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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Q2 2020 Allegiant Travel Company Earnings Call. (Operator Instructions) I would now like to introduce your host for this conference call, Ms. Sherry Wilson. You may begin, ma'am.

Sherry Wilson - *Allegiant Travel Company - Director of IR*

Thank you, Kevin. Welcome to the Allegiant Travel Company's Second Quarter 2020 Earnings Call. On the call with me today are Maury Gallagher, the company's Chairman and Chief Executive Officer; John Redmond, the company's President; Scott Sheldon, our EVP and Chief Operating Officer; Greg Anderson, our EVP and Chief Financial Officer; Scott DeAngelo, our EVP and Chief Marketing Officer; Drew Wells, our VP of Revenue and Planning; and a handful of others to help answer questions.

We will start with some commentary and then open it up to questions. The company's comments today will contain forward-looking statements concerning our future performance and strategic plans. Various risk factors could cause the underlying assumptions of these statements and our actual results to differ materially from those expressed or implied by our forward-looking statements. These risk factors and others are more fully disclosed in our filings with the SEC. Any forward-looking statements are based on information available to us today. 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 investors not to place undue reliance on forward-looking statements, which may be based on assumptions and events that do not materialize. To view this earnings release as well as the rebroadcast of the call, feel free to visit the company's Investor Relations site at ir.allegiantair.com. With that, I'll turn it over to Maurice.

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Maurice J. Gallagher - *Allegiant Travel Company - Chairman of the Board & CEO*

Thank you, Sherry, and thank you all for joining us today. First, let me thank all of our team members, their spouses and families as we continue to fly our passengers during these difficult times. They've done yeoman's work. I'm sure you've all heard of the movie, Groundhog Day with Bill Murray and his adventures are repeating the same day over and over. That's where we find ourselves today. Each day seems to be repeating itself as we wind our way through the slow motion video called COVID. Each of us is managing through these repetitive awkward days in our own way. Bottom line, I believe things will get better, but most likely not as fast as we all would have liked. Today, we and the airline industry are putting our economic hopes on the upcoming holidays at the end of the year and 2021. Many of my colleagues have been providing you their best guesses on what will happen in the future. So let me throw a few ideas out there.

First and foremost, I don't believe we'll go back to a full shutdown. People just won't put up with it. And while we were -- made an operating profit in June, very proud of that and thought we might have -- be back to some form of normalcy, I don't believe we will get back to those numbers anytime soon. At a minimum, the near-term calendar will not allow it. At present, we believe we have a plan -- we have to plan on this current state as being the norm. The near-term problem is how do we work towards breakeven cash flow.

In the middle of August until November 15 is traditionally one of our slowest periods, particularly September. Given the problems we are seeing will be even more difficult than in past years, assuming no CARES extension, adjusting labor costs is our #1 cash flow lever available, as we work towards our breakeven cash flow goal. We will eliminate 220 jobs, including 87 personnel associated with those jobs on October 1, a difficult task, but a necessary one. We are in the late stages of discussions with our other contract personnel that will allow us to generate the needed savings in the coming months. We want to keep as many team members on board as possible to take advantage of our operating peaks. To do this in between these peaks, we need financial relief on our labor payrolls. We need to spread the pain, as we've said in the past, to save labor expense accordingly. Unfortunately, our pilots' leadership is unwilling to work with us on this approach. And as a result, we have notified the IBT management and we intend to furlough up to as many as 275 of our crew members, pilots, that is. While we're going to -- having to do this, these numbers will allow us to optimize both the peaks and valleys that we just discussed in the coming months and into 2021. You'll hear more about this from Scott Sheldon in just a moment.

With respect to liquidity, we're in good shape, given what we know today. Our cash balance was $663 million at the end of the quarter, up almost 50% from our Q1 balance. We also have other capital avenues open to us if we feel we have a need to go-to-market, including near-term prospects of an extension of the CARES Act, and Greg will fill you in with more of those specifics. I'm very happy how we have managed through our worst situations in the past 5 months. We've led the industry in most -- almost all of the new -- that are now -- what we call the now important operating areas, including we had the largest percentage of our scheduled flown compared to other carriers. We had the largest percentage of passengers carried compared to our historic market share, and we had the best negative cash burn percentage.

I've joked around the office that we are the best of the worst, given the state of the airline industry and the tourism industry overall. Once again, our model with its flexibility is allowing us to react as demand dictates. It will continue to be our strategic asset in the coming months, as we quickly adjust to the vagaries that the market allows us to experience. It has provided us with terrific financial results over the years and continues to allow us to lead the industry in near-term results.

Our financial strength has also allowed us to minimize the dilution to our shareholders during this period. As I said in our last call, we have not had to go to the equity or convert markets and have no plans to. Our $200 million plus of tax refunds from NOLs has and will provide us with the equivalent of a good-sized equity raise. Those NOL dollars are a return of our tax dollars paid on our profits from our 68 quarters of profitability in past months and years. These are difficult times, hard to believe times, frankly. Hopefully, there will be some relief in the near term by a slowdown in the virus cases. Perhaps the only better near-term news, given the increase in cases we've been experiencing is that the rate of death has dropped substantially.

Many people are working tirelessly to find ways to both control or end this terrible plague. News of vaccines are reassuring, a decline in reported cases would also be beneficial. But at the end of the day, to return to any semblance of normalcy to begin to interact with others as we used to do, people have to believe they won't become infected. This is particularly important for our industry since leisure activities involve people congregating in close quarters.

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We're hearing good news about increased testing. Good. We need more of this. And while more testing is better, I'm concerned about its ability to scale to the levels we need, about the time it takes to receive results and about what one does with the information on their status. Namely, it's easy to know what to do if you have it, you quarantine yourself. If your test is negative, you're happy about the results, but what do you do with this information? How does it help the instant problem of getting together with others and feeling good about it? If you look at our medical establishment, it was not designed nor does it have the capacity to provide us the one thing we all want to need most in today's COVID environment, information.

