Spirit Airlines, Inc.
Form S-1/A
December 22, 2011
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As filed with the Securities and Exchange Commission on December 22, 2011

Registration No. 333-178336

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 1 TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

SPIRIT AIRLINES, INC.

(Exact name of registrant as specified in its charter)

Delaware	4512	38-1747023
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

2800 Executive Way

Miramar, Florida 33025

(954) 447-7920

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

area code, of registrant s principal executive offices)

B. Ben Baldanza

President and Chief Executive Officer

Spirit Airlines, Inc.

2800 Executive Way

Miramar, Florida 33025

(954) 447-7920

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies To:

Anthony J. Richmond	**Thomas C. Canfield**	**Leslie N. Silverman**
Robert W. Phillips	**Senior Vice President and General Counsel**	**Cleary Gottlieb Steen & Hamilton LLP**
Latham & Watkins LLP **140 Scott Drive** **Menlo Park, California 94025** **(650) 328-4600**	**Spirit Airlines, Inc.**	**One Liberty Plaza**
	2800 Executive Way	**New York, NY 10006**
	Miramar, Florida 33025	**(212) 225-2000**
	(954) 447-7920	

Approximate date of commencement of the proposed sale to the public:

As soon as practicable after this Registration Statement becomes effective.

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

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

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

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

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x	Smaller reporting company ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Proposed Maximum Aggregate Offering Price(1)**	**Amount of Registration Fee**
Common Stock, $0.0001 par value per share	$ 172,500,000	$ 19,769(2)

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.
(2) Previously paid.

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

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The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED DECEMBER 22, 2011

Shares

Spirit Airlines, Inc.

Common Stock

The selling stockholders identified in this prospectus are offering shares of our common stock. The selling stockholders will receive all net proceeds from the sale of the shares of our common stock in this offering.

Our common stock is listed on the NASDAQ Global Select Market under the symbol SAVE. On December 21, 2011, the last sale price of the shares on the NASDAQ Global Select Market was $15.52 per share.

Investing in the common stock involves risks. See Risk Factors beginning on page 15.

	Per Share	Total
Public offering price		
Underwriting discount		
Proceeds to selling stockholders (before expenses)		

The selling stockholders have granted the underwriters the right to purchase up to an additional shares of common stock to cover over-allotments. The selling stockholders will receive the net proceeds from any shares sold pursuant to the underwriters over-allotment option.

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

The underwriters expect to deliver the shares of common stock to purchasers on or about , 2012.

Barclays Capital	**Citigroup**	**Morgan Stanley**

Deutsche Bank Securities	**Raymond James**	**Dahlman Rose & Company**	**Macquarie Capital**

, 2012.

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We are responsible for the information contained in this prospectus or contained in any free writing prospectus prepared by or on behalf of us that we have referred to you. Neither we, any of the selling stockholders, nor the underwriters have authorized anyone to provide you with additional information or information different from that contained in this prospectus or in any free writing prospectus filed with the Securities and Exchange Commission, or SEC, and we take no responsibility for any other information that others may give you. The selling stockholders are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock. Our business, operating results or financial condition may have changed since such date.

For investors outside the United States: **Neither we, any of the selling stockholders, nor any of the underwriters have taken any action that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus.**

SUMMARY

This summary highlights selected information about us and the common stock being offered by the selling stockholders. It may not contain all of the information that is important to you. Before investing in our common stock, you should read this entire prospectus carefully for a more complete understanding of our business and this offering, including our financial statements and the accompanying notes and the sections entitled Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations.

Overview

Spirit Airlines® is an ultra low-cost, low-fare airline based in Fort Lauderdale, Florida that provides affordable travel opportunities principally to and from South Florida, the Caribbean and Latin America. Our targeted growth markets have historically been underserved by low-cost carriers, which we believe provides us sustainable expansion opportunities. Our ultra low-cost carrier, or ULCC, business model allows us to offer a low-priced basic service combined with a range of optional services for additional fees, targeting price-sensitive leisure travelers and travelers visiting friends and relatives, or VFR. Notwithstanding the recent volatility in the cost of jet fuel and the severe economic recession, we have been able to maintain relatively stable unit revenue while maintaining a low-cost structure, and we have been profitable in each of the last four years and in the first three quarters of 2011. For 2010, we had total operating revenues of $781.3 million, operating income of $68.9 million and net income of $72.5 million ($19.7 million excluding the release of the valuation allowance on our deferred tax assets and related tax benefit). For the nine months ended September 30, 2011, we had total operating revenues of $797.3 million, operating income of $106.4 million and net income of $52.5 million. As of September 30, 2011, we served 47 airports.

We have reduced our unit operating costs significantly since redefining Spirit as a ULCC in 2006. As a result, our operating cost structure is among the lowest in the Americas, enabling us to offer very low fares in the markets we serve while delivering operating profitability. Key elements of our low-cost structure include our efficient asset utilization, operation of an all Airbus single-aisle aircraft fleet with high-density seating configurations, employee productivity, rigorous cost control and use of scalable outsourced services. Furthermore, our modern fleet and aircraft seat configuration enable us to operate as one of the most fuel-efficient U.S. jet airline operators on a per available seat mile, or ASM, basis. We have demonstrated the ability to implement our ULCC business model and to adjust our capacity and routes in response to changing market conditions as part of our focus on achieving consistent route profitability.

Our ULCC business model allows us to compete principally through offering low base fares. During 2010 and the first three quarters of 2011, our average base fare was approximately $77 and $82, respectively, and we have offered promotional base fares of $9 or less. Since 2007, we have unbundled components of our air travel service that have traditionally been included in base fares, such as baggage and advance seat selection, and offer them as optional, ancillary services for additional fees (which we record in our financial statements as non-ticket revenue) as part of a strategy to enable our passengers to identify, select and pay for the services they want to use. While many domestic airlines have also adopted some aspects of our unbundled pricing strategy, unlike us, they generally have not made a corresponding reduction in base fares.

We have lowered our base fares significantly since initiating our unbundling strategy, with the goal of stimulating additional passenger demand in the markets we serve. We plan to continue to use low fares to stimulate demand, a strategy that generates additional non-ticket revenue opportunities and, in turn, allows us to further lower base fares and stimulate demand even further. This unbundling and low base fare strategy is designed to support profitable growth. In 2009, our operating income margin of 15.9% was among the highest in the U.S. airline industry. For 2010, our operating income margin was 8.8%, reflecting the effects of increased

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fuel prices and our pilot strike in June 2010. On July 23, 2010, our pilots ratified a five-year collective bargaining agreement that became effective on August 1, 2010. For the nine months ended September 30, 2011, our operating income margin was 13.3%, reflecting the effects of increased fuel prices.

Our principal target growth markets are markets in the domestic U.S., Caribbean and Latin America where we can either stimulate traffic by reducing fares or have significant untapped growth potential for leisure and VFR travel. Many domestic markets are currently underserved by low-cost carriers and we believe we can successfully grow these markets by increasing frequencies and aircraft capacity on routes we currently serve or introducing new routes to cities we do not serve. Both the Caribbean and Latin American markets are large and we believe they have significant growth potential for leisure and VFR travel. In 2010, air travel between the United States and the Caribbean and Latin American markets within non-stop reach of our aircraft from the United States generated approximately $13.7 billion in revenues, with only limited market stimulation by low fares. These markets have historically been characterized by untapped travel demand from leisure and VFR customers because they are primarily served by full-service, higher-fare airlines, and because several countries in this targeted growth region have historically restricted air travel competition. We believe our presence in the Caribbean and Latin America, combined with our ULCC model, will allow us to compete successfully and grow profitably in these markets. We also target attractive domestic markets currently underserved by low-cost carriers by increasing frequencies and aircraft capacity on our existing routes, as well as starting new routes to cities we currently do not serve.

With our base of operations strategically located in South Florida, our overwater international route operating experience and our ULCC model, we believe we are well positioned to grow. With less than 2% of U.S. airline capacity and less than 3% of the capacity in Caribbean and Latin American markets as of September 30, 2011, we believe we can grow significantly using our aircraft on order to increase route frequencies and aircraft capacity on existing routes and by establishing new routes both domestically and abroad. By deploying additional Airbus A320-family aircraft and leveraging our existing infrastructure to drive economies of scale, we can lower some of our unit operating costs even further, allowing us to continue to lower base fares, stimulate market demand and increase non-ticket revenue opportunities.

Our Strengths

We believe we compete successfully in the airline industry by exploiting the following demonstrated business strengths:

Ultra Low-Cost Structure. Our unit operating costs are among the lowest of all airlines operating in the Americas. We believe this cost advantage helps protect our market position and enables us to offer some of the lowest base fares in our markets, sustain operating margins and support continued growth. Our operating costs per available seat mile, or CASM, was 7.86 cents in 2009, 8.77 cents in 2010, and 9.80 cents in the nine months ended September 30, 2011. The increase from 2009 to 2010 was due primarily to the effects of the increased cost of fuel in 2010 and our pilot strike in June 2010. The increase in the first three quarters of 2011 was due primarily to continued increases in fuel cost. Our CASM for these periods was significantly lower than that of the major domestic network carriers, American Airlines, Delta Air Lines, United Air Lines and US Airways, and among the lowest of the domestic low-cost carriers, including AirTran Airways, JetBlue Airways and Southwest Airlines. We achieve these low operating costs in large part due to:

- high aircraft utilization, which during 2010 and the nine months ended September 30, 2011 averaged 12.8 and 12.9 hours per day, respectively;
- high-density seating configurations on our aircraft;
- our low-cost Fort Lauderdale base of operations;
- our productive workforce;

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opportunistic outsourcing of operating functions;

operating a modern single fleet type of Airbus A320-family aircraft, with associated lower maintenance costs and common flight crews across the fleet;

minimizing sales, marketing and distribution costs through direct-to-consumer marketing, high utilization of web-based sales and increasing website traffic;

efficient flight scheduling, including minimal ground times between flights; and

creating a company-wide business culture that is keenly focused on driving costs lower.

Innovative Revenue Generation. We execute our innovative, unbundled pricing strategy to produce significant non-ticket revenue generation, which allows us to stimulate passenger demand for our product by lowering base fares and enabling passengers to identify, select and pay for the products and services they want to use. We have grown average non-ticket revenue per passenger flight segment from approximately $5 in 2006 to $26 in 2009, to $35 in 2010 and to $44 in the nine months ended September 30, 2011, by:

charging for baggage;

passing through all distribution-related expenses;

charging for premium seats and advance seat selection;

consistently enforcing ticketing policies, including change fees;

generating subscription fees from our $9 Fare Club ultra low-fare subscription service;

deriving brand-based fees from proprietary services, such as our FREE SPIRIT® affinity credit card program;

selling itinerary attachments, such as hotel and car rental reservations and airport parking, through our website; and

selling in-flight products and onboard advertising.

Resilient Business Model and Customer Base. By focusing on leisure and VFR travelers, we have maintained relatively stable unit revenue and profitability during volatile economic periods because we are not highly dependent on premium-fare business traffic, which typically demands a higher cost structure. For example, in 2009, when premium-fare business traffic declined due to the economic recession, our operating revenue per available seat mile, or RASM, declined 1.8% compared to an average U.S. airline industry decline of over 9%. During this same period of volatile fuel prices and global economic recession, we also were able to achieve the highest operating income margin in our history. Based on this performance, we believe our growing customer base is more resilient than the customer bases of most other airlines because our low fares and unbundled service offering appeal to price-sensitive passengers.

Well Positioned for Growth. We are the largest operator of international flights flying out of Fort Lauderdale Hollywood International Airport and are well positioned in the airport s international terminal. From this base in South Florida, we have developed a substantial network of destinations in our targeted Caribbean and Latin American growth markets, profitable U.S. domestic niche markets and high-volume routes flown by leisure and VFR travelers. In the United States, we provide service in the markets from which a significant majority of passengers traveling to the Caribbean and Latin America (including Mexico) originate. From these U.S. markets, our passengers have access to 26 Caribbean and Latin American destinations. With a South Florida base of operations and with our planned fleet growth, we believe we are well positioned to grow profitably as we expand further into these target markets.

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Experienced Operator in the Region. We believe we have substantial experience in local aviation, security and customs regulations, local ground operations and flight crew training required for successful international and overwater flight operations. All of our aircraft are certified for overwater operations. We believe we compete favorably against other low-cost carriers because we have been conducting international flight operations since late 2003 and we have developed substantial experience in complying with the various regulations and business practices in our targeted growth regions.

Financial Strength Achieved by Cost Discipline Focus. We believe our ULCC business model has delivered strong financial results in difficult economic times. Our operating income has increased from $32.0 million in 2007 to $111.4 million in 2009. In 2010, our operating income was $68.9 million, reflecting the negative impact of increased fuel prices and our June 2010 pilot strike. In the nine months ended September 30, 2011, our operating income was $106.4 million. We have generated these results by:

- keeping a consistent focus on maintaining low unit operating costs;
- attempting to maintain profitability across our network by selecting viable new routes and quickly reducing or discontinuing routes that do not deliver acceptable margins;
- maintaining disciplined capacity control and fleet size;
- ensuring our sourcing arrangements with key third parties are continually benchmarked against the best industry standards; and
- building upon the established global relationships of our private equity sponsors and management with our key vendors.

Our Strategy

Our goal is to offer compelling value to our customers by utilizing our low-cost structure and unbundled pricing strategy and, in so doing, grow profitably and enhance our position among the leading low-cost carriers in the Americas. Through the following key elements of our business strategy, we seek to:

Maintain Low Unit Operating Costs. We will support our low-fare strategy by seeking to reduce unit operating costs and improve efficiency by, among other things:

- deploying additional cost-efficient Airbus A320-family aircraft for high utilization flying;
- spreading our low fixed-cost infrastructure over a larger-scale operation;
- continuing to leverage our Fort Lauderdale base of operations;
- opportunistically outsourcing operating functions;
- using technology to create further operating efficiencies;

leveraging the labor productivity and scale benefits of our five-year pilot contract; and

continuing our aggressive procurement strategy.

Couple Low Fares with Expanded Ancillary Services to Stimulate Traffic and Generate More Stable Revenues. Our low unit costs enable us to operate profitably at low-fare levels, and we intend to continue reducing base fares to stimulate demand from price-sensitive customers. By stimulating traffic, our goal is to maximize non-ticket revenues by increasing passenger volume and load factor, which is the percentage of seats actually occupied on a flight. We plan to continue expanding our portfolio of ancillary products and services, through new programs and enhancements to existing offerings. We also seek to maximize revenue opportunities through multiple interactions with customers at different stages of their travel, from pre-purchase through travel and post-trip. As we broaden the ancillary products and services we sell to our customers and increase non-ticket revenues, we believe we will be able to further lower base fares while maintaining profitability, thereby further stimulating demand while adding stability to our revenue stream. Additionally, our innovative fuel pass-through separately shows the fuel cost component of the base fare, providing fare transparency to consumers while encouraging a fare strategy with disciplined cost coverage.

Profitably Expand Our Network in Attractive Caribbean, Latin American and U.S. Domestic Markets. We anticipate further penetrating attractive international and domestic markets currently underserved by low-cost carriers by increasing frequency and aircraft capacity on our existing routes, as well as by starting new routes to cities we do not yet serve. We believe we can accomplish this by:

- using our knowledge of local Caribbean and Latin American markets and expertise in local regulatory and business practices to optimize our route structure and schedule;
- pursuing attractive new route opportunities in markets that limit air carrier competition through frequency or carrier designation restrictions; and
- selectively expanding our presence in markets that are underserved by low-fare carriers or that present opportunity for demand stimulation.

Leverage Our Brand to Grow Revenue. We will seek to continue generating customer loyalty as the low-fare brand of choice in the markets we serve in order to drive future ticket sales, support further network expansion and increase load factors. In addition, we intend to leverage our customer base in order to increase non-ticket revenues by broadening our brand, product and service offerings. These plans include a focus on increasing sales of itinerary attachments on a commission basis and generating additional fees from proprietary, brand-based services, such as our FREE SPIRIT miles affinity program and our $9 Fare Club ultra low-fare subscription service.

Maintain Disciplined Fleet and Network Growth. We employ a disciplined route and fleet expansion strategy that helps us maintain profitability across our network. Our goal is to react quickly to changes in the economic environment and market conditions so each route and each aircraft we operate delivers incremental operating profitability. For example, we modified our growth plan in late 2008 in response to record high fuel prices and rapidly deteriorating economic conditions by terminating leases for seven aircraft. As of December 21, 2011, our fleet consisted of 26 A319, eight A320 and two A321 aircraft. Consistent with our ULCC model, the new A320s introduced by us are configured with 178 passenger seats as compared to 150 passenger seats per plane utilized by some of our competitors, including JetBlue Airways. Our current fleet plan calls for growth to 68 aircraft by the end of 2015, and we have announced a Memorandum of Understanding (MOU) with Airbus for the acquisition of an additional 75 A320-family aircraft for delivery from 2016 through 2021. We expect to use our additional aircraft to add capacity on existing routes in both our targeted growth markets and our higher demand domestic routes, as well as to expand our network footprint. The introduction of higher-capacity A320 aircraft to supplement our current fleet supports reductions in unit costs relative to smaller A319 aircraft and allows us to deploy the right-sized aircraft according to route length, passenger volume and seasonality.

Risk Factors

Our business is subject to numerous risks and uncertainties, including those highlighted in the section entitled Risk Factors immediately following this prospectus summary, that represent challenges we face in connection with the successful implementation of our strategy and the growth of our business. We expect a number of factors to cause our operating results to fluctuate on a quarterly and annual basis, which may make it difficult to predict our future performance. Such factors include:

- the ability to operate in an extremely competitive industry;

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- the ability to control our costs;
- the price and availability of aircraft fuel;
- changes in economic conditions;
- security concerns resulting from any threatened or actual terrorist attacks or other hostilities;
- any restrictions on or increased taxes applicable to fees or other charges for ancillary products and services;
- any increased governmental regulation, including our ability to comply with recently implemented United States Department of Transportation, or DOT, rules;
- any increased labor costs, union disputes, employee strikes, and other labor-related disruptions, including in connection with our current negotiations with the union representing our flight attendants;
- aircraft-related fixed obligations that could impair our liquidity;
- our ability to obtain financing or access capital markets;
- our ability to hedge our fuel requirements;
- any flight delays or cancellations;
- our ability to implement our growth strategy, including growth of our ancillary products and services;
- our ability to expand or operate reliably or efficiently out of Fort Lauderdale Hollywood International Airport;
- our reliance on third-party service providers to perform functions integral to our operations, such as our reservation system and a single service provider for our jet fuel; or
- our reputation and business being adversely affected in the event of an emergency, accident or similar incident involving our aircraft or by negative publicity regarding our business model.

Our History

We were founded in 1964 as Clippert Trucking Company, a Michigan corporation. In 1974, we changed our name to Ground Air Transfer, Inc. and, beginning in 1983, started doing business as Charter One, a charter tour operator providing travel packages to entertainment destinations such as Atlantic City, Las Vegas and the Bahamas. In 1990, we received our Air Carrier Certificate from the Federal Aviation Administration and began air charter operations. In 1992, we renamed ourselves Spirit Airlines, Inc. and thereafter began adding scheduled passenger service to destinations such as Fort Lauderdale, Detroit, Myrtle Beach, Los Angeles and New York. In 1994, we reincorporated in Delaware, and in 1999 we relocated our corporate headquarters to Miramar, Florida.

Investment funds managed by Oaktree Capital Management, L.P., or Oaktree, gained control of Spirit after making investments in 2004 and 2005. With the change in ownership, we began to reconstitute our executive management team, changed our business strategy and positioned ourselves as a low-cost carrier with a focus on expanding our Caribbean and Latin American routes. We closed several unprofitable domestic routes and established Fort Lauderdale Hollywood International Airport as our main base of operations. We began to transition to an all Airbus fleet in 2004 and completed the transition in 2006.

In July 2006, we underwent a corporate recapitalization in which investment funds managed by Indigo Partners LLC, or Indigo, acquired a majority stake in us. After this recapitalization, we began implementing our ULCC business model and further expanding our Caribbean and Latin American routes, and we completed the transition to a new executive management team. Indigo is a private equity fund focused on investing in air transportation companies, with investments in five other ULCC model airlines, including Avianova based in Russia, Mandala Airlines based in Indonesia, Tiger Airways based in Singapore and Australia, Volaris based in Mexico and Wizz Air based in Central and Eastern Europe.

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On June 1, 2011, we completed our initial public offering of common stock, or IPO, which raised net proceeds of $150.0 million after repayment of debt, payment of transaction expenses and other fees. In connection with the IPO, we effected a recapitalization, which we refer to as the 2011 Recapitalization, that resulted in the repayment or conversion of all of our notes and shares of preferred stock into shares of common stock. See Certain Relationships and Related Transactions Recapitalization Agreement. In connection with the IPO, we also entered into a Tax Receivable Agreement and thereby distributed immediately prior to the completion of the IPO to the holders of our common stock as of such time, or the Pre-IPO Stockholders, the right to receive an amount equal to 90% of the cash savings in federal income tax realized by us by virtue of the use of the federal net operating loss, deferred interest deductions and alternative minimum tax credits held by us as of March 31, 2011. See Certain Relationships and Related Transactions Tax Receivable Agreement.

Our principal executive offices are located at 2800 Executive Way, Miramar, Florida 33025. Our general telephone number is (954) 447-7920 and our website address is www.spirit.com. We have not incorporated by reference into this prospectus any of the information on our website and you should not consider our website to be a part of this document. Our website address is included in this document for reference only.

Spirit Airlines®, the Spirit logo, Big Front Seat®, $9 Fare Club and FREE SPIRIT® are trademarks of Spirit Airlines, Inc. in the United States and other countries. This prospectus also contains trademarks and tradenames of other companies.

Recent Developments

Memorandum of Understanding with Airbus

On November 15, 2011, we jointly announced with Airbus that we had entered into an MOU for a significant addition to our existing aircraft purchase order with Airbus. The MOU, which is non-binding, contemplates an order of 75 A320-family aircraft, consisting of 30 of the existing aircraft model and 45 A320 NEO (New Engine Option) aircraft. These aircraft are in addition to the 32 aircraft not yet delivered under our existing order and would be scheduled for delivery from 2016 through 2021. The new aircraft would provide for growth capacity as well as capacity to replace the 28 aircraft in our present fleet with lease expirations between 2017 and 2020. The order outlined in the MOU is subject to a number of conditions, including the negotiation of definitive documentation and corporate approvals by both Airbus and us.

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THE OFFERING

Common stock offered by the selling stockholders:	shares.
Shares outstanding after the offering	72,530,256 shares (1)(2).
Use of proceeds	We will not receive any proceeds from the sale of common stock by the selling stockholders in this offering.
Risk factors	Please see Risk Factors beginning on page 15 and the other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our common stock.
NASDAQ Global Select Market symbol	SAVE

(1) The number of shares of our common stock outstanding after this offering is based on 72,530,256 shares outstanding as of December 21, 2011, and excludes:

- an aggregate of 3,397,614 shares of common stock reserved for issuance under our 2011 Equity Incentive Award Plan, of which 101,000 shares are issuable upon the exercise of outstanding stock options that remain unvested as of December 21, 2011; and

- 251,500 shares of common stock issuable upon the exercise of stock options outstanding under our Amended and Restated 2005 Incentive Stock Plan as of December 21, 2011, of which 58,625 had vested.

(2) The shares of common stock outstanding as of December 21, 2011 consist of 61,954,076 shares of common stock and 10,576,180 shares of non-voting common stock, which shares of non-voting common stock are convertible into common stock on a share-for-share basis. Please see Description of Capital Stock Limited Voting by Foreign Owners.

Except as otherwise indicated, information in this prospectus reflects or assumes no exercise of the over-allotment option to purchase up to additional shares of common stock from the selling stockholders.

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SUMMARY HISTORICAL FINANCIAL AND OPERATING DATA

The following tables summarize the financial and operating data for our business for the periods presented. You should read this summary financial data in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and related notes, all included elsewhere in this prospectus.

We derived the summary statements of operations data for the years ended December 31, 2008, 2009 and 2010 from our audited financial statements included in this prospectus. We derived the summary statements of operations data for the years ended December 31, 2006 and 2007 from our audited financial statements not included in this prospectus. We derived the summary statements of operations data for the nine months ended September 30, 2010 and 2011 and the balance sheet data as of September 30, 2011 from our unaudited condensed financial statements included in this prospectus. Our historical results are not necessarily indicative of the results to be expected in the future, and results for the nine months ended September 30, 2011 are not necessarily indicative of results to be expected for the full year.

	Year Ended December 31,					Nine Months Ended September 30,	
	2006	**2007**	**2008**	**2009**	**2010(1)**	**2010(1)**	**2011**
	(in thousands except share and per share data)						
Operating revenues:							
Passenger	$ 519,351	$ 686,447	$ 657,448	$ 536,181	$ 537,969	$ 401,513	$ 520,380
Non-ticket	23,836	76,432	129,809	163,856	243,296	163,552	276,887
Total operating revenues	**543,187**	**762,879**	**787,257**	**700,037**	**781,265**	**565,065**	**797,267**
Operating expenses:							
Aircraft fuel (2)	176,692	251,230	299,094	181,107	248,206	178,159	293,219
Salaries, wages and benefits	133,537	146,626	147,015	135,420	156,443	114,719	133,514
Aircraft rent	93,136	119,686	105,605	89,974	101,345	72,936	86,009
Landing fees and other rents	30,646	42,441	43,331	42,061	48,118	35,651	38,628
Distribution	29,234	36,315	37,816	34,067	41,179	30,421	39,146
Maintenance, materials and repairs	22,784	23,448	24,237	27,536	28,189	20,644	26,978
Depreciation and amortization	9,552	5,401	4,236	4,924	5,620	4,317	5,296
Other operating	76,269	105,503	85,608	72,921	82,594	61,107	65,700
Loss on disposal of assets	3,853	94	4,122	1,010	77	77	39
Restructuring and termination costs (3)	32,499	142	17,902	(392)	621	137	2,379
Total operating expenses	**608,202**	**730,886**	**768,966**	**588,628**	**712,392**	**518,168**	**690,908**
Operating (loss) income	**(65,015)**	**31,993**	**18,291**	**111,409**	**68,873**	**46,897**	**106,359**
Other expense (income):							
Interest expense (4)	20,985	38,163	40,245	46,892	50,313	38,007	24,408
Capitalized interest (5)	(2,299)	(1,755)	(166)	(951)	(1,491)	(927)	(2,519)
Interest income	(3,183)	(5,951)	(1,976)	(345)	(328)	(242)	(256)
Gain on extinguishment of debt (6)			(53,673)	(19,711)			
Other expense (income)	134	130	214	298	194	102	165
Total other expense (income)	15,637	30,587	(15,356)	26,183	48,688	36,940	21,798
Income (loss) before income taxes	(80,652)	1,406	33,647	85,226	20,185	9,957	84,561
Provision (benefit) for income taxes (7)		44	388	1,533	(52,296)	(52,993)	32,104
Net (loss) income	**$ (80,652)**	**$ 1,362**	**$ 33,259**	**$ 83,693**	**$ 72,481**	**$ 62,950**	**$ 52,457**
Earnings Per Share:							
Basic	$ (4.57)	$ 0.05	$ 1.29	$ 3.23	$ 2.77	$ 2.41	$ 1.12
Diluted	$ (4.57)	$ 0.05	$ 1.29	$ 3.18	$ 2.72	$ 2.36	$ 1.11

Weighted average shares outstanding:							
Basic	17,639,596	25,746,445	25,780,070	25,910,766	26,183,772	26,154,670	46,840,034
Diluted	17,639,596	25,861,095	25,879,860	26,315,121	26,689,855	26,694,001	47,129,246
Other financial data (unaudited):							
EBITDA (8):	$ (55,597)	$ 37,264	$ 75,986	$ 135,746	$ 74,299	$ 51,112	$ 111,490
Adjusted EBITDA (8):	$ (17,484)	$ 28,022	$ 55,016	$ 116,837	$ 74,301	$ 51,406	$ 119,059
Adjusted EBITDAR (8):	$ 75,652	$ 147,708	$ 160,621	$ 206,811	$ 175,646	$ 124,342	$ 205,068

(1) We estimate that the 2010 pilot strike had a net negative impact on our operating income for 2010 of approximately $24 million consisting of an estimated $28 million in lost revenues and approximately $4 million of incremental costs resulting from the strike, offset in part by a reduction of variable expenses during the strike of approximately $8 million for flights not flown. Additionally, under the terms of the pilot contract, we also paid $2.3 million in return-to-work payments during the second quarter, which are not included in the strike impact costs described above.

(2) Aircraft fuel expense is the sum of (i) into-plane fuel cost, which includes the cost of jet fuel and certain other charges such as fuel taxes and oil, (ii) settlement gains and losses and (iii) unrealized mark-to-market gains and losses associated with fuel hedge contracts. The following table summarizes the components of aircraft fuel expense for the periods presented:

	Year Ended December 31,					Nine Months Ended September 30,	
	2006	2007	2008 (*)	2009	2010	2010	2011
			(in thousands)			(unaudited)	
Into-plane fuel cost	$ 175,975	$ 265,226	$ 359,097	$ 181,806	$ 251,754	$ 179,212	$ 296,279
Settlement (gains) losses	(339)	(3,714)	(69,876)	750	(1,483)	(125)	(7,466)
Unrealized mark-to-market (gains) losses	1,056	(10,282)	9,873	(1,449)	(2,065)	(928)	4,406
Aircraft fuel	$ 176,692	$ 251,230	$ 299,094	$ 181,107	$ 248,206	$ 178,159	$ 293,219

(*) In July 2008, we monetized all of our fuel hedge contracts, which included hedges that had scheduled settlement dates during the remainder of 2008 and in 2009. We recognized a gain of $37.8 million representing cash received upon monetization of these contracts, of which a gain of $14.2 million related to 2009 fuel hedge positions.

(3) Restructuring and termination costs include: (i) for 2006 and 2007, amounts relating to the accelerated retirement of our MD-80 fleet; (ii) for 2008 and 2009, amounts relating to the early termination in mid-2008 of leases for seven Airbus A319 aircraft, a related reduction in workforce and the exit facility costs associated with returning planes to lessors in 2008; (iii) for 2009 and 2010, amounts relating to the sale of previously expensed MD-80 parts; (iv) for 2010 and for the nine months ended September 30, 2011, amounts relating to exit facility costs associated with moving our Detroit, Michigan maintenance operations to Fort Lauderdale, Florida; and (v) termination costs in connection with the IPO during the three months ended June 30, 2011 comprised of amounts paid to Indigo Partners, LLC to terminate its professional services agreement with us and fees paid to three individual, unaffiliated holders of our subordinated notes. For more information, please see Management s Discussion and Analysis of Financial Condition and Results of Operations Our Operating Expenses Restructuring and Termination Costs.

(4) Substantially all of the interest expense recorded in 2007, 2008, 2009, 2010 and the nine months ended September 30, 2010 and 2011 relates to notes and preferred stock held by our principal stockholders that were repaid or redeemed, or exchanged for shares of common stock, in connection with the 2011 Recapitalization.

(5) Interest attributable to funds used to finance the acquisition of new aircraft, including pre-delivery deposit payments, or PDPs, is capitalized as an additional cost of the related asset. Interest is capitalized at the weighted average implicit lease rate of our aircraft.

(6) Gain on extinguishment of debt represents the recognition of contingencies provided for in our 2006 recapitalization agreements, which provided for the cancellation of shares of Class A preferred stock and reduction of the liquidation preference of the remaining Class A preferred stock and associated accrued but unpaid dividends based on the outcome of the contingencies. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations Other (income) expense, net 2009 compared to 2008.

(7) Net income for 2010 includes a $52.3 million net tax benefit primarily due to the release of a valuation allowance resulting in a deferred tax benefit of $52.8 million in 2010. Absent the release of the valuation allowance and corresponding tax benefit, our net income would have been $19.7 million for 2010. Pursuant to the Tax Receivable Agreement, we distributed to the Pre-IPO Stockholders the right to receive a pro rata share of the future payments to be made under such agreement. These future payments to the Pre-IPO Stockholders (estimated as of September 30, 2011 to be approximately $36.5 million) will be in an amount equal to 90% of the cash savings in federal income tax realized by us by virtue of our future use of the federal net operating loss, deferred interest deductions and certain tax credits held by us as of March 31, 2011. Please see Certain Relationships and Related Transactions Tax Receivable Agreement.

(8) EBITDA, Adjusted EBITDA and Adjusted EBITDAR are included as supplemental disclosures because we believe they are useful indicators of our operating performance. Derivations of EBITDA and EBITDAR are well recognized performance measurements in the airline industry that are frequently used by investors, securities analysts and other interested parties in comparing the operating performance of companies in our industry. Adjusted EBITDA eliminates several significant items historically reflected in our statement of operations, but which became irrelevant after the closing of the IPO, including interest expense on indebtedness and gain on extinguishment of the notes and preferred stock repaid or exchanged for common stock pursuant to the 2011 Recapitalization, management fees we ceased paying after the IPO and IPO expenses unrelated to our continuing operations. We have also adjusted for stock-based compensation expenses, the amount of which is dependent on market comparables, and other non-operating matters that are outside our control and thus not indicators of our ongoing operating performance. Adjusted EBITDA also eliminates charges from two significant restructuring programs involving the accelerated conversion of our entire fleet from MD-80 family aircraft to Airbus A320 family aircraft and a reduction in the fleet in mid-2008 in response to record high fuel prices and rapidly deteriorating economic conditions, both of which we believe are unique events unrelated to our ongoing operating activities. Further, we believe Adjusted EBITDAR is useful in evaluating our operating performance compared to our competitors because its calculation isolates the effects of financing in general, the accounting effects of capital spending and acquisitions (primarily aircraft, which may be acquired directly, directly subject to acquisition debt, by capital lease or by operating lease, each of which is presented differently for accounting purposes), and income taxes, which may vary significantly between periods and for different companies for reasons unrelated to overall operating performance. We also use Adjusted EBITDA and Adjusted EBITDAR to establish performance measures for executive compensation purposes. However, because derivations of EBITDA, Adjusted EBITDA and Adjusted EBITDAR are not determined in accordance with GAAP, such measures are susceptible to varying calculations and not all companies calculate the measures in the same manner. As a result, derivations of EBITDA as presented may not be directly comparable to similarly titled measures presented by other companies.

EBITDA, Adjusted EBITDA and Adjusted EBITDAR have limitations as an analytical tool. Some of these limitations are: EBITDA, Adjusted EBITDA and Adjusted EBITDAR do not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments; EBITDA, Adjusted EBITDA and Adjusted EBITDAR do not reflect changes in, or cash requirements for, our working capital needs; EBITDA, Adjusted EBITDA and Adjusted EBITDAR do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debts; although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA, Adjusted EBITDA and

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Adjusted EBITDAR do not reflect any cash requirements for such replacements; non-cash compensation is and will remain a key element of our overall long-term incentive compensation package, although we exclude it as an expense when evaluating our ongoing operating performance for a particular period; EBITDA, Adjusted EBITDA and Adjusted EBITDAR do not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations; and other companies in our industry may calculate EBITDA, Adjusted EBITDA and Adjusted EBITDAR differently than we do, limiting its usefulness as a comparative measure. Because of these limitations EBITDA, Adjusted EBITDA and Adjusted EBITDAR should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP.

