

Spirit Airlines, Inc.  
Form 10-Q  
July 31, 2012

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

OR

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

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

Commission File Number: 001-35186

SPIRIT AIRLINES, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

Edgar Filing: Spirit Airlines, Inc. - Form 10-Q

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the close of business on July 17, 2012:

Class	Number of Shares
Voting Common Stock, \$0.0001 par value	70,853,821
Non-Voting Common Stock, \$0.0001 par value	1,669,205

---

Table of Contents  
INDEX

	Page No.
<u>Part I. Financial Information</u>	
<u>Item 1.</u> <u>Financial Statements (unaudited)</u>	<u>1</u>
<u>Condensed Statements of Operations – Three and Six Months Ended June 30, 2012 and June 30, 2011</u>	<u>1</u>
<u>Condensed Balance Sheets – June 30, 2012 and December 31, 2011</u>	<u>2</u>
<u>Condensed Statements of Cash Flows – Six Months Ended June 30, 2012 and June 30, 2011</u>	<u>3</u>
<u>Notes to Condensed Financial Statements</u>	<u>4</u>
<u>Item 2.</u> <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>15</u>
<u>Glossary of Airline Terms</u>	<u>26</u>
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>28</u>
<u>Item 4.</u> <u>Controls and Procedures</u>	<u>28</u>
<u>Part II. Other Information</u>	
<u>Item 1.</u> <u>Legal Proceedings</u>	<u>29</u>
<u>Item 1A.</u> <u>Risk Factors</u>	<u>29</u>
<u>Item 6.</u> <u>Exhibits</u>	<u>30</u>
<u>Signature</u>	<u>31</u>

---

## PART I. Financial Information

## ITEM 1. UNAUDITED CONDENSED FINANCIAL STATEMENTS

Spirit Airlines, Inc.

Condensed Statements of Operations

(unaudited, in thousands, except per-share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Operating revenues:				
Passenger	\$211,812	\$180,418	\$391,890	\$333,698
Non-ticket	134,496	95,473	255,913	174,855
Total operating revenue	346,308	275,891	647,803	508,553
Operating expenses:				
Aircraft fuel	120,233	107,322	228,958	188,234
Salaries, wages and benefits	53,489	45,173	106,143	88,366
Aircraft rent	36,060	29,081	68,933	56,789
Landing fees and other rents	17,066	13,007	32,180	24,662
Distribution	14,738	13,037	28,939	24,969
Maintenance, materials and repairs	13,558	7,480	23,972	15,538
Depreciation and amortization	3,327	1,691	6,197	3,237
Other operating	32,657	21,826	59,680	42,559
Loss on disposal of assets	33	35	482	35
Special charges	15	2,280	(57	) 2,361
Total operating expenses	291,176	240,932	555,427	446,750
Operating income	55,132	34,959	92,376	61,803
Other (income) expense:				
Interest expense	794	9,678	1,334	23,964
Capitalized interest	(794	) (1,039	) (1,334	) (2,076
Interest income	(180	) (71	) (595	) (157
Other expense	84	76	127	124
Total other (income) expense	(96	) 8,644	(468	) 21,855
Income before income taxes	55,228	26,315	92,844	39,948
Provision for income taxes	20,637	9,398	34,834	15,148
Net income	\$34,591	\$16,917	\$58,010	\$24,800
Net income per share, basic	\$0.48	\$0.41	\$0.80	\$0.73
Net income per share, diluted	\$0.48	\$0.41	\$0.80	\$0.72

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

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

	June 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$414,977	\$343,328
Accounts receivable, net	24,936	15,425
Deferred income taxes	17,982	20,738
Other current assets	81,668	63,217
Total current assets	539,563	442,708
Property and equipment:		
Flight equipment	10,698	4,182
Ground and other equipment	51,365	46,608
Less accumulated depreciation	(30,127)	(27,580)
	31,936	23,210
Deposits on flight equipment purchase contracts	84,291	91,450
Prepaid aircraft maintenance to lessors	117,560	120,615
Security deposits and other long-term assets	96,175	67,830
Total assets	\$869,525	\$745,813
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	28,599	15,928
Air traffic liability	145,085	112,280
Other current liabilities	117,479	98,856
Total current liabilities	291,163	227,064
Long-term deferred income taxes	22,191	12,108
Deferred credits and other long-term liabilities	28,848	39,935
Shareholders' equity:		
Common stock	7	7
Additional paid-in-capital	499,599	496,136
Treasury stock	(985)	(129)
Retained earnings (deficit)	28,702	(29,308)
Total shareholders' equity	527,323	466,706
Total liabilities and shareholders' equity	\$869,525	\$745,813

