

Spirit Airlines, Inc.  
Form 10-Q  
October 25, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35186

SPIRIT AIRLINES, INC.  
(Exact name of registrant as specified in its charter)

Delaware 38-1747023  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

2800 Executive Way 33025  
Miramar, Florida  
(Address of principal executive offices) (Zip Code)

(954) 447-7920  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the close of business on October 18, 2016:

| Class                            | Number of Shares |
|----------------------------------|------------------|
| Common Stock, \$0.0001 par value | 69,322,496       |

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## PART I. Financial Information

## ITEM 1. UNAUDITED CONDENSED FINANCIAL STATEMENTS

Spirit Airlines, Inc.

Condensed Statements of Operations

(unaudited, in thousands, except per share amounts)

|                                    | Three Months Ended |           | Nine Months Ended |           |
|------------------------------------|--------------------|-----------|-------------------|-----------|
|                                    | September 30,      |           | September 30,     |           |
|                                    | 2016               | 2015      | 2016              | 2015      |
| Operating revenues:                |                    |           |                   |           |
| Passenger                          | \$331,004          | \$319,812 | \$900,031         | \$901,851 |
| Non-ticket                         | 290,325            | 255,029   | 843,574           | 719,766   |
| Total operating revenues           | 621,329            | 574,841   | 1,743,605         | 1,621,617 |
| Operating expenses:                |                    |           |                   |           |
| Aircraft fuel                      | 121,844            | 115,899   | 321,018           | 356,232   |
| Salaries, wages and benefits       | 120,190            | 95,081    | 349,530           | 281,175   |
| Aircraft rent                      | 49,367             | 53,525    | 151,433           | 159,440   |
| Landing fees and other rents       | 39,345             | 34,577    | 114,096           | 98,487    |
| Distribution                       | 25,565             | 23,074    | 73,190            | 65,920    |
| Maintenance, materials and repairs | 30,443             | 21,473    | 72,010            | 61,904    |
| Depreciation and amortization      | 25,304             | 19,628    | 73,370            | 51,630    |
| Other operating                    | 66,277             | 54,151    | 197,833           | 156,071   |
| Loss on disposal of assets         | 423                | 290       | 1,166             | 1,300     |
| Special charges (credits)          | 7,355              | (76)      | 31,609            | 673       |
| Total operating expenses           | 486,113            | 417,622   | 1,385,255         | 1,232,832 |
| Operating income                   | 135,216            | 157,219   | 358,350           | 388,785   |
| Other (income) expense:            |                    |           |                   |           |
| Interest expense                   | 11,362             | 5,951     | 29,588            | 13,182    |
| Capitalized interest               | (3,067)            | (3,030)   | (9,163)           | (8,392)   |
| Interest income                    | (1,222)            | (233)     | (4,235)           | (544)     |
| Other expense                      | 180                | 166       | 407               | 282       |
| Total other (income) expense       | 7,253              | 2,854     | 16,597            | 4,528     |
| Income before income taxes         | 127,963            | 154,365   | 341,753           | 384,257   |
| Provision for income taxes         | 46,581             | 57,251    | 125,367           | 141,437   |
| Net income                         | \$81,382           | \$97,114  | \$216,386         | \$242,820 |
| Basic earnings per share           | \$1.17             | \$1.35    | \$3.06            | \$3.35    |
| Diluted earnings per share         | \$1.17             | \$1.35    | \$3.05            | \$3.34    |

The accompanying Notes are an integral part of these Condensed Financial Statements.

Spirit Airlines, Inc.  
Condensed Statements of Comprehensive Income  
(unaudited, in thousands)

|  | Three Months<br>Ended September<br>30, |          | Nine Months Ended<br>September 30, |           |
|--|--|----------|------------------------------------|-----------|
|  | 2016                                   | 2015     | 2016                               | 2015      |
| Net income   | \$81,382                               | \$97,114 | \$216,386                          | \$242,820 |
| Unrealized gain (loss) on interest rate derivative instruments, net of deferred taxes of \$0, (\$320), \$0 and (\$511) | —                                      | (553 )   | —                                  | (909 )    |
| Unrealized gain (loss) on investment securities, net of deferred taxes of \$3, \$0, \$3 and \$0                        | 4                                      | —        | 4                                  | —         |
| Interest rate swap losses reclassified into earnings, net of taxes of \$32, \$15, \$97 and \$15                        | 56                                     | 25       | 170                                | 25        |
| Other comprehensive income (loss)  | \$60                                   | \$(528 ) | \$174                              | \$(884 )  |
| Comprehensive income   | \$81,442                               | \$96,586 | \$216,560                          | \$241,936 |

The accompanying Notes are an integral part of these Condensed Financial Statements.

Spirit Airlines, Inc.  
Condensed Balance Sheets  
(unaudited, in thousands)

|   | September 30,<br>2016 | December 31,<br>2015 |
|---|-----------------------|----------------------|
| Assets  |                       |                      |
| Current assets:                                 |                       |                      |
| Cash and cash equivalents                       | \$ 825,904            | \$ 803,632           |
| Investment securities                           | 100,083               | —                    |
| Accounts receivable, net                        | 35,892                | 28,266               |
| Aircraft maintenance deposits                   | 87,105                | 73,415               |
| Prepaid income taxes                            | 6,060                 | 72,278               |
| Prepaid expenses and other current assets       | 48,455                | 48,749               |
| Total current assets                            | 1,103,499             | 1,026,340            |
| Property and equipment:                         |                       |                      |
| Flight equipment                                | 1,386,310             | 834,927              |
| Ground property and equipment                   | 109,451               | 74,814               |
| Less accumulated depreciation                   | (105,653 )            | (65,524 )            |
|   | 1,390,108             | 844,217              |
| Deposits on flight equipment purchase contracts | 272,690               | 286,837              |
| Long-term aircraft maintenance deposits         | 198,426               | 206,485              |
| Deferred heavy maintenance, net                 | 79,878                | 89,127               |
| Other long-term assets                          | 85,024                | 77,539               |
| Total assets                                    | \$ 3,129,625          | \$ 2,530,545         |
| Liabilities and shareholders' equity            |                       |                      |
| Current liabilities:                            |                       |                      |
| Accounts payable                                | \$ 29,906             | \$ 17,043            |
| Air traffic liability                           | 238,793               | 216,831              |
| Current maturities of long-term debt            | 84,443                | 49,637               |
| Other current liabilities                       | 217,779               | 182,729              |
| Total current liabilities                       | 570,921               | 466,240              |
| Long-term debt, less current maturities         | 894,809               | 596,693              |
| Long-term deferred income taxes                 | 299,231               | 221,481              |
| Deferred gains and other long-term liabilities  | 20,108                | 20,821               |
| Shareholders' equity:                           |                       |                      |
| Common stock                                    | 7                     | 7                    |
| Additional paid-in-capital                      | 549,375               | 544,277              |
| Treasury stock, at cost                         | (218,572 )            | (116,182 )           |
| Retained earnings                               | 1,015,140             | 798,754              |
| Accumulated other comprehensive loss            | (1,394 )              | (1,546 )             |
| Total shareholders' equity                      | 1,344,556             | 1,225,310            |
| Total liabilities and shareholders' equity      | \$ 3,129,625          | \$ 2,530,545         |

The accompanying Notes are an integral part of these Condensed Financial Statements.



Spirit Airlines, Inc.  
Condensed Statements of Cash Flows  
(unaudited, in thousands)

|   | Nine Months Ended<br>September 30, |            |
|---|------------------------------------|------------|
|   | 2016                               | 2015       |
| Operating activities:   |                                    |            |
| Net income  | \$216,386                          | \$242,820  |
| Adjustments to reconcile net income to net cash provided by operations: |                                    |            |
| Unrealized losses on open derivative contracts, net                     | —                                  | 2,239      |
| Losses reclassified from other comprehensive income                     | 267                                | —          |
| Equity-based compensation   | 5,503                              | 6,999      |
| Allowance for doubtful accounts   | 213                                | 7          |
| Amortization of deferred gains and losses                               | 3,837                              | 730        |
| Depreciation and amortization   | 73,370                             | 51,630     |
| Deferred income tax expense   | 77,627                             | 63,960     |
| Loss on disposal of assets  | 1,166                              | 1,300      |
| Lease termination cost  | 31,609                             | —          |
| Changes in operating assets and liabilities:                            |                                    |            |
| Accounts receivable   | (7,840 )                           | (10,374 )  |
| Aircraft maintenance deposits   | (38,299 )                          | (17,488 )  |
| Prepaid income taxes  | 66,218                             | —          |
| Long-term deposits and other assets                                     | (43,252 )                          | (44,294 )  |
| Accounts payable  | (7,044 )                           | 2,340      |
| Air traffic liability   | 21,684                             | 56,960     |
| Other liabilities   | 38,596                             | 12,161     |
| Net cash provided by operating activities                               | 440,041                            | 368,990    |
| Investing activities:   |                                    |            |
| Proceeds from sale of property and equipment                            | 50                                 | —          |
| Capitalized interest  | (7,032 )                           | (2,707 )   |
| Pre-delivery deposits for flight equipment, net of refunds              | (109,260 )                         | (87,658 )  |
| Purchase of investment securities                                       | (100,076 )                         | —          |
| Purchase of property and equipment                                      | (447,455 )                         | (451,799 ) |
| Net cash used in investing activities                                   | (663,773 )                         | (542,164 ) |
| Financing activities:   |                                    |            |
| Proceeds from issuance of long-term debt                                | 378,569                            | 416,000    |
| Proceeds from stock options exercised                                   | 92                                 | 32         |
| Payments on debt and capital lease obligations                          | (29,663 )                          | (16,609 )  |
| Proceeds from sale and leaseback transactions                           | —                                  | 7,300      |
| Excess tax benefit (deficiency) from equity-based compensation          | (497 )                             | 8,818      |
| Repurchase of common stock  | (102,390 )                         | (112,162 ) |
| Debt issuance costs   | (107 )                             | (14,092 )  |
| Net cash provided by financing activities                               | 246,004                            | 289,287    |
| Net increase in cash and cash equivalents                               | 22,272                             | 116,113    |
| Cash and cash equivalents at beginning of period                        | 803,632                            | 632,784    |
| Cash and cash equivalents at end of period                              | \$825,904                          | \$748,897  |
| Supplemental disclosures  |                                    |            |
| Cash payments for:  |                                    |            |
| Interest, net of capitalized interest                                   | \$26,025                           | \$3,851    |

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|                                   |                      |
|-----------------------------------|----------------------|
| Income taxes paid, net of refunds | \$(18,169 ) \$95,135 |
|-----------------------------------|----------------------|

The accompanying Notes are an integral part of these Condensed Financial Statements.

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## Notes to Condensed Financial Statements

(unaudited)

### 1. Basis of Presentation

The accompanying unaudited condensed financial statements include the accounts of Spirit Airlines, Inc. (the Company). These unaudited condensed financial statements reflect all normal recurring adjustments that management believes are necessary to fairly present the financial position, results of operations and cash flows of the Company for the respective periods presented. Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission for Form 10-Q. These unaudited interim condensed financial statements should be read in conjunction with the audited financial statements of the Company and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission on February 17, 2016.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect both the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

The interim results reflected in the unaudited condensed financial statements are not necessarily indicative of the results that may be expected for other interim periods or for the full year.

Certain prior period amounts have been reclassified to conform to the current year's presentation.

### 2. Recent Accounting Developments

#### Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2014-09, (ASU 2014-09), "Revenue from Contracts with Customers." The objective of ASU 2014-09 is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. ASU 2014-09 will supersede most of the existing revenue recognition guidance, including industry-specific guidance. The core principle of ASU 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. The new guidance is effective for the Company in the first quarter of 2018. Early adoption is permitted, but not before the first quarter of 2017. Entities have the option to use either a full retrospective or modified approach to adopt ASU 2014-09. The Company is currently evaluating the new guidance and has neither determined the full impact this standard may have on its financial statements nor decided upon the planned method of adoption. While the Company is still evaluating the impact, it expects the accounting for its frequent flier program to be impacted as ASU 2014-09 will no longer allow use of the incremental cost method when recording revenue related to the Company's loyalty programs. The Company also expects the classification and timing of recognition of certain ancillary fees to be impacted by adoption of ASU 2014-09.

#### Financial Instruments

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10)." ASU 2016-01 makes several modifications to Subtopic 825-10 including the elimination of the available-for-sale classification of equity investments, and requires equity investments with readily determinable fair values to be measured at fair value with changes in fair value recognized in net income. ASU 2016-01 is effective for interim and annual periods beginning after December 15, 2017 and is not expected to have a material impact on the Company's financial statements.

