

ALASKA AIR GROUP INC
Form 10-Q
May 05, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 March 31, 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 number 1-8957
ALASKA AIR GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

91-1292054
(I.R.S. Employer
Identification No.)

19300 International Boulevard, Seattle, Washington 98188
(Address of principal executive offices)

Registrant's telephone number, including area code: (206) 392-5040

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

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

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

Large accelerated filer

Accelerated filer

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Non-accelerated filer

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

The registrant has 35,766,831 common shares, par value \$1.00, outstanding at April 30, 2010.

ALASKA AIR GROUP, INC.
Quarterly Report on Form 10-Q for the three months ended March 31, 2010

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As used in this Form 10-Q, the terms "Air Group," "our," "we" and the "Company" refer to Alaska Air Group, Inc. and its subsidiaries, unless the context indicates otherwise. Alaska Airlines, Inc. and Horizon Air Industries, Inc. are referred to as "Alaska" and "Horizon," respectively, and together as our "airlines."

Cautionary Note Regarding Forward-Looking Statements

In addition to historical information, this Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as statements containing the words "believe," "expect," "will," "anticipate," "intend," "estimate," "project," "assume" or other similar expressions, although not all forward-looking statements contain these identifying words. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from historical experience or the Company's present expectations. Some of the things that could cause our actual results to differ from our expectations are:

- general economic conditions, including the impact of the current economic environment on customer travel behavior;
- changes in our operating costs, including fuel, which can be volatile;
 - our significant indebtedness;
- the competitive environment in our industry;
 - our ability to meet our cost reduction goals;
 - an aircraft accident or incident;
 - labor disputes and our ability to attract and retain qualified personnel;
 - operational disruptions;
 - the concentration of our revenue from a few key markets;
- actual or threatened terrorist attacks, global instability and potential U.S. military actions or activities;
- our reliance on automated systems and the risks associated with changes made to those systems;
 - our reliance on third-party vendors and partners; and
 - changes in laws and regulations.

You should not place undue reliance on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. Our forward-looking statements are based on the information currently available to us and speak only as of the date on which this report was filed with the SEC. We expressly disclaim any obligation to issue any updates or revisions to our forward-looking statements, even if subsequent events cause our expectations to change regarding the matters discussed in those statements. Over time, our actual results, performance or achievements will likely differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements, and such differences might be significant and materially adverse to our shareholders. For a discussion of these and other risk factors, see "Item 1A: Risk Factors" of the Company's annual report on Form 10-K for the year ended December 31, 2009. Please consider our forward-looking statements in light of those risks as you read this report.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

Alaska Air Group, Inc.

ASSETS

(in millions)	March 31, 2010	December 31, 2009
Current Assets		
Cash and cash equivalents	\$ 117.7	\$ 164.2
Marketable securities	1,053.5	1,027.9
Total cash and marketable securities	1,171.2	1,192.1
Receivables - net	137.3	111.8
Inventories and supplies - net	49.1	45.8
Deferred income taxes	133.0	120.3
Fuel hedge contracts	58.9	66.2
Prepaid expenses and other current assets	102.1	98.1
Total Current Assets	1,651.6	1,634.3
Property and Equipment		
Aircraft and other flight equipment	3,667.6	3,660.1
Other property and equipment	635.9	631.3
Deposits for future flight equipment	219.5	215.5
	4,523.0	4,506.9
Less accumulated depreciation and amortization	1,387.0	1,339.0
Total Property and Equipment - Net	3,136.0	3,167.9
Fuel Hedge Contracts	48.1	50.8
Other Assets	180.0	143.2
Total Assets	\$5,015.7	\$ 4,996.2

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)
Alaska Air Group, Inc.

LIABILITIES AND SHAREHOLDERS' EQUITY

(in millions except share amounts)	March 31, 2010	December 31, 2009
Current Liabilities		
Accounts payable	\$53.3	\$63.3
Accrued aircraft rent	35.8	54.0
Accrued wages, vacation and payroll taxes	113.3	155.4
Other accrued liabilities	510.0	474.5
Air traffic liability	468.9	366.3
Current portion of long-term debt	158.2	156.0
Total Current Liabilities	1,339.5	1,269.5
Long-Term Debt, Net of Current Portion	1,657.2	1,699.2
Other Liabilities and Credits		
Deferred income taxes	170.1	151.1
Deferred revenue	419.1	435.1
Obligation for pension and postretirement medical benefits	412.8	421.0
Other liabilities	131.6	148.2
	1,133.6	1,155.4
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, \$1 par value		
Authorized: 5,000,000 shares, none issued or outstanding	-	-
Common stock, \$1 par value		
Authorized: 100,000,000 shares		
Issued: 2010 - 36,174,693 shares		
2009 - 35,843,092 shares	36.2	35.8
Capital in excess of par value	779.7	767.0
Treasury stock (common), at cost: 2010 - 438,734 shares		
2009 - 252,084 shares	(13.8)	(5.7)
Accumulated other comprehensive loss	(237.0)	(240.0)
Retained earnings	320.3	315.0
	885.4	872.1
Total Liabilities and Shareholders' Equity	\$5,015.7	\$4,996.2

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

Alaska Air Group, Inc.

(in millions except per share amounts)	Three Months Ended March 31	
	2010	2009
Operating Revenues		
Passenger	\$ 748.4	\$ 684.1
Freight and mail	23.0	19.4
Other - net	58.5	38.9
Total Operating Revenues	829.9	742.4
Operating Expenses		
Wages and benefits	239.3	246.0
Variable incentive pay	17.9	9.3
Aircraft fuel, including hedging gains and losses	207.3	157.7
Aircraft maintenance	57.0	59.7
Aircraft rent	37.0	38.0
Landing fees and other rentals	55.9	54.2
Contracted services	39.6	38.4
Selling expenses	33.6	25.0
Depreciation and amortization	56.2	52.8
Food and beverage service	12.3	11.6
Other	47.8	56.8
Fleet transition costs - Q200	-	4.8
Total Operating Expenses	803.9	754.3
Operating Income (Loss)	26.0	(11.9)
Nonoperating Income (Expense)		
Interest income	7.5	8.3
Interest expense	(25.6)	(27.8)
Interest capitalized	1.7	2.8
Other - net	0.6	(1.0)
	(15.8)	(17.7)
Income (loss) before income tax	10.2	(29.6)
Income tax expense (benefit)	4.9	(10.4)
Net Income (Loss)	\$ 5.3	