GREAT LAKES AVIATION LTD
Form 10-Q
November 12, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

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 No. 0-23224

GREAT LAKES AVIATION, LTD.

(Exact name of registrant as specified in its charter)

Iowa	**42-1135319**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1022 Airport Parkway, Cheyenne, WY	**82001**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (307) 432-7000

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 x 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 (§ 229.405 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 smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated Filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	x

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

As of October 31, 2010, 14,291,970 shares of Common Stock of the registrant were issued and outstanding.

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GREAT LAKES AVIATION, LTD.

FORM 10-Q

For the Quarterly Period Ended September 30, 2010

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Item 1. FINANCIAL STATEMENTS

GREAT LAKES AVIATION, LTD.

Balance Sheets

(unaudited)

	September 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash	$ 7,599,165	$ 4,327,538
Accounts receivable	9,591,494	9,528,102
Inventories	5,895,061	6,372,757
Prepaid expenses and other current assets	1,075,112	1,079,131
Current deferred tax assets	4,012,275	4,012,275
Total current assets	28,173,107	25,319,803
Property and equipment:		
Flight equipment	113,701,736	112,728,482
Other property and equipment	9,460,699	8,821,022
Less accumulated depreciation and amortization	(69,447,658)	(65,650,280)
Total property and equipment	53,714,777	55,899,224
Maintenance deposits	1,935,144	1,562,568
Other assets	1,925,517	1,862,089
Total assets	$ 85,748,545	$ 84,643,684
Liabilities and Stockholders Equity		
Current liabilities:		
Notes payable and current maturities of long-term debt	$ 38,939,776	$ 7,791,492
Accounts payable	3,816,596	3,589,133
Accrued interest, unearned revenue and other liabilities	4,635,566	4,292,574
Total current liabilities	47,391,938	15,673,199
Long-term debt, net of current maturities	7,410,893	43,987,815
Other long-term liabilities		152,866
Deferred income taxes	3,099,378	860,251
Deferred credits	47,144	82,272
Total liabilities	57,949,353	60,756,403
Preferred stock; $0.01 par value; Authorized: 25,000,000 shares		
No shares issued and outstanding		
Common stock; $0.01 par value; Authorized: 50,000,000 shares		

Issued and outstanding: 14,291,970 shares	142,920	142,920
Paid-in capital	33,568,669	33,568,669
Accumulated deficit	(5,912,397)	(9,824,308)
Total stockholders equity	27,799,192	23,887,281
Total liabilities and stockholders equity	$ 85,748,545	$ 84,643,684

See accompanying notes to the financial statements.

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GREAT LAKES AVIATION, LTD.

Statements of Income

(Unaudited)

	For the Three Months Ended September 30, 2010	2009	For the Nine Months Ended September 30, 2010	2009
Operating Revenues:				
Passenger	$ 17,465,620	$ 15,822,226	$ 46,534,523	$ 43,725,667
Public service	15,571,707	15,922,990	45,137,782	45,286,016
Freight, charter, and other	412,786	283,594	1,587,745	805,064
Total operating revenues	33,450,113	32,028,810	93,260,050	89,816,747
Operating expenses:				
Salaries, wages, and benefits	8,406,088	7,851,212	24,726,207	23,390,969
Aircraft fuel	7,992,390	7,363,784	22,879,275	19,234,254
Aircraft maintenance, materials, and repairs	3,932,002	3,689,855	12,287,729	12,582,489
Depreciation and amortization	1,312,226	1,537,434	3,992,625	4,248,326
Aircraft rental	573,525	557,267	1,720,575	1,492,809
Other rentals and landing fees	1,345,616	1,509,580	3,949,352	4,868,715
Other operating expenses	5,110,032	4,949,048	15,723,559	15,329,675
Total operating expenses	28,671,879	27,458,180	85,279,322	81,147,237
Operating income	4,778,234	4,570,630	7,980,728	8,669,510
Other income (expense):				
Interest expense, net of interest income of $1,828, $1,765, $3,973 and $6,285, respectively	(471,868)	(537,617)	(1,456,174)	(1,641,432)
Income before income taxes	4,306,366	4,033,013	6,524,554	7,028,078
Income tax expense	(1,613,844)	(1,546,009)	(2,612,643)	(2,851,983)
Net income	$ 2,692,522	$ 2,487,004	$ 3,911,911	$ 4,176,095
Net income per share:				
Basic	$ 0.19	$ 0.17	$ 0.27	$ 0.29
Diluted	$ 0.19	$ 0.17	$ 0.27	$ 0.29
Weighted average shares outstanding:				
Basic	14,291,970	14,291,970	14,291,970	14,291,970
Diluted	14,448,683	14,422,518	14,444,468	14,445,617

See accompanying notes to the financial statements.

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GREAT LAKES AVIATION, LTD.

Statements of Cash Flows

(Unaudited)

	For the Nine Months Ended September 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,911,911	$ 4,176,095
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	3,992,625	4,248,326
Amortization of deferred debt restructuring gain	(1,026,779)	(1,154,704)
Loss on items beyond economic repair	136,624	97,518
Deferred tax expense	2,239,127	2,717,610
Change in current operating items:		
Accounts receivable	(63,392)	(591,275)
Inventories	477,696	(1,646,298)
Prepaid expenses and other current assets	4,019	225,395
Maintenance deposits	(372,576)	(269,280)
Other Assets	(63,428)	(219,958)
Accounts payable	227,463	(2,570)
Accrued interest, unearned revenue and other liabilities	342,992	(86,277)
Other long-term liabilities	(152,866)	(352,300)
Deferred credits	(35,128)	(35,128)
Net cash provided by operating activities	9,618,288	7,107,154
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of flight equipment and other property and equipment	(1,944,802)	(695,468)
Net cash used in investing activities	(1,944,802)	(695,468)
CASH FLOW FROM FINANCING ACTIVITIES:		
Repayment of notes payable and long-term debt	(4,401,859)	(4,154,210)
Net cash used in financing activities	(4,401,859)	(4,154,210)
NET INCREASE (DECREASE) IN CASH	3,271,627	2,257,476
Cash		
Beginning of period	4,327,538	3,494,484
End of period	$ 7,599,165	$ 5,751,960
Supplementary cash flow information:		
Cash paid during the period for interest (contractual)	$ 2,486,927	$ 2,809,310
Cash paid during the period for income taxes	$ 398,726	$ 112,650

See accompanying notes to the financial statements.

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GREAT LAKES AVIATION, LTD.

