strategy or otherwise decides to reduce or terminate the fixed fee flying services provided by us, our revenues from fixed fee flying operations could be adversely affected.

If we are unable to attract and retain qualified personnel at reasonable costs or fail to maintain our company culture, our business could be harmed.

Our business is labor intensive, with labor costs representing 15.8% of our operating expenses during 2006. We expect wages and benefits to increase on a gross basis; these costs could also increase as a percentage of our overall costs, which could harm our business. Our expansion plans will require us to hire, train and retain a significant number of new employees in the future. From time to time, the airline industry has experienced a shortage of personnel licensed by the FAA, especially pilots and mechanics. We compete against other U.S. airlines for labor in these highly skilled positions. Many U.S. airlines offer wage and benefit packages that exceed our wage and benefit packages. As a result, in the future, we may have to significantly increase wages and benefits in order to attract and retain qualified personnel or risk considerable employee turnover. If we are unable to hire, train and retain qualified employees at a reasonable cost, we may be unable to complete our expansion plans and our business could be harmed.

In addition, as we hire more people and grow, we believe it may be increasingly challenging to continue to hire people who will maintain our company culture. One of our principal competitive strengths is our service-oriented company culture that emphasizes friendly, helpful, team-oriented and customer-focused employees. Our company culture is important to providing high quality customer service and having a highly productive workforce that helps keep our costs low. As we grow, we may be unable to identify, hire or retain enough people who meet the above criteria, and our company culture could otherwise be adversely affected by our growing operations and geographic diversity. If we fail to maintain the strength of our company culture, our competitive ability and business may be harmed.

We rely on third parties to provide us with facilities and services that are integral to our business and can be withdrawn on short notice.

We have entered into agreements with numerous third-party contractors, including other airlines, to provide certain facilities and services required for our operations, such as aircraft maintenance, ground handling, flight dispatch, baggage services and ticket counter space. We will likely need to enter into similar agreements in any new markets we decide to serve. All of these agreements are subject to termination upon short notice. Although we believe there are alternative service providers available to perform these services for us in the event of a contract termination or failure by a service provider, the loss or expiration of these contracts, the loss of FAA certification by our outside maintenance providers or any inability to renew our contracts or negotiate contracts with other providers at comparable rates could harm our business. Our reliance on others to provide essential services on our behalf also gives us less control over costs and the efficiency, timeliness and quality of contract services. In 2006, failures by our flight dispatch vendor significantly delayed all of our flights on a particular day. Although we seek to have redundant processes in place to protect against such failures, we remain subject to the performance by our outside vendors.

Imposition of additional sales and hotel occupancy and other related taxes may increase our expenses.

Currently, hotels collect and remit hotel occupancy and related taxes to the various tax authorities based on the amounts collected by the hotels. Consistent with this practice, we recover the taxes on the underlying cost of the hotel room night from customers and remit the taxes to the hotel operators for payment to the appropriate tax authorities. We understand some jurisdictions have indicated to the public that they may take the position that sales or hotel occupancy tax may also be applicable to the differential between the price paid by a customer for our service and the cost to us for the underlying room. Historically, we have not collected taxes on this differential. Some state and local jurisdictions could assert we are subject to hotel occupancy taxes on this differential and could seek to collect such taxes, either retroactively or prospectively or both. Such actions may result in substantial liabilities for past sales and could have a material adverse effect on our business and results of operations. To the extent any tax authority succeeds in asserting such a tax collection responsibility exists, it is likely, with respect to future transactions, we would collect any such additional tax obligation from our customers, which would increase the price of hotel room nights we charge our customers and, consequently, could reduce hotel sales and our profitability. We will continue to assess the risks of the potential financial impact of additional tax exposure, and to the extent appropriate, reserve for those estimates of liabilities.

We employ a non-traditional distribution system, which could negatively affect our ability to sell our services.

We employ a computerized airline reservation system designed to meet our specifications. Under this system, we do not issue paper airline tickets. Furthermore, we do not participate in the global airline reservation systems such as Sabre or Worldspan, nor can travel on us be purchased through Expedia, Travelocity, or similar air travel services. The inability to make reservations for travel on us through the global reservation systems or travel websites may harm our competitive position. Alternatively, if we decide to later participate in the global reservation systems or travel websites, we would be forced to pay fees charged by these systems or websites. As a result, our costs would increase and this may adversely affect our business and results of operations.

Our processing, storage, use and disclosure of personal data could give rise to liabilities as a result of governmental regulation, conflicting legal requirements or differing views of personal privacy rights.

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

The Internet as a medium for commerce is subject to uncertainty.

Consumer use of the Internet as a medium for commerce is subject to uncertainty. While the number of Internet users has been rising, the Internet infrastructure may not expand fast enough to meet the increased levels of demand. In addition, activities that diminish the experience for Internet users, such as spyware, spoof emails, viruses and spam directed at Internet users, as well as viruses and denial of service attacks directed at Internet companies and service providers, may discourage people from using the Internet, including for commerce. If consumer use diminishes or grows at a slower rate, then our business and results of operations could be adversely affected.

Our lack of a marketing alliance and frequent flyer program could harm our business and competitive position.

Many airlines have marketing alliances with other airlines, under which they market and advertise their status as marketing alliance partners. Among other things, they share the use of two-letter flight designator codes to identify their flights and fares in the computerized reservation systems, and permit reciprocity in their frequent flyer programs. Our business and competitive ability could be harmed since we are not a member of any marketing alliance. In addition, our lack of a frequent flyer program could harm our business and competitive position.

Our management may exert considerable influence over us as long as they own or control a significant percentage of our common stock, and they may make decisions with which you disagree.

The members of our board of directors and our executive officers own beneficially approximately 35.3% of the outstanding shares of our common stock. As a result, our management will be able to exert considerable control over all matters affecting us, including the election of directors as long as they continue to own or control such a significant percentage of our common stock. They may make decisions you and other stockholders will not be able to affect by voting your shares.

The historical consolidated financial information in this prospectus does not reflect the added costs and internal control reporting standards we expect to incur or will be required to comply with as a public company or the resulting changes that will occur in our capital structure and operations.

We face increased legal, accounting, administrative and other expenses as a public company we did not incur as a private company. The Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act), as well as new rules subsequently implemented by the Securities and Exchange Commission (SEC or the

Commission), the Public Company Accounting Oversight Board (PCAOB) and the Nasdaq Global Market, require changes in the corporate governance practices of public companies. We expect these new rules and regulations to result in both a significant initial cost, as we initiate certain internal controls and other procedures designed to comply with the requirements of the Sarbanes-Oxley Act, and an ongoing increase in our legal, audit and financial compliance costs. Compliance will also divert management attention from operations and strategic opportunities and will make legal, accounting and administrative activities more time-consuming and costly. We also expect to incur substantially higher costs to maintain directors and officers insurance. We currently anticipate increased annual costs following our initial public offering and we expect to incur additional costs during 2007 in implementing and verifying internal control procedures as required by Section 404 of the Sarbanes-Oxley Act, and the rules and regulations thereunder, and in connection with preparing our financial statements on a timely basis to meet the SEC s reporting requirements.

We are required to furnish a report by our management on our internal control over financial reporting. This report will contain, among other matters, an assessment of the effectiveness of our internal controls over financial reporting as of the end of each fiscal year, including a statement as to whether or not our internal controls over financial reporting are effective. Any failure to implement and maintain effective controls over our financial reporting, or difficulties encountered in the implementation of these controls, could result in a material misstatement to the annual or interim financial statements that could cause us to fail to meet our reporting obligations under applicable securities laws. Any failure to maintain our internal controls could result in our incurring substantial liability for not having met our legal obligations and could also cause investors to lose confidence in our reported financial information, which could have a negative impact on the trading price of our stock. Similar adverse effects could result if our auditors express an adverse opinion or disclaim or qualify an opinion on the effectiveness of our internal control over financial reporting.

In addition, we are required under these new rules and regulations to attract and retain independent directors to serve on our board of directors and our audit committee, in particular. If we fail to retain independent directors, we may be subject to SEC enforcement proceedings and delisting by the Nasdaq Global Market.

Because we were a limited liability company prior to our transition to corporate form, we paid minimal taxes on profits. In preparing our consolidated financial information previously, we deducted and charged to earnings estimated statutory income taxes based on an estimated blended tax rate, which may be different from our actual tax rate in the future. The estimates we used in our consolidated financial information may not be similar to our actual experience as a public corporation.

We may be required to make substantial payments under certain indemnification agreements.

In connection with our initial public offering and conversion to corporate form, we have entered into agreements that provide for the indemnification of our members, managers, officers and certain other persons authorized to act on our behalf against certain losses that may arise out of our initial public offering or the reorganization transactions, and certain tax liabilities of our members that may arise in respect of periods when we operated as a limited liability company. We may be required to make substantial payments under these indemnification agreements, which could adversely affect our financial condition. For more information on our indemnification arrangements, see Related Party Transactions Reorganization Transactions and Related Party Transactions Tax Indemnification Agreement and Related Matters.

Failure to achieve and maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price, and could subject us to liability.

Section 404 of the Sarbanes-Oxley Act and the related rules of the Securities and Exchange Commission require our management to conduct annual assessments of the effectiveness of our internal control over financial reporting and will require a report by our independent registered public accounting firm addressing these assessments, beginning as early as our fiscal year ending December 31, 2007. During the course of documenting and testing our internal control procedures to satisfy the requirements of Section 404, we may identify deficiencies which we may not be able to remediate in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. In addition, if we fail to maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could harm our operating results and lead to a decline in our stock price. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the Nasdaq Global Market, regulatory investigations and civil or criminal sanctions.

Changing laws, rules and regulations, and legal uncertainties relating to the way we do business may adversely impact our business, financial condition and results of operations.

Unfavorable changes in existing, or the promulgation of new, laws, rules and regulations applicable to us, including those relating to the Internet and online commerce, consumer protection and privacy, and sales, use, occupancy, value-added and other taxes, could decrease demand for our products and services, increase our costs and/or subject us to additional liabilities, which could adversely impact our business. For example, there is, and will likely continue to be, an increasing number of laws and regulations pertaining to Internet and online commerce, which may relate to liability for information retrieved from or transmitted over the Internet, user privacy, taxation and the quality of products and services. Furthermore, the growth and development of online commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on online businesses generally.

In addition, the application of various sales, use, occupancy, value-added and other tax laws, rules and regulations to our products and services is subject to interpretation by the applicable taxing authorities. While we believe we are compliant with these tax provisions, we cannot assure you taxing authorities will not take a contrary position, or that such positions would not have an adverse effect on our business, financial condition and results of operations.

Risks Associated with the Airline and Travel Industry

The airline industry has incurred significant losses resulting in airline restructurings and bankruptcies, which could result in changes in our industry.

We believe airline traffic is particularly sensitive to changes in economic growth and expectations. In addition, the war in Iraq or other conflicts or events in the Middle East or elsewhere may impact the economy and result in an adverse impact on the airline business. In 2006, the U.S. airline industry was profitable (net of bankruptcy charges) for the first time since 2000. Substantial losses from 2001 through 2005 caused significant changes in the industry. Low fares and escalating fuel prices contributed to these losses. As a result, many airlines are renegotiating or attempting to renegotiate labor contracts, reconfiguring flight schedules, furloughing or terminating employees, as well as considering other efficiency and cost-cutting measures. Despite these actions, several airlines have sought reorganization under Chapter 11 of the U.S. Bankruptcy Code permitting them to reduce labor rates, restructure debt, terminate pension plans and generally reduce their cost structure. Additionally, other airlines have consolidated in an attempt to lower costs and rationalize their route structures in order to improve their results. It is foreseeable that further airline reorganizations, bankruptcies or consolidations may occur, the effects of which we are unable to predict. The occurrence of these events, or potential changes resulting from these events, may harm our business or the industry.

The airline industry is highly competitive, is characterized by low profit margins and high fixed costs, and we may be unable to compete effectively against other airlines with greater financial resources or lower operating costs.

The airline industry is characterized generally by low profit margins and high fixed costs, primarily for personnel, aircraft fuel, debt service and aircraft lease rentals. The expenses of an aircraft flight do not vary significantly with the number of passengers carried and, as a result, a relatively small change in the number of passengers or in pricing could have a disproportionate effect on an airline s operating and financial results. Accordingly, a minor shortfall in expected revenue levels could harm our business.

In addition, the airline industry is highly competitive and is particularly susceptible to price discounting because airlines incur only nominal costs to provide service to passengers occupying otherwise unsold seats. As of August 15, 2007, we face nonstop competition on only eight of our routes. However, competing airlines provide connecting service on many of our routes or serve nearby airports. In addition, we have faced other competing services in the past, and we cannot assure you other airlines will not begin to provide nonstop service in the future on the routes we serve. Many of these competing airlines are larger and have significantly greater financial resources and name recognition. We may, therefore, be unable to compete effectively against other airlines that introduce service or discounted fares in the markets we serve.