The following table represents the reconciliation of EBITDA, Adjusted EBITDA and Adjusted EBITDAR to net income (loss) for the periods indicated below:

	Year Ended December 31,					Nine Months Ended September 30,	
	2006	**2007**	**2008**	**2009**	**2010 (g)**	**2010**	**2011**
	(in thousands)						
Reconciliation:							
Net (loss) income	$ (80,652)	$ 1,362	$ 33,259	$ 83,693	$ 72,481	$ 62,950	$ 52,457
Plus (minus):							
Interest expense	20,985	38,163	40,245	46,892	50,313	38,007	24,408
Capitalized interest	(2,299)	(1,755)	(166)	(951)	(1,491)	(927)	(2,519)
Interest income	(3,183)	(5,951)	(1,976)	(345)	(328)	(242)	(256)
Provision (benefit) for income taxes		44	388	1,533	(52,296)	(52,993)	32,104
Depreciation and amortization	9,552	5,401	4,236	4,924	5,620	4,317	5,296
EBITDA	**(55,597)**	**37,264**	**75,986**	**135,746**	**74,299**	**51,112**	**111,490**
Gain on extinguishment of debt (a)			(53,673)	(19,711)			
Management fees (b)	652	800	800	800	800	600	334
Equity based stock compensation (c)	53	4	6	113	569	408	411
Restructuring and termination costs (d)	32,499	142	17,902	(392)	621	137	2,379
Transaction expenses (e)				720			
Unrealized mark-to-market (gains) losses (f)	1,056	(10,282)	9,873	(1,449)	(2,065)	(928)	4,406
Loss on disposal of assets	3,853	94	4,122	1,010	77	77	39
Adjusted EBITDA	**(17,484)**	**28,022**	**55,016**	**116,837**	**74,301**	**51,406**	**119,059**
Aircraft rentals	93,136	119,686	105,605	89,974	101,345	72,936	86,009
Adjusted EBITDAR	**$ 75,652**	**$ 147,708**	**$ 160,621**	**$ 206,811**	**$ 175,646**	**$ 124,342**	**$ 205,068**

(a) Gain on extinguishment of debt represents the recognition of contingencies provided for in our 2006 recapitalization agreements, which provided for the cancellation of shares of Class A preferred stock and reduction of the liquidation preference of the remaining Class A preferred stock and associated accrued but unpaid dividends based on the outcome of the contingencies. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations Other (income) expense, net 2009 compared to 2008.

(b) Management fees include annual fees we paid to our sponsors pursuant to professional services agreements, which were terminated in connection with the IPO, and the reimbursement of certain expenses incurred thereunder. Please see Certain Relationships and Related Transactions.

(c) Equity based stock compensation is a non-cash expense relating to our equity based compensation program.

(d) Restructuring and termination costs include: (i) for 2006 and 2007, amounts relating to the accelerated retirement of our MD-80 fleet; (ii) for 2008 and 2009, amounts relating to the early termination in mid-2008 of leases for seven Airbus A319 aircraft, a related reduction in workforce and the exit facility costs associated with returning planes to lessors in 2008; (iii) for 2009 and 2010, amounts relating to the sale of previously expensed MD-80 parts; (iv) for 2010 and for the nine months ended September 30, 2011, amounts related to exit facility costs associated with moving our Detroit, Michigan maintenance operations to Fort Lauderdale, Florida; and (v) termination costs in connection with the IPO during the three months ended June 30, 2011 comprised of amounts paid to Indigo Partners, LLC to terminate its professional services agreement with us and fees paid to three individual, unaffiliated holders of our subordinated notes. For more information, please see Management s Discussion and Analysis of Financial Condition and Results of Operations Our Operating Expenses Restructuring and Termination Costs.

(e) Transaction expenses include professional fees incurred in connection with an acquisition transaction that was not completed.

(f) Unrealized mark-to-market gains and losses is comprised of non-cash adjustments to aircraft fuel expense.

(g) Reflects the effects of the strike of our pilots in June 2010. Please see footnote (1) above and Management s Discussion and Analysis of Financial Condition and Results of Operations June 2010 Pilot Strike.

The following table presents our historical summary balance sheet data as of September 30, 2011:

	As of September 30, 2011 (in thousands)
Cash and cash equivalents	$ 350,973
Total assets	722,163
Long-term debt, including current portion	
Mandatorily redeemable preferred stock	
Total stockholders equity (deficit)	442,722

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OPERATING STATISTICS

	Year Ended December 31,					Nine Months Ended September 30,	
	2006	2007	2008	2009	2010	2010	2011
Operating Statistics (unaudited) (A)							
Average aircraft	31.4	35.9	32.8	28.0	30.5	29.9	34.6
Aircraft at end of period	31	36	28	28	32	32	35
Airports served in the period	30	40	45	43	39	39	47
Average daily Aircraft utilization (hours)	9.1	11.5	12.6	13.0	12.8	12.7	12.9
Average stage length (miles)	881	956	925	931	941	937	933
Block hours	103,962	150,644	150,827	133,227	141,864	103,797	121,523
Passenger flight segments (thousands)	4,967	6,974	6,976	6,325	6,952	5,047	6,347
Revenue passenger miles (RPMs) (thousands)	4,554,125	6,850,565	6,599,809	6,039,064	6,664,395	4,809,049	6,040,203
Available seat miles (ASMs) (thousands)	5,794,099	8,461,861	8,262,230	7,485,141	8,119,923	5,919,283	7,048,701
Load factor (%)	78.6	81.0	79.9	80.7	82.1	81.2	85.7
Average ticket revenue per passenger flight segment ($)	104.56	98.44	94.24	84.77	77.39	79.56	81.98
Average non-ticket revenue per passenger flight segment ($)	4.80	10.96	18.61	25.91	35.00	32.41	43.62
Total revenue per passenger segment ($)	109.36	109.40	112.85	110.68	112.39	111.97	125.60
Average yield (cents)	11.93	11.14	11.93	11.59	11.72	11.75	13.20
RASM (cents)	9.37	9.02	9.53	9.35	9.62	9.55	11.31
CASM (cents)	10.50	8.64	9.31	7.86	8.77	8.75	9.80
Adjusted CASM (cents) (B)	9.92	8.76	8.97	7.89	8.79	8.77	9.71
Adjusted CASM ex fuel (cents) (B)	6.89	5.67	5.47	5.45	5.71	5.74	5.61
Fuel gallons consumed (thousands)	82,980	113,842	109,562	98,422	106,628	77,956	91,076
Average economic fuel cost per gallon ($)	2.11	2.30	2.64	1.85	2.35	2.30	3.17

(A) See Glossary of Airline Terms elsewhere in this prospectus for definitions of terms used in this table.

(B) Excludes restructuring and termination costs of $32.5 million (0.56 cents per ASM) in 2006, $0.1 million (less than 0.01 cents per ASM) in 2007 and $17.9 million (0.22 cents per ASM) in 2008; and credits of $0.4 million (less than 0.01 cents per ASM) in 2009, $0.6 million (less than 0.01 cents per ASM) in 2010, $0.1 million (less than 0.01 cents per ASM) in the nine months ended September 30, 2010 and $2.4 million (0.3 cents per ASM) in the nine months ended September 30, 2011. These amounts are excluded from all calculations of Adjusted CASM provided in this prospectus. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations Our Operating Expenses Restructuring and Termination Costs. Also excludes unrealized mark-to-market (gains) and losses of $1.1 million (0.02 cents per ASM) in 2006, $(10.3) million ((0.12) cents per ASM) in 2007, $9.9 million (0.12 cents per ASM) in 2008, $(1.4) million ((0.02) cents per ASM) in 2009, $(2.1) million ((0.03) cents per ASM) in 2010, $(0.9) million ((0.02) cents per ASM) in the nine months ended September 30, 2010 and $4.4 million (0.06 cents per ASM) in the nine months ended September 30, 2011. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates.

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GLOSSARY OF AIRLINE TERMS

Set forth below is a glossary of industry terms used in this prospectus:

Adjusted CASM means operating expenses, excluding restructuring charges and mark-to-market gains or losses, divided by ASMs.

Adjusted CASM ex fuel means operating expenses less aircraft fuel expense and excluding restructuring charges and mark-to-market gains or losses, 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.

Average aircraft means the average number of aircraft used in flight operations, 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 mark-to-market gains and losses, 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 passengers.

Average ticket revenue per passenger flight segment means total passenger revenue divided by passengers.

Average stage length means the average number of miles flown per passenger flight segment.

Average yield means the average amount one passenger pays to fly one mile, 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.

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FAA means the United States Federal Aviation Administration.

FCC means the United States Federal Communications Commission.

FLL Airport means the Fort Lauderdale-Hollywood International Airport.

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

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.

Operating revenue per ASM, RASM or unit revenue means operating revenue divided by ASMs.

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

Passenger flight segments means the total number of passengers flown on all flight segments.

PDP means pre-delivery deposit payment.

Revenue passenger miles or RPMs means the number of miles flown by passengers.

RLA means the United States Railway Labor Act.

TWU means the Transport Workers Union of America.

TSA means the United States Transportation Security Administration.

ULCC means ultra low-cost carrier.

VFR means visiting friends and relatives.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below and the other information in this prospectus before making a decision to invest in our common stock. If any of these risks should occur, our business, operating results, financial condition or growth prospects could be adversely affected. In those cases, the trading price of our common stock could decline and you may lose all or part of your investment.

Risks Related to Our Industry

We operate in an extremely competitive industry.

We face significant competition with respect to routes, fares and services. Within the airline industry, we compete with traditional network airlines, other low-cost airlines and regional airlines on many of our routes. Competition in most of the destinations we presently serve is intense, due to the large number of carriers in those markets. Furthermore, other airlines may begin service or increase existing service on routes where we currently face no or little competition. Substantially all of our competitors are larger and have significantly greater financial and other resources than we do.

The airline industry is particularly susceptible to price discounting because once a flight is scheduled, airlines incur only nominal additional costs to provide service to passengers occupying otherwise unsold seats. Increased fare or other price competition could adversely affect our operations. Moreover, many other airlines have begun to unbundle services by charging separate fees for services such as baggage and advance seat selection. This unbundling and other cost reducing measures could enable competitor airlines to reduce fares on routes that we serve.

In addition, airlines increase or decrease capacity in markets based on perceived profitability. Decisions by our competitors that increase overall industry capacity, or capacity dedicated to a particular domestic or foreign region, market or route, especially increased capacity in and out of South Florida, could have a material adverse impact on our business. If a traditional network airline were to successfully develop a low-cost structure or if we were to experience increased competition from other low-cost carriers, our business could be materially adversely affected.

All of the domestic traditional network airlines have on one or more occasions initiated bankruptcy proceedings in attempts to restructure their debt and other obligations and reduce their operating costs. On November 29, 2011, AMR Corporation and substantially all of its subsidiaries, including American Airlines, Inc., filed a petition for relief under Chapter 11 of the U.S. Bankruptcy Code. We presently compete with American Airlines on a majority of our markets. We cannot predict the extent to which the pendency of this bankruptcy proceeding will change our competitive dynamic with American Airlines or the extent to which a successfully reorganized American Airlines will be a more effective competitor with us.

Our growth and the success of our ULCC business model could stimulate competition in our markets through our competitors development of their own ULCC strategies or new market entrants. Any such competitor may have greater financial resources and access to cheaper sources of capital than we do, which could enable them to operate their business with a lower cost structure than we can. If these competitors adopt and successfully execute a ULCC business model, we could be materially adversely affected.

There have been numerous mergers and acquisitions within the airline industry including, for example, the recent combinations of Delta Air Lines and Northwest Airlines, United Airlines and Continental Airlines, and Southwest Airlines and AirTran Airways. In the future, there may be additional mergers and acquisitions in our industry. Any business combination could significantly alter industry conditions and competition within the airline industry and could cause fares of our competitors to be reduced.

The extremely competitive nature of the airline industry could prevent us from attaining the level of passenger traffic or maintaining the level of fares or revenues related to ancillary services required to sustain profitable operations in new and existing markets and could impede our growth strategy, which could harm our operating results. Due to our relatively small size, we are susceptible to a fare war or other competitive activities in one or more of our key markets, including South Florida, which could have a material adverse effect on our business, results of operations and financial condition.

Our low-cost structure is one of our primary competitive advantages, and many factors could affect our ability to control our costs.

Our low-cost structure is one of our primary competitive advantages. However, we have limited control over many of our costs. For example, we have limited control over the price and availability of aircraft fuel, aviation insurance, airport and related infrastructure taxes, the cost of meeting changing regulatory requirements, and our cost to access capital or financing. In addition, the compensation and benefit costs applicable to a significant portion of our employees are established by the terms of our collective bargaining agreements. We cannot guarantee we will be able to maintain a cost advantage over our competitors. If our cost structure increases and we are no longer able to maintain a cost advantage over our competitors, it could have a material adverse effect on our business, results of operations and financial condition.

The airline industry is heavily impacted by the price and availability of aircraft fuel. Continued volatility in fuel costs or significant disruptions in the supply of fuel, including hurricanes and other events affecting the Gulf Coast in particular, could materially adversely affect our business, results of operations and financial condition.

Aircraft fuel costs represent our single largest operating cost, accounting for 38.9%, 30.8%, 34.8% and 42.4% of our total operating expenses for 2008, 2009, 2010 and the nine months ended September 30, 2011, respectively. As such, our operating results are significantly affected by changes in the availability and the cost of aircraft fuel, especially aircraft fuel refined in the U.S. Gulf Coast region, on which we are highly dependent. Both the cost and the availability of aircraft fuel are subject to many meteorological, economic and political factors and events occurring throughout the world, which we can neither control nor accurately predict. For example, a major hurricane making landfall along the Gulf Coast could cause disruption to oil production, refinery operations and pipeline capacity in that region, possibly resulting in significant increases in the price of aircraft fuel and diminished availability of aircraft fuel supplies. Any disruption to oil production, refinery operations or pipeline capacity in the Gulf Coast region could have a disproportionate impact on our operating results compared to other airlines that have more diversified fuel sources.

Aircraft fuel prices have been subject to high volatility, fluctuating substantially over the past several years and very sharply beginning in 2008. Due to the large proportion of aircraft fuel costs in our total operating cost base, even a relatively small increase in the price of aircraft fuel can have a significant negative impact on our operating costs and on our business, results of operations and financial condition.

Our fuel hedging strategy may not reduce our fuel costs.

We enter into fuel derivative contracts in order to mitigate the risk to our business from future volatility in fuel prices. As of September 30, 2011, we had fuel hedges using U.S. Gulf Coast jet fuel collars in place for approximately 38% and 18% of our estimated fuel consumption for the fourth quarter 2011 and first quarter 2012, respectively. Additionally, during hurricane season (August through October), we use basis swaps using NYMEX Heating Oil indexes to protect the refining price risk between the price of crude oil and the price of refined jet fuel. As of September 30, 2011, we had approximately 23% of our fourth quarter 2011 forecasted fuel requirements protected using these basis swaps. There can be no assurance that we will be able to enter into fuel hedge contracts in the future. Our liquidity and general level of capital resources impacts our ability to hedge our fuel requirements. Even if we are able to hedge portions of our future fuel requirements, we cannot guarantee that our hedge contracts will provide sufficient protection against increased fuel costs or that our counterparties will be able to perform under our hedge contracts, such as in the case of a counterparty s insolvency. Furthermore, our ability to react to the cost of fuel, absent hedging, is limited since we set the price of tickets in advance of incurring fuel costs. Our ability to pass on any significant increases in aircraft fuel costs through fare increases could also be limited. Finally, it is currently unknown what impact the Dodd-Frank Wall Street Reform and Consumer Protection Act will have on

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collateral and margin requirements for fuel hedging, which could significantly impair our ability to hedge our fuel costs. As of September 30, 2011, the fair value of our fuel derivative contracts was a liability of ($0.9) million. In the event of a further reduction in fuel prices as compared to our hedged position, our hedged positions could counteract the cost benefit of lower fuel prices and could require us to post additional cash margin collateral. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations Trends and Uncertainties Affecting Our Business Aircraft Fuel.

Restrictions on or increased taxes applicable to fees or other charges for ancillary products and services paid by airline passengers and burdensome consumer protection regulations or laws could harm our business, results of operations and financial condition.

During 2008, 2009, 2010 and the nine months ended September 30, 2011, we generated non-ticket revenues of $129.8 million, $163.9 million, $243.3 million and $276.9 million, respectively. Our non-ticket revenues are generated from fees for, among other things, baggage, and bookings through our website, call center or third-party vendors, advance seat selection, itinerary changes and loyalty programs. In April 2011, the DOT published a broad set of final rules relating to, among other things, how airlines handle interactions with passengers through advertising, the reservations process, at the airport and on board the aircraft. The final rules require airlines to publish a full fare for a flight, including mandatory taxes and fees, and to enhance disclosure of the cost of optional products and services, including baggage charges. The rules restrict airlines from increasing ticket prices post-purchase (other than increases resulting from changes in government-imposed fees or taxes) and increase significantly the amount and scope of compensation payable to passengers involuntarily denied boarding due to oversales. The final rules also extend the applicability of tarmac delay reporting and penalties to include international flights and provide that reservations made more than one week prior to flight date may be held at the quoted fare without payment, or cancelled without penalty, for 24 hours. Most of these new rules have gone into effect or are scheduled to become effective in 2011, although the DOT has extended the effective date for certain of these rules that are the subject of current litigation (in which we are a party) to January 2012. We are evaluating the actions we will be required to take to implement these rules, and we believe it is unlikely that we will be able to meet the 2012 compliance deadline in every respect. If we are not able to be in full compliance with these rules by January 2012, the DOT may subject us to fines or other enforcement action, including requirements to modify our passenger reservations system, which could have a material adverse effect on our business. Moreover, we cannot assure you that compliance with these new rules will not have a material adverse effect on our business. In addition, the U.S. Congress and Federal administrative agencies have undertaken investigations of the airline industry practice of unbundling services, including public hearings held in July 2010. If new taxes are imposed on non-ticket revenues, or if other laws or regulations are adopted that make unbundling of services impermissible, or more cumbersome or expensive than the new rules described above, our business, results of operations and financial condition could be harmed. Congressional and other government scrutiny may also change industry practice or public willingness to pay for ancillary services. See also We are subject to extensive regulation by the Federal Aviation Administration, the Department of Transportation, and other U.S. and foreign governmental agencies, compliance with which could cause us to incur increased costs and adversely affect our business and financial results.

The airline industry is particularly sensitive to changes in economic conditions. Continued negative economic conditions or a reoccurrence of such conditions would negatively impact our business, results of operations and financial condition.

Our business and the airline industry in general are affected by many changing economic conditions beyond our control, including, among others:

- changes and volatility in general economic conditions, including the severity and duration of any downturn in the U.S. or global economy and financial markets;

- changes in consumer preferences, perceptions, spending patterns or demographic trends, including any increased preference for higher-fare carriers offering higher amenity levels, and reduced preferences for low-fare carriers offering more basic transportation, during better economic times;

- higher levels of unemployment and varying levels of disposable or discretionary income;
- depressed housing and stock market prices; and
- lower levels of actual or perceived consumer confidence.

These factors can adversely affect, and from time to time have adversely affected, our results of operations, our ability to obtain financing on acceptable terms and our liquidity generally. Unfavorable general economic conditions, such as higher unemployment rates, a constrained credit market, housing-related pressures and increased focus on reducing business operating costs can reduce spending for leisure, VFR and business travel. For many travelers, in particular the leisure and VFR travelers we serve, air transportation is a discretionary purchase that they may reduce or eliminate from their spending in difficult economic times. The overall decrease in demand for air transportation in the United States in 2008 and 2009 resulting from record high fuel prices and the economic recession required that we take significant steps to reduce our capacity, which reduced our revenues. Unfavorable economic conditions could also affect our ability to raise prices to counteract increased fuel, labor or other costs, resulting in a material adverse effect on our business, results of operations and financial condition.

The airline industry faces ongoing security concerns and related cost burdens, further threatened or actual terrorist attacks or other hostilities could significantly harm our industry and our business.

The terrorist attacks of September 11, 2001 and their aftermath negatively affected the airline industry. The primary effects experienced by the airline industry included:

- substantial loss of revenue and flight disruption costs caused by the grounding of all commercial air traffic in or headed to the United States by the Federal Aviation Administration, or FAA, for about three days after the terrorist attacks;
- increased security and insurance costs;
- increased concerns about future terrorist attacks;
- airport shutdowns and flight cancellations and delays due to security breaches and perceived safety threats; and
- significantly reduced passenger traffic and yields due to the subsequent dramatic drop in demand for air travel.

Since September 11, 2001, the Department of Homeland Security and the Transportation Security Administration, or TSA, have implemented numerous security measures that restrict airline operations and increase costs, and are likely to implement additional measures in the future. For example, following the widely publicized attempt of an alleged terrorist to detonate plastic explosives hidden underneath his clothes on a Northwest Airlines flight on Christmas Day in 2009, international passengers became subject to enhanced random screening, which may include pat-downs, explosive detection testing or body scans. Enhanced passenger screening, increased regulation governing carry-on baggage and other similar restrictions on passenger travel may further increase passenger inconvenience and reduce the demand for air travel. In addition, increased or enhanced security measures have tended to result in higher governmental fees imposed on airlines, resulting in higher operating costs for airlines, which we may not be able to pass on to consumers in the form of higher prices. Any future terrorist attacks or attempted attacks, even if not made directly on the airline industry, or the fear of such attacks or other hostilities (including elevated national threat warnings or selective cancellation or redirection of flights due to terror threats) would likely have a material adverse effect on our business, results of operations and financial condition, and on the airline industry in general.

Airlines are often affected by factors beyond their control including: air traffic congestion at airports; air traffic control inefficiencies; weather conditions, such as hurricanes or blizzards; increased security measures; new travel related taxes or the outbreak of disease, any of which could harm our business, operating results and financial condition.

Like other airlines, we are subject to delays caused by factors beyond our control, including air traffic congestion at airports, air traffic control inefficiencies, adverse weather conditions, increased security measures, new travel related taxes and the outbreak of disease. Delays frustrate passengers and increase costs, which in turn could adversely affect profitability. The federal government singularly controls all U.S. airspace, and airlines are completely dependent on the FAA to operate that airspace in a safe, efficient and affordable manner. The air traffic control system, which is operated by the FAA, faces challenges in managing the growing demand for U.S. air travel. U.S. and foreign air-traffic controllers often rely on outdated technologies that routinely overwhelm the system and compel airlines to fly inefficient, indirect routes resulting in delays. Adverse weather conditions and natural disasters, such as hurricanes affecting southern Florida and the Caribbean, winter snowstorms affecting the Northeast United States, or the January 2010 earthquake in Port-au-Prince, Haiti, can cause flight cancellations or significant delays. Cancellations or delays due to weather conditions or natural disasters, air traffic control problems, breaches in security or other factors could harm our business, results of operations and financial condition. Similarly, outbreaks of pandemic or contagious diseases, such as avian flu, severe acute respiratory syndrome (SARS) and H1N1 (swine) flu, could result in significant decreases in passenger traffic and the imposition of government restrictions in service and could have a material adverse impact on the airline industry. Increased travel taxes, such as the Travel Promotion Act, enacted March 10, 2010, which charges visitors from certain countries a $10 fee every two years to travel into the United States to subsidize certain travel promotion efforts, could also result in decreases in passenger traffic. Any general reduction in airline passenger traffic could have a material adverse effect on our business, results of operations and financial condition.

Restrictions on or litigation regarding third-party membership discount programs could harm our business, operating results and financial condition.

We generate a relatively small but growing portion of our revenue from order referral fees, revenue share and other fees paid to us by third-party merchants for customer click-throughs, distribution of third-party promotional materials and referrals arising from products and services of the third-party merchants that we offer to our customers on our website. Some of these third-party referral-based offers are for memberships in discount programs or similar promotions made to customers who have purchased products from us, and for which we receive a payment from the third-party merchants for every customer that accepts the promotion. Certain of these third-party membership discount programs have been the subject of consumer complaints, litigation and regulatory actions alleging that the enrollment and billing practices involved in the programs violate various consumer protection laws or are otherwise deceptive. Any private or governmental claim or action that may be brought against us in the future relating to these third-party membership programs could result in our being obligated to pay damages or incurring legal fees in defending claims. These damages and fees could be disproportionate to the revenues we generate through these relationships. In addition, customer dissatisfaction or a significant reduction in or termination of the membership discount offers on our website as a result of these claims could have a negative impact on our brand, and have a material adverse effect on our business, results of operations and financial condition.

We face competition from air travel substitutes.

In addition to airline competition from traditional network airlines, other low-cost airlines and regional airlines, we also face competition from air travel substitutes. On our domestic routes, we face competition from some other transportation alternatives, such as bus, train or automobile. In addition, technology advancements may limit the desire for air travel. For example, video teleconferencing and other methods of electronic communication may reduce the need for in-person communication and add a new dimension of competition to the industry as travelers seek lower-cost substitutes for air travel. If we are unable to adjust rapidly in the event the basis of competition in our markets changes, it could have a material adverse effect on our business, results of operations and financial condition.

Risks Related to Our Business

Increased labor costs, union disputes, employee strikes and other labor-related disruption may adversely affect our operations.

Our business is labor intensive, with labor costs representing approximately 19.1%, 23.0%, 22.0% and 19.3% of our total operating costs for 2008, 2009, 2010 and for the nine months ended September 30, 2011, respectively. As of September 30, 2011, approximately 51% of our workforce was represented by labor unions

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and thereby covered by collective bargaining agreements. We cannot assure you that our labor costs going forward will remain competitive because in the future our labor agreements may be amended or become amendable and new agreements could have terms with higher labor costs; one or more of our competitors may significantly reduce their labor costs, thereby reducing or eliminating our comparative advantages as to one or more of such competitors; or our labor costs may increase in connection with our growth. We may also become subject to additional collective bargaining agreements in the future as non-unionized workers may unionize.

Relations between air carriers and labor unions in the United States are governed by the Railway Labor Act, or the RLA. Under the RLA, collective bargaining agreements generally contain amendable dates rather than expiration dates, and the RLA requires that a carrier maintain the existing terms and conditions of employment following the amendable date through a multi-stage and usually lengthy series of bargaining processes overseen by the National Mediation Board, or the NMB. This process continues until either the parties have reached agreement on a new collective bargaining agreement, or the parties have been released to self-help by the NMB. In most circumstances, the RLA prohibits strikes; however, after release by the NMB, carriers and unions are free to engage in self-help measures such as lockouts and strikes.

Our flight operations were shut down due to a strike by our pilots beginning on June 12, 2010 and lasting until we and the union representing our pilots reached a tentative agreement for a new contract. Under a Return to Work Agreement, we began to resume flights on June 17, 2010 and resumed our full flight schedule on June 18, 2010. On August 1, 2010, we and the pilots union executed a five-year collective bargaining agreement. This shutdown had a material adverse effect on our results of operations for 2010. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations June 2010 Pilot Strike.

Our collective bargaining agreement with our flight attendants became amendable in August 2007, and we are currently engaged in negotiations with the union representing our flight attendants. Our collective bargaining agreement with our dispatchers becomes amendable in July 2012. The outcome of our collective bargaining negotiations cannot presently be determined and the terms and conditions of our future collective bargaining agreements may be affected by the results of collective bargaining negotiations at other airlines that may have a greater ability, due to larger scale, greater efficiency or other factors, to bear higher costs than we can. The need for workforce reductions and wage and benefit concessions in the current adverse economic environment may have an adverse effect on our labor relations and employee morale. In addition, if we are unable to reach agreement with any of our unionized work groups in current or future negotiations regarding the terms of their collective bargaining agreements, we may be subject to work interruptions or stoppages. Any such action or other labor dispute with unionized employees could disrupt our operations, reduce our profitability, or interfere with the ability of our management to focus on executing our business strategies. Our business, results of operations and financial condition may be materially adversely affected based on the outcome of our negotiations with the union representing our flight attendants.

We have a significant amount of aircraft-related fixed obligations that could impair our liquidity and thereby harm our business, results of operations and financial condition.

The airline business is capital intensive and, as a result, many airline companies are highly leveraged. All of our aircraft are leased, and in 2010 we paid the lessors rent of $103.4 million and maintenance deposits net of reimbursements of $35.7 million. In the nine months ended September 30, 2011, we paid the lessors rent of $88.1 million and maintenance deposits net of reimbursements of $27.4 million. As of September 30, 2011, we had future operating lease obligations of approximately $1.2 billion. In addition, we have significant obligations for aircraft and spare engines that that we have ordered from Airbus and International Aero Engines AG, or IAE, for delivery over the next five years, and we have announced an MOU with Airbus for the acquisition of additional aircraft for delivery from 2016 through 2021. Our ability to pay the fixed costs associated with our contractual obligations will depend on our operating performance and cash flow, which will in turn depend on, among other things, the success of our current business strategy, whether fuel prices continue at current price levels and/or further increase or decrease, further weakening or improving in the U.S. economy, as well as general economic and political conditions and other factors that are, to some extent, beyond our control. The amount of our aircraft related fixed obligations could have a material adverse effect on our business, results of operations and financial condition and could:

- require a substantial portion of cash flow from operations for operating lease and maintenance deposit payments, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our ability to make required PDPs to Airbus or IAE for our aircraft and spare engines on order;
- limit our ability to obtain additional financing to support our expansion plans and for working capital and other purposes on acceptable terms or at all;
- make it more difficult for us to pay our other obligations as they become due during adverse general economic and market industry conditions because any related decrease in revenues could cause us to not have sufficient cash flows from operations to make our scheduled payments;
- reduce our flexibility in planning for, or reacting to, changes in our business and the airline industry and, consequently, place us at a competitive disadvantage to our competitors with less fixed payment obligations; and
- cause us to lose access to one or more aircraft and forfeit our rent deposits if we are unable to make our required aircraft lease rental payments and our lessors exercise their remedies under the lease agreement including under cross default provisions in certain of our leases.

A failure to pay our operating lease and other fixed cost obligations or a breach of our contractual obligations could result in a variety of adverse consequences, including the exercise of remedies by our creditors and lessors. In such a situation, it is unlikely that we would be able to fulfill our obligations, make required lease payments or otherwise cover our fixed costs, which would have a material adverse effect on our business, results of operations and financial condition.

We are highly dependent upon our cash balances and operating cash flows.

As of September 30, 2011, we had access to lines of credit from two counterparties to our jet fuel derivatives and our purchase credit card issuer aggregating $15.6 million. These credit facilities are not adequate to finance our operations, and we will continue to be dependent on our operating cash flows and cash balances to fund our operations and to make scheduled payments on our aircraft related fixed obligations. Although our credit card processors currently do not have a right to hold back credit card receipts to cover repayment to customers, if we fail to maintain certain liquidity and other financial covenants, their rights to holdback would be reinstated, which would result in a reduction of unrestricted cash that could be material. In addition, we are required by our aircraft lessors to fund reserves in cash in advance for scheduled maintenance, and a portion of our cash is therefore unavailable until after we have completed the scheduled maintenance in accordance with the terms of the operating leases. Based on the age of our fleet and our growth strategy, these maintenance deposits will increase over the next few years before we receive any significant reimbursement for completed maintenance. If we fail to generate sufficient funds from operations to meet our operating cash requirements or do not obtain a line of credit, other borrowing facility or equity financing, we could default on our operating lease and fixed obligations. Our inability to meet our obligations as they become due would have a material adverse effect on our business, results of operations and financial condition.

Our ability to obtain financing or access capital markets may be limited.

We have significant obligations for aircraft and spare engines that we have ordered from Airbus and IAE over the next five years and we will need to finance these purchases. We may not have sufficient liquidity or creditworthiness to fund the purchase of aircraft and engines, including payment of PDPs, or for other working capital. Factors that affect our ability to raise financing or access the capital markets include market conditions in

the airline industry, economic conditions, the level and volatility of our earnings, our relative competitive position in the markets in which we operate, our ability to retain key personnel, our operating cash flows, and legal and regulatory developments. Regardless of our creditworthiness, at times the market for aircraft purchase or lease financing has been very constrained due to such factors as the general state of the capital markets and the financial position of the major providers of commercial aircraft financing.

Our liquidity and general level of capital resources impact our ability to hedge our fuel requirements.

As of September 30, 2011, we had fuel hedges using U.S. Gulf Coast jet fuel collars in place for approximately 38% and 18% of our estimated fuel consumption for the fourth quarter 2011 and first quarter 2012, respectively. Additionally, during hurricane season (August through October), we use basis swaps using NYMEX Heating Oil indexes to protect the refining price risk between the price of crude oil and the price of refined jet fuel. As of September 30, 2011, we had approximately 23% of our fourth quarter 2011 forecasted fuel requirements protected using these basis swaps. While we intend to hedge a portion of our future fuel requirements, there can be no assurance that, at any given time, we will be able to enter into fuel hedge contracts. In the past we have not had and in the future we may not have sufficient creditworthiness or liquidity to post the collateral necessary to hedge our fuel requirements. Even if we are able to hedge portions of our future fuel requirements, we cannot guarantee that our hedge contracts will provide any particular level of protection against increased fuel costs or that our counterparties will be able to perform under our hedge contracts, such as in the case of a counterparty s insolvency. Furthermore, our ability to react to the cost of fuel, absent hedging, is limited, because we set the price of tickets in advance of knowing our fuel costs at the time the tickets are flown. Our ability to pass on any significant increases in aircraft fuel costs through fare increases could also be limited.

We rely on maintaining a high daily aircraft utilization rate to implement our low-cost structure, which makes us especially vulnerable to flight delays or cancellations or aircraft unavailability.

We maintain a high daily aircraft utilization rate. Our average daily aircraft utilization was 12.6 hours, 13.0 hours, 12.8 hours and 12.9 hours for 2008, 2009, 2010 and the nine months ended September 30, 2011, respectively. Aircraft utilization is the average amount of time per day that our aircraft spend carrying passengers. Our revenue per aircraft can be increased by high daily aircraft utilization, which is achieved in part by reducing turnaround times at airports, so we can fly more hours on average in a day. Aircraft utilization is reduced by delays and cancellations from various factors, many of which are beyond our control, including air traffic congestion at airports or other air traffic control problems, adverse weather conditions, increased security measures or breaches in security, international or domestic conflicts, terrorist activity, or other changes in business conditions. The majority of our operations are concentrated in markets such as South Florida, the Caribbean, Latin America and the Northeast United States, which are particularly vulnerable to weather, airport traffic constraints and other delays. In addition, pulling aircraft out of service for unscheduled and scheduled maintenance, which will increase as our fleet ages, may materially reduce our average fleet utilization and require that we seek short-term substitute capacity at increased costs. Due to the relatively small size of our fleet and high daily aircraft utilization rate, the unavailability of one or more aircraft and resulting reduced capacity could have a material adverse effect on our business, results of operations and financial condition.

Our maintenance costs will increase as our fleet ages, and we will periodically incur substantial maintenance costs due to the maintenance schedules of our aircraft fleet.

As of September 30, 2011, the average age of our aircraft was approximately 4.5 years. Our relatively new aircraft require less maintenance now than they will in the future. Our fleet will require more maintenance as it ages and our maintenance and repair expenses for each of our aircraft will be incurred at approximately the same intervals. Moreover, because our current fleet was acquired over a relatively short period, significant maintenance that is scheduled on each of these planes will occur at roughly the same time, meaning we will incur our most expensive scheduled maintenance obligations, known as heavy maintenance, across our present fleet around the same time. These more significant maintenance activities result in out-of service periods during which our aircraft are dedicated to maintenance activities and unavailable to fly revenue service. In addition, the terms of our lease agreements require us to pay supplemental rent, also known as maintenance reserves, to be paid to the lessor in advance of the performance of major maintenance, resulting in our recording significant prepaid deposits on our balance sheet. We expect scheduled and unscheduled aircraft maintenance expenses to increase as a percentage of our revenue over the next several years. Any significant increase in maintenance and repair expenses would have a material adverse effect on our business, results of operations and financial condition. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Aircraft Maintenance, Materials and Repair Costs and Heavy Maintenance Amortization and Maintenance Reserves.