Statements of Stockholders Equity

Nine Months Ended September 30, 2010

(Unaudited)

	Common stock			Accumulated	
	Shares	Amount	Paid-in capital	deficit	Total
Balance at January 1, 2010	14,291,970	$ 142,920	33,568,669	(9,824,308)	$ 23,887,281
Net Income				3,911,911	3,911,911
Balance at September 30, 2010	14,291,970	$ 142,920	33,568,669	(5,912,397)	$ 27,799,192

See accompanying notes to financial statements.

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Great Lakes Aviation, Ltd.

Notes to Financial Statements

September 30, 2010

(unaudited)

1. Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Regulation S-X. Accordingly, the accompanying unaudited financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial statements for the respective periods. Interim results are not necessarily indicative of results for a full year. The financial statements should be read in conjunction with the Company s audited financial statements and notes thereto for the year ended December 31, 2009.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Great Lakes Aviation, Ltd. (Great Lakes or the Company) considers its critical accounting policies involving more significant judgments and estimates to be those related to impairment of long-lived assets, valuation of maintenance deposits, valuation allowance on deferred income tax assets, and depreciation lives and residual values for property and equipment. Actual results could differ from those estimates.

In preparing the accompanying unaudited financial statements, the Company has reviewed, as determined necessary by the Company s management, events that have occurred after September 30, 2010, up until the issuance of the financial statements.

Liquidity

The Company has historically used debt to finance the purchase of its aircraft. At September 30, 2010, the largest portion of the Company s long-term debt consisted of aircraft notes held by Raytheon Aircraft Credit Corporation (Raytheon) with a remaining principal balance of approximately $36.6 million. These aircraft notes are scheduled to mature on June 30, 2011 at which time the Company is required to make a balloon payment of approximately $32.7 million. The portion of the debt for which payments are due within the next 12 months is classified as a current liability on the Company s balance sheet. The Company s cash flows from operations are not expected to be sufficient to fund the balloon payment due on June 30, 2011. In addition to the Company s cash flows from operations, the Company will need to refinance the obligation with Raytheon, the Company s largest single shareholder, secure alternative sources of financing, raise additional capital through an equity offering, or achieve any combination thereof to be able to satisfy this obligation on June 30, 2011. There is no assurance that the Company will be successful in refinancing this debt or obtaining additional financing, and, if available, there are no assurances that the financing will be at commercially acceptable terms.

Recent Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements*, which amends ASC 820 to require the disclosure of additional information related to fair value measurement and provide clarification to existing requirements for fair value measurement disclosure. ASU 2010-06 was effective for the Company beginning January 1, 2010. The Company s disclosures conform to the requirements of ASU 2010-06. Refer to Note 9 for additional discussion of fair value measurements.

On September 23, 2009, the FASB ratified ASU No. 2009-13, *Multiple Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force* . ASU No. 2009-13 updates the current guidance pertaining to multiple-element revenue arrangements included in ASC Subtopic 605-25, which originated primarily from EITF 00-21, also titled *Revenue Arrangements with Multiple Deliverables*. ASU No. 2009-13 will be effective for annual reporting periods beginning January 1, 2011 for calendar-year entities. The Company is currently evaluating the impact of ASU No. 2009-13 on its financial position, results of operations, cash flows, and disclosures.

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2. Accounting for Maintenance Deposits

In June 2008, the FASB ratified Emerging Issues Task Force Issue No. 08-3, *Accounting by Lessees for Maintenance Deposits* (EITF 08-3), included in ASC Subtopic 840-10. This issue applies to the lessee s accounting for maintenance deposits paid by a lessee under an arrangement accounted for as a lease that are refunded only if the lessee performs specified maintenance activities. EITF 08-3 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company adopted the provisions of EITF 08-3 as of January 1, 2009 in its June 30, 2009 Form 10-Q. The Company determined that two of its leased aircraft have maintenance deposit provisions within the scope of ASC Subtopic 840-10. The cumulative effect of the change in accounting for nonrefundable maintenance deposits as of January 1, 2009 increased maintenance deposits by $1.1 million, decreased long-term deferred tax assets by $0.4 million and decreased accumulated deficit by $0.7 million as of January 1, 2009.

The Company is required to make maintenance deposit payments for two of its Embraer EMB-120 Brasilia leased aircraft. At January 1, 2009, the Company had made maintenance deposits of approximately $1.1 million and as of September 30, 2010, the Company s maintenance deposits were approximately $1.9 million. These maintenance deposits are reimbursable to the Company as maintenance is performed on the aircraft and the Company incurs maintenance expense for the major components of the aircraft. ASC Subtopic 840-10 requires that lessees continually evaluate whether it is probable that an amount on deposit with a lessor will be returned to reimburse the costs of the maintenance activities incurred by the lessee. When an amount on deposit is less than probable of being returned, it shall be recognized as additional expense. When the underlying maintenance is performed, the maintenance costs shall be expensed or capitalized in accordance with the lessee s maintenance accounting policy. As of September 30, 2010, the Company has evaluated the maintenance deposits on account and determined that, based on historical and forecasted usage of the aircraft, that all amounts on deposit are probable of being returned to the Company as a result of the maintenance expected to be performed on the aircraft s components. The Company will continue to evaluate its maintenance deposit account as the leases progress towards lease termination in April of 2013, and make the determination if any existing or future maintenance deposits should be expensed if it becomes less than probable that the deposits will be returned.

3. Share-Based Compensation

The Great Lakes Aviation, Ltd. 1993 Incentive Stock Option Plan and Great Lakes Aviation, Ltd. 1993 Director Stock Option Plan both expired in 2003 and, therefore, no new options may be granted under either of these stock option plans. The Company has not established any new stock option plans for which it may grant stock options. The Company did not realize any tax deductions related to the exercise of stock options during the three or nine month periods ended September 30, 2010 and 2009. The Company will record any such deductions to additional paid in capital when realized. The aggregate intrinsic value for options outstanding and exercisable at September 30, 2010 and 2009 was $215,235 and $220,117, respectively.

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4. Earnings per share

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

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Numerator:				
Net income	$ 2,692,522	$ 2,487,004	$ 3,911,911	$ 4,176,095
Denominator:				
Weighted average shares outstanding, basic	14,291,970	14,291,970	14,291,970	14,291,970
Dilutive effect of employee stock options	156,713	130,548	152,498	153,647
Weighted average shares outstanding, diluted	14,448,683	14,422,518	14,444,468	14,445,617
Net income per share, basic	$ 0.19	$ 0.17	$ 0.27	$ 0.29
Net income per share, diluted	$ 0.19	$ 0.17	$ 0.27	$ 0.29

For the three month and nine month periods ended September 30, 2010 and 2009, no outstanding options were excluded from the calculation of net income per diluted common share as the exercise prices of all such options were lower than the average market price of common stock for the period.

