THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ALK - Q4 2012 Alaska Air Group, Inc. Earnings Conference Call

EVENT DATE/TIME: JANUARY 24, 2013 / 5:30PM GMT

OVERVIEW:

ALK reported 4Q12 GAAP net profit of $44m.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Chris Berry *Alaska Air Group Inc - Managing Dir., IR*

Brad Tilden *Alaska Air Group Inc - CEO*

Brandon Pedersen *Alaska Air Group Inc - CFO*

Andrew Harrison *Alaska Air Group Inc - VP Planning and Revenue Management*

Keith Loveless *Alaska Air Group Inc - General Counsel*

Joe Sprague *Alaska Air Group Inc - VP Marketing*

Mark Eliasen *Alaska Air Group Inc - VP Finance & Treasurer*

Ben Minicucci *Alaska Air Group Inc - COO*

CONFERENCE CALL PARTICIPANTS

John Godyn *Morgan Stanley - Analyst*

Helane Becker *Dahlman Rose & Co. - Analyst*

Hunter Keay *Wolfe Trahan - Analyst*

Jamie Baker *JPMorgan Chase & Co. - Analyst*

Glenn Engel *BofA Merrill Lynch - Analyst*

David Fintzen *Barclays Capital - Analyst*

Savi Syth *Raymond James - Analyst*

Mike Linenberg *Deutsche Bank - Analyst*

Duane Pfennigwerth *Evercore Partners - Analyst*

Kevin Crissey *UBS - Analyst*

Steve O'Hara *Sidoti & Company - Analyst*

PRESENTATION

Operator

Good morning. My name is Michelle and I will be your conference operator today. At this time, I would like to welcome everyone to the Alaska Air Group fourth-quarter and full-year 2012 earnings conference call. Today's call is being recorded and will be accessible for future playback at www.alaskaair.com. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session for analysts and journalists.

(Operator Instructions)

I would now like to turn the call over to Alaska Air Group's Managing Director of Investor Relations, Chris Berry. Please go ahead, sir.

Chris Berry - *Alaska Air Group Inc - Managing Dir., IR*

Thanks Michelle. Good morning or afternoon for those of you on the other coast. Thank you for joining us for Alaska Air Group's fourth-quarter 2012 earnings call. Today, our CEO, Brad Tilden, and our CFO, Brandon Pedersen, will share their thoughts on our financial results, our operations, and our outlook for 2013. Several members of our senior management team are also here to help answer your questions.

As usual, our comments today will include forward-looking statements regarding our future expectations which may differ significantly from actual results. Information on risk factors that could affect our business can be found in our SEC filings available on our website. We will refer often to certain non-GAAP financial measures, such as adjusted earnings or unit costs excluding fuel. We have provided a reconciliation between the most directly comparable GAAP and non-GAAP measures in our earnings release. This morning, Alaska Air Group reported a fourth quarter GAAP net profit of $44 million. Excluding the impact of mark-to-market adjustments related to our fuel hedge portfolio, Air Group reported a record adjusted net profit of $50 million or $0.70 per diluted share. This result is in line with the first call consensus and exceeds last year's adjusted net income of $37 million or $0.51 per diluted share.

For the full year, Air Group reported a record adjusted net profit of $339 million compared to $287 million in 2011. Adjusted earnings per share grew by 21% from $3.92 per share in 2011 to $4.73 per share in 2012. Additional information about our unit cost expectations, capacity plans, future fuel hedge positions, capital expenditures, and other items can be found in our investor update included in our Form 8-K issued this morning and available at our website at AlaskaAir.com.

Now I'll turn the call over to Brad.

Brad Tilden - *Alaska Air Group Inc - CEO*

Thanks, Chris and good morning, everyone. Chris mentioned our record fourth quarter results which represented our 15th consecutive quarterly profit. Our pre-tax margin grew to 7.2% for the quarter which compares to 5.5% in 2011. For this call, I'd like to focus the majority of my comments on our full-year 2012 results and on our plans for 2013. For the full year, we produced our ninth consecutive profit on an adjusted basis and it too was a record result.

