Spirit Airlines, Inc.
Form 10-Q
April 26, 2016

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

Form 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
OR
o 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 incorporation or organization)	(I.R.S. Employer Identification No.)
2800 Executive Way Miramar, Florida	33025
(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 ý No o

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 ý No o

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	ý	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the close of business on April 18, 2016:

Class	Number of Shares
Common Stock, $0.0001 par value	71,207,390

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PART I. Financial Information
ITEM 1. UNAUDITED CONDENSED FINANCIAL STATEMENTS
Spirit Airlines, Inc.
Condensed Statements of Operations
(unaudited, in thousands, except per share amounts)

	Three Months Ended March 31,	
	2016	2015
Operating revenues:		
Passenger	$272,626	$273,466
Non-ticket	265,517	219,889
Total operating revenues	538,143	493,355
Operating expenses:		
Aircraft fuel	85,982	112,426
Salaries, wages and benefits	116,410	88,961
Aircraft rent	52,202	52,788
Landing fees and other rents	34,807	30,546
Distribution	22,933	20,497
Maintenance, materials and repairs	20,940	19,160
Depreciation and amortization	23,109	14,863
Other operating	64,045	43,843
Loss on disposal of assets	214	595
Special charges	16,202	425
Total operating expenses	436,844	384,104
Operating income	101,299	109,251
Other (income) expense:		
Interest expense	8,060	2,812
Capitalized interest	(3,325)	(2,533)
Interest income	(1,566)	(134)
Other expense	70	72
Total other (income) expense	3,239	217
Income before income taxes	98,060	109,034
Provision for income taxes	36,140	40,032
Net income	$61,920	$69,002
Basic earnings per share	$0.87	$0.94
Diluted earnings per share	$0.86	$0.94

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

Spirit Airlines, Inc.
Condensed Statements of Comprehensive Income
(unaudited, in thousands)

	Three Months Ended March 31,	
	2016	2015
Net income	$61,920	$69,002
Unrealized loss on interest rate derivative instruments, net of deferred tax benefit of $0 and $940	—	(1,594)
Interest rate swap losses reclassified into earnings	90	—
Other comprehensive income (loss)	$90	$(1,594)
Comprehensive income	$62,010	$67,408

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

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

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$902,809	$ 803,632
Accounts receivable, net	32,469	28,266
Aircraft maintenance deposits	79,276	73,415
Prepaid income taxes	—	72,278
Prepaid expenses and other current assets	54,760	48,749
Total current assets	1,069,314	1,026,340
Property and equipment:		
Flight equipment	1,031,886	827,282
Ground and other equipment	93,724	82,459
Less accumulated depreciation	(76,703)	(65,524)
	1,048,907	844,217
Deposits on flight equipment purchase contracts	289,835	286,837
Long-term aircraft maintenance deposits	196,470	206,485
Deferred heavy maintenance, net	80,144	89,127
Other long-term assets	78,578	77,539
Total assets	$2,763,248	$ 2,530,545
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$23,017	$ 17,043
Air traffic liability	263,430	216,831
Current maturities of long-term debt	53,012	49,637
Other current liabilities	228,137	182,729
Total current liabilities	567,596	466,240
Long-term debt, less current maturities	655,103	596,693
Long-term deferred income taxes	242,602	221,481
Deferred gains and other long-term liabilities	20,179	20,821
Shareholders' equity:		
Common stock	7	7
Additional paid-in-capital	545,377	544,277
Treasury stock, at cost	(126,779)	(116,182)
Retained earnings	860,674	798,754
Accumulated other comprehensive loss	(1,511)	(1,546)
Total shareholders' equity	1,277,768	1,225,310
Total liabilities and shareholders' equity	$2,763,248	$ 2,530,545

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

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

	Three Months Ended March 31,	
	2016	2015
Operating activities:		
Net income	$61,920	$69,002
Adjustments to reconcile net income to net cash provided by operations:		
Unrealized losses on open derivative contracts, net	—	3,783
Losses reclassified from other comprehensive income	90	—
Equity-based compensation	1,790	1,985
Allowance for doubtful accounts (recoveries)	25	31
Amortization of deferred gains and losses	1,968	164
Depreciation and amortization	23,109	14,863
Deferred income tax expense (benefit)	21,066	(5,560)
Loss on disposal of assets	214	595
Lease termination cost	16,202	—
Changes in operating assets and liabilities:		
Accounts receivable	(4,229)	(5,444)
Aircraft maintenance deposits	(12,311)	(12,317)
Prepaid Income Taxes	72,278	—
Long-term deposits and other assets	(8,495)	(6,160)
Accounts payable	4,703	433
Air traffic liability	46,473	79,350
Other liabilities	33,296	28,810
Net cash provided by operating activities	258,099	169,535
Investing activities:		
Pre-delivery deposits for flight equipment, net of refunds	(50,358)	(50,388)
Capitalized interest	(2,575)	(1,700)
Purchase of property and equipment	(159,829)	(184,609)
Net cash used in investing activities	(212,762)	(236,697)
Financing activities:		
Proceeds from issuance of long-term debt	73,914	185,000
Proceeds from stock options exercised	88	15
Payments on debt and capital lease obligations	(9,749)	(2,968)
Excess tax benefit (deficiency) from equity-based compensation	(778)	7,877
Repurchase of common stock	(9,601)	(10,943)
Debt issuance costs	(34)	(2,976)
Net cash provided by financing activities	53,840	176,005
Net increase in cash and cash equivalents	99,177	108,843
Cash and cash equivalents at beginning of period	803,632	632,784
Cash and cash equivalents at end of period	$902,809	$741,627
Supplemental disclosures		
Cash payments for:		
Interest, net of capitalized interest	$3,430	$11
Income taxes paid, net of refunds	$(64,158)	$9,883