5. Accrued Liabilities

Accrued liabilities consisted of the following balances at September 30, 2010 and December 31, 2009:

	September 30, 2010	December 31, 2009
Accrued expenses	$ 258,822	$ 272,937
Unearned revenue	2,176,170	1,882,106
Accrued property taxes	240,864	62,049
Accrued payroll	1,959,710	2,075,482
Total accrued liabilities	$ 4,635,566	$ 4,292,574

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6. Long-Term Debt

The following table sets forth, as of September 30, 2010 and December 31, 2009, the carrying amount of the Company s long-term debt and the current maturities of long term debt. The carrying amount of the debt includes the principal payments contractually required under the debt agreements and the unamortized deferred debt restructuring gain. In 2002, the Company restructured its debt. The debt restructuring was accounted for as a troubled debt restructuring, which resulted in the Company recording a deferred gain that is being amortized into income as a decrease to interest expense over the remaining term of the debt:

	September 30, 2010	December 31, 2009
Long-Term Debt:		
Raytheon Aircraft Notes - principal	$ 36,619,228	$ 40,368,310
Raytheon Senior Note - principal	8,813,665	9,466,440
Deferred debt restructuring gains	917,776	1,944,557
Total long-term debt	46,350,669	51,779,307
Less		
Current maturities of Raytheon Aircraft Notes - principal	(36,619,228)	(5,044,108)
Current maturities of Raytheon Senior Note - principal	(1,402,772)	(1,402,772)
Current portion of deferred debt restructuring gains	(917,776)	(1,344,612)
Total current portion	(38,939,776)	(7,791,492)
Total long-term portion	$ 7,410,893	$ 43,987,815

As of September 30, 2010, the Raytheon debt consisted of 25 Aircraft Notes secured by 25 Beechcraft model 1900D aircraft (the Aircraft Notes) and a Senior Note secured by four Embraer Brasilia EMB 120 aircraft and substantially all of the other assets of the Company (the Senior Note) (collectively, the Raytheon Notes). Each of the Aircraft Notes bears interest at a fixed rate of 6.75% per annum, and provides for monthly payments in arrears. The Aircraft Notes mature on June 30, 2011, at which time a final payment of $1.3 million will be due for each aircraft ($32.7 million in total). The Aircraft Notes are accounted for as a current maturity of long-term debt as the notes mature within the next 12 months. The Senior Note bears interest at a rate of 7.00% per annum. Interest on the Senior Note is payable monthly in arrears on the 30th day of each month. The Senior Note provides for payments of principal on June 30, September 30, and December 30 of each year until the note matures on December 30, 2015.

Due to the amortization of the deferred debt restructuring gain, the Company s interest expense will be significantly less than the contractual interest payments throughout the terms of the Raytheon notes. During the first nine months of 2010 and 2009, the Company s contractual interest payments for all long-term debt were $2.5 million and $2.8 million. The Company amortized approximately $1.0 million and $1.2 million of the deferred debt restructuring gain for the nine months ended September 30, 2010 and 2009 as a reduction of interest expense. The Company s net interest expense on long-term debt obligations, as reflected in the financial statements, net of interest income, was $1.5 million and $1.6 million for the nine months ended September 30, 2010 and 2009, respectively.

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7. Related Parties

As of September 30, 2010, Douglas G. Voss, the Company s Chairman, President and major shareholder, was the beneficial owner of 4,160,247 shares of the Company s common stock, representing 29.1% of the outstanding common stock of the Company. Accordingly, Mr. Voss is in a position to control the management and affairs of the Company.

The Company rents two six-passenger aircraft and a vehicle from Iowa Great Lakes Flyers, Inc., a corporation solely owned by Mr. Voss. Total payments for these leases were $7,125 for each of the three months ended September 30, 2010 and 2009, respectively and $21,375 for each of the nine months ended September 30, 2010 and 2009, respectively.

As of September 30, 2010, Raytheon owned 5,371,980 shares of the Company s common stock, representing an approximately 37.6% interest in the Company s outstanding common stock. The Company issued the shares to Raytheon in December 2002 as partial consideration for a series of transactions that included restructured financing terms for aircraft promissory notes, termination of aircraft operating leases, aircraft purchases, aircraft returns, modified aircraft operating leases and other debt restructuring. See Note 6 for a discussion of these debt obligations.

In addition, the Company has entered into agreements with Raytheon to lease seven Beechcraft model 1900D aircraft, four with attached engines and three without engines. The Company expensed rental payments for the three months ended September 30, 2010 and 2009 of $418,500 and $402,242, respectively and for the nine months ended September 30, 2010 and 2009 of $1,255,500 and $1,021,113, respectively, for seven aircraft leased from Raytheon. The lease agreements provide for the early termination after the first anniversary of the leases by either Raytheon or the Company.

8. Income Taxes

The Company s estimated annual effective income tax rate is 40.33% for 2010. The Company s effective tax rate includes non-deductible permanent tax differences that comprise a significant percentage of projected annual pre-tax income. Prior to 2004, the Company reported significant cumulative losses and generated substantial net operating loss carryforwards. In 2007, 2008, 2009 and the current period, the Company utilized a portion of these carryforwards to offset taxable income.

9. Fair Value Measurements

A fair value hierarchy that prioritizes the inputs used to measure fair value has been established by ASC 820, *Fair Value Measurement*. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; and other inputs that are observable or can be corroborated by observable market data.
- 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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We use valuation techniques that maximize the

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use of observable inputs and minimize the use of unobservable inputs when determining fair value and then we rank the estimated values based on the reliability of the inputs used following the fair value hierarchy set forth by the Financial Accounting Standards Board (the FASB).

Our financial instruments consist of cash, accounts receivable, accounts payable, accrued liabilities and long-term debt including the current portion. The carrying values of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values. These are considered Level 1 measurements. The carrying value of our long term debt including the current portion reflects original cost net of unamortized deferred debt restructuring gain and was $45.4 million and $49.8 million as of September 30, 2010 and December 31, 2009, respectively. For additional information, see Note 6 Long-Term Debt.

All of the Company s fixed rate debt is comprised of Raytheon Aircraft Notes and Senior Debt (see Note 6). There is not an active market for the Company s notes. Additionally because the Company s concentration of long-term debt is with one creditor, who is also a significant stockholder of the Company, the fair value of long-term debt cannot be reasonably determined. If the fair value of the long-term debt was able to be determined, it would be a Level 3 measurement and would take into consideration inputs which include the future expected cash flows, the probability of early redemption, the probably of default on the part of the Company including overall creditworthiness, the interest rate of the debt and the prevailing interest rate in the market for similar financial instrument.