Here is some additional color on this result. Against a backdrop where the industry capacity was flat, we grew capacity by 6% and revenues by 8%. 2012 revenues were fueled by our growth into new markets. We added 15 new city pairs net of reductions including five new cities during the year bringing our total new routes over the last five years to 24. This winter, we have 26 flights per day to Hawaii and roughly a 30% share of the West Coast Hawaii market. This region now represents 20% of our network and is second in size only to California.

To ensure that growth was profitable, we continued to focus on increasing productivity, keeping overhead in check, and lowering our unit cost ex-fuel. Our mainline CASM ex-fuel was down about 0.5% and our consolidated CASM ex-fuel was down about 1%. Productivity was up 3.5% representing our fourth consecutive year of improvement. As a result of the revenue growth and the good cost control, our pre-tax income for 2012 was $552 million compared to $463 million in 2011. Our pre-tax margin was 11.9% for 2012 up 1 point from 2011. And, as Chris said, our adjusted net income for the year was $339 million which is an 18% improvement over 2011. This record profit translates to $4.73 per share, an increase of 21%.

Those of you that have followed us for a long time know that we are big believers in understanding our cost of capital and in articulating our goals and our actual results. We earned an ROIC of 13% for 2012 which is a record for us and which reflects returns that are 500 or 600 basis points higher than our cost of capital. So 2012 was a good year for Alaska Air Group. None of the success in 2012 or over the past several years would have been possible without the talented and dedicated people we have at Alaska and Horizon. They are the backbone of the Company and the rest of the leadership team and I want to thank them for all that they do. I also want to take a moment to offer my sincere thanks to the leaders at Alaska and Horizon who put in lots of long days and nights to produce these results. They are an extraordinary team of people with expertise in their areas, a focus on performance, and a real desire to work together and see each other succeed.

I want to now highlight how our strong performance over the years has affected our financial position. Looking back to just four years ago, to the end of 2008, we had a somewhat highly levered typical airline balance sheet with a debt-to-cap ratio of 81%. We knew that was unacceptable and focused our attention on improving our profitability and our cash flows so that we could improve the balance sheet. Specifically, over the last four years we've generated $2.3 billion of operating cash flow. This has allowed us to make some positive changes and I want to mention a few of these. First, we've invested $1.4 billion modernizing and growing our fleet to make it one of the most fuel-efficient fleets in the industry, and our success has allowed us to place a new order with Boeing that will allow for fleet replacement and growth over the next decade.

Second, we've reduced our long-term debt and operating leases by more than $1.1 billion bringing our debt-to-cap ratio down to 54%, a 27-point reduction. Third, we've repurchased over $200 million of our common stock and we're currently executing a $250 million buyback program. And finally, although it's included in the operating cash flow numbers, we've demonstrated a real commitment to our people by contributing $535 million to our pension plans and by paying out over $325 million in incentive pay including $88 million for 2012. Every Air Group employee participates in the same incentive plan because we believe in having all of our employees, regardless of their role, aligned around a common set of goals. This is a powerful incentive and is consistent with our long-held belief that when the Company does well, our employees should do well. So taking all of this into account, our balance sheet is in much better shape today than it was at the end of 2008.

As we close the books on another good year, we begin 2013 with engaged employees that are working together better than ever before. It's no secret though that this is a tough business. We're in an environment of high fuel prices, slow economic growth, and increasing competition. We're not resting on our past success but working on initiatives that will sustain this performance in the future. In that vein, many of you have heard us discuss the Company's five focus areas, our five-year strategic plan. We're entering the second year of the plan and I want to briefly highlight some of the things we'll be focusing on in 2013.

First, our highest priority is safety and compliance. It will always be our top goal. In 2013, we're implementing a new safety management system that will help us better track and analyze safety risk factors and take appropriate action. Our second focus area is our people. We're wrapping up a series of workshops with all of our employees which we're using to communicate our strategic direction so our people can support it. On the labor front we recently signed a six-year extension with our horizon pilots and our teams continue to work for equitable long-term agreements with flight attendants at both Alaska and with Horizon and with pilots at Alaska. We have some momentum, getting labor deals done by amendable dates and keeping our people focused on taking care of customers and beating the competition and we're anxious to see this continue. Of course, our new deals need to meet the needs of our employees, our customers, and our owners.