When I get my negative test results, good information, like I said, but then what? As an important or perhaps more important, I want information that tells me the person next to me is not infected. Not a big ask until it becomes everyone, 330 million people, and it becomes an almost impossible ask. Only the federal government can manage this national task, I would hope there are plans in the offering to develop a national approach to managing this pandemic and the next one, that is sure to follow. We cannot allow this type of event to cause this level of disruption anytime in the future.

In the meantime, as I said on the last call, I believe we will continue to be one of the top performers. In my opinion, we have the ability to flex ourselves to meet the conditions better than any other carrier. Our model will continue to serve us well. Lastly, I want to again personally thank each one of our team members for all they have done for us during these trying past 5 months. You are the backbone of this company. In the meantime, in the airline space, we will take care of business. We are survivors with a great company and an excellent business model. John?

John T. Redmond - *Allegiant Travel Company - President & Director*

Thank you very much, Maury, and good afternoon, everyone. Of course, I echo Maury's comments regarding our incredible team members here and the sacrifices they and their families have made through this craziest of times.

I thought I'd spend a quick couple of minutes talking about leisure travel space since those are the only people flying now and deep into 2021, if not all of '21. On most other airlines, the lucrative business traveler accumulates frequent flyer miles using a company credit card for business-related travel and then uses their accumulated miles from business travel as currency to pay for their leisure travel. The databases of these other airlines are populated with people whose leisure travel is free or substantially offset through the use of accumulated business travel miles. I am sure a lot of you are walking examples of this.

As a result, there was little to no reason for these individuals to comparison shop when traveling for leisure. As these other carriers pivot to a leisure travel-only environment, they are marketing to people who historically have not used their own wallet for leisure travel. Will some of these people fair shop going forward when using their own money? I would imagine some percentage will after burning off their accumulated points. The Allegiant database, on the other hand, is populated solely with people who have used their own money since the inception of the airline.

We have been accumulating e-mails and data on these cash-paying leisure customers for over 20 years. We have been marketing to these individuals pushing leisure-only travel options for longer than any other domestic carrier. It is not an accident that we are performing better than all the other airlines in the leisure-only environment. Speaking of leisure, I want to further expand on the $20 million settlement with Sixth Street Partners. As long as the agreement was in place, we were required to invest another $150 million in equity with a completion guarantee and date of December of '21. The settlement agreement gives us much more flexibility in dealing with the project from an outright sale, finding an additional equity partner or further borrowings, Greg will expand further in his comments.

In the COVID-19 related special charges section of the release, there was an additional salary and benefit expense relating to physician eliminations that Greg will expand on in his comments. As difficult as the decision was, it demonstrates how quickly we will move to reduce cash burn and rightsize the business model. Going forward, we will pull additional cost out, if necessary, to adjust to the revenue environment we find ourselves in. On that note, I'll turn it over to Scott.

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Scott D. Sheldon - *Allegiant Travel Company - Executive VP & COO*

Thank you, John, and good afternoon, everyone. First, I'd like to thank our 4,500 plus team members and partners across the network for their outstanding service. Your efforts since the start of this pandemic has been amazing and the sensitivity and carry you've shown our guests and each other are the reason we have and will continue to be successful.

COVID has resulted in challenging all aspects of our operation in ways we couldn't have contemplated 6 months ago, from shutting down operations, restarting operations, canceling and revising schedules, cutting costs, educating consumers creating new safety strategies and health policies have all introduced a great deal of complexity to the operation, and the team's execution has been something we should all be proud of.

From the onset of the pandemic, we had 3 immediate focus areas: The first was ensuring the safety of our passengers and Allegiant team members. This continues to be our top priority. Our customer experience leadership team and members of our emergency command center have done an amazing job rolling out initiatives related to Allegiant's going the distance for health and safety program, offering additional layers of safety throughout a guest journey, along with an enhanced educational campaign to drive consumer confidence are critical to our long-term success.

Second was rapidly adjusting our daily operations to reflect a near 0 demand environment, while positioning our operational cost structure for the long-term slow recovery. As you'll hear from Drew, our strategy of maintaining a wide selling footprint, managing cancellations close in on the 7- to 10-day cycle has resulted in our outsized 2Q performance relative to our industry peers. Unfortunately, we find ourselves at somewhat of a crossroads as we look for additional cost-saving opportunities as we exit our summer peak into what is traditionally our weakest quarter. Much more on that to follow.

And third was to develop an aircraft storage program for potential fleet management scenarios, as we progress through the recovery. As mentioned on our earlier call, our fleet, induction, maintenance and engineering teams did a tremendous job standing up flexible program that will allow us to execute any number of strategies in the back half of the year on short notice.

Despite a successful June, we all recognize how deep this pandemic really is, and it's clearly going to last longer than we had hoped. COVID hotspot, flare-ups, quarantines, state pausing, reopening plans, and in many cases, reimposing restrictions provide for a very choppy and uncontrollable demand outlook. As we move into the back half of the year, our focus now becomes how do we balance our continued approach of casting a wide selling net, maintaining base and labor structure integrity while driving much needed cost relief, particularly in soft shoulder months. No doubt costs have to come out of the organization in this current revenue environment, if we are going to approach our goal of being cash flow neutral by the end of the year. Therefore, our focus has been and continues to be driving down labor costs and improving productivity, so differently doing more with less employees in all aspects of the organization.

During the second quarter, we made strides in reducing labor costs in both unionized and nonunionized workgroups. On the nonunionized labor front, we eliminated 121 positions within the ops organization. These reductions are expected to save the company approximately $9 million in annual labor costs through voluntary or early retirement programs. Also with virtually all in line-level support teams working from home, we continue to find ways to drive productivity and consolidate areas of responsibility, which we feel confident there are more savings. In the event these savings are not attainable, we may look at a second round of head count reductions in order to meet our goals.

On the unionized labor front, we were very transparent from the start of the pandemic on challenges we faced as an organization. We work closely with the union leadership through weekly meetings and educational town halls to specifically lay out our strategy, knowing we would need their involvement and cooperation at some point. Well, that point is unfortunately now. Despite the fact we are able to drive approximately $10 million in line level labor savings through the combination of emergency time off agreements and better scheduling practices, which essentially drove down flight crew guarantees to contractual minimums. We need additional cooperation as CARES support funds roll off October 1, if we want to eliminate network disruptions.