10. Subsequent Event

We evaluated events after September 30, 2010 through the date the financial statements were issued, and determined any events or transactions occurring during this period that would require recognition or disclosure are appropriately addressed in these financial statements.

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
The Company

Great Lakes Aviation, Ltd. (Great Lakes or the Company) is a regional airline operating as an independent carrier and as a code share partner with United Air Lines, Inc. (United Airlines or United) and Frontier Airlines, Inc. (Frontier Airlines or Frontier). Our code share agreements allow our mutual customers to purchase connecting flights through our code share partners and to share other benefits such as baggage transfer and frequent flyer benefits (in certain instances), while we maintain our own branding on our planes and ticket counters and our own designator code on all our flights. As of October 31, 2010 we served 59 airports in 15 states with a fleet of six Embraer EMB-120 Brasilia and 32 Raytheon/Beechcraft 1900D regional airliners. The Company and United operate under a code share agreement which was amended effective October 29, 2010 to extend the term to May 1, 2011. As amended, the terms of the agreement provide for us to continue United Airlines code sharing for destinations we currently service to and from our hubs at Billings, MT, Denver, CO, Kansas City, MO, Ontario, CA and Phoenix, AZ.

We operate under a similar code share agreement with Frontier. While the Frontier agreement does not have a fixed termination date, it is terminable 180 days after written notice by either party. The Frontier agreement provides for the use of Frontier s flight designator code on our flights connecting with Frontier s flights in Albuquerque, NM, Billings, MT, Denver, CO, Las Vegas, NV, Milwaukee, WI and Phoenix, AZ.

We derived approximately 46.6% of our revenue from the Essential Air Service program (EAS) in the three month period ended September 30, 2010 and 48.4% in the nine month period ended September 30, 2010. Under the EAS program, the United States Department of Transportation (DOT) subsidizes flights serving specified communities in order to promote the provision of essential air services to otherwise unprofitable or minimally profitable markets. As of October 31, 2010, we served 41 EAS communities on a subsidized basis.

We were incorporated on October 25, 1979 as an Iowa corporation and became a publicly traded company in January 1994.

Essential Air Service (EAS) Program Activity

In April of 2010, we discontinued service to Manhattan and Salina, KS from Kansas City, MO.

In April of 2010, we opened a new hub in Las Vegas, NV to serve Merced, CA and Kingman, AZ.

On May 4, 2010, we filed a 90-day notice with the DOT of our intent to terminate service at Fort Leonard Wood and Joplin, MO. The DOT has selected replacement carriers to service these communities. We are expecting to transition Fort Leonard Wood service to another carrier on December 14, 2010 and transition Joplin service to another carrier on February 10, 2010.

Financial Highlights

We had operating revenue of $93.3 million for the nine month period ended September 30, 2010, a 3.8 percent increase compared to operating revenue of $89.8 for the nine month period ended September 30, 2009. The increase in operating revenue is primarily attributable to a $2.8 million increase in passenger revenues as a result of increased passenger traffic at higher average fares and a $0.8 million increase in ground handling revenues.

We had operating income of $8.0 million for the nine month period ended September 30, 2010, a 7.9 percent decrease compared to operating income of $8.7 million for the nine month period ended September 30, 2009. The decrease in operating income is mostly attributable to higher fuel prices in 2010. On a year-over-year comparative basis, the average per gallon cost of fuel increased 26.9 percent, or $0.59 per gallon. The effect of the $0.59 increase in cost per gallon, including the quantity impacts of the fewer gallons consumed in 2010, caused our fuel expense to be higher in the nine month period ended September 30, 2010 by $3.6 million as compared to the same period ended September 30, 2009.

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We had net income of $3.9 million for the nine month period ended September 30, 2010, compared to net income of $4.2 million for the nine month period ended September 30, 2009. The decrease in net income is mostly attributable to higher fuel costs and other expenses, offset by increases in revenue.

Results of Operations for the Three Months Ended September 30, 2010 and 2009

The following table sets forth certain financial information regarding our results of operations for the three months ended September 30, 2010 and 2009.

Statement of Income Data

(dollars in thousands)

(unaudited)

	For the Three Months Ended September 30, 2010			2009	
	Amount (in thousands)	Cents per ASM	% Increase (Decrease) from 2009	Amount (in thousands)	Cents per ASM
Operating revenues:					
Passenger	$ 17,466	17.4 ¢	10.4%	$ 15,822	15.2 ¢
Public service	15,572	15.5	(2.2)	15,923	15.3
Freight, charter and other	412	0.4	45.1	284	0.3
Total operating revenues	33,450	33.3	4.4	32,029	30.7
Operating expenses:					
Salaries, wages, and benefits	8,406	8.4	7.1	7,851	7.5
Aircraft fuel	7,992	7.9	8.5	7,364	7.1
Aircraft maintenance, materials and repairs	3,932	3.9	6.6	3,690	3.5
Depreciation and amortization	1,312	1.3	(14.6)	1,537	1.5
Aircraft rental	574	0.6	3.1	557	0.5
Other rentals and landing fees	1,346	1.3	(10.9)	1,510	1.4
Other operating expenses	5,110	5.1	3.3	4,949	4.7
Total operating expenses	28,672	28.5	4.4	27,458	26.3
Operating income	4,778	4.8	4.5	4,571	4.4
Interest expense, net	(472)	(0.5)	(12.3)	(538)	(0.5)
Income before income taxes	4,306	4.3 ¢	6.8%	4,033	3.9 ¢
Income tax expense	(1,614)	(1.6)	4.4	(1,546)	(1.5)
Net income	$ 2,692	2.7 ¢	8.2%	$ 2,487	2.4 ¢

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Selected Operating Data

The following table sets forth certain selected operating data regarding our operations for the three months ended September 30, 2010 and 2009.