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 that management believes are necessary to fairly present 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 for the year ended December 31, 2015 filed with the Securities and Exchange Commission on February 17, 2016.
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect both 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 may 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.
2. Recent Accounting Developments
In May 2014, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2014-09, (ASU 2014-09), "Revenue from Contracts with Customers." The objective of ASU 2014-09 is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. ASU 2014-09 will supersede most of the existing revenue recognition guidance, including industry-specific guidance. The core principle of ASU 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the new guidance, an entity will (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the contract's performance obligations; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. The new guidance is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2017 for public companies. Early adoption is permitted, but not before interim and annual reporting periods beginning after December 15, 2016. Entities have the option to use either a full retrospective or modified approach to adopt ASU 2014-09. The Company is currently evaluating the new guidance and has neither determined the full impact this standard may have on its financial statements nor decided upon the planned method of adoption. While the Company is still evaluating the impact, it expects the accounting for its frequent flier program to be impacted as ASU 2014-09 will no longer allow use of the incremental cost method when recording revenue related to the Company's loyalty programs. The Company also expects the timing of recognition of certain ancillary fees to be impacted by adoption of ASU 2014-09.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." This standard will require all leases with durations greater than twelve months to be recognized on the balance sheet and is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the new guidance and believes adoption of this standard will have a significant impact on its balance sheets although adoption is not expected to significantly change the recognition, measurement or presentation of lease expenses within the statements of operations and cash flows.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting," which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification on the statement of cash flows. For public companies, the new guidance is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2016, with early adoption permitted. The Company is in the process of evaluating the impact of adoption of this guidance on its financial statements.

Notes to Condensed Financial Statements—(Continued)

3. Special Charges

In February 2016, the Company purchased two A319 aircraft which were formerly financed under operating lease agreements. The purchase price of the two aircraft was $44.0 million, comprised of cash payment of $23.5 million and the non-cash application of maintenance and security deposits held by the previous lessor of $20.5 million. The Company estimated the fair value of the aircraft to be $27.4 million and has recorded the two purchased aircraft within flight equipment on the condensed balance sheets. The Company determined the valuation of the aircraft based on a third-party appraisal considering the condition of each aircraft (a Level 3 measurement). The Company recognized the $16.2 million excess of the purchase price paid over the fair value of the aircraft as a cost of terminating the leases within special charges on the statement of operations.

4. Earnings per Share

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

	Three Months Ended March 31,	
	2016	2015
	(in thousands, except per share amounts)	
Numerator		
Net income	$61,920	$69,002
Denominator		
Weighted-average shares outstanding, basic	71,572	73,054
Effect of dilutive stock awards	204	316
Adjusted weighted-average shares outstanding, diluted	71,777	73,370
Net income per share		
Basic earnings per common share	$0.87	$0.94
Diluted earnings per common share	$0.86	$0.94
Anti-dilutive weighted-average shares	85	27

5. Accrued Liabilities

Other current liabilities as of March 31, 2016 and December 31, 2015 consist of the following:

	March 31, 2016	December 31, 2015
	(in thousands)	
Federal excise and other passenger taxes and fees payable	$51,475	$ 38,254
Salaries and wages	44,193	34,123
Airport obligations	34,362	30,849
Aircraft and facility lease obligations	25,577	24,014
Aircraft maintenance	25,093	21,688
Interest payable	18,265	12,355
Fuel	7,529	7,084
Other	21,643	14,362
Other current liabilities	$228,137	$ 182,729

6. Financial Instruments and Risk Management

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

Notes to Condensed Financial Statements—(Continued)

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 absolute exposure levels, credit ratings, and historical performance of counterparties relating to derivative 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 each counterparty's credit risk.

Fuel Derivative Instruments

The Company's fuel derivative contracts generally consist of United States Gulf Coast jet fuel swaps (jet fuel swaps) and United States Gulf Coast jet fuel options (jet fuel options). Both jet fuel swaps and jet fuel options are used at times to protect the refining price risk between the price of crude oil and the price of refined jet fuel and to manage the risk of increasing fuel prices. Fair value of the instruments is determined using standard option valuation models.

The Company accounts for its fuel derivative contracts at fair value and recognizes them in the balance sheet in prepaid expenses and other current assets or other current liabilities. The Company did not enter into any fuel derivative instruments during the three months ended March 31, 2016. The Company did not elect hedge accounting on any fuel derivative instruments entered into during the three months ended March 31, 2015 and, as a result, changes in the fair value of these fuel derivative contracts are recorded in aircraft fuel expense. During the three months ended March 31, 2016, the Company did not pay any premiums to acquire jet fuel options. During the three months ended March 31, 2015, the Company paid $2.1 million in premiums for the acquisition of jet fuel options. The following table summarizes the components of aircraft fuel expense for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Into-plane fuel cost	$85,982	$108,124
Realized losses (gains) related to fuel derivative contracts, net	—	2,607
Unrealized losses (gains) related to fuel derivative contracts, net	—	1,695
Aircraft fuel	$85,982	$112,426

Premiums and settlements received or paid on fuel derivative contracts are reflected in the accompanying statements of cash flows in net cash provided by operating activities.