Third, our goal is to be the easiest airline to fly and we're working hard to take the hassle out of flying. This includes everything from self-bag tagging to further leveraging mobile technology to reducing stress and airport security lines. We're striving for our customers to have a seamless transition from the airport curb to their seat on the plane. And fourth, because we want to grow outside of Alaska and the Pacific Northwest, we're taking a it look at our brand and how it resonates with potential new customers. Our simple objective is to insure that people understand our network, our low fares, our award-winning customer service, and the high quality of our in flight experience. We're also taking steps to enhance the customer experience. For example, we've added Starbucks coffee and Northwest wines on all of our flights and we introduced the Boeing Sky Interior on all of our aircraft delivered in 2012. We're also considering other changes to the interiors of our aircraft such as seats, cabin layout, seat power, and enhanced in-flight entertainment.

Fifth, our goal is to use our various initiatives to lower our unit costs so we can keep offering low fares to our customers and keep growing. We've done a lot to make flying affordable with one-way fares, reasonably priced first-class tickets, and an award-winning mileage plan but we want to become known for low fares and great value. These five focus areas, well executed, well be our path to continued success in the years ahead. They will prepare us for the inevitable challenges that come in this industry and they will bring all of us together as we execute the related initiatives. I'm optimistic about the future of this Company and what we will be able to achieve if we continue working together. In closing, I want to again thank all of our employees for a record year. As I look back, I'm simply humbled by the passion, determination, and hard work of the people who make up Alaska and Horizon. Its been an incredible year and I look forward to working with this great team to raise the bar in 2013.

With that I'll turn the call over to Brandon.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Thanks, Brad and hi, everybody. We are very pleased to report that Air Group's fourth-quarter adjusted earnings grew by 35% to $50 million. The fourth quarter profit brings our full-year results to the numbers that Brad mentioned, 11.9% pre-tax margin, $339 million of net profit, and 13% after-tax ROIC. I want to join Brad in congratulating all of the Alaska and Horizon employees for another outstanding year. Our financial results reflect their efforts along with the structural changes we've made over the last decade, such as moving to a single fleet of efficient airplanes at both companies, better matching capacity with demand, reducing our costs, and more efficiently using the capital in our business.

Our fourth quarter adjusted pre-tax profit improved by $24 million, a 42% increase. The $88 million or 8% increase in revenues more than offset the $33 million or 10% increase in economic fuel costs and the $42 million or 7% increase in non-fuel operating expenses. Non-operating expenses were also $11 million lower this year. About half of the decline is due to lower interest expense, the other half reflects the fact that last year's results include a $6 million impairment on an MD80 that we had leased to another operator.

Fourth quarter passenger revenue grew by 9% on a nearly 8% increase in capacity and a 1% increase in consolidated PRASM. Our main line PRASM increased 1.1%, compares favorably with the A4A domestic PRASM gain of 1.6%, particularly given our 5% increase in stage length. We were very pleased with the unit revenue performance in our core markets. New developmental markets such as Seattle/Philly and San Diego/Orlando brought down aggregate trans-con PRASM a bit but they are meeting our expectations. Hawaii PRASM was down in the fourth quarter, pressured by seasonality of travel and the 35% year-over-year increase in our capacity. We've already adjusted our schedule in certain markets to better match capacity and demand and are considering whether additional adjustments should be made. We know that having the right capacity is the best thing we can do to improve unit revenue performance going forward.

Bigger picture, I want to quickly remind folks how that market has evolved. In 2008, two carriers that serve the West Coast to Hawaii ceased operations. With their exit, daily seats off the West Coast went from 13,700 seats to a low of 11,400 seats. We've been adding capacity every year to take advantage of that unique market opportunity. Today, with our new service, and the service added by others, capacity between the West Coast and Hawaii is back to more than 14,000 seats a day, a 3% increase over the 2007 high. As a result, the double-digit year-over-year capacity growth to Hawaii that we've seen since 2008 will subside considerably and in fact we don't anticipate any year-over-year growth in the second half of 2013. In our investor update today we noted advanced book load factors are flat for January and March and up 0.5 point for February on capacity increases of 7% to 8% in each of those months. Broadly speaking, both business and leisure demand remains stable, although we're mindful that the expiration of the Social Security tax holiday may impact disposable income and concerns about the federal borrowing limits do create an overhang that may impact consumer confidence.