	Three Months Ended September 30, 2010	Increase (Decrease) from 2009	Three Months Ended September 30, 2009
Selected Operating Data:			
Available seat miles (in thousands) (1)	100,554	-3.6%	104,289
Revenue passenger miles (in thousands) (2)	41,201	14.9%	35,873
Revenue passengers carried	138,908	6.7%	130,223
Departures flown	21,390	-11.6%	24,184
Passenger load factor (3)	41.0%	19.2%	34.4%
Average yield per revenue passenger mile (4)	42.4¢	-3.9%	44.1¢
Revenue per available seat miles (5)	33.3¢	8.5%	30.7¢
Cost per available seat mile (6)	28.5¢	8.4%	26.3¢
Average passenger fare (7)	$ 125.74	3.5%	$ 121.50
Average passenger trip length (miles) (8)	297	8.0%	275
Average cost per gallon of fuel	$ 2.80	13.4%	$ 2.47

(1) Available seat miles or ASMs represent the number of seats available for passengers in scheduled flights multiplied by the number of scheduled miles those seats are flown.
(2) Revenue passenger miles or RPMs represent the number of miles flown by revenue passengers.
(3) Passenger load factor represents the percentage of seats filled by revenue passengers and is calculated by dividing revenue passenger miles by available seat miles.
(4) Average yield per revenue passenger mile represents the average passenger revenue received for each mile a revenue passenger is carried.
(5) Revenue per available seat mile represents the average total operating revenue received for each available seat mile.
(6) Cost per available seat mile represents operating expenses divided by available seat miles.
(7) Average passenger fare represents passenger revenue divided by the number of revenue passengers carried.
(8) Average passenger trip length represents revenue passenger miles divided by the number of revenue passengers carried.

Comparison of Third Quarter 2010 to Third Quarter 2009

Passenger Revenues. Passenger revenues were $17.5 million in the third quarter of 2010, an increase of 10.4% from $15.9 million in the third quarter of 2009. The $1.6 million increase in passenger revenues was attributable to a 3.5% increase in average passenger fare and a 6.7% increase in passengers carried during the third quarter of 2010. Our available seat mile (ASM) capacity for the third quarter of 2010 decreased 3.6% from the ASM capacity for the third quarter of 2009 as a result of a decrease in the number of our regularly scheduled flights.

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Public Service Revenues. Public service revenues collected through the EAS Program decreased 2.2% to $15.6 million during the third quarter of 2010, as compared to $15.9 million during the third quarter of 2009. The decrease in public service revenue was mostly due to a net decrease in communities served. At September 30, 2010 and September 30, 2009, we served 41 and 48 communities, respectively, on a subsidized basis under the U.S. Department of Transportation EAS Program.

Other Revenues. Other revenues were $0.4 million during the third quarter of 2010, an increase of 45.1% from the third quarter of 2009. The 45.1% increase was due to increases in contract ground handling of other carriers.

Operating Expenses. Total operating expenses were $28.7 million, or 28.5 cents per ASM, in the third quarter of 2010, as compared to $27.5 million, or 26.3 cents per ASM in the third quarter of 2009.

Salaries, Wages, and Benefits. Salaries, wages, and benefits were $8.4 million in the third quarter of 2010, an increase of 7.1% from $7.9 million in the third quarter of 2009. The increase in salaries, wages, and benefits was mostly attributable to insurance benefit costs and pay rate increases.

Aircraft Fuel Expense. Aircraft fuel and into-plane expense was $8.0 million, or 7.9 cents per ASM, in the third quarter of 2010. In comparison, our aircraft fuel and into-plane expense for the third quarter of 2009 was $7.4 million, or 7.1 cents per ASM. The 8.5% increase in our aircraft fuel expense was attributable to a 13.4% increase in average cost of fuel per gallon, offset in part by decreased consumption as the result of a 3.6% decrease in our available seat miles.

The average cost of fuel increased from $2.47 per gallon in the third quarter of 2009 to $2.80 per gallon in the third quarter of 2010. A one cent increase or decrease in the per gallon price of fuel will increase or decrease our fuel expense by approximately $113,000 annually.

Aircraft Maintenance, Materials, and Component Repairs. Aircraft maintenance, materials, and component repairs expense was $3.9 million during the third quarter of 2010, which was a 6.6% increase from $3.7 million during the third quarter of 2009. The increase was primarily attributable to Brasilia EMB 120 engine overhauls which are not covered under our engine maintenance contract with Pratt and Whitney Canada Corporation, as well as general price increases in the cost of aircraft parts.

Depreciation and amortization. Depreciation and amortization expense was $1.3 million during the third quarter of 2010 and $1.5 million in the third quarter of 2009. The decrease is mainly due to items becoming fully depreciated.

Aircraft Rental. Aircraft lease expense was $0.6 million during the third quarter of 2010, which was a 3.1% increase from the $0.6 million during the third quarter of 2009. The increase was attributable to the addition of one Beechcraft 1900D aircraft lease from Raytheon Aircraft Credit Corporation (Raytheon) during the third quarter of 2009.

Other Rentals and Landing Fees Expense. Other rentals and landing fees expense was $1.3 million during the third quarter of 2010, which was a 10.9% decrease from $1.5 million during the third quarter of 2009. The decrease is mostly attributable a net reduction of locations served, including the discontinuation of service to our former St. Louis hub, whereby we incurred less rent and landing fee expense.

Other Operating Expenses. Other operating expenses were $5.1 million, or 5.1 cents per ASM, during the third quarter of 2010, an increase of 3.3% from $4.9 million, or 4.7 cents per ASM, during the third quarter of 2009. The increase in other operating expenses was primarily due to increases of approximately $254,000 in pilot training and associated lodging expenses and $233,000 in passenger related expenses. These were offset by reductions for professional fees of $203,000, contract handling of $62,000, deicing fluid expense of $17,000 and other expenses of $43,000.

Interest Expense. Interest expense was $0.5 million during the third quarter of 2010, a decrease of 12.3% from the third quarter of 2009. The decrease was mostly the result of the amortization of long-term debt balances, partially offset by a reduction in deferred debt restructuring gain amortization in interest expense related to the restructured Raytheon debt in 2002.

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Income Tax Expense. For the three months ended September 30, 2010 we recorded an income tax expense of $1.6 million and for the three months ended September 30, 2009 we recorded an income tax expense of $1.5 million. Our estimated effective federal and state income tax rate is 40.33% for the nine months ended September 30, 2010. The Company s effective tax rate includes non-deductible permanent tax differences that comprise a significant percentage of projected annual pre-tax income.

Results of Operations for the Nine Months Ended September 30, 2010 and 2009

The following table sets forth certain financial information regarding our results of operations for the nine months ended September 30, 2010 and 2009.