Our lack of marketing alliances could harm our business.

Many airlines, including the domestic traditional network airlines (American, Delta, United and US Airways) have marketing alliances with other airlines, under which they market and advertise their status as marketing alliance partners. These alliances, such as OneWorld, SkyTeam and Star Alliance, generally provide for code-sharing, frequent flier program reciprocity, coordinated scheduling of flights to permit convenient connections and other joint marketing activities. Such arrangements permit an airline to market flights operated by other alliance members as its own. This increases the destinations, connections and frequencies offered by the airline, and provides an opportunity to increase traffic on that airline s segment of flights connecting with alliance partners. We currently do not have any alliances with U.S. or foreign airlines. Our lack of marketing alliances puts us at a competitive disadvantage to traditional network carriers, whose ability to attract passengers through more widespread alliances, particularly on international routes, and may have a material adverse effect on our passenger traffic, business, results of operations and financial condition.

We are subject to extensive regulation by the Federal Aviation Administration, the Department of Transportation, and other U.S. and foreign governmental agencies, compliance with which could cause us to incur increased costs and adversely affect our business and financial results.

Airlines are subject to extensive regulatory and legal compliance requirements, both domestically and internationally, that involve significant costs. In the last several years, Congress has passed laws, and the DOT, FAA and TSA have issued regulations, relating to the operation of airlines that have required significant expenditures. We expect to continue to incur expenses in connection with complying with government regulations. Additional laws, regulations, taxes and increased airport rates and charges have been proposed from time to time that could significantly increase the cost of airline operations or reduce the demand for air travel. If adopted, these measures could have the effect of raising ticket prices, reducing revenue and increasing costs. For example, the DOT finalized rules, effective on April 29, 2010, requiring new procedures for customer handling during long onboard tarmac delays, as well as additional reporting requirements for airlines that could increase the cost of airline operations or reduce revenues. The DOT has been aggressively investigating alleged violations of the new rules. In addition, a second set of DOT final rules, most of which became effective beginning in late August 2011, addresses, among other things, concerns about how airlines handle interactions with passengers through advertising, the reservations process, at the airport and on board the aircraft, including requirements for disclosure of base fares plus a set of regulatorily dictated options and limits on cancellations and change fees. The DOT has extended the effective date for certain of these rules that are the subject of current litigation (in which we are a party) to January 2012. We are evaluating the action we will be required to take to implement these rules, but we believe that it will be unlikely that we will be able to meet the 2012 compliance deadline in every respect. If we are not able to be in full compliance with these rules by January 2012, the DOT may subject us to fines or other enforcement action, including requirements to modify our passenger reservations system, which could have a material effect on our business. Further, the DOT has a pending notice of proposed rulemaking addressing additional accommodations required for passengers with certain disabilities and on December 21, 2011 announced a new final rule related to flight crew duty and rest requirements. We cannot assure you that compliance with these new rules will not have a material adverse effect on our business.

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On August 3, 2010, the Airline Baggage Transparency and Accountability Act was introduced in the United States Senate. This legislation, if enacted, would increase disclosure regarding fees for airline ticket sales, impose federal taxes on charges for carry-on and checked baggage, authorize the DOT s Aviation Consumer Protection Division to oversee lost and stolen baggage claims, and require data collection and the public release of collected data concerning airline handling of lost, damaged and stolen luggage. More recently, the United States Senate passed an amendment to the FAA reauthorization bill that, if enacted, would impose federal taxes at a rate of 7.5% on charges for carry-on baggage. If the Airline Baggage Transparency and Accountability Act, the Senate amendment to the FAA reauthorization bill or similar legislation were to be enacted, it is uncertain what effect it would have on our results of operations and financial condition.

We cannot assure you that these and other laws or regulations enacted in the future will not harm our business. In addition, the TSA mandates the federalization of certain airport security procedures and imposes additional security requirements on airports and airlines, most of which are funded by a per ticket tax on passengers and a tax on airlines. The federal government has on several occasions proposed a significant increase in the per ticket tax. The proposed ticket tax increase, if implemented, could negatively impact our financial results.

Our ability to operate as an airline is dependent on our maintaining certifications issued to us by the DOT and the FAA. The FAA has the authority to issue mandatory orders relating to, among other things, the grounding of aircraft, inspection of aircraft, installation of new safety-related items and removal and replacement of aircraft parts that have failed or may fail in the future. A decision by the FAA to ground, or require time consuming inspections of or maintenance on, our aircraft, for any reason, could negatively affect our business and financial results. Federal law requires that air carriers operating large aircraft be continuously fit, willing and able to provide the services for which they are licensed. Our fitness is monitored by the DOT, which considers factors such as unfair or deceptive competition, advertising, baggage liability and disabled passenger transportation. While the DOT has seldom revoked a carrier s certification for lack of fitness, such an occurrence would render it impossible for us to continue operating as an airline. The DOT may also institute investigations or administrative proceedings against airlines for violations of regulations. In 2009, we entered into a consent order with the DOT for our procedures for bumping passengers from oversold flights and our handling of lost or damaged baggage. Under the consent order, we were assessed a civil penalty of $375,000, of which we were required to pay $215,000 based on an agreement with the DOT, subject to our not having similar violations in the year after the date of the consent order.

International routes are regulated by treaties and related agreements between the United States and foreign governments. Our ability to operate international routes is subject to change because the applicable arrangements between the United States and foreign governments may be amended from time to time. Our access to new international markets may be limited by our ability to obtain the necessary certificates to fly the international routes. In addition, our operations in foreign countries are subject to regulation by foreign governments and our business may be affected by changes in law and future actions taken by such governments, including granting or withdrawal of government approvals and restrictions on competitive practices. We are subject to numerous foreign regulations based on the large number of countries outside the United States where we currently provide service. If we are not able to comply with this complex regulatory regime, our business could be significantly harmed. Please see Business Government Regulation.

We may not be able to implement our growth strategy.

Our growth strategy includes acquiring additional aircraft, increasing the frequency of flights and size of aircraft used in markets we currently serve and expanding the number of markets we serve where our low-cost structure would likely be successful. Effectively implementing our growth strategy is critical for our business to achieve economies of scale and to sustain or increase our profitability. We face numerous challenges in implementing our growth strategy, including our ability to:

- maintain profitability;
- obtain financing to acquire new aircraft;

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access airports located in our targeted geographic markets where we can operate routes in a manner that is consistent with our cost strategy;

gain access to international routes; and

access sufficient gates and other services at airports we currently serve or may seek to serve.

Our growth is dependent upon our ability to maintain a safe and secure operation and requires additional personnel, equipment and facilities. An inability to hire and retain personnel, timely secure the required equipment and facilities in a cost-effective manner, efficiently operate our expanded facilities or obtain the necessary regulatory approvals may adversely affect our ability to achieve our growth strategy, which could harm our business. In addition, expansion to new markets may have other risks due to factors specific to those markets. We may be unable to foresee all of the risks attendant upon entering certain new markets or respond adequately to these risks, and our growth strategy and our business may suffer as a result. In addition, our competitors may reduce their fares and/or offer special promotions following our entry into a new market. We cannot assure you that we will be able to profitably expand our existing markets or establish new markets.

Our target growth markets in the Caribbean and Latin America include countries with less developed economies that may be vulnerable to unstable economic and political conditions, such as significant fluctuations in gross domestic product, interest and currency exchange rates, civil disturbances, government instability, nationalization and expropriation of private assets and the imposition of taxes or other charges by governments. The occurrence of any of these events in markets served by us and the resulting instability may adversely affect our ability to implement our growth strategy.

In 2008, in response to record high fuel prices and rapidly deteriorating economic conditions, we modified our growth plans by terminating our leases for seven aircraft. We incurred significant expenses relating to our lease terminations, and have incurred additional expenses to acquire new aircraft in place of those under the terminated leases as we expand our network. We may in the future determine to reduce further our future growth plans from previously announced levels, which may impact our business strategy and future profitability.

We rely heavily on technology and automated systems to operate our business and any failure of these technologies or systems or failure by their operators could harm our business.

We are highly dependent on technology and automated systems to operate our business and achieve low operating costs. These technologies and systems include our computerized airline reservation system, flight operations system, financial planning, management and accounting system, telecommunications systems, website, maintenance systems and check-in kiosks. In order for our operations to work efficiently, our website and reservation system must be able to accommodate a high volume of traffic, maintain secure information and deliver flight information. Substantially all of our tickets are issued to passengers as electronic tickets. We depend on our reservation system, which is hosted and maintained under a long-term contract by a third-party service provider, to be able to issue, track and accept these electronic tickets. If our reservation system fails or experiences interruptions, and we are unable to book seats for any period of time, we could lose a significant amount of revenue as customers book seats on competing airlines. We have experienced short duration reservation system outages from time to time and may experience similar outages in the future. For example, in November 2010, we experienced a significant service outage with our third-party reservation service provider on the day before Thanksgiving, one of the industry s busiest travel days. We also rely on third-party service providers of our other automated systems for technical support, system maintenance and software upgrades. If our automated systems are not functioning or if the current providers were to fail to adequately provide technical support for any one of our key existing systems, we could experience service disruptions, which could harm our business and result in the loss of important data, increase our expenses and decrease our revenues. In the event that one or more of our primary technology or systems vendors goes into bankruptcy, ceases operations or fails to perform as promised, replacement services may not be readily available on a timely basis, at competitive rates or at all and any transition time to a new system may be significant.

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In addition, our automated systems cannot be completely protected against events that are beyond our control, including natural disasters, computer viruses or telecommunications failures. Substantial or sustained system failures could cause service delays or failures and result in our customers purchasing tickets from other airlines. We have implemented security measures and change control procedures and have disaster recovery plans; however, we cannot assure you that these measures are adequate to prevent disruptions. Disruption in, changes to or a breach of, these systems could result in a disruption to our business and the loss of important data. Any of the foregoing could result in a material adverse effect on our business, results of operations and financial condition.

Our processing, storage, use and disclosure of personal data could give rise to liabilities as a result of governmental regulation.

In the processing of our customer transactions, we receive, process, transmit and store a large volume of identifiable personal data, including financial data such as credit card information. This data is increasingly subject to legislation and regulation, typically intended to protect the privacy of personal data that is collected, processed and transmitted. More generally, we rely on consumer confidence in the security of our system, including our internet site on which we sell the majority of our tickets. Our business, results of operations and financial condition could be adversely affected if we are unable to comply with existing privacy obligations or legislation or regulations are expanded to require changes in our business practices.

We may not be able to maintain or grow our non-ticket revenues.

Our business strategy includes expanding our portfolio of ancillary products and services. There can be no assurance that passengers will pay for additional ancillary products and services or that passengers will continue to choose to pay for the ancillary products and services we currently offer. Further, regulatory initiatives could adversely affect ancillary revenue opportunities. Failure to maintain our non-ticket revenues would have a material adverse effect on our results of operations and financial condition. Furthermore, if we are unable to maintain and grow our non-ticket revenues, we may not be able to execute our strategy to continue to lower base fares in order to stimulate demand for air travel. Please see Restrictions on or increased taxes applicable to fees or other charges for ancillary products and services paid by airline passengers and burdensome consumer protection regulations or laws could harm our business, results of operations and financial condition.

Our inability to expand or operate reliably or efficiently out of Fort Lauderdale Hollywood International Airport, an airport on which we are highly dependent, could harm our business, results of operations and financial condition.

We are highly dependent on markets served from South Florida, where we maintain a large presence with, approximately 28% of our daily flights departing from Fort Lauderdale Hollywood International Airport, or FLL Airport, for the nine months ended September 30, 2011. We operate out of the only international terminal at FLL Airport, Terminal 4. FLL Airport is in the process of a renovation project, which includes the expansion of Terminal 4. The airport expansion would allow us to increase the number of routes we serve from FLL Airport (although the expansion could also increase the number of routes our competitors serve from FLL Airport). If the airport expansion does not occur or is delayed, however, our expansion strategy out of FLL Airport may be impeded. In addition, FLL Airport presently has relatively low costs and there is no guarantee that the fees and other costs related to operating out of FLL Airport will not increase. Our results of operations could be harmed by an increase in fees charged by the airport, in particular, with respect to the increase in fees expected to be charged following the airport expansion. If we are unable to operate reliably or efficiently from FLL Airport, we may need to move our South Florida operations to a smaller or more expensive area airport.

Changes in how we or others are permitted to operate at airports, including FLL Airport, could have a material adverse effect on our business, results of operations and financial condition.

Our results of operations may be affected by actions taken by governmental or other agencies or authorities having jurisdiction over our operations at airports, including, but not limited to:

- increases in airport rates and charges;

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limitations on take-off and landing slots, airport gate capacity or other use of airport facilities;

termination of our airport use agreements, some of which can be terminated by airport authorities with little notice to us;

increases in airport capacity that could facilitate increased competition, such as the planned expansion of the international terminal at FLL Airport;

international travel regulations such as customs and immigration;

increases in taxes;

changes in the law that affect the services that can be offered by airlines in particular markets and at particular airports;

restrictions on competitive practices;

the adoption of statutes or regulations that impact customer service standards, including security standards; and

the adoption of more restrictive locally-imposed noise regulations or curfews.

In general, any changes in airport operations could have a material adverse effect on our business, results of operations and financial condition.

We rely on third-party service providers to perform functions integral to our operations.

We have entered into agreements with third-party service providers to furnish certain facilities and services required for our operations, including ground handling, catering, passenger handling, engineering, maintenance, refueling, reservations and airport facilities as well as administrative and support services. We are likely to enter into similar service agreements in new markets we decide to enter, and there can be no assurance that we will be able to obtain the necessary services at acceptable rates.

Although we seek to monitor the performance of third parties that provide us with our reservation system, ground handling, catering, passenger handling, engineering, maintenance services, refueling and airport facilities, the efficiency, timeliness and quality of contract performance by third-party service providers are often beyond our control, and any failure by our service providers to perform their contracts may have an adverse impact on our business and operations. For example, in 2008, our call center provider went bankrupt. Though we were able to quickly switch to an alternative vendor, we experienced a significant business disruption during the transition period and a similar disruption could occur in the future. We expect to be dependent on such third-party arrangements for the foreseeable future.

We rely on third-party distribution channels to distribute a portion of our airline tickets.

We rely on third-party distribution channels, including those provided by or through global distribution systems, or GDSs (e.g., Amadeus, Galileo, Sabre and Worldspan), conventional travel agents and online travel agents, or OTAs (e.g., Orbitz and Travelocity), to distribute a portion of our airline tickets, and we expect in the future to rely on these channels to an increasing extent to collect ancillary revenues, such as seat selection fees. These distribution channels are more expensive and at present have less functionality in respect of ancillary revenues than those we operate ourselves, such as our call centers and our website. Certain of these distribution channels also effectively restrict the manner in which we distribute our products generally. To remain competitive, we will need to manage successfully our distribution costs and rights, and improve the functionality of third-party distribution channels, while maintaining an industry-competitive cost structure. Negotiations with key GDSs and OTAs designed to manage our costs, increase our distribution flexibility and improve functionality could be contentious, could result in diminished or less favorable distribution of our tickets, and may not provide the functionality we require to maximize ancillary revenues. Any inability to manage our

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third-party distribution costs, rights and functionality at a competitive level or any material diminishment in the distribution of our tickets could have a material adverse effect on our competitive position and our results of operations.

We rely on a single service provider for our fuel.

As of September 30, 2011, we purchased all of our aircraft fuel under a single fuel service contract with World Fuel Services Corporation. A failure by this provider to fulfill its obligations could have a material adverse effect on our business, results of operations and financial condition.

Our reputation and business could be adversely affected in the event of an emergency, accident or similar incident involving our aircraft.

We are exposed to potential significant losses in the event that any of our aircraft is subject to an emergency, accident, terrorist incident or other similar incident, and significant costs related to passenger claims, repairs or replacement of a damaged aircraft and its temporary or permanent loss from service. There can be no assurance that we will not be affected by such events or that the amount of our insurance coverage will be adequate in the event such circumstances arise and any such event could cause a substantial increase in our insurance premiums. Please see Increases in insurance costs or significant reductions in coverage could have a material adverse effect on our business, financial condition and results of operations. In addition, any future aircraft emergency, accident or similar incident, even if fully covered by insurance or even if it does not involve our airline, may create a public perception that our airline or the equipment we fly is less safe or reliable than other transportation alternatives, which could have an adverse impact on our reputation and could have a material adverse effect on our business, results of operations and financial condition.

Negative publicity regarding our customer service could have a material adverse effect on our business.

In the past we have experienced a relatively high number of customer complaints related to, among other things, our customer service, reservations and ticketing systems and baggage handling. In particular, we generally experience a higher volume of complaints when we make changes to our unbundling policies, such as charging for baggage. In addition, in 2009, we entered into a consent order with the DOT for our procedures for bumping passengers from oversold flights and our handling of lost or damaged baggage. Under the consent order, we were assessed a civil penalty of $375,000, of which we were required to pay $215,000 based on an agreement with the DOT and our not having similar violations in the year after the date of the consent order. Our reputation and business could be materially adversely affected if we fail to meet customers expectations with respect to customer service or if we are perceived by our customers to provide poor customer service.

We depend on a limited number of suppliers for our aircraft and engines.

One of the elements of our business strategy is to save costs by operating a single-family aircraft fleet - currently Airbus A320-family, single-aisle aircraft, powered by engines manufactured by IAE. We currently intend to continue to rely exclusively on these aircraft and engine manufacturers for the foreseeable future. If Airbus or IAE (or any other engine manufacturer for future deliveries) becomes unable to perform its contractual obligations, or if we are unable to acquire or lease aircraft or engines from other owners, operators or lessors on acceptable terms, we would have to find other suppliers for a similar type of aircraft or engine. If we have to lease or purchase aircraft from another supplier, we would lose the significant benefits we derive from our current single fleet composition. We may also incur substantial transition costs, including costs associated with retraining our employees, replacing our manuals and adapting our facilities and maintenance programs. Our operations could also be harmed by the failure or inability of aircraft, engine and parts suppliers to provide sufficient spare parts or related support services on a timely basis. Our business would be significantly harmed if a design defect or mechanical problem with any of the types of aircraft or components that we operate were discovered that would ground any of our aircraft while the defect or problem was corrected, assuming it could be corrected at all. The use of our aircraft could be suspended or restricted by regulatory authorities in the event of any actual or perceived mechanical or design problems. Our business would also be significantly harmed if the public began to avoid flying with us due to an adverse perception of the types of aircraft that we operate stemming from safety concerns or other problems, whether real or perceived, or in the event of an accident involving those types of aircraft or components. Carriers that operate a more diversified fleet are better positioned than we are to manage such events.

Reduction in demand for air transportation, or governmental reduction or limitation of operating capacity, in the South Florida, Caribbean or Latin American markets could harm our business, results of operations and financial condition.

A significant portion of our operations are conducted to and from the South Florida, Caribbean or Latin American markets. Our business, results of operations and financial condition could be harmed if we lost our authority to fly to these markets, by any circumstances causing a reduction in demand for air transportation, or by governmental reduction or limitation of operating capacity, in these markets, such as adverse changes in local economic or political conditions, negative public perception of these destinations, unfavorable weather conditions, or terrorist related activities. Furthermore, our business could be harmed if jurisdictions that currently limit competition allow additional airlines to compete on routes we serve. Many of the countries we serve are experiencing either economic slowdowns or recessions, which may translate into a weakening of demand and could harm our business, results of operations and financial condition.

Increases in insurance costs or significant reductions in coverage could have a material adverse effect on our business, financial condition and results of operations.

We carry insurance for public liability, passenger liability, property damage and all-risk coverage for damage to our aircraft. As a result of the September 11, 2001 terrorist attacks, aviation insurers significantly reduced the amount of insurance coverage available to commercial air carriers for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events (war risk insurance). Accordingly, our insurance costs increased significantly and our ability to continue to obtain certain types of insurance remains uncertain. While the price of commercial insurance has declined since the period immediately after the terrorist attacks, in the event commercial insurance carriers further reduce the amount of insurance coverage available to us, or significantly increase its cost, we would be adversely affected. We currently maintain commercial airline insurance with several underwriters. However, there can be no assurance that the amount of such coverage will not be changed, or that we will not bear substantial losses from accidents. We could incur substantial claims resulting from an accident in excess of related insurance coverage that could have a material adverse effect on our results of operations and financial condition.

We have obtained third-party war risk insurance, which insures against some risks of terrorism, through a special program administered by the FAA, resulting in lower premiums than if we had obtained this insurance in the commercial insurance market. If the special program administered by the FAA is not continued, or if the government discontinues this coverage for any reason, obtaining comparable coverage from commercial underwriters could result in substantially higher premiums and more restrictive terms, if it is available at all. Our business, results of operations and financial condition could be materially adversely affected if we are unable to obtain adequate war risk insurance. The FAA war risk hull and liability insurance policy is effective from October 1, 2011 through September 30, 2012.

Failure to comply with applicable environmental regulations could have a material adverse effect on our business, results of operations and financial condition.

We are subject to increasingly stringent federal, state, local and foreign laws, regulations and ordinances relating to the protection of the environment, including those relating to emissions to the air, discharges to surface and subsurface waters, safe drinking water, and the management of hazardous substances, oils and waste

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materials. Compliance with all environmental laws and regulations can require significant expenditures and any future regulatory developments in the United States and abroad could adversely affect operations and increase operating costs in the airline industry. For example, climate change legislation was previously introduced in Congress and such legislation could be re-introduced in the future by Congress and state legislatures, and could contain provisions affecting the aviation industry, compliance with which could result in the creation of substantial additional costs to us. Similarly, the Environmental Protection Agency issued a rule that regulates larger emitters of greenhouse gases. Future operations and financial results may vary as a result of such regulations. Compliance with these regulations and new or existing regulations that may be applicable to us in the future could increase our cost base and could have a material adverse effect on our business, results of operations and financial condition.

Governmental authorities in several U.S. and foreign cities are also considering or have already implemented aircraft noise reduction programs, including the imposition of nighttime curfews and limitations on daytime take-offs and landings. We have been able to accommodate local noise restrictions imposed to date, but our operations could be adversely affected if locally-imposed regulations become more restrictive or widespread.

If we are unable to attract and retain qualified personnel or fail to maintain our company culture, our business, results of operations and financial condition could be harmed.

Our business is labor intensive. We require large numbers of pilots, flight attendants, maintenance technicians and other personnel. The airline industry has from time to time experienced a shortage of qualified personnel, particularly with respect to pilots and maintenance technicians. In addition, as is common with most of our competitors, we have faced considerable turnover of our employees. We may be required to increase wages and/or benefits in order to attract and retain qualified personnel. If we are unable to hire, train and retain qualified employees, our business could be harmed and we may be unable to complete our growth plans.

In addition, as we hire more people and grow, we believe it may be increasingly challenging to continue to hire people who will maintain our company culture. Our company culture, which is one of our competitive strengths, is important to providing high-quality customer service and having a productive, accountable workforce that helps keep our costs low. As we continue to grow, we may be unable to identify, hire or retain enough people who meet the above criteria, including those in management or other key positions. Our company culture could otherwise be adversely affected by our growing operations and geographic diversity. If we fail to maintain the strength of our company culture, our competitive ability and our business, results of operations and financial condition could be harmed.

Our business, results of operations and financial condition could be materially adversely affected if we lose the services of our key personnel.

Our success depends to a significant extent upon the efforts and abilities of our senior management team and key financial and operating personnel. In particular, we depend on the services of our senior management team, including Ben Baldanza, our President and Chief Executive Officer. Competition for highly qualified personnel is intense, and the loss of any executive officer, senior manager or other key employee without adequate replacement or the inability to attract new qualified personnel could have a material adverse effect on our business, results of operations and financial condition. We do not maintain key-man life insurance on our management team.

We will be required to pay our Pre-IPO Stockholders for 90% of certain tax benefits related to federal net operating losses, deferred interest deductions and tax credits incurred prior to the IPO, and could be required to make substantial cash payments to them.

Immediately prior to the completion of the IPO, we entered into the Tax Receivable Agreement and thereby distributed to each holder of our common stock as of such time, or the Pre-IPO Stockholders, the right to receive

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such stockholders pro rata share of the future payments to be made by us under the Tax Receivable Agreement. Each such pro rata share is a fraction equal to the number of shares of our common stock beneficially owned by each Pre-IPO Stockholder divided by the number of shares of common stock outstanding immediately prior to the completion of the IPO. Under the Tax Receivable Agreement, we are obligated to pay to the Pre-IPO Stockholders an amount equal to 90% of the cash savings in federal income tax realized by us by virtue of our future use of the federal net operating loss, deferred interest deductions and alternative minimum tax credits held by us as of March 31, 2011, which we refer to as the Pre-IPO NOL. Deferred interest deductions means interest deductions that had accrued as of March 31, 2011, but have been deferred under rules applicable to related party debt. Cash tax savings generally will be computed by comparing our actual federal income tax liability to the amount of such taxes that we would have been required to pay had such Pre-IPO NOLs not been available to us. While payments made under the Tax Receivable Agreement will depend upon a number of factors, including the amount and timing of taxable income we generate in the future and any future limitations that may be imposed on our ability to use the Pre-IPO NOLs, the payments could be substantial. Assuming the federal corporate income tax rates presently in effect and no material change in federal tax law, as of September 30, 2011 we estimate that the cash benefit of the full use of these Pre-IPO NOLs would be approximately $40.6 million, of which 90%, or $36.5 million, is potentially payable to our Pre-IPO Stockholders under the terms of the Tax Receivable Agreement. Upon a change in control, we will be obligated to make a final payment under the Tax Receivable Agreement equal to 90% of the present value of the tax savings represented by any portion of the Pre-IPO NOLs for which payment under the Tax Receivable Agreement has not already been made. Payments resulting from a change in control could be substantial and could exceed our actual cash savings from the Pre-IPO NOLs.

The Pre-IPO Stockholders will not reimburse us for any payments previously made if we incur a net operating loss for federal income tax purposes in a future tax year, although the Tax Receivable Agreement does provide a mechanism by which the tax benefit attributable to such future net operating loss will be deemed to be recognized by us before any further payments are made under the Tax Receivable Agreement. Similarly, the Pre-IPO Stockholders will not reimburse us for any payments previously made if any tax benefits relating to such payments are subsequently disallowed, although the amount of any such tax benefits subsequently disallowed will reduce future payments (if any) otherwise owed to the Pre-IPO Stockholders. For example, if our determinations regarding the applicability (or lack thereof) and amount of any limitations on the Pre-IPO NOLs under Section 382 of the Internal Revenue Code of 1986, as amended, were to be successfully challenged by the IRS after payments relating to such Pre-IPO NOLs had been made to the Pre-IPO Stockholders, we would not be reimbursed by the Pre-IPO Stockholders and our recovery would be limited to the extent of future payments (if any) otherwise remaining under the Tax Receivable Agreement. As a result, we could make payments to the Pre-IPO Stockholders under the Tax Receivable Agreement in excess of our actual cash tax savings. Furthermore, while we will only make payments under the Tax Receivable Agreement after we have recognized a cash flow benefit from the utilization of the Pre-IPO NOLs, or upon a change of control or other acceleration event, the payments required under the agreement could require us to use a substantial portion of our cash from operations for those purposes. Depending on the amount and timing of our future earnings (if any) and on other factors, including the effect of any limitations imposed on our ability to use the Pre-IPO NOLs, it is possible that all payments required under the Tax Receivable Agreement could become due within a relatively short period of time.

As of the effective date of the Tax Receivable Agreement, we recognized a liability equal to the total payments estimated to be made under the Tax Receivable Agreement, which are accounted for as a reduction of additional paid-in capital. As of September 30, 2011, we estimate a cash benefit of $36.5 million, or 90% of the total cash benefit from the full use of the Pre-IPO NOLs, will be paid to the Pre-IPO Stockholders under the terms of the Tax Receivable Agreement. Subsequent changes in the estimated liability under the Tax Receivable Agreement will be recorded through earnings in operating expenses. If and when the Pre-IPO NOLs are available to us, the Tax Receivable Agreement will operate to transfer significantly all of the benefit to the Pre-IPO Stockholders. Additionally, the payments we make to the Pre-IPO Stockholders under the Tax Receivable Agreement are not expected to give rise to any incidental tax benefits to us, such as deductions or an adjustment to the basis of our assets.

We rely on our private equity sponsors.

We have in recent years depended on our relationships with Indigo and Oaktree, our private equity sponsors, to help guide our business plan. These two private equity firms have significant expertise in financial matters generally and, in the case of Indigo, the low-cost airline industry in particular. This expertise has been available to us through the representatives these firms have had on our board of directors and through a Professional Services Agreement with Indigo that was terminated upon the completion of the IPO. As of September 30, 2011, investment funds managed by our private equity sponsors, Indigo and Oaktree, owned, in the aggregate, approximately 71.7% of our common stock. That ownership position will be substantially reduced in this offering. Our private equity sponsors may elect to further reduce their ownership in our company or reduce their involvement on our board of directors, which could reduce or eliminate the benefits we have historically achieved through our relationships with them.

Risks Related to Owning Our Common Stock

Control by our principal stockholders could adversely affect our other stockholders.

As of December 21, 2011, Indigo and Oaktree beneficially owned approximately 52.0% of our common stock. As a result of their ownership positions, Oaktree and Indigo are able to exert a significant degree of influence or actual control over our management and affairs and over matters requiring stockholder approval, including super-majority approval, including the election of directors, a merger, consolidation or sale of all or substantially all of our assets and other significant business or corporate transactions. This concentrated control may limit the ability of other stockholders to influence corporate matters and, as a result, we may take actions that our other stockholders do not view as beneficial. For example, this concentration of ownership could have the effect of delaying or preventing a change in control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which in turn could cause the market price of our common stock to decline or prevent our stockholders from realizing a premium over the market price for their common stock.

In addition, under the controlled company exception to the independence requirements of the NASDAQ Stock Market, we have been exempt from the rules of the NASDAQ Stock Market that require that our audit committee and compensation committee be comprised entirely of independent directors. Indigo and Oaktree are selling stockholders in this offering, and their percentage ownership in us will be substantially reduced. Accordingly, upon completion of this offering, our ability to claim the controlled company exemption will lapse, and the phase-in periods applicable to the foregoing NASDAQ Stock Market requirements will commence.

The requirements of being a public company may strain our resources, divert management s attention and affect our ability to attract and retain qualified board members.

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company, including costs associated with public company reporting requirements. We also have incurred and will incur costs associated with the Sarbanes-Oxley Act of 2002, as amended, the Dodd-Frank Wall Street Reform and Consumer Protection Act and related rules implemented or to be implemented by the SEC and the NASDAQ Stock Market. The expenses incurred by public companies generally for reporting and corporate governance purposes have been increasing. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly, although we are currently unable to estimate these costs with any degree of certainty. These laws and regulations could also make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These laws and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as our executive officers and may divert management s attention. Furthermore, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our common stock, fines, sanctions and other regulatory action and potentially civil litigation.

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We will be required to assess our internal control over financial reporting on an annual basis and any future adverse findings from such assessment could result in a loss of investor confidence in our financial reports, significant expenses to remediate any internal control deficiencies and ultimately have an adverse effect on the market price of our common stock.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, as amended, and beginning with our Annual Report on Form 10-K for the year ending December 31, 2012, our management will be required to report on, and our independent registered public accounting firm to attest to, the effectiveness of our internal control over financial reporting. The rules governing the standards that must be met for management to assess our internal control over financial reporting are complex and require significant documentation, testing and possible remediation. We are currently in the process of reviewing, documenting and testing our internal control over financial reporting. We may encounter problems or delays in completing the implementation of any changes necessary to make a favorable assessment of our internal control over financial reporting. In connection with the attestation process by our independent registered public accounting firm, we may encounter problems or delays in completing the implementation of any requested improvements and receiving a favorable attestation. In addition, if we fail to maintain the adequacy of our internal control over financial reporting we will not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. A material weakness was noted in our past internal controls related to our accounting for manufacturers credits, primarily in 2006 before our current management team was in place. During our 2010 year-end close, a separate material weakness was noted in our internal controls related to the accounting for our travel voucher liability. This material weakness had no impact on our financial statements for periods prior to the second quarter of 2010. We believe we have remediated these weaknesses and have taken steps to improve our internal controls and procedures. If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, which would likely cause investors to lose confidence in our reported financial information. This could harm our operating results and lead to a decline in our stock price. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the NASDAQ Global Select Market, regulatory investigations, civil or criminal sanctions and class action litigation.

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

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

- announcements concerning our competitors, the airline industry or the economy in general;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- media reports and publications about the safety of our aircraft or the aircraft type we operate;
- new regulatory pronouncements and changes in regulatory guidelines;
- changes in the price of aircraft fuel;
- announcements concerning the availability of the type of aircraft we use;
- general and industry-specific economic conditions;
- changes in financial estimates or recommendations by securities analysts or failure to meet analysts performance expectations;

sales of our common stock or other actions by investors with significant shareholdings, including sales by our controlling stockholders;

trading strategies related to changes in fuel or oil prices; and

general market, political and economic conditions.

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

In the past, stockholders have sometimes instituted securities class action litigation against companies following periods of volatility in the market price of their securities. Any similar litigation against us could result in substantial costs, divert management s attention and resources, and harm our business or results of operations.

If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our share price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

Our anti-takeover provisions may delay or prevent a change of control, which could adversely affect the price of our common stock.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may make it difficult to remove our board of directors and management and may discourage or delay change of control transactions, which could adversely affect the price of our common stock. These provisions include, among others:

- our board of directors is divided into three classes, with each class serving for a staggered three-year term, which prevents stockholders from electing an entirely new board of directors at an annual meeting;
- actions to be taken by our stockholders may only be effected at an annual or special meeting of our stockholders and not by written consent;
- special meetings of our stockholders can be called only by the Chairman of the Board or by our corporate secretary at the direction of our board of directors;
- advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors and propose matters to be brought before an annual meeting of our stockholders may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer s own slate of directors or otherwise attempting to obtain control of our company; and
- our board of directors may, without stockholder approval, issue series of preferred stock, or rights to acquire preferred stock, that could dilute the interest of, or impair the voting power of, holders of our common stock or could also be used as a method of discouraging, delaying or preventing a change of control.

The value of our common stock may be adversely affected by additional issuances of common stock or preferred stock by us or sales by our principal stockholders.

Any future issuances or sales of our common stock by us will be dilutive to our existing common stockholders. All of the shares of common stock sold in this offering will be freely tradeable without restrictions or further registration under the Securities Act of 1933, as amended, or the Securities Act. The holders of approximately million shares (after completion of this offering), or % of outstanding shares of our common stock, have signed lock-up agreements with the underwriters of this offering, under which they have agreed, subject to certain exceptions, not to sell, transfer or dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exercisable or exchangeable for common stock without the

prior written consent of the underwriters for a period of 60 days, subject to a possible extension under certain circumstances, after the date of this prospectus. Upon completion of this offering, Indigo and Oaktree (or their respective designees) will hold approximately million shares of our common stock and will be entitled to rights with respect to registration of such shares under the Securities Act, pursuant to our Second Amended and Restated Investor Rights Agreement, as amended. Please see Certain Relationships and Related Transactions Registration Rights elsewhere in this prospectus. Sales of substantial amounts of our common stock in the public or private market, a perception in the market that such sales could occur, or the issuance of securities exercisable or convertible into our common stock, could adversely affect the prevailing price of our common stock.