For the quarter, consolidated CASM ex-fuel was down over 1% to $0.0872 on the 8% increase in capacity. Three areas drove the flattish unit cost performance. First, maintenance costs increased by 15% largely because of unscheduled engine removals at Horizon. Second, food and beverage costs increased by 24% because of the growth of buy-on-board sales and the investments that we've made to improve the in-flight experience. The response from our customers has been good but we're working to reduce shrinkage and waste in order to improve margins on these sales as we seek to get a better handle on what is becoming a very significant retail food and beverage operation. And finally, variable incentive pay was $8 million higher than in the fourth quarter of 2011.

Speaking of incentive pay, we're proud to report that Air Group employees have earned $88 million through our performance-based pay or PBP plan and the operational performance rewards or OPR program, a $16 million increase over last year. Under the PBP program, the vast majority of our employees have a target bonus equal to 5% of pay. Similar to 2011, we exceeded many of the goals set by our Board including the profitability goal which represents 70% of the PBP waiting. As a result most of our employees will receive a PBP bonus equal to 8.1% of earnings which is nearly the equivalent of an extra month's pay. In fact, over the past four years, PBP has averaged over 8% of pay for most employees, and as Brad said, totals over $325 million.

I mentioned earlier that economic fuel costs were up $33 million or 10% in the fourth quarter on a 6% increase in consumption and a 3% increase in the economic price per gallon. For the year, economic fuel costs were up 12%. The net cost of our fuel hedging program was $24 million for the year or approximately $0.06 per gallon. Those numbers, however don't reflect the fact that in 2012, we spent $40 million in cash to buy options that we'll settle in future years. This is $27 million less than what we spent in 2010 even though our consumption is up by 12%. That decline reflects our move to buy options that are up to 20% out of the money as we elect to take on more risk in exchange for lower premiums that will be expensed in the future.

For the full year, Air Group's consolidated CASM ex-fuel declined by nearly 1%. Mainline CASM ex-fuel declined by 0.5 point. We've been able now to reduce mainline unit costs 10 out of the last 11 years and much of that improvement has come from productivity gains and keeping a tight lid on overhead. Our play book for 2013 will have more of the same. For example, the self-bag tagging that Brad mentioned reduces the time it takes our customers to drop a bag by about 40%. Another example is shifting a higher percentage of sales directly to AlaskaAir.com, which improved by the way by 3.5 points from 2011 to 54% of total bookings in 2012. Our goal is to push this to 60% in 2013, saving us distribution costs and getting us closer to our customers.

As we look at 2013, we're planning Air Group capacity to increase 7% to 8%, although with our fleet, we have a great deal of flexibility to adjust that if needed. We expect consolidated non-fuel unit costs to again decline by about 1% and we expect mainline ex-fuel to decline CASM ex-fuel to decline by about 0.5%. Let me walk you through some of the larger cost increases. First, we expect consolidated wages and benefits to increase by about 6% to 7% on a 3% to 4% increase in FTEs. Like many companies, we're seeing inflation in employee medical expenses which are going up by 10%. Pension expense will actually be flat year-over-year. Although the P&L impact was less than we initially anticipated, it doesn't reduce our conviction to keep working out of legacy-style benefits such as DB plans. In that vein, we'll be freezing the management plan on January 1, 2014 leaving less than a third of our employees actively accruing service credit.

Second, we will again increase our spending on technology. We've budgeted a $20 million increase this year as we continue to strengthen our IT infrastructure to improve speed and reliability, replace several legacy systems, and invest in new technologies such as mobile that will both improve productivity and our ability to serve customers. Maintenance expense will grow by 10%, much of that relating to lease return costs for 737 aircraft that we intend to return over the next 15 months and an increase in the number of scheduled airframe and engine events at Alaska offset by lower maintenance costs at Horizon on a tough 2012 comp. Our guidance reflects those and other volume-driven increases offset by lower variable pay. This of course fluctuates through the year depending on how we're tracking vis-a-vis our goals. Our unit cost guidance does not, however include any costs associated with new labor contracts.

During the year we'll take delivery of nine Boeing 737 900ER's bringing our total to 13. With 181 seats, these larger airplanes are a powerful tool to help us continue to drive unit costs down in 2013 and beyond. They also allow us to sell more seats and grow revenue without increasing the number of departures. For example, we've been using the 900ER between Seattle and Newark where we only have two slots. By doing so, we're able to sell up to 24 more seats each way in a high-density market with very little incremental cost.

