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Spirit Airlines Reports Third Quarter 2017 Results

MIRAMAR, Fla., October 26, 2017 - Spirit Airlines, Inc. (NASDAQ: SAVE) today reported third quarter 2017 financial results.

- GAAP net income for the third quarter 2017 was \$60.2 million (\$0.87 per diluted share), or \$65.5 million (\$0.94 per diluted share)¹ excluding special items.
- GAAP operating margin for the third quarter 2017 was 15.1 percent, or 16.4 percent excluding special items¹.
- Spirit ended the third quarter 2017 with unrestricted cash, cash equivalents, and short-term investments of \$964.4 million.
- Spirit's return on invested capital (non-GAAP, before taxes and excluding special items) for the twelve months ended September 30, 2017 was 18.1 percent².

“Multiple hurricanes during the third quarter 2017 caused us to cancel over 1,650 flights. In preparation for Irma, we relocated our Systems Operations Control Center and over 305 team members and their families to our backup facility in Detroit where we ran our operations for about a week. I am very proud of how the Spirit team pulled together to assist our guests and employees in the regions affected by the storms while keeping the rest of the network running smoothly and still delivering solid financial results. Excluding the impact of these storms, we estimate our third quarter on-time performance would have been 78.5 percent, a 2.2 percentage point improvement year over year,” said Robert Fornaro, Spirit's President and Chief Executive Officer. “It was a challenging quarter on many fronts and I want to thank our entire team for their dedication in going the extra mile to care for our guests and volunteering to assist with the relief efforts.”

Spirit carried over 3,000 guests and more than 800 team members and their families to safety, many of whom were elderly or at risk. We have transported over a 100,000 pounds of relief supplies in joint efforts with the American Red Cross, Airlink Operation, Puerto Rico Care Lift and many others, have pledged to match donations up to \$150,000 to the American Red Cross, and are committed to assist with ongoing relief efforts throughout the Caribbean.

Revenue Performance

For the third quarter 2017, Spirit's total operating revenue was \$687.2 million, an increase of 10.6 percent compared to the third quarter 2016, driven by an 11.2 percent increase in flight volume. During the third quarter 2017, Spirit canceled over 1,650 flights related to Hurricanes Harvey, Irma, and Maria. Spirit estimates these hurricanes, together with the revenue overhang from the pilot work action earlier in the year, negatively impacted third quarter 2017 revenue by approximately \$40 million and operating income by approximately \$39 million.

Total revenue per available seat mile (TRASM) for the third quarter 2017 decreased 6.3 percent compared to the same period last year, primarily driven by lower passenger yields as a result of aggressive competitive pricing action in many of our markets.

On a per passenger flight segment basis, total revenue for the third quarter 2017 decreased 0.5 percent year over year to \$108.96 due to ticket revenue per passenger flight segment decreasing 3.2 percent to \$56.48, partially offset by non-ticket revenue per passenger flight segment increasing 2.6 percent to \$52.48.

Cost Performance

For the third quarter 2017, total GAAP operating expense, including special items of \$8.4 million³, increased 20.0 percent, or \$97.0 million, year over year to \$583.1 million. Adjusted operating expense for the third quarter 2017 increased 20.2 percent, or \$96.4 million to \$574.8 million⁴. The year-over-year increase in both GAAP and adjusted operating expense was primarily driven by an increase in flight volume, higher passenger re-accommodation expense (recorded within other operating expenses), and higher fuel rates.

Aircraft fuel expense increased in the third quarter 2017 by 29.9 percent, or \$36.5 million, compared to the same period last year, due to a 12.2 percent increase in the cost of fuel per gallon and a 15.3 percent increase in fuel gallons consumed.

Spirit reported third quarter 2017 cost per available seat mile ("ASM"), excluding special items and fuel ("Adjusted CASM ex-fuel"), of 5.42 cents⁴, a decrease of 1.1 percent compared to the same period last year. The decrease year over year was primarily driven by lower maintenance and salaries, wages, and benefits per ASM, partially offset by higher passenger re-accommodation expense and depreciation and amortization per ASM.

Labor

Spirit and its pilots, represented by the Air Line Pilots Association, remain in open contract negotiations under the supervision of the National Mediation Board.

Fleet

Spirit took delivery of three new A321ceo aircraft and one new A320ceo aircraft and returned one leased A321ceo aircraft during the third quarter 2017, ending the quarter with 107 aircraft in its fleet.

