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Second Spirit default looms

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12/08/2025

Holdbacks from credit card processing agreements and minimum liquidity covenants from debt obligations may trigger another default at US low-cost carrier Spirit Airlines.

In a regulatory filing, Spirit said it plans to take additional liquidity-enhancing measures including the sale of certain aircraft and real estate assets and excess airport gate capacity, adding that financial results need to "improve at a rate faster than what the company is currently anticipating" to meet its financial obligations.

It said there is "substantial doubt" of its ability to continue as a going concern within 12 months from 30 June 2025.

"The company is in discussions with various stakeholders related to some of these future initiatives," Spirit stated, adding that it is also in discussions with representatives of its credit card processor, which has requested additional collateral to renew its credit card processing agreement, expiring at the end of this year.

The level of collateral required to be posted "could result in a material reduction of unrestricted cash", it noted.

"If these initiatives are unsuccessful, management believes it is probable that the company will be unable to comply with the minimum liquidity covenants under the company's debt obligations and credit card processing agreement at some point in the next 12 months, which would result in an event of default," Spirit continued.

Spirit only recently completed a four-month restructuring process culminating in a deleveraging transaction that included a $795 million debt-to-equity conversion.

As part of the restructuring, the carrier received a $350 million equity investment from existing investors to support Spirit's future initiatives and an exit revolving credit facility of $275 million.

The maximum potential exposure to cash holdbacks by the carrier's credit card processors, based upon advance ticket sales and Spirit Saver$ Club memberships as of 30 June 2025 was $491.6 million.

Spirit's exit revolving credit facility contains covenants that restrict its ability to make restricted payments, incur additional indebtedness, create certain liens on collateral and sell or otherwise dispose of collateral.

As of 30 June 2025, Spirit had cash and cash equivalents of $407.5 million and $275 million available for borrowing under its exit revolving credit facility.

The revolving loans borrowed under the facility bear interest at a variable rate per annum equal to the company's choice of adjusted term SOFR plus 3.25% per annum or an alternate base rate plus 2.25% per annum.

The facility is collateralised by a first lien on "priority collateral," including Spirit's 22 slots at LaGuardia airport (subject to certain restrictions) valued at $84 million, 14 specific spare engines, and all eligible spare parts.

The commitment amount of $275 million will be reduced to $250 million on 30 September 2026.

Spirit has continued to rely on sale and leaseback financing to bolster liquidity. Earlier in the third quarter of 2025, the carrier completed sale and leaseback transactions involving 14 previously owned spare engines, generating approximately $250 million in net proceeds.

During the six months ended 30 June 2025, Spirit took delivery of three aircraft under sale-leaseback transactions and one under direct operating lease.

Spirit reported a more than 20% decline in revenues in the second quarter of 2025.

The carrier's operating loss widened to $184 million from a $153 million loss in the corresponding period of 2024.

Its net loss also widened to $246 million from a $193 million loss in the June quarter of last year.

Cash burn from operating activities was $473 million for the first half of the year, which includes $250 million of cash burn pre-Chapter 11 exit up to 12 March and $224 million from 13 March to 30 June.

Spirit raised $215 million of new loans in the first half while paying down $84 million in debt obligations.

It has $290 million of minimum operating lease obligations for both aircraft and spare engines for the remainder of 2025.

The carrier then has $558 million for 2026, $542 million in 2027, $522 million in 2028 and $506 million in 2029.

Spirit also has $449 million of assets held for sale as of 30 June 2025, mostly comprising 21 Airbus A320 and A321 aircraft.