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 our travel services. These actions, or consequences resulting from these actions, would likely harm our business and the airline and travel industry.

Changes in government regulations imposing additional requirements and restrictions on our operations could increase our operating costs and result in service delays and disruptions.

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, including rules regarding assumed average passenger weight, that have required us to make significant expenditures. FAA requirements cover, among other things, retirement of older aircraft, security measures, collision avoidance systems, airborne windshear avoidance systems, noise abatement, weight and payload limits, and increased inspection and maintenance procedures to be conducted on aging aircraft.

We incur substantial costs in maintaining our current certifications and otherwise complying with the laws, rules and regulations to which we are subject. We cannot predict whether we will be able to comply with all present and future laws, rules, regulations and certification requirements or that the cost of continued compliance will not significantly increase our costs of doing business.

The FAA has the authority to issue mandatory orders relating to, among other things, the grounding of aircraft, inspection of aircraft, installation of new safety-related items and removal and replacement of aircraft parts that have failed or may fail in the future. A decision by the FAA to ground, or require time consuming inspections of or maintenance on, all or any of our MD80 series aircraft, for any reason, could negatively impact our results of operations. In addition to state and federal regulation, airports and municipalities enact rules and regulations that affect our operations.

Additional laws, regulations, taxes and airport rates and charges have been proposed from time to time that could significantly increase the cost of airline operations or reduce revenues. For example, the FAA has recently adopted regulations requiring airlines to monitor the compliance with drug testing standards of all mechanics and maintenance personnel, including those of third party vendors. In addition, as a result of the terrorist attacks in New York and Washington, D.C. in September 2001, the FAA and the Transportation Security Administration (TSA) have imposed more stringent security procedures on airlines. We cannot predict what other new regulations may be imposed on airlines and we cannot assure you these laws or regulations, or any laws or regulations enacted in the future, will not materially adversely affect our financial condition, results of operations.

Our ability to operate as an airline is dependent upon our maintaining certifications issued to us by the Department of Transportation (DOT) and the FAA. Federal law requires that air carriers operating large aircraft, such as our MD80 series aircraft, be continuously fit, willing and able to provide the services for which they are licensed. Our fitness is monitored by the DOT, which considers factors such as consumer-relations practices, legal and regulatory compliance disposition, financial resources and U.S. citizenship in making its determinations. While DOT has seldom revoked a carrier s certification for lack of fitness, such an occurrence would render it impossible for us to continue operating as an airline. Similarly, in a worst-case scenario, the FAA could restrict or suspend our ability to operate as an airline, and could do so on an emergency basis with little or no advance warning, in the event the FAA should consider our operations unsafe. While under such circumstances we would have a right to expedited judicial review of the legality of the FAA s actions, such a development would likely harm our business severely regardless of the outcome of such review.

In the event we elect in the future to expand our scheduled service offerings into international markets, we would be subject to increased regulation by U.S. and foreign aeronautical authorities as well as customs, immigration and other border-protection agencies. Additionally, there is no assurance we would be able to obtain the right to serve all routes we may wish to serve. These factors, alone or in combination, could materially adversely affect any international scheduled service we may choose to pursue in the future.

Airlines are often affected by factors beyond their control, including traffic congestion at airports, weather conditions, increased security measures or the outbreak of disease, 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, adverse weather conditions, increased security measures or 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 cancelled 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. An outbreak of a disease that affects travel behavior, such as severe acute respiratory syndrome (SARS) or avian flu, 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 could harm our business, financial condition and results of operations.

The airline and travel industry tends to experience adverse financial results during general economic downturns.

Since a substantial portion of airline travel, for both business and leisure, is discretionary, the airline and travel industries tend to experience adverse financial results during general economic downturns. Any general reduction in airline passenger traffic would likely harm our business.

Risks Related to Our Stock Price

There was no public market for our common stock prior to December 8, 2006, and our stock may experience extreme price and volume fluctuations.

As our common stock has been listed for less than a year, an active trading market in our common stock might not develop or continue. If a market does not develop or is not sustained, it may be difficult for you to sell your shares of common stock at a price that is attractive to you, or at all.

The market price of our common stock may be volatile, which could cause the value of your investment in Allegiant 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:

- announcements concerning our competitors, the airline industry or the economy in general;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- media reports and publications about the safety of our aircraft or the aircraft type we operate;
- new regulatory pronouncements and changes in regulatory guidelines;
- general and industry-specific economic conditions;
- changes in financial estimates or recommendations by securities analysts;
- sales of our common stock or other actions by investors with significant shareholdings; and
- 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. Any similar litigation against us 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, bylaws and option plans, 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; and
- the ability of our board of directors to issue up to 5,000,000 shares of preferred stock without a stockholder vote.

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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 more than 10% 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.

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% 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%). Any of these restrictions could have the effect of delaying or preventing a change in control.

In addition, options under our Long-Term Incentive Plan may have a special acceleration feature pursuant to which those options will vest in full in the event we are acquired. The accelerated vesting of our employee stock options may prove to be a deterrent to a potential acquisition of us because the acquiring company may have to implement additional retention programs to ensure the continued service of our employees, and the additional dilution that will result from the accelerated vesting of our outstanding employee stock options will likely reduce the amount otherwise payable to our stockholders in an acquisition. For a more complete discussion of our plans, see Management Employee Benefit Plans.

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% 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. See Business Government Regulation Foreign Ownership and Description of Capital Stock Anti-Takeover Effects of Certain Provisions of Nevada Law and Our Articles of Incorporation and Bylaws Limited Voting by Foreign Owners. 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.

Substantial sales of our common stock could cause our stock price to fall.

If our existing stockholders sell a large number of shares of our common stock or the public market perceives existing stockholders might sell shares of common stock, the market price of our common stock could decline significantly. All of our outstanding shares are either freely tradable, without restriction, in the public market or eligible for sale in the public market at various times, subject, in some cases, to volume limitations under Rule 144 of the Securities Act of 1933, as amended.

We cannot predict whether future sales of our common stock or the availability of our common stock for sale will adversely affect the market price for our common stock or our ability to raise capital by offering equity securities.

Registration of shares of our common stock subject to registration rights may depress the trading price of our stock.

We entered into an investors agreement with our existing preferred stockholders and PAR. The holders of approximately 4,000,000 shares of common stock are entitled to registration rights pursuant to the investors agreement with respect to their shares. The investors agreement provides, among other things, that holders of 25% of the securities with registration rights can require us, subject to certain limitations, to register with the Commission all or a portion of their shares of common stock. Additionally, these stockholders may also require us, subject to certain limitations, to include their shares in future registration statements we file. In accordance with our agreement with PAR, we have filed a shelf registration statement of which this prospectus is a part covering their 1,750,000 shares of common stock and we are to keep the registration statement in effect until no later than December 13, 2008. Upon any of these registrations, these shares would be freely tradable in the public market without restrictions. If these stockholders exercise these or other similar rights under the investors agreement to sell substantial amounts common stock in the public market, or if it is perceived that such exercise or sale could occur, the market price of our common stock may fall.

COMPANY HISTORY AND REORGANIZATION

Company History

We were founded in 1997 and initially operated as Allegiant Air, Inc. under a different business strategy with a different management team. Prior to our bankruptcy filing in December 2000, we were owned by a single individual. Although Maurice J. Gallagher, Jr. provided some financing to us, neither he nor any other members of our current management were actively involved in our business. Prior to 2001, the focus of our business was ad hoc charters and a more traditional scheduled service product catering to the business traveler with multiple flights a day. At that time, we used DC 9 aircraft with a two class configuration and served a small number of cities in the West.

This strategy was ultimately unsuccessful, and we filed for bankruptcy court protection in December 2000. A plan of reorganization was confirmed in June 2001. The key elements of the plan were: (i) debt held by Mr. Gallagher was restructured and Mr. Gallagher injected additional capital into our company; (ii) Mr. Gallagher became our majority owner; and (iii) a new management team was installed in June 2001. We emerged from bankruptcy in March 2002.

Allegiant Air, Inc. elected to be taxed as a subchapter S corporation. In May 2004, Allegiant Air, Inc. merged into Allegiant Air, LLC to change our entity type and state of organization. In May 2005, we created a holding company format under which Allegiant Travel Company, LLC was formed coincident with our issuance of preferred shares to outside investors.

In May 2005, we completed a private placement under which ComVest Allegiant Holdings, Inc., Viva Air Limited and Timothy P. Flynn invested $34.5 million in preferred shares of our limited liability company predecessor. Simultaneously, Maurice J. Gallagher, Jr., our chief executive officer, converted $5.0 million of debt owed to him into preferred shares. All of our current directors were selected by these shareholders. The representation of these shareholders on our board of directors and the ownership by these shareholders of approximately 31.5% of our stock will allow these shareholders to exert significant control over our business in the future.

On December 13, 2006, we completed the initial public offering of our common stock. We issued 5,750,000 shares at $18.00 per share resulting in net proceeds to us of approximately $94.5 million.

In May and June, 2007, we and certain of our stockholders completed a public offering of 4,542,500 shares of our common stock. We sold 748,214 shares at $31.75 per share resulting in net proceeds to us of approximately $22.3 million. The selling stockholders sold 3,794,286 shares in the offering at $31.75 per share.

Reorganization

Prior to the completion of our initial public offering in December 2006, we converted from a Nevada limited liability company to a Nevada corporation. In connection with the conversion, our common shares and preferred shares were exchanged for shares of our common stock, pursuant to the terms of a merger agreement between Allegiant Travel Company, LLC and us. The reorganization did not affect our operations, which we continue to conduct through our operating subsidiaries.

USE OF PROCEEDS

We are not selling any shares of common stock under this prospectus and will not receive any of the proceeds from the sale of common stock by the selling stockholder being offered pursuant to this prospectus, nor will any of the proceeds be available for our use or otherwise for our benefit. All proceeds from the sale of the shares will be for the accounts of the selling stockholder.

DIVIDEND POLICY

Other than distributions paid or to be paid to our owners to defray the income taxes payable by them with respect to our taxable income while we were a pass-through entity for income tax purposes, we have not declared or paid any dividends on our equity since our inception. We do not intend to pay any dividends on our common stock in the foreseeable future. We currently intend to retain our future earnings, if any, to finance the further expansion and continued growth of our business.

MARKET INFORMATION

Our common stock has been quoted on the Nasdaq Global Market since December 8, 2006. On August 28, 2007, the last sale price of our common stock was $29.67 per share. The following table sets forth the range of high and low sale prices for our common stock for the periods indicated.

	HIGH	LOW
December 8, 2006 December 31, 2006	$ 28.79	$ 24.00
First Quarter 2007	$ 36.51	$ 25.83
Second Quarter 2007	$ 35.65	$ 27.53
Third Quarter 2007 (through August 28, 2007)	$ 34.00	$28.80

As of August 15, 2007, there were fewer than 700 holders of record of our common stock. We believe that a substantially larger number of beneficial owners hold shares of our common stock in depository or nominee form.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information regarding options, warrants or other rights to acquire equity securities under our equity compensation plans as of December 31, 2006:

	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans
Equity compensation plans approved by security holders	414,000	$ 4.66	2,586,000
Equity compensation plans not approved by security holders	162,500	$ 4.40	N/A
Total	576,500	$ 4.59	2,586,000

The shares shown as being issuable under equity compensation plans not approved by our security holders consist of the warrants granted to our placement agent in the private placement completed in May 2005.

SELECTED FINANCIAL AND OPERATING DATA

You should read the selected consolidated financial data set forth below along in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes. The financial data as of and for the six months ended June 30, 2007 and 2006 and as of and for the year ended December 31, 2002 are derived from our unaudited financial statements for such periods. The financial data as of and for the years ended December 31, 2006, 2005, 2004 and 2003 are derived from our audited financial statements. The unaudited interim data reflects all normal recurring adjustments, which management believes are necessary to present fairly our financial position and results of operations for the periods presented. Operating results for the six months ended June 30, 2007, are not necessarily indicative of the results that may be expected for other interim periods or for the year ending December 31, 2007.