#### Leases

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." This standard will require all leases with durations greater than twelve months to be recognized on the balance sheet and is effective for the Company in the first quarter of 2019, with early adoption permitted. The Company is currently evaluating the new guidance and believes adoption of this standard will have a significant impact on its balance sheets although adoption is not expected to significantly change the

Notes to Condensed Financial Statements—(Continued)

recognition, measurement or presentation of lease expenses within the statements of operations and cash flows. See Note 8, Commitments and Contingencies for information regarding the Company's undiscounted future lease payments and the timing of those payments.

### Share-Based Compensation

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting," which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification on the statement of cash flows. The new guidance is effective for the Company in the first quarter of 2017, with early adoption permitted. The Company is in the process of evaluating the impact of adoption of this guidance on its financial statements.

### 3. Special Charges

During the three months ended September 30, 2016, the Company purchased three A319 aircraft which were formerly financed under operating lease agreements. The purchase price for the 3 aircraft was \$58.8 million, comprised of a cash payment of \$58.1 million and the application of security deposits held by the previous lessor of \$0.7 million. The Company estimated the fair value of the aircraft to be \$38.2 million and has recorded the 3 purchased aircraft within flight equipment on the condensed balance sheets. The Company determined the valuation of the aircraft based on a third-party appraisal considering the condition of each aircraft (a Level 3 measurement). The Company recognized \$7.4 million as a cost of terminating the leases within special charges on the condensed statement of operations, made up of the excess of the purchase price paid over the fair value of the aircraft, less previously expensed supplemental rent and other non-cash items of \$13.2 million.

During the nine months ended September 30, 2016, the Company purchased six A319 aircraft which were formerly financed under operating lease agreements. The purchase price for the 6 aircraft was \$124.7 million, comprised of cash payments of \$91.9 million and the application of maintenance and security deposits held by the previous lessors of \$32.8 million. The Company estimated the fair value of the aircraft to be \$79.4 million and has recorded the 6 purchased aircraft within flight equipment on the condensed balance sheets. The Company determined the valuation of the aircraft based on a third-party appraisal considering the condition of each aircraft (a Level 3 measurement). The Company recognized \$31.6 million as a cost of terminating the leases within special charges on the condensed statement of operations, made up of the excess of the purchase price paid over the fair value of the aircraft, less previously expensed supplemental rent and other non-cash items of \$13.7 million.

## Notes to Condensed Financial Statements—(Continued)

## 4. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per common share:

|   | Three Months<br>Ended September<br>30,   |          | Nine Months Ended<br>September 30, |           |
|---|--|----------|------------------------------------|-----------|
|   | 2016                                     | 2015     | 2016                               | 2015      |
|   | (in thousands, except per share amounts) |          |                                    |           |
| Numerator   |  |          |                                    |           |
| Net income  | \$81,382                                 | \$97,114 | \$216,386                          | \$242,820 |
| Denominator   |  |          |                                    |           |
| Weighted-average shares outstanding, basic            | 69,727                                   | 71,738   | 70,689                             | 72,432    |
| Effect of dilutive stock awards                       | 81                                       | 146      | 143                                | 248       |
| Adjusted weighted-average shares outstanding, diluted | 69,808                                   | 71,884   | 70,832                             | 72,680    |
| Net income per share                                  |  |          |                                    |           |
| Basic earnings per common share                       | \$1.17                                   | \$1.35   | \$3.06                             | \$3.35    |
| Diluted earnings per common share                     | \$1.17                                   | \$1.35   | \$3.05                             | \$3.34    |
| Anti-dilutive weighted-average shares                 | 122                                      | 57       | 87                                 | 47        |

## 5. Investment Securities

The Company's investment securities consist of available-for-sale asset-backed securities with contractual maturities of twelve months or less. These securities are stated at fair value within current assets on the Company's balance sheet. Realized gains and losses on sales of investments, if any, are reflected in nonoperating income (expense) in the statements of operations. Unrealized gains and losses on investment securities are reflected as a component of accumulated other comprehensive income, (AOCI).

During the third quarter of 2016, the Company invested \$100 million in available-for-sale investment securities, earning interest income at a weighted-average fixed rate of approximately 1.2%. For the three and nine months ended September 30, 2016, an unrealized gain of \$4 thousand, net of deferred taxes of \$3 thousand, was recorded within AOCI related to these investment securities. The Company has not recognized any realized gains or losses related to these securities as the Company has not transacted any sales of these securities.

## 6. Accrued Liabilities

Other current liabilities as of September 30, 2016 and December 31, 2015 consist of the following:

|   | September 30, December 31, |            |
|---|----------------------------|------------|
|   | 2016                       | 2015       |
|   | (in thousands)             |            |
| Salaries and wages  | \$45,696                   | \$ 34,123  |
| Federal excise and other passenger taxes and fees payable | 41,452                     | 38,254     |
| Aircraft maintenance                                      | 39,393                     | 21,688     |
| Airport obligations                                       | 36,788                     | 30,849     |
| Interest payable  | 14,796                     | 12,355     |
| Fuel  | 11,225                     | 7,084      |
| Aircraft and facility lease obligations                   | 11,117                     | 24,014     |
| Other   | 17,312                     | 14,362     |
| Other current liabilities                                 | \$217,779                  | \$ 182,729 |



## Notes to Condensed Financial Statements—(Continued)

## 7. Financial Instruments and Risk Management

As part of the Company's risk management program, the Company from time to time may use a variety of financial instruments to reduce its exposure to fluctuations in the price of jet fuel and interest rates. The Company does not hold or issue derivative financial instruments for trading purposes.

The Company is exposed to credit losses in the event of nonperformance by counterparties to these financial instruments. The Company periodically reviews and seeks to mitigate exposure to the financial deterioration and nonperformance of any counterparty by monitoring absolute exposure levels, credit ratings, and historical performance of counterparties relating to derivative transactions. The credit exposure related to these financial instruments is limited to the fair value of contracts in a net receivable position at the reporting date. The Company also maintains security agreements that require the Company to post collateral if the value of selected instruments falls below specified mark-to-market thresholds. The Company records financial derivative instruments at fair value, which includes an evaluation of each counterparty's credit risk.

## Fuel Derivative Instruments

The Company's fuel derivative contracts generally consist of United States Gulf Coast jet fuel swaps (jet fuel swaps) and United States Gulf Coast jet fuel options (jet fuel options). Both jet fuel swaps and jet fuel options are used at times to protect the refining price risk between the price of crude oil and the price of refined jet fuel and to manage the risk of increasing fuel prices. Fair value of the instruments is determined using standard option valuation models.

The Company accounts for its fuel derivative contracts at fair value and recognizes them in the balance sheet in prepaid expenses and other current assets or other current liabilities. The Company did not enter into any fuel derivative instruments during the three and nine months ended September 30, 2016. The Company did not elect hedge accounting on any fuel derivative instruments entered into during the three and nine months ended September 30, 2015 and, as a result, changes in the fair value of these fuel derivative contracts are recorded in aircraft fuel expense. During the three and nine months ended September 30, 2016, the Company did not pay any premiums to acquire jet fuel options. During the three and nine months ended September 30, 2015, the Company paid \$0.3 million and \$2.5 million in premiums to acquire jet fuel options, respectively.

The following table summarizes the components of aircraft fuel expense for the three and nine months ended September 30, 2016 and 2015:

|   | Three Months<br>Ended September<br>30, |           | Nine Months Ended<br>September 30, |           |
|---|--|-----------|------------------------------------|-----------|
|   | 2016                                   | 2015      | 2016                               | 2015      |
|   | (in thousands)                         |           |                                    |           |
| Into-plane fuel cost  | \$121,844                              | \$114,081 | \$321,018                          | \$349,549 |
| Realized losses (gains) related to fuel derivative contracts, net   | —                                      | 1,736     | —                                  | 8,575     |
| Unrealized losses (gains) related to fuel derivative contracts, net | —                                      | 82        | —                                  | (1,892)   |
| Aircraft fuel   | \$121,844                              | \$115,899 | \$321,018                          | \$356,232 |

Any premiums and settlements received or paid on fuel derivative contracts are reflected in the accompanying statements of cash flows in net cash provided by operating activities.

As of September 30, 2016 and December 31, 2015, the Company did not have any outstanding fuel derivatives and had no fuel hedging activity for the three and nine months ended September 30, 2016.

## Interest Rate Swaps

During 2015, the Company settled six forward interest rate swaps that were designed to fix the benchmark interest rate component of interest payments on the debt related to three Airbus A321 aircraft, which the Company took delivery of during the third quarter of 2015. These instruments limited the Company's exposure to changes in the benchmark interest rate in the period from the trade date through the date of maturity. The interest rate swaps were designated as

cash flow hedges. The Company accounts for interest rate swaps at fair value and recognizes them in the balance sheet in prepaid expenses and other current assets or other current liabilities with changes in fair value recorded within accumulated other comprehensive income (AOCI). As of September 30, 2016 and December 31, 2015, the Company did not have any outstanding interest rate swaps.

## Notes to Condensed Financial Statements—(Continued)

Realized gains and losses from cash flow hedges are recorded in the statement of cash flows as a component of cash flows from operating activities. Subsequent to the issuance of each debt instrument, amounts remaining in AOCI are amortized over the life of the fixed-rate debt instrument. For the three and nine months ended September 30, 2016, there were no unrealized gains or losses recorded within AOCI related to these instruments as they settled in 2015. For the three and nine months ended September 30, 2015, an unrealized loss of \$0.6 million and \$0.9 million, net of deferred taxes of \$0.3 million and \$0.5 million, respectively, was recorded within AOCI related to these instruments. For the three and nine months ended September 30, 2016, the Company reclassified interest rate swap losses of \$56 thousand and \$170 thousand, net of tax of \$32 thousand and \$97 thousand, into earnings, respectively. For the three and nine months ended September 30, 2015, the Company reclassified interest rate swap losses of \$25 thousand, net of tax of \$15 thousand, into earnings. As of September 30, 2016 and December 31, 2015, \$1.4 million and \$1.5 million, net of tax, remained in AOCI related to these instruments.

## Commitments and Contingencies

## Aircraft-Related Commitments and Financing Arrangements

The Company's contractual purchase commitments consist primarily of aircraft and engine acquisitions through manufacturers and aircraft leasing companies. As of September 30, 2016, the Company's aircraft orders consisted of the following:

|                   | Airbus  |         | Third-Party<br>Lessor |         |       |
|-------------------|---------|---------|-----------------------|---------|-------|
|                   | A320neo | A321neo | A320neo               | A321neo | Total |
| remainder of 2016 | —       | —       | 1                     | 5       | 6     |
| 2017              | 4       | —       | 11                    | —       | 15    |
| 2018              | 5       | 4       | 5                     | —       | 14    |
| 2019              | 1       | 12      | —                     | —       | 13    |
| 2020              | —       | 16      | —                     | —       | 16    |
| 2021              | —       | 18      | —                     | —       | 18    |
|                   | 10      | 50      | 17                    | 5       | 82    |

On April 27, 2016, the Company entered into an amendment to the Airbus A320 Family Purchase Agreement, by and between the Company and Airbus S.A.S., dated May 5, 2004 (Airbus Amendment) which included the conversion of ten Airbus A321neo orders to Airbus A320neo orders. The Company also has four spare engine orders for V2500 SelectOne engines with International Aero Engines (IAE) and nine spare engine orders for PurePower PW1100G-JM engines with Pratt & Whitney. Spare engines are scheduled for delivery from 2016 through 2023. Purchase commitments for these aircraft and spare engines, including estimated amounts for contractual price escalations and pre-delivery payments, are estimated to be approximately \$104 million for the remainder of 2016, \$659 million in 2017, \$650 million in 2018, \$679 million in 2019, \$823 million in 2020, and \$803 million in 2021 and beyond. The Company has secured debt financing commitments of \$38.7 million for 1 aircraft scheduled for delivery in the remainder of 2016 and \$38.5 million for 1 aircraft scheduled for delivery in 2017. See Note 10, Long-Term Debt - 2015-1 EETCs. In addition, the Company has secured financing for five aircraft to be leased directly from a third party, scheduled for delivery in 2016. The Company does not have financing commitments in place for the remaining 75 Airbus aircraft currently on firm order, which are scheduled for delivery in 2017 through 2021.

Interest commitments related to the secured debt financing of 13 delivered aircraft as of September 30, 2016 are approximately \$16.1 million for the remainder of 2016, \$40.6 million in 2017, \$36.8 million in 2018, \$33.3 million in 2019, \$29.7 million in 2020, and \$118.3 million in 2021 and beyond. For principal commitments related to these financed aircraft, refer to Note 10, Long-Term Debt. Principal and interest commitments related to the Company's future secured debt financing of 2 undelivered aircraft as of September 30, 2016 are approximately \$1.6 million for the remainder of 2016, \$11.6 million in 2017, \$8.1 million in 2018, \$7.4 million in 2019, \$7.1 million in 2020, and \$65.7 million in 2021 and beyond.

