

ALASKA AIR GROUP INC  
Form 8-K  
January 06, 2006

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

**FORM 8-K**

**CURRENT REPORT PURSUANT**  
**TO SECTION 13 OR 15(D) OF THE**  
**SECURITIES EXCHANGE ACT OF 1934**

January 6, 2006

(Date of earliest event reported)

**ALASKA AIR GROUP, INC.**

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation)

**1-8957**  
(Commission File Number)

**91-1292054**  
(IRS Employer Identification No.)

**19300 International Boulevard, Seattle, Washington**  
(Address of Principal Executive Offices)

**98188**  
(Zip Code)

**(206) 392-5040**

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(Registrant's Telephone Number, Including Area Code)

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(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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FORWARD-LOOKING INFORMATION

This report contains forward-looking statements subject to the safe harbor protection provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events and involve known and unknown risks and uncertainties that may cause actual outcomes to be materially different from that indicated by any forward-looking statements. 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; our ability to meet our cost reduction goals; our inability to achieve or maintain profitability and fluctuations in our quarterly results; our significant indebtedness; our inability to secure new aircraft financing; the implementation of our growth strategy; possible accelerated retirement of our MD-80 fleet; compliance with our financial covenants; potential downgrades of our credit ratings and the availability of financing; the concentration of our revenue from a few key markets; general economic conditions, as well as economic conditions in the geographic regions we serve; actual or threatened terrorist attacks; global instability and potential U.S. military actions or activities; insurance costs; labor disputes; our ability to attract and retain qualified personnel; an aircraft accident or incident; liability and other claims asserted against us; operational disruptions; increases in government fees and taxes; changes in laws and regulations; our reliance on automated systems; and our reliance on third-party vendors and partners. For a discussion of these and other risk factors, see Item 7 of the Company's Annual Report for the year ended December 31, 2004 on Form 10-K. All of the forward-looking statements are qualified in their entirety by reference to the risk factors discussed therein. These risk factors may not be exhaustive. We operate in a continually changing business environment, and new risk factors emerge from time to time. Management cannot predict such new risk factors, nor can it assess the impact, if any, of such new risk factors on our business or events described in any forward-looking statements. We disclaim any obligation to publicly update or revise any forward-looking statements after the date of this press release to conform them to actual results.

**ITEM 7.01. Regulation FD Disclosure**

Pursuant to 17 CFR Part 243 ( Regulation FD ), the Company is submitting information relating to its financial and operational outlook for 2005. This report includes information regarding forecasts of available seat miles (ASMs), cost per available seat mile (CASM) excluding fuel consumption and restructuring charges, as well as certain actual results for revenue passenger miles (RPMs), load factor and revenue per available seat mile (RASM), for its subsidiaries Alaska Airlines, Inc. and Horizon Air. Our disclosure of operating cost per available seat mile, excluding fuel, and restructuring charges provides us the ability to measure and monitor our performance without these items. The most directly comparable GAAP measure is total operating expense per available seat mile. However, due to the large fluctuations in fuel prices, we are unable to predict total operating expense for any future period with any degree of certainty. In addition, we believe the disclosure of financial performance without mark-to-market hedging gains is useful to investors in evaluating our ongoing operational performance. Please see the cautionary statement under Forward-Looking Information.

In accordance with General Instruction B.2 of Form 8-K, the following information shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act ), nor shall such information be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such a filing. This Report will not be deemed an admission as to the materiality of any information required to be disclosed solely to satisfy the requirements of Regulation FD.

References in this report on Form 8-K to Air Group, the Company, we, us, and our refer to Alaska Air Group, Inc. and its subsidiaries, unless otherwise specified. Alaska Airlines, Inc. and Horizon Air Industries, Inc. are referred to as Alaska and Horizon, respectively, and together as our airlines.