	For the year ended December 31,					For the six months ended June 30,	
	2006	2005	2004	2003	2002 (unaudited)	2007 (unaudited)	2006 (unaudited)
	(in thousands, except per share data)						
STATEMENT OF OPERATIONS DATA:							
Operating revenue:							
Scheduled service revenue	$ 178,349	$ 90,664	$ 46,236	$ 22,515	$ 6,007	$ 123,853	$ 87,509
Fixed fee contract revenue	33,743	30,642	40,987	26,569	16,081	20,881	19,173
Ancillary revenue	31,258	11,194	3,142	886	89	28,556	12,621
	243,350	132,500	90,365	49,970	22,177	173,290	119,303
Operating expenses:							
Aircraft fuel	101,561	52,568	27,914	11,755	4,761	66,637	50,882
Salary and benefits	34,950	21,718	15,379	8,176	4,320	23,370	16,028
Station operations	24,866	14,090	13,608	8,042	2,852	16,833	12,349
Maintenance and repairs	19,482	9,022	9,367	6,136	2,589	12,219	7,477
Sales and marketing	9,293	5,625	3,548	2,385	632	6,065	4,753
Aircraft lease rentals	5,102	4,987	3,847	3,137	3,033	1,308	3,173
Depreciation and amortization	10,584	5,088	2,183	1,181	260	7,375	4,745
Other	14,959	10,901	8,441	6,258	4,661	11,024	7,604
Total operating expenses	220,797	123,999	84,287	47,070	23,108	144,831	107,011
Operating income (loss)	22,553	8,501	6,078	2,900	(931)	28,459	12,292
Other (income) expense:							
(Gain)/loss on fuel derivatives, net	4,193	(612)	(4,438)	(314)		(1,904)	(578)
Gain from joint venture						(262)	
Other (income) expense, net				(913)	(9)	63	
Interest income	(2,973)	(1,225)	(30)	(9)		(4,293)	(1,309)
Interest expense	5,517	3,009	1,399	831	367	2,769	2,601
Total other (income) expense	6,737	1,172	(3,069)	(405)	358	(3,627)	714
Income (loss) before income taxes	15,816	7,329	9,147	3,305	(1,289)	32,086	11,578
Provision for income taxes	7,076	37	12	1	1	12,363	42
Net income (loss)	$ 8,740	$ 7,292	$ 9,135	$ 3,304	$ (1,290)	$ 19,723	$ 11,536
Earnings (loss) per share:							
Basic	$ 1.23	$ 1.11	$ 1.36	$ 0.49	$ (0.14)	$ 0.99	$ 1.79
Diluted(1)	$ 0.52	$ 0.56	$ 1.36	$ 0.49	$ (0.14)	$ 0.97	$ 0.69

(1) The number of weighted average diluted shares outstanding for purposes of calculating 2005 earnings per share includes our redeemable convertible preferred shares as if converted on a one-for-one basis into common shares. The dilutive effect of common stock subject to outstanding options and warrants to purchase shares of common stock for 2005 is not material.

	For the year ended December 31, 2006	2005	2004	2003	2002 (unaudited)	For the six months ended June 30, 2007 (unaudited)	2006 (unaudited)
OTHER FINANCIAL DATA:							
Operating margin	$ 22,553	$ 8,501	$ 6,078	$ 2,900	$ (931)	$ 28,459	$ 12,292
Operating margin%	9.3 %	6.4 %	6.7 %	5.8 %	(4.2)%	16.4 %	10.3 %
EBITDA (unaudited)	$ 28,944	$ 14,201	$ 12,699	$ 5,308	$ (662)	$ 37,937	$ 17,615
Net cash provided by (used in):							
Operating activities	$ 34,746	$ 44,027	$ 10,484	$ 4,172	$ 1,686	$ 50,970	$ 30,226
Investing activities	(1,607)	(47,706)	(9,675)	(7,380)	(1,844)	(10,718)	(27,335)
Financing activities	75,875	23,369	480	3,380	201	15,284	(9,623)

	As of December 31, 2006	2005	2004	2003	2002 (unaudited)	As of June 30, 2007 (unaudited)
	(in thousands, except per share data)					
BALANCE SHEET DATA:						
Cash, cash equivalents and short-term investments	$ 136,081	$ 53,325	$ 1,569	$ 280	$ 108	$ 185,809
Total assets	305,726	170,083	65,474	32,689	5,840	373,269
Long term debt (including capital leases)	72,765	59,747	31,992	18,981	3,915	65,012
Redeemable convertible preferred shares		39,540				
Shareholders /members equity (deficit)	153,471	14,607	9,493	355	(2,951)	197,494

	For the year ended December 31, 2006	2005	2004	2003	2002 (unaudited)	For the six months ended June 30, 2007 (unaudited)	2006 (unaudited)
Operation statistics (unaudited):							
Total system statistics:							
Passengers	2,179,367	1,199,547	840,939	472,078	200,872	1,563,794	1,056,823
Revenue passenger miles (RPMs) (thousands)	2,251,341	1,295,633	914,897	436,740	149,158	1,524,065	1,146,761
Available seat miles (ASMs) (thousands)	2,871,071	1,674,376	1,218,560	614,280	222,216	1,860,706	1,439,964
Load factor	78.4 %	77.4 %	75.1 %	71.1 %	67.1 %	81.9 %	79.6 %
Operating revenue per ASM (cents)	8.48	7.91	7.42	8.13	9.98	9.31	8.29
Operating CASM (cents)	7.69	7.41	6.92	7.66	10.40	7.78	7.43
Operating CASM, excluding fuel (cents)	4.15	4.27	4.63	5.75	8.26	4.20	3.90
Departures	20,074	11,646	8,369	5,307	3,308	13,729	9,584
Block hours	50,584	29,472	20,784	11,160	5,486	32,930	25,223
Average stage length (miles)	966	977	948			915	1,015
Average number of operating aircraft during period	20.8	13.3	8.0	4.8	2.8	26.0	20.2
Total aircraft in service end of period	24	17	9	7	3	27	21
Full-time equivalent employees at period end	846	596	391	282	107	951	739
Fuel gallons consumed (thousands)	47,984	28,172	19,789	10,490	4,548	31,711	23,953
Average fuel cost per gallon	$ 2.12	$ 1.87	$ 1.41	$ 1.12	$ 1.05	$ 2.10	$ 2.12
Scheduled service statistics:							
Passengers	1,940,456	969,393	535,602	260,850	83,779	1,426,556	929,653
Revenue passenger miles (RPMs) (thousands)	1,996,559	1,029,625	517,301	202,997	33,687	1,350,095	1,000,708
Available seat miles (ASMs) (thousands)	2,474,285	1,294,064	694,949	274,036	57,566	1,610,616	1,217,847

Load factor	80.7 %	79.6 %	74.4 %	74.1 %	58.5 %	83.8 %	82.2 %

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Departures	16,634	8,388	4,803	2,553	1,433	11,795	7,814
Block hours	43,391	22,465	11,827	5,141	1,897	28,527	21,246
Yield (cents)	8.93	8.81	8.94	11.09	17.83	9.17	8.74
Scheduled service revenue per ASM (cents)	7.21	7.01	6.65	8.22	10.43	7.69	7.19
Ancillary revenue per ASM (cents)	1.26	0.87	0.45	0.32	0.15	1.77	1.04
Total revenue per ASM (cents)	8.47	7.87	7.11	8.54	10.59	9.46	8.22
Average fare scheduled service	$ 91.91	$ 93.53	$ 86.33	$ 86.31	$ 71.70	$ 86.82	$ 94.13
Average fare ancillary	$ 16.11	$ 11.55	$ 5.87	$ 3.40	$ 1.06	$ 20.02	$ 13.58
Average fare total	$ 108.02	$ 105.07	$ 92.19	$ 89.71	$ 72.76	$ 106.84	$ 107.71
Average stage length (miles)	1,006	1,045	913	725	403	924	1,054
Percent of sales through website during period	85.9 %	81.0 %	68.4 %	53.2 %		87.2 %	84.7 %

The following terms used in this section and elsewhere in this prospectus 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 costs divided by the total number of fuel gallons consumed.

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

EBITDA represents earnings before interest expense, income taxes, depreciation, and amortization. EBITDA is not a calculation based on generally accepted accounting principles and should not be considered as an alternative to net income (loss) or operating income (loss) as indicators of our financial performance or to cash flow as a measure of liquidity. In addition, our calculation may not be comparable to other similarly titled measures of other companies. EBITDA is included as a supplemental disclosure because we believe it is a useful indicator of our operating performance. Further, EBITDA is a well recognized performance measurement in the airline industry that is frequently used by securities analysts, investors and other interested parties in comparing the operating performance of companies in our industry. We believe EBITDA is useful in evaluating our operating performance compared to our competitors because its calculation generally eliminates the effects of financing and income taxes and the accounting effects of capital spending and acquisitions, which items may vary between periods and for different companies for reasons unrelated to overall operating performance. The following represents the reconciliation of EBITDA to net income (loss) for the periods indicated below.

	Year ended December 31,					**Six months ended June 30,**	
	2006	**2005**	**2004**	**2003**	**2002**	**2007**	**2006**
	(unaudited)						
	(in thousands, except share and per share data)						
EBITDA Reconciliation:							
Net income (loss)	$ 8,740	$ 7,292	$ 9,135	$ 3,304	$ (1,290)	$ 19,723	$ 11,536
Plus (minus):							
Interest income	(2,973)	(1,225)	(30)	(9)		(4,293)	(1,309)
Interest expense	5,517	3,009	1,399	831	367	2,769	2,601
Provision for income taxes	7,076	37	12	1	1	12,363	42
Depreciation and amortization	10,584	5,088	2,183	1,181	260	7,375	4,745
EBITDA	$ 28,944	$ 14,201	$ 12,699	$ 5,308	$ (662)	$ 37,937	$ 17,615

Aircraft lease rentals expense represents a significant operating expense of our business. Because we leased aircraft during the periods presented, we believe that when assessing EBITDA you should also consider the impact of our aircraft lease rentals expense, which was (in thousands), $5,102 in 2006, $4,987 in 2005, $3,847 in 2004, $3,137 in 2003 and $3,033 in 2002, $1,308 in the first six months of 2007 and $3,173 in the first six months of 2006.

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

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

Operating CASM, excluding fuel represents operating expenses, less aircraft fuel, divided by available seat miles. Although Operating expense per ASM, excluding fuel is not a calculation based on generally accepted accounting principles and should not be considered as an alternative to Operating Expenses as 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.

Operating revenue per ASM represents operating revenue divided by available seat miles.

Revenue 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.

Yield represents scheduled service revenue divided by scheduled service revenue passenger miles.

**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, 2006, 2005 and 2004 and for the six months ended June 30, 2007 and 2006. Also discussed is our financial position as of December 31, 2006 and 2005 and as of June 30, 2007. You should read this discussion in conjunction with our consolidated financial statements, including the notes thereto, appearing elsewhere in this prospectus. This discussion and analysis contains forward-looking statements. Please refer to the section entitled Special Note About Forward-Looking Statements for a discussion of the uncertainties, risks and assumptions associated with these statements.

Overview

Who We Are. We are a leisure travel company. The focus of our business is a low-cost passenger airline marketed to leisure travelers in small cities. Our business model emphasizes low operating costs, diversified revenue sources, and the transport of passengers from small cities to world-class leisure destinations. Our route network, pricing philosophy, product offering and advertising are all intended to appeal to leisure travelers and make it attractive for them to purchase air travel and related services from us.

Our strategy is to develop the leisure travel market in small cities by providing nonstop low fare scheduled service to world-class leisure destinations. We currently provide service to Las Vegas, Nevada, Orlando, Florida, and Tampa/St. Petersburg, Florida, three of the largest and most popular leisure destinations in the United States. We have announced that we will be commencing service in the fourth quarter of 2007 to Ft. Lauderdale (Florida) and Phoenix-Mesa (Arizona), two other popular leisure destinations in the United States. We have positioned our business to take advantage of current lifestyle and demographic trends in the U.S. we believe are positive drivers for the leisure travel industry. The most notable demographic shift occurring in the U.S. is the aging of the baby boomer generation as they enter their peak earning years and have more time and disposable income to spend on leisure travel. We believe a large percentage of our customers fall within the baby boomer demographic and we target these customers through the use of advertisements in more than 300 print circulations as of August 15, 2007.

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

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

	June 30, 2007			December 31, 2006			December 31, 2005			December 31, 2004		
	Own (a)	Lease	Total	Own (a)	Lease	Total	Own (b)	Lease	Total	Own	Lease	Total
MD83s	22	3	25	22	0	22	9	6	15	5	2	7
MD87s	2	0	2	0	2	2	0	2	2	0	2	2
Total	24	3	27	22	2	24	9	8	17	5	4	9

(a) Aircraft owned includes five aircraft subject to capital leases.

(b) Aircraft owned includes one aircraft subject to a capital lease.

Our Markets. Our scheduled service consists of limited frequency nonstop flights into world-class leisure destinations from small cities. As of June 30, 2007, we offered scheduled service into Las Vegas, Orlando and Tampa/St. Petersburg from 50 small cities. The following shows the number of destinations and small cities served (including seasonal service) as of the dates indicated.