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

To comply with restrictions imposed by federal law on foreign ownership of U.S. airlines, our amended and restated certificate of incorporation and amended and restated bylaws restrict voting of shares of our common stock by non-U.S. citizens. The restrictions imposed by federal law currently require that no more than 25% of our stock be voted, directly or indirectly, by persons who are not U.S. citizens, and that our president and at least two-thirds of the members of our board of directors and senior management be U.S. citizens. Our amended and restated bylaws provide that the failure of non-U.S. citizens to register their shares on a separate stock record, which we refer to as the foreign stock record, would result in a suspension of their voting rights in the event that the aggregate foreign ownership of the outstanding common stock exceeds the foreign ownership restrictions imposed by federal law.

Our amended and restated bylaws further provide that no shares of our common stock will be registered on the foreign stock record if the amount so registered would exceed the foreign ownership restrictions imposed by federal law. If it is determined that the amount registered on the foreign stock record exceeds the foreign ownership restrictions imposed by federal law, shares will be removed from the foreign stock record in reverse chronological order based on the date of registration therein, until the number of shares registered thereon does not exceed the foreign ownership restrictions imposed by federal law. We are currently in compliance with these ownership restrictions. As of December 21, 2011, based on the shares registered on the foreign stock record, non-U.S. citizens own, in the aggregate, 14.8 million shares of common stock (approximately 23.9% of our voting common stock outstanding and approximately 20.4% of the total outstanding equity interests in our Company) and an additional 10.6 million shares of non-voting common stock (representing an aggregate of approximately 14.6% of the total outstanding equity interests in our Company). The holders of non-voting common stock may convert such shares, on a share-for-share basis, in the order reflected on our foreign stock record as shares of common stock are sold or otherwise transferred by non-U.S. citizens. It is currently expected that, should a non-U.S. citizen acquire shares in this offering, such shares would have their voting rights suspended in accordance with our amended and restated bylaws unless and until a sufficient number of non-U.S. citizens previously registered on the foreign stock record have sold or otherwise transferred the shares held by such holders. See Business Foreign Ownership and Description of Capital Stock Anti-Takeover Provisions of Our Certificate of Incorporation and Bylaws and Description of Capital Stock Limited Voting by Foreign Owners.

We do not intend to pay cash dividends for the foreseeable future.

We have never declared or paid cash dividends on our common stock. We currently intend to retain our future earnings, if any, to finance the further development and expansion of our business and do not intend to pay cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, restrictions contained in current or future financing instruments, business prospects and such other factors as our board of directors deems relevant.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and/or management s good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

the competitive environment in our industry;

our ability to keep cost low;

changes in our fuel cost;

ability to hedge fuel requirements;

restrictions on or increased taxes applicable to non-ticket revenues;

the impact of worldwide economic conditions, including the impact of the economic recession on customer travel behavior;

actual or threatened terrorist attacks, global instability and potential U.S. military actions or activities;

external conditions, including air traffic congestion, weather and outbreak of disease;

restriction on third-party membership programs;

air travel substitutes;

labor disputes, employee strikes and other labor-related disruptions, including in connection with our current negotiations with the union representing our flight attendants;

aircraft-related fixed obligations;

dependence on cash balances and operating cash flows;

our aircraft utilization rate;

maintenance costs;

lack of marketing alliances;

government regulation;

our ability to fulfill growth strategy;

our reliance on automated systems and the risks associated with changes made to those systems;

use of personal data;

ability to generate non-ticket revenues;

our concentration of services at FLL Airport;

operational disruptions;

the concentration of our revenue from South Florida;

our reliance on third-party vendors and partners;

our reliance on a single fuel provider;

an aircraft accident or incident;

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negative publicity regarding our customer service;

our aircraft and engine suppliers;

changes in the Caribbean and Latin America markets;

insurance costs;

environmental regulations;

ability to attract and retain qualified personnel;

loss of key personnel; and

other risk factors included under Risk Factors in this prospectus.

In addition, in this prospectus, the words believe, may, estimate, continue, anticipate, intend, expect, predict, potential and simila as they relate to our company, our business and our management, are intended to identify forward-looking statements. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this prospectus may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements.

All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth above. Forward-looking statements speak only as of the date of this prospectus. You should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable law. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

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USE OF PROCEEDS

We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders. We will pay substantially all of the expenses of the selling stockholders other than underwriting discounts and commissions.

PRICE RANGE OF OUR COMMON STOCK AND DIVIDEND POLICY

Our common stock has been listed and traded on the NASDAQ Global Select Market under the symbol SAVE since May 26, 2011 when our IPO priced at $12.00 per share. Prior to that time, there was no public market for our common stock. The following table shows, for the periods indicated, the high and low closing sales price per share for our common stock on the NASDAQ Global Select Market.

	High	Low
Fiscal year ending December 31, 2011		
Second Quarter (*from May 26, 2011*)	$ 12.33	$ 11.11
Third Quarter	14.43	10.18
Fourth Quarter (*through December 21, 2011*)	17.48	11.42

On December 21, 2011, the last sale price of our common stock as reported on the NASDAQ Global Select Market was $15.52 per share. As of December 21, 2011, there were approximately 66 holders of record of our common stock. Because many of our shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these recordholders. As of December 21, 2011, there were three holders of record of our non-voting common stock, which class is not listed or traded on any stock exchange.

We have never declared or paid, and do not anticipate declaring or paying, any cash dividends on our common stock. Any future determination as to the declaration and payment of dividends, if any, will be at the discretion of our board of directors and will depend on then existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant.

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CAPITALIZATION

The following table sets forth our capitalization and cash and cash equivalents as of September 30, 2011.

You should read this capitalization table together with our financial statements and the related notes appearing at the end of this prospectus, the Management s Discussion and Analysis of Financial Condition and Results of Operations section and the other financial information included in this prospectus.

	As of September 30, 2011 (in thousands)	
Cash and cash equivalents	$	350,973
Current maturities of long-term debt	$	
Long-term debt, less current maturities		
Stockholders equity:		
Preferred stock, par value $0.0001 per share, 10,000,000 shares authorized, no shares issued and outstanding		
Common stock, $0.0001 par value, 240,000,000 shares authorized, 72,530,256 shares issued and outstanding (1)		7
Non-voting common stock, $0.0001 par value, 50,000,000 shares authorized, no shares issued and outstanding (1)		
Additional paid-in capital		496,014
Accumulated deficit		(53,299)
Total stockholders equity		442,722
Total capitalization	$	442,722

(1) Subsequent to September 30, 2011, 10,576,180 shares of outstanding common stock were exchanged on a share-for-share basis for shares of non-voting common stock. Please see Description of Capital Stock Limited Voting by Foreign Owners.

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SELECTED FINANCIAL AND OPERATING DATA

You should read the following selected historical financial and operating data below in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements, related notes and other financial information included in this prospectus. The selected financial data in this section are not intended to replace the financial statements and are qualified in their entirety by the financial statements and related notes included in this prospectus.

We derived the selected statements of operations data for the years ended December 31, 2008, 2009, and 2010 and the balance sheet data as of December 31, 2009 and 2010 from our audited financial statements included in this prospectus. We derived the selected statements of operations data for the years ended December 31, 2006 and 2007 and the balance sheet data as of December 31, 2006, 2007 and 2008 from our audited financial statements not included in this prospectus.We derived the selected statements of operations data for the nine months ended September 30, 2010 and 2011 and the balance sheet data as of September 30, 2011 from our unaudited condensed financial statements included in this prospectus. Our historical results are not necessarily indicative of the results to be expected in the future, and results for the nine months ended September 30, 2011 are not necessarily indicative of results to be expected for the full year.

	Year Ended December 31,					Nine Months Ended September 30,	
	2006	**2007**	**2008**	**2009**	**2010(1)**	**2010(1)**	**2011**
	(in thousands except share and per share data)						
Operating revenues:							
Passenger	$ 519,351	$ 686,447	$ 657,448	$ 536,181	$ 537,969	$ 401,513	$ 520,380
Non-ticket	23,836	76,432	129,809	163,856	243,296	163,552	276,887
Total operating revenues	**543,187**	**762,879**	**787,257**	**700,037**	**781,265**	**565,065**	**797,267**
Operating expenses:							
Aircraft fuel (2)	176,692	251,230	299,094	181,107	248,206	178,159	293,219
Salaries, wages and benefits	133,537	146,626	147,015	135,420	156,443	114,719	133,514
Aircraft rent	93,136	119,686	105,605	89,974	101,345	72,936	86,009
Landing fees and other rents	30,646	42,441	43,331	42,061	48,118	35,651	38,628
Distribution	29,234	36,315	37,816	34,067	41,179	30,421	39,146
Maintenance, materials and repairs	22,784	23,448	24,237	27,536	28,189	20,644	26,978
Depreciation and amortization	9,552	5,401	4,236	4,924	5,620	4,317	5,296
Other operating	76,269	105,503	85,608	72,921	82,594	61,107	65,700
Loss on disposal of assets	3,853	94	4,122	1,010	77	77	39
Restructuring and termination costs (3)	32,499	142	17,902	(392)	621	137	2,379
Total operating expenses	**608,202**	**730,886**	**768,966**	**588,628**	**712,392**	**518,168**	**690,908**
Operating (loss) income	**(65,015)**	**31,993**	**18,291**	**111,409**	**68,873**	**46,897**	**106,359**
Other expense (income):							
Interest expense (4)	20,985	38,163	40,245	46,892	50,313	38,007	24,408
Capitalized interest (5)	(2,299)	(1,755)	(166)	(951)	(1,491)	(927)	(2,519)
Interest income	(3,183)	(5,951)	(1,976)	(345)	(328)	(242)	(256)
Gain on extinguishment of debt (6)			(53,673)	(19,711)			
Other expense (income)	134	130	214	298	194	102	165
Total other expense (income)	15,637	30,587	(15,356)	26,183	48,688	36,940	21,798
Income (loss) before income taxes	(80,652)	1,406	33,647	85,226	20,185	9,957	84,561
Provision (benefit) for income taxes (7)		44	388	1,533	(52,296)	(52,993)	32,104
Net (loss) income	**$ (80,652)**	**$ 1,362**	**$ 33,259**	**$ 83,693**	**$ 72,481**	**$ 62,950**	**$ 52,457**
Earnings Per Share:							
Basic	$ (4.57)	$ 0.05	$ 1.29	$ 3.23	$ 2.77	$ 2.41	$ 1.12
Diluted	$ (4.57)	$ 0.05	$ 1.29	$ 3.18	$ 2.72	$ 2.36	$ 1.11

Weighted average shares outstanding:							
Basic	17,639,596	25,746,445	25,780,070	25,910,766	26,183,772	26,154,670	46,840,034
Diluted	17,639,596	25,861,095	25,879,860	26,315,121	26,689,855	26,694,001	47,129,246
Other financial data (unaudited):							
EBITDA (8):	$ (55,597)	$ 37,264	$ 75,986	$ 135,746	$ 74,299	$ 51,112	$ 111,490
Adjusted EBITDA (8):	$ (17,484)	$ 28,022	$ 55,016	$ 116,837	$ 74,301	$ 51,406	$ 119,059
Adjusted EBITDAR (8):	$ 75,652	$ 147,708	$ 160,621	$ 206,811	$ 175,646	$ 124,342	$ 205,068

(1) We estimate that the 2010 pilot strike had a net negative impact on our operating income for 2010 of approximately $24 million consisting of an estimated $28 million in lost revenues and approximately $4 million of incremental costs resulting from the strike, offset in part by a reduction of variable expenses during the strike of approximately $8 million for flights not flown. Additionally, under the terms of the pilot contract, we also paid $2.3 million in return-to-work payments during the second quarter, which are not included in the strike impact costs described above.

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(2) Aircraft fuel expense is the sum of (i) into-plane fuel cost, which includes the cost of jet fuel and certain other charges such as fuel taxes and oil, (ii) settlement gains and losses and (iii) unrealized mark-to-market gains and losses associated with fuel hedge contracts. The following table summarizes the components of aircraft fuel expense for the periods presented:

	Year Ended December 31,					Nine Months Ended September 30,	
	2006	2007	2008 (*)	2009	2010	2010	2011
	(in thousands)					(unaudited)	
Into-plane fuel cost	$ 175,975	$ 265,226	$ 359,097	$ 181,806	$ 251,754	$ 179,212	$ 296,279
Settlement (gains) losses	(339)	(3,714)	(69,876)	750	(1,483)	(125)	(7,466)
Unrealized mark-to-market (gains) losses	1,056	(10,282)	9,873	(1,449)	(2,065)	(928)	4,406
Aircraft Fuel	$ 176,692	$ 251,230	$ 299,094	$ 181,107	$ 248,206	$ 178,159	$ 293,219

(*) In July 2008, we monetized all of our fuel hedge contracts, which included hedges that had scheduled settlement dates during the remainder of 2008 and in 2009. We recognized a gain of $37.8 million representing cash received upon monetization of these contracts, of which a gain of $14.2 million related to 2009 fuel hedge positions on these contracts.

(3) Restructuring and termination costs include: (i) for 2006 and 2007, amounts relating to the accelerated retirement of our MD-80 fleet; (ii) for 2008 and 2009, amounts relating to the early termination in mid-2008 of leases for seven Airbus A319 aircraft, a related reduction in workforce and the exit facility costs associated with returning planes to lessors in 2008; (iii) for 2009 and 2010, amounts relating to the sale of previously expensed MD-80 parts; (iv) for 2010 and for the nine months ended September 30, 2011 amounts relating to exit facility costs associated with moving our Detroit, Michigan maintenance operations to Fort Lauderdale, Florida; and (v) termination costs in connection with the IPO during the three months ended June 30, 2011 comprised of amounts paid to Indigo Partners, LLC to terminate its professional services agreement with us and fees paid to three individual, unaffiliated holders of our subordinated notes. For more information, please see Management s Discussion and Analysis of Financial Condition and Results of Operations Our Operating Expenses Restructuring and Termination Costs.

(4) Substantially all of the interest expense recorded in 2007, 2008, 2009, 2010 and the nine months ended September 30, 2010 and 2011 relates to notes and preferred stock held by our principal stockholders that were repaid or redeemed, or exchanged for shares of common stock, in connection with the 2011 Recapitalization. Please see Capitalization.

(5) Interest attributable to funds used to finance the acquisition of new aircraft, including PDPs is capitalized as an additional cost of the related asset. Interest is capitalized at the weighted average implicit lease rate of our aircraft.

(6) Gain on extinguishment of debt represents the recognition of contingencies provided for in our 2006 recapitalization agreements, which provided for the cancellation of shares of Class A preferred stock and reduction of the liquidation preference of the remaining Class A preferred stock and associated accrued but unpaid dividends based on the outcome of the contingencies. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations Other (income) expense, net 2009 compared to 2008.

(7) Net income for 2010 includes a $52.3 million net tax benefit primarily due to the release of a valuation allowance resulting in a deferred tax benefit of $52.8 million in 2010. Absent the release of the valuation allowance and corresponding tax benefit, our net income would have been $19.7 million for 2010. Pursuant to the Tax Receivable Agreement, we distributed to the Pre-IPO Stockholders the right to receive a pro rata share of the future payments to be made under such agreement. These future payments to the Pre-IPO Stockholders (estimated as of September 30, 2011 to be approximately $36.5 million) will be in an amount equal to 90% of the cash savings in federal income tax realized by us by virtue of our future use of the federal net operating loss, deferred interest deductions and certain tax credits held by us as of March 31, 2011. Please see Certain Relationships and Related Transactions Tax Receivable Agreement.

(8) EBITDA, Adjusted EBITDA and Adjusted EBITDAR are included as supplemental disclosures because we believe they are useful indicators of our operating performance. Derivations of EBITDA and EBITDAR are well recognized performance measurements in the airline industry that are frequently used by investors, securities analysts and other interested parties in comparing the operating performance of companies in our industry. Adjusted EBITDA eliminates several significant items historically reflected in our statement of operations, but which became irrelevant after the closing of the IPO, including interest expense on indebtedness and gain on extinguishment of the notes and preferred stock repaid or exchanged for common stock pursuant to the 2011 Recapitalization, management fees we ceased paying after the IPO and IPO expenses unrelated to our continuing operations. We have also adjusted for stock-based compensation expenses, the amount of which is dependent on market comparables, and other non-operating matters that are outside our control and thus not indicators of our ongoing operating performance. Adjusted EBITDA also eliminates charges from two significant restructuring programs involving the accelerated conversion of our entire fleet from MD-80 family aircraft to Airbus A320 family aircraft and a reduction in the fleet in mid-2008 in response to record high fuel prices and rapidly deteriorating economic conditions, both of which we believe are unique events unrelated to our ongoing operating activities. Further, we believe Adjusted EBITDAR is useful in evaluating our operating performance compared to our competitors because its calculation isolates the effects of financing in general, the accounting effects of capital spending and acquisitions (primarily aircraft, which may be acquired directly, directly subject to acquisition debt, by capital lease or by operating lease, each of which is presented differently for accounting purposes), and income taxes, which may vary significantly between periods and for different companies for reasons unrelated to overall operating performance. We also use Adjusted EBITDA and Adjusted EBITDAR to establish performance measures for executive compensation purposes. However, because derivations of EBITDA, Adjusted EBITDA and Adjusted EBITDAR are not determined in accordance with GAAP, such measures are susceptible to varying calculations and not all companies calculate the measures in the same manner. As a result, derivations of EBITDA as presented may not be directly comparable to similarly titled measures presented by other companies.

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EBITDA, Adjusted EBITDA and Adjusted EBITDAR have limitations as an analytical tool. Some of these limitations are: EBITDA, Adjusted EBITDA and Adjusted EBITDAR do not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments; EBITDA, Adjusted EBITDA and Adjusted EBITDAR do not reflect changes in, or cash requirements for, our working capital needs; EBITDA, Adjusted EBITDA and Adjusted EBITDAR do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debts; although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA, Adjusted EBITDA and Adjusted EBITDAR do not reflect any cash requirements for such replacements; non-cash compensation is and will remain a key element of our overall long-term incentive compensation package, although we exclude it as an expense when evaluating our ongoing operating performance for a particular period; EBITDA, Adjusted EBITDA and Adjusted EBITDAR do not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations; and other companies in our industry may calculate EBITDA, Adjusted EBITDA and Adjusted EBITDAR differently than we do, limiting its usefulness as a comparative measure. Because of these limitations EBITDA, Adjusted EBITDA and Adjusted EBITDAR should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP.

The following table represents the reconciliation of EBITDA, Adjusted EBITDA and Adjusted EBITDAR to net (loss) income for the periods indicated below:

	Year Ended December 31,					Nine Months Ended September 30,	
	2006	**2007**	**2008**	**2009**	**2010 (g)**	**2010**	**2011**
	(in thousands)						
Reconciliation:							
Net (loss) income	$ (80,652)	$ 1,362	$ 33,259	$ 83,693	$ 72,481	$ 62,950	$ 52,457
Plus (minus):							
Interest expense	20,985	38,163	40,245	46,892	50,313	38,007	24,408
Capitalized interest	(2,299)	(1,755)	(166)	(951)	(1,491)	(927)	(2,519)
Interest income	(3,183)	(5,951)	(1,976)	(345)	(328)	(242)	(256)
Provision/(benefit) for income taxes		44	388	1,533	(52,296)	(52,993)	32,104
Depreciation and amortization	9,552	5,401	4,236	4,924	5,620	4,317	5,296
EBITDA	**(55,597)**	**37,264**	**75,986**	**135,746**	**74,299**	**51,112**	**111,490**
Gain on extinguishment of debt (a)			(53,673)	(19,711)			
Management fees (b)	652	800	800	800	800	600	334
Equity based stock compensation (c)	53	4	6	113	569	408	411
Restructuring and termination costs (d)	32,499	142	17,902	(392)	621	137	2,379
Transaction expenses (e)				720			
Unrealized mark-to-market (gains) losses (f)	1,056	(10,282)	9,873	(1,449)	(2,065)	(928)	4,406
Loss on disposal of assets	3,853	94	4,122	1,010	77	77	39
Adjusted EBITDA	**(17,484)**	**28,022**	**55,016**	**116,837**	**74,301**	**51,406**	**119,059**
Aircraft rentals	93,136	119,686	105,605	89,974	101,345	72,936	86,009
Adjusted EBITDAR	**$ 75,652**	**$ 147,708**	**$ 160,621**	**$ 206,811**	**$ 175,646**	**$ 124,342**	**$ 205,068**

(a) Gain on extinguishment of debt represents the recognition of contingencies provided for in our 2006 recapitalization agreements, which provided for the cancellation of shares of Class A preferred stock and reduction of the liquidation preference of the remaining Class A preferred stock and associated accrued but unpaid dividends based on the outcome of the contingencies. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations Other (income) expense, net 2009 compared to 2008.

(b) Management fees include annual fees we paid to our sponsors pursuant to professional services agreements, which were terminated in connection with the IPO, and the reimbursement of certain expenses incurred thereunder. Please see Certain Relationships and Related Transactions.

(c) Equity based stock compensation is a non-cash expense relating to our equity based compensation program.

(d) Restructuring and termination costs include: (i) for 2006 and 2007, amounts relating to the accelerated retirement of our MD-80 fleet; (ii) for 2008 and 2009, amounts relating to the early termination in mid-2008 of leases for seven Airbus A319 aircraft, a related reduction in workforce and the exit facility costs associated with returning planes to lessors in 2008; (iii) for 2009 and 2010, amounts relating to the sale of previously expensed MD-80 parts; (iv) for 2010 and for the nine months ended September 30, 2011, amounts related to exit facility costs associated with moving our Detroit, Michigan maintenance operations to Fort Lauderdale, Florida; and (v) termination costs in connection with the IPO during the three months ended June 30, 2011 comprised of amounts paid to Indigo Partners, LLC to terminate its professional services agreements with us and fees paid to three individual, unaffiliated holders of our subordinated notes. For more information, please see Management s Discussion and Analysis of Financial Condition and Results of Operations Our Operating Expenses Restructuring and Termination Costs.

(e) Transaction expenses include professional fees incurred in connection with an acquisition transaction that was not completed.

(f) Unrealized mark-to-market gains and losses is comprised of non-cash adjustments to aircraft fuel expenses.

(g) Reflects the effects of the strike of our pilots in June 2010. Please see footnote (1) above and Management s Discussion and Analysis of Financial Condition and Results of Operations June 2010 Pilot Strike.

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The following table presents balance sheet data for the periods presented.

	As of December 31, 2006	2007	2008	2009	2010	As of September 30, 2011
	(in thousands)					
Balance Sheet Data:						
Cash and cash equivalents	$ 80,622	$ 54,603	$ 16,229	$ 86,147	$ 82,714	$ 350,973
Total assets	228,059	257,382	240,009	327,866	475,757	722,163
Long-term debt, including current portion	160,343	180,784	214,480	242,232	280,827	
Mandatorily redeemable preferred stock	131,599	138,777	89,685	75,110	79,717	
Stockholders equity (deficit)	(296,508)	(295,154)	(261,890)	(178,127)	(105,077)	442,722

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OPERATING STATISTICS

	Year Ended December 31,					Nine Months Ended September 30,	
	2006	2007	2008	2009	2010	2010	2011
Operating Statistics (unaudited) (A)							
Average aircraft	31.4	35.9	32.8	28.0	30.5	29.9	34.6
Aircraft at end of period	31	36	28	28	32	32	35
Airports served in the period	30	40	45	43	39	39	47
Average daily Aircraft utilization (hours)	9.1	11.5	12.6	13.0	12.8	12.7	12.9
Average stage length (miles)	881	956	925	931	941	937	933
Block hours	103,962	150,644	150,827	133,227	141,864	103,797	121,523
Passenger flight segments (thousands)	4,967	6,974	6,976	6,325	6,952	5,047	6,347
Revenue passenger miles (RPMs) (thousands)	4,554,125	6,850,565	6,599,809	6,039,064	6,664,395	4,809,049	6,040,203
Available seat miles (ASMs) (thousands)	5,794,099	8,461,861	8,262,230	7,485,141	8,119,923	5,919,283	7,048,701
Load factor (%)	78.6	81.0	79.9	80.7	82.1	81.2	85.7
Average ticket revenue per passenger flight segment ($)	104.56	98.44	94.24	84.77	77.39	79.56	81.98
Average non-ticket revenue per passenger flight segment ($)	4.80	10.96	18.61	25.91	35.00	32.41	43.62
Total revenue per passenger segment ($)	109.36	109.40	112.85	110.68	112.39	111.97	125.60
Average yield (cents)	11.93	11.14	11.93	11.59	11.72	11.75	13.20
RASM (cents)	9.37	9.02	9.53	9.35	9.62	9.55	11.31
CASM (cents)	10.50	8.64	9.31	7.86	8.77	8.75	9.80
Adjusted CASM (cents) (B)	9.92	8.76	8.97	7.89	8.79	8.77	9.71
Adjusted CASM ex fuel (cents) (B)	6.89	5.67	5.47	5.45	5.71	5.74	5.61
Fuel gallons consumed (thousands)	82,980	113,842	109,562	98,422	106,628	77,956	91,076
Average economic fuel cost per gallon ($)	2.11	2.30	2.64	1.85	2.35	2.30	3.17

(A) See Glossary of Airline Terms elsewhere in this prospectus for definitions of terms used in this table.

(B) Excludes restructuring and termination costs of $32.5 million (0.56 cents per ASM) in 2006, $0.1 million (less than 0.01 cents per ASM) in 2007 and $17.9 million (0.22 cents per ASM) in 2008; and credits of $0.4 million (less than 0.01 cents per ASM) in 2009, and $0.6 million (less than 0.01 cents per ASM) in 2010, $0.1 million (less than 0.01 cents per ASM) in the nine months ended September 30, 2010 and $2.4 million (0.03 cents per ASM) in the nine months ended September 30, 2011. These amounts are excluded from all calculations of Adjusted CASM provided in this prospectus. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations Our Operating Expenses Restructuring and Termination Costs. Also excludes unrealized mark-to-market (gains) and losses of $1.1 million (0.02 cents per ASM) in 2006, $(10.3) million ((0.12) cents per ASM) in 2007, $9.9 million (0.12 cents per ASM) in 2008, $(1.4) million ((0.02) cents per ASM) in 2009 and $(2.1) million ((0.03) cents per ASM) in 2010, $(0.9) million ((0.02) cents per ASM) in the nine months ended September 30, 2010 and $4.4 million (0.06 cents per ASM) in the nine months ended September 30, 2011. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with the financial statements and the notes thereto included elsewhere in this prospectus. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this prospectus, particularly in Risk Factors.

Overview

Spirit Airlines is an ultra low-cost, low-fare airline based in Fort Lauderdale, Florida that provides affordable travel opportunities principally to and from South Florida, the Caribbean and Latin America. Our targeted growth markets have historically been underserved by low-cost carriers, which we believe provides us sustainable expansion opportunities. Our ULCC business model allows us to offer a low-priced basic service combined with a range of optional services for additional fees, targeting price-sensitive leisure travelers and VFR travelers. Notwithstanding the recent volatility in the cost of jet fuel and the severe economic recession, we have been able to maintain relatively stable unit revenue while maintaining a low-cost structure, and we have been profitable in each of the last four years and in the first three quarters of 2011. For 2010, we had total operating revenues of $781.3 million, operating income of $68.9 million and net income of $72.5 million ($19.7 million excluding the release of the valuation allowance on our deferred tax assets and related tax benefit). For the nine months ended September 30, 2011, we had total operating revenues of $797.3 million, operating income of $106.4 million and net income of $52.5 million. As of September 30, 2011, we served 47 airports.

We have reduced our unit operating costs significantly since redefining Spirit as a ULCC in 2006. As a result, our operating cost structure is among the lowest in the Americas, enabling us to offer very low fares in the markets we serve while delivering operating profitability. Key elements of our low-cost structure include our efficient asset utilization, operation of an all Airbus single-aisle fleet with high-density seating configurations, employee productivity, rigorous cost control and use of scalable outsourced services. Furthermore, our modern fleet and aircraft seat configuration enable us to operate as one of the most fuel-efficient U.S. jet airline operators on a per available seat mile, or ASM, basis. We have demonstrated the ability to implement our ULCC business model and to adjust our capacity and routes in response to changing market conditions as part of our focus on achieving consistent route profitability.

Our ULCC business model allows us to compete principally through offering low base fares. During 2010 and the first three quarters of 2011, our average base fare was approximately $77 and $82, respectively, and we have offered promotional base fares of $9 or less. Since 2007, we have unbundled components of our air travel service that have traditionally been included in base fares, such as baggage and advance seat selection, and offer them as optional, ancillary services for additional fees (which we record in our financial statements as non-ticket revenue) as part of a strategy to enable our passengers to identify, select and pay for the services they want to use. While many domestic airlines have also adopted some aspects of our unbundled pricing strategy, unlike us, they generally have not made a corresponding reduction in base fares.

We have lowered our base fares significantly since initiating our unbundling strategy, with the goal of stimulating additional passenger demand in the markets we serve. We plan to continue to use low fares to stimulate demand, a strategy that generates additional non-ticket revenue opportunities and, in turn, allows us to further lower base fares and stimulate demand even further. This unbundling and low base fare strategy is designed to support profitable growth. In 2009, our operating income margin of 15.9% was among the highest in the U.S. airline industry. For 2010, our operating income margin was 8.8%, reflecting the effects of increased fuel prices and our June 2010 pilot strike. For the nine months ended September 30, 2011, our operating income margin was 13.3%, reflecting the effects of increased fuel prices.

As part of our low-cost strategy, we may incur costs that are recovered through fees charged to our customers. When this occurs, our CASM may increase but without materially adversely affecting our results of operations due to the related revenue. In addition, our CASM will generally increase and decrease inversely to our average stage length due to some operating costs, such as airport facilities and landing fees, being fixed regardless of the stage length and related revenue. In turn, our average stage length will vary with the routes we elect to fly and has reduced modestly in 2011 compared to prior years as we have added service on a number of domestic routes with shorter stage lengths, resulting in upward pressure on CASM. Our fare pricing strategy is designed to take into account the costs incurred on each particular route.

June 2010 Pilot Strike

On May 13, 2010, the NMB released us and the pilots union from mandatory supervised mediation, which commenced a 30-day cooling off period as provided in the RLA. On June 12, 2010, following several negotiation sessions with the pilots union during the cooling off period that did not result in an agreement, our pilots declared a strike, and we were forced to suspend all flight operations. The parties reached a tentative agreement on June 16, 2010 under a Return to Work Agreement and a full flight schedule was resumed on June 18, 2010. On July 23, 2010, the pilots ratified a five-year collective bargaining agreement that became effective on August 1, 2010.

The results of operations for 2010 were materially adversely affected by the pilot strike. The pilot strike resulted in reduced bookings in the period leading up to the strike as our customers became aware of the impending end of the cooling off period, and lost revenues while flight operations were shut down and while we recovered from the strike. We also experienced additional expenses related to the strike, including costs to reaccommodate passengers, offset by reduced variable expenses, such as reduced fuel consumption and employee costs for flights not operated. We estimate that the strike had a net negative impact on our operating income for 2010 of approximately $24 million, consisting of an estimated $28 million in lost revenues and approximately $4 million of incremental costs resulting from the strike, offset in part by a reduction of variable expenses during the strike of approximately $8 million for flights not flown. The strike resulted in a reduction of approximately 145.8 million ASMs from our scheduled flying that was suspended during the five-day strike period. Additionally, under the terms of the pilot contract, we also paid $2.3 million in return-to-work payments during the second quarter of 2010, which are not included in the strike impact costs described above.

The agreement with our pilots will increase our pilot labor costs by approximately 11% in 2011 as compared to the estimated cost of the previous collective bargaining agreement and includes additional pay rate increases and modified work rules, which will increase the productivity of our pilots. We believe the five-year term is valuable in providing stability to our labor costs, and that the other terms will also provide us with competitive pilot labor costs compared to other U.S.-based low-cost carriers.

Our Operating Revenues

Our operating revenues are comprised of passenger revenues and non-ticket revenues.

Passenger Revenues. Passenger revenues consist of the base fares that customers pay for air travel.

Non-ticket Revenues. Non-ticket revenues are generated from air travel-related fees paid by the ticketed passenger for baggage, bookings through our website, call center or third-party vendors, advance seat selection, itinerary changes, and loyalty programs such as our FREE SPIRIT affinity credit card program and $9 Fare Club. Non-ticket revenues also include revenues derived from services not directly related to providing transportation such as the sale of advertising to third parties on our website and on board our aircraft.

Substantially all of our revenues are denominated in U.S. dollars. Passenger revenues are recognized once the related flight departs. Accordingly, the value of tickets sold in advance of travel is included under our current liabilities as air traffic liability, or ATL, until the related air travel is provided. Non-ticket revenues are generally recognized at the time the ancillary products are purchased or ancillary services are provided. Non-ticket revenues also include revenues from our subscription-based $9 Fare Club, which we recognize on a straight-line basis over 12 months, revenues generated from the acquisition and ongoing use of the FREE SPIRIT credit cards. Revenue is generated from the FREE SPIRIT credit card affinity program through the sale of FREE SPIRIT miles and credit card renewals, which we currently recognize on a straight-line basis over 20 months, as well as from milestone payments in connection with the achievement of specific usage and user volumes, which we recognize when received from the FREE SPIRIT credit card provider.

We recognize revenues net of certain taxes and airport passenger fees, which are collected by us on behalf of airports and governmental agencies and remitted to the applicable governmental entity or airport on a periodic basis. These taxes and fees include U.S. federal transportation taxes, federal security charges, airport passenger facility charges, and foreign arrival and departure taxes. These items are collected from customers at the time they purchase their tickets, but are not included in our revenues. We record a liability upon collection from the customer and relieve the liability when payments are remitted to the applicable governmental agency or airport.

Our Operating Expenses

Our operating expenses consist of the following line items.

Aircraft Fuel. Aircraft fuel expense is our single largest operating expense. It includes the cost of jet fuel, related federal taxes, fueling into-plane fees and transportation fees. It also includes realized and unrealized gains and losses arising from any fuel price hedging activity.

Salaries, Wages and Benefits. Salaries, wages and benefits expense includes the salaries, hourly wages, bonuses and equity compensation paid to employees for their services, as well as the related expenses associated with employee benefit plans and employer payroll taxes.

Aircraft Rent. Aircraft rent expense consists of monthly lease rents for aircraft and spare engines under the terms of the related operating leases and is recognized on a straight line basis. Aircraft rent expense also includes that portion of maintenance reserves, also referred to as supplemental rent, paid to aircraft lessors in advance of the performance of major maintenance activities that is not probable of being reimbursed to us by the lessor. Aircraft rent expense is net of the amortization of gains on sale and leaseback transactions on our flight equipment. Presently, all of our aircraft and spare engines are financed under operating leases.

Landing Fees and Other Rents. Landing fees and other rents include both fixed and variable facilities expenses, such as the fees charged by airports for the use or lease of airport facilities, overfly fees paid to other countries and the monthly rent paid for our headquarters facility.

Distribution. Distribution expense includes all of our direct costs to sell, including the cost of web support, our third-party call center, travel agent commissions and related GDS fees, and credit card discount fees, associated with the sale of our tickets and other products and services.

Maintenance, Materials and Repairs. Maintenance, materials and repairs expense includes all parts, materials, repairs and fees for repairs performed by third-party vendors directly required to maintain our fleet. It excludes direct labor cost related to our own mechanics, which is included under salaries, wages and benefits. It also excludes the amortization of heavy maintenance expenses, which we defer under the deferral method of accounting and amortize on a straight-line basis until the next estimated overhaul event.

Depreciation and Amortization. Depreciation and amortization expense includes the depreciation of all fixed assets we own and leasehold improvements. It also includes the amortization of heavy maintenance expenses we defer under the deferral method of accounting for heavy maintenance events and recognize into expense on a straight line basis until the next overhaul event.

