

GREAT LAKES AVIATION LTD
Form 10-Q
August 14, 2015
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

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
(State or other jurisdiction of
incorporation or organization)

42-1135319
(I.R.S. Employer
Identification No.)

1022 Airport Parkway, Cheyenne, WY
(Address of principal executive offices)

82001
(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 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

Edgar Filing: GREAT LAKES AVIATION LTD - Form 10-Q

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

As of August 10, 2015, 8,974,990 shares of Common Stock of the registrant were issued and outstanding.

Table of Contents

GREAT LAKES AVIATION, LTD.

FORM 10-Q

For the Quarterly Period Ended June 30, 2015

INDEX

PART I - FINANCIAL INFORMATION

Item 1.	<u>FINANCIAL STATEMENTS</u>	2
Item 2.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	12
Item 3.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	23
Item 4.	<u>CONTROLS AND PROCEDURES</u>	24

PART II - OTHER INFORMATION

Item 1.	<u>LEGAL PROCEEDINGS</u>	24
Item 1A.	<u>RISK FACTORS</u>	24
Item 6.	<u>EXHIBITS</u>	25

	<u>SIGNATURES</u>	26
--	-------------------	----

	<u>EXHIBIT INDEX</u>	E-1
--	----------------------	-----

Table of Contents**Item 1. FINANCIAL STATEMENTS****GREAT LAKES AVIATION, LTD.**

Balance Sheets

(unaudited)

	June 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 555,421	\$ 2,202,273
Accounts receivable and other receivables	4,022,884	5,337,193
Inventories	6,229,232	6,578,419
Prepaid expenses and other current assets	3,231,094	1,785,433
Deferred income taxes	1,249,365	1,249,365
Total current assets	15,287,996	17,152,683
Property and equipment:		
Flight equipment	126,386,043	126,252,883
Other property and equipment	10,772,250	10,692,328
Less accumulated depreciation and amortization	(94,700,422)	(93,119,738)
Total property and equipment	42,457,871	43,825,473
Other assets	1,367,191	3,283,360
Total assets	\$ 59,113,058	\$ 64,261,516

Liabilities and Stockholders Equity

Current liabilities:		
Current maturities of long-term debt	\$ 26,500,000	\$
Accounts payable	1,574,447	2,177,376
Accrued interest, unearned revenue and other liabilities	3,026,310	2,131,928
Total current liabilities	31,100,757	4,309,304
Long-term debt		25,000,000
Deferred income taxes	1,179,644	3,705,007
Total liabilities	32,280,401	33,014,311

Commitments and contingencies

Preferred stock; \$0.01 par value; Authorized: 25,000,000 shares.

Edgar Filing: GREAT LAKES AVIATION LTD - Form 10-Q

No shares issued or outstanding		
Common stock; \$0.01 par value; Authorized: 50,000,000 shares.		
8,974,990 shares issued and outstanding	89,750	89,750
Paid-in capital	31,494,609	31,494,609
Accumulated deficit	(4,751,702)	(337,154)
Total stockholders equity	26,832,657	31,247,205
Total liabilities and stockholders equity	\$ 59,113,058	\$ 64,261,516

See accompanying notes to the financial statements.

Table of Contents**GREAT LAKES AVIATION, LTD.**

Statements of Operations

(Unaudited)

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2015	2014	2015	2014
Operating Revenues:				
Passenger	\$ 3,681,415	\$ 8,135,165	\$ 8,087,204	\$ 15,060,195
Public service	6,945,946	6,686,839	14,979,864	12,845,059
Freight, charter, and other	35,535	36,807	89,047	83,265
Total operating revenues	10,662,896	14,858,811	23,156,115	27,988,519
Operating expenses:				
Salaries, wages, and benefits	4,648,676	5,012,238	9,558,549	11,035,800
Aircraft fuel	2,028,481	4,114,099	4,267,210	8,483,345
Aircraft maintenance, materials, and repairs	2,732,522	773,725	3,957,386	2,624,334
Depreciation and amortization	1,512,589	1,594,394	3,032,167	3,209,704
Other rentals and landing fees	950,899	1,189,982	2,171,465	2,591,500
Other operating expenses	2,080,424	3,572,036	4,611,686	7,206,726
Total operating expenses	13,953,591	16,256,474	27,598,463	35,151,409
Operating loss	(3,290,695)	(1,397,663)	(4,442,348)	(7,162,890)
Other expense:				
Interest expense, net of interest income of \$236, \$160, \$417 and \$320, respectively	(1,430,879)	(1,130,434)	(2,497,088)	(2,117,303)
Loss before income taxes	(4,721,574)	(2,528,097)	(6,939,436)	(9,280,193)
Income tax benefit	1,723,792	938,841	2,524,888	3,400,244
Net loss	\$ (2,997,782)	\$ (1,589,256)	\$ (4,414,548)	\$ (5,879,949)
Net loss per share:				
Basic	\$ (0.33)	\$ (0.18)	\$ (0.49)	\$ (0.66)
Diluted	\$ (0.33)	\$ (0.18)	\$ (0.49)	\$ (0.66)
Weighted average shares outstanding:				
Basic	8,974,990	8,974,990	8,974,990	8,974,990
Diluted	8,974,990	8,974,990	8,974,990	8,974,990

See accompanying notes to the financial statements.

Table of Contents**GREAT LAKES AVIATION, LTD.**

Statements of Cash Flows

(Unaudited)

	For the Six Months Ended June 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (4,414,548)	\$ (5,879,949)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	3,032,167	3,209,704
Loss on property and equipment	84,863	94,224
Amortization of debt issuance costs	270,556	353,548
Deferred tax benefit	(2,525,363)	(3,393,613)
Change in current operating items:		
Accounts receivable and other receivables	1,314,309	1,737,550
Inventories	349,187	1,032,440
Prepaid expenses and other current assets	(85,244)	685,071
Other assets	285,193	452,241
Accounts payable	(602,929)	(572,869)
Accrued interest, unearned revenue and other liabilities	894,382	(115,294)
Net cash used in operating activities	(1,397,427)	(2,396,947)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of flight equipment and other property and equipment	(1,749,425)	(638,422)
Net cash flows used in investing activities	(1,749,425)	(638,422)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable and long-term debt		(1,452,000)
Proceeds from borrowing	1,500,000	1,500,000
Payment for debt issuance costs		(429,436)
Net cash used in financing activities	1,500,000	(381,436)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,646,852)	(3,416,805)
Cash and Cash Equivalents:		
Beginning of period	2,202,273	6,597,927
End of period	\$ 555,421	\$ 3,181,122
Supplementary disclosures of cash flow information:		
Cash paid during the period for interest	\$ 1,600,647	\$ 1,730,209

Cash paid during the period for income taxes	\$	\$	4,579
See accompanying notes to financial statements.			

Table of Contents**GREAT LAKES AVIATION, LTD.**

Statements of Stockholders' Equity

Six Months Ended June 30, 2015

(unaudited)

	Common stock Shares	Amount	Paid-in capital	Accumulated deficit	Total
Balance at January 1, 2015	8,974,990	\$ 89,750	\$ 31,494,609	\$ (337,154)	\$ 31,247,205
Net loss				(4,414,548)	(4,414,548)
Balance at June 30, 2015	8,974,990	\$ 89,750	\$ 31,494,609	\$ (4,751,702)	\$ 26,832,657

See accompanying notes to financial statements.

Table of Contents

Great Lakes Aviation, Ltd.

Notes to Financial Statements

June 30, 2015

(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed 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 condensed 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, 2014.