**Fourth Quarter 2005**

|   | <b>Forecast</b>   | <b>Change</b>     |
|---|-------------------|-------------------|
|   | <b>Q4</b>         | <b>Yr/Yr</b>      |
|   | <u>          </u> | <u>          </u> |
| <b>Alaska Airlines</b>                            |                   |                   |
| Capacity (ASMs in millions)                       | 5,557             | 2%                |
| Fuel gallons (000,000)                            | 85.6              | (2)%              |
| Cost per ASM as reported on a GAAP basis (cents)* | 11.0              | 2%                |
| Less: Fuel cost per ASM (cents)*                  | 3.1               | 24%               |
|   | <u>          </u> | <u>          </u> |
| Cost per ASM excluding fuel (cents)*              | 7.9               | 1%                |
|   | <u>          </u> | <u>          </u> |

Alaska Airlines December traffic increased 1.9% to 1.440 billion RPMs from 1.413 billion flown a year earlier. Capacity during December was 1.898 billion ASMs, 2.1% higher than the 1.859 billion in December 2004. The passenger load factor (the percentage of available seats occupied by fare-paying passengers) for the month was 75.9%, compared to 76.0% in December 2004. The airline carried 1,398,900 passengers compared to 1,407,300 in December 2004.

In November 2005, RASM increased 7.2% compared to November 2004 due to higher load factors and increase in yields per RPM. October RASM increased 8.4% compared to October 2004.

\* For Alaska, our forecasts of cost per ASM and fuel cost per ASM are based on forward-looking estimates, which will likely differ from actual results due to the volatility of fuel prices. There are several factors impacting our estimates including, but not limited to, the volatility of fuel prices and the finalization of labor agreements. As we are unable to apply hedge accounting, the majority of the benefit we realize from settled fuel hedge contracts is classified in other non-operating income on our statement of operations and is thus not reflected in fuel cost per ASM above. See page 5 for additional information regarding fuel costs.

|   | Forecast<br>Q4 | Change<br>Yr/Yr |
|---|----------------|-----------------|
| <b>Horizon Air</b>                                |                |                 |
| Capacity (ASMs in millions)                       | 859            | 8%              |
| Fuel gallons (000,000)                            | 12.9           | 4%              |
| Cost per ASM as reported on a GAAP basis (cents)* | 16.6           | 2%              |
| Less: Fuel cost per ASM (cents)*                  | 3.0            | 18%             |
|   | <hr/>          | <hr/>           |
| Cost per ASM excluding fuel (cents)*              | 13.6           | (1)%            |
|   | <hr/>          | <hr/>           |

Horizon Air's December traffic increased 8.3% to 217.5 million RPMs from 200.9 million flown a year earlier. Capacity for December was 289.9 million ASMs, 7.2% higher than the 270.5 million in December 2004. The passenger load factor for the month was 75%, compared to 74.3% in December 2004. The airline carried 552,100 passengers compared to 547,000 in December 2004.

November 2005 RASM decreased 0.5% as compared to the prior year. October RASM increased 4.1% compared to October 2004.

\* For Horizon, our forecasts of cost per ASM and fuel cost per ASM are based on forward-looking estimates, which will likely differ significantly from actual results. There are several factors impacting our estimates including, but not limited to, the volatility of fuel prices. As we are unable to apply hedge accounting, the majority of the benefit we realize from settled fuel hedge contracts is classified in other non-operating income on our statement of operations and is thus not reflected in fuel cost per ASM above. See page 5 for additional information regarding fuel costs.

## Other Financial Information

### *Liquidity and Capital Resources*

Cash and short-term investments increased as of December 31, 2005 to approximately \$980 million compared to \$792 million at November 30, 2005 as a result of \$200 million generated from equity offering partially offset by aircraft purchase deposit payments.

### *Fuel Hedging*

We are providing unaudited information about fuel price movements and the impact of our hedging program on our financial results. Management believes it is useful to compare results between periods that exclude the mark-to-market hedging gains/losses recorded on a GAAP basis and include the cash received or due on hedge positions settled during the period (although the related impact may have been recognized for financial reporting purposes in a prior period). We refer to this as the comparison of economic fuel cost, which is presented below for October and November 2005.

*Calculation of Economic Fuel Cost Per Gallon*

| October and November 2005<br>(unaudited)                  | Alaska Airlines  |                             | Horizon Air      |                         |
|---|------------------|-----------------------------|------------------|-------------------------|
|   | (\$ in millions) | Alaska Airlines<br>Cost/Gal | (\$ in millions) | Horizon Air<br>Cost/Gal |
| Fuel expense before hedge activities ( raw fuel )         | \$ 117.7         | \$ 2.09                     | \$ 18.0          | \$ 2.16                 |
| Gains on settled hedges included in fuel expense          | 1.2              | .02                         | 0.2              | .02                     |
| GAAP fuel expense   | \$ 116.5         | \$ 2.07                     | \$ 17.8          | \$ 2.14                 |
| Gains on settled hedges included in non-operating income* | 17.3             | .31                         | 2.6              | .31                     |
| Economic fuel expense                                     | \$ 99.2          | \$ 1.76                     | \$ 15.2          | \$ 1.83                 |
| % Change from prior year                                  | 21%              | 23%                         | 23%              | 21%                     |