Loss on disposal of assets. Loss on disposal of assets includes the net losses on the disposal of our fixed assets, including losses on sale and leaseback transactions.

Other Operating Expenses. Other operating expenses include airport operations expense and fees charged by third-party vendors for ground handling services and commissary expenses, the cost of passenger liability and aircraft hull insurance, all other insurance policies except for employee health insurance, travel and training expenses for crews and ground personnel, professional fees, personal property taxes and all other administrative and operational overhead expenses. No individual item included in this category represented more than 5% of our total operating expenses.

Restructuring and Termination Costs. From 2004 through 2007, we executed a complete aircraft fleet change, resulting in the accelerated termination and disposal of our MD-80 fleet, which we replaced with new Airbus A320-family aircraft. The fleet change resulted in restructuring charges consisting of the remaining lease term obligations related to the fleet and impairment charges related to writing down owned aircraft to their fair value during the four years ended in 2007.

Beginning in mid-2008, we began to execute a new restructuring plan to lower operating costs and reduce capacity in response to record high fuel prices and rapidly deteriorating economic conditions. Pursuant to this plan, we terminated seven of our A319 aircraft operating leases, thereby incurring charges related to the early return of those aircraft to the lessor. We also carried out a reduction in workforce, which resulted in one-time termination severance costs, and also incurred relocation costs in connection with the relocation of some of our personnel.

In 2010, in an effort to gain efficiencies, we relocated all of our maintenance operations in Detroit, Michigan, to Fort Lauderdale, Florida. The restructuring included the closure of facilities in Detroit, relocation of equipment and tools, and the relocation of a portion of the former Detroit workforce. We determined that the relocation of these facilities and the relocation and reduction of certain employees met the requirement of an exit activity, and, therefore, we recorded all of the related severance and exit costs in 2010. In the first nine months of 2011, we recorded additional restructuring charges that primarily relate to this relocation of our maintenance operations.

In the second quarter of 2011, we incurred termination costs in connection with the IPO comprised of amounts paid to Indigo Partners, LLC to terminate its professional services agreement with us and fees paid to three individual, unaffiliated holders of our subordinated notes.

Our Other Expense (Income)

Interest Expense. Paid-in-kind interest on notes due to related parties and preferred stock dividends due to related parties account, on average, for over 80% of interest expense incurred for the years 2008, 2009, 2010 and over 90% for the first nine months of 2011. Non-related party interest expense accounted for the remainder of interest expense in these periods. All of the notes and preferred stock were repaid or redeemed, or exchanged for common stock, in connection with the 2011 Recapitalization.

Capitalized Interest. Capitalized interest represents interest cost to finance purchase deposits for future aircraft and the opportunity cost on PDPs. These amounts are recorded as part of the cost of the aircraft upon delivery. Capitalization of interest ceases when the asset is ready for service.

Our Income Taxes

We account for income taxes using the liability method. We record a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred taxes are recorded based on differences between the financial statement basis and tax basis of assets and liabilities and available tax loss and credit carryforwards. In assessing the realizability of the deferred tax assets, our management considers whether it is more likely than not that some or all of the deferred tax assets will be realized. In evaluating the ability to utilize our deferred tax assets, we consider all available evidence, both positive and negative, in determining future taxable income on a jurisdiction by jurisdiction basis.

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Immediately prior to the IPO, we entered into the Tax Receivable Agreement and thereby distributed to the Pre-IPO Stockholders the right to receive such stockholders pro rata share of the future payments to be made by us under the Tax Receivable Agreement. Under the Tax Receivable Agreement, we are obligated to pay to the Pre-IPO Stockholders an amount equal to 90% of the cash savings in federal income tax realized by us by virtue of our future use of the federal net operating loss, deferred interest deductions and alternative minimum tax credits held by us as of March 31, 2011, which we refer to as the Pre-IPO NOL. Deferred interest deductions means interest deductions that have accrued as of March 31, 2011, but have been deferred under rules applicable to related party debt. Cash tax savings generally will be computed by comparing our actual federal income tax liability to the amount of such taxes that we would have been required to pay had such Pre-IPO NOLs not been available to us. As of the effective date of the Tax Receivable Agreement, we recognized a liability equal to the total payments estimated to be made under the Tax Receivable Agreement, which are accounted for as a reduction of additional paid-in capital. As of September 30, 2011, we estimate a cash benefit of $36.5 million, or 90% of the total cash benefit from the full use of the Pre-IPO NOLs, will be paid to the Pre-IPO Stockholders under the terms of the Tax Receivable Agreement. Subsequent changes in the estimated liability under the Tax Receivable Agreement will be recorded through earnings in operating expenses. The payments we make to the Pre-IPO Stockholders under the Tax Receivable Agreement are not expected to give rise to any incidental tax benefits to us, such as deductions or an adjustment to the basis of our assets. Please see Certain Relationships and Related Transactions Tax Receivable Agreement.

Trends and Uncertainties Affecting Our Business

We believe our operating and business performance is driven by various factors that affect airlines and their markets, trends affecting the broader travel industry, and trends affecting the specific markets and customer base that we target. The following key factors may affect our future performance.

Competition. The airline industry is highly competitive. The principal competitive factors in the airline industry are fare pricing, total price, flight schedules, aircraft type, passenger amenities, number of routes served from a city, customer service, safety record and reputation, code-sharing relationships, and frequent flier programs and redemption opportunities. Price competition occurs on a market-by-market basis through price discounts, changes in pricing structures, fare matching, target promotions and frequent flier initiatives. Airlines typically use discount fares and other promotions to stimulate traffic during normally slower travel periods to generate cash flow and to maximize unit revenue. The prevalence of discount fares can be particularly acute when a competitor has excess capacity that it is under financial pressure to sell.

Seasonality and Volatility. Our results of operations for any interim period are not necessarily indicative of those for the entire year because the air transportation business is subject to significant seasonal fluctuations. We generally expect demand to be greater in the second and third quarters compared to the rest of the year. The air transportation business is also volatile and highly affected by economic cycles and trends. Consumer confidence and discretionary spending, fear of terrorism or war, weakening economic conditions, fare initiatives, fluctuations in fuel prices, labor actions, weather and other factors have resulted in significant fluctuations in revenues and results of operations in the past. In particular, demand for air transportation services was materially adversely affected by the severe economic recession starting in 2008, and record high fuel prices in 2008 materially adversely affected operating results in the industry generally. We believe, however, demand for business travel historically has been more sensitive to economic pressures than demand for low-price leisure and VFR travel.

Aircraft Fuel. Fuel costs represent the single largest operating expense for most airlines, including ours. Fuel costs have been subject to wide price fluctuations in recent years. Fuel availability and pricing are also subject to refining capacity, periods of market surplus and shortage, and demand for heating oil, gasoline and other petroleum products, as well as meteorological, economic and political factors and events occurring throughout the world, which we can neither control nor accurately predict. 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 jet fuel tends to sell at slightly lower prices than fuel from other regional refining sources due to the size and depth of the market, and we believe this difference gives us an advantage on our largest single operating cost. At the same time, however, Gulf Coast fuel is subject to volatility and supply disruptions, particularly in hurricane season when refinery shutdowns have occurred in recent years, or when the threat of weather-related disruptions has caused Gulf Coast fuel prices to spike above other regional sources. From time to time, we use jet fuel option contracts or swap agreements to attempt to mitigate price volatility. Additionally, during hurricane season (August through October), we use basis swaps using NYMEX Heating Oil indexes to protect the refining price risk between the price of crude oil and the price of refined jet fuel. Historically, we have protected approximately 45% of our forecasted fuel requirements during hurricane season using basis swaps. Our fuel hedging practices are dependent upon many factors, including our assessment of market conditions for fuel, our access to the capital necessary to support margin requirements, the pricing of hedges and other derivative products in the market and applicable regulatory policies. As of September 30, 2011, we had in place fuel hedges using U.S. Gulf Coast jet fuel collars for approximately 38% and 18% of our estimated fuel consumption for the fourth quarter 2011 and first quarter 2012, respectively. As of September 30, 2011, we purchased all of our aircraft fuel under a single fuel service contract. The cost and future availability of jet fuel cannot be predicted with any degree of certainty.

Labor. The airline industry is heavily unionized. The wages, benefits and work rules of unionized airline industry employees are determined by collective bargaining agreements, or CBAs. Relations between air carriers and labor unions in the United States are governed by the RLA. Under the RLA, CBAs generally contain amendable dates rather than expiration dates, and the RLA requires that a carrier maintain the existing terms and conditions of employment following the amendable date through a multi-stage and usually lengthy series of bargaining processes overseen by the NMB. This process continues until either the parties have reached agreement on a new CBA, or the parties have been released to self-help by the NMB. In most circumstances, the RLA prohibits strikes; however, after release by the NMB, carriers and unions are free to engage in self-help measures such as strikes and lockouts.

We have three union-represented employee groups comprising approximately 51% of our employees at September 30, 2011. Our pilots are represented by the Airline Pilots Association, International, or ALPA, our flight attendants are represented by Association of Flight Attendants, or AFA-CWA, and our flight dispatchers are represented by Transport Workers Union of America, or TWU. Conflicts between airlines and their unions can lead to work slowdowns or stoppages. In June 2010, we experienced a five-day strike by our pilots, which caused us to shut down our flight operations. The strike ended as a result of our reaching a tentative agreement under a Return to Work Agreement and a full flight schedule was resumed on June 18, 2010. On August 1, 2010, we entered into a five-year collective bargaining agreement. In addition, our CBA with our flight attendants is amendable under the RLA, and we are currently engaged in negotiations with the AFA-CWA. The outcome of our collective bargaining negotiations cannot presently be determined and the terms and conditions of our future CBAs may be affected by the results of collective bargaining negotiations at other airlines that may have a greater ability to bear higher costs under their business models. If we are unable to reach agreement with any of our unionized work groups in current or future negotiations regarding the terms of their CBAs, we may be subject to work interruptions or stoppages, such as the strike by our pilots in June 2010. A strike or other significant labor dispute with our unionized employees is likely to adversely affect our ability to conduct business.

Maintenance Expense. Due to the young age of our fleet (approximately 4.5 years on average at September 30, 2011), maintenance expense in 2009, 2010 and in the first nine months of 2011 remained relatively low. As the fleet ages, we expect that maintenance costs will increase in absolute terms. The amount of total maintenance costs and related amortization of heavy maintenance expense is subject to many variables such as future utilization rates, average stage length, the size and makeup of the fleet in future periods and the level of unscheduled maintenance events and their actual costs. Accordingly, we cannot reliably quantify future maintenance expenses for any significant period of time. However, we believe, based on our scheduled maintenance events, maintenance expense and maintenance-related amortization expense in 2011 will be approximately $40 million.

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As a result of a significant portion of our fleet being acquired over a relatively short period of time, significant maintenance scheduled on each of our planes will occur at roughly the same time, meaning we will incur our most expensive scheduled maintenance obligations across our current fleet around the same time. These more significant maintenance activities will result in out-of-service periods during which our aircraft will be dedicated to maintenance activities and unavailable to fly revenue service.

Maintenance Reserve Obligations. The terms of our aircraft lease agreements require us to pay supplemental rent, also known as maintenance reserves, to the lessor in advance of and as collateral for the performance of major maintenance events, resulting in our recording significant prepaid deposits on our balance sheet. As a result, the cash costs of scheduled major maintenance events are paid well in advance of the recognition of the maintenance event in our results of operations. Please see Critical Accounting Policies and Estimates Aircraft Maintenance, Materials, Repair Costs and Related Heavy Maintenance Amortization and Maintenance Reserves.

Critical Accounting Policies and Estimates

The following discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. Note 1 to our financial statements provides a detailed discussion of our significant accounting policies.

Critical accounting policies are defined as those policies that reflect significant judgments or estimates about matters that are both inherently uncertain and material to our financial condition or results of operations.

Revenue Recognition. Revenues from tickets sold are initially deferred as ATL. Passenger revenues are recognized when transportation is provided. A non-refundable ticket expires at the date of scheduled travel and is recognized as revenue for the expired ticket value at the date of scheduled travel.

Our most significant non-ticket revenues include revenues generated from air travel-related fees paid by the ticketed passenger for baggage, bookings through our call center or third-party vendors, advance seat selection, itinerary changes and loyalty programs, and are recognized at the time products are purchased or ancillary services are provided. These revenues also include commissions from the sales of hotel rooms, trip insurance and rental cars recognized at the time the service is rendered.

Customers may elect to pay a change fee to exchange a ticket in advance of the date of scheduled travel for a credit for future travel. Unused credits expire one year from the date of purchase of the original ticket, and a percentage of these issued credits expire unused. The amount of credits expected to go unused is estimated based on historical experience. Estimating the amount of credits that will go unused involves some level of subjectivity and judgment.

Non-ticket revenues include revenues from our subscription-based $9 Fare Club, recognized on a straight-line basis over 12 months. Revenues generated from the sale of FREE SPIRIT miles and credit card renewals are currently recognized on a straight-line basis over 20 months based on expected customer usage of miles. We make assumptions on the future use of customer miles based on historical customer behavior. To the extent that customer behavior changes as a result of, among other factors, economic conditions, perception of travel, and the number of miles to earn awards, a corresponding adjustment would be made to the period in which we recognize revenue generated from the FREE SPIRIT miles and credit card renewals, resulting in either a smaller or larger liability. Also included in non-ticket revenues are milestone payments in connection with the achievement of specific usage and user volumes, which we recognize when received from the FREE SPIRIT credit card provider.

Frequent Flier Program. We accrue for mileage credits earned, including mileage credits for members with an insufficient number of mileage credits to earn an award, under our FREE SPIRIT program based on the estimated incremental cost of providing free travel for credits that are expected to be redeemed. Incremental costs include fuel, insurance, security, ticketing and facility charges reduced by an estimate of fees required to be paid by the passenger when redeeming the award.

We also sell mileage credits to companies participating in the FREE SPIRIT program (or affinity card program). Under our original affinity card program, funds received from the sale of mileage credits were accounted for as a multiple-element arrangement and allocated to a marketing component and a transportation component (mileage credits) using the residual method. The fair value of the transportation component is deferred and recognized ratably as passenger revenue over the estimated period the transportation is expected to be provided (historically estimated at 15 to 19 months and currently estimated at 20 months). The difference between the funds received and the fair value of the transportation component is recognized in non-ticket revenue at the time of sale as non-ticket marketing revenue. The marketing component represents our compensation for, among many items, use of our trademark, customer lists and placement of marketing materials to encourage application for credit cards. Because there are no undelivered elements other than the mileage credits, we record the revenue from the marketing component when funds are received. We also receive bonuses from companies participating in the FREE SPIRIT program that are driven by the volume of the usage of our co-branded credit cards. We recognize these bonuses as non-ticket revenue when payment is received (milestone method) as the milestones are substantive.

We entered into a new affinity card program that became effective April 1, 2011. The agreement calls for the marketing of a co-branded Spirit credit card and the delivery of award miles over a five-year period. At the inception of the arrangement, we evaluated all deliverables in the arrangement to determine whether they represent separate units of accounting using the criteria as set forth in ASU No. 2009-13. We determined the arrangement had three separate units of accounting: (i) travel miles to be awarded, (ii) licensing of brand and access to member lists, and (iii) advertising and marketing efforts. Under ASU No. 2009-13, arrangement consideration should be allocated based on relative selling price. At inception of the arrangement, we established the relative selling price for all deliverables that qualified for separation. The manner in which the selling price was established is based on a hierarchy of evidence that we considered. Total arrangement consideration was then allocated to each deliverable on the basis of the deliverable s relative selling price. In considering the hierarchy of evidence under ASU No. 2009-13, we first determined whether vendor-specific objective evidence of selling price or third-party evidence of selling price existed. We determined that neither vendor-specific objective evidence of selling price nor third-party evidence existed due to the uniqueness of our program. As such, we developed our best estimate of the selling price for all deliverables. For the award miles, we considered a number of entity-specific factors when developing the best estimate of the selling price including the number of miles needed to redeem an award, average fare of comparable segments, breakage, restrictions, and fees. For licensing of brand and access to member lists, we considered both market-specific factors and entity-specific factors, including general profit margins realized in the marketplace/industry, brand power, market royalty rates, and size of customer base. For the advertising element, we considered market-specific factors and entity-specific factors including, our internal costs (and fluctuations of costs) of providing services, volume of marketing efforts, and overall advertising plan. Consideration allocated based on the relative selling price to both brand licensing and advertising elements will be recognized as revenue when earned and recorded in non-ticket revenue. Consideration allocated to award miles will be deferred and recognized ratably as passenger revenue over the estimated period the transportation is expected to be provided (historically estimated at 15 to 19 months and currently estimated at 20 months). We used entity-specific assumptions coupled with the various judgments necessary to determine the selling price of a deliverable in accordance with the required selling price hierarchy. Changes in these assumptions (e.g., cost of fare, number of miles to redeem awards, marketing plan, and approval rate of credit cards) could result in changes in the estimated selling prices. Determining the frequency to reassess selling price for individual deliverables requires significant judgment. During the nine months ended September 30, 2011, we noted no changes to either entity-specific assumptions or market-specific assumptions that would warrant a reassessment of selling prices from those determined at inception. For additional information, please see Notes to Financial Statements 1. Summary of Significant Accounting Policies Frequent Flier Program on page F-10.

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Aircraft Maintenance, Materials, Repair Costs and Related Heavy Maintenance Amortization. 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 until the next such heavy maintenance event. Amortization of engine overhaul costs was $0.0 million, $1.0 million and $1.3 million for the years ended December 31, 2008, 2009 and 2010, respectively, and $1.2 million and $1.6 million for the nine months ended September 30, 2010 and 2011, respectively. If engine overhaul costs were amortized within maintenance, material and repairs expense in the statement of operations, our maintenance, material and repairs expense would have been $28.5 million and $29.5 million for the years ended December 31, 2009 and 2010, respectively, and $21.9 million and $28.6 million for the nine months ended September 30, 2010 and 2011, respectively. During the years ended December 31, 2008, 2009 and 2010, we capitalized $0.0 million, $5.3 million and $5.2 million of costs for heavy maintenance, respectively. During the nine months ended September 30, 2011, we capitalized $20.2 million of costs for heavy maintenance. The next heavy maintenance event is estimated based on assumptions including estimated usage, FAA-mandated maintenance intervals and average removal times as suggested by the manufacturer. These assumptions may change based on changes in our utilization of our aircraft, changes in government regulations and suggested manufacturer maintenance intervals. In addition, these assumptions can be affected by unplanned incidents that could damage an airframe or engine to a level that would require a heavy maintenance event prior to a scheduled maintenance event. To the extent our planned usage increases, the estimated life would decrease before the next maintenance event, resulting in additional expense over a shorter period. Heavy maintenance events are our HMV4 and HMV8 airframe checks and our engine overhauls. Certain maintenance functions are outsourced under contracts that require payment based on a performance measure such as flight hours. Costs incurred for maintenance and repair under flight hour maintenance contracts, where labor and materials price risks have been transferred to the service provider, are accrued based on contractual payment terms. Routine cost for maintaining the airframes and engines and line maintenance are charged to maintenance, materials and repairs expense as performed.

Maintenance Reserves. Our master lease agreements provide that we pay maintenance reserves to aircraft lessors to be held as collateral in advance of our performance of major maintenance activities. These lease agreements provide that maintenance reserves are reimbursable to us upon completion of the maintenance event in an amount equal to the lesser of (1) the amount of the maintenance reserve held by the lessor associated with the specific maintenance event or (2) the qualifying costs related to the specific maintenance event. Substantially all of these maintenance reserve payments are calculated based on a utilization measure, such as flight hours or cycles, and are used solely to collateralize the lessor for maintenance time run off the aircraft until the completion of the maintenance of the aircraft. We paid $26.9 million, $35.7 million and $27.4 million in maintenance reserves, net of reimbursement, to our lessors for the years ended December 31, 2009 and 2010, and the nine months ended September 30, 2011, respectively.

At lease inception and at each balance sheet date, we assess whether the maintenance reserve payments required by the master lease agreements are substantively and contractually related to the maintenance of the leased asset. Maintenance reserve payments that are substantively and contractually related to the maintenance of the leased asset are accounted for as maintenance deposits. Maintenance deposits expected to be recovered from lessors are reflected as prepaid maintenance deposits in the accompanying balance sheets. When it is not probable we will recover amounts currently on deposit with a lessor, such amounts are expensed as supplemental rent. We expensed $0.2 million, $0.2 million, $0.0 million, and $0.9 million as supplemental rent during 2008, 2009, 2010 and the nine months ended September 30, 2011, respectively.

As of December 31, 2009 and 2010 and September 30, 2011, we had prepaid maintenance deposits of $96.3 million, $132.0 million and $159.4 million, respectively, on our balance sheets. We have concluded that these prepaid maintenance deposits are probable of recovery primarily due to the rate differential between the maintenance reserve payments and the expected cost for the related next maintenance event that the reserves serve to collateralize.

Our master lease agreements also provide that most maintenance reserves held by the lessor at the expiration of the lease are nonrefundable to us and will be retained by the lessor. Consequently, any usage-based maintenance reserve payments after the last major maintenance event are not substantively related to the maintenance of the leased asset and therefore are accounted for as contingent rent. We accrue contingent rent beginning when it becomes probable and reasonably estimable we will incur such nonrefundable maintenance reserve payments. We make certain assumptions at the inception of the lease and at each balance sheet date to determine the recoverability of maintenance deposits. These assumptions are based on various factors such as the estimated time between the maintenance events, the date the aircraft is due to be returned to the lessor and the number of flight hours the aircraft is estimated to be utilized before it is returned to the lessor. Maintenance reserves held by lessors that are refundable to us at the expiration of the lease are accounted for as prepaid maintenance deposits on the balance sheet when they are paid.

Sale and Leaseback. For aircraft acquired through a sale and leaseback transaction that is determined to be an operating lease, any profit or loss on the sale is deferred and amortized over the term of the lease, unless the fair value of the aircraft at the time of the transaction is less than its acquisition cost, in which case a loss is recognized immediately up to the amount of the difference between acquisition cost and fair value.

Fuel Derivatives. We account for derivative financial instruments at fair value and recognize them in the balance sheet as an asset or other current liability. Accordingly, changes in the fair value of such derivative contracts are recorded as a component of aircraft fuel expense. Theses amounts include both realized gains and losses and mark-to-market adjustments of the fair value of the derivative instruments at the end of each period.

Share-Based Compensation. In the years ended December 31, 2008, 2009 and 2010, we issued 310,000, 503,897 and 65,353 shares of restricted stock, respectively. There were no restricted stock awards granted in the nine months ended September 30, 2011. As of September 30, 2011, 309,499 unvested shares remained outstanding. We granted stock option awards for a total of 101,000 shares under our 2011 Equity Incentive Award Plan during the nine months ended September 30, 2011.

Our share-based compensation program is intended to grant awards priced at the fair market value of our common stock at the date of grant. Prior to the IPO, the fair value of our common stock had been estimated based on the market comparables method that uses our estimates of revenue, driven by assumed market growth rates, and estimated costs as well as appropriate discount rates. These estimates are consistent with the plans and estimates that we use to manage our business. Compensation expense is recognized ratably over the period during which an employee is required to provide service in exchange for an award. Granted awards vest 25% per year on each anniversary of issuance. The weighted-average fair value of awards granted during 2008, 2009 and 2010 was $0.04 per share, $1.10 per share and $6.39 per share, respectively. As of September 30, 2011, there was $1.5 million of total unrecognized compensation cost related to non-vested restricted stock and options granted under the plan expected to be recognized over a weighted-average period of 2.8 years.

Income Taxes. We account for income taxes using the liability method. We record a valuation allowance against deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred taxes are recorded based on differences between the financial statement basis and tax basis of assets and liabilities and available tax loss and credit carryforwards. In assessing the realizability of the deferred tax assets, our management considers whether it is more likely than not that some or all of the deferred tax assets will be realized. In evaluating our ability to utilize our deferred tax assets, we consider all available evidence, both positive and negative, in determining future taxable income on a jurisdiction by jurisdiction basis.

RESULTS OF OPERATIONS

Since adopting our ULCC business model in 2006, redeploying aircraft to our target growth markets in the Caribbean and Latin America and initiating an unbundling strategy, we have lowered our unit operating costs. In 2007, we had net income of $1.4 million based on operating income of $32.0 million and operating revenues of $762.9 million. Adjusted CASM ex fuel showed a marked improvement as our ULCC initiatives matured and began to take hold, resulting in a 17.7% reduction from 2006 to 2007. Our operating performance continued to improve in 2008 and 2009, and we had profitable years notwithstanding unfavorable industry conditions.

In 2008, we had net income of $33.3 million and operating income of $18.3 million on operating revenues of $787.3 million. The 2008 statement of operations includes $37.8 million of recognized gains from the settlement of fuel derivative contracts that were monetized prior to their stated maturity, of which $14.2 million related to 2009 fuel hedge positions. Also in 2008, we recognized restructuring charges of $17.9 million, primarily related to our early termination of seven of our A319 aircraft operating leases in order to reduce capacity in response to record high fuel prices and rapidly deteriorating economic conditions. During 2008, we also recognized debt extinguishment gains of $53.7 million related to contractual provisions of our recapitalization in mid-2006.

In 2009, we recorded net income of $83.7 million and operating income of $111.4 million on $700.0 million of operating revenues. Our 2009 earnings were driven by increased market maturity on our newer routes, relative stability in RASM, decreased Adjusted CASM ex fuel, and lower fuel prices. During 2009, we also recognized debt extinguishment gains of $19.7 million related to contractual provisions of our recapitalization in mid-2006.

Net income for 2010 of $72.5 million includes a $52.3 million net tax benefit primarily due to the release of a valuation allowance resulting in a deferred tax benefit of $52.8 million in 2010. Absent the release of the valuation allowance and corresponding tax benefit, our net income would have been $19.7 million for 2010. 2010 was our fourth consecutive year of profitability. In 2010, we recorded operating income of $68.9 million on $781.3 million of operating revenues. The results of operations for 2010 were adversely affected by an increase in fuel prices and the effects of our June 2010 pilot strike. Fuel cost increased by $67.1 million from 2009 to 2010, caused principally by a 27% increase in the price per gallon and an 8.3% increase in fuel volume during 2010 as compared to the 2009. We believe the pilot strike had a negative impact during 2010 of approximately $24 million consisting of lost revenues and incremental costs, offset in part by reduced variable expenses.

In the nine months ended September 30, 2011, we recorded operating income of $106.4 million and net income of $52.5 million on $797.3 million of operating revenues, compared to operating income of $46.9 million and net income of $63.0 million on operating revenues of $565.1 million during the nine months ended September 30, 2010. The results of operations for the nine months ended September 30, 2011 were adversely affected by increased fuel prices and the change in provision for income taxes. Fuel costs increased by $115.1 million for the first nine months of 2011 as compared to the same period in 2010, primarily driven by a 37.8% increase in the price per gallon and a 16.8% increase in consumption. The provision for income taxes was $32.1 million in the nine months ended September 30, 2011, compared to a benefit of $53.0 million during the nine months ended September 30, 2010, due to the release of the valuation allowance in the third quarter of 2010.

We operate on a calendar year basis.

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Operating Revenue

	Year Ended 2008	% change 2009 versus 2008	Year Ended 2009	% change 2010 versus 2009	Year Ended 2010	Nine Months Ended September 30, 2010	% change first nine months of 2010 versus first nine months of 2011	Nine Months Ended September 30, 2011
Passenger	$ 657,448	(18.4)%	$ 536,181	0.3%	$ 537,969	$ 401,513	29.6%	$ 520,380
Non-ticket	129,809	26.2	163,856	48.5	243,296	163,552	69.3	276,887
Total operating revenue	$ 787,257	(11.1)%	$ 700,037	11.6%	$ 781,265	$ 565,065	41.1%	$ 797,267
RASM (cents)	9.53¢	(1.8)%	9.35¢	2.9%	9.62¢	9.55¢	18.4%	11.31¢
Average ticket revenue per passenger flight segment	$ 94.24	(10.0)	$ 84.77	(8.7)	$ 77.39	$ 79.56	3.0	$ 81.98
Average non-ticket revenue per passenger flight segment	18.61	39.2	25.91	35.1	35.00	32.41	34.6	43.62
Total revenue per passenger flight segment	$ 112.85	(1.9)%	$ 110.68	1.5%	$ 112.39	$ 111.97	12.2%	$ 125.60

The growth achieved in non-ticket revenues since 2008 is due to the effect of unbundling our fares and the introduction of various new revenue streams unrelated to ticket sales, including:

- in 2008, we introduced advance seat selection fees, onboard advertising and online advertising;
- in 2009, we introduced our passenger usage fee to cover sales distribution transactions costs and we also introduced our Jump The Line priority boarding fee and began to sell airport parking in advance of travel;
- in January 2010, we introduced booking fees for reservations made through our call center and third-party vendors and a separate fee to upgrade to our Big Front Seat;
- in August 2010, we introduced a fee for carry-on bags that do not fit under an aircraft seat;
- in February 2011, we reduced the weight threshold for overweight bags; and
- in March 2011, we increased the change fee for modifying or cancelling a reservation.

Nine months ended September 30, 2011 compared to nine months ended September 30, 2010

For the nine months ended September 30, 2011, we had net income of $52.5 million and operating income of $106.4 million on $797.3 of operating revenues, compared to $63.0 million of net income and operating income of $46.9 million on $565.1 million of operating revenues during the nine months ended September 30, 2010. Our earnings during the nine months ended September 30, 2011 were negatively impacted by a 42.2% increase in fuel prices as compared to the corresponding period in 2010.

Our capacity in terms of ASMs increased 19.1% during the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010, primarily driven by the addition of Airbus 320 aircraft, three of which were delivered subsequent to the third quarter of 2010. Our traffic as measured in terms of RPMs increased by 25.6% during the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010. Our aircraft operated an average of 12.9 hours daily with 85.7% of the seats full during the nine months ended September 30, 2011 compared to an average of 12.7 hours daily with 81.2% of the seats full during the corresponding period in 2010.

Within operating revenues, passenger ticket revenue increased by 29.6% to $520.4 million in the nine months ended September 30, 2011 compared to $401.5 million in the corresponding 2010 period. This increase was driven primarily by a 25.8% increase in passenger segments in the nine months ended September 30, 2011 as compared to the corresponding period in 2010.

Non-ticket revenues grew by $113.3 million in the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010, a 69.3% increase on a 25.8% increase in passenger flight segments. During February 2011, we reduced the weight threshold for overweight baggage from 50 pounds to 40 pounds, and in March 2011 we increased the change fee charged to customers for modifying or canceling their reservations. In August 2010, we instituted a carry-on bag fee. As a result of a more mature unbundling strategy and new ancillary services, our non-ticket revenue per passenger flight segment increased 34.6% to $43.62 for the nine months ended September 30, 2011 from $32.41 during the nine months ended September 30, 2010.

2010 compared to 2009

For 2010, we had net income of $72.5 million inclusive of a $52.3 million net tax benefit due primarily to the release of $52.8 million of the valuation allowance on our net deferred tax assets, and operating income of $68.9 million on $781.3 million of operating revenues, compared to $83.7 million of net income and operating income of $111.4 million on $700.0 million of operating revenues during 2009. Our operating income during 2010 was adversely affected by a 27% increase in average fuel prices in 2010 from 2009 and our June 2010 pilot strike.

In the third quarter of 2010, we determined that, under generally accepted accounting principles, $52.8 million of our tax valuation allowance on specific deferred tax assets was no longer required. As a result of releasing a portion of the valuation allowance, we recorded a corresponding net tax benefit of $52.3 million for 2010.

The June 2010 pilot strike resulted in reduced bookings in the period leading up to the strike as our customers became aware of the impending end of the cooling off period, and lost revenues while flight operations were shut down and later cut back subsequent to the resumption of flight operations. We also experienced additional expenses related to the strike, including costs to reaccommodate passengers, offset in part by reduction in other expenses, such as aircraft fuel and salaries, wages and benefits. We estimate that the strike had a net negative impact on our operating income for 2010 of approximately $24 million, consisting of an estimated $28 million in lost revenues and approximately $4 million of incremental costs resulting from the June 2010 pilot strike, offset in part by a reduction of variable expenses during the June 2010 pilot strike of approximately $8 million for flights not flown. The strike resulted in a reduction of approximately 145.8 million ASMs from our scheduled flying that was suspended during the five-day strike period. Additionally, under the terms of the pilot contract, we paid $2.3 million in return-to-work payments during the second quarter of 2010, which are not included in the strike impact costs described above.

Our capacity in terms of ASMs increased 8.5% in 2010 compared to 2009, principally due to the introduction of our first four Airbus A320 aircraft configured to seat 178 passengers. We believe these new aircraft will be more cost efficient on a per available seat mile basis than our A319 aircraft, which seat 145 passengers. Our traffic as measured in terms of RPMs increased by 10.4%. Our load factor was 82.1% during 2010 compared to 80.7% during 2009, contributing to the 11.6% increase in total operating revenues. RASM was 9.62 cents in 2010 compared to 9.35 cents in 2009. We estimate that our 2010 RASM adjusted for the impact of the June 2010 pilot strike was 9.79 cents.

Passenger ticket revenue increased by 0.3% during 2010 compared to 2009, from $536.2 million to $538.0 million. This increase was adversely affected by the shutdown of operations due to the June 2010 pilot strike, and from the shift of a portion of passenger revenues to non-ticket revenues as a result of our continued unbundling strategy, offset in part by a 9.9% increase in passenger segments in 2010.

Non-ticket revenues grew by $79.4 million during 2010, or 48.5%, as a result of a 9.9% increase in passenger flight segments. In addition, we benefited from a more mature unbundling product strategy and new ancillary services started during 2010. Our average non-ticket revenue per passenger flight segment increased 35.1% to $35.00 in 2010 from $25.91 during 2009. Also during 2010, we no longer sold our Big Front Seat® as a separate fare but instead charged a premium seat upgrade fee, which shifted revenue from passenger revenue to non-ticket revenues. In August 2010, we introduced a fee for carry-on bags, resulting in a significant reduction in the number of carry-on bags checked at the gate. In the fourth quarter of 2010, the first full quarter of the carry-on bag fee, we experienced an increase in total bag revenue per passenger segment to $16.82, compared to $9.59 in the fourth quarter of 2009. We also believe these changes are helping us reduce the time it takes to board and unload our aircraft and thereby permit us to turn our aircraft more quickly when compared to turn-around times during the comparable prior year periods when no carry-on bag fee was in place. We believe this will provide us with the opportunity for improved aircraft utilization.

In 2010, we determined not to renew our agreement with the administrator of our FREE SPIRIT affinity credit card program at the scheduled expiration in February 2011. In connection with that non-renewal, we entered into an agreement with the former administrator regarding the transition of the program to a new provider and the remittance to us of compensation due to us for card members obtained through our marketing services in the amount of $5.0 million, of which $4.6 million was recognized in the fourth quarter of 2010 and $0.4 million was recognized in the first quarter of 2011. We entered into a new five-year affinity card program for the issuance of our FREE SPIRIT credit cards with a new administrator, which became effective April 1, 2011.

2009 compared to 2008

In mid-2008, we returned seven aircraft to lessors in response to record high fuel prices and rapidly deteriorating economic conditions, reducing our operating fleet by 20%. Thus, in 2009, we operated with fewer aircraft, resulting in a 9.4% decrease in capacity from 2008 to 2009. We believe these capacity reductions strengthened our ability to endure the continued economic challenges of 2009. Our traffic decreased by 8.5%, a smaller decrease than indicated by our reduction in capacity, resulting in slightly higher load factor for the year. Our aircraft operated on average with 80.7% of the seats full in 2009 compared to 79.9% during 2008.