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

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

	Six Months Ended June 30,	
	2012	2011
Net cash provided by operating activities	\$97,420	\$37,902
Investing activities:		
Proceeds from sale of property, equipment and slots	9,074	5,537
Pre-delivery deposits for flight equipment, net of refunds	4,738	(20,091 )
Purchase of property and equipment, net	(19,218 )	(7,305 )
Net cash used in investing activities	(5,406 )	(21,859 )
Financing activities:		
Proceeds from issuance of common stock	303	171,014
Payments on debt	—	(20,564 )
Proceeds from sale leaseback transactions	5,627	—
Payments to pre-IPO shareholders pursuant to tax receivable agreement	(26,905 )	—
Excess tax benefits from share-based compensation	1,466	—
Repurchase of restricted common stock	(856 )	(757 )
Debt issuance costs	—	8
Net cash provided by (used in) financing activities	(20,365 )	149,701
Net increase in cash and cash equivalents	71,649	165,744
Cash and cash equivalents at beginning of period	343,328	82,714
Cash and cash equivalents at end of period	\$414,977	\$248,458
Supplemental disclosures		
Cash payments for:		
Interest paid	\$287	\$2,615
Taxes paid	\$21,819	\$187
Non-cash transactions		
Exchange of Notes due to related parties for common stock	\$—	\$279,206
Exchange of mandatorily redeemable preferred stock for common stock	\$—	\$81,747
Liability and offsetting reduction to equity recorded related to tax receivable agreement	\$—	\$35,889

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

Notes to Condensed Financial Statements

(unaudited)

1. Basis of Presentation

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

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

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

Certain prior period amounts have been reclassified to conform to the current year's presentation. For the year ended December 31, 2011, long-term deferred income taxes have been broken out separately from deferred credits and other long-term liabilities in the accompanying Condensed Balance Sheets.

2. Recent Accounting Developments

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (Topic 820)—Fair Value Measurement (ASU 2011-04). This ASU provides a consistent definition of fair value and ensures that the fair value measurement and disclosure requirements are similar between GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. ASU 2011-04 requires public and non-public companies to disclose the unobservable inputs that are significant to the fair value measurement. Public companies are now required to quantitatively disclose the unobservable inputs used in their Level 3 measurements. ASU 2011-04 provides examples of information companies might provide to comply with the disclosure requirements. The requirements include: (1) a description of the group responsible for valuation policies and procedures, to whom the group reports and the types of internal reporting procedures in place (e.g., interaction between the group and risk management or the audit committee to assess fair value measurements); (2) a description of the frequency and methods for calibration, back testing and other testing procedures used to evaluate pricing models; (3) a description of the process for analyzing changes in fair value measurements from period to period; (4) a description of the methods used to evaluate pricing information provided by third-party brokers or pricing services; (5) a description of the methods used to develop and substantiate the unobservable inputs used in a fair value measurement; and (6) a narrative description of the sensitivity of recurring Level 3 fair value measurements to changes in the unobservable inputs used, if changing those inputs would significantly affect the fair value measurement. On January 1, 2012, the Company adopted ASU 2011-04.

The adoption of ASU 2011-04 resulted in qualitative presentation changes to the Company's disclosures related to fair value measurements as disclosed in Note 8. These changes were primarily the addition of discussion regarding the Company's valuation policies and procedures including the frequency of valuation and testing of valuation models as well as the sensitivity of the Company's model to changes in unobservable inputs.

In December 2011, the FASB issued amendments to Accounting Standards Update No. 2011-11, Balance Sheet (Topic 210); Disclosures about Offsetting Assets and Liabilities (ASU 2011-11). The amendments in this update are designed to enhance disclosures by requiring improved information about financial instruments and derivative instruments that are either (a) offset in accordance with certain right to set-off conditions prescribed by current

accounting guidance or (b) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with current accounting guidance. The amendments to ASU 2011-11 will be effective for the first interim or annual period beginning on or after January 1, 2013. Management does not expect the adoption of ASU 2011-11 to have a material impact on its financial statements.