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. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; the salvage value of fixed assets; the valuation allowance for deferred tax assets, inventory allowances; and allowances for other contingencies.

Business

Passenger Revenue

Great Lakes Aviation, Ltd. (Great Lakes, the Company, we or us) is a regional airline operating as an independent carrier and as a code share partner with United Air Lines, Inc. (United or United Airlines). Our code share agreement allows our mutual customers to purchase connecting flights through our code share partner and to share other benefits such as baggage transfer and frequent flyer benefits (in certain instances). The Company maintains its own branding on its planes and ticket counters and its own designator code on all its flights. In addition to our code share agreement and independent branding, the Company has developed electronic ticketing (e-ticket) interline agreements with American Airlines, Delta Airlines, United Airlines and U.S. Airways.

The Company estimates that approximately 51% of Great Lakes' passenger traffic utilized the United code share product line in the six months ending June 30, 2015.

Public Service Revenue

Approximately 65% and 46% of the Company's total revenue during each of the six months ended June 30, 2015 and 2014, respectively, were generated by services provided under the Essential Air Service (EAS) program administered by the United States Department of Transportation (DOT). The FAA Modernization and Reform Act of 2012 was enacted into law on February 14, 2012. This legislation provides for the authorization of the Essential Air Service program through September 30, 2015, at which time, we expect it will be renewed.

Edgar Filing: GREAT LAKES AVIATION LTD - Form 10-Q

As of August 10, 2015, the Company served 24 airports, of which 16 locations receive EAS subsidy, in nine states with a fleet of six Embraer EMB-120 Brasilia and 28 Beechcraft 1900D regional airliners. The Company currently operates hubs in Denver, CO, Los Angeles, CA, Minneapolis, MN and Phoenix, AZ.

Table of Contents

Liquidity

On December 22, 2014, we entered into a Loan Agreement (the "Loan Agreement") with Callidus Capital Corporation (the "Lender"). The Lender agreed to make available to the Company: (i) a \$25,000,000 single advance term loan facility, (ii) a revolving loan facility with availability of up to \$6,000,000 and (iii) a second revolving loan facility with availability of up to \$3,000,000. The \$25,000,000 term loan was disbursed at closing, and substantially all of its proceeds were used to pay all outstanding borrowings, fees and expenses under our prior credit agreement.

The term loan and revolving credit facilities mature on December 22, 2017 at which time any outstanding balances will be due and payable. At that time, in order to pay the principal amount, the Company would need to raise cash by obtaining new debt financing, raising additional equity financing or selling owned aircraft or a combination thereof. We are not required to make any principal payments under the Loan Agreement until December 22, 2017, absent an event of default.

We have experienced a shortage of qualified pilots which has caused us to curtail operations and reduce capacity. The pilot shortage and its effect on operations are expected to continue until we can hire and train enough pilots to reestablish operations in those markets in which we were forced to suspend service or expand into new markets.

As a result of a higher than expected pilot shortage and related curtailment of operations in the second quarter of 2015, as of June 30, 2015, the Company was not in compliance with the fixed charge coverage ratio financial covenant contained in the Company's Loan Agreement. Specifically the Company is required to maintain a fixed charge coverage ratio, calculated by dividing trailing 12 month earnings before interest, taxes, depreciation and amortization (EBITDA), less unfinanced capital expenditures, by trailing 12 month interest expense, as defined by the Loan Agreement, of 0.76:1 or more. The Company does not expect to be in compliance with its fixed charge coverage ratio covenant throughout the balance of 2015 as EBITDA is calculated on a trailing 12-month basis. Under the Loan Agreement, the Company has until August 28, 2015 (the "Cure Period") to cure this covenant violation. During the Cure Period the Lender has no obligation to make further loans under the Loan Agreement. We do not expect to be able to cure the covenant violation upon the expiration of the Cure Period. If we fail to cure the covenant violation during the Cure Period, an event of default under the Loan Agreement will occur which will permit the Company's Lender to exercise its right to declare our debt obligations to be immediately due and payable, to terminate the Lender's obligation to advance any additional borrowings under the original terms of the Loan Agreement, and to take possession of substantially all of the Company's assets. As a result of not being in compliance with the terms of the Loan Agreement and the expectation that the Company will not be in compliance with the terms of the Loan Agreement throughout 2015, all borrowings (approximately \$26.5 million) under the Company's senior credit facility are classified as current maturities as of June 30, 2015.

As a result of the covenant violation the Company also reclassified the related debt issuance costs from long-term other assets to other current assets. Additionally, the event of default triggers an accelerated payment due for the 1.25% facility fee of \$425,000 which is included in accrued liabilities.

We are working with our Lender to negotiate a modification of our Loan Agreement to allow for additional borrowings, subject to the limitations of our collateral values, reset fixed charge ratios, and reinstate the maturity dates of our existing loans.

In the event that the Company is unsuccessful in modifying our Loan Agreement on commercially reasonable terms, the Company will need to consider several alternatives, including, but not limited to, additional equity financings, debt financings, and other funding transactions, including the sale or sale-leaseback of certain aircraft.

The Company cannot make assurances that its assets or cash flow from operations will be sufficient to repay borrowings under its existing debt obligations, either upon maturity or if accelerated, or that it will be able to renegotiate favorable terms of the proposed modifications to our existing Loan Agreement. In addition, the Company cannot make assurances that any additional sources of capital or liquidity would be available. This would have a material adverse impact on our liquidity and financial position.

Until the Company is able to cure the covenant violation or to successfully renegotiate our existing debt obligations, it is expected that the Company will not have sufficient liquidity to service its existing debt obligations for the next 12 month period. These factors raise significant doubts about our ability to continue as a going concern.

Table of Contents**2. Earnings per share**

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

	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Numerator:				
Net loss	\$ (2,997,782)	\$ (1,589,256)	\$ (4,414,548)	\$ (5,879,949)
Denominator:				
Weighted average shares outstanding, basic	8,974,990	8,974,990	8,974,990	8,974,990
Weighted average shares outstanding, diluted	8,974,990	8,974,990	8,974,990	8,974,990
Net loss per share, basic	\$ (0.33)	\$ (0.18)	\$ (0.49)	\$ (0.66)
Net loss per share, diluted	\$ (0.33)	\$ (0.18)	\$ (0.49)	\$ (0.66)

For the three month and six month periods ended June 30, 2015 and June 30, 2014 there were no options or other potentially dilutive securities outstanding.

3. Accrued Liabilities

Accrued liabilities consisted of the following balances at June 30, 2015 and December 31, 2014:

	June 30, 2015	December 31, 2014
Unearned revenue	817,009	645,320
Accrued property taxes	247,404	68,140
Accrued interest	302,586	89,491
Accrued payroll	1,180,276	1,290,555
Accrued Facility Fee	425,000	
Other	54,035	38,422
Total accrued liabilities	\$ 3,026,310	\$ 2,131,928

Table of Contents**4. Long-Term Debt**

The following table sets forth, as of June 30, 2015 and December 31, 2014, the carrying amount of the Company's long-term debt. Under the terms of the Loan Agreement, no scheduled principal payments are required until the earlier of the lender declaring all obligations due and payable or the December 2017 maturity date.

	June 30, 2015	December 31, 2014
Long-term debt:		
Term Loan	\$ 25,000,000	\$ 25,000,000
Revolving Loans	1,500,000	
Total long-term debt	26,500,000	25,000,000
Less current portion:		
Term Loan (1)	(25,000,000)	
Revolving Loans (1)	(1,500,000)	
Total current portion	(26,500,000)	
Total long-term debt portion		25,000,000

(1) All debt is classified as current as a result of not being in compliance with our loan agreement and the lender's ability to declare our obligations due and payable.

