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**MANAGEMENT DISCUSSION SECTION**

Operator: Welcome to the Allegiant Travel Company's Third Quarter 2009 Financial Results Conference Call. We have on the call today Mr. Maury Gallagher, Company's Chairman and CEO and Andrew Levy, President and CEO of the company.

Today's comments will begin with Maury Gallagher, followed by Andrew Levy. After their prepared remarks we'll hold a short question-and-answer session.

We wish to remind listeners to this webcast that the company's comments today will contain forward-looking statements that are only predictions and involve risks and uncertainties. Forward-looking statements made today may include, among others, references to future performance and any comments about strategic plans.

There are many risk factors that could prevent us from achieving our goals and cause the underlying assumptions of these forward-looking statements and our actual results to differ materially from those expressed in or implied by our forward-looking statements. These risk factors and others are more fully discussed in our filings with the Securities and Exchange Commission. Any forward-looking statements are based on information available to us today and we undertake no obligation to update publicly any forward-looking statements whether as a result of future events, new information or otherwise.

The Company cautions users of this presentation not to place undue reliance on forward-looking statements which may be based on assumptions and anticipated events that do not materialize. The Earnings Release as well as a rebroadcast of this call are available at the Company's Investor Relations site [IR.AllegiantTravel.com](http://IR.AllegiantTravel.com).

At this time, I would like to turn the call over to Mr. Maury Gallagher for opening remarks.

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**Maurice J. Gallagher Jr., Chairman and Chief Executive Officer**

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Thank you, operator. Good morning, everyone. It's a pleasure again to be with you for this quarterly call. Joining me today on our side of the phone is our new President Andrew Levy. Last Friday, our Board elected Andrew to this post. I am terribly excited to have Andrew as President as we move forward and he won't be the other CEO, he'll just be the CFO and so we wanted to make sure we all understood that part at least.

We are pleased with our outcome this quarter. Our third quarter is typically our weakest of the fourth. Some highlights. We achieved a 60.5% operating margin, our best ever for the third quarter. We had an operating profit in September, first time in our Company's history. Revenues actually grew year-over-year almost 14% while we expect everyone else will be reporting declines. This is the 27th consecutive profitable quarter and this is our fourth quarter in a row with double-digit margins. I might add during these four quarters we have generated an average 24% operating margin.

Lastly, we generated our record margin this quarter in spite of a 13% increase in fuel compared to our second quarter. On the revenue front our scheduled service TRASM was just short of \$0.10 including ancillary. And that's equal to our second quarter TRASM as well. Our total schedule service average fare increased \$3 or 3% from \$97 in Q2 to \$100 this quarter. This is the first time since Q3 last year we've not had a sequential decline in TRASM and associated average fare.

Additionally, the ancillary average fare had a dollar increase this quarter to 33.35, compared to the second quarter's average of 32.36. This \$33 per passenger represents the second highest ancillary average fare in our history given our peak in 2008 was \$32 per passenger. This year we've seen

the ancillaries stay in a tight range from \$34 in the first quarter, 32 as I mentioned in the second quarter and now the dollar increase to \$33 for this quarter.

In today's revenue environment, I believe this is particularly impressive. Additionally, we achieved this \$33 average ancillary fare while carrying 41% more scheduled service passengers this quarter than a year ago. This portion of our revenues continues to demonstrate strong consistency quarter-over-quarter compared to selling fares.

On that front I'm happy to report we appear to have seen the bottom. Our scheduled service selling fare RASM held its own at \$0.0665. Same as Q2's while the average selling fare actually increased almost \$2 or 3%. While these totals represent over a 20% year-over-year decline, we are pleased the trend seems to be headed in the right direction. We had a great deal of growth this quarter as well, almost 3,000 additional scheduled service departures or 47.5% more than Q3 last year.

Approximately 75% of these increased departures this quarter were in new routes not operated in the same period last year, including our Southern California service, growth to and from Phoenix and East Coast growth to new designations such as Myrtle Beach and Punta Gorda. In particular, we had 18% of our departures in Phoenix and Southern California, compared to just 6% in Phoenix this summer of 2008. I'm happy to report our expansion in these markets has proven to be quite successful as well. In fact, our new Southern California service had a 20% operating profit in only the second full month.