Moving to our balance sheet, we ended the year with more than $1.2 billion in cash and short-term investments. Brad covered some of the longer term improvements in our balance sheet and cash flows but I'd like to highlight some of this year's accomplishments. In 2012, we generated $750 million of operating cash flow compared to $696 million in 2011 and it's notable that the 2012 figure is net of more than $80 million paid in federal and state income taxes. We expect to pay more than that in cash taxes in 2013, perhaps at a 30% cash effective rate. This is only a very high-level estimate at this point but it is an important consideration when forecasting operating and free cash flow.

In December we again made a supplemental contribution of $75 million to our pension plans. This is on top of the $35 million that we had contributed earlier in the year and despite the fact that we had no required contribution. This marks our fourth consecutive year of making substantial year-end contributions to our DB plans and leaves our DB plans 82% funded on a PBO basis at year-end. We plan to make cash contributions of approximately $38 million in 2013 although again we have no requirement to do so. Capital spending in 2012 was $520 million as we took delivery of three Boeing 737 800s, four 737-900ERs, and two replacement Q400s resulting in roughly $230 million of free cash flow.

The strong free cash flow allowed us to pay off $275 million of long term debt. We also repurchased approximately 1.7 million shares of our common stock for $60 million. As Brad said, our debt-to-cap ratio now stands at 54% and when adjusting for leases, net debt stands at $590 million, roughly 60% of just 2012's EBITDAR of $950 million. Capital spending for 2013 and 2014 is expected to be $460 million and $365 million, respectively. We have options that if exercised would increase those amounts but we would only do so if we felt confident we could meet our return objectives.

And now I'll turn the call back over to Brad to kickoff the Q&A.

Brad Tilden - *Alaska Air Group Inc - CEO*

Thanks, Brandon, and at this time we're ready for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

John Godyn, Morgan Stanley.

John Godyn - *Morgan Stanley - Analyst*

Brandon, you gave a lot of great detail on demand trends and touched on Hawaii, but I was hoping you or Andrew could elaborate further on what happened with the advanced book factor in January, just because it went from up 3 to flat. And also in contrast to some of the risks in Hawaii, to what extent are capacity cuts at Virgin America an opportunity?

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Hello, John. Good morning. I think I'll turn that one over to Andrew.

Andrew Harrison - *Alaska Air Group Inc - VP Planning and Revenue Management*

Thank you, Brandon. So, John, a couple of things.

I think in the mid-December guidance we had January up 3 points or so at that snapshot in time. There's a few things moving around, but big picture, number one is the first half of January, we had very strong load factor build. Christmas moving out into the Tuesday, we had a strong demand coming in, in January. And the other thing is we still had grown Hawaii 34% in January and those bookings start a lot further out. So overall, we expected to see some decline in advanced book load factor and we're feeling pretty good about where it stands today.

As far as Virgin goes, they've launched some new markets, mainly Portland to the Bay and Southern California. But overall, outside of that they've just been humming along with their standard capacity with some good winter trims. And then, as I understand it, they have slowed their growth in the future so it will be interesting to see what they do going forward.

John Godyn - *Morgan Stanley - Analyst*

Okay, great. And just changing topics, and maybe back to Brandon. You've emerged as a leader in the industry in terms of returning capital to shareholders and recently upped the volume there. I think that's always made your stock a bit more investable than some of your less fortunate competitors. But now as other legacy airlines close in on distributing cash to shareholders, how important is it to maintain leadership in the amount of cash you're returning relative to the peer group?

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Well, John, maybe I'll start and then Brad can clean up my mess. (laughter)

I don't view this as a race. I think your point about us being a leader in that regard is true. It's something we're proud of. It goes all the way back to the 2010 plan on how we wanted to make sure that things were good for all three important constituents -- customers, shareholders, and investors. And for us, what it really comes down to is a balanced approach to deploying capital; and if that makes us the, quote, leader of the pack, that's great; but I'm not necessarily concerned with watching and keeping up with the Joneses, if you will. We have a really good track record and I think it makes a good case for investors to like Air Group stock.

Brad Tilden - *Alaska Air Group Inc - CEO*

Brandon, there's no mess to clean up. I think that's an excellent answer.