Share Repurchase Authorization

On October 25, 2017, Spirit's Board of Directors authorized a repurchase program of up to \$100 million in aggregate value of shares of Common Stock, par value \$0.0001 per share, from time to time in open market or privately negotiated transactions. The authorization will expire on October 25, 2018. The timing and amount of any stock repurchases are subject to prevailing market conditions and other considerations.

Recent New Service Announcements

Boston - New Orleans (11/09/17)
Minneapolis-St. Paul - New Orleans (11/09/17)
Newark - New Orleans (11/09/17)
Tampa - New Orleans (11/09/17)
Newark - Las Vegas (11/09/17)
Chicago - West Palm Beach (11/09/17)*

* Seasonal Service Operates 11/9/17- 4/11/18

Conference Call/Webcast Detail

Spirit will conduct a conference call to discuss these results today, October 26, 2017, at 9:00 a.m. ET. A live audio webcast of the conference call will be available to the public on a listen-only basis at <http://ir.spirit.com>. An archive of the webcast will be available under Webcasts & Presentations for 60 days.

About Spirit Airlines:

Spirit Airlines (NASDAQ: SAVE) is committed to offering the lowest total price to the places we fly, on average much lower than other airlines. Our customers start with an unbundled, stripped-down Bare Fare™ and get Frill Control™ which allows them to pay only for the options they choose - like bags, seat assignments and refreshments - the things other airlines bake right into their ticket prices. We help people save money and travel more often, create new jobs and stimulate business growth in the communities we serve. With our Fit Fleet™, the youngest fleet of any major U.S. airline, we operate more than 480 daily flights to 60 destinations in the U.S., Latin America and the Caribbean. Come save with us at www.spirit.com.

Investors are encouraged to read the Company's periodic and current reports filed with or furnished to the Securities and Exchange Commission, including its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, for additional information regarding the Company.

End Notes

- (1) See "Reconciliation of Adjusted Net Income, Adjusted Pre-tax Income, and Adjusted Operating Income to GAAP Net Income" table below for more details.
- (2) See "Calculation for Return on Invested Capital, non-GAAP" table below for more details.
- (3) See "Special Items" table for more details.
- (4) See "Reconciliation of Adjusted Operating Expense to GAAP Operating Expense" table below for more details.

Forward-Looking Statements

Statements in this release and certain oral statements made from time to time by representatives of the Company contain various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), which are subject to the "safe harbor" created by those sections. Forward-looking statements are based on our management's beliefs and assumptions and on information currently available to our management. All statements other than statements of historical facts are "forward-looking statements" for purposes of these provisions. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "project," "predict," "potential," and similar expressions intended to identify forward-looking statements. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Furthermore, such forward-looking statements speak only as of the date of this release. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. Risks or uncertainties (i) that are not currently known to us, (ii) that we currently deem to be immaterial, or (iii) that could apply to any company, could also materially adversely affect our business, financial condition, or future results. References in this report to "Spirit," "we," "us," "our," or the "Company" shall mean Spirit Airlines, Inc., unless the context indicates otherwise. Additional information concerning certain factors is contained in the Company's Securities and Exchange Commission filings, including but not limited to the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K.

SPIRIT AIRLINES, INC.
Condensed Statement of Operations
(unaudited, in thousands, except per share data)