Looking forward, we are encouraged by the pickup in revenues we're beginning to see. November and December fares are noticeably ahead of where we were in the past two quarters. We have to go back to Q1 to find fares comparable to where we stand at this point in November. Still have a ways to go but the trend is indeed encouraging.

Going forward, we are moderating our growth, particularly given the recent rise in crude oil prices. As long as 90 days ago, we began reducing Q4 capacity as we understood the level of decline in revenues and more recently as oil prices have moved up. We are guiding to only a 15% increase in departures in the fourth quarter and 7% increase in Q1 2010 departures. We need to keep a balance between our cost of fuel and fares. This balance was more reasonable in the first two quarters of this year. Therefore, limiting capacity is the proper path, just as we did in the first half of 2008.

I'm very pleased as well with the way our system has matured in the past year. We now own 46 aircraft and operate 44. We have service to 69 cities including 58 small cities with 127 routes. This is a 30% increase over last year's 97 routes. But we only have competition on six of these individual routes. Geographically our 69 cities cover most of the country. This network is providing us with a number of advantages.

As an example, when we opened our Southern California new destination, we added 13 routes yet only opened two cities. Given our years of service in many of these 13 cities, we were able to quickly generate a high degree of interest from many of our customers and these smaller markets looking to travel to the Southern California market, yet we did this with a minimum amount of promotion and advertising.

Additionally, we are seeing the power of our word of mouth network. Our sales data for Q3 this year indicated almost 40% of our sales for our Southern California market originated in Southern California itself. Yet we have not spent any money advertising in this part of the world.

In closing, I want to comment on the durability of the model we have built. Once again, our results point to our focus on generating profits. When we were on our road show in late 2006 we told potential investors our primary goal was to generate profits – good profits, high profits. We suggested at the time we were focused on achieving double-digit margins.

It's been three years since that time and during these 12 quarters we have averaged just short of a 16% operating margin overall during this time. During perhaps I might add what is perhaps the most difficult operating environment in the history of this industry going from record high fuel prices in last year and to an unprecedented drop in demand from this great recession this past 12 months.

We have been profitable in each quarter and have had double-digit operating margin percentages in all but three of these quarters and two of these three quarters had fuel above \$3.40 per gallon. We believe our ability to sustain this type of performance particularly with our predictable ancillary revenues is very good. This is not so much a prediction but rather a continuation of what we have been doing.

In closing, I want to mention we were recently named by Forbes in their survey of the top 200 small companies in the U.S. as the number two Company in that list. Rankings are based on earnings growth, sales growth and return on equity in the past 12 months as well as the past five years. It is a very good tribute to our team members to receive this ranking. Everyone has worked exceptionally hard to build this terrific Company and to be acknowledged for these results is a great tribute. Andrew?

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#### Andrew C. Levy, President and Chief Financial Officer

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Thanks, Maury. We're very proud to announce our 27th consecutive profitable quarter. Let me first highlight our balance sheet and liquidity. We ended the quarter with unrestricted cash and short-term investments of 222.4 million, down from 228.2 million at the end of the prior quarter.

Excluding air traffic liability, cash decreased slightly to 138.1 million, from 138.3 million at the end of 2Q '09, despite \$5.8 million in CapEx, and \$6.8 million for the purchase of shares of common stock under our share repurchase program.

Of the 5.8 million of CapEx, \$2.8 million was for the purchase of three aircraft for part-out, 1.3 million was for improvements made to aircraft prior to its placement into service and 1.7 million was for the purchase of ground service equipment and other miscellaneous items.

We are very pleased that our continued profitability and excellent balance sheet have permitted us to grow the business and at the same time return some of our capital to the owners of our Company. Under our share repurchase program, which started in 1Q '08, we have returned \$40.2 million through the purchase of almost 1.2 million shares, at an average price per share of \$33.75.

As noted in the release, we have room under our existing program to continue to opportunistically repurchase our shares. We ended the quarter with \$54.8 million in debt, down from 60.7 million at the end of the prior quarter. We expect our debt at year end to decline to \$45.5 million, and it is projected to be \$22.2 million at year end 2010, assuming we fund our projected 2010 fleet growth through aircraft acquisitions for cash, which is our current expectation. Our profitability and leverage ratios continue to improve. Over the last 12 months ended 3Q '09, our return on equity is 33.9%, our return on capital is 29.4%, and our debt-to-equity ratio is only 19.5%.