Our total operating revenues decreased by 11.1% in 2009 compared to 2008. However, our unit revenue decreased only 1.8% from 9.53 cents to 9.35 cents, which was significantly less than the unit revenue declines suffered by the industry overall. Passenger revenues decreased 18.4% partially due to the capacity reductions we implemented during 2008, but also due to the shift of revenues from base ticket fares to non-ticket revenues, which had the effect of driving our base fares lower.

Non-ticket revenues grew by $34.0 million in 2009, or 26.2%, as we benefited from a more mature unbundling product strategy and new ancillary services started during 2008 and 2009 as well as increased pricing of certain non-ticket products and services.

Operating Expenses

Since adopting our ultra low-cost model, we have continuously sought to reduce our unit operating costs and have created what we believe is one of the lowest cost structures in our industry in the Americas. The table below presents our operating expenses, as a percentage of operating revenue for the last three years, as well as unit operating costs (CASM).

	Year Ended December 31,						Nine Months Ended September 30,			
	2008		2009		2010		2010		2011	
	% of Revenue	CASM	% of Revenue	CASM	% of Revenue	CASM	% of Revenue	CASM	% of Revenue	CASM
Operating revenue	100.0%		100.0%		100.0%		100.0%		100.0%	
Operating expenses:										
Aircraft fuel (1)	38.0%	3.62¢	25.9%	2.42¢	31.8%	3.06¢	31.5%	3.01¢	36.8%	4.16¢
Salaries, wages, and benefits	18.7	1.78	19.3	1.81	20.0	1.93	20.3	1.94	16.7	1.89
Aircraft rent	13.4	1.28	12.9	1.20	13.0	1.25	12.9	1.23	10.8	1.22
Landing fees and other rentals	5.5	0.52	6.0	0.56	6.2	0.59	6.3	0.60	4.8	0.55
Distribution	4.8	0.46	4.9	0.46	5.3	0.51	5.4	0.51	4.9	0.56
Maintenance, materials and repairs	3.1	0.29	3.9	0.37	3.6	0.35	3.7	0.35	3.4	0.38
Depreciation and amortization	0.5	0.05	0.7	0.07	0.7	0.07	0.8	0.07	0.7	0.08
Other operating expenses	10.9	1.04	10.4	0.97	10.6	1.02	10.8	1.03	8.2	0.93
Loss on disposal of assets	0.5	0.05	0.1	0.01	0.0	0.00	0.0	0.00	0.0	0.00
Restructuring and termination costs (2)	2.3	0.22	(0.1)	(0.01)	0.1	0.01	0.0	0.00	0.3	0.03
Total operating expense	97.7%		84.1%		91.2%		91.7%		86.7%	
CASM		9.31¢		7.86¢		8.77¢		8.75¢		9.80¢
MTM gains (losses) per ASM		(0.12)		0.02		0.03		0.02		(0.06)
Restructuring per ASM		0.22		(0.01)		0.01		0.00		0.03
Adjusted CASM (excludes Restructuring and MTM gains (losses)		8.97		7.89		8.79		8.77		9.71

Adjusted CASM excluding fuel	5.47	5.45	5.71	5.74	5.61

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(1) Aircraft fuel expense is the sum of (i) into-plane fuel cost, which includes the cost of jet fuel and certain other charges such as fuel taxes and oil, (ii) settlement gains and losses, and (iii) unrealized mark-to-market gains and losses associated with fuel hedge contracts. The following table summarizes the components of aircraft fuel expense for the periods presented:

	Year Ended December 31,					Nine Months Ended September 30,	
	2006	2007	2008 (*)	2009	2010	2010	2011
			(in thousands)				
Into-plane fuel cost	$ 175,975	$ 265,226	$ 359,097	$ 181,806	$ 251,754	$ 179,212	$ 296,279
Settlement (gains) losses	(339)	(3,714)	(69,876)	750	(1,483)	(125)	(7,466)
Unrealized mark-to-market (gains) losses	1,056	(10,282)	9,873	(1,449)	(2,065)	(928)	4,406
Aircraft Fuel	$ 176,692	$ 251,230	$ 299,094	$ 181,107	$ 248,206	$ 178,159	$ 293,219

(*) In July 2008, we monetized all of our fuel hedge contracts, which included hedges that had scheduled settlement dates during the remainder of 2008 and in 2009. We recognized a gain of $37.8 million representing cash received upon monetization of these contracts, of which a gain of $14.2 million related to 2009 fuel hedge positions on these contracts.

(2) Includes restructuring and termination costs of $0.1 million (less than 0.01 cents per ASM) in 2007 and $17.9 million (0.22 cents per ASM) in 2008; and credits of $0.4 million (less than 0.01 cents per ASM) in 2009 and $0.6 million (less than 0.01 cents per ASM) in 2010. Restructuring charges for 2007 include amounts relating to the accelerated retirement of our MD-80 fleet. Restructuring charges for 2008 and 2009 include amounts relating to the early termination in mid-2008 of leases for seven Airbus A319 aircraft, a related reduction in workforce and exit facility costs associated with returning planes in 2008. Restructuring charges for 2009 and 2010 include exit facility costs associated with amounts relating to the sale of previously-expensed MD-80 parts and exit facility costs associated with moving our Detroit, Michigan maintenance activities to Fort Lauderdale, Florida, and termination costs in connection with the IPO during the three months ended June 30, 2011 comprised of amounts paid to Indigo Partners, LLC to terminate its professional services agreement with us and fees paid to three individual, unaffiliated holders of our subordinated notes. Please see Our Operating Expenses Restructuring and Termination Costs.

Nine months ended September 30, 2011 compared to nine months ended September 30, 2010

Our operating expenses increased by approximately 33.3% for the nine months ended September 30, 2011 compared to the corresponding period in 2010. The increase compared to the corresponding period in 2010 was primarily driven by a 37.8% increase in the average price of aircraft fuel per gallon and a 16.8% increase in gallons consumed, increased labor costs primarily due to increased headcount and an increase in pilot labor costs as a result of the collective bargaining agreement ratified in July 2010, and increased aircraft rent due to additional Airbus A320 aircraft, three of which were delivered subsequent to the third quarter of 2010.

Aircraft fuel expenses includes both into-plane expense (as defined below) plus the effect of mark-to-market adjustments to our portfolio of derivative instruments, which is a component of aircraft fuel expenses. Into-plane fuel expense is defined as the price that we generally pay at the airport, or the into-plane price, including taxes and fees. Into-plane fuel prices are affected by world oil prices and refining costs, which can vary by region in the United States and the other countries where we operate. Fuel prices increased significantly during the course of the first three quarters of 2011. Into-plane fuel expense approximates cash paid to the supplier and does not reflect the effect of our fuel derivatives. Because our fuel derivative contracts do not qualify for hedge accounting, we recognize changes in the fair value of our derivatives when they occur, as a component of aircraft fuel expense, both realized and unrealized. Aircraft fuel expense increased from $178.2 million in the nine months ended September 30, 2010 to $293.2 million in the nine months ended September 30, 2011, representing 42.4% of our total operating expenses for that 2011 period.

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

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Percentage Change
	(in thousands, except per-gallon amounts)		
Fuel gallons consumed	77,956	91,076	16.8%
Into-plane fuel cost per gallon	$ 2.30	$ 3.25	41.3
Total into-plane fuel expense	$ 179,212	$ 296,279	65.3
Impact on fuel expense from (gains) and losses arising from fuel-derivative activities	(1,053)	(3,060)	N/A
Aircraft fuel expense	$ 178,159	$ 293,219	64.6%

During the nine months ended September 30, 2011, we recognized $3.1 million of net fuel derivative gains consisting of settlement gains of $7.5 million and mark-to-market losses (unrealized) of $4.4 million. During the nine months ended September 30, 2010, we recognized $1.0 million of net fuel derivative gains consisting of realized gains of $0.1 million and mark-to-market gains (unrealized) of $0.9 million.

We evaluate *economic fuel expense*, which we define as into-plane fuel expense less the cash we received from hedge counterparties for hedges that we settle during the relevant period, including hedges that we terminate early during the period. The key difference between *aircraft fuel expense* and *economic fuel expense* is the timing of gain or loss recognition on our hedge portfolio. When we refer to economic fuel expense, we include net settlement gains or losses only when they are realized through a cash payment from our derivative contract counterparties for those contracts that were settled during the period. We believe this is the best measure of the effect that fuel prices are currently having on our business because it most closely approximates the net cash outflow associated with purchasing fuel for our operations. Accordingly, many industry analysts evaluate airline results using this measure and it is used in our internal management reporting.

The difference between aircraft fuel expense and economic fuel expense is shown below:

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Percentage Change
	(in thousands, except per-gallon amounts)		
Into-plane fuel expense	$ 179,212	$ 296,279	65.3%
Less: Cash received from settled derivatives, net of cash settlements paid	$ (125)	$ (7,466)	N/A
Economic fuel expense	$ 179,087	$ 288,813	61.3%
Fuel gallons consumed	77,956	91,076	16.8%
Economic fuel cost per gallon	$ 2.30	$ 3.17	37.8%

Although our average economic fuel cost for the nine months ended September 30, 2011 was $3.17 per gallon ($3.25 per gallon without giving effect to hedge transactions), fuel prices have continued to increase. For example, our into-plane fuel expense as of November 10, 2011 was approximately $3.28 per gallon.

The increase in labor costs for the nine months ended September 30, 2011 compared to the corresponding period in 2010 was primarily due to increased headcount related to increased flight volume. Additionally, we increased the number of airports we serve from 39 at September 30, 2010 to 47 at September 30, 2011. The increase in labor costs was also driven by the increase in pilot labor rates by approximately 11% during the first three quarters of 2011.

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The increase in distribution expense of 28.7%, or approximately $8.7 million, from the nine months ended September 30, 2010 to the nine months ended September 30, 2011 is due primarily to increased credit card fees driven by the increase in passenger volume. Additionally, there was a shift in the percentage of bookings made from our website to more expensive third-party distribution channels (GDSs), which increased from approximately 14.9% for the nine months ended September 30, 2010 to approximately 23.1% for the nine months ended September 30, 2011. The shift in distribution mix did not materially affect operating income because the revenues received from sales through third-party travel agents more than offset the associated incremental costs. The following table shows our distribution channel usage:

	Nine Months Ended September 30,		
	2011	2010	Change
Website	66.6%	75.8%	(9.2)
Third-party travel agents	23.1	14.9	8.2
Call center	10.3	9.3	1.0

All three Airbus A320 aircraft delivered in the three months ended March 31, 2011, as well as the four delivered in 2010, were financed via operating leases resulting in increased aircraft rent.

The increase in capacity during the nine months ended September 30, 2011 from the corresponding period in 2010 resulted in increased landing fees, maintenance, materials and repairs expense as well as other operating expenses during the first nine months of 2011 compared to the same period in 2010.

Restructuring and termination costs increased $2.2 million period over period due to termination costs incurred in connection with the IPO during the second quarter of 2011 comprised of $1.8 million paid to Indigo Partners, LLC to terminate its professional services agreement with us and $0.5 million paid to three individual, unaffiliated holders of our subordinated notes.

2010 compared to 2009

Our operating expenses increased by 21.0% for 2010 compared to 2009. The increase was primarily due to a $67.1 million increase in fuel cost caused principally by a 27.0% increase in the average price of aircraft fuel and an 8.3% increase in fuel volume compared to the prior year, increased labor costs primarily due to increased pilot wages and benefits due to implementation of the CBA and the inclusion of $2.3 million in pilot return-to-work payments, $4.0 million of net incremental cost incurred for the strike and related shut down of operations, increased rents due to four newly delivered A320 aircraft, increased variable expenses due to a capacity increase of 8.5% compared to the prior year, and increases in distribution costs mainly due to higher credit card fees related to increased revenue and an increase in bookings through our third-party vendors during 2010 as compared to 2009. Our Adjusted CASM ex fuel, which increased from 5.45 cents in 2009 to 5.71 cents in 2010, was also negatively impacted by the loss of capacity related to our June 2010 pilot strike, resulting in our fixed costs being spread over 145.8 million fewer ASMs. We estimate that our Adjusted CASM ex fuel adjusted for the impact of the June 2010 pilot strike is 5.61 cents.

Aircraft fuel expense includes both into-plane expense plus the effect of realized and unrealized adjustments arising from fuel derivative activities. Aircraft fuel expense increased from $181.1 million to $248.2 million.

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

	Year Ended December 31, 2009	2010	Percentage Change
	(in thousands, except percentage and per-gallon amounts)		
Fuel gallons consumed	98,422	106,628	8.3%
Into-plane fuel cost per gallon	$ 1.85	$ 2.36	27.6
Total into-plane fuel expense	181,806	251,754	38.5
Impact on fuel expense from (gains) and losses arising from fuel-derivative activities	(699)	(3,548)	
Aircraft fuel expense	$ 181,107	$ 248,206	37.0%

During 2010, we recognized $3.5 million of net fuel derivative gains consisting of settlement gains of $1.4 million and mark-to-market (unrealized) gains of $2.1 million. During 2009, we recognized $0.7 million of fuel derivative gains. Due to the tightening of the credit markets leading into 2009, our derivative counterparties demanded full cash collateral from us to hedge their own risk. As a result, we had limited hedges during 2009, with the first settlement occurring in July 2009.

The difference between aircraft fuel expense and economic fuel expense is shown below:

	Year Ended December 31, 2009	2010	Percentage Change
	(in thousands, except percentage and per-gallon amounts)		
Into-plane fuel expense	$ 181,806	$ 251,754	38.5%
Less: Cash paid (received) from settled derivatives, net of cash settlements paid	750	(1,483)	(297.7)
Economic fuel expense	182,556	250,271	37.1
Fuel gallons consumed	98,422	106,628	8.3
Economic fuel cost per gallon	$ 1.85	$ 2.35	27.0%

The increase in labor costs for 2010, compared to 2009, was primarily due to higher pilot wages and benefits due to implementation of the CBA during the third quarter of 2010. In addition, we also paid $2.3 million in return-to-work payments as part of reaching an agreement with the pilots.

The increase in distribution expense of 20.9%, or $7.1 million, from 2009 to 2010 is primarily due to higher credit card fees related to increased revenue and an increase in bookings through GDSs, which increased from approximately 11% of bookings through GDSs during 2009 to approximately 14% during the same period in 2010.

All four Airbus A320 aircraft delivered during 2010 were financed via operating leases resulting in increased rents compared to 2009.

The increase in landing fees and other rents was driven by an increase in landing fees and airport facility rental rates in response to overall reduced industry capacity, which caused many airports to attempt to mitigate lost operating revenues by raising rates and fees.

The increase in maintenance, materials and repair costs in 2010 was primarily due to an increase in the scope of required maintenance events in 2010 compared to those occurring during 2009. As the fleet ages, we expect that maintenance costs and related out of service time to complete the maintenance will increase in absolute terms.

The increase in other operating expenses in 2010 is primarily due to increases in ground handling costs, and aviation insurance resulting from a period-over-period increase in the number of flights operated and fleet size, coupled with incremental costs incurred to accommodate displaced passengers due to our June 2010 pilot strike and other flight disruptions. Furthermore, in 2009 we had a non-recurring benefit of $3.0 million related to a refund from the TSA related to over-collections of security charges in prior years.

2009 compared to 2008

Operating expenses improved in 2009 due to our ability to react quickly to market conditions and deploy our 2008 capacity and cost reduction initiatives effectively, boosted by significantly more favorable fuel prices as compared to the prior year. As a result of our 2008 capacity and cost reduction initiatives, we entered 2009 with a 20% smaller fleet size, a more efficient workforce and a reduced cost structure after eliminating or reducing various expenses, resulting in a 4.8% decrease in our Adjusted CASM ex fuel.

Aircraft fuel expense decreased by 39.4%, or $118.0 million, on a 10.2% reduced consumption of gallons as a result of decreased crude prices and operation of a smaller fleet. The elements of the changes in aircraft fuel expense are illustrated in the following table:

	Years Ended December 31, 2008	2009	Percentage Change
	(in thousands, except percentage and per-gallon amounts)		
Fuel gallons consumed	109,562	98,422	(10.2)%
Into-plane fuel cost per gallon	$ 3.28	$ 1.85	(43.6)
Total into-plane fuel expense	359,097	181,806	(49.4)
Impact on fuel expense from (gains) and losses arising from fuel-derivative activities	(60,003)	(699)	
Aircraft fuel expense	$ 299,094	$ 181,107	(39.4)%

During 2009, we recognized $0.7 million of net fuel derivative gains consisting of settlement losses of $0.7 million offset by mark-to-market (unrealized) gains of $1.4 million. During 2008, we recognized $60.0 million of net fuel derivative gains consisting of realized gains of $69.9 million and reversals of previously unrealized gains of $9.9 million. As further explained below, in July 2008 we liquidated all of our derivative instruments. In the immediate aftermath of record high fuel prices of 2008 and very tight credit markets, our derivative counterparties demanded full collateral from us to hedge their own risk. As a result, we were only able to hedge a small portion of our fuel costs during 2009. The volatility of fuel prices experienced in the market place and reflected in our earnings in 2008 subsided somewhat in 2009, and had less of an influence on our earnings.

The difference between aircraft fuel expense and economic fuel expense is shown below:

	Years Ended December 31, 2008	2009	Percentage Change
	(in thousands, except percentage and per-gallon amounts)		
Into-plane fuel expense	$ 359,097	$ 181,806	(49.4)%
Less: Cash received from settled derivatives, net of cash settlements paid	(69,876)	750	
Economic fuel expense	289,221	182,556	(36.9)
Fuel gallons consumed	109,562	98,422	(10.2)
Economic fuel cost per gallon	$ 2.64	$ 1.85	(29.9)%

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All of the $0.7 million of settlement gain recognized in 2009 was the result of derivative contracts that settled on their originally scheduled maturity dates. We had realized gains of $69.9 million in 2008, which includes $32.1 million on fuel derivatives contracts that settled during the period on their originally scheduled settlement dates. Additionally, in July 2008, we monetized all of our remaining fuel derivatives contracts resulting in realized gains of $23.6 million from contracts with 2008 scheduled maturities and $14.2 million from contracts with 2009 scheduled maturities.

In 2008, we incurred $4.0 million of losses related to loss on sale and leaseback transactions and $0.1 million of net loss on disposal of assets. In 2009, we incurred $1.0 million of losses related to loss on sale and leaseback transactions.

The decrease in salaries, wages and benefits expenses from 2008 to 2009 was primarily due to the reduction of approximately 15% of our workforce that we implemented in 2008, some of which was directly related to reduced capacity and some of which was administrative staff.

We reduced our distribution expense by 9.9%, or $3.7 million, from 2008 to 2009 primarily due to a decrease in revenue. We also increased the percentage of reservations made through our website, www.spirit.com, our most efficient sales distribution channel.

The reduction in aircraft rent for 2009 as well as other operating expenses is correlated to the reduction in aircraft and related expenses, such as aviation insurance and ground handling cost.

The increase in maintenance, materials and repair costs in 2009 is due to various unscheduled aircraft maintenance events that occurred during the year. Due to the young age of our fleet (approximately 3.2 years on average at December 31, 2009), maintenance expense remained very low in 2009.

In July 2008, in response to record high fuel prices and rapidly deteriorating economic conditions, we rapidly restructured our network to optimize profitability. This restructuring included the early termination of seven Airbus A319 aircraft operating leases and workforce reductions resulting in one-time lease fees, severance costs and relocation costs. The reduction to our fleet and workforce helped mitigate the record high jet fuel prices we experienced during 2008. We determined the retirement of these aircraft and the planned reduction and relocation of certain employees met the requirement of an exit activity and accrued a related charge in 2008. During 2008, we incurred $17.9 million in net restructuring charges consisting primarily of the costs associated with the return of and write-off of certain leased aircraft assets and liabilities and the accrual for employee severances and relocation charges, slightly offset by the sale of previously written-off MD-80 parts and equipment. We had non-cash write-off charges of $17.2 million and cash payments of $10.7 million. During 2009, we incurred $0.4 million in cash payments related to facility exit costs and severance.

Other (income) expense, net

Nine months ended September 30, 2011 compared to nine months ended September 30, 2010

We recorded other expense, net of $21.8 million for the nine months ended September 30, 2011 compared to other expense, net of $36.9 million for the nine months ended September 30, 2010. Related-party interest expense incurred during the nine months ended September 30, 2011 and 2010 was $22.1 million and $33.5 million, respectively, and consisted primarily of paid-in-kind interest on notes and preferred stock dividends due to related parties. Non-related party interest expense during the nine months ended September 30, 2011 and 2010 was $2.3 million and $4.5 million, respectively.

2010 compared to 2009

We recorded other expense, net of $48.7 million for 2010 compared to other expense, net of $26.2 million for 2009. Related-party interest expense incurred during 2009 and 2010 was $39.3 million and $44.6 million, respectively, and consisted primarily of paid-in-kind interest on notes and preferred stock dividends due to related parties. Non-related party interest expense during 2009 and 2010 was $7.6 million and $5.7 million, respectively.

2009 compared to 2008

We recorded other expense, net of $26.2 million in 2009 compared to other income, net of $15.4 million in 2008, which resulted in a $41.6 million swing from 2008.

In accordance with our 2006 recapitalization agreements, we recognized $19.7 million of gain on debt extinguishment in 2009 as a result of a liquidation value adjustment to the Class A preferred stock required by our 2006 recapitalization agreements, and cancellation of accrued dividends that was triggered by a contingency in our 2006 recapitalization agreements resulting from our net costs related to the disposal of MD-80 aircraft during the period from January 2006 through December 2009 that exceeded a contractually-specified target threshold measured at December 31, 2009.

In 2008, we recognized a $53.7 million gain on extinguishment of debt that was triggered by the occurrence of separate contractual contingencies in our 2006 recapitalization agreements: one based on whether we had a new ratified CBA with our pilots by January 1, 2008, and the other triggered because our unrestricted cash balances at December 31, 2008 had fallen below $35 million and Indigo exercised its right to require all holders of Tranche B notes to purchase additional Tranche B notes. The agreements provided that the purchase of additional Tranche B notes would adjust the Liquidation Preference of our Class A preferred stock held by investment funds managed by Indigo. In accordance with these agreements, the debt extinguishment was a result of the cancellation of 25,000 shares of Class A preferred stock held by Indigo and the reduction of the Liquidation Preference of the remaining 100,000 shares of Class A preferred stock held by investment funds managed by Oaktree by an aggregate of $25.2 million, from par value of $1,000 plus accrued and unpaid dividends per share, to $748 per share plus accrued and unpaid dividends per share as of December 31, 2008. As of December 31, 2009, the Liquidation Preference was further reduced to $582 plus accrued and unpaid dividends per share as a result of the MD-80 triggered contingency described above. All associated accrued and unpaid dividends associated with the Liquidation Preference reduction were also eliminated.

Interest expense increased by $6.6 million in 2009 over 2008 due to the compounding of paid-in-kind interest on our long-term debt.

All of the amounts recorded in 2008 and 2009 related to extinguishment of debt, and substantially all of the interest expense recorded in 2007, 2008, 2009 and 2010 and the first two quarters of 2011 related to preferred stock and secured debt instruments held by our principal stockholders that were repaid or exchanged into shares of common stock in connection with the closing of the IPO.

Income Taxes

Our federal net operating loss carryforward, or NOL, was $142.8 million as of December 31, 2009. As of December 31, 2010, March 31, 2011 and September 30, 2011, we had NOLs for federal income tax purposes of $112.1 million, $101.4 million and $42.3 million, respectively, which would begin to expire in 2023. These amounts exclude $10.0 million of NOLs, the use of which is limited under Section 382 of the U.S. Internal Revenue Code, and as a result, we determined that this amount would not be able to be utilized. In addition, as of December 31, 2010, March 31, 2011 and September 30, 2011, we had state NOLs of approximately $41.9 million, $37.9 million and $16.0 million, respectively, which can be used to offset future state taxable income.

At December 31, 2009, we had recorded a full valuation allowance against existing net deferred tax assets. At September 30, 2010, we determined that, under generally accepted accounting principles, the valuation allowance should be reduced by $53.5 million, which we recognized as a deferred tax benefit. The effective tax rate for the nine months ended September 30, 2011 was approximately 38%.

Immediately prior to the IPO, we entered into the Tax Receivable Agreement and thereby distributed to the Pre-IPO Stockholders the right to receive a pro rata share of the future payments to be made under such agreement. These future payments to the Pre-IPO Stockholders will be in an amount equal to 90% of the cash savings in federal income tax realized by us by virtue of our future use of federal NOL, deferred interest deductions and certain tax credits held by us as of March 31, 2011. Please see Certain Relationships and Related Transactions Tax Receivable Agreement.

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Quarterly Financial Data (unaudited)

	Three Months Ended											
	December 31, 2008	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	March 31, 2011	June 30, 2011	Septer 2
	(in thousands except share and per share amounts)											
g	$ 176,108	$ 170,028	$ 180,407	$ 178,608	$ 170,994	$ 184,051	$ 177,359	$ 203,655	$ 216,200	$ 232,662	$ 275,891	$ 2
r	141,120	133,628	137,335	136,319	128,899	136,909	126,372	138,232	136,456	153,280	180,418	
et	34,988	36,400	43,072	42,289	42,095	47,142	50,987	65,423	79,744	79,382	95,473	
g loss)	21,157	30,683	34,681	25,938	20,107	24,124	1,791	20,982	21,976	26,844	34,959	
me	$ 13,783	$ 18,709	$ 22,817	$ 14,282	$ 27,885	$ 11,276	$ (10,066)	$ 61,740	$ 9,531	$ 7,883	16,917	
Per												
	$ 0.53	$ 0.72	$ 0.88	$ 0.55	$ 1.07	$ 0.43	$ (0.38)	$ 2.35	$ 0.36	$ 0.30	$ 0.41	$
	$ 0.53	$ 0.72	$ 0.88	$ 0.55	$ 1.05	$ 0.42	$ (0.38)	$ 2.33	$ 0.36	$ 0.30	$ 0.41	$
l ng												
	25,830,239	25,849,756	25,893,313	25,925,378	25,973,102	26,056,908	26,164,318	26,240,764	26,270,129	26,347,875	41,493,312	72,
	26,027,606	25,970,559	26,013,956	26,003,584	26,478,899	26,760,781	26,164,318	26,524,727	26,677,645	26,689,151	41,769,049	72,4
ed):												
(1)	$ 25,226	$ 31,772	$ 35,914	$ 26,997	$ 41,063	$ 25,460	$ 3,176	$ 22,477	$ 23,186	$ 28,342	$ 36,574	$
(1)	22,952	32,109	35,482	29,224	20,022	25,103	5,681	20,623	22,894	28,249	42,545	
R	45,452	54,859	58,458	51,319	42,175	47,679	30,554	46,110	51,303	55,957	71,626	

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Quarterly Financial Data (unaudited) - (Continued)

	Three Months Ended											
	December 31, 2008	**March 31, 2009**	**June 30, 2009**	**September 30, 2009**	**December 31, 2009**	**March 31, 2010**	**June 30, 2010**	**September 30, 2010**	**December 31, 2010**	**March 31, 2011**	**June 30, 2011**	**Septem 20**
g												
at riod	28	28	28	28	28	29	31	32	32	35	35	
	39	40	39	38	39	39	39	39	39	44	45	
daily n	12.4	12.9	13.3	13.2	12.7	12.9	12.1	13.1	12.9	12.6	13.1	
stage niles)	942	921	933	933	936	942	928	940	952	961	932	
r ds)	1,523	1,483	1,630	1,692	1,521	1,526	1,611	1,910	1,905	1,863	2,200	
r PMs) ds)	1,463,155	1,414,086	1,552,410	1,617,809	1,454,759	1,464,645	1,519,609	1,824,795	1,855,346	1,847,280	2,083,804	2,10
e seat SMs) ds)	1,816,314	1,804,457	1,918,505	1,929,990	1,832,189	1,820,131	1,905,053	2,194,099	2,200,640	2,200,097	2,425,642	2,42
tor	80.6%	78.4%	80.9%	83.8%	79.4%	80.5%	79.8%	83.2%	84.3%	84.0%	85.9%	
enue nger	$ 92.68	$ 90.13	$ 84.27	$ 80.58	$ 84.76	$ 89.74	$ 78.43	$ 72.38	$ 71.62	$ 82.30	$ 82.00	$
et per r	$ 22.98	$ 24.55	$ 26.43	$ 25.00	$ 27.68	$ 30.90	$ 31.64	$ 34.26	$ 41.86	$ 42.62	$ 43.39	$
g per	9.70	9.42	9.40	9.25	9.33	10.11	9.31	9.28	9.82	10.58	11.37	
	8.53	7.72	7.60	7.91	8.24	8.79	9.22	8.33	8.83	9.35	9.93	
g ring, ted 2)(3)	8.50	7.71	7.63	7.86	8.36	8.82	9.10	8.43	8.86	9.38	9.70	
x ts)	5.46	5.73	5.37	5.17	5.56	5.83	6.03	5.42	5.62	5.67	5.41	
ons d ds)	23,608	23,522	25,183	25,523	24,194	24,200	24,965	28,791	28,672	28,172	31,264	3
	$ 2.34	$ 1.53	$ 1.72	$ 2.03	$ 2.12	$ 2.25	$ 2.34	$ 2.30	$ 2.48	$ 2.89	$ 3.32	$

c fuel

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(1) EBITDA, Adjusted EBITDA and Adjusted EBITDAR are included as supplemental disclosures because we believe they are useful indicators of our operating performance. Derivations of EBITDA and EBITDAR are well recognized performance measurements in the airline industry that are frequently used by investors, securities analysts and other interested parties in comparing the operating performance of companies in our industry. Adjusted EBITDA eliminates several significant items historically reflected in our statement of operations, but which became irrelevant after the closing of the IPO, including interest expense on indebtedness and gain on extinguishment of notes and preferred stock repaid or exchanged for common stock pursuant to the 2011 Recapitalization, management fees we ceased paying after the IPO and expenses of the IPO unrelated to our continuing operations. We have also adjusted for stock-based compensation expenses, the amount of which is dependent on market comparables, and other non-operating matters that are outside our control and thus not indicators of our ongoing operating performance. Adjusted EBITDA also eliminates charges from two significant restructuring programs involving the accelerated conversion of our entire fleet from MD-80 family aircraft to Airbus A320 family aircraft and a reduction in the fleet in mid-2008 in response to record high fuel prices and rapidly deteriorating economic conditions, both of which we believe are unique events unrelated to our ongoing operating activities. Further, we believe Adjusted EBITDAR is useful in evaluating our operating performance compared to our competitors because its calculation isolates the effects of financing in general, the accounting effects of capital spending and acquisitions (primarily aircraft, which may be acquired directly, directly subject to acquisition debt, by capital lease or by operating lease, each of which is presented differently for accounting purposes), and income taxes, which may vary significantly between periods and for different companies for reasons unrelated to overall operating performance. We also use Adjusted EBITDA and Adjusted EBITDAR to establish performance measures for executive compensation purposes. However, because derivations of EBITDA, Adjusted EBITDA and Adjusted EBITDAR are not determined in accordance with GAAP, such measures are susceptible to varying calculations and not all companies calculate the measures in the same manner. As a result, derivations of EBITDA as presented may not be directly comparable to similarly titled measures presented by other companies.

EBITDA, Adjusted EBITDA and Adjusted EBITDAR have limitations as an analytical tool. Some of these limitations are: EBITDA, Adjusted EBITDA and Adjusted EBITDAR do not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments; EBITDA, Adjusted EBITDA and Adjusted EBITDAR do not reflect changes in, or cash requirements for, our working capital needs; EBITDA, Adjusted EBITDA and Adjusted EBITDAR do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debts; although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA, Adjusted EBITDA and Adjusted EBITDAR do not reflect any cash requirements for such replacements; non-cash compensation is and will remain a key element of our overall long-term incentive compensation package, although we exclude it as an expense when evaluating our ongoing operating performance for a particular period; EBITDA, Adjusted EBITDA and Adjusted EBITDAR do not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations; and other companies in our industry may calculate EBITDA, Adjusted EBITDA and Adjusted EBITDAR differently than we do, limiting its usefulness as a comparative measure. Because of these limitations EBITDA, Adjusted EBITDA and Adjusted EBITDAR should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP.

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The following table represents the reconciliation of EBITDA, Adjusted EBITDA and Adjusted EBITDAR to net income (loss) for the periods indicated below:

	Three Months Ended											
	December 31, 2008	**March 31, 2009**	**June 30, 2009**	**September 30, 2009**	**December 31, 2009**	**March 31, 2010**	**June 30, 2010 (g)**	**September 30, 2010 (g)**	**December 31, 2010 (g)**	**March 31, 2011**	**June 30, 2011**	**September 30, 2011**
	(in thousands)											
Reconciliation:												
Net income (loss)	13,783	18,709	22,817	14,282	27,885	11,276	(10,066)	61,740	9,531	7,883	16,917	27,657
Plus (minus):												
Interest expense	10,436	11,929	11,731	11,659	11,573	12,772	12,667	12,568	12,306	14,286	9,678	444
Capitalized interest		(220)	(237)	(247)	(247)	(237)	(293)	(397)	(564)	(1,037)	(1,039)	(444)
Interest income	(242)	(118)	(102)	(78)	(47)	(60)	(99)	(83)	(86)	(86)	(71)	(99)
Provision (benefit) for state income taxes	161	343	418	261	511	339	(463)	(52,869)	697	5,750	9,398	16,956
Depreciation and amortization	1,088	1,129	1,287	1,120	1,388	1,370	1,430	1,518	1,302	1,546	1,691	2,059
EBITDA	**25,226**	**31,772**	**35,914**	**26,997**	**41,063**	**25,460**	**3,176**	**22,477**	**23,186**	**28,342**	**36,574**	**46,573**
Gain on extinguishment of debt (a)	(3,028)				(19,711)							
Management fees (b)	200	200	200	200	200	200	200	200	200	200	134	
Equity based stock compensation (c)	2	1	1	3	108	42	40	326	161	172	65	174
Restructuring and termination costs (d)	821	133	34	(301)	(258)	(20)	(57)	214	484	81	2,280	18
Transaction expenses (e)					720							
Unrealized mark-to-market (gains) losses (f)	(305)		(667)	1,313	(2,095)	(628)	2,294	(2,594)	(1,137)	(546)	3,457	1,495
Loss (gain) on disposal of assets	36	3		1,012	(5)	49	28				35	4
Adjusted EBITDA	**22,952**	**32,109**	**35,482**	**29,224**	**20,022**	**25,103**	**5,681**	**20,623**	**22,894**	**28,249**	**42,545**	**48,264**
Aircraft rentals (h)	22,500	22,750	22,976	22,095	22,153	22,576	24,873	25,487	28,409	27,708	29,081	29,220
Adjusted EBITDAR	**45,452**	**54,859**	**58,458**	**51,319**	**42,175**	**47,679**	**30,554**	**46,110**	**51,303**	**55,957**	**71,626**	**77,484**

(a) Gain on extinguishment of debt represents the recognition of contingencies provided for in our 2006 recapitalization agreements, which provided for the cancellation of shares of Class A preferred stock and reduction of the liquidation preference of the remaining Class A preferred stock and associated accrued but unpaid dividends based on the outcome of the contingencies. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations Other (income) expense, net 2009 compared to 2008.

(b) Management fees include annual fees we paid to our sponsors pursuant to professional services agreements which were terminated in connection with the closing of the IPO, and the reimbursement of certain expenses incurred thereunder. Please see Certain Relationships and Related Transactions.

(c) Equity based stock compensation is a non-cash expense relating to our equity based compensation program.