On December 22, 2014, the Company entered into a Loan Agreement (the "Loan Agreement") with Callidus Capital Corporation (the "Lender"). Pursuant to the Loan Agreement, the Lender agreed to make available to the Company: (i) a \$25,000,000 single advance term loan facility, (ii) a revolving loan facility with availability of up to \$6,000,000 and (iii) a second revolving loan facility with availability of up to \$3,000,000. The \$25,000,000 term loan was disbursed at closing, and substantially all of its proceeds were used to pay all outstanding borrowings, fees and expenses under the Credit Agreement with our previous lenders. The revolving loan facilities may be used for the Company's working capital needs.

Under the original terms, absent the covenant violation, the loans under the Loan Agreement would mature on December 22, 2017 at which time all outstanding principal balances will be due and payable. No scheduled principal payments will be required until the earlier of the lender declaring all amounts due and payable or the maturity date unless there is a devaluation in the collateral supporting the term loan. Through June 30, 2015, outstanding principal under the term loan and revolving loans paid interest at a fixed rate of 14% per year. In addition, the Company paid a 1% facility fee at closing and will be required to pay a 1.25% facility fee on the maturity date or in an event of default. While the Lender has not declared this facility fee due and payable, the event of default triggers the accelerated payment due date. The Company will also be assessed a maintenance and monitoring fee of \$3,000 per month and a 1% unused line fee. The 1% facility fee paid at closing was recorded to other assets and is being amortized as interest expense using the effective interest rate method. The 1.25% facility fee due at maturity was being accrued as an increase to other accrued liabilities and interest expense each period using the effective interest rate method. The accelerated portion of \$350,739 was accrued during this quarter. The maintenance and monitoring fee and the unused line fee are also recorded as interest expense as incurred. Debt issuance costs of \$1.4 million have also been

reclassified from long-term other assets to other current assets.

In connection with the Loan Agreement, the Company granted first-ranking security interests to the Lender covering substantially all of the assets of the business. The Loan Agreement contains certain affirmative and negative covenants which are usual and customary with asset based loans. The Company agreed to maintain a fixed charge coverage ratio beginning with the period ended March 31, 2015. In an event of default, the Lender may terminate its obligation to make further loans and may declare all obligations under the Loan Agreement to be immediately due and payable.

As of June 30, 2015, the Company was not in compliance with the fixed charge coverage ratio financial covenant contained in the Company's Loan Agreement. Specifically the Company is required to maintain a fixed charge coverage ratio, calculated by dividing trailing 12 month earnings before interest, taxes, depreciation and amortization (EBITDA), less unfinanced capital expenditures, by trailing 12 month interest expense, as defined by the Loan Agreement, of .76:1 or more. The Company does not expect to be in compliance with its fixed charge

Table of Contents

coverage ratio covenant throughout the balance of 2015 as EBITDA is calculated on a trailing 12-month basis. Under the Loan Agreement, the Company has until August 28, 2015 to cure this covenant violation. During the Cure Period the Lender has no obligation to make further loans under the Loan Agreement. We do not expect to be able to cure the covenant violation upon the expiration of the Cure Period. If we fail to cure the covenant violation during the Cure Period, an event of default under the Loan Agreement will occur which will permit the Company's Lender to exercise its right to declare our debt obligations to be immediately due and payable, to terminate the Lender's obligation to advance any additional borrowings under the original terms of the Loan Agreement, and to take possession of substantially all of the Company's assets. As a result of not being in compliance with the terms of the Loan Agreement and the expectation that the Company will not be in compliance with the terms of the Loan Agreement throughout 2015, all borrowings (approximately \$26.5 million) under the Company's senior credit facility are classified as current maturities as of June 30, 2015. An event of default will increase the rate of interest we pay on outstanding obligations from 14% per year to a default rate of 17% per year going forward. The covenant violation requires that the 1.25% facility fee be classified as current and recorded to interest expense resulting in an incremental interest expense of \$350,739 in June 2015.

5. Related Parties

The Company rents two six-passenger aircraft and a vehicle from Iowa Great Lakes Flyers, Inc., a corporation solely owned by Douglas G. Voss, the Company's Chairman and major stockholder. Total payments for these leases were \$14,250 for each of the six months ending June 30, 2015 and 2014, respectively. As of June 30, 2015, Mr. Voss controlled 4,160,247 shares of common stock of the Company, representing approximately 46.4% of the Company's outstanding common stock.

6. Income Taxes

The Company's annual effective income tax rate is estimated to be 36.4% for 2015. The Company's effective tax rate includes non-deductible permanent tax differences. Prior to 2004, the Company reported significant cumulative losses and generated substantial net operating loss carryforwards. From 2007 through 2013, the Company utilized a portion of these carryforwards to offset taxable income. The losses recorded in 2014 are also expected to result in additional net operating loss carryforward when the Company files its income tax return for the 2014 tax year.

In assessing the ability to realize deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. Management considers the projected reversal of deferred tax liabilities and tax planning strategies in making this assessment. Based upon this assessment, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of any valuation allowances for state net operating loss carryforwards that are expected to expire unused. Federal net operating loss carryforwards begin to expire in year 2021.

7. 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.

Table of Contents

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 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 and cash equivalents, accounts receivable and other receivables, accounts payable, accrued liabilities and long-term debt. The carrying values of cash and cash equivalents, accounts receivable and other receivables, accounts payable, and accrued liabilities approximate their fair values. These are considered Level 1 measurements. The fair value of our long term debt approximates the carrying value of \$26.5 million at June 30, 2015 and December 31, 2014, respectively because the rate on this debt was recently negotiated and we believe is similar to the rate that we could negotiate at each period-end. For additional information, see Note 4 Long-Term Debt.

8. Subsequent Event

In July of 2015, the Company borrowed an additional \$1.0 million under its revolving loan facility. At August 10, 2015 the Company had \$27.5 million of total debt.

Table of Contents

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

The Company

We were incorporated on October 25, 1979 as an Iowa corporation and became a publicly traded company in January 1994. We commenced scheduled air service operations on October 12, 1981. Great Lakes Airlines currently operates hubs at Denver, CO, Los Angeles, CA, Minneapolis, MN, and Phoenix, AZ.

We are a regional airline operating as an independent carrier and as a code share partner with United Air Lines. Our code share agreement allows our mutual customers to purchase connecting flights through our code share partner and to share other benefits such as baggage transfer and frequent flyer benefits (in certain instances), while the Company maintains its own branding on our planes and ticket counters and our own designator code on all our flights. In addition to our code share agreement and independent branding, the Company has developed electronic ticketing (e-ticket) interline agreements with American Airlines, Delta Airlines, United Airlines and U.S. Airways.

As of August 10, 2015, we served 24 airports in nine states with a fleet of six Embraer EMB-120 Brasilias and 28 Beechcraft 1900D regional airliners.

Essential Air Service (EAS) Program

We derived approximately 65% of our total revenue from the EAS program for the first six months ended June 30, 2015, which is administered by the United States Department of Transportation (DOT). The EAS program was instituted under the Airline Deregulation Act of 1978 (the Deregulation Act), which allowed airlines greater freedom to introduce, increase, and generally reduce or eliminate service to existing markets. Under the EAS program, certain communities are guaranteed specified levels of essential air service. In order to promote the provision of essential air services, the DOT may authorize the payment of federal subsidies to compensate an air carrier that is providing essential air services in otherwise unprofitable or minimally profitable markets.