Moving to the income statement, Maury has discussed trends in scheduled service and ancillary revenue so I will focus on fixed fee contract revenue and system costs. Our fixed fee contract revenue was \$11.3 million in 3Q '09, up 1.8 million over 2Q '09 but down from the prior year period.

Due to the structural change in our Harrah's charter contract, which has been described in great detail on prior occasions, the sequential comp is more relevant. \$1.4 million of the sequential increase is due to a full quarter of our Cuba flying, which contributed less than one month during 2Q '09. As we have previously disclosed, we elected to cease flying under this program and the

vast majority of our work is complete with very limited amounts of flying scheduled in October and none thereafter.

We expect other ad hoc fixed fee flying opportunities to compensate for the lack of revenue from the Cuba program. Further, the closing of our operation in Miami will reduce our costs, particularly in station operations. Regarding our Harrah's flying, we were recently advised of their decision to close the Reno program which we have operated since January 2002.

The aircraft based in Reno will relocate to Laughlin, Nevada, where we currently have one aircraft. We expect the consolidation of these two programs will result in a small reduction in total hours and revenue, but we expect to be able to reduce our costs in several expense categories due to the efficiencies gained by having a larger base in Laughlin.

Nonetheless, the closure of Reno is disappointing but we are pleased that many of the outstanding team members in our Reno base, including pilots, flight attendants, mechanics and station personnel will be relocating to other Allegiant bases.

As is customary, Harrah's will substantially reduce flying in the last two weeks of December. Primarily due to this seasonal reduction in flying, we expect fixed fee contract revenue to be approximately 15% lower in fourth quarter '09 as compared with third quarter '09.

Our cost management continues to be outstanding. Cost per passenger excluding fuel declined 5.7% to \$50.31 from \$53.33 in 3Q '08; but was up 8.5% from 46.38 in 2Q '09. A 6.8% reduction in departures compared with 2Q '09 put upward pressure on unit costs in the third quarter. Our ex-fuel cost per ASM of \$0.0499 cents increased 7.3% sequentially, but was 9.1% lower than in 3Q '08.

Aircraft fuel expense declined by 22.9% to \$43.8 million from 56.8 million in 3Q '08. The expense reduction is due to a 45% decline in system fuel costs per gallon from \$3.44 to \$1.88, which overwhelmed a 41% increase in fuel gallons consumed during the prior – during this quarter. Fuel expense per passenger declined 44% to almost \$33 from \$58 a year ago. While fuel comps were positive compared to 3Q '08; on a sequential basis fuel expense was 4.6% higher than in 2Q '09 despite system consumption being down 7.3%. The increase is due to an increase in fuel costs per gallon of \$0.22, from \$1.66 in 2Q '09 to \$1.88 in 3Q '09.

Turning to maintenance and repairs, our 3Q '09 expense per aircraft per month was \$98,000, down 2.1% from 2Q '09, but up 8.2% compared with 3Q '08. We expect maintenance and repairs expense for aircraft to be substantially higher in 4Q '09, approximately 120 to \$130,000, due to increased engine maintenance and more substantial aircraft heavy maintenance events scheduled for this fourth quarter.

I'll finish with a few thoughts on capacity. As noted in the release, planned growth in 4Q '09 is more modest than in 3Q '09, and growth in first quarter of '10 is even more restrained. We pulled back on our planned fourth quarter growth during one of the periodic run-ups in fuel to the \$75 barrel mark, not too long after looking at the June revenue results. The combination of June's higher fuel prices and its anemic revenue caused us to take a more conservative view on our fourth quarter plans.

Growth in the fourth quarter is now going to be entirely from markets we did not serve in the fourth quarter of last year. In fact, on a same store sales basis, capacity is actually slightly down for the quarter. We also reduced our network growth plans and put into place only about half of everything we initially considered in terms of new routes. Consequently, we've somewhat pulled our punches going into the winter period. However, some upside in capacity may be possible in the first quarter, from what we're showing at the moment. That said, one or two routes remain on the bubble in terms of cuts as well. As always, we will move quickly to adjust our capacity up or down in order to maximize our profitability.