## Notes to Condensed Financial Statements—(Continued)

## 3. Special Charges

## Secondary Offering Costs

On January 25, 2012, certain stockholders of the Company, including affiliates of Oaktree Capital Management and Indigo Partners and certain members of the Company's executive team, sold an aggregate of 12,650,000 shares of common stock in an underwritten public offering (the secondary offering). The Company incurred a total of \$1.3 million in costs between 2011 and 2012 related to the January 2012 secondary offering, of which \$0.5 million were incurred during the six months ended June 30, 2012, offset by reimbursements from certain selling shareholders of \$0.5 million in accordance with the Fourth Amendment to the Second Amended and Restated Investor Rights Agreement. The Company did not receive any proceeds from the sale of shares in the secondary offering.

## Initial Public Offering Costs

In June 2011, the Company issued and sold 15,600,000 shares of common stock in its initial public offering (IPO). The Company incurred contract termination costs and fees of \$2.3 million in connection with the IPO during the six months ended June 30, 2011, which included \$1.8 million paid to Indigo Partners, LLC to terminate its professional services agreement with the Company and \$0.5 million paid to three individual, unaffiliated holders of the Company's subordinated notes.

## 4. Net Income per Share

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	(in thousands, except per-share amounts)			
Numerator				
Net income	\$34,591	\$16,917	\$58,010	\$24,800
Denominator				
Weighted-average shares outstanding, basic	72,379	41,493	72,336	33,962
Effect of dilutive nonvested stock awards	205	276	206	308
Adjusted weighted-average shares outstanding, diluted	72,584	41,769	72,542	34,270
Net Income per Share				
Basic earnings per common share	\$0.48	\$0.41	\$0.80	\$0.73
Diluted earnings per common share	\$0.48	\$0.41	\$0.80	\$0.72

For the three and six months ended June 30, 2012, there was a weighted-average of 40 thousand and 26 thousand anti-dilutive stock awards, respectively, excluded from the computation of diluted earnings per common share. At June 30, 2011, there were no anti-dilutive awards excluded from the computation of diluted earnings per common share.

## Notes to Condensed Financial Statements—(Continued)

## 5. Accrued Liabilities

Accrued liabilities included in other current liabilities as of June 30, 2012 and December 31, 2011 consist of the following:

	June 30, 2012	December 31, 2011
	(in thousands)	
Federal excise and other passenger taxes and fees payable	\$27,383	\$17,813
Salaries and wages	18,381	17,123
Airport expenses	13,693	10,682
Aircraft maintenance	10,575	7,816
Fuel	10,288	87
Current portion of tax receivable agreement	9,490	27,399
Deferred gain on sale of slots	9,060	—
Aircraft and facility rent	7,096	7,206
Restructuring	234	329
Other	11,279	10,401
Accrued liabilities	\$117,479	\$98,856

## Slot Transaction

During June 2012, the Company transferred four permanent air carrier slots at Ronald Reagan National Airport to another airline ("buyer") for \$9.1 million in cash, which the Company received in June. Due to FAA regulations, the buyer may not operate the slots until written confirmation of the slot transfer has been received from the FAA. In accordance with FAA's 80% "use or lose" requirements, the Company will continue to operate all four slots through September 6, 2012. Due to the restriction preventing operating use of the slots by buyer, the gain of \$9.1 million was fully deferred as of June 30, 2012 and included within other current liabilities on the accompanying balance sheet. The Company expects to recognize a \$9.1 million gain in the third quarter of 2012, the period in which the FAA operating restriction lapses and written confirmation of the slot transfer is expected to be received by the buyer from the FAA.

## 6. Financial Instruments and Risk Management

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

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

The Company records financial derivative instruments at fair value, which includes an evaluation of the counterparty credit risk. Fair value of the instruments is determined using standard option valuation models.

Management chose not to elect hedge accounting on any derivative instruments during the six months ended June 30, 2012 and 2011 and, as a result, changes in the fair value of these fuel hedge contracts are recorded each period in aircraft fuel expense.