As Maury mentioned in his opening remarks, we've been in discussions with all unionized workgroups to drive creative solutions to reduce labor costs in much needed off-peak periods. We've made substantial progress with most of our groups and hope to have something to report shortly. That being said, we have noticed IBT leadership of our intention to furlough up to 275 pilots. Unfortunately, there appears to be little appetite within the IBT leadership to engage in constructive talks. Therefore, we have taken the first necessary step and plan to execute accordingly.

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In closing, we remain focused on structuring our organization for the current reality. COVID is here to stay. It's unpredictable and relying on a stable demand outlook isn't the best strategy. Reducing controllable costs, namely labor, while maintaining maximum flexibility is what we're focused on. We plan to push forward with labor discussions and remain optimistic. We can come to some sort of creative solution, but are ready to modify our approach, if need be. All in all, this is a difficult balancing act, but I'm confident our team is up for the challenge. And with that, I'll turn it over to Scott DeAngelo.

Scott Wayne DeAngelo - *Allegiant Travel Company - Executive VP & CMO*

Thank you, Scott. Our commercial approach remains focused on going the distance for health and safety while providing value and flexibility to customers during these uncertain times. And our unique business model of all nonstop routes, which enable our customers to avoid crowded hubs, direct-to-consumer distribution, which enables us to sell at industry-low sales and marketing costs and focus on selling beyond the aircraft to third-party products, all helped us punch above our weight, so to speak, in Q2, and continue to position us well as market demand returns.

During the second quarter, despite the challenging demand environment, Allegiant saw relative highs in web traffic and load factor versus the industry. And as Maury had mentioned, our share of total U.S. passengers was nearly 3x higher than it was during the second quarter last year. In addition, our increasingly precise and predictive digital marketing approach, along with co-op funding support from many of our great airports and destination partners, enabled us to reduce our sales and marketing costs on a per booking basis by more than 90%.

There's no silver bullet to generating demand at a time like this, but there is a silver lining in getting more cost efficient and effective at capturing the demand that does exist across the markets we serve. We continue to stay close to our customers, primarily through our weekly customer sentiment tracking survey, which we've been building weekly since March. We're finding that the everyday mobility of our customers has become a leading indicator of sorts for their willingness to travel. About 2/3 of our customers currently say they feel comfortable eating on at restaurants or going to shopping centers where they live. When it comes to travel, nearly 1/3 tell us they plan to travel by air in the next 3 months and have planned to do so before the end of the year. Only 1/4 of customers say that they're actually delaying travel plans altogether. Most are closely monitoring the situation before booking or simply traveling as planned.

It certainly helps that more than half of our customers continue to report that their personal finances have not been negatively impacted by the COVID-19 situation. And an additional 1/3 said their personal finances have only been somewhat negatively impacted. For those customers who flew with us during Q2, 20% were flying between their primary residents and a second vacation home. 1/3 were visiting family or relative. And just under 1/2 were on vacation or even working remotely at a hotel or vacation rental.

To that end, we continue to be vigilant by engaging with our hotel partners across the nation to create more value for our customers and stronger economics for Allegiant. We're also addressing trends we're beginning to see emerge as part of the next normal. For example, we are working with a top Las Vegas Casino resort operator to capture opportunities presented by the rise in remote working. As John referenced earlier, the business traveler, paying on the corporate card, is now giving way to the individual traveler paying their own way to work remote, but away from home.

And last, but maybe most notable, has been Allegiant's unique ability to serve what has become a relatively strong reverse travel trend as people from larger cities, like Los Angeles, Oakland and Phoenix in the West or like Tampa, Orlando and Fort Lauderdale in the East, have increasingly planned their vacations to more natural, less crowded destination like Yellowstone National Park, Mt. Rushmore, the Smoky Mountains and Niagara falls. And with that, I'll turn it over to Drew Wells. Head of Revenue and Planning.

Drew Wells - *Allegiant Travel Company - VP of Revenue & Planning*

Great. Thank you, Scott, and thanks to everyone for joining us this afternoon. Our approach of maintaining a wide selling footprint enabled us to capitalize exceedingly well on the increasing demand cadence throughout the second quarter. We believe our ability to match demand with supply is unparalleled in virtually every week in the quarter, saw both revenue per flight and the percentage of flying versus our pre-COVID-19 expectation increased from the previous week.

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We recorded a 56.8% load factor while operating roughly 70% of our expected June schedule. We accomplished that through deep cuts on off-peak Tuesdays and Wednesdays, while growing ASMs year-over-year on many peak days. In turn, as has been mentioned, our 6% share of TSA throughput in the month was roughly 4 points higher than our prior year figure. As destinations reopened, demand improved not just for flying, but also for the third-party products that help further differentiate ourselves from the industry. Auto and hotel per passenger was higher in the month of June versus the prior year, led by Scott and teams work strengthening relationships with many great partners and creating new opportunities.

Our strategy of reviewing flights in the 7- to 10-day window, resulted in minimal closing cancellations through June and to date in July. However, we continue to review and monitor to ensure the schedule is rightsized for the demand we are seeing. Our normal seasonal variance will kick in mid-August when the schedule drops precipitously as it does every year. Even prior to COVID-19, September was scheduled to operate at less than 50% of July's departures. This will still be the case as departures will almost certainly be below 5,000 for the month, and over 90% of routes are currently scheduled to operate only 2x per week.

Bookings have trended slightly better over the last few weeks after a rough start to July. The slope is definitely shallower than the initial recovery period we experienced, but any positive slope is certainly welcome. This fall and winter have a wide range of potential results, and we look to continue to be flexible in our approach. It is too early to make any call on where the schedule will shake out or where we think daily revenues will be. We are comfortable reacting to and operating a near-full schedule as we have done throughout summer, a skeleton schedule as we did in April and anything in between. This would not be possible without all of our incredible team members and a business model structured around extreme flexibility. Thank you to all of the team members that have continued to relentlessly push forward through the stops and the starts. With that, I'd like to turn it over to Greg.