	As of June 30, 2007	As of December 31, 2006	2005	2004
Destinations	3	3	2	1
Small Cities	50	47	29	13

Our Fiscal Year. We operate on a calendar year ending on the last day in December. For convenience, we refer to the fiscal years ended December 31, 2006, December 31, 2005 and December 31, 2004 as 2006, 2005 and 2004, respectively.

Our Operating Revenue

Our operating revenue comprises both air travel on a stand-alone basis and bundled with hotels, rental cars and other travel-related services. We believe our diversified revenue streams distinguish us from other U.S. airlines and other travel companies.

- *Scheduled service revenues.* Scheduled service revenues consist of nonstop flights between our leisure destinations and small cities.

- *Fixed fee contract revenues.* Our fixed fee contract revenues consist largely of agreements with affiliates of Harrah s Entertainment Inc. that provide for a predictable revenue stream. We also provide charter service on a seasonal and ad hoc basis to Harrah s and others.

- *Ancillary revenues.* Our ancillary revenues are generated from the sale of hotel rooms, rental cars, advance seat assignments, in-flight products and other items sold in conjunction with our scheduled air service. We recognize our ancillary revenues net of amounts paid to wholesale providers, travel agent commissions and credit card processing fees.

Seasonality. Our business is seasonal in nature with traffic demand historically being lowest in the third quarter and highest in the first quarter. Our operating revenue is largely driven by perceived product value, advertising and promotional activities and can be adversely impacted during periods with reduced discretionary leisure travel spending, such as the back-to-school season.

Our Operating Expenses

A brief description of the items included in our operating expense line items follows. Our cost structure is highly variable as we consider our fixed costs to have represented only 3.83¢ of our cost per available seat mile (CASM) in 2006, or 49.8% of our 2006 operating expenses.

Aircraft fuel expense. Aircraft fuel expense includes the cost of aircraft fuel, fuel taxes, into plane fees and airport fuel flowage, storage or through-put fees. Under certain of our fixed fee flying agreements, we are reimbursed by our customers if fuel exceeds a pre-determined cost per gallon, and these reimbursements are netted against fuel expense.

Salary and benefits expense. Salary and benefits expense includes wages and salaries as well as expenses associated with employee benefit plans and employer payroll taxes.

Station operations expense. 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 and commissary expenses.

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Maintenance and repairs expense. Maintenance and repairs expense includes all parts, materials and spares required to maintain our aircraft. Also included are fees for repairs performed by third party vendors.

Sales and marketing expense. Sales and marketing expense includes all advertising, promotional expenses, travel agent commissions, and credit card discount fees associated with sale of scheduled service.

Aircraft lease rentals expense. Aircraft lease rentals expense consists of the cost of leasing aircraft which are operated under operating leases with third parties.

Depreciation and amortization expense. This expense includes the depreciation of all fixed assets, including aircraft that we own, and amortization on aircraft that we operate under capital leases.

Other expense. Other expense includes the cost of passenger liability insurance, aircraft hull insurance, and all other insurance policies except for employee welfare insurance. Additionally, this expense includes travel and training expenses for crews and ground personnel, facility lease expenses, professional fees, personal property taxes and all other administrative and operational overhead expenses not included in other line items above.

Trends and Uncertainties Affecting Our Business

We believe our financial success is driven by variable factors that affect airlines and their markets, and by trends affecting the travel industry. The following discussion describes certain key factors we believe may affect our future performance.

Demographics and Consumer Behavior

The airline industry is influenced by lifestyle and demographic trends, and the performance of the broader U.S. economy. We believe the current demographic and lifestyle trends are positive drivers of the leisure travel industry. The aging of the baby boomers as they enter their peak earning years with more disposable income, and the recent economic expansion have both had a positive impact on growing consumer demand for leisure travel.

Aircraft Fuel

The airline industry is heavily dependent on the use of jet fuel and fuel costs represent a significant portion of the total operating expenses for airlines. Fuel costs have been subject to wide price fluctuations. 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. The cost and future availability of fuel cannot be predicted with any degree of certainty.

Labor

The airline industry is heavily unionized and the wages and benefits of unionized airline industry employees are determined by collective bargaining agreements. Conflicts between unionized airlines and their unions can lead to work slowdowns or stoppages. We currently have a non-unionized work force and are not subject to collective bargaining agreements at the present time. If our employees were to unionize in the future and we were unable to reach agreement on the terms of their collective bargaining agreement, or we were to experience wide-spread employee dissatisfaction, we could be subject to work slowdowns or stoppages. In addition, we may be subject to disruption by organized labor groups protesting our non-union status. Any of these events could have an adverse effect on our future results. Our flight attendants rejected union representation in an election that finished December 4, 2006.

Competition

The airline industry is highly competitive. Passenger demand and fare levels have historically been influenced by, among other things, industry capacity and pricing actions taken by other airlines. The principal competitive factors in the airline industry are fare pricing, customer service, routes served, flight schedules, types of aircraft, safety record and reputation, code-sharing relationships, and frequent flyer programs.

RESULTS OF OPERATIONS

The table below presents our operating expenses as a percentage of operating revenue for the last three fiscal years and for the six month periods ended June 30, 2007 and 2006.

	Year Ended December 31,			Six Months Ended June 30,	
	2006	**2005**	**2004**	**2007**	**2006**
Total operating revenue	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**
Operating expenses:					
Aircraft fuel	41.7	39.7	30.9	38.5	42.6
Salary and benefits	14.4	16.4	17.0	13.5	13.4
Station operations	10.3	10.7	15.1	9.7	10.4
Maintenance and repairs	8.0	6.8	10.4	7.1	6.3
Sales and marketing	3.8	4.2	3.9	3.5	4.0
Aircraft lease rentals	2.1	3.8	4.3	0.8	2.7
Depreciation and amortization	4.3	3.8	2.4	4.3	4.0
Other	6.1	8.2	9.3	6.4	6.4
Total operating expenses	**90.7 %**	**93.6 %**	**93.3 %**	**83.6 %**	**89.7 %**

Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006

Summary

We recorded total operating revenue of $173.3 million, income from operations of $28.5 million and net income of $19.7 million for the first half of 2007. By comparison, for the same period in 2006, we recorded total operating revenue of $119.3 million, income from operations of $12.3 million and net income of $11.6 million.

As of June 30, 2007, we had a fleet of 27 aircraft in service, compared with a fleet of 21 aircraft in service as of June 30, 2006. The growth of our fleet enabled a 29.2% increase in available seat miles (ASMs) for the first half of 2007 compared to the same period in 2006 as departures increased by 43.2% and average stage length decreased by 9.8%.

Compared to the first half of 2006, scheduled service ASMs increased by 32.3% in the first half of 2007 and other flying (including fixed fee and non-revenue) increased 12.6%.

Operating Revenue

Our operating revenue increased 45.3%, or $54.0 million, to $173.3 million in the first half of 2007 from $119.3 million in the same period of 2006. This was driven by a 32.9% increase in revenue passenger miles (RPMs) and a 12.4% increase in revenue per ASM (RASM).

Scheduled service revenues: Scheduled service revenues increased 41.5%, or $36.3 million, to $123.9 million in the first half of 2007 from $87.5 million in the same period of 2006 due to a 34.9% increase in scheduled service RPMs. Yield increased 4.9% from 8.74¢ for the first half of 2006 to 9.17¢ for the same period of 2007, due to a 12.4% shorter scheduled stage length offset by the dilutive effect of introductory pricing on new routes. During the first half of 2007, we started eight new routes to Las Vegas, six new routes to Orlando, four new routes to Tampa/St. Petersburg and two other new routes. The decrease in average stage length coupled with an increase in load factor of 1.6 percentage points resulted in a 7.0% year-over-year increase in scheduled service RASM from 7.19¢ to 7.69¢.

Fixed fee contract revenues: Fixed fee contract revenues increased 8.9% to $20.9 million in the first half of 2007 up from $19.2 million for the same period of the prior year. Fixed fee revenues increased principally because of a program of increased flying for Harrah s Laughlin during the first half of 2007. Additionally, included in the six month period is the first quarter of the year which historically has been the seasonally strongest for fixed fee flying.

Ancillary revenues: Ancillary revenues increased 126.3% to $28.6 million in the first half of 2007 up from $12.6 million in the same period of 2006. The increase in ancillary revenue was due to a 53.5% increase in scheduled service passengers and a 47.4% increase in ancillary revenue per passenger from $13.58 to $20.02 due primarily to the sale of several new products.

Operating Expenses

Our operating expenses increased by 35.3%, or $37.8 million, to $144.8 million in the first six months of 2007 up from $107.0 million during the same period in 2006.

In general, our operating expenses are significantly affected by changes in our capacity, as measured by ASMs. The table below presents our unit costs, defined as operating expense per ASM (CASM), for the indicated periods. In addition, the table presents operating CASM, excluding fuel, which represents operating expenses, less aircraft fuel, divided by available seat miles. This statistic provides management and investors the ability to measure and monitor our cost performance absent fuel price volatility. Both the cost and availability of fuel are subject to many economic and political factors and therefore are beyond our control.

	Six Months Ended June 30, 2007	2006	Percentage Change
Aircraft fuel	3.58 ¢	3.53 ¢	1.4 %
Salary and benefits	1.26	1.11	13.5
Station operations	0.90	0.86	4.7
Maintenance and repairs	0.66	0.52	26.9
Sales and marketing	0.33	0.33	0.0
Aircraft lease rentals	0.07	0.22	(68.2)
Depreciation and amortization	0.40	0.33	21.2
Other	0.59	0.53	11.3
Operating CASM	7.78 ¢	7.43 ¢	4.7 %
Operating CASM, excluding fuel	4.20 ¢	3.90 ¢	7.7 %

Aircraft fuel expense. Aircraft fuel expense increased 31.0%, or $15.8 million, to $66.6 million in the first half of 2007 up from $50.9 million in the same period of 2006. This change was due to a 32.4% increase in gallons consumed offset slightly by a 1.1% decrease in the average cost per gallon to $2.10 per gallon during the first half of 2007 compared to $2.12 in the same period of 2006.

Salary and benefits expense. Salary and benefits expense increased 45.8% to $23.4 million in the first half of 2007 up from $16.0 million in the same period of 2006. This increase is largely attributable to a 28.7% increase in full-time equivalent employees to support our growth along with a wage scale increase

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for flight operations employees during the fourth quarter of 2006. We employed 951 full-time equivalent employees as of June 30, 2007, compared to 739 full-time equivalent employees as of June 30, 2006.

Station operations expense. Station operations expense increased 36.3%, or $4.5 million, to $16.8 million in the first half of 2007 compared to $12.4 million in the same period of 2006. The percentage increase in station operations expense lagged the 43.2% increase in departures as station expense per departure decreased by 9.8%. However, the decrease in year-over-year average stage length resulted in year-over-year station operations expenses increasing by 5.5% on a CASM basis.

Maintenance and repairs expense. Maintenance and repairs expense increased by 63.4%, or $4.8 million, to $12.2 million in the first half of 2007 up from $7.5 million in the same period of 2006. Maintenance and repairs CASM increased 26.9% as increased maintenance expense combined with a 1.4% decrease in aircraft utilization. This increase resulted from unusually low maintenance expenses in the first half of 2006 in contrast to more normal maintenance expenditures in the first half of 2007 as well as a few unusual maintenance events. For instance, in the first half of 2006, we performed primarily routine engine maintenance with one planned heavy engine overhaul, whereas in the first half of 2007 we performed a number of minor unplanned engine repairs and two planned heavy engine overhauls. Additionally, the maintenance and repairs expense for the first half of 2007 included a $0.3 million deductible for a gear-up lending during the quarter at Orlando Sanford International Airport.

Sales and marketing expense. Sales and marketing expense increased 27.6%, or $1.3 million, to $6.1 million in the first half of 2007 compared to $4.8 million in the same period of 2006. On a CASM basis, sales and marketing expense was flat year-over-year.

Aircraft lease rentals expense. Aircraft lease rentals expense decreased by 58.8% to $1.3 million in the first half of 2007 down from $3.2 million in the same period of 2006. On a CASM basis, aircraft lease rentals expense decreased 68.2% to 0.07¢ in second quarter 2007 down from 0.22¢ in the same period of 2006 primarily due to an increase in the percentage of owned versus leased aircraft. Of the 29 aircraft we have accepted delivery of as of June 30, 2007, four aircraft are subject to operating leases, whereas six aircraft were subject to operating leases as of June 30, 2006.

Depreciation and amortization expense. Depreciation and amortization expense was $7.4 million in the first half of 2007 compared to $4.8 million in the same period of 2006, an increase of 55.4% as the number of in-service aircraft owned or subject to capital leases increased from 15 as of June 30, 2006 to 24 as of June 30, 2007.