The FAA Modernization and Reform Act of 2012 was enacted into law on February 14, 2012. This legislation provides for the authorization of the EAS program for federal fiscal years 2011 through 2015. Federal fiscal year 2015 ends on September 30, 2015. Historically, the EAS program has been renewed for four year authorizations. The FAA Modernization and Reform Act of 2012 reaffirmed the Congressional commitment to the continuance of the Essential Air Service program. The EAS program obtains a portion of the funding through annual Congressional appropriations.

An airline serving a community that qualifies for essential air services is required to give the DOT advance notice before the airline may discontinue, suspend, or reduce service. Depending on the circumstances, the DOT may require the continuation of existing service until a replacement carrier is found. EAS rates are normally set for two-year periods for each city. Significant fluctuations in passenger traffic, fares and associated revenues, as well as fluctuations in fuel and other costs, may cause EAS routes to become unprofitable during these two-year terms. Near the end of the two year term for EAS service to a particular city, the DOT will request service proposals from the Company and competitive proposals from other airlines. Proposals, when requested, are evaluated on, among other things, the level of service provided, the amount of subsidy requested, the fitness of the applicant, and comments from the communities served.

As of August 10, 2015, we served 16 EAS communities on a subsidized basis.

Pilot Shortage

Federal Aviation Administration (FAA), pilot qualification rules imposed as part of the Airline Safety and Federal Aviation Administration Extension Act of 2010 in combination with revised FAR Part 117 Flight Crewmember Flight and Duty Limitations and Rest Requirements, (FAR Part 117), have created an industry-wide shortage of qualified pilots and negatively affected our operations and financial condition.

These new rules resulted in a greatly accelerated demand for qualified pilots as air carriers proceeded to increase pilot staffing requirements to compensate for the loss of crew efficiency due to the new rules. As a result, Great Lakes lost a large portion of its pool of qualified pilots with Airline Transport Pilot (ATP) certification to airlines operating aircraft with more seat availability and hence greater pilot earnings potential.

Table of Contents

The Airline Safety and Federal Aviation Administration Extension Act of 2010 was enacted in August 2010. Among many other pilot training directives, the legislation mandated that first officers (co-pilots) obtain an Airline Transport Pilot certification (ATP) prior to being qualified to perform crewmember duties in scheduled airline passenger service under FAR Part 121 regulatory requirements. A key factor to enable a pilot to receive an ATP certificate is the accumulation of 1,500 flight hours.

Furthermore, the legislation directed the FAA Administrator to conduct a rule making proceeding, to identify specific academic training courses that would provide for exemptions to the 1,500 hour requirement. The FAA published the final rule in the Federal Register on July 15, 2013. These rules became effective August 1, 2013. As a result of the rule making process, first officers may be eligible to receive a restricted privileges ATP with a minimum of 750 hours if they were a military pilot, 1,000 hours if they have received a bachelor s degree from an accredited educational institution with an aviation major and 1,250 hours if they have received an associate s degree from an accredited educational institution with an aviation major. It should be noted that accredited educational institutions provide very limited actual flight experience and that graduates from these institutions typically will have received between 250 to 350 hours of actual flight time. In fact, recent graduates and other newly certified pilots have had to find alternative flying jobs to accumulate the flight hour experience required by the new regulations.

The effect of the new pilot rules has been severe. Great Lakes has historically provided this career path for more than 32 years. Prior to this new rule, regulatory requirements provided for pilots to become eligible as first officers for a FAR Part 121 air carrier with a minimum of 250 hours of experience. The new rules also mandate that a first officer must have 1,000 hours as a FAR Part 121 first officer in an air carrier operation prior to being eligible to serve as a captain in a FAR Part 121 airline. As an alternative, the rule provides for captain eligibility under FAR Part 121 for pilots who accumulate 1,000 hours of pilot in command time in a FAR Part 135 operation.

The current supply of pilot candidates who qualify under the new regulations is severely limited. It is difficult for Great Lakes, which operates Beech 1900D turboprop aircraft, to compete for qualified pilots with other airlines operating 50 seat regional jets and larger equipment.

As a result, we have had to reduce scheduled departures by suspending service to multiple communities eligible for Essential Air Service, and other non-EAS markets. These actions resulted in a reduction of revenue and operating expenses. The rate of expense reduction will inherently lag the revenue drop-off as the Company aggressively adjusts its operating expenditures to match the new level of operations.

In April of 2013, Great Lakes submitted a written proposal to the FAA seeking authority to operate Beech 1900D aircraft in a nine seat passenger configuration utilizing FAR Part 135 pilot hiring requirements, while maintaining and complying with all other FAR Part 121 operational and maintenance standards.

On March 18, 2014, the Company received from the FAA new operations specifications allowing the Company to hire pilots under FAR Part 135 regulatory requirements. This provides the Company with the unique capabilities to hire first officers while maintaining FAR Part 121 hiring, training and employment standards as we have always done as a Part 121 carrier. As a result, Great Lakes is essentially performing the role of a flight academy by providing new pilots with the opportunity to accumulate the flight time necessary to satisfy the new regulations. At January 1, 2015 we employed 89 pilots. As of August 10, 2015, we employed 72 pilots with 6 pilots in new hire training. We have been challenged with the pace in which we can hire and train pilots versus the pace in which pilots have resigned to fill positions with larger carriers.

The Company s pilots are represented by the Sheet Metal, Air, Rail Transportation Union (SMART). The Company entered into a new agreement with the pilots on September 16, 2014. This agreement will continue in full force and

effect for four years and thereafter is subject to amendment, which would reopen collective bargaining.

EAS Program Activity Subsequent to January 1, 2015

On January 4, 2015 the Company transitioned Essential Air Service in Silver City, NM to another carrier.

On February 9, 2015 the Company transitioned Essential Air Service in Visalia, CA to another carrier.

Table of Contents

On April 30, 2015, Kingman, AZ became ineligible for Essential Air Service subsidy.

On June 30, 2015 the Company transitioned Essential Air Service in Alliance and Chadron, NE to another carrier.

Financial Highlights

We had operating revenue of \$23.2 million for the six-month period ending June 30, 2015, a 17.3% decrease compared to operating revenue of \$28.0 million for the six-month period ending June 30, 2014. We realized a \$7.0 million decrease in passenger revenue and a \$2.1 million increase in public service revenue compared to the prior year period. The \$7.0 million period-over-period decrease in passenger revenues was attributable to a 16.1% reduction in the number of departures in the first six months of 2015 compared to the first six months of 2014 in combination with operating the Beechcraft 1900D in a nine seat versus 19 seat configuration. These contributing factors are directly related to a nationwide shortage of qualified pilots which has had an acute negative impact on our operations, revenue, income and liquidity. The \$2.1 million increase in public service revenue is mostly attributable to earning higher subsidy per departure rates as we renewed Essential Air Service that required higher subsidy amounts as a result of operating the Beechcraft 1900D in a nine seat versus 19 seat configuration. Fewer seats available to generate passenger revenue requires a higher proportional amount of public service revenue to operate the same flight.

We had an operating loss of \$4.4 million for the six-month period ending June 30, 2015, compared to an operating loss of \$7.2 million for the six-month period ending June 30, 2014. The \$2.7 million decrease in operating loss is attributable to a \$7.2 million decrease in operating expenses, partially offset by a \$4.8 million decrease in operating revenue. We realized a net loss of \$4.4 million for the six-month period ending June 30, 2015, compared to net loss of \$5.9 million for the six-month period ending June 30, 2014. The decrease in net loss is primarily a result of the decrease in operating loss discussed above, partially offset by \$0.8 million decrease in income tax benefit due to a lower loss before income taxes.