John, our basic focus has been to run a good business and then do the right thing in terms of capital allocation. We are proud of what we've done for investors. An important recent change was, we went from $50 million share repurchases to a $250 million share repurchase, so that's something we're working on now.

It's a good question. It's something we look at all the time.

John Godyn - *Morgan Stanley - Analyst*

Got it. Thanks.

Operator

Helane Becker, Dahlman Rose.

Helane Becker - *Dahlman Rose & Co. - Analyst*

You guys did a really great job last year and it looks like this year could be more of the same. And then I forwarded this to Chris earlier today -- there's this e-mail going around from some of your contractors at Seattle-Tacoma airport about how you guys are doing well and they are not, and can you just address that issue? They're contracted employees, so on the one hand you really don't have control over them. So how do you make them understand that and how do you keep them from not delivering a great product to your customers?

Brad Tilden - *Alaska Air Group Inc - CEO*

Helane, it's a good question and we want to do the right thing at Sea-Tac and be a good corporate citizen. Keith Loveless is our General Counsel and he's in the room. He doesn't always get a lot of questions but this might be a good opportunity for Keith to speak. This group is called Working Washington, and Keith is leading our internal effort to address these issues.

Keith Loveless - *Alaska Air Group Inc - General Counsel*

Yes, and I guess Helane, I might start by saying that we're just super proud of what we've been able to do for our employees through this bonus program that's been consistently paying out. We feel like the 13,000 employees are -- it's important that we all be aligned around this. In terms of the Working Washington group that issued this press release, to be blunt about it, that is a group that is largely organized by SEIU. And so we see that as a larger effort by SEIU to organize the contract workers at the Port of Seattle -- not just the ones that work on Alaska airplanes, but also the ones that support the other carriers at Sea-Tac.

And, as you say, we really don't have a lot of control over that. We do have a lot of control over who we contract with out there, and we try to pick good quality vendors that treat their employees right and that have good labor standards as well as safety standards and that have good customer service. It is unfortunate that they've focused on this, but our first obligation is to our own employees.

Brad Tilden - *Alaska Air Group Inc - CEO*

And Helane, you won't be surprised with this, but we do understand that what our economy needs more than anything right now is more jobs and more good jobs. Our philosophy is, the best way to do that, the best way to provide more good jobs, is to run a successful business and so that's what the 2010 plan was all about. That's what these five focus areas are all about. That's what we try to do when we go to work every day, and we believe that us running this business successfully is the best way to provide more good sustainable long-term jobs. So there is issues we're working with, but I think we're on a good path here.

Helane Becker - *Dahlman Rose & Co. - Analyst*

Okay, that's great. Thank you.

Keith Loveless - *Alaska Air Group Inc - General Counsel*

Thanks, Helane.

Operator

Hunter Keay, Wolfe Trahan.

Hunter Keay - *Wolfe Trahan - Analyst*

So the Sabre agreement you guys signed last summer, I believe, was full content agreement, so I'm curious to know how you think you're going to be able to drive traffic to your website. Wondering if it involves higher ad spend to get people to go there, or are you banking on participating in a broader consumer shift that's going on in that area?

Joe Sprague - *Alaska Air Group Inc - VP Marketing*

Hello, Hunter, this is Joe from Marketing. Yes, there's a couple different things; and to be clear, we absolutely have a goal of boosting our direct share of bookings at AlaskaAir.com. It starts with having, number one, a good platform. Over the last two or three years we've completely redesigned AlaskaAir.com. It went from being about the slowest, just as one major performance of the site, to today being the first or second fastest. We measure things on the site much more carefully than we've done before. I think we have the most robust testing program, where we're testing how to optimize the selling activities on our site and drive more conversion, I would argue, better than any other airline out there right now.

You mentioned paid search. We do our share of that and obviously we try and optimize that as much as we can. Personalization is key. We're trying to do some things that appropriately personalize the experience for customers coming to AlaskaAir.com, which helps greatly in terms of repeat business, folks coming back to AlaskaAir.com. We advertise the site generally, so as we expand our network into new areas folks know that, that's the best source for them to come for low fares.