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As of September 30, 2016, the Company had a fleet consisting of 89 A320 family aircraft. During the nine months ended September 30, 2016, the Company took delivery of ten aircraft financed under secured debt arrangements and purchased six previously leased aircraft. For further discussion on the six previously leased aircraft, refer to Note 3, Special Charges. These aircraft are capitalized within flight equipment and generally have depreciable lives of 25 years and estimated residual values of 10%. As of September 30, 2016, the Company had 55 aircraft and 11 spare engines financed under operating leases with

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## Notes to Condensed Financial Statements—(Continued)

lease term expiration dates ranging from 2017 to 2029. The Company entered into sale and leaseback transactions with third-party aircraft lessors for the majority of these aircraft and engine leases. Deferred losses resulting from these sale and leaseback transactions are included in other long-term assets on the accompanying balance sheet. Deferred losses are recognized as an increase to rent expense on a straight-line basis over the term of the respective operating leases. Deferred gains are included in deferred credits and other long-term liabilities on the accompanying balance sheet. Deferred gains are recognized as a decrease to rent expense on a straight-line basis over the term of the respective operating leases.

Under the terms of the lease agreements, the Company will continue to operate and maintain the aircraft. Payments under the majority of the lease agreements are fixed for the term of the lease. The lease agreements contain standard termination events, including termination upon a breach of the Company's obligations to make rental payments and upon any other material breach of the Company's obligations under the leases, and standard maintenance and return condition provisions. These return provisions are evaluated at inception of the lease and throughout the lease terms and are accounted for as supplemental rent expense when it is probable that such amounts will be incurred. Upon a termination of the lease due to a breach by the Company, the Company would be liable for standard contractual damages, possibly including damages suffered by the lessor in connection with remarketing the aircraft or while the aircraft is not leased to another party.

Future minimum lease payments under noncancellable operating leases with initial or remaining terms in excess of one year at September 30, 2016 were as follows:

|                              | Operating Leases                          |                                | Total                             |
|------------------------------|---|--------------------------------|-----------------------------------|
|                              | Aircraft<br>and Spare<br>Engine<br>Leases | Property<br>Facility<br>Leases | Operating<br>Lease<br>Obligations |
|                              | (in thousands)                            |                                |                                   |
| remainder of 2016            | \$50,986                                  | \$10,824                       | \$61,810                          |
| 2017                         | 194,607                                   | 34,988                         | 229,595                           |
| 2018                         | 177,717                                   | 34,714                         | 212,431                           |
| 2019                         | 158,818                                   | 30,312                         | 189,130                           |
| 2020                         | 150,842                                   | 19,111                         | 169,953                           |
| 2021 and thereafter          | 520,857                                   | 60,513                         | 581,370                           |
| Total minimum lease payments | \$1,253,827                               | \$190,462                      | \$1,444,289                       |

Aircraft rent expense consists of all minimum lease payments under the terms of the Company's aircraft and spare engine lease agreements recognized on a straight-line basis. Aircraft rent expense also includes supplemental rent. Supplemental rent is made up of maintenance reserves paid or expected to be paid to aircraft lessors in advance of the performance of major maintenance activities that are not probable of being reimbursed and probable return condition obligations. The Company expects supplemental rent to increase as individual aircraft lease agreements approach their respective termination dates and the Company begins to accrue the estimated cost of return conditions for the corresponding aircraft.

Some of the Company's master lease agreements provide that the Company pay maintenance reserves to aircraft lessors to be held as collateral in advance of the Company's required performance of major maintenance activities. Substantially all of these maintenance reserve payments are calculated based on a utilization measure, such as flight hours or cycles, while some maintenance reserve payments are fixed contractual amounts. Fixed maintenance reserve payments for these aircraft and related flight equipment, including estimated amounts for contractual price escalations, are expected to be \$1.8 million for the remainder of 2016, \$6.6 million in 2017, \$5.6 million in 2018, \$4.2 million in 2019, \$3.9 million in 2020, and \$10.2 million in 2021 and beyond. These lease agreements provide that maintenance reserves are reimbursable to the Company upon completion of the maintenance event in an amount equal to either (1) the amount of the maintenance reserves held by the lessor associated with the specific maintenance event or (2) the qualifying costs related to the specific maintenance event. Some of the master lease agreements do not require that the

Company pay maintenance reserves so long as the Company's cash balance does not fall below a certain level. As of September 30, 2016, the Company was in full compliance with those requirements and does not anticipate having to pay reserves related to these master leases in the future.

In July 2015, the Company executed an upgrade service agreement with Airbus Americas Customer Services Inc. (Airbus) to reconfigure the seating and increase capacity in 40 of the Company's existing A320 aircraft from 178 to 182 seats (reconfiguration). The reconfiguration of the aircraft commenced in the first quarter of 2016 and is expected to be completed during the fourth quarter of 2017. The cost of the reconfiguration is expected to be approximately \$0.6 million per aircraft and purchase commitments for the reconfiguration kits are estimated to be approximately \$5.0 million for the remainder of 2016, \$8.7 million in 2017 and none thereafter.

## Notes to Condensed Financial Statements—(Continued)

In September 2015, the Company executed a lease agreement with Wayne County Airport Authority (the Authority), which owns and operates Detroit Metropolitan Wayne County Airport (DTW). Under the lease agreement, the Company leases a 10-acre site, adjacent to the airfield at DTW, in order to construct, operate and maintain an approximately 126,000-square-foot hangar facility (the project). The project allows for the development of a maintenance hangar in order to fulfill the requirements of the Company's growing fleet and to reduce dependence on third-party facilities and contract line maintenance. The lease agreement has a 30-year term with 2 10-year extension options. Upon termination of the lease, ownership will automatically pass to the Authority. The Company estimates it will complete the project during the fourth quarter of 2016 at a cost of approximately \$32 million. The Company will depreciate all capitalized costs related to the project over the lesser of the useful life of the asset or the lease term. The Company is contractually obligated to pay the following minimum guaranteed payments for its reservation system, data center and advertising media as of September 30, 2016: \$1.4 million for the remainder of 2016, \$5.2 million in 2017, \$3.8 million in 2018, \$0.2 million in 2019, \$0.2 million in 2020, and \$0.0 million in 2021 and beyond. The Company's current agreement with its reservation system provider expires in 2018.

**Litigation**

The Company is subject to commercial litigation claims and to administrative and regulatory proceedings and reviews that may be asserted or maintained from time to time. The Company believes the ultimate outcome of such lawsuits, proceedings and reviews will not, individually or in the aggregate, have a material adverse effect on its financial position, liquidity or results of operations.

**Credit Card Processing Arrangements**

The Company has agreements with organizations that process credit card transactions arising from the purchase of air travel, baggage charges, and other ancillary services by customers. As is standard in the airline industry, the Company's contractual arrangements with credit card processors permit them, under certain circumstances, to retain a holdback or other collateral, which the Company records as restricted cash, when future air travel and other future services are purchased via credit card transactions. The required holdback is the percentage of the Company's overall credit card sales its credit card processors hold to cover refunds to customers if the Company fails to fulfill its flight obligations.

The Company's credit card processors do not require the Company to maintain cash collateral if the Company satisfies certain liquidity and other financial covenants. Failure to meet these covenants would provide the processors the right to place a holdback, resulting in a commensurate reduction of unrestricted cash. As of September 30, 2016 and December 31, 2015, the Company was in compliance with such liquidity and other financial covenants in its credit card processing agreements, and the processors were holding back no remittances.

The maximum potential exposure to cash holdbacks by the Company's credit card processors, based upon advance ticket sales and \$9 Fare Club memberships as of September 30, 2016 and December 31, 2015, was \$281.4 million and \$250.2 million, respectively.

**Employees**

The Company has 4 union-represented employee groups that together represented approximately 72% of all employees at September 30, 2016. The table below sets forth the Company's employee groups and status of the collective bargaining agreements as of September 30, 2016.

| Employee Groups     | Representative  | Amendable Date | Percentage of Workforce |
|---------------------|---|----------------|-------------------------|
| Pilots              | Air Line Pilots Association, International (ALPA)                     | August 2015    | 26%                     |
| Flight Attendants   | Association of Flight Attendants (AFA-CWA)                            | May 2021       | 42%                     |
| Dispatchers         | Transport Workers Union (TWU)   | August 2018    | 1%                      |
| Ramp Service Agents | International Association of Machinists and Aerospace Workers (IAMAW) | June 2020      | 3%                      |

In March 2016, under the supervision of the National Mediation Board (NMB), the Company and AFA-CWA reached a tentative agreement for a five-year contract with the Company's flight attendants. In May 2016, the flight attendants voted to approve the new five-year contract with the Company. In connection with this agreement, the Company paid a \$9.6 million ratification incentive payment to the flight attendants recorded within salaries, wages and benefits in the

statement of operations.

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## Notes to Condensed Financial Statements—(Continued)

In August 2015, the Company's collective bargaining agreement with its pilots, represented by ALPA, became amendable. In June 2016, ALPA requested the services of the National Mediation Board (NMB) to facilitate negotiations for an amended agreement and the Company joined ALPA in the request. The NMB has assigned a mediator and the parties continue to meet and work toward a new agreement with the guidance of the mediator. Under the RLA, the parties' current agreement remains in effect until an amended agreement is reached.

In July 2014, certain ramp service agents directly employed by the Company voted to be represented by the IAMAW. In May 2015, the Company entered into a five-year interim collective bargaining agreement with the IAMAW, covering material economic terms. In June 2016, the Company and the IAMAW reached an agreement on the remaining terms of the collective bargaining agreement, which is amendable in June 2020. As of September 30, 2016, ramp service agents represented by the IAMAW service 1 of the 56 airports where the Company operates.

The Company is self-insured for health care claims, up to a stop loss amount for eligible participating employees and qualified dependent medical claims, subject to deductibles and limitations. The Company's liabilities for claims incurred but not reported are determined based on an estimate of the ultimate aggregate liability for claims incurred. The estimate is calculated from actual claim rates and adjusted periodically as necessary. The Company has accrued \$4.6 million and \$3.7 million in health care claims as of September 30, 2016 and December 31, 2015, respectively.

#### 9. Fair Value Measurements

Under ASC 820, Fair Value Measurements and Disclosures, disclosures relating to how fair value is determined for assets and liabilities are required, and a hierarchy for which these assets and liabilities must be grouped is established, based on significant levels of inputs, as follows:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company utilizes several valuation techniques in order to assess the fair value of the Company's financial assets and liabilities.

#### Fuel Derivative Instruments

From time to time, the Company may enter into fuel derivative contracts in order to mitigate the risk of future volatility in fuel prices. The Company's fuel derivative contracts generally consist of jet fuel swaps and jet fuel options. These instruments are valued using energy and commodity market data, which is derived by combining raw inputs with quantitative models and processes to generate forward curves and volatilities.

The Company utilizes the market approach to measure fair value for its fuel derivative instruments, if any. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

The Company does not elect hedge accounting on its fuel derivative instruments. As a result, the Company records the fair value adjustment of its fuel derivatives in the accompanying statement of operations within aircraft fuel and on the balance sheet within prepaid expenses and other current assets or other current liabilities, depending on whether the net fair value of the derivatives is in an asset or liability position as of the respective date. Fair values of the fuel derivative instruments are determined using standard option valuation models. The Company also considers counterparty risk and its own credit risk in its determination of all estimated fair values. The Company offsets fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting arrangement. The Company determines fair value of jet fuel options utilizing an option pricing model based on inputs that are either readily available in public markets or can be derived from information available in publicly quoted markets. The Company has consistently applied these valuation techniques in all periods presented and believes it has obtained the most accurate information available for the types of derivative contracts it holds.



## Notes to Condensed Financial Statements—(Continued)

The fair value of the Company's jet fuel swaps is determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets; therefore, the Company categorizes these instruments as Level 2. Due to the fact that certain inputs utilized to determine the fair value of jet fuel options are unobservable (principally implied volatility), the Company categorizes these derivatives as Level 3. Implied volatility of a jet fuel option is the volatility of the price of the underlying commodity that is implied by the market price of the option based on an option pricing model. Thus, it is the volatility that when used in a particular pricing model yields a theoretical value for the option equal to the current market price of that option. Implied volatility, a forward-looking measure, differs from historical volatility because the latter is calculated from known past returns. At each balance sheet date, the Company substantiates and adjusts unobservable inputs. The Company routinely assesses the valuation model's sensitivity to changes in implied volatility. Based on the Company's assessment of the valuation model's sensitivity to changes in implied volatility, it concluded that holding other inputs constant, a significant increase (decrease) in implied volatility would result in a significantly higher (lower) fair value measurement for the Company's aircraft fuel derivatives. As of September 30, 2016 and December 31, 2015, the Company had no outstanding fuel derivatives.