## Notes to Condensed Financial Statements—(Continued)

The following table summarizes the components of aircraft fuel expense for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended		Six Months Ended	
	June 30, 2012	2011	June 30, 2012	2011
	(in millions)			
Into-plane fuel cost	\$116.6	\$107.0	\$227.5	\$192.6
Changes in value and settlements of fuel hedge contracts	3.6	0.3	1.4	(4.3)
Aircraft fuel expense	\$120.2	\$107.3	\$229.0	\$188.2

During the three months ended June 30, 2012, \$3.6 million of net fuel derivative losses were recognized, consisting of realized losses of \$2.5 million and unrealized losses of \$1.1 million. During the three months ended June 30, 2011, \$0.3 million of net fuel derivative losses were recognized, consisting of realized gains of \$3.1 million offset by unrealized losses of \$3.5 million. During the six months ended June 30, 2012, \$1.4 million of net fuel derivative losses were recognized, consisting of realized losses of \$37 thousand and unrealized losses of \$1.4 million. During the six months ended June 30, 2011, \$4.3 million of net fuel derivative gains were recognized, consisting of realized gains of \$7.2 million offset by unrealized losses of \$2.9 million. Changes in the fair value of such derivative contracts were recorded within aircraft fuel expense in the accompanying statements of operations. These amounts include both realized gains and losses and mark-to-market adjustments of the fair value of unsettled derivative instruments at the end of each period.

As of June 30, 2012 and December 31, 2011, the Company had fuel hedges using U.S. Gulf Coast jet fuel collars as the underlying commodity. As of June 30, 2012, the Company had agreements in place to protect 7.5 million gallons, or approximately 19% of its estimated fuel consumption for the third quarter of 2012, at a weighted-average ceiling and floor price of \$3.16 and \$2.95 per gallon, respectively. As of June 30, 2012, the Company did not have any of these fuel hedges in place for the fourth quarter of 2012 and beyond. As of December 31, 2011, the Company had agreements in place to protect 13.5 million gallons or approximately 9% of its estimated fuel consumption for the twelve months ended December 31, 2012 at a weighted-average ceiling and floor price of \$2.99 and \$2.81 per gallon, respectively. Additionally, during peak hurricane season (August through October), the Company enters into basis swap agreements using NYMEX Heating Oil indexes to protect the refining price risk between the price of crude oil and the price of refined jet fuel. As of June 30, 2012, the Company had approximately 72% of its August through October 2012 forecasted refining risk protected using these basis swaps.

#### 7. Commitments and Contingencies

##### Aircraft-Related Commitments and Financing Arrangements

The Company's contractual purchase commitments consist primarily of aircraft and engine acquisitions through manufacturers and aircraft leasing companies. As of June 30, 2012, firm aircraft orders with Airbus consisted of 101 A320 family aircraft (56 of the existing aircraft model and 45 A320 NEOs) and engine orders with International Aero Engines consisted of three spare V2500 IAE International Aero Engines AG engines. Aircraft are scheduled for delivery from 2012 through 2021, and spare engines are scheduled for delivery from 2013 through 2018. Committed expenditures for these aircraft and related flight equipment, including estimated amounts for contractual price escalations and pre-delivery payments, will be approximately \$96 million for the remainder of 2012, \$323 million in 2013, \$348 million in 2014, \$520 million in 2015, \$510 million in 2016 and \$2,955 million in 2017 and beyond.

During the first six months of 2012, the Company entered into sale and leaseback transactions with third-party aircraft lessors for the sale and leaseback of five Airbus A320 aircraft that resulted in deferred losses of \$4.9 million, which are included in other long-term assets on the accompanying balance sheet. The deferred losses will be recognized as an increase to rent expense on a straight-line basis over the term of the respective operating leases. The Company had agreements in place prior to the delivery of these aircraft which resulted in the settlement of the purchase obligation by the lessor and the refund of \$27.9 million in pre-delivery deposits from Airbus for the six months ended June 30, 2012. The refunded pre-delivery deposits have been disclosed in the accompanying statement of cash flows as investing activities within pre-delivery deposits for flight equipment, net of refunds. All of the leases from these sale

and leaseback transactions are accounted for as operating leases. Under the terms of the lease agreements, the Company will continue to operate and maintain the aircraft. Rent payments under the lease agreements are fixed for the term of the lease. The lease agreements provide for standard termination events, including termination upon a breach of the Company's obligations to make rental payments and upon any other material breach of the Company's obligations under the leases, standard maintenance and return condition provisions, and the payment of

7

---

## Notes to Condensed Financial Statements—(Continued)

maintenance reserves. Upon a termination of the lease due to a breach by the Company, the Company would be liable for standard contractual damages, possibly including damages suffered by the lessor in connection with remarketing the aircraft or while the aircraft is not leased to another party.