Gregory Clark Anderson - *Allegiant Travel Company - Executive VP, Principal Accounting Officer & CFO*

Thank you, Drew, and thank you, everyone, for joining us today. For the second quarter of 2020, revenues declined by 73%, and we recorded an adjusted net loss of $95 million or $5.96 per share. This excludes items pertaining to the impact of COVID-19, particularly the benefit of $75 million of CARES Act payroll support, offset by roughly $100 million of special charges. Simply put, our focus remains on liquidity and reducing cash burn. Thanks to our quick response to increased liquidity and reduced cash burn, we improved our total cash balance by nearly $200 million and ended the quarter with $663 million of cash.

Regarding cash burn, our second quarter average daily cash burn was $900,000, down from our original estimate of $2.1 million per day. And in fact, for the month of June, we produced a slightly positive daily cash inflow. As a reminder, our daily cash burn is defined as cash from operations, less debt and rent payments and CapEx. It excludes aircraft acquisitions, new financings and cash benefits from the CARES Act.

Also during the second quarter, we received $200 million between payroll support funds in our first installment of our 2018/'19 NOL carryback tax refund. In addition, we raised nearly $80 million in aircraft financings, $48 million of which pertains to a sale-leaseback of 4 aircraft and the remaining $31 million of the loan secured by 2 aircraft at a very low interest rate.

During July, we will receive our remaining 10% of the payroll support funds or $17 million, and we've already received a second installment of our NOL carryback refund of nearly $50 million. Beyond the liquidity sources we have tapped thus far, we expect to receive an additional $125 million by mid-2021 and a cash refund through our 2020 NOL carryback. Furthermore, we have an option to access a loan of up to $270 million available through the CARES Act, along with unencumbered assets with a market value of just under $400 million. However, managing cash burn still remains our most effective liquidity strategy.

As we look ahead, our average cash burn for the third quarter would be just over $1 million per day, assuming gross bookings per day of $2 million for the quarter. This is based on booking trends thus far in July and represents a reduction of approximately 60% from 2019 booking levels. If current booking trends do not improve and remain flat through the duration of the year, we expect our third quarter's cash burn to be the highest of any quarter moving forward as we have the ability on October 1 to further rightsize our cost structure. Managing our cash burn effectively helps us highlight the flexibility of the model we have refined over many years. In fact, back in 2004's annual letter to Allegiant team members, Mr. Gallagher here said, "It's easy to be low fare, and that can be done almost instantaneously by lowering one's prices. The hard part is being low cost. That is

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an everyday commitment from each and every one of us. That's what makes the low fare bid work and an efficient cost structure is the best insurance for our success."

More than 16 years later, Maury's words and this core principle of our model couldn't be more true. We continue to believe we have the most variable cost structure in the airline industry. Allegiant remains the low-cost carrier built around low utilization, which allows us to nimbly adjust capacity to match the demand environment. As a recent example, during the second quarter, we reacted quickly to adjust capacity due to shifting demand. During April and May, we pulled back capacity by as much as 87% and 50%, respectively. However, in June, we only pulled back capacity by 30% due to the relative demand strength. This flexibility not only allowed Allegiant to take full advantage of the stronger demand in June, but also reduced direct operating expenses in April and May.

To further illustrate, on roughly 50% fewer ASMs during the second quarter, our adjusted operating expense was down 38% versus the same period a year ago. This was largely driven by a 77% decrease in fuel expense and reductions in other flight volume-related expenses. Additionally, total labor costs were down 17.5% year-over-year despite an increase in total airline FTEs of nearly 10%, with an even larger increase in crew members of roughly 17%. These labor cost reductions were helped in large part by our many team members who volunteered to contribute by reducing their pay and/or taking voluntary leave. Our Sincerest thanks goes out to each and every one of them.

Turning to debt real quick. We ended the quarter with $1.5 billion in total debt, nearly flat compared to the same period in 2019. Since that time, our average cost of debt is reduced by more than 150 basis points, and this reduction is evidenced by more than 30% reduction in second quarter interest expense versus the same period a year ago. Additionally, more than 60% of our outstanding debt relates to secured aircraft and amortizes quickly over an average of just 5 years. This rapid paydown in debt results in annual principal payments of roughly $150 million. And as a reminder, these payments are included within our cash burn definition.

Defending our balance sheet has been another top financial priority for us as we navigate this very fluid environment. Where we stand today, we believe we are well positioned to emerge on the other side of this crisis with one of the stronger balance sheets in the sector.

Looking to CapEx. For the remaining 6 months of 2020, we expect total CapEx to be roughly $165 million, of which $135 million relates to the acquisition of 5 A320 aircraft and 4 spare CFM engines. We expect all of these acquisitions to be financed. We expect full year CapEx to be approximately $375 million compared to our initial plan of approximately $750 million. We have reduced our total full year airline CapEx by $100 million from planned levels and total CapEx by over $375 million for the year.

And looking to 2021, we only have 2 committed aircraft. Currently, we anticipate total 2021 CapEx to be around $125 million. Looking over to fleet. Our flexibility here has always been critical to Allegiant's business model, and that continues today. You may recall that there were up to 22 aircraft identified for either early retirement or storage in order to defer maintenance-related costs and to rightsize the fleet. Fortunately, our flexible business model gives us the ability to make fleet decisions in a nimble manner. Adjusting as we go based on a variety of factors, including, but not limited to, our current and projected year-end cash position, demand trends, status of the used aircraft market and opportunities for growth when demand returns. For now, the decision has been made to retire 7 of the 22 identified aircraft, 5 will retire by year-end and the other 2 in 2021 and '23, respectively. Retirement dates for each aircraft are scheduled around their respective upcoming heavy maintenance events, this allows us to utilize remaining green time on these assets.

We maintain further flexibility with our fleet through 6 aircraft currently in storage status, and that will take place to be -- at least early 2021. In the event, we need to reduce our fleet counts due to continued weak demand, we would maintain flexibility through these aircraft. Conversely though, should we see improvements in passenger demand, our fleet planning team has identified several aircraft in the used market that would be a good fit for our fleet moving forward. And with that said, we entered 2020 with 91 total Airbus aircraft. During the year, aircraft inductions are largely offset by the aircraft retirements and storage, bringing our expected in-service fleet count to 93 at the year-end.