Statement of Income Data

(dollars in thousands)

(unaudited)

	For the Nine Months Ended September 30, 2010 Amount (in thousands)	2010 Cents per ASM	% Increase (Decrease) from 2009	2009 Amount (in thousands)	2009 Cents per ASM
Operating revenues:					
Passenger	$ 46,534	16.2 ¢	6.4%	$ 43,726	14.4 ¢
Public service	45,138	15.7	(0.3)	45,286	14.9
Freight, charter and other	1,588	0.5	97.3	805	0.3
Total operating revenues	93,260	32.4	3.8	89,817	29.6
Operating expenses:					
Salaries, wages, and benefits	24,726	8.6	5.7	23,391	7.7
Aircraft fuel	22,879	7.9	19.0	19,234	6.3
Aircraft maintenance, materials and repairs	12,288	4.3	(2.3)	12,582	4.2
Depreciation and amortization	3,993	1.4	(6.0)	4,248	1.4
Aircraft rental	1,721	0.6	15.3	1,493	0.5
Other rentals and landing fees	3,949	1.4	(18.9)	4,869	1.6
Other operating expenses	15,723	5.5	2.6	15,330	5.1
Total operating expenses	85,279	29.7	5.1	81,147	26.8
Operating income	7,981	2.8	(7.9)	8,670	2.9
Interest expense, net	(1,456)	(0.5)	(11.3)	(1,641)	(0.5)
Income before income taxes	6,525	2.3 ¢	(7.2)%	7,029	2.3 ¢
Income tax expense	(2,613)	(0.9)	(8.4)	(2,852)	(0.9)
Net income	$ 3,912	1.4 ¢	(6.3)%	$ 4,177	1.4 ¢

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Selected Operating Data

The following table sets forth certain selected operating data regarding our operations for the nine months ended September 30, 2010 and 2009.

	Nine Months Ended September 30, 2010	Increase (Decrease) from 2009	Nine Months Ended September 30, 2009
Selected Operating Data:			
Available seat miles (in thousands) (1)	287,488	-5.1%	303,049
Revenue passenger miles (in thousands) (2)	108,708	9.6%	99,192
Revenue passengers carried	368,918	2.5%	359,816
Departures flown	62,004	-12.0%	70,431
Passenger load factor (3)	37.8%	15.6%	32.7%
Average yield per revenue passenger mile (4)	42.8¢	-2.9%	44.1¢
Revenue per available seat miles (5)	32.4¢	9.5%	29.6¢
Cost per available seat mile (6)	29.7¢	10.8%	26.8¢
Average passenger fare (7)	$ 126.14	3.8%	$ 121.52
Average passenger trip length (miles) (8)	295	6.9%	276
Average cost per gallon of fuel	$ 2.78	26.9%	$ 2.19

(1) Available seat miles or ASMs represent the number of seats available for passengers in scheduled flights multiplied by the number of scheduled miles those seats are flown.
(2) Revenue passenger miles or RPMs represent the number of miles flown by revenue passengers.
(3) Passenger load factor represents the percentage of seats filled by revenue passengers and is calculated by dividing revenue passenger miles by available seat miles.
(4) Average yield per revenue passenger mile represents the average passenger revenue received for each mile a revenue passenger is carried.
(5) Revenue per available seat mile represents the average total operating revenue received for each available seat mile.
(6) Cost per available seat mile represents operating expenses divided by available seat miles.
(7) Average passenger fare represents passenger revenue divided by the number of revenue passengers carried.
(8) Average passenger trip length represents revenue passenger miles divided by the number of revenue passengers carried.

Comparison of First Nine Months 2010 to First Nine Months 2009

Passenger Revenues. Passenger revenues were $46.5 million in the first nine months of 2010, an increase of 6.4% from $43.7 million in the first nine months of 2009. The $2.8 million increase in passenger revenues was primarily attributable to a 3.8% increase in average passenger fare during the first nine months of 2010. Contributing to our increased average fare was a 6.9% increase in passenger average trip length, which was the primary driver for most of the 9.6% increase in RPMs. Our available seat mile (ASM) capacity for the first nine months of 2010 decreased 5.1% from the ASM capacity for the first nine months of 2009 as a result of a decrease in the number of our regularly scheduled flights.

Public Service Revenues. Public service revenues collected through the EAS Program decreased 0.3% to $45.1 million during the first nine months of 2010, as compared to $45.3 million during the first nine months of 2009.

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The decrease in public service revenue is attributable to a net decrease in communities served, partially offset by an increase in service renewals supporting higher subsidy levels. At September 30, 2010 and September 30, 2009, we served 41 and 48 communities, respectively, on a subsidized basis under the U.S. Department of Transportation EAS Program.

Other Revenues. Other revenues were $1.6 million during the first nine months of 2010, an increase of 97.3% from the first nine months of 2009. The 97.3% increase was due to increases in contract ground handling of other carriers, offset in part by a decrease in cargo revenue and charter income.

Operating Expenses. Total operating expenses were $85.3 million, or 29.7 cents per ASM, in the first nine months of 2010, as compared to $81.1 million, or 26.8 cents per ASM in the first nine months of 2009.

Salaries, Wages, and Benefits. Salaries, wages, and benefits were $24.7 million in the first nine months of 2010, an increase of 5.7% from $23.4 million in the first nine months of 2009. The increase in salaries, wages, and benefits was mostly attributable to insurance benefit costs and pay rate increases.

Aircraft Fuel Expense. Aircraft fuel and into-plane expense was $22.9 million, or 7.9 cents per ASM, in the first nine months of 2010. In comparison, our aircraft fuel and into-plane expense for the first nine months of 2009 was $19.2 million, or 6.3 cents per ASM. The 19.0% increase in our aircraft fuel expense was attributable to a 26.9% increase in average cost of fuel per gallon, offset in part by decreased consumption as the result of a 5.1% decrease in our available seat miles.

The average cost of fuel increased from $2.19 per gallon in the first nine months of 2009 to $2.78 per gallon in the first nine months of 2010. A one cent increase or decrease in the per gallon price of fuel will increase or decrease our fuel expense by approximately $113,000 annually.

Aircraft Maintenance, Materials, and Component Repairs. Aircraft maintenance, materials, and component repairs expense was $12.3 million during the first nine months of 2010, which was a 2.3% decrease from $12.6 million during the first nine months of 2009. The decrease was primarily attributable to the accelerated maintenance expenses associated with the preparation of six Company owned Beechcraft 1900D spare engines for installation on three Raytheon aircraft leased without engines during the first nine months of 2009.

Depreciation and amortization. Depreciation and amortization expense was $4.0 million during the first nine months of 2010 and $4.2 million during the first nine months of 2009. The decrease in depreciation expense was mostly attributable to fully depreciated items.