(d) Restructuring and termination costs include: (i) for 2008, amounts relating to accelerated retirement of our MD-80 fleet; (ii) for 2009, amounts relating to the exit facility costs associated with returning seven Airbus A319 aircraft to lessors in 2008; (iii) for 2009 and 2010, amounts relating to the sale of previously-expensed MD-80 parts; (iv) for 2010 and for the nine months ended September 30, 2011, amounts relating to exit facility costs associated with moving our Detroit, Michigan maintenance operations to Fort Lauderdale, Florida; and (v) termination costs in connection with the IPO during the three months ended June 30, 2011 comprised of amounts paid to Indigo Partners, LLC to terminate its professional services agreement with us and fees paid to three individual, unaffiliated holders of our subordinated notes. For more information, please see Management s Discussion and Analysis of Financial Condition and Results of Operations Our Operating Expenses Restructuring and Termination Costs.

(e) Transaction expenses include professional fees incurred in connection with an acquisition transaction that was not completed.

(f) Unrealized mark-to-market gains and losses is comprised of non-cash adjustments to aircraft fuel expenses.

(g) Reflects the effects of our June 2010 pilot strike. We estimate that the strike had a net negative impact on (i) our revenue for 2010 of approximately $28.0 million consisting of $23.0 million in the second quarter of 2010, $5.7 million in the third quarter of 2010 and $(0.7) million in the fourth quarter of 2010 and (ii) our operating income for 2010 of approximately $24 million consisting of $19.2 million in the second quarter of 2010, $5.5 million in the third quarter of 2010 and $(0.7) million in the fourth quarter of 2010. The fourth quarter amounts represent the recovery of an insurance amount not previously accrued. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations June 2010 Pilot Strike.

(h) Aircraft rent for the three months ended December 31, 2010 includes $2.6 million in additional aircraft rent due to entering into a 2 month aircraft wet lease (includes aircraft, crew, maintenance and insurance costs) to substitute capacity to accommodate passengers due to unscheduled maintenance events.

(2) Excludes restructuring credits of $0.8 million (0.05 cents per ASM) in the three months ended December 31, 2008, $0.1 million (less than 0.01 cents per ASM) in the three months ended March 31, 2009, less than $0.1 million (less than 0.01 cents per ASM) in the three months ended June 30, 2009, and restructuring credits of $0.3 million (0.02 cents per ASM) in the three months ended September 30, 2009, $0.3 million (less than 0.01 cents per ASM) in the three months ended December 31, 2009, and a credit of $0.02 million (less than 0.01 cents per ASM) in the three months ended March 31, 2010, less than $0.1 million (less than 0.01 cents per ASM) in the three months ended June 30, 2010, restructuring charges of $0.2 million (less than 0.01 cents per ASM) in the three months ended September 30, 2010, $0.5 million (0.02 cents per ASM) in the three months ended December 31, 2010, $0.08 million (less than 0.01 cents per ASM) in the three months ended March 31, 2011, $2.3 million (0.09 cents per ASM) in the three months ended June 30, 2011, and $0.02 million (less than 0.01 cents per ASM) in the three months ended September 30, 2011. These amounts are excluded from all calculations of Adjusted CASM provided in this prospectus. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations Our Operating Expenses Restructuring and Termination Costs.

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(3) Excludes unrealized mark-to-market (gains) and losses of ($0.3) million ((0.02) cents per ASM) in the three months ended December 31, 2008, ($0.7) million ((0.03) cents per ASM) in the three months ended June 30, 2009, $1.3 million (0.07 cents per ASM) in the three months ended September 30, 2009, ($2.1) million ((0.11) cents per ASM) in the three months ended December 31, 2009, ($0.6) million ((0.03) cents per ASM) in the three months ended March 31, 2010, $2.3 million (0.12 cents per ASM) in the three months ended June 30, 2010, ($2.6) million ((0.12) cents per ASM) in the three months ended September 30, 2010 and ($1.1) million ((0.05) cents per ASM) in the three months ended December 31, 2010, $(0.6) million ((0.02) cents per ASM) in the three months ended March 31, 2011, $3.5 million (0.14 cents per ASM) in the three months ended June 30, 2011 and $1.5 million (0.06 cents per ASM) in the three months ended September 30, 2011. Please see Management s Discussion and Analysis of Financial Condition and Results of Operations Our Operating Expenses Critical Accounting Policies and Estimates.

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LIQUIDITY AND CAPITAL RESOURCES

Our primary source of liquidity is cash on hand and cash provided by operations, with our primary uses of liquidity being working capital and capital expenditures.

Our total cash at September 30, 2011 was $351.0 million, an improvement of $268.3 million from December 31, 2010. During the nine months ended September 30, 2011, we completed our IPO, which raised net proceeds of $150 million after repayment of debt, payment of transaction expenses and payments of fees to certain unaffiliated holders of our notes. Additionally during the nine months ended September 30, 2011, we amended our agreements with our credit card processors enabling us to reduce our restricted cash balance, which was $72.7 million at year-end 2010, to $0.0 million at September 30, 2011, thereby increasing our unrestricted cash balance.

In prior periods, restricted cash represented cash collateral related to a portion of our obligation to fulfill future flights, or ATL, held by credit card processors. Our credit card processors have historically required holdbacks (collateral), which we record as restricted cash, when future air travel and other future services are purchased via credit card transactions. Our restricted cash balance at September 30, 2011 was eliminated, reflecting a complete release of all holdback requirements by all of our credit card processors provided that we continue to satisfy certain liquidity and other financial covenants. Failure to meet these covenants would provide the processors the right to reinstate a holdback, resulting in a commensurate reduction of unrestricted cash that could be material.

In recent years, our short-term capital needs have been funded primarily by cash from operations. Our most significant capital needs are to fund the acquisition costs of our aircraft and fund maintenance reserves on all aircraft we currently lease. PDPs relating to future deliveries under our agreement with Airbus are required starting 24 months prior to each delivery date. In the nine months ended September 30, 2011, we paid $27.4 million in PDPs and have $65.7 million on our balance sheet, representing the amount we paid since inception, net of returns. Maintenance reserves are paid to aircraft lessors to be held as collateral in advance of our performance of major maintenance activities. In the nine months ended September 30, 2011, we paid maintenance reserves of $27.4 million and have $159.4 million ($39.6 million and $119.8 million, within other current assets and prepaid aircraft maintenance to lessors, respectively) on our balance sheet, representing the amount we have paid in reserves since inception, net of reimbursements.

We have executed lease agreements for the sale and leaseback for the next seven A320 aircraft deliveries from our existing order with Airbus, involving deliveries currently scheduled between November 2011 and June 2012. These transactions, assuming they are completed on the terms reflected in the lease agreements, will result in an estimated $31 million in losses, of which we estimate $1 million will be recognized in each of the fourth quarter of 2011 and the first quarter of 2012, and the remaining $30 million will be deferred over the 12-year life of the respective leases as an increase to rent expense in accordance with GAAP. We do not have financing commitments in place for the remaining 26 aircraft currently on firm order, which are scheduled for delivery in late 2012 through 2015, or the 75 aircraft subject to the MOU with Airbus, which are scheduled for delivery in 2016 through 2021. These future aircraft deliveries may be leased or otherwise financed based on market conditions, our level of liquidity, and capital market availability. Please see Critical Accounting Policies and Estimates Sale and Leaseback.

Net Cash Flows Provided By Operating Activities. Operating activities in the nine months ended September 30, 2011 provided $149.5 million in cash compared to $3.8 million in cash generated in 2010. The increase is primarily due to the release of all our holdbacks by our credit card processors and higher earnings during the nine months ended September 30, 2011 compared to 2010.

Operating activities in 2010 provided $27.0 million in cash as compared to $69.1 million in cash for 2009. The decrease is mainly due to lower profitability as a result of an increase in the price of fuel during 2010 as compared to 2009 and the effects of the June 2010 pilot strike. Additionally, we paid $26.9 million and $35.7 million in maintenance reserves, net of reimbursement, to our lessors for 2009 and 2010, respectively, which we recorded as prepaid maintenance deposits.

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During 2009, net cash provided by operating activities was $69.1 million as compared to cash used in operating activities during 2008 of $51.9 million. The variance is primarily due to increased profitability driven by lower cost of fuel. Also contributing to increased cash flows in 2009 was a reduction in fleet size for full year 2009 as compared to 2008, a decrease in credit card holdback reserves during 2009, offset by cash received on the monetization of our fuel hedge contracts during 2008.

Net Cash Flows Used In Investing Activities. During the nine months ended September 30, 2011, investing activities used $31.2 million, compared to $16.3 million used for the nine months ended September 30, 2010. The increase mainly related to higher PDPs made period over period due to timing of the delivery schedule for future aircraft, coupled with slightly higher capital expenditures for items other than aircraft in the nine months ended September 30, 2011. Additionally, during the nine months ended September 30, 2011, we completed a sale-leaseback transaction for a spare engine in which approximately $1.0 million in returned PDPs were received.

During 2010, our investing activities used net cash of $30.5 million, compared to $2.3 million of net cash received during the 2009. During 2010, we paid PDPs, net of refunds, of $25.5 million and had capital expenditures of $5.3 million, offset by $0.3 million of proceeds from the sale of retired equipment. During 2009, we paid $2.4 million in PDPs, net of refunds, and $14.8 million for capital expenditures, offset by $19.5 million of proceeds from the sale of retired equipment.

During 2009, we received net cash of $2.3 million from investing activities. We paid $12.0 million for the remaining purchase price on two engines that we later sold in a sale and leaseback transaction for $18.7 million, we received $0.8 million on the sale of retired equipment, and we paid $2.4 million in PDPs, net of refunds, and $2.8 million in general capital expenditures. Our investing activities in 2008 provided net cash of $9.7 million.

Net Cash Provided By Financing Activities. During the nine months ended September 30, 2011, we received $150.0 million in proceeds, net of underwriting fees, transaction costs and our repayment of $20.6 million of shareholder debt. Remaining shareholder debt was exchanged for newly issued shares of our common stock.

Commitments and Contractual Obligations

The following table discloses aggregate information about our contractual obligations as of December 31, 2010 and the periods in which payments are due (in millions):

	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Debt (1)	$ 361	$ 23	$ 338	$	$
Operating lease obligations	993	125	252	246	370
Flight equipment purchase obligations	1,425	117	634	655	19
Total future payments on contractual obligations (2)	$ 2,779	$ 265	$ 1,224	$ 901	$ 389

(1) Includes scheduled interest payments. All of this debt was repaid or exchanged for common stock in connection with the IPO.
(2) Does not include contractual payments to the Pre-IPO Stockholders under the Tax Receivable Agreement (estimated to be approximately $36.5 million as of September 30, 2011). Please see Our Income Taxes.

Off-Balance Sheet Arrangements

We have significant obligations for aircraft as all 35 of our aircraft in service at September 30, 2011 were acquired under operating leases and therefore are not reflected on our balance sheet. These leases expire between 2017 and 2023. Aircraft rent payments were $88.1 million and $74.3 million, for the nine months ended September 30, 2011 and 2010, respectively. Our aircraft lease payments for 30 of our aircraft are fixed rate

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obligations. Five of our leases provide for variable rent payments, which fluctuate based on changes in LIBOR (London Interbank Offered Rate).

Our contractual purchase commitments consist primarily of aircraft and engine acquisitions through manufacturers and aircraft leasing companies. As of September 30, 2011, our firm orders consisted of 33 Airbus A320-family aircraft, and five spare engines. Our aircraft are scheduled for delivery through 2015, and our spare engines are scheduled for delivery from 2012 through 2018. Committed expenditures for these aircraft and related flight equipment, including estimated amounts for contractual price escalations and aircraft PDPs, will be approximately $83 million for the remainder of 2011, $313 million in 2012, $322 million in 2013, $301 million in 2014, $354 million in 2015 and $19 million in 2016 and beyond.

Market Risk-Sensitive Instruments and Positions

We are subject to certain market risks, including commodity prices (specifically aircraft fuel). The adverse effects of changes in these markets could pose a potential loss as discussed below. The sensitivity analysis 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 years ended December 31, 2008, 2009, 2010 and the nine months ended September 30, 2011 represented approximately 38.9%, 30.8%, 34.8% and 42.4% of our operating expenses. 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. During hurricane season (August through October), we use basis swaps using NYMEX Heating Oil indexes to protect the refining price risk between the price of crude oil and the price of refined jet fuel. As of September 30, 2011, we had approximately 23% of our fourth quarter 2011 forecasted fuel requirements protected using these basis swaps. In addition to other fuel derivative contracts, we have historically protected approximately 45% of our forecasted fuel requirements during hurricane season using basis swaps. Gulf Coast Jet indexed fuel is the basis for a substantial majority of our fuel consumption. A 10% increase in the average price per gallon of aircraft fuel would have increased into-plane aircraft fuel cost for the nine months ended September 30, 2011 by approximately $37 million. To attempt to manage fuel price risk, from time to time we use jet fuel option contracts or swap agreements and basis swaps to mitigate a portion of the crack spread between crude and jet fuel. As of September 30, 2011, we had fuel hedges using U.S. Gulf Coast jet fuel collars in place for approximately 38% and 18% of our estimated fuel consumption for the fourth quarter 2011 and first quarter 2012, respectively.

The fair value of our fuel derivative contracts as of December 31, 2009, December 31, 2010 and September 30, 2011 was a $1.4 million, $3.5 million and ($0.9) million net asset (liability), respectively. We measure our financial derivative instruments at fair value. Fair value of the instruments is determined using standard option valuation models. We measure the fair value of the derivative instruments based on either quoted market prices or values provided by the counterparty. Changes in the related commodity derivative instrument cash flows may change by more or less than this amount based upon further fluctuations in futures prices. Outstanding financial derivative instruments expose us to credit loss in the event of nonperformance by the counterparties to the agreements. However, we do not expect the counterparties to fail to meet their obligations. As of September 30, 2011, we believe the credit exposure related to these fuel forward contracts was negligible.

Interest Rates. We have market risk associated with changing interest rates due to LIBOR-based lease rates on five of our aircraft. A hypothetical 10% change in interest rates in 2011 would affect total aircraft rent expense in 2011 by less than $0.1 million.

INDUSTRY BACKGROUND

Industry Participants

Three main categories of passenger airlines operate in the markets in which we compete: the traditional or legacy network airlines, domestic regional airlines and low-cost carriers. The passenger airline industry in the United States has been dominated historically by the traditional network carriers, which presently consist of American Airlines, Delta Air Lines, United Airlines and US Airways. These airlines offer scheduled flights to most large cities within the United States and abroad (directly or through membership in an alliance such as OneWorld, SkyTeam or Star Alliance) and also serve numerous smaller cities. These carriers operate mainly through a hub and spoke network route system. This system concentrates most of an airline s operations in a limited number of hub cities, serving other destinations in the system by providing one-stop or connecting service through hub airports to end destinations on the spokes. Such an arrangement permits travelers to fly from a given point of origin to more destinations without switching airlines. Hub airports permit carriers to transport passengers between large numbers of destinations more efficiently than if each route were served directly. Traditional network airlines typically have higher cost structures than other airlines due to, among other things, higher labor costs, flight crew and aircraft scheduling inefficiencies, concentration of operations in higher cost airports, and the offering of multiple classes of services, including multiple premium classes of service.

Regional airlines, such as Air Wisconsin, American Eagle, Comair, Horizon, Mesa, Mesaba, Pinnacle, Republic and SkyWest, typically operate smaller aircraft on lower-volume routes than the network airlines and most low-cost airlines. Several regional airlines are wholly-owned subsidiaries of major network airlines. In contrast to low-cost airlines, regional airlines generally do not try to establish an independent route system to compete with the major airlines. Rather, regional airlines typically enter into cooperative marketing relationships with one or more major airlines under which the regional airline agrees to use its smaller, lower-cost aircraft to carry passengers booked and ticketed by the major airline between a city served by a major airline and a smaller outlying location. In exchange for such services, the regional airline is either paid a fixed-fee per flight by the major airline or receives a pro rata portion of the total fare generated in a given market.

Low-cost carriers largely developed in the wake of deregulation of the U.S. airline industry in 1978, which permitted competition on many routes for the first time and thereby introduced fare competition on those routes. The largest airlines based in the United States that define themselves as low-cost carriers include Southwest Airlines, JetBlue Airways, AirTran Airways (recently acquired by Southwest Airlines), Allegiant Travel Company, Frontier Airlines (owned by Republic Airlines) and Virgin America. Southwest Airlines and AirTran Airways merged in May 2011, but continue to operate as separate carriers. Low-cost carriers generally offer a more basic service to travelers and have lower cost structures than traditional network airlines. The lower cost structure of low-cost airlines permits them to offer flights to and from many of the same markets as the major airlines, but at lower prices. Low-cost carriers typically fly direct, point-to-point flights, a system that tends to improve aircraft and crew scheduling efficiency, but results in somewhat less convenient flight schedules and services to fewer markets compared to the hub-and-spoke system used by traditional network airlines. In addition, low-cost carriers often serve major markets through secondary, lower cost airports in the same region as those major population markets. Many low-cost carriers provide only a single class of service, thereby avoiding the significant incremental cost of offering premium-class services. Finally, low-cost carriers tend to operate fleets with only one or at most two aircraft families, in order to maximize the utilization of flight crews across the fleet, improve aircraft scheduling flexibility and to minimize inventory and aircraft maintenance costs.

In recent years, all of the domestic traditional network airlines have engaged in significant financial restructurings, including insolvencies, mergers and consolidations, including a bankruptcy proceeding under Chapter 11 of the U.S. Bankruptcy Code commenced by the parent company of American Airlines in November 2011. These restructurings have allowed them to reduce high labor costs, restructure debt, modify or terminate pension plans and generally reduce their cost structure, increase workforce flexibility and provide innovative offerings similar to those of the low-cost carriers, while still maintaining their expansive route networks, alliances and frequent flier programs. One result of the restructuring of the network carriers is that the difference

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in the cost structures, and the competitive advantage previously enjoyed by low-cost airlines, has somewhat diminished. We believe this trend has provided an opportunity for the introduction of the ultra low-cost carrier, or ULCC, business model in the United States as a subset of the more mature group of low-cost carriers. The ULCC business model involves, among other things, intense focus on efficient asset utilization, unbundling of services from the basic fare and offering them as optional, ancillary services for additional fees, high density seating configuration and high aircraft utilization. In addition to ourselves, other carriers executing a similar ULCC-strategy include Ryanair in Europe and Tiger Airways in Asia.

United States to Caribbean and Latin American Passenger Aviation Market

Based on DOT data, the total current U.S. to Caribbean/Latin American passenger aviation market is approximately $17.8 billion, and we believe approximately $13.7 billion of this market is within the non-stop reach of our aircraft from the United States. Of this $13.7 billion, it is estimated that $5.7 billion represents traffic between the United States and the Caribbean; $4.2 billion represents traffic between the United States and Mexico; $1.8 billion represents traffic between the United States and Central America (excluding Mexico); and $2.0 billion represents traffic between the United States and the northern half of South America, which our aircraft can reach on a non-stop basis.

According to aggregated data from the DOT and GDSs, approximately 57.6 million passengers traveled between the United States and the total Caribbean/Latin America market in the 12 months ended December 31, 2010. Traffic between the total Caribbean/Latin America market and the United States grew at a compound annual growth rate, or CAGR, of 1.1% between 2005 and 2010, compared to a CAGR of (1.4%) in the domestic U.S. during the same period. The chart below details the passenger traffic between the Caribbean/Latin America and the United States in 2009 and the market size of these markets.

	12 Months Ended December 31, 2010 Traffic Results (1)		
	Passengers (in millions)	2005-2010 CAGR	Market Size (in billions)
International Service:			
United States to and from Central America	6.6	2.3%	$ 1.8
United States to and from South America	10.9	5.8	6.1
United States to and from Mexico	16.5	(1.6)	4.2
United States to and from Caribbean	23.6	1.0	5.7
Total International Scheduled Service	57.6	1.1%	$ 17.8
Total U.S. Domestic Service	397.8	(1.4)%	$ 73.8

(1) *Sources: U.S. Department of Transportation and Global Distribution Systems.*

We believe airline passenger traffic between the United States and the Caribbean and Latin America is influenced by economic growth and per capita wealth of the country from which the passenger is traveling. GDP in the Caribbean and Latin America grew at a CAGR of 3.4% between 2005 and 2010 compared to a CAGR of 1.1% in the United States during the same period.

In the United States, the Caribbean and Latin America, the scheduled passenger service market consists of three principal groups of travelers: business travelers, leisure travelers, and travelers visiting friends and relatives, or VFR. Leisure travelers and VFR travelers typically place most of their emphasis on lower fares, whereas business travelers typically place a high emphasis on flight frequency, scheduling flexibility, breadth of network and service enhancements, including loyalty programs and airport lounges, as well as price.

VFR traffic is an important component of the traffic in the regions we serve and is an important contributor to our non-ticket revenue production. The U.S. Department of Commerce indicates that 32% and 29% of

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Caribbean and Central American visitors to the United States, respectively, indicate VFR as the purpose of their trip, versus 20% for all visitors. New York and South Florida, two of our important markets, have a large concentrations of people of Caribbean and Latin American descent who form a significant portion of this core customer demographic. VFR passengers travel for a number of reasons, including social visits and to take advantage of the breadth of shopping opportunities and product availability at comparatively low prices and availability of personal and business services in the United States. Historically, baggage volume per passenger is considerably higher on many of our Caribbean and Latin American routes, due, we believe, to VFR travelers carrying goods to and from the United States.

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BUSINESS

Overview

Spirit Airlines is an ultra low-cost, low-fare airline based in Fort Lauderdale, Florida that provides affordable travel opportunities principally to and from South Florida, the Caribbean and Latin America. Our targeted growth markets have historically been underserved by low-cost carriers, which we believe provides us sustainable expansion opportunities. Our ULCC business model allows us to offer a low-priced basic service combined with a range of optional services for additional fees, targeting price-sensitive leisure travelers and VFR travelers. Notwithstanding the recent volatility in the cost of jet fuel and the severe economic recession, we have been able to maintain relatively stable unit revenue while maintaining a low-cost structure, and we have been profitable in each of the last four years and in the first quarter of 2011. For 2010, we had total operating revenues of $781.3 million, operating income of $68.9 million and net income of $72.5 million ($19.7 million excluding the release of the valuation allowance on our deferred tax assets and related tax benefit). For the nine months ended September 30, 2011, we had total operating revenues of $797.3 million, operating income of $106.4 million and net income of $52.5 million. As of September 30, 2011, we served 47 airports.

We have reduced our unit operating costs significantly since redefining Spirit as a ULCC in 2006. As a result, our operating cost structure is among the lowest in the Americas, enabling us to offer very low fares in the markets we serve while delivering operating profitability. Key elements of our low-cost structure include our efficient asset utilization, operation of an all Airbus single-aisle aircraft fleet with high-density seating configurations, employee productivity, rigorous cost control and use of scalable outsourced services. Furthermore, our modern fleet and aircraft seat configuration enable us to operate as one of the most fuel-efficient U.S. jet airline operators on a per available seat mile, or ASM, basis. We have demonstrated the ability to implement our ULCC business model and to adjust our capacity and routes in response to changing market conditions as part of our focus on achieving consistent route profitability.

Our ULCC business model allows us to compete principally through offering low base fares. For 2009, 2010 and the first three quarters of 2011, our average base fare was approximately $85, $77 and $82, respectively, and we have offered promotional base fares of $9 or less. Since 2007, we have unbundled components of our air travel service that have traditionally been included in base fares, such as baggage and advance seat selection, and offer them as optional, ancillary services for additional fees (which we record in our financial statements as non-ticket revenue) as part of a strategy to enable our passengers to identify, select and pay for the services they want to use. While many domestic airlines have also adopted some aspects of our unbundled pricing strategy, unlike us, they generally have not made a corresponding reduction in base fares.

We have lowered our base fares significantly since initiating our unbundling strategy, with the goal of stimulating additional passenger demand in the markets we serve. We plan to continue to use low fares to stimulate demand, a strategy that generates additional non-ticket revenue opportunities and, in turn, allows us to further lower base fares and stimulate demand even further. This unbundling and low base fare strategy is designed to support profitable growth. In 2009, our operating income margin of 15.9% was among the highest in the U.S. airline industry. For 2010, our operating income margin was 8.8%, reflecting the effects of increased fuel prices and our pilot strike in June 2010. On July 23, 2010, our pilots ratified a five-year collective bargaining agreement that became effective on August 1, 2010. For the nine months ended September 30, 2011, our operating income margin was 13.3%, reflecting the effects of increased fuel prices.

Our principal target growth markets are markets in the domestic U.S., Caribbean and Latin America where we can either stimulate traffic by reducing fares or have significant untapped growth potential for leisure and VFR travel. Many domestic markets are currently underserved by low-cost carriers and we believe we can successfully grow these markets by increasing frequencies and aircraft capacity on routes we currently serve or start introducing routes to cities we do not serve. Both the Caribbean and Latin American markets are large and we believe they have significant growth potential for leisure and VFR travel. In 2010, air travel between the United States and the Caribbean and Latin American markets within non-stop reach of our aircraft from the

United States generated approximately $13.7 billion in revenues, with only limited market stimulation by low fares. These markets have historically been characterized by untapped travel demand from leisure and VFR customers because they are primarily served by full-service, higher-fare airlines, and because several countries in this targeted growth region have historically restricted air travel competition. We believe our presence in the Caribbean and Latin America, combined with our ULCC model, will allow us to compete successfully and grow profitably in these markets. We also target attractive domestic markets currently underserved by low-cost carriers by increasing frequencies and aircraft capacity on our existing routes, as well as starting new routes to cities we currently do not serve.

With our base of operations strategically located in South Florida, our overwater international route operating experience and our ULCC model, we believe we are well positioned to grow. With less than 2% of U.S. airline capacity and less than 3% of the capacity in Caribbean and Latin American markets as of September 30, 2010, we believe we can grow significantly using our aircraft on order to increase route frequencies and aircraft capacity on existing routes and by establishing new routes both domestically and abroad. By deploying additional Airbus A320-family aircraft and leveraging our existing infrastructure to drive economies of scale, we can lower some of our unit operating costs even further, allowing us to continue to lower base fares, stimulate market demand and increase non-ticket revenue opportunities.

Our History

We were founded in 1964 as Clippert Trucking Company, a Michigan corporation. In 1974, we changed our name to Ground Air Transfer, Inc. and, beginning in 1983, started doing business as Charter One, a charter tour operator providing travel packages to entertainment destinations such as Atlantic City, Las Vegas and the Bahamas. In 1990, we received our Air Carrier Certificate from the Federal Aviation Administration and began air charter operations. In 1992, we renamed ourselves Spirit Airlines, Inc. and thereafter began adding scheduled passenger service to destinations such as Fort Lauderdale, Detroit, Myrtle Beach, Los Angeles and New York. In 1994, we reincorporated in Delaware, and in 1999 we relocated our corporate headquarters to Miramar, Florida.

Investment funds managed by Oaktree gained control of Spirit after making investments in 2004 and 2005. With the change in ownership, we began to reconstitute our executive management team, changed our business strategy and positioned ourselves as a low-cost carrier with a focus on expanding our Caribbean and Latin American routes. We closed several unprofitable domestic routes and established Fort Lauderdale Hollywood International Airport, or FLL Airport, as our main base of operations. We began to transition to an all Airbus fleet in 2004 and completed the transition in 2006.

In July 2006, we underwent a corporate recapitalization in which investment funds managed by Indigo acquired a majority stake in us. After this recapitalization, we began implementing our ULCC business model and further expanding our Caribbean and Latin American routes, and we completed the transition to a new executive management team. Indigo is a private equity fund focused on investing in air transportation companies, with investments in five other ULCC model airlines, including Avianova based in Russia, Mandala Airlines based in Indonesia, Tiger Airways based in Singapore and Australia, Volaris based in Mexico and Wizz Air based in Central and Eastern Europe.

On June 1, 2011, we completed our initial public offering of common stock, or IPO, which raised net proceeds of $150.0 million after repayment of debt, payment of transaction expenses and other fees. In connection with the IPO, we effected a recapitalization, which we refer to as the 2011 Recapitalization, that resulted in the repayment or conversion of all of our notes and shares of preferred stock into shares of common stock. See Certain Relationships and Related Transactions Recapitalization Agreement. In connection with the IPO, we also entered into a Tax Receivable Agreement and thereby distributed immediately prior to the completion of the IPO to the holders of our common stock as of such time, or the Pre-IPO Stockholders, the right to receive an amount equal to 90% of the cash savings in federal income tax realized by us by virtue of the use of the federal net operating loss, deferred interest deductions and alternative minimum tax credits held by us as of March 31, 2011. See Certain Relationships and Related Transactions Tax Receivable Agreement.

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Our Business Model

The Spirit Airlines business model is based on that of ULCCs operating elsewhere in the world, such as Ryanair in Europe and Tiger Airways in Asia. In deciding to adopt our current business model, we studied these airlines, particularly Ryanair, and concluded that a ULCC business model focused on routes from the United States to the Caribbean and Latin America could be successfully deployed. We have been building a business around this thesis since 2007.

From the perspective of our customers, our business model provides a product offering that combines very low base fares with transparent pricing. Our base fare provides everything necessary for a complete and safe flight but excludes extra services that some passengers may want to purchase to enhance their travel experience, such as baggage, telephone booking, premium seat or advance seat selection, and food, beverages and other onboard items. We are not a no frills airline, rather we consider ourselves a frills for a fee airline. We offer a travel experience similar to our competitors and provide many of the products and services offered as part of our competitors fares. Rather than embedding the charge for certain frills in the base fare, thus increasing the base fare for all customers, we charge a low base fare to cover air transportation and charge additional fees for frills to only those customers that choose to purchase extra products or services.

We are focused on leisure and VFR customers who pay for their own travel costs. We believe our product appeals to price-sensitive customers because we give them the choice to pay only for the products and services they want. Our relatively simple fare structure contrasts with the prevalent pricing policies in the airline industry, particularly among network carriers that typically feature many different price offerings and restrictions for seats on any one flight at any given time. Our business model is designed to deliver what we believe our customers want: low fares. We aggressively use low fares to stimulate air travel demand in order to increase passenger volume, load factors and non-ticket revenue on the flights we operate. Higher 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, stimulating additional demand. We strive to be recognized by our customers and potential customers as the low-fare leader in the markets we serve.

Non-ticket revenue is a critical part of our business model. Our non-ticket revenue per passenger flight segment has grown by approximately 800% since 2006. Our non-ticket revenue generation model is not limited to products and services related to a particular flight, but also includes our $9 Fare Club ultra low-fare subscription service, our FREE SPIRIT affinity credit card program, and the sale of advertising to third parties on our website and on board our aircraft. We are always looking to identify new non-ticket revenue sources that will allow us to push our base fares even lower.

Our business model permits us to offer low fares because it is built on low costs. Since changing our business model to a ULCC in 2006, we have operated with a relentless focus on achieving low unit operating costs at every level of our cost structure. We have already implemented many of the low-cost strategies that ULCC leaders like Ryanair have successfully implemented as part of their business models. These strategies include use of our website and direct-to-consumer marketing to drive ticket sales, high daily aircraft utilization, use of a high density aircraft configuration, efficient flight scheduling, a single family aircraft fleet, high workforce productivity and use of outsourced services. Our low fares marketing message is reinforced by a low-cost, viral marketing strategy incorporating provocative, edgy content. Further, our business model involves disciplined management of our capacity and route network and quick reaction to changes in the economic environment or market conditions, with the goal that each route and each aircraft delivers incremental operating profitability. Our low unit operating costs are the core of our business model and our most important competitive advantage.

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Our Strengths

We believe we compete successfully in the airline industry by exploiting the following demonstrated business strengths:

Ultra Low-Cost Structure. Our unit operating costs are among the lowest of all airlines operating in the Americas. We believe this cost advantage helps protect our market position and enables us to offer some of the lowest base fares in our markets, sustain operating margins and support continued growth. Our operating costs per available seat mile, or CASM, was 7.86 cents in 2009, 8.77 cents in 2010, and 9.80 cents in the nine months ended September 30, 2011. This increase was due primarily to the effects of the increased cost of fuel in 2010 and the first nine months of 2011 and our pilot strike in June 2010. Our CASM for these periods was significantly lower than that of the major domestic network carriers, American Airlines, Delta Air Lines, United Air Lines and US Airways, and among the lowest of the domestic low-cost carriers, including AirTran Airways, JetBlue Airways and Southwest Airlines. We achieve these low operating costs in large part due to:

- high aircraft utilization, which during 2010 and the nine months ended September 30, 2011 averaged 12.8 and 12.9 hours per day, respectively;
- high-density seating configurations on our aircraft;
- our low-cost Fort Lauderdale base of operations;
- our productive workforce;
- opportunistic outsourcing of operating functions;
- operating a modern single fleet type of Airbus A320-family aircraft, with associated lower maintenance costs and common flight crews across the fleet;
- minimizing sales, marketing and distribution costs through direct-to-consumer marketing, high utilization of web-based sales and increasing website traffic;
- efficient flight scheduling, including minimal ground times between flights; and
- creating a company-wide business culture that is keenly focused on driving costs lower.

Innovative Revenue Generation. We execute our innovative, unbundled pricing strategy to produce significant non-ticket revenue generation, which allows us to stimulate passenger demand for our product by lowering base fares and enabling passengers to identify, select and pay for the products and services they want to use. We have grown average non-ticket revenue per passenger flight segment from approximately $5 in 2006 to $26 in 2009, $35 in 2010, and $44 in the nine months ended September 30, 2011, by:

- charging for baggage;

passing through all distribution-related expenses;

charging for premium seats and advance seat selection;

consistently enforcing ticketing policies, including change fees;

generating subscription fees from our $9 Fare Club ultra low-fare subscription service;

deriving brand-based fees from proprietary services, such as our FREE SPIRIT affinity credit card program;

selling itinerary attachments, such as hotel and car rental reservations and airport parking, through our website; and

selling in-flight products and onboard advertising.

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Resilient Business Model and Customer Base. By focusing on leisure and VFR travelers, we have maintained relatively stable unit revenue and profitability during volatile economic periods because we are not highly dependent on premium-fare business traffic, which typically demands a higher cost structure. For example, in 2009, when premium-fare business traffic declined due to the economic recession, our operating revenue per available seat mile, or RASM, declined 1.8% compared to an average U.S. airline industry decline of over 9%. During this same period of volatile fuel prices and global economic recession, we also were able to achieve the highest operating income margin in our history. Based on this performance, we believe our growing customer base is more resilient than the customer bases of most other airlines because our low fares and unbundled service offering appeal to price-sensitive passengers.

Well Positioned for Growth. We are the largest operator of international flights flying out of Fort Lauderdale Hollywood International Airport and are well positioned in the airport s international terminal. From this base in South Florida, we have developed a substantial network of destinations in our targeted Caribbean and Latin American growth markets, profitable U.S. domestic niche markets and high-volume routes flown by leisure and VFR travelers. In the United States, we provide service in the markets from which a significant majority of passengers traveling to the Caribbean and Latin America (including Mexico) originate. From these U.S. markets, our passengers have access to 26 Caribbean and Latin American destinations. With a South Florida base of operations and with our planned fleet growth, we believe we are well positioned to grow profitably as we expand further into these target markets.

Experienced Operator in the Region. We believe we have substantial experience in local aviation, security and customs regulations, local ground operations and flight crew training required for successful international and overwater flight operations. All of our aircraft are certified for overwater operations. We believe we compete favorably against other low-cost carriers because we have been conducting international flight operations since late 2003 and we have developed substantial experience in complying with the various regulations and business practices in our targeted growth regions.