Lastly, we indicated in our guidance we expect to end 2010 with at least 52 aircraft. Since we planned to retire one MD87 aircraft at the end of 1Q of '10, 52 aircraft at the end of 2010 implies adding seven more MD80 aircraft over the course of the year. We are actively involved in discussions with owners of aircraft which would be very suitable additions to our fleet. We expect to have further details on these plans in the coming weeks.

Thank you and we'll be happy to take your questions now.

## QUESTION AND ANSWER SECTION

Operator: We will now begin our Q&A session. [Operator instructions] And we'll go first to Bill Greene of Morgan Stanley.

**<Q – William Greene>**: Yeah. Hi there. Good afternoon. I am wondering, if we could talk a little about some of the comments you made on the aircraft in the release. You guys have certainly done a remarkable job stressing to us and then delivering on sort of flexibility in your business model, particular as it relates to the capital investment and there are countless examples as you well know in the industry of companies that generate terrible returns with new assets that they've put in place.

And so how do we think about what Allegiant's going to do here. I know you're trying to be very transparent to the market and whatnot, but it's just not clear to me that the math can work on new planes. What gives you the confidence that Allegiant can be different in that regard?

**<A – Maurice Gallagher, Jr.>**: Bill, it's Maury. At this point in time -we're – well, back up, we have constantly looked at airplanes over the past four years, five years, Boeing, Airbus and particular narrow bodies make a lot of sense potentially for us longer term. In the near term, however, we're just very focused on continuing to do what we do. Andrew mentioned the interest in another transaction for adding airplanes, MD-80s in the next few weeks, possible announcement, things like that.

So, that's our focus right now. We'd rather not comment on economics for new airplanes or things of that nature at this point because it's not an immediate focus of ours but I think it's safe to say over time we will have to transition from the MD-80. Is that time next week? Next year? No. We'll be in the MD-80 many, many years. So that's where we sit at this point in time.

**<Q – William Greene>**: Okay, that's fair. Maybe I can ask a quick question as well for – well congrats to you Andrew on your new role. I'm wondering if this suggests that you won't be replacing Ponder. Is -- do you have sort of the management team in place as you want it, Maury, where you've got all of the talents there that you want to see or do you -- did the three sort of person structure, is that something you want to replace? How are you kind of thinking about what Andrew's role is going to be here now in a dual sense and where you want to take it?

**<A – Maurice Gallagher, Jr.>**: Well, Bill, I think we're transitioning. We had I would call it more of a partnership in the early days. It was the three amigos if you will and we really work very well together. I think as we've gotten bigger and we get to the state we're at -- public now for three years it's -- we probably need to transition to a more traditional structure where you have the CEO, President, type of thing.

Someone heading up marketing, Ponder was invaluable in that process. But we also have a deep and wide management team and his immediate day-to-day chores were split up amongst some different management players and at this point in time we could use some additional depth I think in marketing through the web, perhaps, but at this juncture, there's no instant plans to do anything. Andrew's going to pick up the marketing and sales effort as you saw in the release and I think that's a good structure for the immediate future.

**<Q – William Greene>**: Okay. Just one quick follow-up, just on -- I think you mentioned you're going to raise your bag fees and I'm wondering if you can talk at all about how that will affect fourth quarter, whether it's ancillary per passenger or when it kind of comes in and how that will affect the numbers?

**<A – Andrew Levy>**: Yes, Bill, this is Andrew. We have raised our bag fees. Most of our markets the first bag is now \$20. We raised the fees assuming that we'll be able to capture more incremental revenue and we'll see if that's the case. So, we're working on all the different products that we have on the ancillary side of the ledger, trying to figure out ways to maximize revenue for

each and every one of those and we hope to be able to continue to keep ancillary at these levels. If not, hopefully improve the performance over time.

**<A – Maurice Gallagher, Jr.>**: Bill, I would just add. I think we've actually, on an absolute basis, raised ancillary revenues because it hasn't gone down to speak of, given the compression in all the other fares. I'm very pleased about that whole aspect of the company.

**<Q – William Greene>**: All right. Thanks for the time, guys.

**<A – Maurice Gallagher, Jr.>**: Sure.

Operator: And we'll go next to Duane Pfennigwerth of Raymond James.