As of March 31, 2016 and December 31, 2015, the Company did not have any outstanding fuel derivatives and had no fuel hedging activity for the three months ended March 31, 2016.

Interest Rate Swaps

During 2015, the Company settled six forward interest rate swaps that were designed to fix the benchmark interest rate component of interest payments on the debt related to three Airbus A321 aircraft, which the Company took delivery of during the third quarter of 2015. These instruments limited the Company's exposure to changes in the benchmark interest rate in the period from the trade date through the date of maturity. The interest rate swaps were designated as cash flow hedges. The Company accounts for interest rate swaps at fair value and recognizes them in the balance sheet in prepaid expenses and other current assets or other current liabilities with changes in fair value recorded within accumulated other comprehensive income (AOCI). As of March 31, 2016 and December 31, 2015, the Company did not have any outstanding interest rate swaps.

Realized gains and losses from cash flow hedges are recorded in the statement of cash flows as a component of cash flows from operating activities. Subsequent to the issuance of each debt instrument, amounts remaining in AOCI are amortized over the life of the fixed-rate debt instrument. For the three months ended March 31, 2016, there were no unrealized gains or losses recorded within AOCI related to these instruments as they settled in 2015. For the three months ended March 31, 2015, an unrealized loss of $1.6 million, net of deferred taxes of $0.9 million, was recorded within AOCI related to these instruments. For the three months ended March 31, 2016, the Company reclassified $0.1 million of interest rate swap losses into earnings.

Notes to Condensed Financial Statements—(Continued)

For the three months ended March 31, 2015, there were no amounts reclassified to earnings within interest expense. As of March 31, 2016, $1.5 million, net of tax, remained in AOCI.

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 March 31, 2016, the Company's aircraft orders consisted of the following:

	Airbus				Third-Party Lessor	
	A320ceo	A320neo	A321ceo	A321neo	A320neo	Total
remainder of 2016	1		7		5	13
2017	8		10			18
2018	2	6	5			13
2019		3		10		13
2020		13				13
2021		18				18
	11	40	22	10	5	88

The Company also has four spare engine orders for V2500 SelectOne engines with International Aero Engines (IAE) and nine spare engine orders for PurePower PW1100G-JM engines with Pratt & Whitney. Spare engines are scheduled for delivery from 2017 through 2023. Purchase commitments for these aircraft and spare engines, including estimated amounts for contractual price escalations and pre-delivery payments, are estimated to be approximately $405 million for the remainder of 2016, $767 million in 2017, $621 million in 2018, $704 million in 2019, $706 million in 2020, and $812 million in 2021 and beyond. The Company has secured debt financing commitments of $308.5 million for the eight aircraft scheduled for delivery in the remainder of 2016. See Note 9, Long-Term Debt - 2015-1 EETCs. In addition, the Company has secured financing for five aircraft to be leased directly from a third party, also scheduled for delivery in 2016. The Company does not have financing commitments in place for the remaining 75 Airbus aircraft currently on firm order, which are scheduled for delivery in 2017 through 2021. Principal and interest commitments related to the Company's future secured debt financing are approximately $27.7 million for the remainder of 2016, $52.9 million in 2017, $40.9 million in 2018, $37.2 million in 2019, $34.3 million in 2020, and $315.9 million in 2021 and beyond.

As of March 31, 2016, the Company had a fleet consisting of 83 A320 family aircraft. During the three months ended March 31, 2016, the Company took delivery of four aircraft financed under secured debt arrangements and purchased two previously leased aircraft. For further discussion on the two previously leased aircraft, refer to Note 3, Special Charges. These aircraft are capitalized within flight equipment and generally have depreciable lives of 25 years and estimated residual values of 10%. As of March 31, 2016, the Company had 59 aircraft and 11 spare engines financed under operating leases with lease term expiration dates ranging from 2016 to 2027. The Company entered into sale and leaseback transactions with third-party aircraft lessors for the majority of these aircraft and engine leases. Deferred losses resulting from these sale and leaseback transactions are included in other long-term assets on the accompanying balance sheet. Deferred losses are recognized as an increase to rent expense on a straight-line basis over the term of the respective operating leases. Deferred gains are included in deferred credits and other long-term liabilities on the accompanying balance sheet. Deferred gains are recognized as a decrease to rent expense on a straight-line basis over the term of the respective operating leases.

Under the terms of the lease agreements, the Company will continue to operate and maintain the aircraft. Payments under the majority of the lease agreements are fixed for the term of the lease. The lease agreements contain 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, and standard maintenance and return condition provisions. These return provisions are evaluated at inception of the lease and throughout the lease terms and are accounted for as supplemental rent expense when it is probable that such amounts will be incurred. 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.

Notes to Condensed Financial Statements—(Continued)

Future minimum lease payments under noncancellable operating leases with initial or remaining terms in excess of one year at March 31, 2016 were as follows:

	Operating Leases		
	Aircraft and Spare Engine Leases	Property Facility Leases	Total Operating Lease Obligations
	(in thousands)		
remainder of 2016	$156,000	$23,406	$179,406
2017	197,959	27,175	225,134
2018	179,600	28,366	207,966
2019	152,236	26,924	179,160
2020	141,894	19,083	160,977
2021 and thereafter	495,518	61,646	557,164
Total minimum lease payments	$1,323,207	$186,600	$1,509,807

Aircraft rent expense consists of all minimum lease payments under the terms of our aircraft and spare engine lease agreements recognized on a straight-line basis. Aircraft rent expense also includes supplemental rent. Supplemental rent is made up of maintenance reserves paid or expected to be paid to aircraft lessors in advance of the performance of major maintenance activities that are not probable of being reimbursed and probable return condition obligations. The Company expects supplemental rent to increase as individual aircraft lease agreements approach their respective termination dates and the Company begins to accrue the estimated cost of return conditions for the corresponding aircraft.