In regards to special charges booked during the quarter, $59 million of noncash expense related to book loss on the sale-leaseback of 4 aircraft, coupled this with accelerated depreciation related to the retirement of the 7 aircraft and write-offs on other aircraft-related assets. And just to note, approximately $16 million of additional noncash expense associated with the retirement of the 7 aircraft that will be recognized in subsequent quarters with roughly $12 million of the -- of the remaining $16 million being recognized in the third quarter of this year. Also during the quarter,

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and as John mentioned, we accrued $20 million minimum yield fee on the expectation to terminate our Sunseeker loan commitment with Sixth Street Partners. The fee is expected to be paid throughout the remainder of the year. The team at Sixth Street, they have been good partners, and we appreciate their continued support of the project, as evidenced by their willingness to work with us on an extension of their commitment. However, without clear line of sight of when we can resume constructions, both parties agreed the best path forward at this time would be to terminate their loan commitment.

We continue to explore various strategic options for Sunseeker. As John mentioned, all options are on the table as we look for best ways to optimize our investment there. We believe there's significant value in the land, value in the possible NOL and our value if we resume construction much later on down the road. And finally, during the second quarter and consistent with the CARES Act, we reduced 220 positions from our corporate management and support teams, many of which were voluntary and/or early retirements. These reductions are expected to save the company approximately $15 million annually in labor costs. It's very difficult for us to see so many talented, hard-working team members moving on from Allegiant. Our sincere thanks for their tireless efforts over the years. They will be greatly missed. And with that, we will turn it over to our operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Helane Becker with Cowen.

Helane R. Becker - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

So I'm just thinking about the network and the way it looks right now. And I'm wondering if you could just talk about Las Vegas versus Orlando and other focus cities? Because it looked like based on the Las Vegas data, there were about 120-ish thousand passengers that went through Las Vegas in the quarter versus the 1.3 million almost 1.27 million that you carried -- that you reported carrying. So I'm just kind of wondering what the network looks like or will look like in September maybe.

Drew Wells - *Allegiant Travel Company - VP of Revenue & Planning*

Certainly, this is Drew. I'll kick this one off. So we anticipate the network is going to look very similar to how it always has. We'll pull back in September. Much like we have every year, really since the inception of the company. Obviously, Florida is a bit more impacted by the seasonal swings in Vegas, which stays a bit more flat. I think that will be exacerbated this year with kind of more pent-up demand for Vegas given the shutdowns earlier this year. I think it's also fair to say that Orlando never really got the large step change we expected with the reopening of theme parks down there. My impression of that is, given the limited capacity theme parks were allowing, if you didn't already have a reservation, it was very hard to create a new one and, therefore, generate new travel down to the area. Vegas obviously being different, having the room capacity and having that elevating has created more opportunities. So I think Vegas has certainly held up better, and we'll continue to hold up better through September than Orlando for a few reasons.

Helane R. Becker - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Okay. And then for my follow-up question on the head count. I just wanted to be clear on that. You announced 220, I think, and not including the pilots. Should we think about more -- I guess I'm a little confused. You talked about eliminating 220 jobs, but 87 people on October 1. Does that mean there are open jobs that you're just not filling? Or are there other people later on that get terminated? Sorry, I guess I got a little confused there.

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Gregory Clark Anderson - *Allegiant Travel Company - Executive VP, Principal Accounting Officer & CFO*

No, it is a good question and one we should clarify. So thanks for asking that, Helane. Yes, I would say there's 220 total positions of those -- some of those positions were individuals that left, let's say, from April through June. So we weren't counting those as part of the 87. The 87 are what we -- are the individuals we notified on a particular day. And then some are remaining open positions that we were just not going to backfill and those are all corporate and admin function roles. So no, that wasn't a lever on the labor side at all. So that -- thanks for the question, but hopefully, that helps with a little more color there.

Helane R. Becker - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Yes, that is very helpful. I appreciate it.

Maurice J. Gallagher - *Allegiant Travel Company - Chairman of the Board & CEO*

Thanks, Helane.

Operator

Our next question comes from Mike Linenberg with Deutsche Bank.

Michael John Linenberg - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

I guess two quick ones here. Greg, the million -- just over $1 million burn per day in the sub Q, you indicated that, that does include a portion of the $20 million accrual? What -- how much of that accrual actually runs through the September quarter?

Gregory Clark Anderson - *Allegiant Travel Company - Executive VP, Principal Accounting Officer & CFO*

We haven't finalized that yet with the Sixth Street folks, Michael. But I think what -- for modeling purposes, perhaps a way to do it is just take that and amortize it straight over the rest of the year.

Michael John Linenberg - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

Okay. Okay. That's helpful. And then on your air traffic liability at 230 -- you were $355 million. Now is that a short-term number there? Or are your refunds -- the vouchers that you have, are they only good for 12 months? Or have you actually extended that beyond 12 months?

Gregory Clark Anderson - *Allegiant Travel Company - Executive VP, Principal Accounting Officer & CFO*

Yes. No, I think you're right. We did. We extended it to 2 years. And so of the -- I think the $350 million ATL. Kind of what we're seeing today is roughly 60% are credit vouchers. That's down a little bit from when we reported in April. And so -- yes, and then the remainder would be advanced bookings, a part of that. But some of those, to your point, have been extended for -- on the credit vouchers for 2 years.

Operator

The next question comes from Duane Pfennigwerth with Evercore ISI.

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Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities, Research Division - Senior MD*

So I don't know if you're able to speak to it, but I think about Allegiant as a carrier, which will fly as much as it possibly can, when the demand is there and not fly as much when the demand is not there. Can you talk about the flexibility or the incremental flexibility that you're seeking? And is this something that you gave up and at some point in the past when margins were super high, and clearly, the demand was there to support it.

Maurice J. Gallagher - *Allegiant Travel Company - Chairman of the Board & CEO*

Well, I'll just chime in. I don't know that we've ever given that up. You can go back year after year with our famous graph, which shows January low going up, peaking in March, falling off in April, peak again June, July, following very noticeably almost half or more in September. And then starting to work its way back to a peak at the end of the year. And that graph is repeated kind of decade for more. As far as this one certainly, Drew -- the peaks have been what they have been historically, although who knows how much higher or lower will be in September than we otherwise would. But Drew, what's the plan?