## Long-Term Debt

The estimated fair value of the Company's non-publicly held debt agreements has been determined to be Level 3, as certain inputs used to determine the fair value of these agreements are unobservable. The Company utilizes a discounted cash flow method to estimate the fair value of the Level 3 long-term debt. The estimated fair value of the Company's publicly held debt agreements has been determined to be Level 2, as the Company utilizes quoted market prices to estimate the fair value of its public long-term debt.

The carrying amounts and estimated fair values of the Company's long-term debt at September 30, 2016 and December 31, 2015 were as follows:

|   | September 30,<br>2016 |                            | December 31,<br>2015 |                            |                            |
|---|-----------------------|----------------------------|----------------------|----------------------------|----------------------------|
|   | Carrying<br>Value     | Estimated<br>Fair<br>Value | Carrying<br>Value    | Estimated<br>Fair<br>Value | Fair value level hierarchy |
|   | (in millions)         |                            |                      |                            |                            |
| Senior long-term debt                         | \$460.1               | \$477.4                    | \$484.2              | \$ 477.8                   | Level 3                    |
| Junior long-term debt                         | 48.9                  | 50.5                       | 54.3                 | 54.6                       | Level 3                    |
| Class A enhanced equipment trust certificates | 394.8                 | 402.7                      | 95.8                 | 94.8                       | Level 2                    |
| Class B enhanced equipment trust certificates | 104.5                 | 106.1                      | 25.0                 | 25.2                       | Level 2                    |
| Total long-term debt                          | \$1,008.3             | \$1,036.7                  | \$659.3              | \$ 652.4                   |                            |

## Cash and Cash Equivalents

Cash and cash equivalents at September 30, 2016 and December 31, 2015 are comprised of liquid money market funds and cash, and are categorized as Level 1 instruments. The Company maintains cash with various high-quality financial institutions.

## Investment Securities

Investment securities at September 30, 2016 are comprised of short-term available-for-sale securities and are categorized as Level 1 instruments, as the Company uses quoted market prices in active markets when determining the fair value of these securities. As of December 31, 2015, the Company had no outstanding investment securities.

Assets and liabilities measured at gross fair value on a recurring basis are summarized below:



## Notes to Condensed Financial Statements—(Continued)

| Fair Value Measurements as of<br>September 30, 2016 |            |            |            |   |
|---|------------|------------|------------|---|
| Total   | Level<br>1 | Level<br>2 | Level<br>3 |   |
| (in millions)                                       |            |            |            |   |
| Cash and cash equivalents                           | \$ 825.9   | \$ 825.9   | \$ —       | — |
| Investment securities                               | \$ 100.1   | \$ 100.1   | \$ —       | — |
| Total assets  | \$ 926.0   | \$ 926.0   | \$ —       | — |
| Total liabilities                                   | \$ —       | \$ —       | \$ —       | — |
| Fair Value Measurements as of December 31,<br>2015  |            |            |            |   |
| Total   | Level<br>1 | Level<br>2 | Level<br>3 |   |
| (in millions)                                       |            |            |            |   |
| Cash and cash equivalents                           | \$ 803.6   | \$ 803.6   | \$ —       | — |
| Total assets  | \$ 803.6   | \$ 803.6   | \$ —       | — |
| Total liabilities                                   | \$ —       | \$ —       | \$ —       | — |

The Company had no transfers of assets or liabilities between any of the above levels during the periods ended September 30, 2016 and December 31, 2015.

The Company's Valuation Group, which reports to the Chief Financial Officer, is made up of individuals from the Company's Treasury and Corporate Accounting departments. The Valuation Group is responsible for the execution of the Company's valuation policies and procedures. The Valuation Group compares the results of the Company's internally developed valuation methods with counterparty reports at each balance sheet date, assesses the Company's valuation methods for accurateness and identifies any needs for modification.

## 10. Long-Term Debt

As of September 30, 2016, the Company has issued non-public and public debt instruments. The Company's indebtedness includes the 2014 Framework Agreement, the 2015 Facility Agreements and the 2015-1 EETCs, as defined in the Company's Form 10-K for the year ended December 31, 2015.

### 2015-1 EETCs

In August 2015, the Company created two separate pass-through trusts, which issued approximately \$576.6 million aggregate face amount of Series 2015-1 Class A and Class B enhanced equipment trust certificates (EETCs) in connection with the financing of 15 aircraft. Each class of certificates represents a fractional undivided interest in the respective pass-through trusts and is not an obligation of the Company. The proceeds from the issuance of these certificates are initially held in escrow by a depository and, upon satisfaction of certain terms and conditions, are released and used to purchase equipment notes which are issued by the Company and secured by the Company's aircraft. As of September 30, 2016, \$499.3 million of the proceeds from the sale of the 2015-1 EETCs had been used to purchase equipment notes in connection with the financing of 3 Airbus A320 aircraft and 10 Airbus A321 aircraft. The remaining two aircraft are scheduled for delivery between November 2016 and January 2017.

The Company evaluated whether the pass-through trusts formed are variable interest entities (VIEs) required to be consolidated by the Company under applicable accounting guidance. The Company determined that the pass-through

trusts are VIEs and that it does not have a variable interest in the pass-through trusts. Based on this analysis, the Company determined that it is not required to consolidate these pass-through trusts.

Long-term debt is comprised of the following:

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Notes to Condensed Financial Statements—(Continued)

|   | As of              |                   | Three Months Ended                |                    | Nine Months Ended  |                    |
|---|--------------------|-------------------|-----------------------------------|--------------------|--------------------|--------------------|
|   | September 30, 2016 | December 31, 2015 | September 30, 2016                | September 30, 2015 | September 30, 2016 | September 30, 2015 |
|   | (in millions)      |                   | (weighted-average interest rates) |                    |                    |                    |
| Fixed-rate senior term loans due through 2027                             | \$460.1            | \$ 484.2          | 4.10%                             | 4.10%              | 4.10%              | 4.10%              |
| Fixed-rate junior term loans due through 2022                             | 48.9               | 54.3              | 6.90%                             | 6.90%              | 6.90%              | 6.90%              |
| Fixed-rate class A enhanced equipment trust certificates due through 2028 | 394.8              | 95.8              | 4.03%                             | N/A                | 4.03%              | N/A                |
| Fixed-rate class B enhanced equipment trust certificates due through 2024 | 104.5              | 25.0              | 4.38%                             | N/A                | 4.38%              | N/A                |
| Long-term debt  | \$1,008.3          | \$ 659.3          |                                   |                    |                    |                    |
| Less current maturities   | 84.4               | 49.6              |                                   |                    |                    |                    |
| Less unamortized discounts, net   | 29.1               | 13.0              |                                   |                    |                    |                    |
| Total   | \$894.8            | \$ 596.7          |                                   |                    |                    |                    |

During the three and nine months ended September 30, 2016, the Company made scheduled principal payments of \$10.0 million and \$29.6 million on its outstanding debt obligations, respectively. During the three and nine months ended September 30, 2015, the Company made scheduled principal payments of \$7.6 million and \$15.8 million on its outstanding debt obligations, respectively.

At September 30, 2016, long-term debt principal payments for the next five years and thereafter were as follows:

|                               | September 30, 2016 |
|-------------------------------|--------------------|
|                               | (in millions)      |
| remainder of 2016             | \$ 34.7            |
| 2017                          | 84.6               |
| 2018                          | 80.4               |
| 2019                          | 79.1               |
| 2020                          | 77.3               |
| 2021 and thereafter           | 652.2              |
| Total debt principal payments | \$ 1,008.3         |

Interest Expense

Interest expense related to long-term debt consisted of the following:

|   | Three Months Ended |                    | Nine Months Ended  |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
|   | (in thousands)     |                    |                    |                    |
| Senior term loans                             | \$4,917            | \$4,639            | \$14,929           | \$10,260           |
| Junior term loans                             | 879                | 926                | 2,721              | 2,023              |
| Class A enhanced equipment trust certificates | 3,538              | —                  | 7,419              | —                  |
| Class B enhanced equipment trust certificates | 1,015              | —                  | 2,124              | —                  |
| Commitment fees                               | 32                 | —                  | 97                 | —                  |

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|                                |          |         |          |          |
|--------------------------------|----------|---------|----------|----------|
| Amortization of debt discounts | 979      | 340     | 2,289    | 729      |
| Total                          | \$11,360 | \$5,905 | \$29,579 | \$13,012 |

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Notes to Condensed Financial Statements—(Continued)

11. Subsequent Events

In October 2016, the Company took delivery of two A320neos, the first US based carrier to take delivery and service such aircraft. These aircraft are financed under operating lease agreements.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), which are subject to the "safe harbor" created by those sections. Forward-looking statements are based on our management's beliefs and assumptions and on information currently available to our management. All statements other than statements of historical factors are "forward-looking statements" for purposes of these provisions. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "project," "predict," "potential," and similar expressions to identify forward-looking statements. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" in this report and in Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015 and subsequent Quarterly Reports on Form 10-Q. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

### Overview

Spirit Airlines is an ultra low-cost, low-fare airline that offers affordable travel to price-conscious customers. Our all-Airbus Fit Fleet™, the youngest fleet of any major U.S. airline, currently operates more than 400 daily flights to 56 destinations in the United States, Caribbean and Latin America. Our stock trades on the NASDAQ Global Select Stock Market under the symbol "SAVE."

Our ultra low-cost carrier, or ULCC, business model allows us to compete principally by offering customers our Bare Fares™, which are unbundled base fares that remove components traditionally included in the price of an airline ticket. We then give customers Frill Control™, which provides customers the freedom to save by paying only for the options they choose such as bags, advance seat assignments and refreshments. We record revenue related to these options in our financial statements as non-ticket revenue.

We are focused on price-sensitive travelers who pay for their own travel, and our business model is designed to deliver what we believe our customers want: low fares. We aggressively use low fares to address an underserved market, which helps us to increase passenger volume, load factors and non-ticket revenue on the flights we operate. We also have high-density seating configurations on our aircraft and a simplified onboard product designed to lower costs, which is part of our Plane Simple™ strategy. High passenger volumes and load factors help us sell more ancillary products and services, which in turn allows us to reduce the base fare we offer even further. We strive to be recognized by our customers and potential customers as the low-fare leader in the markets we serve.

We compete based on total price. We believe other airlines have used an all-inclusive pricing concept to effectively maintain higher total prices to consumers, rather than lowering fares by unbundling each product or service. For example, carriers that tout "free bags" have included the cost of checking bags in the total ticket price, which does not allow passengers to see how much they would save if they did not check luggage. We believe that we and our customers benefit when we allow our customers to know the total price of their travel by breaking out the cost of optional products or services.

We allow our customers to see all available options and their respective prices prior to purchasing a ticket, and this full transparency illustrates that our total price, including options selected, is lower than other airlines on average. Through branded campaigns, we educate the public on how our unbundled pricing model works, showing them how it

gives them choice on how they spend their money and saves them money compared to other airlines.

## Comparative Operating Statistics:

The following tables set forth our operating statistics for the three and nine-month periods ended September 30, 2016 and 2015:

|  | Three Months Ended    |           | Percent |     |
|--|-----------------------|-----------|---------|-----|
|  | September 30,<br>2016 | 2015      | Change  |     |
| Operating Statistics (unaudited) (A):                        |                       |           |         |     |
| Average aircraft   | 87.4                  | 74.6      | 17.2    | %   |
| Aircraft at end of period                                    | 89                    | 76        | 17.1    | %   |
| Average daily aircraft utilization (hours)                   | 12.3                  | 12.8      | (3.9)   | )%  |
| Average stage length (miles)                                 | 968                   | 983       | (1.5)   | )%  |
| Block hours  | 98,586                | 88,045    | 12.0    | %   |
| Departures   | 38,310                | 34,032    | 12.6    | %   |
| Passenger flight segments (PFSs) (thousands)                 | 5,674                 | 4,776     | 18.8    | %   |
| Revenue passenger miles (RPMs) (thousands)                   | 5,599,370             | 4,768,692 | 17.4    | %   |
| Available seat miles (ASMs) (thousands)                      | 6,507,204             | 5,597,997 | 16.2    | %   |
| Load factor (%)  | 86.0                  | % 85.2    | % 0.8   | pts |
| Average ticket revenue per passenger flight segment (\$)     | 58.34                 | 66.96     | (12.9)  | )%  |
| Average non-ticket revenue per passenger flight segment (\$) | 51.17                 | 53.39     | (4.2)   | )%  |
| Total revenue per passenger flight segment (\$)              | 109.51                | 120.35    | (9.0)   | )%  |
| Average yield (cents)  | 11.10                 | 12.05     | (7.9)   | )%  |
| TRASM (cents)  | 9.55                  | 10.27     | (7.0)   | )%  |
| CASM (cents)   | 7.47                  | 7.46      | 0.1     | %   |
| Adjusted CASM (cents)  | 7.35                  | 7.45      | (1.3)   | )%  |
| Adjusted CASM ex-fuel (cents)                                | 5.48                  | 5.39      | 1.7     | %   |
| Fuel gallons consumed (thousands)                            | 78,288                | 67,684    | 15.7    | %   |
| Average economic fuel cost per gallon (\$)                   | 1.56                  | 1.71      | (8.8)   | )%  |

(A) See "Glossary of Airline Terms" elsewhere in this quarterly report for definitions used in this table.