Table of Contents**Results of Operations for the Three Months Ended June 30, 2015 and 2014**

The following table sets forth certain financial information regarding our results of operations for the three months ended June 30, 2015 and 2014.

Statement of Loss Data

(dollars in thousands)

(unaudited)

	2015		For the Three Months Ended June 30, 2014		Cents per ASM (1)
	Amount (in thousands)	Cents per ASM (1)	Year over Year Revenue/Cost Increase (Decrease) Percentage	Amount (in thousands)	
Operating revenues:					
Passenger	\$ 3,681	19.1¢	(54.8)%	\$ 8,135	27.5¢
Public service	6,946	36.0	3.9	6,687	22.6
Freight, charter and other	36	0.2	(2.7)	37	0.1
Total operating revenues	10,663	55.2	(28.2)	14,859	50.3
Operating expenses:					
Salaries, wages, and benefits	4,649	24.1	(7.2)	5,012	17.0
Aircraft fuel	2,028	10.5	(50.7)	4,114	13.9
Aircraft maintenance, materials and repairs	2,733	14.2	253.1	774	2.6
Depreciation and amortization	1,513	7.8	(5.1)	1,594	5.4
Other rentals and landing fees	951	4.9	(20.1)	1,190	4.0
Other operating expenses	2,080	10.8	(41.8)	3,572	12.1
Total operating expenses	13,954	72.3	(14.2)	16,256	55.0
Operating loss	(3,291)	(17.0)	135.6	(1,397)	(4.7)
Interest expense, net	(1,431)	(7.4)	26.6	(1,130)	(3.8)
Loss before income taxes	(4,722)	(22.4)¢	86.9%	(2,527)	(8.5)¢
Income tax benefit	1,724	8.9	83.6	939	3.2
Net Loss	\$ (2,998)	(15.5)¢	88.8%	\$ (1,588)	(5.4)¢

1. Available Seat Miles

Table of Contents**Selected Operating Data**

The following table sets forth certain selected operating data regarding our operations for the three months ended June 30, 2015 and 2014.

	June 30, 2015	Increase (Decrease) from 2014	June 30, 2014
Selected Operating Data:			
Available seat miles (in thousands) (1)	19,313	-34.7%	29,569
Revenue passenger miles (in thousands) (2)	7,326	-46.5%	13,703
Revenue passengers carried	26,397	-44.7%	47,697
Departures flown	5,891	-22.8%	7,633
Passenger load factor (3)	37.9%	-18.1%	46.3%
Average yield per revenue passenger mile (4)	50.3¢	-15.3%	59.4¢
Revenue per available seat miles (5)	55.2¢	9.7%	50.3¢
Cost per available seat mile (6)	72.2¢	31.3%	55.0¢
Average passenger fare (7)	\$ 139.46	4.0%	\$ 134.14
Average passenger trip length (miles) (8)	278	-3.1%	287
Average cost per gallon of fuel	\$ 2.41	-33.1%	\$ 3.60

- (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. For comparative purposes, the change in period over period ASMs was not only affected by fewer departures in 2015 versus 2014, but as the Company was forced to transition to operating Beech 1900s in a nine seat configuration to mitigate the effect of new pilot qualification rules; operating a flight with nine seats versus 19 seats had a significant effect on period over period ASMs. The standalone effect of operating nine seat Beech 1900s versus 19 seat Beech 1900s resulted in a decrease of 9,597,000 ASMs in the three month period ended June 30, 2015.
- (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. For prior year comparative purposes, considering the standalone effect of operating a portion of the Beech 1900 fleet in a nine seat configuration versus a 19 seat configuration; revenue per ASM would have decreased to 36.7 cents per ASM from the 55.2 cents per ASM (as illustrated above) for the three month period ended June 30, 2015.
- (6) Cost per available seat mile represents operating expenses divided by available seat miles. For prior year comparative purposes, considering the standalone effect of operating a portion of the Beech 1900 fleet in a nine seat configuration versus a 19 seat configuration; cost per ASM would have decreased to 48.3 cents per ASM from the 72.2 cents per ASM (as illustrated above) for the three month period ended June 30, 2015.
- (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.

Table of Contents**Comparison of Second Quarter 2015 to Second Quarter 2014**

Passenger Revenues. Passenger revenues were \$3.7 million in the second quarter of 2015, a decrease of 54.8% from \$8.1 million in the second quarter of 2014. The \$4.4 million quarter-over-quarter decrease in passenger revenues was attributable to the curtailment of operations as a result of a severe shortage of available qualified pilots and operating a large portion of our Beechcraft 1900D fleet in a nine seat configuration.

Public Service Revenues. Public service revenues collected through the EAS Program increased 3.9% to \$6.9 million during the second quarter of 2015, as compared to \$6.7 million during the second quarter of 2014. The increase in public service revenue can be attributed to higher subsidy rates per departure as a result of operating the Beechcraft 1900D in a nine seat configuration. Fewer seats available to generate passenger revenue requires a higher proportional amount of public service revenue to operate the same flight. As we renewed EAS contracts utilizing nine seat configured aircraft, we increased our subsidy per departure rates. At June 30, 2015 and June 30, 2014, we served 16 and 20 communities, respectively, on a subsidized basis under the EAS Program.

Other Revenues. Other revenues during the second quarter of 2015 was consistent with the second quarter of 2014.

Operating Expenses. Total operating expenses were \$14.0 million, or 72.3 cents per ASM, in the second quarter of 2015, as compared to \$16.3 million, or 55.0 cents per ASM in the second quarter of 2014.

Salaries, Wages, and Benefits. Salaries, wages, and benefits were \$4.6 million in the second quarter of 2015, a decrease of 7.2% from \$5.0 million in the second quarter of 2014. The decrease in salaries, wages, and benefits was mostly attributable to the decreased number of employees as a result of the decreased operations due to the industry-wide shortage of qualified pilots.

Aircraft Fuel Expense. Aircraft fuel and into-plane expense was \$2.0 million, or 10.5 cents per ASM, in the second quarter of 2015. In comparison, our aircraft fuel and into-plane expense for the second quarter of 2014 was \$4.1 million, or 13.9 cents per ASM. The average cost of fuel decreased from \$3.60 per gallon in the second quarter of 2014 to \$2.41 per gallon in the second quarter of 2015. We estimate that of the \$2.1 million decrease in year-over-year fuel cost that \$1.0 million is attributable to fuel price decreases and \$1.1 million is attributable to the reduction in operations. At second quarter 2015 rates of consumption, a one-cent increase or decrease in the price per gallon of fuel will increase or decrease our fuel expense by approximately \$46,000 annually.

Aircraft Maintenance, Materials, and Component Repairs. Aircraft maintenance, materials, and component repairs expense was \$2.7 million during the second quarter of 2015, which was a 253.1% increase from \$0.8 million during the second quarter of 2014. The increase resulted from expenditures related to component repairs and engine overhaul expense.

Depreciation and Amortization. Depreciation and amortization expense was \$1.5 million during the second quarter of 2015 which was consistent with \$1.6 million in the second quarter of 2014.

Other Rentals and Landing Fees Expense. Other rentals and landing fees expense was \$1.0 million during the second quarter of 2015, which was a decrease of \$0.2 million from the second quarter of 2014. The decrease was mainly attributable to decreased landing fees resulting from the 22.8% reduction in departures along with reduced hub rental expense.