Aircraft Rental. Aircraft lease expense was $1.7 million during the first nine months of 2010, which was a 15.3% increase from the $1.5 million during the first nine months of 2009. The increase was attributable to the addition of four Beechcraft 1900D aircraft leases from Raytheon throughout the first nine months of 2009.

Other Rentals and Landing Fees Expense. Other rentals and landing fees expense was $3.9 million during the first nine months of 2010, which was a 18.9 decrease from $4.9 million during the first nine months of 2009. The decrease is mostly attributable to a retroactive annual rate adjustment from Denver International Airport whereby we received a net credit of $1.1 million, which was $0.6 million more than the first nine months of 2009. Additionally, we had a 12.0% decrease in departures flown, primarily attributable to the discontinuation of service to our former St. Louis hub, whereby we incurred less landing fee expense.

Other Operating Expenses. Other operating expenses were $15.7 million, or 5.5 cents per ASM, during the first nine months of 2010, an increase of 2.6% from $15.3 million, or 5.1 cents per ASM, during the first nine months of 2009. The increase in other operating expenses was primarily due to increases of approximately $665,000 in passenger related expenses, $368,000 in pilot training and associated lodging expenses, $96,000 in contract handling and $24,000 in other expenses. These were offset by reductions for professional fees of $557,000 and deicing fluid expense of $203,000.

Interest Expense. Interest expense was $1.5 million during the first nine months of 2010, a decrease of 11.3% from the first nine months of 2009. The decrease was mostly the result of interest on the lower principal portion of long-term debt balances, partially offset by a reduction in deferred debt restructuring gain amortization in interest expense related to the restructured Raytheon debt in 2002.

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Income Tax Expense. For the nine months ended September 30, 2010 we recorded an income tax expense of $2.6 million and for the nine months ended September 30, 2009 we recorded an income tax expense of $2.9 million. Our estimated effective federal and state income tax rate is 40.33% for the nine months ended September 30, 2010. The Company s effective tax rate includes non-deductible permanent tax differences that comprise a significant percentage of projected annual pre-tax income.

Seasonality

Seasonal factors, related to weather conditions and changes in passenger demand, generally affect our monthly passenger enplanements. We have historically shown a higher level of passenger enplanements in the May through October period as compared with the November through April period for many of the cities served. These seasonal factors have generally resulted in reduced revenues, lower operating income, and less cash flow for us during the November through April period. As a result of such factors, our revenues and earnings have shown a corresponding increase during the May through October period. Essential Air Service revenues are generated under subsidy per departure rates established by the DOT and we realize revenue as departures are performed. Inherently, our EAS revenues are not affected by seasonality.

Liquidity and Capital Resources

Contractual Obligations. The following table summarizes our major debt and lease payment obligations for periods beginning as of October 1 and ending as of September 30 for each of the designated time periods:

	2011 (1)	**2012-2013**	**2014-2015**	**After 2015**	**Total**
Long-term debt - contractual	$ 38,022,000	$ 3,305,543	$ 3,805,543	$ 299,805	$ 45,432,891
Contractual interest on long-term debt(2)	2,356,930	806,448	298,668	5,232	3,467,278
Total debt	40,378,930	4,111,991	4,104,211	305,037	48,900,169
Aircraft lease obligations	2,274,000	1,465,920			3,739,920
Total lease obligations	2,274,000	1,465,920			3,739,920
Total obligations	$ 42,652,930	$ 5,577,911	$ 4,104,211	$ 305,037	$ 52,640,089

(1) Approximately $32.7 million of aircraft debt associated with the Raytheon Aircraft Notes matures on June 30, 2011.

(2) The amounts shown represent contractual interest payable on the notes and exclude total adjustments of $917,778, for all periods, recorded under ASC 470-60-15 to the carrying value of the notes in the financial statements.

At September 30, 2010, the largest portion of our long-term debt consisted of aircraft notes held by Raytheon with a remaining principal balance of approximately $36.6 million. These aircraft notes, secured by 25 Beechcraft 1900D aircraft, are scheduled to mature on June 30, 2011. The terms of our aircraft debt require us to make a balloon payment totaling $32.7 million, or $1.3 million per aircraft, on June 30, 2011. Our cash flows from operations are not expected to be sufficient to fund the balloon payment. In addition to our cash flows from operations, we will need to refinance the obligation with Raytheon, our largest single shareholder, secure alternative sources of financing, raise additional capital through an equity offering, or achieve any combination thereof to be able to satisfy this obligation on June 30, 2011. There is no assurance that we will be successful in refinancing this debt or obtaining additional financing, and, if available, there are no assurances that the financing will be at commercially acceptable terms.

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Sources and Uses of Cash. As of September 30, 2010, our cash balance was $7.6 million, a $3.3 million increase from the cash balance of $4.3 million as of December 31, 2009. We made principal payments on debt of $4.4 million during the first nine months of 2010

Cash Provided by Operating Activities. During the first nine months of 2010, we had positive cash flow from operating activities in the amount of $9.6 million. During the first nine months we generated a net income of $3.9 million and recorded non-cash depreciation and amortization of $4.0 million.

Cash Flows from Investing Activities. During the first nine months of 2010, we invested $1.9 million in replacement aircraft rotable components and other property and equipment.

Cash Flows from Financing Activities. During the first nine months of 2010, we utilized $4.4 million of cash to reduce our outstanding notes payable and long-term debt balances.

As of September 30, 2010, we had negative working capital of approximately $19.2 million, as compared to working capital of $9.6 million as of December 31, 2009. The negative working capital is directly attributable to $36.6 million of aircraft debt maturing in the next 12 months, which increased the current portion of long-term debt by $32.7 million at September 30, 2010 compared to December 31, 2009.

At September 30, 2010, total assets were in excess of total liabilities by $27.8 million. The accounting treatment under ASC Section 470-60-15 for recording of gains from the restructuring of debt obligations at December 31, 2002 required that $22.3 million of such gain be deferred and amortized over the term of the restructured debt obligations. This has the effect of increasing net income and stockholders equity as the gain is amortized to earnings. At September 30, 2010, the remaining unamortized amount of deferred gain was $0.9 million, which will be amortized as a reduction of interest expense during the years 2010 through 2011.

Forward-Looking Statements

This Quarterly Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Great Lakes Aviation, Ltd. (Great Lakes, we, our, its, it or the Company) notes that certain statements in this Form 10-Q and elsewhere are forward-looking and provide other than historical information. Our management may also make oral, forward-looking statements from time to time. These forward-looking statements include, among others, statements concerning our general business strategies, financing decisions, and expectations for funding expenditures and operations in the future. The words believe, plan, continue, hope, estimate, project, intend, anticipate and similar expressions reflected in such forward-looking statements are based on reasonable assumptions, and none of the forward-looking statements contained in this Form 10-Q or elsewhere should be relied on as predictions of future events. Such statements are necessarily dependent on assumptions, data, or methods that may be incorrect or imprecise, and may be incapable of being realized. The risks and uncertainties that are inherent in these forward-looking statements could cause actual results to differ materially from those expressed in or implied by these statements.