**<Q – Duane Pfennigwerth>**: Hi, thanks, good morning. Just in terms of the sequential improvement in fare that you talked about into the fourth quarter, I think the comment was tracking in line with 1Q or maybe you haven't seen that level since 1Q, so, just checking, do you think, you could hit the 109 posted in the first quarter here in the fourth quarter?

**<A – Maurice Gallagher, Jr.>**: I don't want to go there, Duane. We don't want to make that kind of forecast. It's better. I'll say that. But it's -- I wouldn't -- I don't want to leave expectations out there of anything like that.

**<Q – Duane Pfennigwerth>**: Okay. I guess in a more general sense, so we're trying to play catch-up with fuel prices. Who knows what fuel's going to be but given what we see today, do you think you can deliver more profit in the fourth quarter than you did in the third quarter?

**<A – Maurice Gallagher, Jr.>**: Don't want to go there. Appreciate that you'd like some answers on that, but we have to -- fuel could jump up to \$90 a barrel and who knows what the answer would be at that point in time. It moved \$10 in the space of six, seven days. We're optimistic about the fourth quarter having said that.

**<Q – Duane Pfennigwerth>**: Thanks, Maury. I think Jim has a question.

**<Q – Jim Parker>**: Yeah, Maury and Andrew good morning. I want to ask you about your capabilities in systems and your game plan for moving into selling other travel products other than just an airline and a hotel package, how about a hotel by itself or maybe even selling seats on other airlines to Europe or wherever. Where are you and how long is it going to take you to get there?

**<A – Maurice Gallagher, Jr.>**: Jim, we're -- as you know, we bought the AIS or CMS system here six months ago now. We've made a lot of improvements. We're adding resources into that area. And our front end, some of the first things we're doing as we speak, for instance, we're going to allow our customers to go in and make their own changes here.

Hopefully by the end of the year we can have something up or certainly end of first quarter. And once that's in place, we can build on that to start OTA types of activities. Hotels by themselves will quickly follow thereafter, but it's a sequential build that we have to go through just to tune up our front end. But, it's very much on the radar screen, and I would say certainly conservatively we should have some activities within 12 months, if not sooner, hopefully.

**<Q – Jim Parker>**: Okay. And just one other thing. It appears that Vegas is certainly in a depression, hotel rooms and visitors and so forth, that you guys are doing very well. Just, the relative availability which I guess is plentiful in hotel rooms and rates. Any changes there?

**<A – Maurice Gallagher, Jr.>**: I just -- I'll let Andrew comment, but I really want to reiterate, Vegas may be in a depression in certain areas but we certainly aren't. Again, Las Vegas continues to be

our biggest contributor to bottom line on an absolute basis and a very strong margin basis. The hotels, they have their problems, rates are down and by half, I would venture, in most places, if not more – and so we've aggressively been promoting those types of lower rates to stimulate traffic.

I think another thing that we want to do in the not too distant future is start being more aggressive with how we display on our front end website so that we can drive more revenues from certain properties because of the ability to sell with what's displayed. Andrew, anything else?

**<A – Andrew Levy>**: No, I think, Jim, we're not really seeing any firmness in rates in Las Vegas in the hotels and there are several thousand rooms that are coming online at the end of the year which is going to really, I think, put pressure on rates across – in the entire city, and we've found that to be a fairly good operating environment for us, being able to, as Maury mentioned, package up an air hotel that's very affordable and can stimulate visitors in Las Vegas. So, Vegas is doing just fine for us.

**<Q – Jim Parker>**: My question was, are you getting even better deals with the very depressed market in Vegas?

**<A – Andrew Levy>**: Well, we continually – I think that our deals reflect what is going on in the market. I'll leave it at that. I think that when prices are less firm, we get lower priced inventory. When prices are more firm, we get higher priced inventory. But, we have all the rooms that we could ever want, put it that way.

**<Q – Jim Parker>**: Okay. All right. Thanks.

**<A – Maurice Gallagher, Jr.>**: Thanks, Jim.

Operator: And next we'll go to Mike Linenberg of Bank of America-Merrill Lynch.

**<Q – Michael Linenberg>**: Hey, good morning, everyone and congrats, Andrew. Two questions here. One, Maury, you threw out the percentage of your traffic out of Southern California that originates there, I think it's 40%, which, when you think back on your model, typically most of the traffic originated in the small cities. How does that compare to, say, a Phoenix and maybe even some of the other markets? Can you just give us some color on that?