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|  | Nine Months Ended |            | Percent |     |
|--|-------------------|------------|---------|-----|
|  | September 30,     | 2015       | Change  |     |
|  | 2016              |            |         |     |
| Operating Statistics (unaudited) (A):                        |                   |            |         |     |
| Average aircraft   | 84.1              | 71.1       | 18.3    | %   |
| Aircraft at end of period                                    | 89                | 76         | 17.1    | %   |
| Average daily aircraft utilization (hours)                   | 12.6              | 12.8       | (1.6)   | )%  |
| Average stage length (miles)                                 | 978               | 982        | (0.4)   | )%  |
| Block hours  | 290,529           | 248,941    | 16.7    | %   |
| Departures   | 111,495           | 95,240     | 17.1    | %   |
| Passenger flight segments (PFSs) (thousands)                 | 16,268            | 13,271     | 22.6    | %   |
| Revenue passenger miles (RPMs) (thousands)                   | 16,219,093        | 13,267,314 | 22.2    | %   |
| Available seat miles (ASMs) (thousands)                      | 18,909,627        | 15,540,759 | 21.7    | %   |
| Load factor (%)  | 85.8              | % 85.4     | % 0.4   | pts |
| Average ticket revenue per passenger flight segment (\$)     | 55.32             | 67.96      | (18.6)  | )%  |
| Average non-ticket revenue per passenger flight segment (\$) | 51.85             | 54.24      | (4.4)   | )%  |
| Total revenue per passenger flight segment (\$)              | 107.17            | 122.20     | (12.3)  | )%  |
| Average yield (cents)  | 10.75             | 12.22      | (12.0)  | )%  |
| TRASM (cents)  | 9.22              | 10.43      | (11.6)  | )%  |
| CASM (cents)   | 7.33              | 7.93       | (7.6)   | )%  |
| Adjusted CASM (cents)  | 7.15              | 7.93       | (9.8)   | )%  |
| Adjusted CASM ex-fuel (cents)                                | 5.45              | 5.63       | (3.2)   | )%  |
| Fuel gallons consumed (thousands)                            | 225,851           | 187,541    | 20.4    | %   |
| Average economic fuel cost per gallon (\$)                   | 1.42              | 1.91       | (25.7)  | )%  |

(A) See "Glossary of Airline Terms" elsewhere in this quarterly report for definitions used in this table.

#### Executive Summary

For the third quarter of 2016, we achieved a 21.8% operating margin, a decrease of 5.5 points compared to the prior year period. We generated pre-tax income of \$128.0 million and net income of \$81.4 million on operating revenues of \$621.3 million. For the third quarter of 2015, we generated pre-tax income of \$154.4 million and net income of \$97.1 million on operating revenues of \$574.8 million.

For the third quarter of 2016, our CASM increased slightly to 7.47 cents. Excluding special charges, loss on disposal of assets and unrealized losses and gains resulting from our fuel derivatives, our adjusted CASM ex-fuel for the third quarter of 2016 was 5.48 cents, a 1.7% increase year over year. This increase was primarily due to increases in salaries, wages and benefits expense and maintenance, materials and repairs expense partially offset by a decrease in aircraft rent expense per ASM. The increase in salaries, wages and benefits expense was due to an increase in incentive compensation expense resulting from improved metric performance, year over year, as well as an increase in wages for flight attendants resulting from the contract negotiated in the second quarter of 2016. The increase in maintenance costs was due to higher aircraft repair expense as well as increased number and cost of scheduled maintenance events in the current period as compared to the prior year period. The decrease in aircraft rent expense per ASM was due to our newer aircraft being purchased under secured debt financing rather than being leased through operating leases, as is the case with the older aircraft in our fleet. Additionally, we purchased six previously leased aircraft during 2016 and negotiated several lease extensions during the year which contributed to lower aircraft rent expense per ASM.

As of September 30, 2016, we had 89 Airbus A320-family aircraft in our fleet comprised of 29 A319s, 45 A320s, and 15 A321s. With the scheduled delivery of 6 aircraft during the remainder of 2016, we expect to end 2016 with 95 aircraft in our fleet.

Comparison of three months ended September 30, 2016 to three months ended September 30, 2015

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### Operating Revenues

Operating revenues increased \$46.5 million, or 8.1%, to \$621.3 million for the third quarter of 2016, as compared to the third quarter of 2015, due primarily to an increase in traffic of 17.4%, mostly offset by lower passenger yields as a result of continued competitive pressures from major U.S. carriers aggressively discounting fare prices in the current period.

Total revenue per available seat mile (TRASM) for the third quarter of 2016 was 9.55 cents, a decrease of 7.0%, compared to the third quarter of 2015. Total revenue per passenger flight segment decreased 9.0%, year over year, primarily driven by a decrease of 12.9% in ticket revenue per passenger flight segment. These decreases were driven by a 7.9% decrease in average yield, period over period, as a result of competitive pressures noted above during the current period. Although a decrease in average yield was noted period over period, there was a sequential improvement in the rate of decline.

Our non-ticket revenue per passenger flight segment declined to a lesser extent, by 4.2%, mostly resulting from the competitive pressures noted above. Our unbundled model provides a more stable revenue stream as demonstrated during periods of lower passenger ticket yields. The decrease in non-ticket revenue per passenger flight segment was primarily attributable to lower bag and change fee revenue per flight segment.

### Operating Expenses

Operating expenses increased \$68.5 million, or 16.4%, to \$486.1 million for the third quarter of 2016 compared to \$417.6 million for the third quarter of 2015. This increase is primarily due to a 16.2% growth in capacity.

Aircraft fuel expense includes into-plane fuel expense (defined below) and realized and unrealized gains and losses associated with our fuel derivative contracts. Into-plane fuel expense is defined as the price that we generally pay at the airport, including taxes and fees. Into-plane fuel prices are affected by the global oil market, refining costs, taxes and fees, which can vary by region in the United States and other countries where we operate. Into-plane fuel expense approximates cash paid to the supplier and does not reflect the effect of our fuel derivatives. We had no activity related to fuel derivative instruments during the nine months ended September 30, 2016. Management chose not to elect hedge accounting on any fuel derivative instruments during 2015 and, as a result, changes in the fair value of those fuel derivative contracts are recorded each period in aircraft fuel expense.

Aircraft fuel expense increased in the third quarter of 2016 by \$5.9 million, or 5.1%, compared to \$115.9 million in the third quarter of 2015, due primarily to a 15.7% increase in fuel gallons consumed, partially offset by an 8.8% decrease in average economic fuel price per gallon.

The elements of the changes in aircraft fuel expense are illustrated in the following table:

|   | Three Months<br>Ended September<br>30,          |           |                   |
|---|---|-----------|-------------------|
|   | 2016  | 2015      |                   |
|   | (in thousands,<br>except per gallon<br>amounts) |           | Percent<br>Change |
| Fuel gallons consumed   | 78,288  | 67,684    | 15.7 %            |
| Into-plane fuel cost per gallon                                     | \$1.56  | \$1.69    | (7.7 )%           |
| Into-plane fuel expense   | 121,844   | 114,081   | 6.8 %             |
| Realized losses (gains) related to fuel derivative contracts, net   | —   | 1,736     | NM                |
| Unrealized losses (gains) related to fuel derivative contracts, net | —   | 82        | NM                |
| Aircraft fuel expense (per statement of operations)                 | \$121,844                                       | \$115,899 | 5.1 %             |

Gulf Coast Jet indexed fuel is the basis for a substantial majority of our fuel consumption and is impacted by both the price of crude oil as well as increases or decreases in refining margins associated with the conversion of crude oil to jet fuel. The into-plane fuel cost per gallon decrease of 7.7% was primarily a result of a decrease in jet fuel prices.

We track economic fuel expense, which we believe is the best measure of the effect fuel prices are currently having on our business, because it most closely approximates the net cash outflow associated with purchasing fuel used for our operations during the period. We define economic fuel expense as into-plane fuel expense and realized gains or losses on fuel derivative contracts. The key difference between aircraft fuel expense as recorded in our statement of operations and economic fuel expense is unrealized mark-to-market changes in the value of aircraft fuel derivatives outstanding. Many industry analysts evaluate airline results using economic fuel expense and it is used in our internal management reporting.

The elements of the changes in economic fuel expense are illustrated in the following table:

|   | Three Months<br>Ended September<br>30,<br>2016 2015<br>(in thousands,<br>except per gallon<br>amounts) |           |       | Percent<br>Change |
|---|--|-----------|-------|-------------------|
| Into-plane fuel expense   | \$121,844  | \$114,081 | 6.8   | %                 |
| Realized losses (gains) related to fuel derivative contracts, net | —  | 1,736     | NM    |                   |
| Economic fuel expense   | \$121,844  | \$115,817 | 5.2   | %                 |
| Fuel gallons consumed   | 78,288   | 67,684    | 15.7  | %                 |
| Economic fuel cost per gallon                                     | \$1.56   | \$1.71    | (8.8) | %                 |

During the three months ended September 30, 2016, we had no activity related to fuel derivatives and thus had no realized or unrealized losses (gains) related to fuel derivative contracts, as we have in prior periods. During the three months ended September 30, 2015, we paid \$0.3 million in premiums to acquire jet fuel options. Total realized loss recognized for fuel derivatives that expired during the third quarter of 2015 was \$1.7 million. Total realized losses include cash paid for premiums in previous periods which expired during the three months ended September 30, 2015. We had \$0.1 million in unrealized losses related to our outstanding fuel derivatives during the three months ended September 30, 2015.

From time to time, we may enter into fuel derivative contracts to protect the refining price risk between the price of crude oil and the price of refined jet fuel. As of September 30, 2016, we had no outstanding fuel derivatives.

We measure our operating cost performance on a per-ASM basis, since one ASM is the unit of production of an airline's capacity. The following table presents our cost per ASM, or unit cost, for the three months ended September 30, 2016 and 2015, followed by explanations of the material changes on a dollar basis and/or unit cost basis:

|                                    | Three<br>Months<br>Ended<br>September<br>30,<br>2016 2015<br>(in cents, except for<br>percentages) |         |        |                   |
|------------------------------------|--|---------|--------|-------------------|
|                                    | Per-ASM  | Per-ASM | Change | Percent<br>Change |
| Aircraft fuel                      | 1.87   | 2.07    | (0.20) | (9.7)%            |
| Salaries, wages, and benefits      | 1.85   | 1.70    | 0.15   | 8.8%              |
| Aircraft rent                      | 0.76   | 0.96    | (0.20) | (20.8)%           |
| Landing fees and other rents       | 0.60   | 0.62    | (0.02) | (3.2)%            |
| Distribution                       | 0.39   | 0.41    | (0.02) | (4.9)%            |
| Maintenance, materials and repairs | 0.47   | 0.38    | 0.09   | 23.7%             |
| Depreciation and amortization      | 0.39   | 0.35    | 0.04   | 11.4%             |
| Other operating                    | 1.02   | 0.97    | 0.05   | 5.2%              |
| Loss on disposal of assets         | 0.01   | 0.01    | —      | NM                |
| Special charges (credits)          | 0.11   | —       | 0.11   | NM                |
| CASM                               | 7.47   | 7.46    | 0.01   | 0.1%              |
| Adjusted CASM (1)                  | 7.35   | 7.45    | (0.10) | (1.3)%            |
| Adjusted CASM ex-fuel (2)          | 5.48   | 5.39    | 0.09   | 1.7%              |



## (1) Reconciliation of CASM to Adjusted CASM:

|   | Three Months Ended<br>September 30, |                            |            |
|---|-------------------------------------|----------------------------|------------|
|   | 2016                                | 2015                       |            |
|   | (in Per<br>million<br>ASM)          | (in Per<br>million<br>ASM) | Per<br>ASM |
| CASM (cents)  | 7.47                                | 7.46                       |            |
| Less:   |                                     |                            |            |
| Unrealized losses (gains) related to fuel derivative contracts, net | \$—                                 | \$0.1                      | —          |
| Loss on disposal of assets  | 0.4                                 | 0.3                        | 0.01       |
| Special charges (credits)   | 7.4                                 | (0.1)                      | —          |
| Adjusted CASM (cents)   | 7.35                                | 7.45                       |            |

(2) Excludes aircraft fuel expense, loss on disposal of assets and special charges.