Factors that could cause results to differ materially from the expectations reflected in any forward-looking statements include:

1) the effect of general economic conditions on business and leisure travel;

2) changes in the structure of or funding for the Essential Air Service program;

3) dependence on connecting capacity at our hubs;

4) the payments and restrictions resulting from our contractual obligations;

5) the effect of rules regarding major transactions in our common stock on the availability of net operating loss carryforwards;

6) the incidence of domestic or international terrorism and military actions;

7) competition from other airlines and from ground transportation;

8) the volatility and level of fuel costs;

9) the incidence of labor disruptions or strikes;

10) dependence on our key personnel;

11) the incidence of aircraft accidents;

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12) the level of regulatory and environmental costs;

13) the incidence of technological failures or attacks;

14) maintenance costs related to aging aircraft;

15) the possibility of substantial numbers of shares being sold by our current investors;

16) the limited market for our securities;

17) volatility in the market price of our common stock;

18) our ability to remediate timely any deficiencies in our internal controls;

19) substantial numbers of shares being offered for sale;

20) consent requirements for equity issuances under our agreements with Raytheon;

21) no expectation of dividends; and

22) anti-takeover provisions in our charter documents and Iowa law.

Readers are cautioned not to attribute undue certainty on the forward-looking statements contained herein, which speak only as of the date hereof. Changes may occur after that date, and we do not undertake to update any forward-looking statements except as required by law in the normal course of our public disclosure practices.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risks

We are susceptible to certain risks related to changes in the cost of aircraft fuel. As of September 30, 2010, we did not have any derivative financial instruments.

Aircraft Fuel

Due to the airline industry s dependency upon aircraft fuel for operations, airline operators are substantially impacted by changes in aircraft fuel prices. Our earnings are affected by changes in the price and availability of aircraft fuel. Aircraft fuel represented approximately 26.8% of our operating expenses in the first nine months of 2010. A one cent change in the average cost of aircraft fuel would impact our aircraft fuel expense by approximately $113,000 annually.

Interest Rates

Our operations are very capital intensive because the vast majority of our assets consist of flight equipment, which is financed primarily with long-term debt. As of September 30, 2010, all of our debt obligations were at fixed interest rates and we have no variable interest rate risk exposure.

Item 4T. CONTROLS AND PROCEDURES

We maintain a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of September 30, 2010, our disclosure controls and procedures were effective.

During the Company s most recent fiscal quarter, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) under the Securities Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

There were no new legal proceedings initiated by or against us during the period covered by this Quarterly Report on Form 10-Q.

During the period covered by this Quarterly Report on Form 10-Q, there were no material developments in any legal proceedings previously reported in our Annual Report on Form 10-K for the year ended December 31, 2009.

Item 1A. RISK FACTORS

There have been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, filed with the Securities and Exchange Commission on March 26, 2010 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, filed with the Securities and Exchange Commission on August 13, 2010, with the exception of the following risk factor, which is amended and restated as follows:

We have a significant amount of debt and other contractual obligations, including a $32.7 million balloon payment due to Raytheon in June 2011.

Our aircraft notes secured by 25 Beechcraft 1900D aircraft mature on June 30, 2011, at which time a $32.7 million balloon payment is due. Our cash flows from operations are not expected to be sufficient to fund the balloon payment. In addition to our cash flows from operations, we will need to refinance the obligation with Raytheon Aircraft Credit Corporation (Raytheon), our largest single shareholder, secure alternative sources of financing, raise additional capital through an equity offering, or achieve any combination thereof to be able to satisfy this obligation on June 30, 2011. There is no assurance that we will be successful in refinancing the debt or obtaining additional financing, and, if available, there are no assurances that the financing will be at commercially acceptable terms.

The airline business is capital intensive and, as a result, many airline companies are highly leveraged. As of September 30, 2010, we had approximately $45.4 million in total long-term debt obligations including current maturities. During the first nine months of 2010, our mandatory debt service payments totaled $4.4 million and our mandatory aircraft lease payments totaled approximately $1.7 million. We have significant future contractual payment obligations for leased aircraft, which aggregated approximately $3.7 million at September 30, 2010. We cannot assure you that our operations will generate sufficient cash flow to make such payments, or that we will be able to obtain financing to acquire additional aircraft or make other capital expenditures necessary for expansion. We are subject to various financial covenants under our restructuring agreement with Raytheon. If we default under our loans or lease agreements, Raytheon, our principal creditor, has available extensive remedies, including, without limitation, repossession, foreclosure and/or sale of substantially all of our aircraft and other assets.

Even if we are able to timely service our debt, the size of our long-term debt and lease obligations could negatively affect our business, financial condition, operating results and cash flows in many ways, including:

- increasing the cost, or limiting the availability of, additional financing for working capital, acquisitions or other purposes;
- limiting the ways in which we can use our cash flow, much of which may have to be used to satisfy debt and lease obligations; and
- adversely affecting our ability to respond to changing business or economic conditions.

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Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

See Exhibit Index.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	GREAT LAKES AVIATION, LTD.
Dated: November 12, 2010	By: /s/ Charles R. Howell IV Charles R. Howell IV Chief Executive Officer
	By: /s/ Michael O. Matthews Michael O. Matthews Vice President and Chief Financial Officer

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EXHIBIT INDEX

3.1	Amended and Restated Articles of Incorporation. (1)
3.2	Amended and Restated Bylaws. (1)
4.1	Specimen Common Stock Certificate. (2)
10.1	Third Amendment to Code Share and Regulatory Cooperation and Marketing Agreement by and between United Air Lines, Inc. and the Company, dated October 29, 2010. Portions of this exhibit have been excluded from the publicly available document based on a pending confidential treatment request made to the Commission.
31.1	Certification pursuant to Rule 13a-14(a) of Chief Executive Officer.
31.2	Certification pursuant to Rule 13a-14(a) of Chief Financial Officer.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Chief Executive Officer.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Chief Financial Officer.

(1) Incorporated by reference to the Company s Registration Statement on Form S-1/A, Registration No. 333-159256, as filed September 3, 2009.

(2) Incorporated by reference to the Company s Registration Statement on Form S-1, Registration No. 033-71180.