Some of the Company's master lease agreements provide that the Company pay maintenance reserves to aircraft lessors to be held as collateral in advance of the Company's required performance of major maintenance activities. Substantially all of these maintenance reserve payments are calculated based on a utilization measure, such as flight hours or cycles, while some maintenance reserve payments are fixed contractual amounts. Fixed maintenance reserve payments for these aircraft and related flight equipment, including estimated amounts for contractual price escalations, are expected to be $5.6 million for the remainder of 2016, $6.8 million in 2017, $5.8 million in 2018, $4.2 million in 2019, $3.9 million in 2020, and $10.2 million in 2021 and beyond. These lease agreements provide that maintenance reserves are reimbursable to the Company upon completion of the maintenance event in an amount equal to either (1) the amount of the maintenance reserves held by the lessor associated with the specific maintenance event or (2) the qualifying costs related to the specific maintenance event. Some of the master lease agreements do not require that the Company pay maintenance reserves so long as the Company's cash balance does not fall below a certain level. The Company is in full compliance with those requirements and does not anticipate having to pay reserves related to these master leases in the future.

In July 2015, the Company executed an upgrade service agreement with Airbus Americas Customer Services Inc. (Airbus) to reconfigure the seating and increase capacity in 40 of the Company's existing A320 aircraft from 178 to 182 seats (reconfiguration). The reconfiguration of the aircraft commenced in the first quarter of 2016 and is expected to be completed during the second quarter of 2017. The cost of the reconfiguration is expected to be approximately $0.6 million per aircraft and purchase commitments for these are estimated to be approximately $13.3 million for the remainder of 2016, $2.5 million in 2017 and none thereafter.

In September 2015, the Company executed a lease agreement with Wayne County Airport Authority (the Authority), which owns and operates Detroit Metropolitan Wayne County Airport (DTW). Under the lease agreement, the Company leases a 10-acre site, adjacent to the airfield at DTW, in order to construct, operate and maintain an approximately 126,000 square foot hangar facility (the project). The project allows for the development of a maintenance hangar in order to fulfill the requirements of the Company's growing fleet and to reduce dependence on third-party facilities and contract line maintenance. The lease agreement has a 30-year term with two 10-year extension options. Upon termination of the lease, ownership will automatically pass to the Authority. The Company estimates it will complete the project during the fourth quarter of 2016 at a cost of approximately $32 million. The

Company will depreciate all capitalized costs related to the project over the lesser of the useful life of the asset or the lease term.

The Company is contractually obligated to pay the following minimum guaranteed payments for its reservation system and advertising media as of March 31, 2016: $3.7 million for the remainder of 2016, $3.9 million in 2017, $2.6 million in 2018, and none thereafter. The Company's current agreement with its reservation system provider expires in 2018.

Notes to Condensed Financial Statements—(Continued)

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 charges, 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 its credit card processors hold to cover refunds to customers if the Company fails to fulfill its flight obligations.

The Company's credit card processors do not require the Company to maintain cash collateral if the Company satisfies certain liquidity and other financial covenants. Failure to meet these covenants would provide the processors the right to place a holdback, resulting in a commensurate reduction of unrestricted cash. As of March 31, 2016 and December 31, 2015, the Company was in compliance with such liquidity and other financial covenants in its credit card processing agreements, and the processors were holding back no remittances.

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 March 31, 2016 and December 31, 2015, was $311.4 million and $250.2 million, respectively.

Employees

The Company has four union-represented employee groups that together represent approximately 74% of all employees at March 31, 2016. The table below sets forth the Company's employee groups and status of the collective bargaining agreements as of March 31, 2016.

Employee Groups	Representative	Amendable Date	Percentage of Workforce
Pilots	Air Line Pilots Association, International (ALPA)	August 2015	26%
Flight Attendants	Association of Flight Attendants (AFA-CWA)	August 2007	43%
Dispatchers	Transport Workers Union (TWU)	August 2018	1%
Ramp Service Agents	International Association of Machinists and Aerospace Workers (IAMAW)	June 2020	4%

In March 2016, under the supervision of the National Mediation Board (NMB), the Company and AFA-CWA reached a tentative agreement for a five-year contract with the Company's flight attendants. This tentative agreement is subject to ratification by the flight attendant membership. The ratification vote will conclude on May 5, 2016. In connection with this tentative agreement, the Company has agreed upon a $9.6 million ratification incentive payment to be made to the flight attendants upon ratification of the agreement. The Company had previously accrued $1.2 million related to this incentive and, during the three months ended March 31, 2016, accrued an additional $8.4 million recorded within salaries, wages and benefits in the Company's statements of operations.

In August 2015, the Company's collective bargaining agreement with its pilot union, ALPA, became amendable. Currently, the Company is in bargaining with ALPA under Section 6 of the RLA to reach a new contract. Under the RLA, the parties' current agreement remains in effect during bargaining.