Our adjusted CASM ex-fuel for the third quarter of 2016 was up 1.7% as compared to the third quarter of 2015. The increase on a per-ASM basis was primarily a result of an increase in salaries, wages and benefits expense and maintenance, materials and repairs expense partially offset by a decrease in aircraft rent expense per ASM. The increase in salaries, wages and benefits expense was due to an increase in incentive compensation expense resulting from improved metric performance, year over year, as well as an increase in wages for flight attendants resulting from the contract negotiated in the second quarter of 2016. The increase in maintenance costs was due to higher aircraft repair expense as well as increased number and cost of scheduled maintenance events in the current period as compared to the prior year period. The decrease in aircraft rent expense per ASM was due to our newer aircraft being purchased under secured debt financing rather than being leased through operating leases, as is the case with the older aircraft in our fleet. Additionally, we purchased six previously leased aircraft during 2016 and negotiated several lease extensions during the year which contributed to lower aircraft rent per ASM.

Labor costs for the third quarter of 2016 increased \$25.1 million, or 26.4%, compared to the third quarter of 2015, primarily driven by a 16.6% increase in our pilot and flight attendant workforce resulting from the introduction of 13 new aircraft since the third quarter of 2015. On a per-ASM basis, labor costs increased due to an increase in incentive compensation expense resulting from improved metric performance, year over year, as well as an increase in wages for flight attendants resulting from the contract negotiated in the second quarter of 2016.

Aircraft rent expense for the third quarter of 2016 decreased by \$4.2 million, or 7.8%, compared to the third quarter of 2015. The decrease in aircraft rent expense was primarily driven by the purchase of six previously leased aircraft completed during the nine months ended September 30, 2016. For further discussion on these purchases, please see "Notes to Condensed Financial Statements - 3. Special Charges." Additionally, we negotiated several lease extensions during 2016 which contributed to lower aircraft rent. On a per-ASM basis, aircraft rent expense decreased due to a change in the composition of our aircraft fleet between leased aircraft (for which rent expense is recorded under aircraft rent) and purchased aircraft (for which depreciation expense is recorded under depreciation and amortization). Since the prior year period, we have taken delivery of 13 purchased aircraft, which increased capacity but had no effect on aircraft rent expense, as these assets are being depreciated over their useful life. Had the respective aircraft been leased, the change in rent expense, on both a dollar and per-ASM basis, would have been greater than the increase currently experienced in depreciation and amortization as result of these purchases.

Landing fees and other rents for the third quarter of 2016 increased \$4.8 million, or 13.8%, as compared to the third quarter of 2015, primarily due to a 12.6% increase in departures. On a per-ASM basis, landing fees and other rents decreased due to scale benefits from increased volume at our airports.

Distribution costs increased by \$2.5 million, or 10.8%, in the third quarter of 2016 as compared to the third quarter of 2015. The increase on a dollar basis was primarily due to increased sales volume. On a per-ASM basis, distribution costs decreased slightly primarily due to lower average fare resulting in a decrease in credit card fees year over year.

Maintenance, materials and repairs expense for the third quarter of 2016 increased by \$9.0 million, or 41.8%, compared to the third quarter of 2015. The increase in maintenance costs on both a dollar and per-ASM basis was due to higher aircraft repair expense as well as increased number and cost of scheduled maintenance events in the current period as compared to the prior year period. In addition, the timing and mix of maintenance events resulted in higher cost events in the current year period as compared to the prior year period. We expect maintenance expense, on a dollar basis, to increase as our fleet continues to grow and age, resulting in the need for additional and more frequent repairs over time.

We account for heavy maintenance under the deferral method. Under the deferral method, the cost of heavy maintenance is capitalized and amortized as a component of depreciation and amortization expense in the statement of operations until the

earlier of the next heavy maintenance event or end of the lease term, if applicable. The amortization of heavy maintenance costs was \$10.1 million and \$11.3 million for the third quarters of 2016 and 2015, respectively. As our fleet continues to age, we expect that the amount of deferred heavy maintenance events will increase and will result in an increase in the amortization of those costs. If heavy maintenance events were amortized within maintenance, materials, and repairs expense in the statement of operations, our maintenance, materials, and repairs expense would have been \$40.5 million and \$32.8 million for the third quarters of 2016 and 2015, respectively.

Depreciation and amortization increased by \$5.7 million, or 28.9%, compared to the prior year period. The increase on both a dollar and per-ASM basis was primarily due to depreciation expense resulting from the purchase of 13 new aircraft and the purchase of 6 previously rented aircraft since the third quarter of 2015.

Other operating expense for the third quarter of 2016 increased by \$12.1 million, or 22.4%, compared to the third quarter of 2015 due primarily to an increase in overall operations. As compared to the prior year period, we increased departures by 12.6% and had 18.8% more passenger flight segments, which drove increases in variable operating expenses. Additionally, the increase on both a dollar and per-ASM basis is due to higher effective ground handling rates and labor hours consumed at certain airports on a year-over-year basis, driven by both labor market conditions and a desire to improve customer experience.

Special charges for the three months ended September 30, 2016 consisted primarily of \$7.4 million in lease termination charges recognized in connection with the purchase of 3 aircraft formerly financed under operating lease agreements. The amount recorded as lease termination charges represents the excess of the purchase price paid over the appraised fair value of the aircraft, less previously expensed supplemental rent and other non-cash items of \$13.2 million. For further discussion on these purchases, please see "Notes to Condensed Financial Statements - 3. Special Charges."

#### Other Income (Expenses)

Our interest expense and corresponding capitalized interest for the three months ended September 30, 2016 and 2015 primarily represents interest related to the financing of purchased aircraft. As of September 30, 2016 and 2015, the Company had 28 and 15 purchased aircraft financed through secured long-term debt arrangements, respectively. Please see "Notes to Condensed Financial Statements - 10. Long-term Debt" for further discussion.

Our interest income for the three months ended September 30, 2016 primarily represents interest income earned on short-term investments and on funds required to be held in escrow in accordance with the terms of our EETC.

#### Income Taxes

Our effective tax rate for the third quarter of 2016 was 36.4% compared to 37.1% for the third quarter of 2015. In arriving at these rates, we considered a variety of factors, including our forecasted full-year pre-tax results, the U.S. federal rate of 35%, expected nondeductible expenses, and estimated state income taxes. We evaluate our tax rate each quarter and make adjustments when necessary. Our final effective tax rate for the full year is dependent on the level of pre-tax income and the magnitude of any nondeductible expenses in relation to the respective pre-tax income.

#### Comparison of nine months ended September 30, 2016 to nine months ended September 30, 2015

##### Operating Revenues

Operating revenues increased \$122.0 million, or 7.5%, to \$1,743.6 million for the nine months ended September 30, 2016, compared to the prior year period, due primarily to an increase in traffic of 22.2%, partially offset by lower passenger yields.

TRASM for the nine months ended September 30, 2016 was 9.22 cents, a decrease of 11.6% compared to the same period of 2015. This decrease was primarily driven by a 12.0% decrease in average yield, period over period, due to lower fares driven by continued competitive pressures, as well as our growth in new and mature markets.

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Total revenue per passenger flight segment decreased 12.3% from \$122.20 for the nine months ended September 30, 2015 to \$107.17 for the nine months ended September 30, 2016. Our average ticket fare per passenger flight segment decreased from \$67.96 to \$55.32, or 18.6%, compared to the prior year period, and non-ticket revenue per passenger flight segment decreased from \$54.24 to \$51.85, or 4.4%, compared to the prior year period. The decrease in non-ticket revenue per passenger flight segment was primarily attributable to lower bag revenue year over year.

Operating Expenses

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Operating expenses increased for the nine months ended September 30, 2016 by \$152.4 million, or 12.4%, compared to the same period for 2015 primarily due to our 21.7% capacity growth and \$31.6 million of special charges for aircraft lease terminations, offset by a 9.9% decrease in aircraft fuel expense resulting from lower fuel prices per gallon, as compared to the prior year period.

Aircraft fuel expense for the nine months ended September 30, 2016 decreased \$35.2 million, or 9.9%, compared to the prior year period primarily as a result of a 25.7% decrease in economic fuel price per gallon and a decrease of \$6.7 million in net realized and unrealized losses from fuel derivatives, offset by a 20.4% increase in fuel gallons consumed year over year.

The elements of the changes in aircraft fuel expense are illustrated in the following table:

|   | Nine Months Ended<br>September 30,              |           |                   |
|---|---|-----------|-------------------|
|   | 2016  | 2015      |                   |
|   | (in thousands,<br>except per gallon<br>amounts) |           | Percent<br>Change |
| Fuel gallons consumed   | 225,851   | 187,541   | 20.4 %            |
| Into-plane fuel cost per gallon                                     | \$1.42  | \$1.86    | (23.7)%           |
| Into-plane fuel expense   | \$321,018                                       | \$349,549 | (8.2 )%           |
| Realized losses (gains) related to fuel derivative contracts, net   | —   | 8,575     | NM                |
| Unrealized losses (gains) related to fuel derivative contracts, net | —   | (1,892)   | )NM               |
| Aircraft fuel expense (per statement of operations)                 | \$321,018                                       | \$356,232 | (9.9 )%           |

The elements of the changes in economic fuel expense are illustrated in the following table:

|   | Nine Months<br>Ended September<br>30,           |           |                   |
|---|---|-----------|-------------------|
|   | 2016  | 2015      |                   |
|   | (in thousands,<br>except per gallon<br>amounts) |           | Percent<br>Change |
| Into-plane fuel expense   | \$321,018                                       | \$349,549 | (8.2 )%           |
| Realized losses (gains) related to fuel derivative contracts, net | —   | 8,575     | NM                |
| Economic fuel expense   | \$321,018                                       | \$358,124 | (10.4)%           |
| Fuel gallons consumed   | 225,851   | 187,541   | 20.4 %            |
| Economic fuel cost per gallon                                     | \$1.42  | \$1.91    | (25.7)%           |

During the nine months ended September 30, 2016, we had no activity related to fuel derivatives and thus had no realized or unrealized losses (gains) related to fuel derivative contracts, as we have in prior periods. During the nine months ended September 30, 2015, we paid \$2.5 million in premiums to acquire jet fuel options. Total realized loss recognized for fuel derivatives that expired during the nine months ended 2015 was \$8.6 million. Total realized losses included cash paid for premiums in previous periods of \$9.2 million, which expired in the nine months ended September 30, 2015, and cash received for settlement of fuel derivatives during the nine months ended September 30, 2015 of \$0.6 million. We had \$1.9 million in unrealized gains related to our outstanding fuel derivatives during the nine months ended September 30, 2015.

As of September 30, 2016, we had no outstanding fuel derivatives.

We measure our operating cost performance on a per-ASM basis, since one ASM is the unit of production of an airline's capacity. The following table presents our cost per-ASM, or unit cost, for the nine months ended September 30, 2016 and 2015, followed by explanations of the material changes on a unit cost basis and/or dollar basis:

|                                    | Nine Months Ended September 30, 2016 |      | 2015   |  | Per-ASM Change | Percent Change |
|------------------------------------|--------------------------------------|------|--------|--|----------------|----------------|
|                                    | (in cents, except for percentages)   |      |        |  |                |                |
| Aircraft fuel                      | 1.70                                 | 2.29 | (0.59) |  |                | (25.8)%        |
| Salaries, wages, and benefits      | 1.85                                 | 1.81 | 0.04   |  |                | 2.2 %          |
| Aircraft rent                      | 0.80                                 | 1.03 | (0.23) |  |                | (22.3)%        |
| Landing fees and other rents       | 0.60                                 | 0.63 | (0.03) |  |                | (4.8) %        |
| Distribution                       | 0.39                                 | 0.42 | (0.03) |  |                | (7.1) %        |
| Maintenance, materials and repairs | 0.38                                 | 0.40 | (0.02) |  |                | (5.0) %        |
| Depreciation and amortization      | 0.39                                 | 0.33 | 0.06   |  |                | 18.2 %         |
| Other operating                    | 1.05                                 | 1.00 | 0.05   |  |                | 5.0 %          |
| Loss on disposal of assets         | 0.01                                 | 0.01 | —      |  |                | NM             |
| Special charges (credits)          | 0.17                                 | —    | 0.17   |  |                | NM             |
| CASM                               | 7.33                                 | 7.93 | (0.60) |  |                | (7.6) %        |
| Adjusted CASM (1)                  | 7.15                                 | 7.93 | (0.78) |  |                | (9.8) %        |
| Adjusted CASM ex-fuel (2)          | 5.45                                 | 5.63 | (0.18) |  |                | (3.2) %        |

(1) Reconciliation of CASM to Adjusted CASM:

|   | Nine Months Ended September 30, 2016 |         |               | 2015    |               |         |
|---|--------------------------------------|---------|---------------|---------|---------------|---------|
|   | (in millions)                        | Per ASM | (in millions) | Per ASM | (in millions) | Per ASM |
| CASM (cents)  |                                      | 7.33    |               | 7.93    |               |         |
| Less:   |                                      |         |               |         |               |         |
| Unrealized losses (gains) related to fuel derivative contracts, net | \$—                                  |         | \$(1.9)       |         | (0.01)        |         |
| Loss on disposal of assets  | 1.2                                  | 0.01    | 1.3           | 0.01    |               |         |
| Special charges (credits)   | 31.6                                 | 0.17    | 0.7           | —       |               |         |
| Adjusted CASM (cents)   |                                      | 7.15    |               | 7.93    |               |         |

(2) Excludes aircraft fuel expense, loss on disposal of assets and special charges and credits.