**<A – Maurice Gallagher, Jr.>**: In many of our big cities, Michael, at this point in time, and when I say that, the southern – the central Florida markets with Orlando, St. Pete, Phoenix, we're seeing 30 percentage points of sales, give or take, a little less, a little more, maybe. I'd say Southern California is actually a bit stronger than most of our other bigger cities but, our word of mouth product, again -- small city people have relatives, friends, whatever in the big cities and they talk about it and plus the viral nature of just what the web does today have been very powerful for what we do.

**<Q – Michael Linenberg>**: Now, because of that, because of that shift I guess that we've seen over the past couple years where you're getting more of the local traffic, do you end up not being able to sell them as much on the ancillary as you would like? I realize you can do the seats and you can do the convenience fee and maybe trip flex but when we start thinking about hotels and car rentals and maybe that's something that your OTA business that when that builds out you'll be able to address that.

**<A – Andrew Levy>**: Mike, yes, hi, this is Andrew. We sell cars everywhere in our system.

**<Q – Michael Linenberg>**: Okay.

<A – Andrew Levy>: So an originator from Los Angeles going to say, Missoula, we can sell them a car in Missoula, just like we can sell someone from Missoula going to Southern California a car in Los Angeles.

<Q – Michael Linenberg>: Okay.

<A – Andrew Levy>: The hotel business at the moment is largely a Vegas based business. We do sell hotels in Southern California and all of our destination markets but that is a real area of emphasis of ours going forward to try and make the hotel business in those locations far more meaningful than they are at the moment. So at the end of the day, we think the ancillary performance we get from people originating in our base cities is fairly similar to what we see coming in, with the exception of Las Vegas.

<Q – Michael Linenberg>: And then just -- thanks, Andrew. Just my last question. On the booking curve, just in what you've said on revenue trends and maybe things definitely are firming up from where they bottomed back in June, are you seeing any change to the booking curve? I just -- anecdotally we're hearing around here that it appears to be more expensive to travel around the holidays and there may be this -- maybe sense of urgency is too strong of a characterization. But there is some urgency where people are trying to get vacation travel on the books. Are you seeing that at all in your booking curve? Any change to that?

<A – Andrew Levy>: Mike, yes, I think that typically for the holidays, people tend to book a little further in advance than they do at other times of the year. And we're seeing I think a normal behavior as relates to holiday. I think the fact that not only has the industry reduced capacity but we have as well is certainly I think going to drive us to hopefully better revenue and yield performance than we would have had otherwise.

The booking curve, we don't sense that we've seen much of a movement in the curve from what it's been over the past several months. It's still tighter but there are differences depending on the time of year that you're booking and this is one time of year where people do tend to book more in advance than other points of the year.

<Q – Michael Linenberg>: Okay, good. All right. Thank you.

Operator: And next we'll go to Kevin Crissey of UBS.

<Q – Kevin Crissey>: Hi, guys. Quick question on fuel hedging. The release says you don't currently hedge. I know you've given it a lot of thought. Any change in philosophy or potential change in philosophy on fuel hedging?

<A – Andrew Levy>: Yes, Kevin. Good morning, this is Andrew. I'd say there's always a potential for change there. This is one of the issues we continually knock around and have done a lot of thinking about it recently as the curve has really flattened.

But just the other day at our Board meeting we discussed it again and we again concluded that really what made the most sense for our business is to keep running it the way we've been running it for the last two plus years and manage our fuel exposure by principally by managing our network and the supply seats that we offer at any given point in time.

So at this point in time, we're continuing to go forward, not having any fuel derivatives to hedge our exposure and that's subject to change and if we change our posture on that, we will certainly inform you and all of our other investors so that they're aware of that. But for now, kind of no change.

<Q – Kevin Crissey>: Okay. And just a follow-up on the opportunity for a new aircraft type to begin the replacement of the MD-80, in terms of your balance sheet -- you feel comfortable that you

would be able to from a financial perspective start moving in that direction? I know that was one of the things that was holding you back perhaps.

**<A – Maurice Gallagher, Jr.>**: Well, certainly in the past year, I think we've added close to \$100 million of cash to our balance sheet and the profitability that we're experiencing and the financial demands on our balance sheet with the lower cost MD-80s puts us in an excellent position to continue to grow cash.