| | Three Months Ended | | | Nine Months Ended | | |
|-------------------------------------|--------------------|------------------|-------------------|-------------------|-------------------|-------------------|
| | September 30, | | Percent Change | September 30, | | Percent Change |
| | 2017 | 2016 | | 2017 | 2016 | |
| Operating revenues: | | | | | | |
| Passenger | \$ 356,207 | \$ 331,004 | 7.6 | \$ 1,027,891 | \$ 900,031 | 14.2 |
| Non-ticket | 331,024 | 290,325 | 14.0 | 952,768 | 843,574 | 12.9 |
| Total operating revenues | 687,231 | 621,329 | 10.6 | 1,980,659 | 1,743,605 | 13.6 |
| Operating expenses: | | | | | | |
| Salaries, wages and benefits | 134,114 | 120,190 | 11.6 | 391,144 | 349,530 | 11.9 |
| Aircraft fuel | 158,300 | 121,844 | 29.9 | 440,376 | 321,018 | 37.2 |
| Aircraft rent | 53,396 | 49,367 | 8.2 | 163,032 | 151,433 | 7.7 |
| Landing fees and other rents | 48,498 | 39,345 | 23.3 | 134,538 | 114,096 | 17.9 |
| Depreciation and amortization | 36,840 | 25,304 | 45.6 | 103,680 | 73,370 | 41.3 |
| Maintenance, materials and repairs | 26,176 | 30,443 | (14.0) | 81,473 | 72,010 | 13.1 |
| Distribution | 29,469 | 25,565 | 15.3 | 85,875 | 73,190 | 17.3 |
| Special charges | 7,853 | 7,355 | nm | 12,629 | 31,609 | nm |
| Loss on disposal of assets | 516 | 423 | nm | 3,114 | 1,166 | nm |
| Other operating | 87,965 | 66,277 | 32.7 | 268,553 | 197,833 | 35.7 |
| Total operating expenses | 583,127 | 486,113 | 20.0 | 1,684,414 | 1,385,255 | 21.6 |
| Operating income | 104,104 | 135,216 | (23.0) | 296,245 | 358,350 | (17.3) |
| Other (income) expense: | | | | | | |
| Interest expense | 15,018 | 11,362 | 32.2 | 41,237 | 29,588 | 39.4 |
| Capitalized interest | (3,203) | (3,067) | 4.4 | (10,125) | (9,163) | 10.5 |
| Interest income | (2,605) | (1,222) | 113.2 | (5,746) | (4,235) | 35.7 |
| Other expense | 114 | 180 | (36.7) | 221 | 407 | (45.7) |
| Total other (income) expense | 9,324 | 7,253 | 28.6 | 25,587 | 16,597 | 54.2 |
| Income before income taxes | 94,780 | 127,963 | (25.9) | 270,658 | 341,753 | (20.8) |
| Provision for income taxes | 34,590 | 46,581 | (25.7) | 100,390 | 125,367 | (19.9) |
| Net income | \$ 60,190 | \$ 81,382 | (26.0) | \$ 170,268 | \$ 216,386 | (21.3) |
| Basic earnings per share | \$ 0.87 | \$ 1.17 | (25.6) | \$ 2.45 | \$ 3.06 | (19.9) |
| Diluted earnings per share | \$ 0.87 | \$ 1.17 | (25.6) | \$ 2.45 | \$ 3.05 | (19.7) |
| Weighted average shares, basic | 69,370 | 69,727 | (0.5) | 69,363 | 70,689 | (1.9) |
| Weighted average shares, diluted | 69,458 | 69,808 | (0.5) | 69,537 | 70,832 | (1.8) |

SPIRIT AIRLINES, INC.
Condensed Statements of Comprehensive Income
(unaudited, in thousands)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-----------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Net income | \$ 60,190 | \$ 81,382 | \$ 170,268 | \$ 216,386 |
| Unrealized gain (loss) on short-term investment securities, net of deferred taxes of \$7, \$3, (\$6) and \$3 | 13 | 4 | (11) | 4 |
| Interest rate derivative losses reclassified into earnings, net of taxes of \$31, \$32, \$92 and \$97 | 53 | 56 | 160 | 170 |
| Other comprehensive income (loss) | \$ 66 | \$ 60 | \$ 149 | \$ 174 |
| Comprehensive income | \$ 60,256 | \$ 81,442 | \$ 170,417 | \$ 216,560 |

SPIRIT AIRLINES, INC.
Condensed Balance Sheets
(unaudited, in thousands)

| | September 30, 2017 | December 31, 2016 |
|---|-----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 863,680 | \$ 700,900 |
| Short-term investment securities | 100,732 | 100,155 |
| Accounts receivable, net | 46,235 | 41,136 |
| Aircraft maintenance deposits, net | 166,386 | 87,035 |
| Prepaid expenses and other current assets | 67,707 | 46,619 |
| Total current assets | 1,244,740 | 975,845 |
| Property and equipment: | | |
| Flight equipment | 2,017,888 | 1,461,525 |
| Ground property and equipment | 148,324 | 126,206 |
| Less accumulated depreciation | (183,065) | (122,509) |
| | 1,983,147 | 1,465,222 |
| Deposits on flight equipment purchase contracts | 304,732 | 325,688 |
| Long-term aircraft maintenance deposits | 138,672 | 199,415 |
| Deferred heavy maintenance, net | 87,566 | 75,534 |
| Other long-term assets | 112,085 | 110,223 |
| Total assets | \$ 3,870,942 | \$ 3,151,927 |
| Liabilities and shareholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 30,961 | \$ 15,193 |
| Air traffic liability | 276,933 | 206,392 |
| Current maturities of long-term debt | 105,958 | 84,354 |
| Other current liabilities | 249,132 | 226,011 |
| Total current liabilities | 662,984 | 531,950 |
| Long-term debt, less current maturities | 1,214,138 | 897,359 |
| Deferred income taxes | 406,080 | 308,143 |
| Deferred gains and other long-term liabilities | 17,204 | 19,868 |
| Shareholders' equity: | | |
| Common stock | 7 | 7 |
| Additional paid-in-capital | 557,772 | 551,004 |
| Treasury stock, at cost | (219,930) | (218,692) |
| Retained earnings | 1,233,901 | 1,063,633 |
| Accumulated other comprehensive loss | (1,214) | (1,345) |
| Total shareholders' equity | 1,570,536 | 1,394,607 |
| Total liabilities and shareholders' equity | \$ 3,870,942 | \$ 3,151,927 |