Our adjusted CASM ex-fuel for the nine months ended September 30, 2016 decreased by 3.2% as compared to the same period in 2015. The decrease on a per-ASM basis was primarily a result of a decrease in aircraft rent expense per ASM due to our newer aircraft being purchased under secured debt financing rather than being leased through operating leases, as is the case with the older aircraft in our fleet. In addition, we purchased six previously leased aircraft during the nine months ended September 30, 2016 which contributed to lower aircraft rent per ASM. Labor costs for the nine months ended September 30, 2016 increased \$68.4 million, or 24.3%, compared to the same period in 2015. The increase was primarily driven by a 25.2% increase in our pilot and flight attendant workforce resulting from the introduction of 13 new aircraft since the end of the third quarter of 2015. On both a dollar and per-ASM basis, labor costs increased as a result of a non-recurring ratification incentive in the amount of \$8.4 million

recorded during the first quarter of 2016, related to the five-year collective bargaining agreement with our flight attendants, as well as an increase in wages for our flight attendants resulting from the contract negotiations. In addition, incentive compensation expense increased as a result of improved metric performance, year over year. Scale benefits from overall growth as well as larger gauge aircraft and a decrease in our group health care costs partially offset the increase noted on a per-ASM basis.

Aircraft rent expense for the nine months ended September 30, 2016 decreased by \$8.0 million, or 5.0%, compared to the same period in 2015. The decrease in aircraft rent expense was primarily driven by the purchase of six previously leased aircraft made during the nine months ended September 30, 2016. For further discussion on these purchases, please see "Notes to Condensed Financial Statements - 3. Special Charges." Additionally, we negotiated several lease extensions during 2016 which contributed to lower aircraft rent. On a per-ASM basis, aircraft rent expense decreased due to a change in the composition of

our aircraft fleet between leased aircraft (for which rent expense is recorded under aircraft rent) and purchased aircraft (for which depreciation expense is recorded under depreciation and amortization). Since the prior year period, we have taken delivery of 13 purchased aircraft, which increased capacity but had no effect on aircraft rent expense, as these assets are being depreciated over their useful life. Had the respective aircraft been leased, the change in rent expense, on both a dollar and per-ASM basis, would have been greater than the increase currently experienced in depreciation and amortization as result of these purchases.

Landing fees and other rents for the nine months ended September 30, 2016 increased \$15.6 million, or 15.8%, as compared to the same period in 2015 primarily due to a 17.1% increase in departures. On a per-ASM basis, landing fees and other rents decreased due to scale benefits from increased volume at our airports.

Distribution costs increased by \$7.3 million, or 11.0%, for the nine months ended September 30, 2016 as compared to the same period in 2015. The increase was due primarily to increased sales volume. On a per-ASM basis, distribution costs decreased primarily due to lower average fare resulting in a decrease in credit card fees year over year.

Maintenance costs for the nine months ended September 30, 2016 increased by \$10.1 million, or 16.3%, compared to the prior year period. The increase in maintenance costs on a dollar basis was due to higher aircraft repair expense as well as routine and ongoing maintenance on a growing fleet. On a per-unit basis, our growth outpaced the increase in maintenance costs during the period, as compared to the prior year period. We expect maintenance expense, on a dollar basis, to increase as our fleet continues to grow and age, resulting in the need for additional and more frequent repairs over time.

Depreciation and amortization increased by \$21.7 million, or 42.1%, compared to the prior year period. The increase on both a dollar and per-ASM basis was primarily due to depreciation expense resulting from the purchase of 13 new aircraft and the purchase of 6 previously rented aircraft made since the third quarter of 2015.

We account for heavy maintenance under the deferral method. Under the deferral method, the cost of heavy maintenance is capitalized and amortized as a component of depreciation and amortization expense in the statement of operations until the next heavy maintenance event or end of the lease term, if applicable. The amortization of heavy maintenance costs was \$33.0 million and \$31.0 million for the nine months ended September 30, 2016 and 2015, respectively. As our fleet continues to age, we expect that the amount of deferred heavy maintenance events will increase and will result in an increase in the amortization of those costs. If heavy maintenance events were amortized within maintenance, materials and repairs expense in the statement of operations, our maintenance, materials and repairs expense would have been \$105.1 million and \$92.9 million for the nine months ended September 30, 2016 and 2015, respectively.

Other operating expense for the nine months ended September 30, 2016 increased by \$41.8 million, or 26.8%, compared to the prior year period, primarily due to our growth. The outsourcing of ramp service agents at certain stations, completed in the latter part of the second quarter of 2015, also drove increases in other operating expense, on both a dollar and per-ASM basis, year over year. On a per-ASM basis, this increase was offset by lower passenger re-accommodation expense as compared to the prior year period. During 2016, we have improved our operational reliability and achieved new records for on-time performance.

Special charges for the nine months ended September 30, 2016 consisted of \$31.6 million in lease termination charges recognized in connection with the purchase of 6 aircraft formerly financed under operating lease agreements. The amount recorded as lease termination charges represents the excess of the purchase price paid over the appraised fair value of the aircraft, less previously expensed supplemental rent and other non-cash items of \$13.7 million. For further discussion on these purchases, please see "Notes to Condensed Financial Statements - 3. Special Charges."

#### Other income (expenses)

Our interest expense and corresponding capitalized interest for the nine months ended September 30, 2016 and 2015 primarily represents interest related to the financing of purchased aircraft. As of September 30, 2016 and 2015, the Company had 28 and 15 purchased aircraft financed through secured long-term debt arrangements, respectively. Please see "Notes to Condensed Financial Statements - 10. Long-term Debt" for further discussion.

Our interest income for the nine months ended September 30, 2016 primarily represents interest income earned on short-term investments and on funds required to be held in escrow in accordance with the terms of our EETC.

**Income Taxes**

Our effective tax rate for the nine months ended September 30, 2016 was 36.7% compared to 36.8% for the nine months ended September 30, 2015. In arriving at these rates, we considered a variety of factors, including our forecasted full-year pre-

tax results, the U.S. federal rate of 35%, expected nondeductible expenses, and estimated state income taxes. We evaluate our tax rate each quarter and make adjustments when necessary. Our final effective tax rate for the full year is dependent on the level of pre-tax income and the magnitude of any nondeductible expenses in relation to the respective pre-tax income.

## Liquidity and Capital Resources

Our primary sources of liquidity are cash on hand, cash provided by operations and capital from debt financing. Primary uses of liquidity are for working capital needs, capital expenditures, aircraft and engine pre-delivery deposit payments (PDPs) and maintenance reserves. Our total cash at September 30, 2016 was \$825.9 million, an increase of \$22.3 million from December 31, 2015.

Currently, our single largest capital need is funding the acquisition costs of our aircraft. Aircraft are acquired through debt financing, sale leaseback transactions, direct leases or cash purchases. In debt financing transactions, capital is needed to make equity investments in capital assets and payments on debt obligations (principal and interest) after the acquisition of the aircraft. During the nine months ended September 30, 2016, we purchased 10 aircraft through debt financing transactions and made \$62.6 million in debt payment obligations (principal, interest and fees). The debt entered into in the current period has maturity dates ranging from 2024 to 2028 and interest rates ranging from 4.100% to 4.450%. In sale leaseback transactions, capital is needed to fund the initial purchase of the aircraft prior to the sale to the lessor. During the nine months ended September 30, 2016, we entered into no sale leaseback transactions. During the nine months ended September 30, 2016, we purchased 6 aircraft that were previously financed under operating leases for \$124.7 million, comprised of cash payments of \$91.9 million and the application of maintenance and security deposits held by the previous lessors of \$32.8 million.

PDPs relating to future deliveries under our agreement with Airbus are required at various times prior to each delivery date. During the nine months ended September 30, 2016, we paid \$109.3 million of PDPs for future deliveries of aircraft and spare engines. As of September 30, 2016, we had \$272.7 million of PDPs on our balance sheet.

As of September 30, 2016, we have secured debt financing commitments for two of the aircraft deliveries that will be received from Airbus through January 2017. An additional five aircraft will be leased directly from a third party. We do not have financing commitments in place for the remaining 75 Airbus aircraft currently on firm order, which are scheduled for delivery between 2017 and 2021. Future aircraft deliveries may be leased or otherwise financed based on market conditions, our prevailing level of liquidity, and capital market availability.

In addition to funding the acquisition of our fleet, we are required to make maintenance reserve payments for some of the aircraft in our current fleet. Maintenance reserves are paid to aircraft lessors and are held as collateral in advance of our performance of major maintenance activities. In the nine months ended September 30, 2016, we paid \$43.9 million in maintenance reserves and as of September 30, 2016, we had \$285.5 million (\$87.1 million in aircraft maintenance deposits and \$198.4 million in long-term aircraft maintenance deposits) on our balance sheet.

On October 26, 2015, our Board of Directors authorized a new repurchase program of up to \$100 million in aggregate value of shares of our Common Stock, par value \$0.0001 per share, from time to time in open market or privately negotiated transactions. As of September 30, 2016, the Company has exhausted repurchases under this program. The timing and amount of any stock repurchase are subject to prevailing market conditions and other considerations.

**Net Cash Flows Provided By Operating Activities.** Operating activities in the nine months ended September 30, 2016 provided \$440.0 million in cash compared to \$369.0 million provided in the nine months ended September 30, 2015. The increase is mainly driven by higher revenues, lower cost of fuel, and a \$65.0 million income tax refund during the current period. This increase was offset by higher salary, wages and benefits and interest paid (excluding amounts capitalized) on the debt financing of aircraft year over year.

**Net Cash Flows Used In Investing Activities.** In the nine months ended September 30, 2016, investing activities used \$663.8 million, compared to \$542.2 million used in the prior year period. The increase was mainly driven by the purchase of available-for-sale short term investment securities of \$100 million made during the third quarter of 2016. In addition, there was an increase in paid PDPs, net of refunds, driven by timing of future aircraft deliveries. During

the nine months ended September 30, 2016, our main investing activities were \$408.1 million in expenditures for flight equipment consisting primarily of the purchase of 10 new aircraft, 6 previously leased aircraft and rotatable equipment. During the nine months ended September 30, 2015, our main investing activities were \$393.2 million in expenditures for flight equipment primarily for the purchase of 11 new aircraft.

Net Cash Flows Provided By Financing Activities. During the nine months ended September 30, 2016, financing activities provided \$246.0 million. We received \$378.6 million in connection with the debt financing of 10 aircraft delivered during the

nine months ended September 30, 2016. We spent \$102.4 million to repurchase common stock primarily under our stock repurchase authorization, which became effective in October 2015, and we paid \$29.6 million in debt principal payment obligations in the nine months ended September 30, 2016 related to the financing of our aircraft.

#### Commitments and Contractual Obligations

We have contractual obligations and commitments primarily with regard to future purchases of aircraft and engines, repayment of debt, and lease arrangements. The following table discloses aggregate information about our contractual obligations as of September 30, 2016 and the periods in which payments are due (in millions):

|  | Remainder<br>of 2016 | 2017 -<br>2018 | 2019 -<br>2020 | 2021<br>and<br>beyond | Total   |
|--|----------------------|----------------|----------------|-----------------------|---------|
| Long-term debt (1)                               | \$ 35                | \$165          | \$156          | \$ 652                | \$1,008 |
| Interest commitments (2)                         | 16                   | 77             | 63             | 118                   | 274     |
| Operating lease obligations                      | 62                   | 442            | 359            | 581                   | 1,444   |
| Flight equipment purchase obligations            | 104                  | 1,309          | 1,503          | 803                   | 3,719   |
| Other (3)  | 6                    | 18             | 1              | —                     | 25      |
| Total future payments on contractual obligations | \$ 223               | \$2,011        | \$2,082        | \$ 2,154              | \$6,470 |

(1) Includes principal only associated with senior term loans due through 2027, junior term loans due through 2022 and Class A and Class B enhanced equipment trust certificates due through 2028 and 2024, respectively. Please see "Notes to Condensed Financial Statements - 10. Long-term Debt."

(2) Related to senior and junior term loans and Class A and Class B enhanced equipment trust certificates only.

(3) Primarily related to the reconfiguration of seating in 40 of our A320neos from 178 to 182 seats.

Some of our master lease agreements provide that we pay maintenance reserves to aircraft lessors to be held as collateral in advance of our required performance of major maintenance activities. Some maintenance reserve payments are fixed contractual amounts, while others are based on utilization. In addition to the contractual obligations disclosed in the table above, we have fixed maintenance reserve payments for these aircraft and related flight equipment, including estimated amounts for contractual price escalations, which are approximately \$1.8 million for the remainder of 2016, \$6.6 million in 2017, \$5.6 million in 2018, \$4.2 million in 2019, \$3.9 million in 2020, and \$10.2 million in 2021 and beyond.