So certainly as we get older and wiser, where our balance sheet should improve in quality and strength, particularly given the debt markets are pretty tight out there for anybody in our business at this point in time. So could we support newer airplanes if we had to? Eventually, certainly -- stay tuned as we said, we're not looking at that right now. But again, our whole approach on airplanes is to own those things so we would need our balance sheet to go forward in that case.

**<A – Andrew Levy>**: Kevin, this is Andrew. Let me add in that we have in no time in any time recently ever spoken about acquiring new airplanes to replace MD-80s. We've spoken about potentially growing the business with a different aircraft type. At the moment, we are very focused on some interesting opportunities that have recently presented themselves to acquire MD-80 aircraft which would be very, very suitable for us and so that's where our focus is at this point in time. And we'll update you and others with any -- anything that comes of that. So -- but I just want to clarify, we're going to operate MD-80s for a long, long time.

**<Q – Kevin Crissey>**: Okay. Thank you very much.

Operator: And next we'll go to David Fintzen of Barclays Capital.

**<Q – David Fintzen>**: Hi. Good morning, guys. I wanted to circle back to some of the Southern California comments, I think Maury made, in the open. You said 20% operating margins in the second month, second full month of operations, so that would be July?

**<A – Maurice Gallagher, Jr.>**: Yes sir.

**<Q – David Fintzen>**: How did that compare? Quarter op margins for the system was like 16. How did that compare to system average margins or scheduled average margins?

**<A – Maurice Gallagher, Jr.>**: It was just below it, about three or four points below.

**<Q – David Fintzen>**: There or four.

**<A – Maurice Gallagher, Jr.>**: Yeah. We also had a very poor market in there that dragged that down, David, our Los Angeles/Monterrey service. So we threw some capacity in there to see what happened and it didn't work. We were -- we since ended that. But no we're very pleased with the overall result.

**<Q – David Fintzen>**: Has that relative margin gap sort of -- has it held pretty similar through the rest of the quarter? That would seem to -- that would seem to be a quicker development than your average new markets. So I was just curious if that's continuing?

**<A – Maurice Gallagher, Jr.>**: Part of the reason it came up so quick is because we were starting in all the cities that know us very well, so we didn't have to, if you will, become -- get people acquainted so much with who we are, what we do, but just announce the service. So I think that was a big plus.

The second thing is that we'll have to see how the margins hold up going forward. Certainly, we're very cautious typically in our new markets like we were in Phoenix to see what a full year's worth of activity gives us. So stay tuned on that.

**<Q – David Fintzen>**: Okay. All right. That sounds like a good start. On – you mentioned in the 23 plus percent growth for 4Q, it's all new market year-over-year. Are there – what's the mix sequentially? Are there a fair number of new markets sequentially or is that just continuing through the summer growth?

**<A – Andrew Levy>**: David, this is Andrew. I think that we mentioned in the release that there is nine new routes that would start up in the fourth quarter. So there are routes that have started since the beginning of this year as well as the additional routes that we have schedule to begin this coming fourth quarter, so it's a combination of both of that.

**<Q – David Fintzen>**: Okay. And then just a last quick one. On the maintenance, the maintenance expense in 4Q, you guys have talked about sort of the 90,000 sort of a run rate. I mean, should we be expecting – obviously volatility in that line. Should we be expecting sort of some positive variances at some point in 2010 or should we be thinking of a higher run rate?

**<A – Andrew Levy>**: Yeah David, at this point I would – we do expect 2010 to be underneath that number. That being said, we're going to provide – we'll provide some updated guidance as appropriate when we do our conference call in January. But at the moment, we expected the third quarter and this fourth quarter coming or this one that we're in to be higher than the norm due to primarily increased very heavy intrusive aircraft, heavy maintenance business which were more expensive than the norm. And that's playing out as we had expected at this point in time, we continue to expect next year to be back to the kind of the trend line of the \$90,000 per month.

**<Q – David Fintzen>**: All right. Thank you much, guys. I appreciate it.

**<A – Andrew Levy>**: Thank you, David.

Operator: And next we'll go to Helane Becker of Jesup & Lamont.