Drew Wells - *Allegiant Travel Company - VP of Revenue & Planning*

Sure. One of the things that we've talked about in the past is coming out of MD-80 and into Airbus actually exacerbated the peaks and valleys, right? So we were able to fly significantly more in March and July, while maintaining the same -- roughly the same level of utilization in September. So we kind of stretched that out. So to echo Maury, I don't believe we've given anything up, and we maintain the ability to fly as much as we can when the demand exists. All we're trying to do right now -- I think all we're trying to communicate is that we're trying to rightsize the entirety of the organization to match where demand is as we see it and still provide optionality for what may come.

Maurice J. Gallagher - *Allegiant Travel Company - Chairman of the Board & CEO*

I think the other component that -- Scott can touch on this a little bit, is we really dug into a lot of things that we otherwise weren't looking carefully at to save cash like scheduling, how do we optimize scheduling with crews and flight attendants and (inaudible), particularly in the early days when we were canceling so much, we had a lot of ups and downs, but we're much more efficient, I think, Scott, than we were a couple of -- even coming into this thing with how we are able to deal with crews.

Scott D. Sheldon - *Allegiant Travel Company - Executive VP & COO*

Yes. If you kind of look at the buildup of base sizes, so if you kind of look at medium to small bases, which you're anywhere from 6 aircraft down to 1, they're inherently less cost-effective and efficient, but they contain about half of our labor, our flight crews. And so all that is built into the economics during good times, but when you're built for, call it, 30,000-plus block hours and you're flying, maybe 40%, you take a hard look at still getting through the footprint that he needs, but how do you reduce costs in a reasonable manner. But there's a point in which to get substantial savings, you really got to start pulling base structures down, and that's something that we really would not like to do, which is why we're in active negotiations, trying to get specific relief for off-peak periods.

Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Yes, that's super helpful. That's super helpful. Just on the cost reductions that you're outlining, I don't know if you can say, but what level of revenue decline sort of post these cost saves what level of revenue decline do you think you would achieve cash flow breakeven?

Gregory Clark Anderson - *Allegiant Travel Company - Executive VP, Principal Accounting Officer & CFO*

Sure, Duane, this is Greg. If you bake into some of these levers, excuse me, that we're anticipating to pull, particularly in the fourth quarter. I think we could get to cash flow breakeven if year-over-year bookings are down roughly 40% to 45%. If they're elevated above that, I think the way -- I

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mean, you'd have to get there, and this is just kind of expanding on Scott's point as you -- you'd have to take further reductions, such as like consolidating bases and things like that to get the cost down at breakeven point. I'm not suggesting we do that. I think regardless in the fourth quarter, we're going to be rather low on the cash burn front, but I believe will be significantly lower than we are in the third quarter. And we're just going to manage the business for flexibility and the best we can. Now we have an owner here next to us, Maury Gallagher, he's looking at this every day. And he's asked the questions and making sure we're making the right decisions. So we'll continue to look and try and react as nimbly and flexibly as we can. But I think just long story short that, yes, in the fourth quarter, we'd be able to pull down quite a bit on the labor front to get near breakeven.

Maurice J. Gallagher - *Allegiant Travel Company - Chairman of the Board & CEO*

Duane, another comment, it's an interesting question. I was asking the group. We really never looked at breakeven load factor. When you're looking at 21% operating margins, as we averaged in 2019, candidly, we didn't know the 65%. Of course, you got the vagaries in revenue because unit revenue, I think Michael and I looked and has a schedule, somebody was selling an Atlanta trip out of New York for $9. So you're going to see a lot of the unit revenue pieces are going to be problematic. But our third-party revenue is coming on strong. We've -- we're making money in June. I don't think anybody can say that take away the exceptional stuff. The model still is responsive to as all hell. And I think we're going to have to fight some unit revenue as everybody just piles back in and no one quite knows how to price things because it's all new. But I'm pretty bullish that is getting to a cash flow breakeven. We can do it as best as anybody can going forward.

Operator

Our next question comes from Savi Syth with Raymond James.

Savanthi Nipunika Syth - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

Just if -- on the loan program, the CARES Act loan program. Just wondering is this kind of stance that you still might not need to tap into that? Or are you -- has that changed? And what -- have you had a discussion on kind of what kind of collateral might be used for that?

Gregory Clark Anderson - *Allegiant Travel Company - Executive VP, Principal Accounting Officer & CFO*

Savi, thanks for the question. It's Greg. Yes. So as far as whether or not we're going to take it, that's still undecided, I wouldn't read into, though, that we haven't signed an LOI that we're not still eligible for it. We certainly are. B.J. and I, we're having great discussions with the treasury team and the PJT team, their advisers, about the loan, just an interesting kind of tidbit on it. We, Allegiant, we also qualify for the Main Street lending program, say if we could find a bank to support that. So we've been talking with treasury and some banks about potentially that program, and we're not saying we're going to tap that either. Just looking at options, if you will. And the benefit to that program as compared to just the CARES Act loan is that it doesn't require warrants and then everything else is pretty similar. But in terms of collateral, just to answer that question, I think they've been pretty responsive on kind of what we can do and other possible is with collateral. We have the unencumbered aircraft and engines. Those would be kind of the prime collateral, if you will. But however, we also qualify for unsecured. If you look at the requirements on the CARES Act loan for unsecured. And so my point with that saying is if we decide to pull that lever, I think we can -- we should have the ability to raise up to the liquidity available to us under that program. But again, we're not ready to make that call at this point in time.

Savanthi Nipunika Syth - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

And if I might just follow-up on some of the Sunseeker comments. I'm just wondering, so what's your time line for making a decision there? I know you have a team in place. Just how should we think about kind of when certain decisions have to be made about that? Or have the steps you've taken just kind of bought you 12 to 24 months?