In August 2015, we created 2 separate pass-through trusts which issued approximately \$576.6 million aggregate face amount of Series 2015-1 Class A and Class B EETCs in connection with the financing of 15 aircraft. The proceeds from the issuance of EETCs are initially held in escrow by a depository and, upon satisfaction of certain terms and conditions, are released and used to purchase equipment notes which are issued by the Company and secured by the Company's aircraft. As of September 30, 2016, \$499.3 million of the proceeds from the sale of the 2015-1 EETCs had been used to purchase equipment notes in connection with the financing of 3 Airbus A320 aircraft and 10 Airbus A321 aircraft.

The remaining two aircraft are scheduled for delivery between November 2016 and January 2017.

Principal and interest commitments related to our future secured debt financing as of September 30, 2016 are approximately \$1.6 million for the remainder of 2016, \$11.6 million in 2017, \$8.1 million in 2018, \$7.4 million in 2019, \$7.1 million in 2020, and \$65.7 million in 2021 and beyond.

We evaluated whether the pass-through trusts formed are variable interest entities (VIEs) required to be consolidated by the Company under applicable accounting guidance. We determined that the pass-through trusts are VIEs and that we do not have a variable interest in the pass-through trusts. As such, we are not required to consolidate these pass-through trusts.

In September 2015, we executed a lease agreement with Wayne County Airport Authority (the Authority), which owns and operates Detroit Metropolitan Wayne County Airport (DTW). Under the lease agreement, we lease a 10-acre site, adjacent to the airfield at DTW, in order to construct, operate and maintain an approximately 126,000-square-foot hangar facility. The lease agreement has a 30-year term with 2 10-year extension options. Upon termination of the lease, title of the project, which will be fully depreciated, will automatically pass to the Authority. We estimate the project will be completed during the fourth quarter of 2016. Future commitment amounts for the project are included within operating lease obligations in the table above.

## Off-Balance Sheet Arrangements

We have significant lease obligations for our aircraft and spare engines as 55 of our 89 aircraft and all of our 11 spare engines are financed under operating leases and are therefore not reflected on our balance sheets. These leases expire between 2017 and 2029. Aircraft rent payments were \$53.5 million and \$54.5 million for the three months ended September 30, 2016 and 2015, respectively, and \$160.3 million and \$163.1 million for the nine months ended September 30, 2016 and 2015, respectively. Our aircraft lease payments for 52 of our aircraft are fixed-rate obligations. Three of our aircraft leases provide for variable rent payments, which fluctuate based on changes in the London Interbank Offered Rate (LIBOR).

Our contractual purchase commitments consist primarily of aircraft and engine acquisitions through manufacturers and aircraft leasing companies. As of September 30, 2016, our aircraft orders consisted of the following:

|                   | Airbus  |         | Third-Party<br>Lessor |   |       |
|-------------------|---------|---------|-----------------------|---|-------|
|                   | A320neo | A321ceo | A320neo               |   | Total |
| remainder of 2016 | —       | 1       | 5                     |   | 6     |
| 2017              | 4       | 11      | —                     |   | 15    |
| 2018              | 5       | 4       | 5                     |   | 14    |
| 2019              | 1       | 12      | —                     |   | 13    |
| 2020              | —       | 16      | —                     |   | 16    |
| 2021              | —       | 18      | —                     |   | 18    |
|                   | 10      | 50      | 17                    | 5 | 82    |

We also have four spare engine orders for V2500 SelectOne engines with IAE and nine spare engine orders for PurePower PW1100G-JM engines with Pratt & Whitney. Spare engines are scheduled for delivery from 2016 through 2023. Committed expenditures for these aircraft and spare engines, including estimated amounts for contractual price escalations and aircraft PDPs, are expected to be approximately \$104 million for the remainder of 2016, \$659 million in 2017, \$650 million in 2018, \$679 million in 2019, \$823 million in 2020 and \$803 million in 2021 and beyond. As of September 30, 2016, we had lines of credit related to corporate credit cards of \$23.6 million from which we had drawn \$7.3 million.

As of September 30, 2016, we had lines of credit with counterparties for physical fuel delivery and derivatives in the amount of \$48.0 million. As of September 30, 2016, we had drawn \$10.3 million on these lines of credit. We are required to post collateral for any excess above the lines of credit if the derivatives are in a net liability position and make periodic payments in order to maintain an adequate undrawn portion for physical fuel delivery. As of September 30, 2016, we did not hold any fuel derivatives.

As of September 30, 2016, we had \$6.1 million in uncollateralized surety bonds and \$25.2 million in unsecured standby letter of credit facilities of which \$16.7 million had been drawn upon for issued letters of credit.

## GLOSSARY OF AIRLINE TERMS

Set forth below is a glossary of industry terms:

“Adjusted CASM” means operating expenses, excluding unrealized gains or losses related to fuel derivative contracts, out of period fuel federal excise tax, loss on disposal of assets, and special charges (credits), divided by ASMs.

“Adjusted CASM ex-fuel” means operating expenses excluding aircraft fuel expense, loss on disposal of assets, and special charges (credits), divided by ASMs.

“AFA-CWA” means the Association of Flight Attendants-CWA.

“Air traffic liability” or “ATL” means the value of tickets sold in advance of travel.

“ALPA” means the Airline Pilots Association, International.

“ASIF” means an Aviation Security Infrastructure Fee assessed by the TSA on each airline.

“Available seat miles” or “ASMs” means the number of seats available for passengers multiplied by the number of miles the seats are flown, also referred to as "capacity."

“Average aircraft” means the average number of aircraft in our fleet as calculated on a daily basis.

“Average daily aircraft utilization” means block hours divided by number of days in the period divided by average aircraft.

“Average economic fuel cost per gallon” means total aircraft fuel expense, excluding unrealized gains or losses related to fuel derivative contracts and out of period fuel federal excise tax, divided by the total number of fuel gallons consumed.

“Average non-ticket revenue per passenger flight segment” means the total non-ticket revenue divided by passenger flight segments.

“Average ticket revenue per passenger flight segment” means total passenger revenue divided by passenger flight segments.

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

“Average yield” means average operating revenue earned per RPM, calculated as total revenue divided by RPMs.

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

“CASM” or “unit costs” means operating expenses divided by ASMs.

“CBA” means a collective bargaining agreement.

“CBP” means United States Customs and Border Protection.

“DOT” means the United States Department of Transportation.

“EPA” means the United States Environmental Protection Agency.

"EETC" means enhanced equipment trust certificate.

“FAA” means the United States Federal Aviation Administration.

“FCC” means the United States Federal Communications Commission.

“GDS” means Global Distribution System (e.g., Amadeus, Galileo, Sabre and Worldspan).

"IAMAW" means the International Association of Machinists and Aerospace Workers.

“Into-plane fuel cost per gallon” means into-plane fuel expense divided by number of fuel gallons consumed.

“Into-plane fuel expense” represents the cost of jet fuel and certain other charges such as fuel taxes and oil.

“Load factor” means the percentage of aircraft seats actually occupied on a flight (RPMs divided by ASMs).

“NMB” means the National Mediation Board.

“OTA” means Online Travel Agent (e.g., Orbitz and Travelocity).

“Passenger flight segments” or “PFS” means the total number of passengers flown on all flight segments.

“PDP” means pre-delivery deposit payment.

“Revenue passenger mile” or “RPM” means one revenue passenger transported one mile. RPMs equals revenue passengers multiplied by miles flown, also referred to as “traffic.”

“RLA” means the United States Railway Labor Act.

“Total operating revenue per-ASM,” “TRASM” or “unit revenue” means operating revenue divided by ASMs.

“TWU” means the Transport Workers Union of America.

“TSA” means the United States Transportation Security Administration.

“ULCC” means “ultra low-cost carrier.”

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Market Risk-Sensitive Instruments and Positions

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

**Aircraft Fuel.** Our results of operations can vary materially due to changes in the price and availability of aircraft fuel. Aircraft fuel expense for the nine months ended September 30, 2016 and 2015 represented 23.2% and 28.9% of our operating expenses, respectively. Increases in aircraft fuel prices or a shortage of supply could have a material adverse effect on our operations and operating results. We source a significant portion of our fuel from refining resources located in the southeast United States, particularly facilities adjacent to the Gulf of Mexico. Gulf Coast fuel is subject to volatility and supply disruptions, particularly during hurricane season when refinery shutdowns have occurred, or when the threat of weather related disruptions has caused Gulf Coast fuel prices to spike above other regional sources. Both jet fuel swaps and jet fuel options are used at times to protect the refining price risk between the price of crude oil and the price of refined jet fuel, and to manage the risk of increasing fuel prices. Gulf Coast Jet indexed fuel is the basis for a substantial majority of our fuel consumption. Based on our fuel consumption over the last twelve months, a 10% increase in the average price per gallon of aircraft fuel would have increased into-plane aircraft fuel expense by approximately \$42.6 million.

As of September 30, 2016 and December 31, 2015, we had no outstanding jet fuel derivatives. We measure our financial derivative instruments at fair value. Fair value of the instruments is determined using standard option valuation models. 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 our investment securities, which had a fair market value of \$100.1 million as of September 30, 2016. As of December 31, 2015, we had no outstanding investment securities, since we did not purchase them until the third quarter of 2016. We also have market risk associated with changing interest rates due to LIBOR-based lease rates on three of our aircraft. A hypothetical 10% change in interest rates would affect total aircraft rent expense by less than \$0.1 million per annum.

**Fixed-Rate Debt.** As of September 30, 2016, we had \$1,008.3 million outstanding in fixed-rate debt related to the purchase of 15 Airbus A320 aircraft and 13 Airbus A321 aircraft which had a fair value of \$1,036.7 million. As of December 31, 2015, we had \$659.3 million outstanding in fixed-rate debt related to the purchase of 12 Airbus A320 aircraft and 6 Airbus A321 aircraft, which had a fair value of \$652.4 million.

### ITEM 4. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2016, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended September 30, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to commercial litigation claims and to administrative and regulatory proceedings and reviews that may be asserted or maintained from time to time. We believe the ultimate outcome of pending lawsuits, proceedings and reviews will not, individually or in the aggregate, have a material adverse effect on our financial position, liquidity, or results of operations.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in Item 1A Risk Factors contained in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission on February 17, 2016. Investors are urged to review these risk factors carefully.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## Repurchases of Equity Securities

The following table reflects our repurchases of our common stock during the third quarter of 2016. Repurchases of equity securities during this period include repurchases made from employees who received restricted stock or performance share awards as well as open market repurchases made under our stock repurchase authorization that became effective in October 2015, which authorized the repurchase of up to \$100 million of the Company's common stock. All employee stock repurchases were made at the election of each employee pursuant to an offer to repurchase by us. In each case, the shares repurchased constituted the portion of vested shares necessary to satisfy minimum withholding tax requirements.

## ISSUER PURCHASES OF EQUITY SECURITIES

| Period               | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Approximate<br>Dollar Value<br>of Shares<br>that May<br>Yet be<br>Purchased<br>Under Plans<br>or Programs |
|----------------------|---|---------------------------------------|--|---|
| July 1-31, 2016      | 283,204                                   | \$ 44.75                              | 283,204  | \$25,000,056  |
| August 1-31, 2016    | 461,008                                   | \$ 40.06                              | 457,562  | \$6,660,071   |
| September 1-30, 2016 | 167,900                                   | \$ 39.65                              | 167,900  | \$74  |
| Total                | 912,112                                   | \$ 41.44                              | 908,666  |   |

On October 26, 2015, our Board of Directors authorized a repurchase program of up to \$100 million in aggregate value of shares of our Common Stock, par value \$0.0001 per share, from time to time in open market or privately negotiated transactions. As of September 30, 2016, the Company has exhausted repurchases under this program. The timing and amount of any stock repurchase is subject to prevailing market conditions and other considerations, and may be discontinued at any time.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

## ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

| Exhibit Number | Description of Exhibits  |
|----------------|--|
| 10.1           | Theodore Botimer Severance and Release Agreement   |
| 31.1           | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 31.2           | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32.1*          | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2*          | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS        | XBRL Instance Document   |
| 101.SCH        | XBRL Taxonomy Extension Schema   |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase   |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase   |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase  |

Exhibits 32.1 and 32.2 are being furnished and shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall such exhibits be deemed to be incorporated by reference in any registration statement or other document filed under the Securities Act or the Exchange Act, except as otherwise specifically stated in such filing.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SPIRIT AIRLINES, INC.

Date: October 25, 2016 By: /s/ Edward Christie  
Edward Christie  
Senior Vice President and  
Chief Financial Officer