Other expense. Other expense increased by 45.0% to $11.0 million in the first half of 2007 compared to $7.6 million in same period of 2006. On a per-ASM basis, other expense increased 11.3% to 0.59¢ in the first half of 2007 from 0.53¢ in the same period of 2006 primarily associated with growth and additional administrative requirements as a public company.

Other (Income) Expense

Other (income) expense increased from a net other expense amount of $0.7 million in the first half of 2006 to a net other income amount of $3.6 million in the same period of 2007. This change is primarily attributable to two factors: (1) an increase in net gain on fuel derivatives from $0.6 million in the first half of 2006 to $1.9 million in the same period of 2007 and (2) an increase in interest income from $1.3 million in the first half of 2006 to $4.3 million in the same period of 2007 as a result of increased cash balances.

Income Tax Expense

Income tax expense for the first half of 2007 was $12.4 million as our effective income tax rate for the period was 38.5%. Prior to our reorganization into a corporation at the time of our initial public offering on December 13, 2006, we did not pay corporate federal income tax at the entity level and therefore, we did not incur any federal income tax for the first half of 2006.

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2006 Compared to 2005

Summary

We recorded total operating revenue of $243.4 million, income from operations of $22.6 million and net income of $8.7 million for 2006. By comparison, in 2005, we recorded total operating revenue of $132.5 million, income from operations of $8.5 million and net income of $7.3 million.

As of December 31, 2006, we had a fleet of 26 aircraft with 24 in service compared with a fleet of 22 aircraft with 17 in service as of December 31, 2005. The growth of our fleet enabled a 71.5% increase in ASMs for 2006 compared to 2005 as departures increased by 72.4% and average stage length decreased by 1.1%.

Substantially all of our ASM growth in 2006 compared to 2005 was in scheduled service which represented 86.2% of total ASMs in 2006 compared to 77.3% in 2005. Fixed fee contract flying ASMs increased by 4.3%, and scheduled service ASMs increased by 91.2%.

Operating Revenue

Our operating revenue increased 83.7%, or $110.9 million, to $243.4 million in 2006 from $132.5 million in 2005. This was driven by a 73.8% increase in revenue passenger miles (RPMs) and a 7.2% increase in RASM.

Scheduled service revenues:

Scheduled service revenues increased 96.7% to $178.3 million in 2006 from $90.7 million in 2005 due to a 93.9% increase in scheduled service RPMs. Yield increased 1.4% in 2006 versus 2005 due to a 3.7% shorter scheduled stage length and the dilutive effect of introductory pricing on 11 new routes to Las Vegas, nine new routes to Orlando and 12 new routes to Tampa/St. Petersburg started during 2006. The decrease in average stage length coupled with an increase in load factor of 1.1 percentage points resulted in a 2.9% increase in scheduled service RASM from 7.01¢ to 7.21¢.

Fixed fee contract revenues:

Fixed fee contract revenues increased 10.1%, or $3.1 million, to $33.7 million in 2006 up from $30.6 million in 2005. Revenues increased because of a new short-term contract running from May through August 2006. We have agreed with Harrah s Laughlin to increase our fixed fee flying beginning in January 2007. We expect this will produce incremental fixed fee flying revenue in 2007.

Ancillary revenues:

Ancillary revenues increased 179.2% to $31.3 million in 2006 up from $11.2 million in 2005. The increase in ancillary revenue was due to a 100.2% increase in scheduled service passengers and a 39.5% increase in ancillary revenue per passenger from $11.55 to $16.11 due primarily to the sale of several new products.

Operating Expenses

Our operating expenses increased by 78.1%, or $96.8 million, to $220.8 million in 2006 up from $124.0 million during the same period in 2005. Our financial results for 2006 were significantly impacted by the dramatic increase in the price of aircraft fuel over the prior year.

In general, our operating expenses are significantly affected by changes in our capacity, as measured by ASMs. The following table presents our unit costs, defined as operating expense per ASM, for the indicated periods.

	Year Ended December 31, 2006	2005	Percentage Change
Aircraft fuel	3.54 ¢	3.14 ¢	12.7 %
Salary and benefits	1.21	1.30	(6.9)
Station operations	0.87	0.84	3.6
Maintenance and repairs	0.68	0.54	25.9
Sales and marketing	0.32	0.34	(5.9)
Aircraft lease rentals	0.18	0.30	(40.0)
Depreciation and amortization	0.37	0.30	23.3
Other	0.52	0.65	(20.0)
Operating CASM	7.69 ¢	7.41 ¢	3.8 %
Operating CASM, excluding fuel	4.15 ¢	4.27 ¢	(2.8)%

Aircraft fuel expense. Aircraft fuel expense increased 93.2%, or $49.0 million, to $101.6 million in 2006 up from $52.6 million in 2005. This change was due to a 70.3% increase in gallons consumed and a 13.4% increase in the average cost per gallon to $2.12 per gallon during 2006 compared to $1.87 in 2005.

Salary and benefits expense. Salary and benefits expense increased 60.9% to $35.0 million in 2006 up from $21.7 million in 2005. This increase is largely attributable to a 41.9% increase in full-time equivalent employees to support our growth. We employed approximately 846 full-time equivalent employees as of December 31, 2006, compared to 596 full-time equivalent employees as of December 31, 2005.

Station operations expense. Station operations expense increased 76.5%, or $10.8 million, to $24.9 million in 2006 compared to $14.1 million in 2005. The increase in station operations expense exceeded the 72.4% increase in departures contributing to an increase of 3.6% in station operation expenses on a CASM basis. The increase in unit station operations expense was driven by a large number of new station openings, particularly in the fourth quarter of 2006, which outweighed an increase in the proportion of scheduled flying, which generally has a lower station operations expense per departure relative to fixed fee flying.

Maintenance and repairs expense. Maintenance and repairs expense increased by 115.9%, or $10.5 million, to $19.5 million in 2006 up from $9.0 million in 2005. Maintenance and repairs CASM increased 25.9% as increased maintenance expense outpaced the increase in aircraft utilization. The increase in maintenance and repairs expense is largely attributed to heavy maintenance checks on 14 aircraft during 2006 versus four heavy checks during 2005 and the substantially larger fleet as of December 31, 2006 when compared to 2005. Additionally, in 2006 we had a significant increase in the number of heavy engine overhauls over 2005 due to a significant year-over-year increase in the number of unplanned maintenance as a result of engine foreign object damage.

Sales and marketing expense. Sales and marketing expense increased 65.2%, or $3.7 million, to $9.3 million in 2006 compared to $5.6 million in 2005. On a CASM basis, sales and marketing expense declined 5.9% primarily due to the elimination of travel agency commissions for air only sales, a decrease in credit card processing fees and an increase in the percentage of sales through our website, our lowest cost distribution channel.

Aircraft lease rentals expense. Aircraft lease rentals expense increased by 2.3%, or $0.1 million, to $5.1 million in 2006 up from $5.0 million in 2005. On a CASM basis, aircraft lease rentals expense decreased 40.0% to 0.18¢ in 2006 down from 0.30¢ in 2005 due to an increase in the percentage of owned

versus leased aircraft and the benefits of higher aircraft utilization. In 2006, average block hours for aircraft in service increased 9.7%, or 18 hours, to 202.7 hours per month compared to 184.7 hours in 2005.

Depreciation and amortization expense. Depreciation and amortization expense was $10.6 million in 2006 compared to $5.1 million in 2005, an increase of 108.0% as the number of in-service aircraft owned or subject to capital leases increased from nine as of December 31, 2005 to 22 as of December 31, 2006.

Other expense. Other expense increased by 37.2% to $15.0 million in 2006 compared to $10.9 million in 2005 due mainly to increased aviation insurance, administrative, facilities and training expenses associated with our company s growth.

Other (Income) Expense

Other income increased from $1.2 million in 2005 to $6.7 million in 2006. This change is attributable to three factors: (1) a change in net gain on fuel derivatives from a gain of $0.6 million in 2005 to a loss of $4.2 million in 2006, (2) an increase in interest expense from $3.0 million in 2005 to $5.5 million in 2006 relating to interest on aircraft purchased and acquired under capital leases during the period and (3) an increase in interest income from $1.2 million in 2005 to $3.0 million in 2006 as a result of increased cash and short-term investment balances.

Our fuel derivative contracts do not qualify for hedge accounting under Statement of Financial Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Therefore, we recognize changes in the fair value of our derivatives when they occur, as a component of other (income) expense. We recognize gain or loss from a mark-to-market adjustment at the end of each period, which estimates as of that date the future value of open contracts which will settle in subsequent periods. Gain or loss is also recognized as contracts settle and the amount can vary depending on the market value of fuel at that time. We recognized a $2.4 million loss in 2005 on the mark-to-market adjustment for our open fuel derivative contracts and we recognized $3.0 million in net gains for contracts settled in 2005. By contrast, we recognized a $1.6 million loss in 2006 on the mark-to-market adjustment for our open fuel derivative contracts and we recognized $2.6 million in net losses for contracts settled in 2006. The change from an overall gain on fuel derivatives to a loss from 2005 to 2006 is due to the fact that fuel prices predominantly increased during 2005 and decreased during the second half of 2006, along with an increase in the amounts hedged over time due to the growth of the company.

Income Tax Expense

For all of 2004, 2005 and all but the last 18 days of 2006 we operated as a limited liability company or subchapter S corporation. Under these structures, we did not pay federal corporate income tax for these periods. Instead, the members of the limited liability company or stockholders of the subchapter S corporation were liable for income tax on the taxable income as it affected their individual income tax returns. Accordingly, our income tax provision in 2005 reflects state taxes owed by us in certain states in which we operate. For the last 18 days of 2006, we operated as a subchapter C corporation, and we expect to operate as a subchapter C corporation for the foreseeable future. The income tax expense for 2006 was impacted by a $6.4 million charge to recognize deferred tax liabilities due to the tax reorganization carried out in connection with our initial public offering.

2005 Compared to 2004

Summary

We recorded total operating revenue of $132.5 million, income from operations of $8.5 million and net income of $7.3 million for 2005. By comparison, in 2004, we recorded total operating revenue of $90.4 million, income from operations of $6.1 million and net income of $9.1 million. Net income decreased despite a 39.9% increase in operating income principally as a result of a lower amount of non-cash gain on fuel derivatives.

During 2005, we added 12 aircraft to our fleet, eight of which were placed into service, bringing the total number of aircraft in the fleet to 22 and the total number of aircraft in service to 17. Four of these aircraft were introduced into service in early 2006. The growth in our fleet generated an increase of 3,277 departures, or 39.2%, and an increase of 455.8 million ASMs, or 37.4% in 2005 compared to 2004. Average stage length increased by 3.1% from 948 to 977 miles in 2005. ASM growth trailed the growth in departures despite the increase in stage length due to the reconfiguration of our MD83 fleet in late 2004, which reduced the number of seats from 162 to 150.

Our mix of business changed in 2005. Scheduled service ASMs increased 86.2% and represented 77.3% of total ASMs in 2005 versus 57.0% in 2004. This change was due to both to an increase in scheduled service flying and a decrease in certain fixed fee flying.

Operating Revenue

Our operating revenue for 2005 increased $42.1 million or 46.6% compared to 2004. This was driven by a 41.6% increase in RPMs and an increase in RASM of 6.6% largely due to a 2.3 percentage point improvement in load factor.

Schedule service revenues:

Scheduled service revenues increased 96.1% in 2005 compared to 2004, driven by a 99.0% increase in RPMs and an increase in ASMs of 86.2% as we added aircraft and scheduled service to Orlando and more small cities. Yield was down 1.5% in 2005 versus 2004 while average stage length increased 14.5%. Load factor increased by 5.2 percentage points and scheduled service RASM increased by 5.4%.

Fixed fee contract revenues:

Fixed fee contract revenues represented 23.1% of total revenue, or $30.6 million in 2005, a 25.2 percentage point decrease from 2004 in which we had $41.0 million of fixed fee contract revenues. This decrease results from reduced flight hours associated with our fixed fee flying agreements as we operated two major programs for Apple Vacations West in 2004, but only one in 2005.

Ancillary revenues:

Ancillary revenues increased 256.3% to $11.2 million for 2005 compared to $3.1 million for 2004. The increase in ancillary revenue was due to an 81.0% increase in scheduled service passengers and a 96.8% increase in ancillary revenue per passenger from $5.87 to $11.55 due primarily to the sale of several new products.

Operating Expenses

Our operating expenses for 2005 increased $39.7 million or 47.1% compared to 2004. During 2005, our financial results were significantly impacted by the dramatic increase in the price of aircraft fuel.

