

ALASKA AIR GROUP INC
Form 10-Q
November 07, 2007
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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 September 30, 2007.

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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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 40,311,850 common shares, par value \$1.00, outstanding at September 30, 2007.

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ALASKA AIR GROUP, INC.

Quarterly Report on Form 10-Q for the three months ended September 30, 2007

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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.

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, 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:

the competitive environment and other trends in our industry;

changes in our operating costs, including fuel, which can be volatile;

labor disputes and our ability to attract and retain qualified personnel;

the amounts of potential lease termination payments to lessors for our remaining MD-80 leased aircraft and related sublease payments from sublessees, if applicable;

our significant indebtedness;

compliance with our financial covenants;

potential downgrades of our credit ratings and the availability of financing;

the implementation of our growth strategy;

our ability to meet our cost reduction goals;

operational disruptions;

general economic conditions, as well as economic conditions in the geographic regions we serve;

the concentration of our revenue from a few key markets;

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actual or threatened terrorist attacks, global instability and potential U.S. military actions or activities;

insurance costs;

changes in laws and regulations;

increases in government fees and taxes;

our inability to achieve or maintain profitability;

fluctuations in our quarterly results;

an aircraft accident or incident;

liability and other claims asserted against us;

our reliance on automated systems and the risks associated with changes made to those systems; and

our reliance on third-party vendors and partners.

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, 2006. Please consider our forward-looking statements in light of those risks as you read this report.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1: Condensed Consolidated Financial Statements
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)**

Alaska Air Group, Inc.

(In millions)	September 30, 2007	December 31, 2006
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 80.3	\$ 230.7
Marketable securities	807.7	783.2
Total cash and marketable securities	888.0	1,013.9
Securities lending collateral	109.9	111.3
Receivables - net	156.8	134.2
Inventories and supplies - net	51.8	44.7
Deferred income taxes	91.5	134.2
Fuel hedge contracts	60.6	45.9
Prepaid expenses and other current assets	109.7	88.1
Total Current Assets	1,468.3	1,572.3
Property and Equipment		
Aircraft and other flight equipment	2,822.8	2,296.6
Other property and equipment	561.9	530.7
Deposits for future flight equipment	434.1	437.8
	3,818.8	3,265.1
Less accumulated depreciation and amortization	985.1	906.1
Total Property and Equipment - Net	2,833.7	2,359.0
Fuel Hedge Contracts	14.5	22.7
Other Assets	140.4	123.1
Total Assets	\$ 4,456.9	\$ 4,077.1

See accompanying notes to condensed consolidated financial statements.

Table of Contents**CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)**

Alaska Air Group, Inc.

(In millions except share amounts)	September 30, 2007	December 31, 2006
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Accounts payable	\$ 88.8	\$ 90.0
Accrued aircraft rent	61.9	56.8
Accrued wages, vacation and payroll taxes	102.1	144.0
Other accrued liabilities	433.7	404.3
Air traffic liability	406.0	311.2
Securities lending obligation	109.9	111.3
Current portion of long-term debt	97.2	119.1
Total Current Liabilities	1,299.6	1,236.7
Long-Term Debt, Net of Current Portion	1,151.8	1,031.7
Other Liabilities and Credits		
Deferred income taxes	125.6	114.6
Deferred revenue	391.3	333.0
Other liabilities	461.2	475.6
	978.1	923.2
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: 2007 - 42,699,874 shares		
2006 - 42,501,163 shares	42.7	42.5
Capital in excess of par value	892.6	877.9
Treasury stock (common), at cost: 2007 - 2,388,024 shares		
2006 - 2,207,474 shares	(54.8)	(50.4)
Accumulated other comprehensive loss	(181.6)	(191.4)
Retained earnings	328.5	206.9
	1,027.4	885.5
Total Liabilities and Shareholders Equity	\$ 4,456.9	\$ 4,077.1

See accompanying notes to condensed consolidated financial statements.

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Alaska Air Group, Inc.

(In millions except per-share amounts)	Three Months Ended		Nine Months Ended	
	September 30 2007	2006	September 30 2007	2006
Operating Revenues				
Passenger	\$ 926.5	\$ 871.5	\$ 2,458.5	\$ 2,358.4
Freight and mail	27.0	26.7	75.6	74.8
Other - net	41.6	37.5	124.8	110.9
Total Operating Revenues	995.1	935.7	2,658.9	2,544.1
Operating Expenses				
Wages and benefits	241.1	238.6	714.7	696.2
Variable incentive pay	2.9	5.0	17.2	24.1
Aircraft fuel, including hedging gains and losses	243.1	290.8	655.8	653.7
Aircraft maintenance	59.2	49.6	176.7	168.6
Aircraft rent	45.2	43.9	133.2	136.6
Landing fees and other rentals	58.1	52.9	169.3	152.4
Contracted services	40.4	37.6	118.8	114.3
Selling expenses	42.7	44.7	122.8	132.6
Depreciation and amortization	46.6	40.5	132.3	114.1
Food and beverage service	12.9	13.5	36.9	38.3
Other	55.7	55.6	167.7	160.4
Fleet transition costs - Alaska		58.4		189.5
Fleet transition costs - Horizon	3.9		10.6	
Restructuring charges and adjustments		28.6		32.4
Total Operating Expenses	851.8	959.7	2,456.0	2,613.2
Operating Income (Loss)	143.3	(24.0)	202.9	(69.1)
Nonoperating Income (Expense)				
Interest income	13.8	14.2	42.0	39.4
Interest expense	(22.8)	(20.4)	(66.3)	(57.6)
Interest capitalized	7.1	7.1	20.9	17.6
Other - net	(0.3)	0.2	(1.2)	(1.5)
	(2.2)	1.1	(4.6)	(2.1)
Income (loss) before income tax	141.1	(22.9)	198.3	(71.2)
Income tax expense (benefit)	55.3	(5.5)	76.7	(30.2)
Net Income (Loss)	\$ 85.8	\$ (17.4)	\$ 121.6	\$ (41.0)

Basic Ea