**Litigation**

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

**Credit Card Processing Arrangements**

The Company has agreements with organizations that process credit card transactions arising from the purchase of air travel, baggage fees, and other ancillary services by customers. As is standard in the airline industry, the Company's contractual arrangements with credit card processors permit them, under certain circumstances, to retain a holdback or other collateral, which the Company records as restricted cash, when future air travel and other future services are purchased via credit card transactions. The required holdback is the percentage of the Company's overall credit card sales that its credit card processors hold to cover refunds to customers if the Company fails to fulfill its flight obligations. During 2011, the Company amended its contractual agreements with all of its processors in light of the Company's improved balance sheet attributable to the Company's IPO and related recapitalization, resulting in the elimination of all required holdbacks. As of June 30, 2012, the Company continued to be in compliance with its credit card processing agreements, resulting in the respective processors holding back \$0 of remittances.

Failure to meet certain liquidity covenants would provide the processors the right to reinstate a holdback, resulting in a commensurate reduction of unrestricted cash. The maximum potential exposure to cash holdbacks by the Company's credit card processors, based upon advance ticket sales and \$9 Fare Club memberships as of June 30, 2012 and December 31, 2011, was \$159.5 million and \$115.2 million, respectively.

**Employees**

Approximately 53% of the Company's employees are covered under collective bargaining agreements. The table below sets forth our employee groups and status of the collective bargaining agreements.

Employee Groups	Representative	Amendable Date
Pilots	Air Line Pilots Association, International (ALPA)	August 2015
Flight Attendants	Association of Flight Attendants (AFA-CWA)	August 2007
Dispatchers	Transport Workers Union (TWU)	July 2012

The collective bargaining agreement between the Company and the Company's pilots represents 21% of the Company's employees and was executed on August 1, 2010.

The collective bargaining agreement between the Company and the Company's flight attendants represents approximately 31% of the Company's employees and became amendable on August 6, 2007. The Company and the union are currently in negotiations to reach a new collective bargaining agreement. The CBA between the Company and its dispatchers represents approximately 1% of the Company's employees.

The Company is self-insured for health care claims for eligible participating employees and qualified dependent medical claims, subject to deductibles and limitations. The Company's liabilities for claims incurred but not reported are determined based on an estimate of the ultimate aggregate liability for claims incurred. The estimate is calculated from actual claim rates and adjusted periodically as necessary. The Company has accrued \$1.7 million and \$2.0 million for health care claims as of June 30, 2012 and December 31, 2011, respectively.

**Other**

The Company is contractually obligated to pay the following minimum guaranteed payments to the provider of its reservation system as of June 30, 2012: \$1.5 million for the remainder of 2012, \$3.1 million in 2013, \$3.7 million in 2014, \$3.7 million in 2015, \$3.7 million in 2016 and \$6.2 million in 2017 and thereafter.

## Notes to Condensed Financial Statements—(Continued)

The Company entered into a Tax Receivable Agreement (“TRA”) with the Company's Pre-IPO Stockholders (as defined in the TRA) that became effective immediately prior to the consummation of the IPO. In accordance with the TRA, the Company paid \$27.2 million, including \$0.3 million of applicable interest, in the second quarter of 2012. See Note 10.

## 8. Fair Value Measurements

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

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

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

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

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company utilizes several valuation techniques in order to assess the fair value of the Company's financial assets and liabilities. The Company's fuel derivative contracts, which primarily consist of costless collar contracts, are valued using energy and commodity market data, which is derived by combining raw inputs with quantitative models and processes to generate forward curves and volatilities.

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

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

	Fair Value Measurements as of June 30, 2012			
	Total	Level 1	Level 2	Level 3
	(in millions)			
Cash and cash equivalents	\$415.0	\$415.0	\$—	\$—
Basis swaps	0.3	—	—	0.3
Option contracts	0.1	—	—	0.1
Total assets	\$415.4	\$415.0	\$—	\$0.4
Option contracts	\$1.4	\$—	\$—	\$1.4
Total liabilities	\$1.4	\$—	\$—	\$1.4
	Fair Value Measurements as of December 31, 2011			
	Total	Level 1	Level 2	Level 3
	(in millions)			
Cash and cash equivalents	\$343.3	\$343.3	\$—	\$—
Option contracts	1.0	—	—	1.0
Total assets	\$344.3	\$343.3		