Other Operating Expenses. Other operating expenses were \$2.0 million, or 10.8 cents per ASM during the second quarter of 2015, which was a decrease from \$3.6 million, or 12.1 cents per ASM during the second quarter of 2014.

The decrease was mainly attributable to decreases in legal and professional fees of \$586,000, pilot related expenses \$306,000, security related expenses \$296,000, passenger related expenses of \$185,000, communications and utilities \$65,000 and other expenses of \$54,000.

Table of Contents

Interest Expense. We incurred interest expense of \$1.4 million in the second quarter of 2015 compared to \$1.1 million in the second quarter of 2014. This \$0.3 million increase was a result of recording the accelerated portion of the 1.25% loan facility fee, which is payable when the loan matures or declared payable as a result of an event of default, to interest expense in the second quarter of 2015.

Income Tax Expense. For the three months ended June 30, 2015, we recorded an income tax benefit of \$1.7 million and for the three months ended June 30, 2014, we recorded an income tax benefit of \$0.9 million. Our estimated effective federal and state income tax rate is 36.4% for 2015.

Results of Operations for the Six Months Ended June 30, 2015 and 2014

The following table sets forth certain financial information regarding our results of operations for the six months ended June 30, 2015 and 2014.

Statement of Loss Data

(dollars in thousands)

(unaudited)

	2015		For the Six Months Ended June 30,		2014	
	Amount (in thousands)	Cents per ASM (1)	Year over Year Revenue/Cost Increase (Decrease) Percentage	Amount (in thousands)	Cents per ASM (1)	
Operating revenues:						
Passenger	\$ 8,087	20.0¢	(46.3)%	\$ 15,060	21.7¢	
Public service	14,980	37.1	16.6	12,845	18.5	
Freight, charter and other	89	0.2	7.2	83	0.1	
Total operating revenues	23,156	57.3	(17.3)	27,988	40.4	
Operating expenses:						
Salaries, wages, and benefits	9,559	23.7	(13.4)	11,036	15.9	
Aircraft fuel	4,267	10.6	(49.7)	8,483	12.2	
Aircraft maintenance, materials and repairs	3,957	9.8	50.8	2,624	3.8	
Depreciation and amortization	3,032	7.5	(5.5)	3,210	4.6	
Other rentals and landing fees	2,171	5.4	(16.2)	2,591	3.7	
Other operating expenses	4,612	11.4	(36.0)	7,207	10.4	
Total operating expenses	27,598	68.3	(21.5)	35,151	50.7	
Operating loss	(4,442)	(11.0)	(38.0)	(7,163)	(10.3)	
Interest expense, net	(2,497)	(6.2)	17.9	(2,117)	(3.1)	

Edgar Filing: GREAT LAKES AVIATION LTD - Form 10-Q

Loss before income taxes	(6,939)	(17.2)¢	(25.2)%	(9,280)	(13.4)¢
Income tax benefit	2,525	6.2	(25.7)	3,400	4.9
Net Loss	\$ (4,414)	(10.9)¢	(24.9)%	\$ (5,880)	(8.5)¢

1. Available Seat Miles

Table of Contents**Selected Operating Data**

The following table sets forth certain selected operating data regarding our operations for the six months ended June 30, 2015 and 2014.

	June 30, 2015	Increase (Decrease) from 2014	June 30, 2014
Selected Operating Data:			
Available seat miles (in thousands) (1)	40,403	-41.7%	69,291
Revenue passenger miles (in thousands) (2)	14,790	-50.9%	30,107
Revenue passengers carried	52,970	-49.4%	104,728
Departures flown	12,939	-16.1%	15,413
Passenger load factor (3)	36.6%	-15.9%	43.5%
Average yield per revenue passenger mile (4)	54.7¢	9.4%	50.0¢
Revenue per available seat miles (5)	57.3¢	41.8%	40.4¢
Cost per available seat mile (6)	68.3¢	34.7%	50.7¢
Average passenger fare (7)	\$ 152.68	20.0%	\$ 127.21
Average passenger trip length (miles) (8)	279	-2.8%	287
Average cost per gallon of fuel	\$ 2.32	-36.8%	\$ 3.67

- (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. For comparative purposes, the change in period over period ASMs was not only affected by fewer departures in 2015 versus 2014, but as the Company was forced to transition to operating Beech 1900s in a nine seat configuration to mitigate the effect of new pilot qualification rules; operating a flight with nine seats versus 19 seats had a significant effect on period over period ASMs. The standalone effect of operating nine seat Beech 1900s versus 19 seat Beech 1900s resulted in a decrease of 22,199,000 ASMs in the six month period ended June 30, 2015.
- (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. For prior year comparative purposes, considering the standalone effect of operating a portion of the Beech 1900 fleet in a nine seat configuration versus a 19 seat configuration; revenue per ASM would have decreased to 36.7 cents per ASM from the 57.3 cents per ASM (as illustrated above) for the six month period ended June 30, 2015.
- (6) Cost per available seat mile represents operating expenses divided by available seat miles. For prior year comparative purposes, considering the standalone effect of operating a portion of the Beech 1900 fleet in a nine seat configuration versus a 19 seat configuration; cost per ASM would have decreased to 44.1 cents per ASM from the 68.3 cents per ASM (as illustrated above) for the six month period ended June 30, 2015.
- (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.

Table of Contents**Comparison of First Six Months 2015 to First Six Months 2014**

Passenger Revenues. Passenger revenues were \$8.1 million in the first six months of 2015, a decrease of 46.3% from \$15.1 million in the first six months of 2014. The \$7.0 million quarter-over-quarter decrease in passenger revenues was attributable to the curtailment of operations as a result of a severe shortage of available qualified pilots and operating a large portion of our Beechcraft 1900D fleet in a nine seat configuration.

Public Service Revenues. Public service revenues collected through the EAS Program increased 16.6% to \$15.0 million during the first six months of 2015, as compared to \$12.8 million during the first six months of 2014. The increase in public service revenue can be attributed to higher subsidy rates per departure as a result of operating the Beechcraft 1900D in a nine seat configuration. Fewer seats available to generate passenger revenue requires a higher proportional amount of public service revenue to operate the same flight. As we renewed EAS contracts utilizing nine seat configured aircraft, we increased our subsidy per departure rates. At June 30, 2015 and June 30, 2014, we served 16 and 20 communities, respectively, on a subsidized basis under the EAS Program.

Other Revenues. Other revenues during the second quarter of 2015 was consistent with the first six months of 2014.

Operating Expenses. Total operating expenses were \$27.6 million, or 68.3 cents per ASM, in the first six months of 2015, as compared to \$35.2 million, or 50.7 cents per ASM in the first six months of 2014.

Salaries, Wages, and Benefits. Salaries, wages, and benefits were \$9.6 million in the first six months of 2015, a decrease of 13.4% from \$11.0 million in the first six months of 2014. The decrease in salaries, wages, and benefits was mostly attributable to the decreased number of employees as a result of the decreased operations due to the industry-wide shortage of qualified pilots.

Aircraft Fuel Expense. Aircraft fuel and into-plane expense was \$4.3 million, or 10.6 cents per ASM, in the first six months of 2015. In comparison, our aircraft fuel and into-plane expense for the first six months of 2014 was \$8.5 million, or 12.2 cents per ASM. The average cost of fuel decreased from \$3.67 per gallon in the first six months of 2014 to \$2.32 per gallon in the first six months of 2015. We estimate that of the \$4.2 million decrease in year-over-year fuel cost that \$2.6 million is attributable to fuel price decreases and \$1.6 million is attributable to the reduction in operations. At second quarter 2015 rates of consumption, a one-cent increase or decrease in the price per gallon of fuel will increase or decrease our fuel expense by approximately \$46,000 annually.