*Mark-to-Market Adjustment Related to Unsettled Hedges*

|  |           |    |          |    |
|--|-----------|----|----------|----|
| Mark-to-market gains (losses) included in non-operating income related to hedges that settle in future periods, net of the reclassification of previously recorded mark-to-market gains to <i>Gains on settled hedges included in non-operating income</i> | \$ (59.1) | NM | \$ (8.8) | NM |
|--|-----------|----|----------|----|

\* Amounts may include mark-to-market hedging gains (losses) recognized in non-operating income (expense) in previous periods.

For Alaska Airlines and Horizon Air, GAAP fuel expense per gallon for the quarter is expected to be approximately \$1.98 and \$2.01, respectively. The economic fuel expense per gallon for the quarter is expected to be approximately \$1.69 and \$1.74 for Alaska Airlines and Horizon Air, respectively. December mark-to-market gains included in non-operating income related to hedges that settle in future periods, net of the reclassification of previously recorded mark-to-market gains to *gains on settled hedges included in non-operating income*, are expected to be approximately \$13.9 million for the combined Air Group, bringing the total loss for the quarter to approximately \$54.0 million.

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Alaska Air Group's future hedge positions are as follows:

|                     | <u>Approximate % of<br/>Expected Fuel<br/>Requirements</u> | <u>Approximate Crude Oil<br/>Price per Barrel</u> |
|---------------------|--|---|
| Fourth Quarter 2005 | 50%  | \$31.85   |
| First Quarter 2006  | 52%  | \$35.70   |
| Second Quarter 2006 | 53%  | \$39.76   |
| Third Quarter 2006  | 46%  | \$43.41   |
| Fourth Quarter 2006 | 35%  | \$46.10   |
| First Quarter 2007  | 20%  | \$43.09   |
| Second Quarter 2007 | 19%  | \$45.11   |
| Third Quarter 2007  | 22%  | \$45.27   |
| Fourth Quarter 2007 | 17%  | \$47.89   |
| First Quarter 2008  | 11%  | \$50.44   |
| Second Quarter 2008 | 6%   | \$49.26   |
| Third Quarter 2008  | 6%   | \$48.97   |
| Fourth Quarter 2008 | 5%   | \$48.68   |

**Operating Fleet Plan**

The following table provides a fleet summary for Alaska and Horizon for actual airplanes on hand as of the date of this report.

|                        | <u>Seats</u> | <u>On Hand<br/>January 6, 2006</u> |
|------------------------|--------------|------------------------------------|
| <b>Alaska Airlines</b> |              |                                    |
| B737-200C              | 111          | 7                                  |
| B737-400               | 144          | 40                                 |
| B737-700               | 124          | 22                                 |
| B737-800               | 160          | 3                                  |
| B737-900               | 172          | 12                                 |
| MD-80                  | 140          | 26                                 |
| <b>Total</b>           |              | <b>110</b>                         |
| <b>Horizon Air</b>     |              |                                    |
| Q200                   | 37           | 28                                 |
| Q400                   | 74           | 18                                 |
| CRJ 700*               | 70           | 19                                 |
| <b>Total</b>           |              | <b>65</b>                          |

\* Horizon also operates one CRJ 700 under a short term operating lease.

The following table summarizes aircraft commitments for Alaska (B737-800) and Horizon (Q400 and CRJ 700) by year:

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|          | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>Thereafter</u> | <u>Total</u> |
|----------|-------------|-------------|-------------|-------------|-------------|-------------------|--------------|
| B737-800 | 12          | 8           | 5           | 3           | 6           | 3                 | 37           |
| Q-400    | 2           | 10          |             |             |             |                   | 12           |
| CRJ 700  | 1           |             |             |             |             |                   | 1            |
| Totals   | 15          | 18          | 5           | 3           | 6           | 3                 | 50           |



**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.

ALASKA AIR GROUP, INC.  
Registrant

Date: January 6, 2006

/s/ Brandon S. Pedersen  
Brandon S. Pedersen  
Staff Vice President/Finance and Controller

/s/ Bradley D. Tilden  
Bradley D. Tilden  
Executive Vice President/Finance and Chief Financial Officer