SPIRIT AIRLINES, INC.
Condensed Statement of Cash Flows
(unaudited, in thousands)

| | Nine Months Ended September 30, | |
|---|--|-------------------|
| | 2017 | 2016 |
| Operating activities: | | |
| Net income | \$ 170,268 | \$ 216,386 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Losses reclassified from other comprehensive income | 252 | 267 |
| Equity-based compensation | 6,723 | 5,503 |
| Allowance for doubtful accounts (recoveries) | (53) | 213 |
| Amortization of deferred gains and losses and debt issuance costs | 6,415 | 3,837 |
| Depreciation and amortization | 103,680 | 73,370 |
| Deferred income tax expense | 97,834 | 77,627 |
| Loss on disposal of assets | 3,114 | 1,166 |
| Lease termination costs | 12,629 | 31,609 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (5,046) | (7,840) |
| Aircraft maintenance deposits, net | (28,422) | (38,299) |
| Prepaid income taxes | (160) | 66,218 |
| Long-term deposits and other assets | (81,622) | (43,252) |
| Accounts payable | 13,829 | (7,044) |
| Air traffic liability | 70,540 | 21,963 |
| Other liabilities | 16,152 | 38,317 |
| Other | 339 | — |
| Net cash provided by operating activities | 386,472 | 440,041 |
| Investing activities: | | |
| Purchase of available-for-sale investment securities | (96,851) | (100,076) |
| Proceeds from the maturity of available-for-sale investment securities | 95,881 | — |
| Proceeds from sale of property and equipment | — | 50 |
| Pre-delivery deposits for flight equipment, net of refunds | (121,702) | (109,260) |
| Capitalized interest | (8,054) | (7,032) |
| Purchase of property and equipment | (428,061) | (447,455) |
| Net cash used in investing activities | (558,787) | (663,773) |
| Financing activities: | | |
| Proceeds from issuance of long-term debt | 405,827 | 378,569 |
| Proceeds from stock options exercised | 45 | 92 |
| Payments on debt and capital lease obligations | (63,643) | (29,663) |
| Excess tax (deficiency) benefit from equity-based compensation | — | (497) |
| Repurchase of common stock | (1,238) | (102,390) |
| Debt issuance costs | (5,896) | (107) |
| Net cash provided by financing activities | 335,095 | 246,004 |
| Net (decrease) increase in cash and cash equivalents | 162,780 | 22,272 |
| Cash and cash equivalents at beginning of period | 700,900 | 803,632 |
| Cash and cash equivalents at end of period | \$ 863,680 | \$ 825,904 |
| Supplemental disclosures | | |
| Cash payments for: | | |
| Interest, net of capitalized interest | \$ 22,541 | \$ 26,025 |
| Income taxes paid, net of refunds | \$ 4,352 | \$ (18,169) |
| Non-cash transactions: | | |
| Capital expenditures funded by capital lease borrowings | \$ (1,370) | \$ (31) |

SPIRIT AIRLINES, INC.
Selected Operating Statistics (unaudited)