Aircraft Maintenance, Materials, and Component Repairs. Aircraft maintenance, materials, and component repairs expense was \$4.0 million during the first six months of 2015, which was a 50.8% increase from \$2.6 million during the first six months of 2014. The increase resulted from expenditures related to component repairs and engine overhaul expense.

Depreciation and Amortization. Depreciation and amortization expense was \$30 million during the first six months of 2015 which was consistent with \$3.2 million in the first six months of 2014.

Other Rentals and Landing Fees Expense. Other rentals and landing fees expense was \$2.2 million during the first six months of 2015, which was a decrease of \$0.4 million from the first six months of 2014. The decrease was mainly attributable to decreased landing fees resulting from the 16.1% reduction in departures along with reduced hub rental expense.

Other Operating Expenses. Other operating expenses were \$4.6 million, or 11.4 cents per ASM during the first six months of 2015, which was a decrease from \$7.2 million, or 10.4 cents per ASM during the first six months of 2014.

The decrease was mainly attributable to decreases in legal and professional fees of \$637,000, passenger related expenses of \$625,000, security \$599,000, pilot related expenses \$283,000, station equipment and expenses \$189,000, communications and utilities \$167,000 and deicing and other expenses of \$95,000.

Table of Contents

Interest Expense. We incurred interest expense of \$2.5 million in the first six months of 2015 which was consistent with \$2.1 million in the first six months of 2014. This \$0.4 million increase was a result of recording the accelerated portion of the 1.25% loan facility fee, which is payable when the loan matures or declared payable as a result of an event of default, to interest expense in the second quarter of 2015.

Income Tax Expense. For the first six months ended June 30, 2015, we recorded an income tax benefit of \$2.5 million and for the first six months ended June 30, 2014, we recorded an income tax benefit of \$3.4 million. Our estimated effective federal and state income tax rate is 36.4% for 2015.

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 reduced 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. EAS revenues are generated under subsidy per departure rates established by the DOT and we realize revenue as departures are performed. Inherently, most of our EAS revenues, other than winter weather related cancellations, are not affected by seasonality, but certain EAS markets do receive summer season increased departures which are eligible for subsidy revenue.

Liquidity, Financing and Capital Resources

On December 22, 2014, we entered into a Loan Agreement (the "Loan Agreement") with Callidus Capital Corporation (the "Lender"). The Lender agreed to make available to us: (i) a \$25,000,000 single advance term loan facility, (ii) a revolving loan facility with availability of up to \$6,000,000 and (iii) a second revolving loan facility with availability of up to \$3,000,000. The \$25,000,000 term loan was disbursed at closing, and substantially all of its proceeds were used to pay \$24.9 million of outstanding borrowings with our previous lenders. In June 2015 we borrowed \$1.5 million under our revolving loan facility to fund capital expenditures related to flight equipment. We subsequently borrowed an additional \$1.0 million in July of 2015 for general working capital needs.

The term loan and revolving credit facilities mature on December 22, 2017 at which time any outstanding balances will be due and payable. At that time, in order to pay the principal amount, we would need to raise cash by obtaining new debt financing, raising additional equity financing or selling owned aircraft or a combination thereof. We are not required to make any principal payments under the Loan Agreement until December 22, 2017, absent an event of default.

We have experienced a shortage of qualified pilots which has caused us to curtail operations and reduce capacity. The pilot shortage and its effect on operations are expected to continue until we can hire and train enough pilots to reestablish operations in those markets in which we were forced to suspend service or expand into new markets.

As of June 30, 2015, the Company was not in compliance with the fixed charge coverage ratio financial covenant contained in the Company's Loan Agreement. Specifically the Company is required to maintain a fixed charge coverage ratio, calculated by dividing trailing 12 month earnings before interest, taxes, depreciation and amortization (EBITDA), less unfinanced capital expenditures, by trailing 12 month interest expense, as defined by the Loan Agreement, of .76:1 or more. The Company does not expect to be in compliance with its fixed charge coverage ratio covenant throughout the balance of 2015 as EBITDA is calculated on a trailing 12-month basis. Under the Loan Agreement, the Company has until August 28, 2015 to cure this covenant violation. During the Cure Period the

Lender has no obligation to make further loans under the Loan Agreement. We do not expect to be able to cure the covenant violation upon the expiration of the Cure Period. If we fail to cure the covenant violation during the Cure Period, an event of default under the Loan Agreement will occur which will permit the Company's Lender to exercise its right to declare our debt obligations to be immediately due and payable, to terminate the Lender's obligation to advance any additional borrowings under the original terms of the Loan Agreement, and to take possession of substantially all of the Company's assets. As a result of not being in compliance with the terms of the Loan Agreement and the expectation that the Company will not be in compliance

Table of Contents

with the terms of the Loan Agreement throughout 2015, all borrowings (approximately \$26.5 million) under the Company's senior credit facility are classified as current maturities as of June 30, 2015. An event of default will increase the rate of interest we pay on outstanding obligations from 14% per year to a default rate of 17% per year going forward. The covenant violation requires that the 1.25% facility fee be classified as current and recorded to interest expense resulting in an incremental interest expense of \$350,739 in June 2015.

As a result of the covenant violation the Company also reclassified the related debt issuance costs from long-term other assets to other current assets. Additionally, the event of default triggers an accelerated payment due for the 1.25% facility fee of \$425,000 which is included in accrued liabilities.

We are working with our Lender to negotiate a modification of our Loan Agreement to allow for additional borrowings, subject to the limitations of our collateral values, reset fixed charge ratios, and reinstate the maturity dates of our existing loans.

In the event that the Company is unsuccessful in modifying our Loan Agreement on commercially reasonable terms, the Company will need to consider several alternatives, including, but not limited to, additional equity financings, debt financings, and other funding transactions, including the sale or sale-leaseback of certain aircraft.

The Company cannot make assurances that its assets or cash flow from operations will be sufficient to repay borrowings under its existing debt obligations, either upon maturity or if accelerated, or that it will be able to renegotiate favorable terms of the proposed modifications to our existing Loan Agreement. In addition, the Company cannot make assurances that any additional sources of capital or liquidity would be available. This would have a material adverse impact on our liquidity and financial position.

Until the Company is able to cure the covenant violation or to successfully renegotiate our existing debt obligations, it is expected that the Company will not have sufficient liquidity to service its existing debt obligations for the next 12 month period. These factors raise significant doubts about our ability to continue as a going concern.

For the six months ending June 30, 2015, we invested \$1.7 million of cash in aircraft, engines, rotatable parts and other equipment, mostly represented by rotatable parts acquisitions.

Sources and Uses of Cash. As of June 30, 2015, our cash balance was \$0.6 million.

Cash Provided by Operating Activities. During the six months ended June 30, 2015, our cash used by operating activities was \$1.4 million compared to cash used in the six month period ending June 30, 2014 of \$2.4 million. During the six months ended June 30, 2015 we generated a net loss of \$4.4 million compared to a net loss of \$5.9 million for the six months ended June 30, 2014. We recorded non-cash depreciation and amortization of \$3.0 million and \$2.5 million of deferred tax benefit in the first six months of 2015. The timing of other working capital items generated \$2.5 million of cash in the first six months of 2015.

Cash Flows from Investing Activities. For the six month period ending June 30, 2015, we invested \$1.7 million for the purchase of replacement aircraft rotatable components and other property and equipment, which was an increase as compared to the \$0.6 million of purchases in the period ended June 30, 2014.