In general, our operating expenses are significantly affected by changes in our capacity, as measured by ASMs. The following table presents our unit costs, defined as operating expense per ASM, for the indicated periods:

	Year Ended December 31, 2005	2004	Percentage Change
Aircraft fuel	3.14 ¢	2.29 ¢	37.1 %
Salary and benefits	1.30	1.26	3.2
Station operations	0.84	1.12	(25.0)
Maintenance and repairs	0.54	0.77	(29.9)
Sales and marketing	0.34	0.29	17.2
Aircraft lease rentals	0.30	0.32	(6.3)
Depreciation and amortization	0.30	0.18	66.7
Other	0.65	0.69	(5.8)
Operating CASM	7.41 ¢	6.92 ¢	7.1 %
Operating CASM, excluding fuel	4.27 ¢	4.63 ¢	(7.8)%

Aircraft fuel expense. Aircraft fuel expense increased 88.3%, or $24.7 million, to $52.6 million in 2005 compared to $27.9 million in 2004. This change was due to a 42.4% increase in gallons consumed and a 32.6% increase in the average cost per gallon to $1.87 per gallon in 2005 compared to $1.41 per gallon in 2004.

Salary and benefits expense. Salary and benefits expense increased 41.2%, or $6.3 million, to $21.7 million for 2005 compared to $15.4 million for 2004. This increase is largely attributable to a 52.4% increase in full-time equivalent employees to support our growth. We employed approximately 596 full-time equivalent employees as of December 31, 2005, compared to 391 full-time equivalent employees as of December 31, 2004.

Station operations expense. Station operations expense increased by only 3.5%, or $0.5 million, to $14.1 million despite a 39.2% increase in departures. On a CASM basis, this expense decreased 25.0% from 1.12¢ in 2004 to 0.84¢ in 2005. The decline in station operations expense on a CASM basis was partially attributable to reduced fixed fee flying in 2005 for Apple Vacations West as this fixed fee flying arrangement resulted in a higher per departure expense.

Maintenance and repairs expense. Maintenance and repairs expense decreased by $0.4 million in 2005 to $9.0 million compared with $9.4 million in 2004, and decreased 29.9% on a CASM basis. The decrease on a CASM basis is due to growth of the fleet and an FAA approved extension of our airframe heavy maintenance check intervals from 15 to 18 months.

Sales and marketing expense. Sales and marketing expense increased by 58.5% in 2005 to $5.6 million compared to $3.5 million in 2004. This resulted in an increase on a CASM basis of 17.2%. The increase on a CASM basis resulted largely from a higher percentage of scheduled service revenue as a percentage of total revenue (68.4% in 2005 and 51.2% in 2004) as there is less sales and marketing expense associated with our fixed fee flying which constituted a smaller percentage of revenue in 2005. In addition, increased credit card discount fees contributed to the increase. The increase in credit card discount fees was attributable to the 96.1% increase in scheduled service revenue in 2005 compared to 2004. Sales and marketing expense per scheduled service departure decreased by 9.2% from $739 in 2004 to $671 in 2005 due in part to the elimination of air only travel agency commissions and a further increase in sales through our website, our least expensive distribution channel.

Aircraft lease rentals expense. Aircraft lease rentals expense increased by 29.6% to $5.0 million in 2005 compared to $3.8 million in 2004 due to the addition of five leased MD80 series aircraft in 2005.

On a CASM basis, aircraft lease rentals expense decreased 6.3% to 0.30¢ in 2005 compared to 0.32¢ for 2004 due to an increase in the number of owned versus leased aircraft in 2005 compared with 2004.

Depreciation and amortization expense. Depreciation and amortization expense was $5.1 million in 2005 compared to $2.2 million in 2004, representing an increase of 133.1%. This resulted in an increase on a CASM basis of 66.7%. This increase was primarily due to the purchase of two aircraft, one of which was under an operating lease in 2004, and the recognition of a full year s depreciation on three aircraft that were placed into service during varying times throughout 2004. Additionally, spare aircraft parts inventories were substantially increased during 2005 to support the expanded fleet. In addition, we increased the amount of ground equipment and office equipment during 2005 to support the number of increased markets served and increased employee base.

Other expense. Other expense increased by 29.1% to $10.9 million in 2005 compared to $8.4 million in 2004 due mainly to the increased aviation insurance, administrative, facilities and training expenses associated with our company s growth.

Other (Income) Expense

Other (income) expense decreased from income of $3.1 million in 2004 to an expense of $1.2 million in 2005. Realized and unrealized gains on fuel derivative contracts that did not qualify for hedge accounting treatment decreased from $4.4 million in 2004 to $0.6 million in 2005. Because our fuel derivative contracts do not qualify for hedge accounting under Statement of Financial Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, we recognize changes in the fair value of our derivatives when they occur, as a component of other (income) expense. Therefore, a large part of the gain recognized at year end is a mark-to-market calculation which estimates as of that date the future value of open contracts which will settle in subsequent periods. Gain or loss is also recognized as contracts settle and the amount can vary depending on the market value of fuel at that time. On December 31, 2004, we recognized a $2.5 million gain on the mark-to-market adjustment for our open fuel derivative contracts, and we recognized $1.9 million in net gains for contracts settled during 2004. We recognized a minimal gain on the mark to market adjustment for our open fuel derivative contracts as of December 31, 2005, and recognized $0.5 million in net gains for contracts settled during 2005. The factors contributing to the significant mark-to-market adjustment at December 31, 2004 were that we had a higher percentage of our projected fuel requirements hedged at that time, we had longer term fuel derivative contracts in place at that time (up to one year compared to three to six month contracts that we now typically use) and there was a significant upward price move in the futures market for fuel at the time of the mark-to-market adjustment compared with the time the individual trades were executed.

Interest income increased $1.2 million in 2005 due to increases in rates earned on cash and higher investment balances due to funds raised during our private placement transaction in May 2005 (net proceeds to us totaled $33.2 million). Interest expense increased by $1.6 million in 2005 primarily due to the issuance of new debt and capital leases relating to aircraft financed during 2005.

Income Tax Expense

During 2005 and 2004, we operated as a limited liability company or subchapter S corporation. Under these structures, we did not pay federal corporate income tax for 2005 and 2004. Instead, the members of the limited liability company or stockholders of the subchapter S corporation were liable for income tax on the taxable income as it affected their individual income tax returns. Accordingly, our income tax provision reflects state taxes owed by us in certain states in which we operate.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of funds are cash provided by operations and cash provided by financing activities. Our primary uses of cash are for working capital, capital expenditures and general corporate purposes. Historically, we have been able to fund our short-term needs for capital from cash generated from operations. Our long-term needs for capital are generally for the purchase of additional aircraft. To the extent financing is not available on acceptable terms, we would apply our cash assets to the purchase of aircraft. If we do not have sufficient cash assets available for this purpose at that time, then we would consider leasing aircraft or deferring their acquisition.

Our total cash, including cash and cash equivalents, restricted cash and short-term investments totaled $197.2 million, $147.3 million, $58.2 million and $13.8 million at June 30, 2007 and December 31, 2006, 2005 and 2004, respectively. Short-term investments represent marketable securities which are available for sale. Restricted cash represents credit card deposits, escrowed funds under fixed fee flying contracts and cash collateral against letters of credit.

Our restricted cash balances increased by $0.2 million from December 31, 2006 to June 30, 2007 and by $6.4 million from December 31, 2005 to December 31, 2006 as a result of increased letters of credit issued to our hotel vendors. Restricted cash balances decreased $8.2 million from December 31, 2004 to December 31, 2005 as a result of more favorable terms with our credit processing bank.

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. Prepayments are recorded as restricted cash and a corresponding amount is recorded as air traffic liability.

Operating activities. During 2006, we generated $34.7 million in cash from operating activities compared to $44.0 million in 2005. Increases in net income, noncash depreciation and amortization and deferred income taxes related to the conversion from a limited liability company to a C-corporation were more than offset by changes in air traffic liability related to future travel and increased cash collateral requirements used to secure additional room capacity with our hotel partners. Operating activities in 2005 provided $44.0 million of cash compared to $10.5 million in 2004. The increase was primarily due to an increase in operating income and an increase in passenger bookings for future travel, coupled with reduced cash collateral requirements under a new credit card processing agreement.

Cash flows provided by operations for the six months ended June 30, 2007, were $51.0 million compared to $30.2 million in the same period of 2006. This increase in cash flows provided by operations in 2007 compared to 2006 is primarily the result of an increase in passenger bookings for future travel and operating income.

Investing activities. Cash used by investing activities totaled $1.6 million for 2006, compared to $47.7 million in 2005. Purchases and maturities of available for sale securities are classified as investing activities. Other investing activities include capital expenditures related to aircraft and purchase of spare parts and equipment related to expanding our aircraft fleet. During 2006, maturities of available for sale securities, net of purchases, were $26.2 million. Also, during 2006, we expended $27.8 million in cash and incurred $27.1 of debt related acquiring new aircraft. Investing activities in 2005 used $47.7 million in cash compared to $9.7 million in 2004. During 2005, purchases of available for sale securities, net of maturities, were $32.0 million. Also during 2005, we expended $15.1 million in cash and incurred $11.7 million in debt related to acquiring new aircraft.

Cash flows used in investing activities for the six months ended June 30, 2007, were $10.7 million compared to $27.3 million in the same period of 2006. During the six months ended June 30, 2007, we had no purchases of available for sale securities compared to $11.6 million of purchases in the same period 2006. Other investing activities for the six months ended June 30, 2007 include capital expenditures related to aircraft parts and three aircraft purchases off operating lease which was partially offset by maturities of available for sale securities.

Financing activities. Cash provided by financing activities totaled $75.9 million for 2006, compared to $23.4 million in 2005. During 2006, we generated cash from the issuance of common stock in connection with our initial public offering for $94.5 million, net of offering expenses, which was offset by debt repayments of $14.1 million. Financing activities in 2005 provided $23.4 million of cash compared to $0.5 million in 2004. During 2005, we generated cash from the issuance of redeemable convertible preferred shares for $34.5 million, net of offering expenses, which was offset by debt repayments of $7.4 million.

Cash flows provided by financing activities for the six months ended June 30, 2007 were $15.3 million compared to $9.6 million used in financing activities in the same period 2006. Financing activities primarily consist of the proceeds from the public offering of our stock in second quarter 2007 and debt repayments related to aircraft financing and capital lease obligations. As of June 30, 2007, we had secured debt financing on twelve aircraft and capital lease financing on five aircraft compared to debt financing on ten aircraft and capital lease financing on five aircraft as of June 30, 2006.

Debt

Of the aircraft we have accepted delivery of as of July 31, 2007, we had secured debt financing on 12 aircraft and capital lease financing on five aircraft. We have financed the purchase of 12 aircraft with notes for an aggregate amount of $47.5 million, which are scheduled to mature between 2008 and 2011. The equipment notes bear interest at fixed rates between 8.0% and 9.0% with principal and interest payable monthly. Each note is secured by a first mortgage on the aircraft to which it relates. The remainder of the aircraft in our fleet as of July 31, 2007, is made up of eight aircraft which are owned free and clear, and four aircraft subject to operating leases.

Commitments and Contractual Obligations

The following table discloses aggregate information about our contractual cash obligations as of December 31, 2006 and the periods in which payments are due (in thousands):

	Total	Less than 1 yr	1 to 3 yrs	4 to 5 yrs	More than 5 yrs
Long-term debt obligations	$ 56,848	$ 14,246	$ 26,155	$ 16,447	$
Capital lease obligations	30,620	6,000	12,000	12,620	
Operating lease obligations	6,584	3,884	2,521	140	39
Total future payments on contractual obligations	$ 94,052	$ 24,130	$ 40,676	$ 29,207	$ 39

The long-term debt obligations listed in the above table include scheduled interest payments.

Updated information concerning our commitments and contractual obligations is disclosed in the risk factor on page 15.

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OFF-BALANCE SHEET ARRANGEMENTS

We have significant obligations for aircraft that are classified as operating leases and therefore are not reflected on our balance sheet. As of July 31, 2007, four of the 29 aircraft in our fleet were subject to operating leases. These leases expire in 2008 (two aircraft) and 2012 (two aircraft).

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations is based upon 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. Note 1 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. These estimates and judgments 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. 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.

Revenue Recognition. Scheduled service revenues consist of passenger revenue which is recognized when the travel-related service or transportation is provided or when the ticket expires unused. Nonrefundable tickets expire on the date of the intended flight, unless the date is extended by notification from the customer in advance of the intended flight. Tickets sold, but not yet used, as well as unexpired credits, are included in air traffic liability.