In July 2014, certain ramp service agents directly employed by the Company voted to be represented by the IAMAW. In May 2015, the Company entered into a five-year interim collective bargaining agreement with the IAMAW, including material economic terms, and the Company is continuing the process of negotiating a final collective bargaining agreement with the IAMAW. As of March 31, 2016, ramp service agents represented by the IAMAW service 1 of the 56 airports where the Company operates.

The Company is self-insured for health care claims, up to a stop loss amount for eligible participating employees and qualified dependent medical claims, subject to deductibles and limitations. The Company’s liabilities for claims incurred but

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Notes to Condensed Financial Statements—(Continued)

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 $4.2 million and $4.3 million in health care claims as of March 31, 2016 and December 31, 2015, respectively.

8. Fair Value Measurements

Under ASC 820, Fair Value Measurements and Disclosures, disclosures relating to how fair value is determined for assets and liabilities are required, 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.

Fuel Derivative Instruments

From time to time, the Company may enter into fuel derivative contracts in order to mitigate the risk of future volatility in fuel prices. The Company's fuel derivative contracts generally consist of jet fuel swaps and jet fuel options. These instruments 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 fuel derivative instruments, if any. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

The Company does not elect hedge accounting on its fuel derivative instruments. As a result, the Company records the fair value adjustment of its fuel derivatives in the accompanying statement of operations within aircraft fuel and on the balance sheet within prepaid expenses and other current assets or other current liabilities, depending on whether the net fair value of the derivatives is in an asset or liability position as of the respective date. Fair values of the fuel derivative instruments are determined using standard option valuation models. The Company also considers counterparty risk and its own credit risk in its determination of all estimated fair values. The Company offsets fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting arrangement. The Company determines fair value of jet fuel options utilizing an option pricing model based on inputs that are either readily available in public markets or can be derived from information available in publicly quoted markets. The Company has consistently applied these valuation techniques in all periods presented and believes it has obtained the most accurate information available for the types of derivative contracts it holds.

The fair value of the Company's jet fuel swaps is determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets; therefore, the Company categorizes these instruments as Level 2. Due to the fact that certain inputs utilized to determine the fair value of jet fuel options are unobservable (principally implied volatility), the Company categorizes these derivatives as Level 3. Implied volatility of a jet fuel option is the volatility of the price of the underlying commodity that is implied by the market price of the option based on an option pricing model. Thus, it is the volatility that when used in a particular pricing model yields a theoretical value for the option equal to the current market price of that option. Implied volatility, a forward-looking measure, differs from historical volatility because the latter is calculated from known past returns. At each balance sheet date, the Company substantiates and adjusts unobservable inputs. The Company routinely assesses the valuation model's sensitivity to changes in implied volatility. Based on the Company's assessment of the valuation model's sensitivity to changes in implied volatility, it concluded that holding other inputs constant, a significant increase (decrease) in implied volatility would result in a significantly higher (lower) fair value measurement for the Company's aircraft fuel derivatives. As of March 31, 2016 and December 31, 2015, the Company had no outstanding fuel derivatives.

Long-Term Debt

Notes to Condensed Financial Statements—(Continued)

The estimated fair value of the Company's non-publicly held debt agreements has been determined to be Level 3, as certain inputs used to determine the fair value of these agreements are unobservable. The Company utilizes a discounted cash flow method to estimate the fair value of the Level 3 long-term debt. The estimated fair value of the Company's publicly held debt agreements has been determined to be Level 2, as the Company utilizes quoted market prices to estimate the fair value of its public long-term debt.
The carrying amounts and estimated fair values of the Company's long-term debt at March 31, 2016 and December 31, 2015 were as follows:

	March 31, 2016		December 31, 2015		
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Fair value level hierarchy
	(in millions)				
Senior long-term debt	$476.2	$ 476.0	$484.2	$ 477.8	Level 3
Junior long-term debt	52.6	53.2	54.3	54.6	Level 3
Class A equipment trust certificates	154.2	154.2	95.8	94.8	Level 2
Class B equipment trust certificates	40.5	38.6	25.0	25.2	Level 2
Total long-term debt	$723.5	$ 722.0	$659.3	$ 652.4	

Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2016 and December 31, 2015 are comprised of liquid money market funds and cash, and are categorized as Level 1 instruments. The Company maintains cash with various high-quality financial institutions.
Assets and liabilities measured at gross fair value on a recurring basis are summarized below:

	Fair Value Measurements as of March 31, 2016			
	Total	Level 1	Level 2	Level 3
	(in millions)			
Cash and cash equivalents	$ 902.8	$ 902.8	$ —	$ —
Total assets	$ 902.8	$ 902.8	$ —	$ —
Total liabilities	$ —	$ —	$ —	$ —

	Fair Value Measurements as of December 31, 2015			
	Total	Level 1	Level 2	Level 3
	(in millions)			
Cash and cash equivalents	$ 803.6	$ 803.6	$ —	$ —
Total assets	$ 803.6	$ 803.6	$ —	$ —
Total liabilities	$ —	$ —	$ —	$ —

The Company had no transfers of assets or liabilities between any of the above levels during the periods ended March 31, 2016 and December 31, 2015.