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John T. Redmond - *Allegiant Travel Company - President & Director*

Again, last call, Savi, we said we weren't going to touch anything or do anything for 18 months, and that thinking hasn't changed at all. We don't have any staff to speak of other than 3 individuals, and they're operating on significant reductions in pay. And we have a couple of people working through the construction close down, if you will. So you need to have these people. It's not like parking an airplane. When you saw the construction process when it's in process, you have to wind down payables and everything else. So there's just a handful of people that will still -- that are still remaining, all working on significant pay cuts. So our burn associated with that project is at very minimum levels.

Savanthi Nipunika Syth - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

And is there -- so from a -- no movement on 18 months, but is there a time line if you're kind of taking a strategic alternative to spin it off versus if you want to kind of continue with the start of the construction again, when do those decisions need to be made? Or is there no such kind of time line?

John T. Redmond - *Allegiant Travel Company - President & Director*

We don't have any committed time line beyond what we've already stated. Having said that, I probably get a call a week regarding what the art of the possible is. So we're entertaining and exploring the options that I made in my comments, whether there's an opportunity for an outright sale, whether there's an opportunity to JV it or bring in another equity partner or to look at borrowing the entire amount that's left to be built, I mean all of these are options that are on the table beyond sitting and waiting and doing nothing for 18 months. So we are exploring those. We haven't ruled anything out. I think that's the takeaway should come out of here is we are open to everything. So it's not like we're seeing or saying we're not going to do this, we're not going to do that. We had to say that arguably before this call or before this last couple of weeks when we had the conversations with TSSP. But now that we have reached a settlement with them, we -- the options are wide open. We have no limitation.

Operator

Our next question comes from Joseph DeNardi with Stifel.

Joseph William DeNardi - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Airline Analyst*

Maybe, Drew, just the commentary in the release about June bookings being up for a period year-over-year. Can you just talk about why that isn't a pretty bullish take point, maybe the quality of that demand in terms of price point? And what exactly does that mean? Were revenues up for a period or just kind of absolute bookings?

Drew Wells - *Allegiant Travel Company - VP of Revenue & Planning*

Sure, Joe. Yes. So it was certainly a bullish time for those few days before things changed again. It was just looking at a segment count, so the number of people buying tickets and traveling, not the revenue. So I wouldn't read that far into it. But yes, that was kind of when we were at our high point and really looking forward to what the rest of the year could be before -- about the third, fourth week of June when it turned back down that you've heard from everyone else. So that was a distant memory at this point.

Scott Wayne DeAngelo - *Allegiant Travel Company - Executive VP & CMO*

I would simply add, the key thing there was there were some key catalysts, right? There was Las Vegas coming online, June 3. Universal Studios, Walt Disney world shortly after that. So there was that kind of grand reopening, if you will. And since then, just as Drew had mentioned, we lack kind of at least an obvious catalyst for what can push through the ceiling they currently exist, since we've already kind of reopened and now pulled back and/or quasi open. There's nothing obvious staring us in the face, like a flip, a switch like we had in early June.

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Joseph William DeNardi - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD & Airline Analyst*

Okay. That's helpful. And then maybe Greg or Scott Sheldon. I think the plan was last quarter that you would maybe have to shrink the fleet by 25 aircraft. Like how did the recovery in June inform that decision? And how are you all thinking about that now?

Gregory Clark Anderson - *Allegiant Travel Company - Executive VP, Principal Accounting Officer & CFO*

Sure. I'll kick it off. And of course, if Scott or anybody wants to add to it, Joe. I think what I would say is, in June, we remain cautiously optimistic, but we -- shortly in July, we saw bookings coming down again. And it just goes back to flexibility and fleet flexibility. And fortunately, we're in a position in Allegiant here because of a lot of hard work in the past that we can be nimble with our fleet. And so as we think about the number of aircraft to retire in the future. We're kind of taking it day by day, so to speak, in a wait-and-see approach. We decided on up to 7 aircraft today -- or recently. And that's because those aircraft made a lot of sense for us to retire as we compared their reliability, their age, their ability to generate additional cash as we compare their investments and things of that nature, we determined that these were good aircraft to put down at this point in time. And that's going to save on cost down the road, particularly on the heavy maintenance side. And then one last thing I may add just before perhaps turning over to somebody else, is that we still have flexibility with -- that 22 number hasn't changed. We still have that flexibility, 6 are in storage, and we'll continue to evaluate 6 more of those, excuse me, on storage, and then we'll continue to evaluate the rest -- the remaining 10 on a go-forward basis and just try and be flexible and react accordingly.

Operator

Our next question comes from Matthew Wisniewski with Barclays.

Matthew Aaron Wisniewski - *Barclays Bank PLC, Research Division - Research Analyst*

So I just wanted to come back to how you -- or the management thinking about kind of adding incremental capacity back. Are you managing the load factors? Or is the idea to managing and covering variable costs or some type of profitability level as you're adding incremental flights or taking them out? Any thoughts there would be appreciated.

Drew Wells - *Allegiant Travel Company - VP of Revenue & Planning*

Sure. Yes, this is Drew here. And your latter point is exactly right. We're still thinking about a cash basis, cash profitability as we're thinking about capacity, kind of, as Maury stated. There's not necessarily one load factor that drives or necessitates whether or not that flight will make money, but that's very much where we're focused is variable costs. And as we start to gain margin on that, it becomes a lot easier to sprinkle in more peak day flying and more markets were required.

Matthew Aaron Wisniewski - *Barclays Bank PLC, Research Division - Research Analyst*

Okay. And I guess kind of as a side of that, the ancillaries per passenger stayed relatively intact year-over-year. Can you keep that rate going forward? Or is there something skewing that in the near term? Because if I'm wrong, that can set you up pretty well ticket pricing does face some competitive pressures.

Drew Wells - *Allegiant Travel Company - VP of Revenue & Planning*

Yes. Well, this has certainly been the largest test for our ancillary. Our thesis has always been that ancillary is much more sticky than the air component. And I think we've shown that over the last few months. We're still over 50 per passenger in air ancillary, third party, such that things are open and

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available to sell for resorts and for auto will be there. And the co-brand credit card has been a phenomenal bolstering the third-party as well. So I have confidence that the ancillary can continue to remain sticky and at levels we're seeing today.