Fixed fee contract revenues consists largely of long term agreements to provide charter service on a seasonal and ad hoc basis. Fixed fee contract revenues are recognized when the transportation is provided. Under certain of our fixed fee contracts, if fuel exceeds a predetermined cost per gallon, reimbursements are received from the customer and netted against fuel expense.

Ancillary revenues are generated from the sale of hotel rooms and rental cars, advance seat assignments, in-flight products and other items. Revenues from the sale of hotel rooms and rental cars are recognized at the time the room is occupied or rental car utilized. The amount of revenues attributed to each element of a bundled sale involving hotel rooms and rental cars in addition to airfare is determined in accordance with Emerging Issues Task Force (EITF) No. 00-21: *Revenue Arrangements with Multiple Deliverables*. The sale of hotel rooms, rental cars and other ancillary products are recorded net of amounts paid to wholesale providers, travel agent commissions and credit card processing fees and are reported in accordance with EITF No. 99-19: *Reporting Revenue Gross As A Principal Versus Net As An Agent*.

Accounting for Long-Lived Assets. When appropriate, we evaluate our long-lived assets in accordance with Statement of Financial Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. We record impairment losses on long-lived assets used in operations when events or circumstances indicate that the assets may be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the net book value of those assets. In making these determinations, we utilize certain assumptions, including, but not limited to: (i) estimated fair market 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 the asset will be used in our operations, and estimated salvage values.

We have approximately $150.0 million of long-lived assets as of December 31, 2006 on a cost basis, which includes approximately $146.5 million of aircraft and related flight equipment.

Aircraft maintenance and repair costs. Maintenance and repair costs for flight equipment are accounted for using the direct expense method. Under this method, maintenance and repair costs for owned and leased aircraft, including major overhaul maintenance costs, are charged to operating expenses as incurred. Maintenance deposits paid to aircraft lessors in advance of the performance of major maintenance activities are recorded as prepaid maintenance deposits, and then recognized as maintenance expense when the underlying maintenance is performed. These deposits are calculated based on a performance measure, such as flight hours or cycles, and are available for reimbursement to us upon the completion of the maintenance of the leased aircraft. If there are sufficient funds on deposit to reimburse us for the invoices initially paid by us for these maintenance events, they are reimbursed to us. If at any point we determine it is not probable we will recover amounts retained by the lessor through future maintenance events, such amounts are expensed.

The maintenance deposits paid under our lease agreements do not transfer either the obligation to maintain the aircraft or the cost risk associated with the maintenance activities to the aircraft lessor. In addition, we maintain the right to select any third-party maintenance provider. Therefore, we record these amounts as deposits on our balance sheet and then recognize maintenance expense when the underlying maintenance is performed, in accordance with our maintenance accounting policy. Maintenance deposits totaled $2.8 million and $3.2 million as of December 31, 2006 and December 31, 2005, respectively. Any amounts that are not probable of being used to fund future maintenance expense would be recognized as additional aircraft lease rentals.

In determining whether it is probable that maintenance deposits will be used to fund the cost of maintenance events, we conduct the following analysis:

1) At the time of delivery of each aircraft under lease, we evaluate the aircraft s condition, including the airframe, the engines, the auxiliary power unit and the landing gear.

2) Future usage of the aircraft is projected during the term of the lease based on our business and fleet plan.

3) We estimate the cost of performing all required maintenance during the lease term. These estimates are based on the extensive experience of our management and industry available data, including historical fleet operating statistic reports published by the engine manufacturer, Pratt & Whitney.

We review this asset (the maintenance deposits) for potential impairment in the preparation of our financial statements. Because there have been no material changes to the estimated cost of expected maintenance events during the remaining term of the leases, no impairment charge was recognized for the years ended December 31, 2006, 2005 or 2004.

Fuel Derivatives. We account for fuel derivatives pursuant to the provisions of SFAS No. 133, *Accounting For Derivative Instruments and Hedging Activities*. Since we have not historically qualified for hedge accounting, changes in the fair value of these derivative contracts are required to be included in Other (income) expense.

Short-term Investments. We maintain a liquid portfolio of investments that are available for current operations and to satisfy on-going obligations. We have classified our short-term investments as available for sale and accordingly, unrealized gains or losses are reported as a component of comprehensive income in shareholders /members equity.

Share-based compensation. We have issued common stock and stock options to executives and employees pursuant to our share option program. In addition, we have issued warrants to the placement

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agent involved in our May 2005 issuance of redeemable convertible preferred shares. In December 2006, we issued 100,000 shares of restricted stock upon the effective date of our initial public offering to employees at the manager level and below.

Prior to January 1, 2006, we accounted for our share based compensation pursuant to the provisions of APB Opinion No. 25 *Accounting for Stock Issued to Employees*, FIN No. 44 *Accounting for Certain Transactions involving Stock Compensation an Interpretation of APB No. 25* and SFAS No. 123, *Accounting For Stock-Based Compensation*. In addition, for equity based instruments issued to non-employees, we evaluate the guidance in EITF 96-18 *Accounting For Equity Instruments that are issued to other than Employees for acquiring, or in conjunction with selling, goods or services*.

Our share based compensation programs are intended to grant awards priced at or above the fair market value of our common stock at the date of grant. Before our stock was publicly traded, we measured fair value based on a variety of metrics including the share price of peer group publicly traded airline companies and airline stock prices in general, consultation with third parties such as our investment advisors and outside consultants and individual attributes of our company including our existing financial condition as well as future operating prospects. We have historically used the Black Scholes option pricing model to establish the fair market value of our stock options and warrants and have supported our valuation assumptions based on the information sources identified above. In those situations where the fair market value of the common stock is equal to or less than the exercise price of the stock option at the date of grant, no compensation expense has been recognized. Compensation expense would be recognized when the fair market value is greater than the exercise price of the stock option award and would be amortized over the vesting period. For direct purchases of common stock awarded to executives, the difference would be recognized immediately as compensation expense.

Our adoption of SFAS No. 123(R), *Share Based Payment*, as of January 1, 2006 requires the recording of stock-based compensation expense for issuances under our long-term incentive plan over the requisite service period using a fair value approach similar to the prior pro forma disclosure requirements of SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123(R) does not mandate an option-pricing model to be used in determining fair value, but requires that the model selected consider certain variables. Different models would result in different valuations. Regardless of the method selected, significant judgment is required for some of the valuation variables. The most significant of these is the volatility of our common stock and the estimated term over which our stock options will be outstanding. The valuation calculation is sensitive to even slight changes in these estimates. Although there will be no impact to our overall cash flows, the adoption of SFAS No. 123(R) will have a significant impact on our results of operations.

In December 2006, we issued 100,000 restricted shares under our long-term incentive plan which have been allocated as of the date of our initial public offering among our employees at the manager level or below. As required by SFAS No. 123(R), the fair value of the shares at the date of issuance, which will be based on our initial offering price, will be expensed ratably over the three-year vesting period. The total compensation expense from this restricted share grant will be $18.00 per share for a total expense of $1.8 million which will be recognized over a three-year period.

Prior to our initial public offering in December 2006, there was no public market for our common stock, and in connection with our issuance of stock or granting of stock options, the fair value for our common stock was estimated by our board of directors. Our board of directors exercised judgment in determining the estimated fair value of our common stock on the date of sale or grant.

Market Risk-Sensitive Instruments and Positions

We are subject to certain market risks, including commodity prices (specifically, aircraft fuel). The adverse effects of changes in these markets could pose a potential loss as discussed below. The sensitivity analysis does not consider the effects that such adverse changes may have on overall economic activity, nor does it consider additional actions we may take to mitigate our exposure to such changes. Actual results may differ. See the Notes to the Consolidated Financial Statements for a description of our significant accounting policies and additional information.

Aircraft Fuel

Our results of operations can be significantly impacted by changes in the price and availability of aircraft fuel. Aircraft fuel expense for the years ended December 31, 2006 and 2005 represented approximately 46.0% and 42.4% of our operating expenses, respectively. Increases in fuel prices or a shortage of supply could have a material effect on our operations and operating results. Based on our 2006 fuel consumption, a hypothetical ten percent increase in the average price per gallon of aircraft fuel for the year ended December 31, 2006, would have increased fuel expense for the twelve month period by approximately $10.4 million. To manage the aircraft fuel price risk, we use jet fuel and heating oil option contracts or swap agreements. As of June 30, 2007, we had hedged approximately 20% of our projected 2007 fuel requirements. As of the same date, all existing fuel hedge contracts were to settle by the end of January 2008.

The fair value of our fuel derivative contracts as of June 30, 2007 was $0.8 million. We measure the fair value of the derivative instruments based on either quoted market prices or values provided by the counterparty. Changes in the related commodity derivative instrument cash flows may change by more or less than this amount based upon further fluctuations in futures prices. Outstanding financial derivative instruments expose us to credit loss in the event of nonperformance by the counterparties to the agreements. However, we do not expect the counterparties to fail to meet their obligations.

Interest Rates

We have market risk associated with changing interest rates due to the short-term nature of our invested cash, which totaled $185.8 million, at June 30, 2007. We invest available cash in certificates of deposit, investment grade commercial paper, and other highly rated financial instruments. Because of the short-term nature of these investments, the returns earned closely parallel short-term floating interest rates. for the six months ended June 30, 2007 and 2006, a hypothetical 100 basis point change in interest rates would have affected interest income from cash and investments by $0.4 million and $0.1 million, respectively.

Our long-term debt consists of fixed rate notes payable and capital lease arrangements. A hypothetical 100 basis point change in market interest rates as of June 30, 2007, would not have a material effect on the fair value of our fixed rate debt instruments.

BUSINESS

Business Overview

We are a leisure travel company focused on linking travelers in small cities to world-class leisure destinations such as Las Vegas, Nevada, Orlando, Florida and Tampa/St. Petersburg, Florida. We have announced we will be commencing service in fourth quarter 2007 to the leisure destinations of Ft. Lauderdale, Florida and Phoenix-Mesa, Arizona. We operate a low-cost passenger airline marketed to leisure travelers in small cities, allowing us to sell air travel both on a stand-alone basis and bundled with hotel rooms, rental cars and other travel related services. Our route network, pricing philosophy, advertising and diversified product offering built around relationships with premier leisure companies are all intended to appeal to leisure travelers and make it attractive for them to purchase air travel and related services from us.

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

- *Scheduled service revenues* currently consist of limited frequency nonstop flights between our leisure destinations and our small city markets.

- *Fixed fee contract revenues* consist largely of long-term agreements with Harrah s Entertainment Inc. that provide for a predictable revenue stream. We also provide charter service on a seasonal and ad hoc basis to affiliates of Harrah s Entertainment Inc. and others.

- *Ancillary revenues* are generated from the sale of hotel rooms, rental cars, advance seat assignments, in-flight products and other items sold in conjunction with our scheduled air service.

Our strategy is to develop the leisure travel market in small cities by providing nonstop low fare scheduled service to world-class leisure destinations. We currently provide service to Las Vegas, Nevada, Orlando, Florida, and Tampa/St. Petersburg, Florida, three of the largest and most popular leisure destinations in the United States. We recently announced that in the fourth quarter of 2007 we will commence service to two more popular U.S. leisure destinations, Phoenix-Mesa Arizona and Ft. Lauderdale, Florida. We have positioned our business to take advantage of current lifestyle and demographic trends in the U.S. we believe are positive drivers for the leisure travel industry. The most notable demographic shift occurring in the U.S. is the aging of the baby boom generation as they enter their peak earning years and have more time and disposable income to spend on leisure travel. We believe a large percentage of our customers fall within the baby boomer demographic and we target these customers through the use of advertisements in more than 300 print circulations as of August 15, 2007.

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

Traditional Airline Approach	Allegiant Approach
• Focus on business traveler	• Focus on leisure traveler
• Provide high frequency service	• Provide low frequency service from small cities
• Use smaller aircraft to provide connecting service from smaller markets through hubs	• Use larger jet aircraft to provide nonstop service from small cities direct to leisure destinations
• Sell through various intermediaries	• Sell only directly to travelers without participation in global distribution systems
• Offer flight connections	• No connecting flights offered
• Use frequent flyer programs and code-share arrangements to increase passenger traffic	• Do not use frequent flyer programs or code-share arrangements
• Provide amenities to passengers free of charge whether or not they are of value to them	• Provide amenities such as advance seat assignments, snacks, and drinks, at a small charge to passengers

Our business model has allowed us to grow rapidly and to achieve attractive rates of profitability, even during the present climate of high fuel costs. For the year ending December 31, 2006, we had revenue of $243.3 million, representing substantial growth of 83.7% over the year ended December 31, 2005, while maintaining an operating margin of 9.3%. We had operating income of $8.5 million in 2005 and $22.6 million in 2006. Our net income was $7.3 million in 2005 and, despite a $6.4 million one-time non-cash tax charge resulting from our reorganization to a C-corporation, $8.7 million in 2006. In the first six months of 2007, we had revenue of $173.3 million, operating income of $28.5 million and net income of $19.7 million, reflecting significant growth over revenue of $119.3 million, operating income of $12.3 million and net income of $11.5 million in the first six months of 2006.