Notes to Condensed Financial Statements—(Continued)

The Company's Valuation Group is made up of individuals from the Company's Treasury and Corporate Accounting departments. The Valuation Group is responsible for the execution of the Company's valuation policies and procedures. The Company's Valuation Group reports to the Company's Chief Financial Officer and seeks approval for certain derivative transactions from the Audit Committee. The Valuation Group compares the results of the Company's internally developed valuation methods with counterparty reports at each balance sheet date, assesses the Company's valuation methods for accurateness and identifies any needs for modification.

9. Long-Term Debt

As of March 31, 2016, the Company has issued non-public and public debt instruments. The Company's indebtedness includes the 2014 Framework Agreement, the 2015 Facility Agreements and the 2015-1 EETCs, as defined in the Company's Form 10-K for the year ended December 31, 2015.

2015-1 EETCs

In August 2015, the Company created two separate pass-through trusts, which issued approximately $576.6 million aggregate face amount of Series 2015-1 Class A and Class B enhanced equipment trust certificates (EETCs) in connection with the financing of 15 aircraft. Each class of certificates represents a fractional undivided interest in the respective pass-through trusts and is not an obligation of the Company. The proceeds from the issuance of these certificates are initially held in escrow by a depositary and, upon satisfaction of certain terms and conditions, are released and used to purchase equipment notes which are issued by the Company and secured by the Company's aircraft. As of March 31, 2016, $194.7 million of the proceeds from the sale of the 2015-1 EETCs had been used to purchase equipment notes in connection with the financing of one Airbus A320 aircraft and four Airbus A321 aircraft. On March 31, 2016, the Company took delivery of two aircraft for which escrowed proceeds in the amount of $73.4 million were used to purchase equipment notes in April 2016. For further discussion of these two March 2016 aircraft deliveries, refer to Note 10, Subsequent Events. The remaining eight aircraft are scheduled for delivery between April 2016 and December 2016.

The Company evaluated whether the pass-through trusts formed are variable interest entities (VIEs) required to be consolidated by the Company under applicable accounting guidance. The Company determined that the pass-through trusts are VIEs and that it does not have a variable interest in the pass-through trusts. Based on this analysis, the Company determined that it is not required to consolidate these pass-through trusts.

Long-term debt is comprised of the following:

	As of		Three Months Ended March 31,	
	March 31, 2016	December 31, 2015	2016	2015
	(in millions)		(weighted-average interest rates)	
Fixed-rate senior term loans due through 2027	$476.2	$ 484.2	4.10 %	4.10 %
Fixed-rate junior term loans due through 2022	52.6	54.3	6.90 %	6.89 %
Fixed-rate class A enhanced equipment trust certificates due through 2028	154.2	95.8	4.03 %	N/A
Fixed-rate class B enhanced equipment trust certificates due through 2024	40.5	25.0	4.37 %	N/A
Long-term debt	$723.5	$ 659.3		
Less current maturities	53.0	49.6		

Less unamortized discounts, net	15.4	13.0
Total	$655.1	$ 596.7

During the three months ended March 31, 2016 and 2015, the Company made scheduled principal payments of $9.7 million and $2.6 million on its outstanding debt obligations, respectively.
At March 31, 2016, long-term debt principal payments for the next five years and thereafter are as follows:

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Notes to Condensed Financial Statements—(Continued)

	March 31, 2016 (in millions)
remainder of 2016	$ 45.0
2017	55.2
2018	58.4
2019	59.1
2020	59.2
2021 and thereafter	446.6
Total debt principal payments	$ 723.5

Interest Expense

Interest expense related to long-term debt consists of the following:

	Three Months Ended March 31	
	2016	2015
	(in thousands)	
Senior term loans	$5,048	$2,194
Junior term loans	937	419
Class A enhanced equipment trust certificates	1,183	—
Class B enhanced equipment trust certificates	336	—
Commitment fees	35	—
Amortization of debt discounts	516	159
Total	$8,055	$2,772

10. Subsequent Events

On March 31, 2016, the Company took delivery of two A320 family aircraft, which were purchased with cash of $63.0 million and utilized pre-delivery deposits in the amount of $24.5 million. The Company financed the purchase of these aircraft with secured equipment notes that were issued on April 5, 2016, in exchange for $73.4 million of escrowed funds for such aircraft held in connection with the Company's 2015-1 EETC. Refer to Note 9 - Long-term Debt, herein for further discussion of the Company's 2015-1 EETC. These notes will accrue interest at a blended rate of 4.15% per annum.

On April 12, 2016, the Company took delivery of one A321 aircraft financed through the 2015-1 EETCs and recorded debt of $39.7 million.

On April 21, 2016, the Company purchased one A319 aircraft, which was formerly financed under an operating lease agreement, at a purchase price of $22.0 million. The Company will record the aircraft at the lower of cost or estimated fair value within flight equipment.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), which are subject to the "safe harbor" created by those sections. Forward-looking statements are based on our management's beliefs and assumptions and on information currently available to our management. All statements other than statements of historical factors are "forward-looking statements" for purposes of these provisions. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "project," "predict," "potential," and similar expressio identify forward-looking statements. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" in this report and in Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015 and subsequent Quarterly Reports on Form 10-Q. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

Spirit Airlines is an ultra low-cost, low-fare airline that offers affordable travel to price-conscious customers. Our all-Airbus Fit Fleet™, the youngest fleet of any major U.S. airline, currently operates more than 400 daily flights to 56 destinations in the United States, Caribbean and Latin America. Our stock trades on the NASDAQ Global Select Stock Market under the symbol "SAVE."