Operator

Our next question comes from Hunter Keay with Wolfe Research.

Hunter Kent Keay - *Wolfe Research, LLC - MD and Senior Analyst of Passenger Airlines, Aerospace & Defense*

But John, and Maury, other than price, what are some of the conditions on sale of Sunseeker or a scenario where you relinquished some portion of control of the project?

Maurice J. Gallagher - *Allegiant Travel Company - Chairman of the Board & CEO*

Oh gosh, Hunter, it's -- there's still 0 opportunities now other than the occasional call that gets logged in. Again, the focus is on the airline. Today, we probably wouldn't take much to do to get -- if it's got cash associated with it or I'd like to see us stay involved in the management because John are just so good at that stuff. But we really just don't talk about it that much, and John's got this or that offer coming across the TRASM, but in today's world, it's pretty hard to get even must -- or a reasonable offer.

John T. Redmond - *Allegiant Travel Company - President & Director*

Well, I think, Hunter, you can appreciate, we kind of lose some negotiating leverage if we talked about what price we had accept over the earnings call. So we won't go that far. But I guess the takeaway, as I mentioned, earlier is that there is a willingness to have those kind of conversations and have any kind of conversation regarding any opportunity. So I think the -- and you had made some allusion to that, but we don't have any restrictions on anything. We're open to having any and all dialogue. I have a phone call tomorrow, that's an interesting one. And I have -- as I say, I get at least one phone call a week. So it's one of those stories. Stay tuned. That story is yet to be written. We just don't know how it's going to play out. And -- but we are open to any numerous options that are out there.

Maurice J. Gallagher - *Allegiant Travel Company - Chairman of the Board & CEO*

Hunter, just a big picture statement. The strategy is solid and sound that we embarked on here. We've sold third-party revenues for 20 years. We've proven year in, year out that we could make money on that. You look at the strength of the West Coast of Florida. If all the areas in this country, it probably is among the strongest because the people going there are older and they have money and they're less affected by this, and that's going to continue. It's got a tremendous history. So the combination of that, the bread basket, the feed we can bring to it from where we fly, all the markers are incredibly strong. So while we're not going to put any capital into it at this point in time, longer term, as a strategy, I think that what we're embarked on is a diversification that's second to none in the industry. And we've got a great head start with that asset. So we certainly want to stay involved in some fashion to feed ourselves and continue to enhance third-party revenues. So that's a good strategic overview.

Hunter Kent Keay - *Wolfe Research, LLC - MD and Senior Analyst of Passenger Airlines, Aerospace & Defense*

That's great. I appreciate that, Maury. And then [Bill], I want to talk to you a second about the IBC disagreement that you talked -- you mentioned. I assume that was then just not really cooperating with your vision of facilitating voluntary early out. But more importantly, how does that impact your support or lack thereof on potential TSSP extension? Or does that factor in?

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Gregory Clark Anderson - *Allegiant Travel Company - Executive VP, Principal Accounting Officer & CFO*

Yes. I think if you look at the strategy, right, so we had a really wide schedule out there. First half of May, we canceled a ton off. We flew a lot more in the back half of May. June was down, but it was relatively intact. July year-over-year was down 10% maybe? Departures. So you have a workforce that on the surface, it looks like everything is good. We're flying full schedules. But then you start to see spikes, flare-ups and just as Scott D. mentioned, what's the vision? What's the expectation for the back half of the year? And you just got to assume it's going to be bumpy. And so that's kind of how we position this.

Early on, I mean, we're educating folks on what was our option. Option a, which is let's go wide and so otherwise; or b, which is consolidate. And so I think there's a middle ground there. What the issue we had in July is we couldn't really grant a lot of short-term leads. Because we needed the bodies and we are -- because we're flying such a relatively healthy schedule. And so this is just to protect the off-peaks. As far as the round two, if that does come through, obviously, that's -- that we're going to have to pivot and change the discussions. But if that doesn't hit, like I said, we still want to have these discussions. There is a solution here. We proposed a number of different kind of creative ways in order to flex down and flex up give these guys clarity on what snapback provisions would look like. And so it's just tough, like I said, on the surface, they just assume everything is great, and we're just preparing for a very soft, off-peak period.

Maurice J. Gallagher - *Allegiant Travel Company - Chairman of the Board & CEO*

Hunter, we've managed peaks and valleys consistently for years. So the idea that we can peak up is important to us because that's -- I've discovered a long time ago, you make more money on Sunday than you do the other 7 days of the 6 days of the week, and you want to carry those seats around for your profit potential. Same analogy applies to those peak periods where you -- our March is like 20%, 25% of our operating income in historic terms. So you need the bodies to do that type of flying. But now in this period, what our ask is that we spread that cost during the bottom end, and we get less expense going forward. That's cash management 101. So that's the ask and most of our people are getting it. Some people -- they just want to leave status quo, and that's their call. That's their group to manage. And what you're basically saying is that the top guys are going to get taken care of and the bottom guys, we don't care furloughs or what happens in the industry. So anyway, different philosophies for different people.

Gregory Clark Anderson - *Allegiant Travel Company - Executive VP, Principal Accounting Officer & CFO*

Yes. And kind of the number around the 275, I mean that really maintains the footprint. If you go above that, then there's going to be a consolidation of basis, which is painful. That's a longer term, different strategy. But at the end of the day, it might warrant going there. So this is kind of our first pass at it. I think until you start pushing notices and rosters of impacted folks, technically, it's not real. And so we'll see how these folks respond. But at the end of the day, the 275 folks, that's worth about $25 million to $30 million in payroll. But you give up upside from a network configuration standpoint.

Operator

Thank you. Ladies and gentlemen, this concludes the Q&A portion of the conference. I'd like to turn the call back over to Maury Gallagher for closing remarks.

Maurice J. Gallagher - *Allegiant Travel Company - Chairman of the Board & CEO*

Thank you all for your time. Appreciate it. Stay safe in the next 90 days. We'll talk to you in October. Thank you.

Operator

Ladies and gentlemen, this does conclude today's presentation. You may now disconnect, and have a wonderful day.

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