We currently have fixed fee flying contracts with two separate subsidiaries of Harrah s Entertainment Inc., which collectively accounted for 8.2% of our total revenues in 2006, 14.9% of our total revenues in 2005, and 20.6% of total revenues in 2004.

Our Competitive Strengths

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

Focus on Linking Small Cities to World-Class Leisure Destinations. As of August 15, 2007, we provide nonstop low fare scheduled air service from 50 small cities (including seasonal service) primarily to the world-class leisure destinations of Las Vegas, Nevada, Orlando, Florida, and Tampa/St. Petersburg, Florida. We have announced that we will be adding two new leisure destinations, Ft. Lauderdale, Florida, and Phoenix-Mesa, Arizona, in fourth quarter 2007. We have announced service from five new small cities to commence before the end of 2007. Frequently, when we enter a new market, we introduce nonstop service to our leisure destinations which previously did not exist. We believe this nonstop service, combined with our pricing philosophy and premier leisure company relationships, makes it attractive for leisure travelers to purchase air travel and related services from us. We selected Las Vegas, Orlando and Tampa/St. Petersburg as our initial destination cities to capitalize on the popularity and promotion of both markets as leisure destinations. We expect to benefit from the strong projected growth of tourist visits to these markets. We believe Ft. Lauderdale and Phoenix-Mesa will also be attractive leisure destinations for our small city markets.

By focusing on underserved small cities, we believe we avoid the overcapacity and intense competition presently seen in high traffic domestic air corridors (for example, New York to the Los Angeles basin). In our typical small city market, travelers faced high airfares, cumbersome connections and long drives to major airports to reach Las Vegas, Orlando or Tampa/St. Petersburg before the introduction of our service. In 70 of our 78 routes as of August 15, 2007, we are the only carrier providing nonstop service. Of the 109 routes we have announced we will be serving by the end of 2007, there are only eight routes with existing or announced nonstop service by other airlines. As a result, we believe we stimulate new traffic. Based on published data from the U.S. Department of Transportation (DOT), we believe the initiation of our service stimulates demand as there has been a substantial increase in traffic on the routes we serve. For these reasons, we believe our market strategy has had the benefit of not appearing hostile to either legacy carriers, whose historical focus has been connecting small cities to business markets, or traditional low cost carriers or LCCs, which have tended to focus on larger markets.

We believe it would be difficult for potential competitors to profitably contest our market positions with nonstop service as our markets are generally too small to support either two entrants or the high frequency service provided by most legacy carriers and LCCs. In addition, leisure routes from small cities are generally too low-yielding for most carriers to prioritize. Moreover, while some of these markets may be suitable for service with regional aircraft, we believe our unit costs are significantly less than the unit costs for most regional aircraft, making it difficult for the regional aircraft to effectively compete. Further, many of our markets have a stage length beyond the comfortable range of regional aircraft.

Low Operating Costs. We believe low costs are essential to competitive success in the airline industry today. Our cost per available seat mile was 7.78¢ for the first six months of 2007 and 7.69¢ and 7.41¢ for the years ended December 31, 2006 and 2005, respectively. Our cost per available seat mile or CASM for 2006 increased only 3.8% over the prior year despite significantly higher fuel costs. Excluding the cost of fuel, our CASM was 4.20¢ for the first six months of 2007, 4.15¢ for 2006 and 4.27¢ for 2005.

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

- *Cost-Driven Schedule.* We design our flight schedule to concentrate most of our aircraft each night in our leisure destinations. This concentration allows us to better utilize our personnel, airport facilities, aircraft, spare parts inventories, and other assets. For example, we are able to reduce costs associated with maintenance, airport operations and flight crews staying overnight away from home. We are able to do this because we believe leisure travelers are generally less concerned about departure and arrival times than business travelers. Therefore, we are able to schedule flights at times that permit us to concentrate our aircraft and optimize our efficiency.

- *Low Aircraft Ownership Costs.* We believe we properly balance low aircraft ownership costs and low operating costs to minimize our total costs. As of August 15, 2007, we operate one fleet type consisting of 29 MD80 series aircraft. Used MD80 series equipment is widely available today, and we believe the ownership cost of the used MD80s sought by us are more than 80% lower than comparably sized new Airbus A320 and Boeing 737 aircraft. While used MD80 aircraft are less fuel efficient than new aircraft, we believe the ownership cost advantages of MD80s currently outweigh the operating cost savings of new equipment. By limiting the types of aircraft we operate we are able to increase cost savings as maintenance issues are simplified, spare parts inventory requirements are reduced, scheduling is more efficient and training costs are lower. Flying fewer types of aircraft also allows our employees to become highly knowledgeable about those aircraft, thereby increasing their efficiency and productivity. While we continually review our fleet composition, any decision to introduce a new or replacement fleet type will be made only after carefully weighing the performance and profitability benefits of doing so against the cost benefits of maintaining simplified operations.

• *Highly Productive Workforce*. We believe we have one of the most productive workforces in the U.S. airline industry with approximately 39.3 full-time equivalent employees per aircraft as of August 1, 2007, which compares to an industry range of from 57 to more than 100 full-time equivalent employees per aircraft, based on publicly available information. Our high level of employee productivity is created by fleet commonality, fewer unproductive labor work rules, cost-driven scheduling, and the effective use of automation and part-time employees. Additionally, our highly integrated automation system allows us to minimize corporate overhead functions. We benefit from a highly motivated, enthusiastic workforce committed to high standards of friendly and reliable service. We invest a significant amount of time and resources into carefully developing our training practices and selecting individuals to join our team who share our focus on ingenuity and continuous improvement. We conduct ongoing training programs to incorporate industry best practices and encourage strong and open communication channels among all of the members of our team so we can continue to improve the quality of the services we provide.

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

• *Low Distribution Costs*. Our nontraditional distribution approach results in very low distribution costs. We do not sell our product through outside sales channels and, as such, avoid the fees charged by travel web sites (such as Expedia, Orbitz or Travelocity) and the traditional global distribution systems (such as Sabre or Worldspan). Our customers can only purchase travel at our airport ticket counters or, for a fee, through our telephone reservation center or website. We actively encourage sales on our website. This is the least expensive form of distribution and accounted for 85.9% of our scheduled service revenue during 2006 and 87.2% of our scheduled service revenue during the first six months of 2007. We believe our percentage of website sales is among the highest in the U.S. airline industry. Further, we are 100% ticketless, which saves printing, postage, and back-office processing expenses.

Growing Ancillary Revenues. Ancillary revenues are earned in conjunction with the sale of scheduled air service and represent a significant, growing revenue stream. Our ancillary revenues have grown from $3.1 million in 2004, to $11.2 million in 2005, and $31.3 million in 2006. On a per scheduled service passenger basis, our ancillary revenues increased from $5.87 per scheduled service passenger in 2004, to $11.55 in 2005 and increased further to $16.11 in 2006 and $20.02 in the first six months of 2007. Ancillary revenue is derived from the sale of vacation packages including hotels, rental cars, show tickets, night club packages and other attractions; the sale of advance seat assignments; the sale of beverages, snacks and other products on board the aircraft; charging a fee for using our reservation center or website to purchase air travel; the collection of checked bag and overweight bag charges; and several other revenue streams. The largest component of our ancillary revenue is from the sale of hotel rooms packaged with air travel. As of August 15, 2007, we have agreements with 40 hotels in Las Vegas, including hotels managed by MGM MIRAGE, Harrah s Entertainment Inc., Boyd s Gaming Corp., Wynn Resorts, Limited, and Las Vegas Sands Corp., 41 hotels in Orlando (plus 17 additional hotels in nearby Daytona Beach, Florida), 12 hotels in Tampa/St. Petersburg and eight hotels in Palm Springs, California. We have also recently begun to sell rooms at six hotels in Gulfport-Biloxi serving passengers from Florida and eight hotels in Reno serving passengers from Bellingham. In anticipation of our commencement of service, we have agreements with six hotels in the Ft. Lauderdale, Florida area and 18 hotels in the Phoenix-Mesa, Arizona area. During 2006, we generated revenue from the sale of more than 344,000 hotel room nights. We believe the favorable breadth and terms of these contracts would be difficult for others to replicate quickly. For the year ended

December 31, 2006, approximately 20.8% of our customers traveled on an itinerary that included a hotel room purchased through us.

Strong Financial Position. We have a strong financial position with significant cash balances. As of June 30, 2007, we had $185.8 million of cash and cash equivalents. As of June 30, 2007, our total debt was $65.0 million and our debt to total capitalization ratio was 24.8%. We also have a history of growing profitably, having generated net income in 15 of the last 18 quarters. We believe our strong financial position allows us to have greater financial flexibility to grow the business and weather sudden industry disruptions.

Proven Management Team. We have a strong management team comprised of experienced and motivated individuals. Our management team is led by Maurice J. Gallagher, Jr., who has an extensive background in the airline industry. Mr. Gallagher was the president of WestAir Holdings, Inc. and built WestAir into one of the largest regional airlines in the U.S., prior to its sale in 1992 to Mesa Air Group. He was also one of the founders of ValuJet, Inc., which is known today as AirTran Holdings, Inc., which we believe was one of the most successful start-ups of a low-cost carrier in industry history. Three of our other executive officers are former managers of ValuJet or WestAir. Our directors also have significant experience in the airline industry and were intimately involved in several airline successes. These include Robert L. Priddy, a founder and former chairman and chief executive officer of ValuJet, Inc.

Our Business Strategy

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

The following are the key elements of our strategy:

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

Since the beginning of 2004, we have expanded our scheduled air service from six to 50 small cities as of August 15, 2007 (including seasonal service) primarily to Las Vegas, Orlando and Tampa/St. Petersburg and have announced service from five additional small cities to commence before the end of 2007. We have also recently announced we will be commencing service to two new leisure destinations, Ft. Lauderdale and Phoenix-Mesa, in fourth quarter 2007. These 55 small cities have an aggregate population in excess of 50 million people within a 50-mile radius of the airports in those cities. In several of these cities, we provide service to more than one of our leisure destinations. We expect to grow our three initial leisure destinations by adding frequency from some existing markets and adding service from additional small cities. We have identified at least 45 additional small cities in the U.S. and Canada where we could potentially offer our low fare nonstop service to our leisure destinations.

We also believe there are several other world-class leisure destinations that share many of the same characteristics as Las Vegas, Orlando, Tampa/St. Petersburg, Ft. Lauderdale and Phoenix-Mesa. These potential markets include several popular vacation destinations in the U.S., Mexico and the Caribbean.

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

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

- *Expand and Add Partnerships with Premier Leisure Companies*. We currently work with many premier leisure companies in Las Vegas, Orlando and Tampa/St. Petersburg that provide ancillary products and services we sell to our customers. For example, we have contracts with Harrah s Entertainment and MGM MIRAGE, among others, that allow us to provide hotel rooms sold in packages to our customers. During 2006, we generated revenue from the sale of more than 344,000 hotel rooms. By expanding our existing relationships and seeking additional partnerships with premier leisure companies, we believe we can increase the number of products and services offered to our customers and generate more ancillary revenue.

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

Continue to Reduce Our Operating Costs. We intend to continue to focus on lowering our costs to remain one of the lowest cost airlines in the world, which we believe is instrumental to increasing profitability. We will drive operational efficiency and lower costs principally by growing our network. We will expand our network by increasing the frequency of our flights in existing markets, expanding the number of small cities we serve, and increasing the number of leisure destinations, all of which permits us to increase the utilization of our employees and assets, spreading our fixed costs over a larger number of available seat miles. In 2005 we averaged 184.7 block hours per aircraft per month, while during 2006, we averaged 202.7 block hours per aircraft per month.

Minimize Fixed Costs to Increase Strategic Flexibility. We believe our low aircraft ownership costs and the lower fixed costs associated with our small city market strategy provide us with a lower level of fixed costs than other U.S. airlines. We believe minimizing our level of fixed costs will provide us with added flexibility in scheduling our services and controlling our profitability. For example, with lower fixed costs we are better able to enter or exit markets as well as match the size and utilization of our fleet to limit unprofitable flying and maximize profitability. We match our frequency with market demand on a daily and seasonal basis.

Routes and Schedules

Our scheduled air service predominantly consists of limited frequency, nonstop flights into Las Vegas, Orlando and Tampa/St. Petersburg from small cities (including seasonal service). As of August 15, 2007,

our route network, including announced service to be commenced before the end of 2007, consists of the following:

LAS VEGAS

Market