Our ultra low-cost carrier, or ULCC, business model allows us to compete principally by offering customers our Bare Fares™, which are unbundled base fares that remove components traditionally included in the price of an airline ticket. We then give customers Frill Control™, which provides customers the freedom to save by paying only for the options they choose such as bags, advance seat assignments and refreshments. We record revenue related to these options in our financial statements as non-ticket revenue.

We are focused on price-sensitive travelers who pay for their own travel, and our business model is designed to deliver what we believe our customers want: low fares. We aggressively use low fares to address an underserved market, which helps us to increase passenger volume, load factors and non-ticket revenue on the flights we operate. We also have high-density seating configurations on our aircraft and a simplified onboard product designed to lower costs, which is part of our Plane Simple™ strategy. High passenger volumes and load factors help us sell more ancillary products and services, which in turn allows us to reduce the base fare we offer even further. We strive to be recognized by our customers and potential customers as the low-fare leader in the markets we serve.

We compete based on total price. We believe other airlines have used an all-inclusive pricing concept to effectively maintain higher total prices to consumers, rather than lowering fares by unbundling each product or service. For example, carriers that tout "free bags" have included the cost of checking bags in the total ticket price, which does not allow passengers to see how much they would save if they did not check luggage. We believe that we and our customers benefit when we allow our customers to know the total price of their travel by breaking out the cost of optional products or services.

We allow our customers to see all available options and their respective prices prior to purchasing a ticket, and this full transparency illustrates that our total price, including options selected, is lower than other airlines on average. In 2014, we launched a brand campaign, which we are continuing in 2016, to educate the public on how our unbundled pricing model works and how it gives them a choice on how they spend their money and saves them money compared to other airlines.

Comparative Operating Statistics:

The following tables set forth our operating statistics for the three-month periods ended March 31, 2016 and 2015:

	Three Months Ended March 31, 2016	2015	Percent Change
Operating Statistics (unaudited) (A):			
Average aircraft	80.6	67.3	19.8 %
Aircraft at end of period	83	70	18.6 %
Average daily aircraft utilization (hours)	12.8	12.7	0.8 %
Average stage length (miles)	995	991	0.4 %
Block hours	93,545	77,035	21.4 %
Departures	35,160	29,044	21.1 %
Passenger flight segments (PFSs) (thousands)	4,988	3,980	25.3 %
Revenue passenger miles (RPMs) (thousands)	5,070,313	4,017,559	26.2 %
Available seat miles (ASMs) (thousands)	5,983,005	4,729,463	26.5 %
Load factor (%)	84.7 %	84.9 %	(0.2) pts
Average ticket revenue per passenger flight segment ($)	54.65	68.71	(20.5)%
Average non-ticket revenue per passenger flight segment ($)	53.23	55.25	(3.7)%
Total revenue per passenger flight segment ($)	107.88	123.96	(13.0)%
Average yield (cents)	10.61	12.28	(13.6)%
TRASM (cents)	8.99	10.43	(13.8)%
CASM (cents)	7.30	8.12	(10.1)%
Adjusted CASM (cents)	7.03	8.06	(12.8)%
Adjusted CASM ex-fuel (cents)	5.59	5.72	(2.3)%
Fuel gallons consumed (thousands)	70,550	56,723	24.4 %
Average economic fuel cost per gallon ($)	1.22	1.95	(37.4)%

(A) See "Glossary of Airline Terms" elsewhere in this quarterly report for definitions used in this table.

Executive Summary

For the first quarter of 2016, we achieved a 18.8% operating margin, a decrease of 3.3 points compared to the prior year period. We generated pre-tax income of $98.1 million and net income of $61.9 million on operating revenues of $538.1 million. For the first quarter of 2015, we generated pre-tax income of $109.0 million and net income of $69.0 million on operating revenues of $493.4 million.

Our adjusted CASM ex-fuel for the first quarter of 2016 was 5.59 cents, a 2.3% decrease year over year. This decrease was primarily due to a decrease in aircraft rent per ASM driven by a change in the mix of leased and purchased aircraft. The benefit noted in aircraft rent expense on a per-ASM basis was partially offset by higher other operating expense related to increased passenger re-accommodation expense and higher depreciation and amortization expense related to the depreciation of purchased aircraft. Additionally, labor expense per ASM was higher year over year due to the accrual of a non-recurring ratification incentive payment of $8.4 million related to our tentative agreement with our flight attendants.

As of March 31, 2016, we had 83 Airbus A320-family aircraft in our fleet comprised of 29 A319s, 44 A320s, and 10 A321s. With the scheduled delivery of 13 aircraft and the return of 3 aircraft during the remainder of 2016, we expect to end 2016 with 93 aircraft in our fleet.

Comparison of three months ended March 31, 2016 to three months ended March 31, 2015

Operating Revenues

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Operating revenues increased $44.8 million, or 9.1%, to $538.1 million for the first quarter of 2016, as compared to the first quarter of 2015, due primarily to an increase in traffic of 26.2%, partially offset by lower passenger yields as a result of continued competitive pressures from major U.S. carriers aggressively discounting fare prices in the current period.

Total revenue per available seat mile (TRASM) for the first quarter of 2016 was 8.99 cents, a decrease of 13.8%, compared to the first quarter of 2015. Total revenue per passenger flight segment decreased 13.0%, year over year, primarily driven by a decrease of 20.5% in ticket revenue per passenger flight segment. These decreases were driven by a 13.6% decrease in average yield, period over period, as a result of competitive pressures noted above during the current period.