| Operating Statistics | Three Months Ended September 30, | | Change |
|--|----------------------------------|-----------|-----------|
| | 2017 | 2016 | |
| Available seat miles (ASMs) (thousands) | 7,681,312 | 6,507,204 | 18.0% |
| Revenue passenger miles (RPMs) (thousands) | 6,452,529 | 5,599,370 | 15.2% |
| Load factor (%) | 84.0 | 86.0 | (2.0) pts |
| Passenger flight segments (thousands) | 6,307 | 5,674 | 11.2% |
| Block hours | 112,701 | 98,586 | 14.3% |
| Departures | 42,599 | 38,310 | 11.2% |
| Total operating revenue per ASM (TRASM) (cents) | 8.95 | 9.55 | (6.3)% |
| Average yield (cents) | 10.65 | 11.10 | (4.1)% |
| Average ticket revenue per passenger flight segment (\$) | 56.48 | 58.34 | (3.2)% |
| Average non-ticket revenue per passenger flight segment (\$) | 52.48 | 51.17 | 2.6% |
| Total revenue per passenger flight segment (\$) | 108.96 | 109.51 | (0.5)% |
| CASM (cents) | 7.59 | 7.47 | 1.6% |
| Adjusted CASM (cents) (1) | 7.48 | 7.35 | 1.8% |
| Adjusted CASM ex-fuel (cents) (2) | 5.42 | 5.48 | (1.1)% |
| Fuel gallons consumed (thousands) | 90,274 | 78,288 | 15.3% |
| Average economic fuel cost per gallon (\$) | 1.75 | 1.56 | 12.2% |
| Aircraft at end of period | 107 | 89 | 20.2% |
| Average daily aircraft utilization (hours) | 11.6 | 12.3 | (5.7)% |
| Average stage length (miles) | 1,006 | 968 | 3.9% |

| Operating Statistics | Nine Months Ended September 30, | | Change |
|--|---------------------------------|------------|-----------|
| | 2017 | 2016 | |
| Available seat miles (ASMs) (thousands) | 21,851,789 | 18,909,627 | 15.6% |
| Revenue passenger miles (RPMs) (thousands) | 18,285,588 | 16,219,093 | 12.7% |
| Load factor (%) | 83.7 | 85.8 | (2.1) pts |
| Passenger flight segments (thousands) | 18,083 | 16,268 | 11.2% |
| Block hours | 326,033 | 290,529 | 12.2% |
| Departures | 123,492 | 111,495 | 10.8% |
| Total operating revenue per ASM (TRASM) (cents) | 9.06 | 9.22 | (1.7)% |
| Average yield (cents) | 10.83 | 10.75 | 0.7% |
| Average ticket revenue per passenger flight segment (\$) | 56.84 | 55.32 | 2.7% |
| Average non-ticket revenue per passenger flight segment (\$) | 52.69 | 51.85 | 1.6% |
| Total revenue per passenger flight segment (\$) | 109.53 | 107.17 | 2.2% |
| CASM (cents) | 7.71 | 7.33 | 5.2% |
| Adjusted CASM (cents) (1) | 7.64 | 7.15 | 6.9% |
| Adjusted CASM ex-fuel (cents) (2) | 5.62 | 5.45 | 3.1% |
| Fuel gallons consumed (thousands) | 254,871 | 225,851 | 12.8% |
| Average economic fuel cost per gallon (\$) | 1.73 | 1.42 | 21.8% |
| Average daily aircraft utilization (hours) | 11.7 | 12.6 | (7.1)% |
| Average stage length (miles) | 991 | 978 | 1.3% |

(1) Excludes special items.

(2) Excludes economic fuel expense and special items.

The Company is providing a reconciliation of GAAP financial information to non-GAAP financial information as it believes that non-GAAP financial measures provide management and investors the ability to measure the performance of the Company on a consistent basis. These non-GAAP financial measures have limitations as analytical tools. Because of these limitations, determinations of the Company's operating performance excluding unrealized gains and losses or special items should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP.

Special Items (unaudited)

| (in thousands) | Three Months Ended | |
|--|--------------------|----------|
| | September 30, | |
| | 2017 | 2016 |
| Operating special items include the following (1): | | |
| Loss on disposal of assets | 516 | 423 |
| Special charges | 7,853 | 7,355 |
| Total operating special items | \$ 8,369 | \$ 7,778 |

Reconciliation of Adjusted Operating Expense to GAAP Operating Expense (unaudited)

| (in thousands, except CASM data in cents) | Three Months Ended | |
|--|--------------------|------------|
| | September 30, | |
| | 2017 | 2016 |
| Total operating expenses, as reported | \$ 583,127 | \$ 486,113 |
| Less operating special items (1) | 8,369 | 7,778 |
| Adjusted operating expenses, non-GAAP (2) | 574,758 | 478,335 |
| Less: Economic fuel expense | 158,300 | 121,844 |
| Adjusted operating expenses excluding fuel, non-GAAP (3) | \$ 416,458 | \$ 356,491 |
| Available seat miles | 7,681,312 | 6,507,204 |
| CASM (cents) | 7.59 | 7.47 |
| Adjusted CASM (cents) (2) | 7.48 | 7.35 |
| Adjusted CASM ex-fuel (cents) (3) | 5.42 | 5.48 |

- (1) Special items include loss on disposal of assets and special charges. Special charges are primarily related to lease termination costs.
(2) Excludes operating special items.
(3) Excludes operating special items and economic fuel expense.