And then mobile has been a big factor in this as well. Having our new mobile site to complement our mobile apps and introducing bookings on the mobile Apps is helping us to take advantage of this explosion of mobile commerce, and of course that stuff is all coming to us direct. So 2012, I think it was mentioned we had our best share of AlaskaAir.com bookings ever at 54%. And we look forward to boosting that several points higher as we move forward into 2013.

Hunter Keay - *Wolfe Trahan - Analyst*

Okay. Thanks.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Hunter, it's Brandon. One more comment on that.

Some of these enhancements don't necessarily manifest themselves through higher advertising spend, but are really what's driving some of the increase in IT investment as well. We really want to make our mobile site great, and that takes IT dollars.

Hunter Keay - *Wolfe Trahan - Analyst*

Okay, thanks, Brandon.

And a little more on this cash deployment stuff, just to follow-up from some of the stuff John was saying. I think investors obviously notice the buybacks. It's great and it's very differentiated, and putting aside competitive concerns from what other guys are doing, let's just forget that for a second. As you guys look at your free cash flow yield and you look at what you can do on the dividend side, the math is pretty compelling.

If you were only to pay out say 25% of your earnings, you're looking at about a 3% free cash flow yield already factoring in self funding the CapEx, already factoring in paying off debt maturities. I think one of the reasons Southwest gets a better multiple than everybody else is because they have this very small dividend that passes investors' screens. Is there something to be said? You guys, we talk about it all the time. You want to open up your stock to new investors. How do you feel about the basic concept of opening yourself up to a screen, just by paying a very modest dividend that would still allow you to do all of the other stuff you wanted to do?

Brandon Pedersen - *Alaska Air Group Inc - CFO*

It's Brandon.

I understand that and I think we get that. What I can assure you is that we talk with our Board frequently about capital allocation and we're really proud of what we've been able to achieve. Having said that, there are merits to the argument that you're presenting and it's not lost on us and it's something that we think about.

Brad Tilden - *Alaska Air Group Inc - CEO*

Hunter, I agree with what Brandon is saying.

For a long time there was -- if you had cash to return to shareholders -- it was kind of a question of, do you use that cash to repurchase stock or to pay a dividend. We felt like between those two the returns were better for investors by us repurchasing stock. I think with the stock price appreciation, that math is getting closer and I think you're asking a good question. It's a good issue for the Board to wrestle with.

Hunter Keay - *Wolfe Trahan - Analyst*

Okay, I appreciate that. Thank you.

Brad Tilden - *Alaska Air Group Inc - CEO*

Thanks.

Operator

Jamie Baker, JPMorgan.

Jamie Baker - *JPMorgan Chase & Co. - Analyst*

The current pilot contract at American affords very liberal domestic code sharing, significantly beyond what your other legacy partners can do. However, the MOU between US Airways and the APA and USAPA meaningfully tightens up the allowance for code sharing, though I recognize current flying is grandfathered in. I know you don't want to comment on how much revenue American currently feeds the Alaska franchise, but I'm curious -- do scope issues like these even impact your business plan? Is it a stretch to declare that a standalone American would be a better outcome for Alaska than a potential merger?

Andrew Harrison - *Alaska Air Group Inc - VP Planning and Revenue Management*

Hi, Jamie. This is Andrew.

I suppose, a couple of big picture. Industry consolidation in one way as you look at it has, I think, helped the industry with capacity discipline and a lot of good things coming from that. So that might be one part of the question, whether there's a standalone or a merger. On the other hand, to your point, we have been very restricted with the American code share agreement historically. And personally, there's opportunity and some things that may come here soon that we'll be sharing public when it's ready to help broaden some of this.

I think the way I would characterize it is, is that like everything, Delta and American are important cogs in the wheel. They are not the only cog and they are not the most important cog. They are actually very much important through the whole thing. So for us personally, there's been a number of areas in our network that I think from a partnership perspective can get better for both carriers with this expanded scope in the code share, namely East/West stuff and doing a little bit more through their hubs, in one of them in particular. So we're looking forward to that and then we'll just take it as we go.

Jamie Baker - *JPMorgan Chase & Co. - Analyst*

Okay, good. I appreciate that. I wasn't asking the question because I thought it would materially derail your profitability, but at the margin it's something that's on my mind, so I appreciate the feedback.

Brad Tilden - *Alaska Air Group Inc - CEO*

Yes.

Operator

Glenn Engel, Bank of America.