Financial Strength Achieved by Cost Discipline Focus. We believe our ULCC business model has delivered strong financial results in difficult economic times. Our operating income has increased from $32.0 million in 2007 to $111.4 million in 2009. For 2010, our operating income was $68.9 million, reflecting the negative impact of increased fuel prices and our June 2010 pilot strike. In the nine months ended September 30, 2011, our operating income was $106.4 million. We have generated these results by:

- keeping a consistent focus on maintaining low unit operating costs;
- attempting to maintain profitability across our network by selecting viable new routes and quickly reducing or discontinuing routes that do not deliver acceptable margins;
- maintaining disciplined capacity control and fleet size;
- ensuring our sourcing arrangements with key third parties are continually benchmarked against the best industry standards; and
- building upon the established global relationships of our private equity sponsors and management with our key vendors.

Our Strategy

Our goal is to offer compelling value to our customers by utilizing our low-cost structure and unbundled pricing strategy and, in so doing, grow profitably and enhance our position among the leading low-cost carriers in the Americas. Through the following key elements of our business strategy, we seek to:

Maintain Low Unit Operating Costs. We will support our low-fare strategy by seeking to reduce unit operating costs and improve efficiency by, among other things:

deploying additional cost-efficient Airbus A320-family aircraft for high utilization flying;

- spreading our low fixed-cost infrastructure over a larger-scale operation;
- continuing to leverage our Fort Lauderdale base of operations;
- opportunistically outsourcing operating functions;
- using technology to create further operating efficiencies;
- leveraging the labor productivity and scale benefits of our five-year pilot contract; and
- continuing our aggressive procurement strategy.

Couple Low Fares with Expanded Ancillary Services to Stimulate Traffic and Generate More Stable Revenues. Our low unit costs enable us to operate profitably at low-fare levels, and we intend to continue reducing base fares to stimulate demand from price-sensitive customers. By stimulating traffic, our goal is to maximize non-ticket revenues by increasing passenger volume and load factor, which is the percentage of seats actually occupied on a flight. We plan to continue expanding our portfolio of ancillary products and services, through new programs and enhancements to existing offerings. We also seek to maximize revenue opportunities through multiple interactions with customers at different stages of their travel, from pre-purchase through travel and post-trip. As we broaden the ancillary products and services we sell to our customers and increase non-ticket revenues, we believe we will be able to further lower base fares while maintaining profitability, thereby further stimulating demand while adding stability to our revenue stream. Additionally, our innovative fuel pass-through separately shows the fuel cost component of the base fare, providing fare transparency to consumers while encouraging a fare strategy with disciplined cost coverage.

Profitably Expand Our Network in Attractive Caribbean, Latin American and U.S. Domestic Markets. We anticipate further penetrating attractive international and domestic markets currently underserved by low-cost carriers by increasing frequency and aircraft capacity on our existing routes, as well as by starting new routes to cities we do not yet serve. We believe we can accomplish this by:

- using our knowledge of local Caribbean and Latin American markets and expertise in local regulatory and business practices to optimize our route structure and schedule;
- pursuing attractive new route opportunities in markets that limit air carrier competition through frequency or carrier designation restrictions; and
- selectively expanding our presence in markets that are underserved by low-fare carriers or that present opportunity for demand stimulation.

Our experience has historically been that when we enter a new international market, average fares in that market generally decrease and total passenger traffic generally increases.

Leverage Our Brand to Grow Revenue. We will seek to continue generating customer loyalty as the low-fare brand of choice in the markets we serve in order to drive future ticket sales, support further network expansion and increase load factors. In addition, we intend to leverage our customer base in order to increase non-ticket revenues by broadening our brand, product and service offerings. These plans include a focus on increasing sales of itinerary attachments on a commission basis and generating additional fees from proprietary, brand-based services, such as our FREE SPIRIT miles and our $9 Fare Club ultra low-fare subscription service.

Maintain Disciplined Fleet and Network Growth. We employ a disciplined route and fleet expansion strategy that helps us maintain profitability across our network. Our goal is to react quickly to changes in the economic environment and market conditions so each route and each aircraft we operate delivers incremental operating profitability. For example, we modified our growth plan in late 2008 in response to record high fuel prices and rapidly deteriorating economic conditions by terminating leases for seven aircraft. We have committed aircraft deliveries through 2015 that will add 32 new A320-family aircraft to our present fleet of 26 A319, eight A320 and two A321 aircraft. We have also entered into an MOU with Airbus for an additional 75 aircraft.

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Consistent with our ULCC model, the new A320s introduced by us are configured with 178 passenger seats as compared to 150 passenger seats per plane utilized by some of our competitors, including JetBlue Airways. Our current fleet plan calls for growth from 35 aircraft at September 30, 2011 to 68 aircraft by the end of 2015. We expect to use our additional aircraft to add capacity on existing routes in both our targeted growth markets and our higher demand domestic routes, as well as to expand our network footprint. The introduction of higher-capacity A320 aircraft to supplement our current fleet supports reductions in unit costs relative to smaller A319 aircraft and allows us to deploy the right-sized aircraft according to route length, passenger volume and seasonality.

Our Products

We provide low-fare passenger airline service primarily to leisure and VFR travelers. We offer basic passenger airline service for a low fare combined with other optional travel-related products or services for additional fees. Our low fares are designed to stimulate demand from price-sensitive leisure and VFR travelers who might not otherwise have flown to our destinations due to the expense or inconvenience involved in traveling there. Our fares do not require a minimum stay (e.g., Saturday night stay). Our fares consist of a base fare, plus taxes and certain governmental fees, which we break out for our customers so they can see the different components of their total price. In 2010 and the first nine months of 2011, our average base fare was approximately $77 and $82, respectively, and we have offered promotional base fares of $9 or less.

Our non-ticket revenues are generated from air travel-related fees paid by the ticketed passenger through baggage, bookings through our website, call center or third-party vendors, advance seat selection fees, ticket change fees, the sale of food, beverages and other items on board, commissions from the sales of hotel rooms, trip insurance and rental cars and other items related specifically to an itinerary. We view our onboard service as a retail store, with managed inventory levels, a charge for all products and a commission structure designed to incentivize sales. We also sell vacation packages through Spirit Vacations, a one-stop, value-priced vacation website designed to meet customers demand for self-directed packaged travel planning. Spirit Vacations packages offer competitive fares for air travel on Spirit, a selection of Spirit-recommended hotels and resorts, car rentals and attractions.

Our other revenues consist of services not directly related to providing transportation such as our FREE SPIRIT affinity credit card program, $9 Fare Club ultra low-fare subscription service, and the sale of advertising to third parties on our website and on board our aircraft.

Effective August 1, 2010, we instituted a carry-on baggage policy that we believe increases utilization through shorter turn times and allows customers to save more. Under this policy, subject to certain FAA limitations, a bag that can fit under an aircraft seat (although not required to be placed under the seat) may be carried on board free of charge. A second or larger bag may be carried on board for a fee of $30 if reserved at www.spirit.com or $35 if purchased during online check-in or by phone. Members of Spirit s $9 Fare Club receive a $10 discount on carry-on bag fees if purchased during online check-in or by phone prior to arrival at the airport. The carry-on bag fee for all customers if purchased at an airport ticket counter or kiosk is $40, or $45 if purchased at the airport gate. Passengers paying for an additional bag receive priority boarding to allow more time to stow extra luggage. Corresponding with this carry-on baggage policy, many fares were reduced by up to $40 allowing customers to save more by choosing not to bring extra luggage on board.

Competing Based on Total Price

Our goal is to compete based on total price. We believe that other airlines have used an all-inclusive price concept to raise 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, not allowing passengers to see how much they would save if they did not check luggage. We believe that we and our

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customers benefit from allowing customers to know the total price of their travel by breaking out the cost of additional, optional products or services. Customers are then able to compare the total cost of flying with us versus flying another airline.

We recently modified our online booking process to allow our customers to see all available options and their prices prior to purchasing a ticket, and have initiated a campaign that illustrates that our total prices are lower, on average, than our competitors, even when options are included.

Route Network

As of September 30, 2011, we served 47 airports throughout North America, the Caribbean and Latin America. The majority of our routes operate through our South Florida gateway at FLL Airport, approximately 30% of our capacity measured by ASMs for the nine months ended September 30, 2011, and our route network is designed to provide service to the Caribbean and Latin America from South Florida. For the same period, six other niche domestic markets made up the majority of the balance, including Detroit, Michigan, Las Vegas, Nevada, Atlantic City, New Jersey, Chicago, Illinois, Orlando, Florida and Myrtle Beach, South Carolina. These markets help provide seasonal balance to our Caribbean and Latin American routes.

Below is a route map of our current network:

Our South Florida gateway is a key component of our route network and our ULCC strategy. We selected FLL Airport as our base in 2004 due to the strategic and financial benefits it provided, including the geographic proximity to our current and planned flight routes serving the Caribbean and Latin America. FLL Airport is also convenient to a large local market of South Florida residents who are of Caribbean and Latin American descent seeking affordable VFR travel to destinations in those targeted markets. FLL Airport offers us significantly lower operating costs than Miami International Airport and is more centrally located in the broader South Florida market, which spans Palm Beach, Broward and Dade counties. We are presently the largest domestic and international carrier at FLL Airport, offering more nonstop routes than any other carrier, carrying more passengers than any other carrier and operating out of more gates than any other carrier.

Our highest volume U.S. domestic routes that provide leisure traffic to South Florida and, through our South Florida gateway, to our Latin and Caribbean markets, are New York LaGuardia, Washington Reagan, Chicago O Hare, Atlanta, and Atlantic City.

Our network expansion targets underserved and/or overpriced markets. We utilize a rigorous process to identify growth opportunities to deploy new aircraft where we think they will be profitable. To monitor the profitability of each route, we analyze weekly and monthly profitability reports as well as near term forecasting.

Competition

The airline industry is highly competitive. The principal competitive factors in the airline industry are fare pricing, total price, flight schedules, aircraft type, passenger amenities, number of routes served from a city, customer service, safety record and reputation, code-sharing relationships, and frequent flier programs and redemption opportunities. Our competitors and potential competitors include traditional network airlines, low-cost carriers, regional airlines and new entrant airlines. We typically compete in markets served by traditional network airlines and other low-cost carriers, and to a lesser extent regional airlines. Some of our current or future competitors may have greater liquidity and access to capital, and serve more routes, than we do.

Our principal competitors on domestic routes are AirTran Airways, American Airlines, Delta Air Lines and JetBlue Airways. Southwest Airlines and AirTran Airways merged in May 2011, but continue to operate as separate carriers. Our principal competitors for service from South Florida to our growth markets in the Caribbean and Latin America are American Airlines through its hub in Miami and JetBlue Airways through its operations in Fort Lauderdale. Our principal competitive advantage is our low base fares and our focus on the leisure and VFR traveler who pays his or her own travel costs. These low base fares are facilitated by our low unit operating costs, which in 2010 were lower than any of the five major network carriers and lower than the three largest low-cost carriers. We believe our low costs coupled with our non-ticket revenues allows us to price our fares at levels where we can be profitable while our primary competitors cannot. Further, we believe we compete favorably with other low-cost carriers in serving the Caribbean and Latin America because we have been conducting international flight operations since late 2003 and have developed substantial experience in complying with the various regulations and business practices in those targeted growth regions.

The airline industry is particularly susceptible to price discounting because once a flight is scheduled, airlines incur only nominal incremental costs to provide service to passengers occupying otherwise unsold seats. The expenses of a scheduled aircraft flight do not vary significantly with the number of passengers carried and, as a result, a relatively small change in the number of passengers or in pricing could have a disproportionate effect on an airline s operating and financial results. Price competition occurs on a market-by-market basis through price discounts, changes in pricing structures, fare matching, target promotions and frequent flier initiatives. Airlines typically use discount fares and other promotions to stimulate traffic during normally slower travel periods to generate cash flow and to maximize RASM. The prevalence of discount fares can be particularly acute when a competitor has excess capacity that it is under financial pressure to sell. A key element to our competitive strategy is to maintain very low unit costs in order to permit us to compete successfully in price-sensitive markets.

Many airlines have marketing alliances with other airlines, under which they market and advertise their status as marketing alliance partners. Such alliances generally provide for code-sharing, frequent flier program reciprocity, coordinated scheduling of flights to permit convenient connections and other joint marketing activities. Such arrangements permit an airline to market flights operated by other alliance members as its own. This increases the destinations, connections and frequencies offered by the airline, which provide an opportunity to increase traffic on that airline s segment of flights connecting with alliance partners. Competitors that are alliance members with carriers that have designated route and frequency rights in restrictive markets, such as some of the markets we serve in the Americas, often are able to compete advantageously with non-alliance carriers because they can use their code-share arrangements to effectively limit the ability of non-alliance carriers to increase available seat capacity or frequencies in a particular market. Low-cost carriers have not historically been members of any of the three major alliances, OneWorld, SkyTeam and Star Alliance. We currently do not have any alliances with U.S. or foreign airlines. Similarly, regional airlines typically enter into cooperative marketing relationships with one or more major airlines under which the regional airline agrees to use its smaller, lower-cost aircraft to carry passengers booked and ticketed by the major airline between a city served by a major airline and a smaller outlying location.

Distribution

We currently sell our product through three primary distribution channels: our website, our outsourced call center, and third parties such as travel agents who access us through GDS companies (e.g., Amadeus, Galileo, Sabre and Worldspan) and select online travel agents, or OTAs (e.g., Orbitz and Travelocity). Our distribution costs are more than 100% fully covered by our distribution fees. We use our website, www.spirit.com, as the primary platform for ticket sales and 76.5% and 66.6% of our total tickets sold during 2010 and during the nine months ended September 30, 2011, respectively, were through direct internet bookings using our website. After our website, our next largest distribution source is third parties, which represented approximately 14.0% and 23.1% of sales for 2010 and the nine months ended September 30, 2011, respectively. An additional 9.5% and 10.3% of our total tickets sold during 2010 and during the nine months ended September 30, 2011, respectively, were fulfilled through our call center.

Sales through our website represent our lowest cost distribution channel and it is the channel through which we offer our lowest fares. For all other channels, we generally use incrementally higher fares and additional user fees with the objective of causing the users of those other channels to bear the additional costs.

We were among the first carriers to charge customers a fee for making reservations through a call center, instead of online. We have outsourced our call center to a third-party provider and share a percentage of the booking fee received on ticket sales with that provider.

Travel agencies are invited to establish a sales account with us to enable access to the fares offered on our website. We maintain a zero percent standard commission policy for travel agency bookings worldwide unless local regulations mandate them. We also have agreements with all the leading GDS companies. GDSs provide flight schedules and pricing information and allow travel agents to electronically book a flight reservation without contacting our reservations facility. We do not, however, have full content agreements in place with any GDS company, which means we are not required to provide them with access to all of the fares we have on offer on our website. Such an arrangement allows us to sell higher fares through GDSs, thereby covering the cost of these arrangements. Similarly, we have to date released our fares to OTAs only if we are permitted to withhold our lowest fares from this distribution channel. For example, tickets purchased on Travelocity and Orbitz are at prices higher than on our direct website to cover their incremental costs of distribution.

Marketing

We are focused on direct to consumer marketing targeted to our core leisure and VFR customer who pays for his or her own travel costs. Our principal marketing message is our low base fares. Consistent with our ULCC business model, we use a simple marketing message to keep marketing costs low. We spent approximately 0.5% and 0.2% as a percentage of total revenues on advertising for 2010 and the nine months ended September 30, 2011, respectively. We do not engage in general brand or product marketing. Similarly, since our core customers are individual consumers, we do not have a direct marketing or sales function that calls on corporations, government agencies or similar large buyers of business travel.

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Our principal marketing tools are our proprietary email distribution list consisting of over five million email addresses and our $9 Fare Club as well as advertisements in online, television, radio and other channels. Our objective is to use our low prices, price-based promotions and creativity to produce viral marketing programs that are extremely cost effective and achieve outsized website traffic and revenue productivity compared to our competitors. In 2010 and the nine months ended September 30, 2011, the number of unique visitors to our website each month was 3.5 million and 3.9 million, respectively.

The $9 Fare Club is an annual subscription based service that allows members exclusive access to the lowest fares on offer and discounted baggage fees. Much like that of Sam s Club or Costco, where members pay an annual fee in order to obtain volume based discounts, $9 Fare Club members pay $59.95 per year for first access to offerings of low fares. The membership provides benefits such as guaranteed exclusive, member-only fare sales (at least once every six weeks) and private offers on hotels, rental cars and other travel necessities.

Frequent Flier Program

The FREE SPIRIT frequent flier program was initiated in 2006 to develop customer loyalty and enable sales of miles to marketing partners. The FREE SPIRIT MasterCard is the primary vehicle whereby customers earn miles and our frequent flier program is geared specifically towards supporting adoption and continued use of the credit card.

In 2010, FREE SPIRIT travel awards represented less than 1% of our annual tickets. FREE SPIRIT offers award travel on every flight without blackout dates. There are four types of travel awards, Off-Peak, Standard, Peak and Premium, and awards start with as few as 5,000 miles for customers who also hold the FREE SPIRIT MasterCard. Status levels are different than at other programs because all miles are eligible for status whether earned by flying, through bonus miles, special offers, or through spending on the FREE SPIRIT MasterCard. The program also calculates a year-end status level, and currently miles never expire as long as a customer is active at least every six months.

Customers

VFR traffic makes up the largest component of our international traffic and the second largest component of our domestic customers. We believe our VFR customers are the most price sensitive of all of our travelers. Our VFR markets tend to complement our leisure-driven markets from both a seasonal and day of the week perspective. VFR traffic is strongest during the Christmas and New Year season, followed by Easter and summer when children are out of school.

Leisure traffic makes up the second largest component of our international traffic but the majority of our domestic customers. This segment responds well to demand stimulation based on low fares, and South Florida, Myrtle Beach, Atlantic City and Las Vegas all provide among the best values among leisure destinations in the United States. Leisure traffic to the South Florida and the Caribbean is strongest in the winter season, as many seek to leave cold weather where they live, and in the summer, when children are out of school. Traffic to Myrtle Beach and Atlantic City tends to have a single high season that begins in the spring and continues through the fall.

We do not actively target corporate travelers. We believe that many of our customers who use us for business travel are small business travelers who bear their own travel costs, as opposed to those who work at larger companies and very likely have their travel reimbursed. We believe we have limited penetration with large companies due to the fact we do not support high cost corporate sales efforts directed to this consumer segment. To market to larger corporate travelers generally, our schedule, product and distribution mechanisms would have to be modified driving up our overall costs and potentially requiring an increase in fares overall.

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Customer Service

We are committed to building a successful airline by taking care of our customers. We believe focus on excellent customer service in every aspect of our operations including personnel, flight equipment, in-flight and ancillary amenities, on-time performance, flight completion ratios and baggage handling will strengthen customer loyalty and attract new customers. We proactively aim to improve our operations to ensure further improvement in customer service. The DOT publishes statistics regarding measures of customer satisfaction for domestic airlines and can assess civil penalties for failure to comply with certain customer service obligations. For example, we were assessed a civil penalty relating to our prior procedures for bumping passengers from oversold flights and for the handling of lost or damaged baggage in 2009. Our performance under customer service measures for the years ended December 31, 2008, 2009 and 2010 was as follows:

	2008	2009	2010
On-Time Performance (1)(2)	71.6%	75.0%	73.1%
Completion Factor (2)(3)	99.2%	99.3%	97.2%
Mishandled Baggage (2)(4)	6.35	3.09	2.61

(1) Percentage of our scheduled flights that were operated by us that were on-time (within 15 minutes).
(2) As per Part 234 of the DOT regulations, we are not required to report this information to the DOT.
(3) Percentage of our scheduled flights that were operated by us, whether or not delayed (i.e., not cancelled). Includes the impact of cancelled flights due to the June 2010 pilot strike.
(4) Our incidence of delayed, mishandled or lost baggage per 1,000 passengers.

One challenge that we experienced in connection with the implementation of our ULCC business model was an increase in customer complaints lodged with the DOT. This problem was particularly acute in domestic markets that we had been serving for a considerable period. Elements of our new business model, including unbundling services that were previously included in the product (e.g., baggage and onboard food and beverage) and adopting a high density seating configuration in our new aircraft did not necessarily meet the expectations of our former customer base. We engaged in a concerted initiative to address the rate of customer complaints, including enhancing the clarity of the ULCC model and transparent pricing elements of our product at the point of sale.

In response to customer and other demands, we recently modified our online booking process to allow our customers to see all available options and their prices prior to purchasing a ticket, and have initiated a campaign that illustrates our total prices are lower, on average, than our competitors, even when options are included.

Fleet

We fly only Airbus A320-family aircraft, which provides us significant operational and cost advantages compared to airlines that operate multiple fleet types. Flight crews are entirely interchangeable across all of our aircraft, and maintenance, spare parts inventories and other operational support is highly simplified relative to more complex fleets. Due to this commonality among Airbus single-aisle aircraft, we can retain the benefits of a fleet comprised of a single type of aircraft while still having the flexibility to match the capacity and range of the aircraft to the demands of each route.

We have a fleet of 36 Airbus single-aisle aircraft, consisting of 26 A319s, eight A320s and two A321s. The average age of the fleet was 4.5 years at September 30, 2011. All of the existing aircraft were acquired under operating leases. Our current fleet plan calls for growth to 68 aircraft by the end of 2015. We have a contractual purchase commitment with Airbus to acquire 32 Airbus A320-family aircraft through 2015, and we have announced the MOU with Airbus for the acquisition of an additional 75 A320-family aircraft for delivery from 2016 through 2021. We also have a contractual purchase commitment for five additional spare IAE V2500 engines. We may elect to supplement these deliveries by additional acquisitions from the manufacturer or in the open market if demand conditions merit.

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Consistent with our ULCC business model, each of our aircraft is configured with a high density seating configuration. Our A319s accommodate 145 passengers (compared to 120 on United and 124 on US Airways), our A320s accommodate 178 passengers (compared to 138 or 144 on United and 150 on JetBlue and US Airways) and our A321s accommodate 218 passengers (compared to 183 on US Airways).

On November 15, 2011, we jointly announced with Airbus that we had entered into a MOU for a significant addition to our existing aircraft purchase order with Airbus. The MOU, which is non-binding, contemplates an order of 75 A320-family aircraft, consisting of 30 of the existing aircraft model and 45 A320 NEO (New Engine Option) aircraft. These aircraft are in addition to the 32 aircraft not yet delivered under our existing order and would be scheduled for delivery from 2016 through 2021. The new aircraft would provide for growth capacity as well as capacity to replace the 28 aircraft in our present fleet with lease expirations between 2017 and 2020. The order outlined in the MOU is subject to a number of conditions, including the negotiation of definitive documentation and corporate approvals by both Airbus and us.

Maintenance and Repairs

We have an FAA mandated and approved maintenance program, which is administered by our technical services department. Our maintenance technicians undergo extensive initial and ongoing training to ensure the safety of our aircraft.

Aircraft maintenance and repair consists of routine and non-routine maintenance and work performed is divided into three general categories: line maintenance, heavy maintenance and component service. Line maintenance consists of routine daily and weekly scheduled maintenance checks on our aircraft, including pre-flight, daily, weekly and overnight checks and any diagnostics and routine repairs and any unscheduled items on an as needed basis. Line maintenance events are currently serviced by in-house mechanics and supplemented by contract labor and are primarily completed at airports we currently serve. Heavy airframe maintenance checks consist of a series of more complex tasks that can take from one to four weeks to accomplish and typically are required approximately every 20 months. Heavy engine maintenance is performed approximately every four to six years and includes more complex work scope. Due to our relatively small fleet size and projected fleet growth, we believe outsourcing all of our heavy maintenance, such as engine servicing and major part repair, is more economical. Outsourcing eliminates the initial capital requirements inherent in heavy aircraft maintenance. We have entered into a long-term flight hour agreement with IAE for our engine overhaul services and Lufthansa Technik on an hour-by-hour basis for component services. We are also in the process of outsourcing the heavy airframe maintenance to a qualified FAA maintenance provider. These contracts cover all of our aircraft component inventory acquisition, replacement and repairs, thereby eliminating the need to carry expensive spare parts inventory.

Our recent maintenance expenses have been lower than what we expect to incur in the future because of the relatively young age of our aircraft fleet. Our maintenance costs are expected to increase as the frequency of repair increases with the aircraft age. As our aircraft age, scheduled scope of work and frequency of unscheduled maintenance events is likely to increase like any mature fleet. Our aircraft utilization rate could decrease with the increase in aircraft maintenance.

Employees

Our business is labor intensive, with labor costs representing approximately 19.1%, 23.0%, 22.0% of our total operating costs for 2008, 2009, 2010, respectively, and 22.1% and 19.3% for the nine months ended September 30, 2010 and 2011, respectively. As of September 30, 2011, we had 2,445 employees, consisting of 500 pilots, 731 flight attendants, 18 flight dispatchers, 125 mechanics, 738 airport agents/other, and 333 employees in administrative roles. Of these U.S.-based employees, approximately 51% of our employees were represented by labor unions under three different collective-bargaining agreements.

FAA regulations require pilots to have commercial licenses with specific ratings for the aircraft to be flown, and to be medically certified as physically fit to fly. FAA and medical certifications are subject to periodic renewal requirements including recurrent training and recent flying experience. In December 2007, federal legislation was enacted increasing the mandatory retirement age for U.S. commercial airline pilots from age 60 to age 65. Mechanics, quality-control inspectors, and flight dispatchers must be certificated and qualified for specific aircraft. Flight attendants must have initial and periodic competency training and qualification. Training programs are subject to approval and monitoring by the FAA. Management personnel directly involved in the supervision of flight operations, training, maintenance, and aircraft inspection must also meet experience standards prescribed by FAA regulations. All safety-sensitive employees are subject to pre-employment, random, and post-accident drug testing.

The Railway Labor Act, or RLA, governs our relations with labor organizations. Under the RLA, the collective bargaining agreements generally do not expire, but instead become amendable as of a stated date. If either party wishes to modify the terms of any such agreement, they must notify the other party in the manner agreed to by the parties. Under the RLA, after receipt of such notice, the parties must meet for direct negotiations, and if no agreement is reached, either party may request the National Mediation Board, or NMB, to appoint a federal mediator. The RLA prescribes no set timetable for the direct negotiation and mediation process. It is not unusual for those processes to last for many months, and even for a few years. If no agreement is reached in mediation, the NMB in its discretion may declare at some time that an impasse exists, and if an impasse is declared, the NMB proffers binding arbitration to the parties. Either party may decline to submit to arbitration. If arbitration is rejected by either party, a 30-day cooling off period commences. During that period (or after), a Presidential Emergency Board, or PEB, may be established, which examines the parties positions and recommends a solution. The PEB process lasts for 30 days and is followed by another cooling off period of 30 days. At the end of a cooling off period, unless an agreement is reached or action is taken by Congress, the labor organization and the airline each may resort to self-help, including, for the labor organization, a strike or other labor action, and for the airline, the imposition of any or all of its proposed amendments and the hiring of new employees to replace any striking workers. Congress and the President have the authority to prevent self-help by enacting legislation that, among other things, imposes a settlement on the parties. The table below sets forth our employee groups and status of the collective bargaining agreements.

Employee Groups	Representative	Status of Agreement/Amendable Date
Pilots	Airline Pilots Association, International (ALPA)	Agreement in place since 2010. Becomes amendable on August 1, 2015.
Flight Attendants	Association of Flight Attendants (AFA)	Became amendable in August 2007. In negotiation.
Dispatchers	Transport Workers Union (TWU)	Agreement in place since 2007. Becomes amendable in July 2012.

We focus on hiring highly productive employees and, where feasible, designing systems and processes around automation and outsourcing in order to maintain our low-cost base.

Safety and Security

We are committed to the safety and security of our passengers and employees. Some of the safety and security measures we have taken include: aircraft security and surveillance, positive bag matching procedures, enhanced passenger and baggage screening and search procedures, and securing of cockpit doors. We strive to comply with or exceed health and safety regulation standards. In pursuing these goals, we maintain an active aviation safety program and all of our personnel are expected to participate in the program and take an active role in the identification, reduction and elimination of hazards.

Our ongoing focus on safety relies on training our employees to proper standards and providing them with the tools and equipment they require so they can perform their job functions in a safe and efficient manner. Safety in the workplace targets several areas of our operation including: flight operations, maintenance, in-flight, dispatch, and station operations.

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

Facilities

We lease all of our facilities at each of the airports we serve. Our leases for our terminal passenger service facilities, which include ticket counter and gate space, operations support area and baggage service office, generally have a term ranging from month-to-month to 22 years, and contain provisions for periodic adjustments of lease rates. We also are responsible for maintenance, insurance and other facility-related expenses and services. We also have entered into use agreements at many of the airports we serve that provide for the non-exclusive use of runways, taxiways and other facilities. Landing fees under these agreements are based on the number of landings and weight of the aircraft.

We operate primarily out of the international terminal, Terminal 4, at FLL Airport, with occasional use of a gate in Terminal 3. We currently use up to ten gates at Terminal 4. We have preferential access to seven of the Terminal 4 gates, common use access to the remaining three Terminal 4 gates, and common use access to Terminal 3 gates. FLL Airport is planning a Terminal 4 concourse replacement and expansion project, which would expand the number of gates at Terminal 4 to 14. This Terminal 4 concourse expansion would allow us to increase the number of routes we serve from FLL Airport. While FLL Airport does not presently have a curfew on flight operations, the U.S. Customs and Border Protection, or CBP, currently requires international flights to arrive after 5:00 a.m. and by 11:00 p.m. Accordingly, our flight planning for incoming flights from international departure points that do not pre-screen U.S.-bound passengers must accommodate these hours of operation. Take-off and landing slots are not regulated at FLL Airport.

In 2010, in an effort to gain efficiencies, we relocated all of our maintenance operations in Detroit, Michigan to Fort Lauderdale, Florida. The restructuring included the closure of facilities in Detroit, relocation of equipment and tools, and the relocation of a portion of the former Detroit workforce.

Our principal executive offices and headquarters are located in a leased facility at 2800 Executive Way, Miramar, Florida 33025, consisting of approximately 56,000 square feet.

Insurance

We maintain insurance policies we believe are of types customary in the airline industry and as required by the DOT. The policies principally provide liability coverage for public and passenger injury; damage to property; loss of or damage to flight equipment; fire and extended coverage; directors and officers liability; advertiser and media liability; cyber risk liability; fiduciary; and workers compensation and employer s liability. We have obtained third-party war risk (terrorism) insurance through a special program administered by the FAA, resulting in lower premiums than if we had obtained this insurance in the commercial insurance market. Should the government discontinue this coverage, obtaining comparable coverage from commercial underwriters could result in substantially higher premiums and more restrictive terms, if it is available at all. Although we currently believe our insurance coverage is adequate, there can be no assurance that the amount of such coverage will not be changed or that we will not be forced to bear substantial losses from accidents.

Foreign Ownership

Under DOT regulations and federal law, we must be controlled by U.S. citizens. In order to qualify, at least 75% of our stock must be voted by U.S. citizens and our president and at least two-thirds of our board of directors and senior management must be U.S. citizens. We are currently in compliance with these ownership provisions. For a discussion of the procedures we instituted to ensure compliance with these foreign ownership rules, please see Description of Capital Stock Anti-Takeover Provisions of Our Certificate of Incorporation and Bylaws and Limited Voting by Foreign Owners.

Government Regulation

Operational Regulation

The airline industry is heavily regulated, especially by the federal government. Two of the primary regulatory authorities overseeing air transportation in the United States are the DOT and the FAA. The DOT has

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jurisdiction over economic issues affecting air transportation, such as competition, route authorizations, advertising and sales practices, baggage liability and disabled passenger transportation, among other areas, several of which were included in new rules effective in August 2011 relating to, among other things, how airlines handle interactions with passengers through advertising, the reservation process, at the airport and on board the aircraft. The DOT has extended the effective date for certain of these rules. See Risk Factors Restrictions on or increased taxes applicable to fees or other charges for ancillary products and services paid by airline passengers and burdensome consumer protection regulations or laws could harm our business, results of operations and financial condition. The DOT has a pending notice of proposed rulemaking addressing additional accommodations required for passengers with certain disabilities and on December 21, 2011 announced a new final rule related to flight crew duty and rest requirements. We cannot forecast the impact on costs and revenues should some or all of the proposed rules be implemented.

The DOT has authority to issue certificates of public convenience and necessity required for airlines to provide air transportation. We hold a DOT certificate of public convenience and necessity authorizing us to engage in scheduled air transportation of passengers, property and mail within the United States, its territories and possessions and between the United States and all countries that maintain a liberal aviation trade relationship with the United States (known as open skies countries). We also hold DOT certificates to engage in air transportation to certain other countries with more restrictive aviation policies. In 2009, we entered into a consent order with the DOT for our procedures for bumping passengers from oversold flights and our handling of lost or damaged baggage. Under the consent order, we were assessed a civil penalty of $375,000, of which we were required to pay only $215,000 based on an agreement with the DOT and our not having similar violations in the year after the date of the consent order.

The FAA is responsible for regulating and overseeing matters relating to air carrier flight operations, including airline operating certificates, aircraft certification and maintenance and other matters affecting air safety. The FAA requires each commercial airline to obtain and hold an FAA air carrier certificate. This certificate, in combination with operations specifications issued to the airline by the FAA, authorizes the airline to operate at specific airports using aircraft approved by the FAA. As of September 30, 2011, we had FAA airworthiness certificates for all of our aircraft, we had obtained the necessary FAA authority to fly to all of the cities we currently serve and all of our aircraft had been certified for overwater operations. We believe we hold all necessary operating and airworthiness authorizations, certificates and licenses and are operating in compliance with applicable DOT and FAA regulations, interpretations and policies.

International Regulation

All international service is subject to the regulatory requirements of the foreign government involved. We currently operate international service to Aruba, the Bahamas, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Peru and St. Maarten, as well as Puerto Rico and the U.S. Virgin Islands. If we decide to increase our routes to additional international destinations, we will be required to obtain necessary authority from the DOT and the applicable foreign government. We are also required to comply with overfly regulations in countries that lay along our routes but which we do not serve.

International service is also subject to CBP, immigration and agriculture requirements and the requirements of equivalent foreign governmental agencies. Like other airlines flying international routes, from time to time we may be subject to civil fines and penalties imposed by CBP if unmanifested or illegal cargo, such as illegal narcotics, is found on our aircraft. These fines and penalties, which in the case of narcotics are based upon the retail value of the seizure, may be substantial. In the past several years, we have incurred several penalties from CBP, which have not been material in the aggregate. We have implemented a comprehensive security program at our airports to reduce the risk of illegal cargo being placed on our aircraft, and we seek to cooperate actively with CBP and other U.S. and foreign law enforcement agencies in investigating incidents or attempts to introduce illegal cargo.

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Security Regulation

The TSA was created in 2001 with the responsibility and authority to oversee the implementation, and ensure the adequacy, of security measures at airports and other transportation facilities. Since the creation of the TSA, airport security has seen significant changes including enhancement of flight deck security, the deployment of federal air marshals on board flights, increased airport perimeter access security, increased airline crew security training, enhanced security screening of passengers, baggage, cargo and employees, training of security screening personnel, increased passenger data to CBP and background checks. Funding for passenger security is provided in part by a per enplanement ticket tax (passenger security fee) of $2.50 per passenger flight segment, subject to a $5 per one-way trip cap. The TSA was granted authority to impose additional fees on air carriers if necessary to cover additional federal aviation security costs. Pursuant to its authority, the TSA may revise the way it assesses this fee, which could result in increased costs for passengers and/or us. We cannot forecast what additional security and safety requirements may be imposed in the future or the costs or revenue impact that would be associated with complyin