**Reconciliation of Adjusted Net Income, Adjusted Pre-Tax Income, and Adjusted Operating Income to GAAP Net Income
(unaudited)**

| (in thousands, except per share data) | Three Months Ended | |
|---|---------------------------|-------------------|
| | September 30, | |
| | 2017 | 2016 |
| Net income, as reported | \$ 60,190 | \$ 81,382 |
| Add: Provision for income taxes | 34,590 | 46,581 |
| Income before income taxes, as reported | 94,780 | 127,963 |
| <i>Pre-tax margin, GAAP</i> | <i>13.8%</i> | <i>20.6%</i> |
| Add operating special items (1) | \$ 8,369 | \$ 7,778 |
| Adjusted income before income taxes, non-GAAP (2) | 103,149 | 135,741 |
| <i>Adjusted pre-tax margin, non-GAAP (2)</i> | <i>15.0%</i> | <i>21.8%</i> |
| Add: Total other (income) expense | 9,324 | 7,253 |
| Adjusted operating income, non-GAAP(2) | 112,473 | 142,994 |
| <i>Adjusted operating margin, non-GAAP(2)</i> | <i>16.4%</i> | <i>23.0%</i> |
| Provision for adjusted income taxes (3) | 37,644 | 49,412 |
| Adjusted net income, non-GAAP (2)(3) | \$ 65,505 | \$ 86,329 |
| Weighted average shares, diluted | 69,458 | 69,808 |
| Adjusted net income per share, diluted (2)(3) | \$0.94 | \$1.24 |
| Total operating revenues | \$ 687,231 | \$ 621,329 |

(1) See "Special Items" for more details.

(2) Excludes operating special items.

(3) Assumes same marginal tax rate as is applicable to GAAP net income.

The Company tracks a non-GAAP calculation of Return on Invested Capital "ROIC", as a way of measuring our efficiency in delivering returns and in allocating capital. We calculate ROIC as Adjusted Operating Income (non-GAAP), divided by Total Invested Capital (non-GAAP), on a pre-tax and after-tax basis, expressed as a percentage.

Because a substantial portion of our aircraft fleet is held under operating leases, which do not appear on the balance sheet, a GAAP-based calculation of our total capital deployed may be considered understated (which would have the effect of overstating ROIC, if calculated solely using GAAP line items). Accordingly, we adjust our total capital, the denominator of the ROIC measurement, by capitalizing operating leases at a multiple of seven times our aircraft rent expense, a measure used commonly in the airline industry and by analysts.

To calculate Adjusted Operating Income (non-GAAP), we add back aircraft rent to GAAP operating income, consistent with the adjustment to total capital discussed above. In order to remove the effects of non-recurring gains and losses that may affect GAAP operating income, we also exclude special items from Adjusted Operating Income (non-GAAP). We present Adjusted Operating Income (non-GAAP) on a pre-tax basis and present Adjusted Operating Income (non-GAAP) on an after-tax basis, using our effective tax rate for the period.

Calculation of Return on Invested Capital, non-GAAP (unaudited)

| (in thousands) | Twelve Months Ended | |
|--|----------------------------|------------------|
| | September 30, 2017 | |
| Operating income | \$ | 381,556 |
| Add operating special items (1) | | 24,344 |
| Adjustment for aircraft rent | | 213,274 |
| Adjusted operating income, non-GAAP | | 619,174 |
| Tax (37.2%) (2) | | 230,333 |
| Adjusted operating income, after-tax, non-GAAP | \$ | 388,841 |
| Invested capital: | | |
| Total debt | \$ | 1,320,096 |
| Book equity | | 1,570,536 |
| Less: Unrestricted cash, cash equivalents & short-term investments | | 964,412 |
| Add: Capitalized aircraft operating leases (7x Aircraft Rent) | | 1,492,918 |
| Total invested capital, non-GAAP | \$ | 3,419,138 |
| Return on invested capital (ROIC), pre-tax, non-GAAP | | 18.1% |
| Return on invested capital (ROIC), after-tax, non-GAAP (2) | | 11.4% |

(1) See "Special Items" for more details.

(2) Assumes same marginal tax rate as is applicable to GAAP net income for the twelve months ended September 30, 2017.

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