**<Q – Helane Becker>**: Thank you very much, operator. Good morning, gentleman and Andrew allow me to add my congratulations on your permission. Much deserved. Is there a way we should think about – fuel costs say go say up to 5%, so you raise ticket prices 3% or something like that? Is there a formula you work through to kind of get those average fares to move with fuel?

**<A – Maurice Gallagher, Jr.>**: Helane, just as a general statement given where prices are at, we're trying to raise them regardless of fuel movements to get back into the selling fare range of \$80 would be a nice goal to have in the next 12 months. But certainly as fuel moves up, my first reaction albeit we can't keep up with the pace, it seems – is to pull capacity back and then the fares will come with it.

**<Q – Helane Becker>**: Okay.

**<A – Andrew Levy>**: So that's more of a formula than just trying to raise the fares.

**<Q – Helane Becker>**: Got you. Okay. And then the other thing is with respect to employee productivity – so for the last few quarters it's been about the same 34, 35 I guess employees per plane. Is that something we should think about going forward or is that about the limit or you could get to? I didn't ask that right, but ...

**<A – Andrew Levy>**: Helane, this is Andrew. We've been running at that kind of number for just quarter after quarter, for several years. So I think that unless we decide that we're going to

outsource some functions that we currently do in house, then I don't expect that to change and there's no consideration of doing that right now. We have for instance in the station operations area, we have quite a few stations where we have our own employees. The majority we have outside parties handling us and at the moment we have no intentions of changing that.

That would be the only area I could think of that would reduce that number from where it's been running over the last several years. I would think you should just plan to see it remain right around 35 full-time equivalents per aircraft. We're going to see if we can get more efficient over time, primarily through the use of automation and other things, but I wouldn't want to suggest that we'll see improvement there.

**<Q – Helane Becker>**: Okay. All right. And then my last question is with respect to new cities, not new routes. What should we think about in terms of adding cities to the route system, not in the fourth quarter, obviously, but in 2010?

**<A – Andrew Levy>**: We'll add a few new cities next year, I have no doubt. There's quite a few that we're talking to and there was a point in time where there were a couple that we were hoping to introduce into the system this fourth quarter, but those are some of the things that we cut out as we decided to be a little more conservative in terms of our growth plans.

So, next year I suspect we will continue to add several new cities along the way. We'll continue to connect the dots – not sure if we'll add anything in terms of new destinations or new bases, but we expect to be able to grow new cities, connect the dots in frequency, depending on macro economic and the end result will be a pretty good year of growth.

**<Q – Helane Becker>**: Great. Okay, thanks for your help. See you soon.

**<A – Andrew Levy>**: Thanks.

**<A – Maurice Gallagher, Jr.>**: Thank you.

Operator: And next we will go to Steve O'Hara of Sidoti & Company.

**<Q – Stephen O'Hara>**: Hi, good morning. I was just wondering if you could talk a little bit about the – it looks like the average stage length is going to be pushed out a little bit going forward. I'm just wondering if you might be able to capture some additional yield there on a longer flight and if that's something that you might scale back as well if fuel continues to rise?

**<A – Maurice Gallagher, Jr.>**: A good portion of why our stage length has moved up, Steve, is because of our flying in the West Coast to Phoenix and Los Angeles. As I mentioned in my comments, about 18% of our departures now are in those two cities and those are the longer stage lengths, per se.

As far as trying to move up the fares and the like, certainly as I mentioned, we're trying to do that as a general rule as we see the economy recover and in this case, hopefully we can do the fare raising without reducing capacity just because of a stronger economy, but we'll be very attentive to – if longer haul stuff isn't making it as we were in the fall of '07 and early spring of '08, just fuel tends to – when it increases, tends to make the longer haul routes become inefficient pretty quickly.

**<Q – Stephen O'Hara>**: Okay, great. Thank you.

Operator: Thank you. And that concludes our question and answer session. I would now like to turn the call back over to Mr. Maury Gallagher for final comments.

**Maurice J. Gallagher Jr., Chairman and Chief Executive Officer**

Thank you all very much. We appreciate your time with us this morning. Certainly if you have any follow-on questions myself, Andrew Levy or Robert Ashcroft will be glad to help you. But thank you again. We'll talk to you in a couple months. Have a good week.

Operator: Thank you. This does conclude today's teleconference. You may disconnect your lines at this time and have a wonderful day.

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