Our non-ticket revenue per passenger flight segment declined to a lesser extent, by 3.7%, despite the increased competitive pressures noted above. Our unbundling model provides a more stable revenue stream as demonstrated during periods of lower passenger ticket yields. The decrease in non-ticket revenue per passenger flight segment was primarily attributable to slightly lower bag and change fee revenue per flight segment.

Operating Expenses

Operating expenses increased $52.7 million, or 13.7%, to $436.8 million for the first quarter of 2016 compared to $384.1 million for the first quarter of 2015, primarily due to a 26.5% growth in capacity, partially offset by a 23.5% decrease in aircraft fuel expense resulting from lower fuel prices per gallon, as compared to the prior year period.

Aircraft fuel expense includes into-plane fuel expense (defined below) and realized and unrealized gains and losses associated with our fuel derivative contracts. Into-plane fuel expense is defined as the price that we generally pay at the airport, including taxes and fees. Into-plane fuel prices are affected by the global oil market, refining costs, taxes and fees, which can vary by region in the United States and other countries where we operate. Into-plane fuel expense approximates cash paid to the supplier and does not reflect the effect of our fuel derivatives. Management chose not to elect hedge accounting on any fuel derivative instruments during 2016 or 2015 and, as a result, changes in the fair value of these fuel derivative contracts are recorded each period in aircraft fuel expense.

Aircraft fuel expense decreased in the first quarter of 2016 by $26.4 million, or 23.5%, compared to $112.4 million in the first quarter of 2015, due primarily to a 37.4% decrease in average economic fuel price per gallon, partially offset by a 24.4% increase in fuel gallons consumed.

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

	Three Months Ended March 31,		
	2016	2015	Percent Change
	(in thousands, except per gallon amounts)		
Fuel gallons consumed	70,550	56,723	24.4 %
Into-plane fuel cost per gallon	1.22	1.91	(36.1)%
Into-plane fuel expense	85,982	108,124	(20.5)%
Realized losses (gains) related to fuel derivative contracts, net	—	2,607	NM
Unrealized losses (gains) related to fuel derivative contracts, net	—	1,695	NM
Aircraft fuel expense (per statement of operations)	$85,982	$112,426	(23.5)%

Gulf Coast Jet indexed fuel is the basis for a substantial majority of our fuel consumption and is impacted by both the price of crude oil as well as increases or decreases in refining margins associated with the conversion of crude oil to jet fuel. The into-plane fuel cost per gallon decrease of 36.1% was primarily a result of a decrease in jet fuel prices.

We track economic fuel expense, which we believe is the best measure of the effect fuel prices are currently having on our business, because it most closely approximates the net cash outflow associated with purchasing fuel used for our operations during the period. We define economic fuel expense as into-plane fuel expense and realized gains or losses on fuel derivative contracts. The key difference between aircraft fuel expense as recorded in our statement of operations and economic fuel expense is unrealized mark-to-market changes in the value of aircraft fuel derivatives outstanding. Many industry analysts evaluate airline results using economic fuel expense and it is used in our internal management reporting.

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

	Three Months Ended March 31,		Percent Change
	2016	2015	
	(in thousands, except per gallon amounts)		
Into-plane fuel expense	$85,982	$108,124	(20.5)%
Realized losses (gains) related to fuel derivative contracts, net	—	2,607	NM
Economic fuel expense	$85,982	$110,731	(22.4)%
Fuel gallons consumed	70,550	56,723	24.4 %
Economic fuel cost per gallon	$1.22	$1.95	(37.4)%

During the three months ended March 31, 2016, we had no activity related to fuel derivatives and thus had no realized or unrealized losses (gains) related to fuel derivative contracts, as we have in prior periods. During the three months ended March 31, 2015, we paid $2.1 million in premiums to acquire jet fuel options, with options scheduled to expire during the three months ended March 31, 2015 and future periods. Total realized loss recognized for fuel derivatives that expired during the first quarter of 2015 was $2.6 million. Total realized losses include cash paid for premiums during the three months ended March 31, 2015 and previous periods of $2.7 million, which expired during the three months ended March 31, 2015, and cash received for settlement of fuel derivatives of $0.1 million. We had $1.7 million in unrealized gains and losses related to our outstanding fuel derivatives during the three months ended March 31, 2015.

From time to time, we may enter into fuel derivative contracts to protect the refining price risk between the price of crude oil and the price of refined jet fuel. As of March 31, 2016, we had no outstanding fuel derivatives.

We measure our operating cost performance on a per-ASM basis, since one ASM is the unit of production of an airline's capacity. The following table presents our cost per ASM, or unit cost, for the three months ended March 31, 2016 and 2015, followed by explanations of the material changes on a dollar basis and/or unit cost basis:

	Three Months Ended March 31,		Per-ASM Change	Percent Change
	2016	2015		
	(in cents, except for percentages)			
Aircraft fuel	1.44	2.38	(0.94)	(39.5)%
Salaries, wages, and benefits	1.95	1.88	0.07	3.7 %
Aircraft rent	0.87	1.12	(0.25)	(22.3)%
Landing fees and other rents	0.58	0.65	(0.07)	(10.8)%
Distribution	0.38	0.43	(0.05)	(11.6)%
Maintenance, materials and repairs	0.35	0.41	(0.06)	(14.6)%
Depreciation and amortization	0.39	0.31	0.08	25.8 %
Other operating	1.07			