Cash Flows from Financing Activities. For the six month period ending June 30, 2015, there were \$1.5 million in incremental borrowings under our working capital lines of credit and we were not required to make any principal payments on our long-term debt. In the six month period ended June 30, 2014, we made a \$1.5 million principal payment on our debt.

Table of Contents

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 may, will, believe, plan, continue, could, should, expect, hope, estimate, project, intend, expect, 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) our ability to hire and retain sufficient pilots to service existing routes and expand into other profitable routes;
- 2) our ability to comply with our current debt obligations and covenants;
- 3) our ability to amend our current debt obligations and covenants or obtain additional sources of capital to provide for operating cash requirements either through additional financings and/or sales of assets;
- 4) the continuation of Essential Air Service and our ability to capitalize on it;
- 5) the level of regulatory and environmental costs;
- 6) airline industry and broader economic conditions;
- 7) the continued connection capacity at our hubs and activities of our code share partners;
- 8) our ability to monetize our net operating loss carry forwards;
- 9) the incidence of domestic or international terrorism and military actions;

- 10) competition from other airlines and ground transportation companies;
- 11) the volatility of fuel costs;
- 12) the incidence of labor disruptions or strikes;
- 13) our ability to retain key personnel;
- 14) the incidence of aircraft accidents;
- 15) the incidence of technological failures or attacks;
- 16) maintenance costs related to aging aircraft;
- 17) the limited market for our securities;
- 18) the volatility of the market price of our common stock;
- 19) our concentration of stock ownership and control of the company by our Chairman and President;
- 20) our ability to timely remediate any deficiencies in our internal controls;
- 21) no expectation of dividend;
- 22) anti-takeover provisions and other restrictions in our credit agreements.

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 and changes in interest rates. As of June 30, 2015, we did not have any derivative financial instruments.

Table of Contents

Aircraft Fuel

Due to the airline industry's dependency on aircraft fuel for operations, airline operators including Great Lakes are impacted by changes in aircraft fuel prices. Aircraft fuel represented approximately 15.5% of our operating expenses in the six-month period ending June 30, 2015. At rates of consumption for the first six months of 2015, a one cent increase or decrease in the per gallon price of fuel will increase or decrease our fuel expense by approximately \$46,000 annually.

Interest Rates

Our operations are capital intensive because the vast majority of our assets consist of flight equipment, which is financed primarily with long-term debt. At June 30, 2015, we had approximately \$26.5 million of fixed rate debt.

Item 4. 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 June 30, 2015, 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.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We are a party to ongoing legal claims and assertions arising in the ordinary course of business. Management believes that the resolution of these matters will not have a material adverse effect on our financial position, results of operations, or cash flows.

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, 2014.

Item 1A. RISK FACTORS

We are not in compliance with a covenant under our Loan Agreement.

As of June 30, 2015, the Company was not in compliance with the fixed charge coverage ratio financial covenant contained in the Company's Loan Agreement. Specifically the Company was required to maintain a fixed charge coverage ratio, calculated by dividing trailing 12 month earnings before interest, taxes, depreciation and amortization (EBITDA), less unfinanced capital expenditures, by trailing 12 month interest expense, as defined by the Loan Agreement, of .76:1 or more. The Company does not expect to be in compliance with its fixed charge coverage ratio covenant throughout the balance of 2015 and into 2016 as EBITDA is calculated on a trailing 12-month basis. Under the Loan Agreement, the Company has until August 28, 2015 to cure this covenant violation. During the Cure Period the Lender has no obligation to make further loans under the Loan Agreement. We do not expect to be able to cure the covenant violation upon the expiration of the Cure Period. If we fail to cure the covenant violation during the Cure Period, an event of default under the Loan Agreement will occur which will permit the Company's Lender to exercise its right to declare our debt obligations to be immediately due and payable, to terminate the Lender's obligation to advance any additional borrowings under the original terms of the Loan Agreement, and to take possession of substantially all of the Company's assets. As a result of not being in

Table of Contents

compliance with the terms of the Loan Agreement and the expectation that the Company will not be in compliance with the terms of the Loan Agreement throughout 2015, all borrowings (approximately \$26.5 million) under the Company's senior credit facility are classified as current maturities as of June 30, 2015. An event of default will increase the rate of interest we pay on outstanding obligations from 14% per year to a default rate of 17% per year going forward. The covenant violation requires that the 1.25% facility fee be classified as current and recorded to interest expense resulting in an incremental interest expense of \$350,739 in June 2015.

We are working with our Lender to negotiate a modification of our Loan Agreement to allow for additional borrowings, subject to the limitations of our collateral values, reset fixed charge ratios, and reinstate the maturity dates of our existing loans.

The Company cannot make assurances that its assets or cash flow from operations will be sufficient to repay borrowings under its existing debt obligations, either upon maturity or if accelerated, or that it will be able to renegotiate favorable terms of the proposed modifications to our existing Loan Agreement. In addition, the Company cannot make assurances that any additional sources of capital or liquidity would be available. This would have a material adverse impact on our liquidity and financial position.

Until the Company is able to cure the covenant violation or to successfully renegotiate our existing debt obligations, it is expected that the Company will not have sufficient liquidity to service its existing debt obligations for the next 12 month period. These factors raise significant doubts about our ability to continue as a going concern.

We are currently experiencing a shortage of qualified pilots which has materially impacted our operations and financial condition.

The Company received from the FAA new operations specifications allowing the Company to hire pilots under FAR Part 135 regulatory requirements. This provides the Company with the unique capabilities to hire first officers while maintaining FAR Part 121 hiring, training and employment standards as we have always done as a Part 121 carrier. At January 1, 2015 we employed 89 pilots. As of August 10, 2015, we employed 72 pilots with 6 pilots in new hire training. We have been challenged with the pace in which we can hire and train pilots versus the pace in which pilots have resigned to fill positions with larger carriers. The decrease in the availability of qualified pilots has materially impacted our operations and financial condition.

If we cannot staff enough pilots to sustain a revenue stream that generates positive cash flow, we will have to seek additional sources of capital to provide for operating cash requirements either through additional financings and/or sales of assets.

The Company cannot make assurances that it will be able to staff enough pilots to sustain a revenue stream that generates positive cash flow or obtain additional sources of capital. This would have a material adverse impact on our liquidity and financial position. These factors raise significant doubts about our ability to continue as a going concern.

Our senior credit facility with Callidus Capital Corporation requires us to maintain certain financial ratios, maintain sufficient collateral values and comply with various operational and other covenants.

Our failure to comply with the covenants contained in the credit agreement, including as a result of events beyond our control, could result in an event of default. If there were an event of default under our senior credit facility that was not cured or waived, the holders of the defaulted debt could cause all amounts outstanding with respect to that debt to be due and payable immediately. We cannot assure you that our collateral values supporting our borrowings or cash flow will be sufficient to fully repay borrowings under our outstanding debt instruments, either upon maturity or if

accelerated, upon an event of default, or that we would be able to refinance or restructure the payments on those debt instruments. In addition, the recent strength of the U.S. dollar versus various international currencies would increase the cost of our aircraft to potential buyers located in jurisdictions outside the United States. This could result in a decreased pool of potential buyers for the Company's aircraft.

With the exception of the foregoing 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, 2015, filed with the Securities and Exchange Commission on March 30, 2015.

Item 6. EXHIBITS

See Exhibit Index.

Table of Contents

SIGNATURES

Pursuant to the requirements 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: August 14, 2015

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

Table of Contents

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)
 - 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.
 - 101 Financial Statements in XBRL format.
-
- (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.