Glenn Engel - *BofA Merrill Lynch - Analyst*

A few questions. First, your capacity growth is fastest in the first quarter, yet you're assuming that the unit cost comparisons get better as the year progresses. What's going to drive that?

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Hello, Glenn. It's Brandon.

There's a couple of things. One is that, you're right -- well, actually the capacity is about flat year-over-year, and in terms of how that affects the unit cost performance, I think you see a lot of that maintenance cost increase that I talked about landing in the first half of the year and in particular the first quarter of the year. I think looking out, just off the top of my head, I think the maintenance expense number will increase probably around $10 million in the first quarter alone. So that's driving that.

Glenn Engel - *BofA Merrill Lynch - Analyst*

On the revenue side in the fourth quarter it looked like December PRASM was down after being up in October/November. Why did your numbers get worse in December? It didn't seem like the industry's did.

Andrew Harrison - *Alaska Air Group Inc - VP Planning and Revenue Management*

This is Andrew.

December PRASM is down marginally, mainly driven a little bit by load factor in December, which was down. And the way I would characterize that would be essentially, and as Brandon has alluded to, we're still working to finalize our Hawaii seasonality with capacity. I will tell you, most of our regions did very well, but on the load factor front the new markets in the trans-con that we've just got going and specifically California/Hawaii booked down their load factor.

Overall though, we felt very good with the December performance both from a profitability standpoint and also our trip [plants] was up significantly. So no real major aberration there at all, but it was down marginally for the December.

Glenn Engel - *BofA Merrill Lynch - Analyst*

Your fuel price first quarter guidance and your fourth quarter is running about $0.25 to $0.30 higher than, we'll say, US Airways, who's unhedged. Why is the gap so wide? It seems even larger than what the hedge premium would suggest.

Mark Eliasen - *Alaska Air Group Inc - VP Finance & Treasurer*

Yes, hey, Glenn. This is Mark Eliasen.

Just a couple of comments on fuel. To answer your question specifically, hedging costs us about $0.10, and the other thing that we've been wrestling with out here on the West Coast is the jet crack spreads or the refining margins have been about $0.09 to $0.10 higher than the rest of the country, so that's been another headwind related to that.

I guess more importantly for us is fuel is a real important thing for us all the way around but what we really focus on is how much profit the business produces from the fuel we do use. I think if you look at the Wall Street Journal they would say we are number one among major US airlines in fuel economy. So we're really focused on that, and I think at both airlines about conserving fuel both to save money and to protect the environment. I think in particular, I'd give a shout out to our pilots who have done a lot to conserve fuel at both airlines.

Glenn Engel - *BofA Merrill Lynch - Analyst*

And final is, when I looked at the fleet plan it looked like you're not going to grow your fleet at all now in 2014. I thought previously you were planning on growing that fleet some. So what changed?

Brandon Pedersen - *Alaska Air Group Inc - CFO*

In 2014, the plan right now is to have 10 in, and I don't have the investor update in front of me. Probably a whole bunch going out. I think the answer to your question is that there's a lot of things moving around in 2014. We have a lot of flexibility.

One of the uncertainties right now is what we do with the combi fleet. There's actually five of those airplanes that we want to retire here some time in the next few years. The other thing that we have is a whole lot of flexibility with options, and so to say firmly that we're not going to grow the fleet in 2014, I don't think it's right. I don't think we've decided. I think the bias is to grow as long as we can do so and meet our return goals, but there's a lot of moving parts between now and then.

Glenn Engel - *BofA Merrill Lynch - Analyst*

Actually the update shows you're going to shrink the fleet by three in 2014.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

And that reflects the combis going out in 2014. There's five of those. We've tentatively pegged those to go out in the fourth quarter, but again that's still moving around.

Glenn Engel - *BofA Merrill Lynch - Analyst*

Thank you very much.

Brad Tilden - *Alaska Air Group Inc - CEO*

Thanks, Glenn.

Operator

David Fintzen, Barclays.

David Fintzen - *Barclays Capital - Analyst*

Maybe a question for Andrew.

I think in some past quarters you've talked about getting the State of Alaska capacity right. Looking at some of the DOT data it looks like you definitely achieved that in the second quarter and it sounds like the core RASM has been holding up pretty well. I'm just curious how you think about that capacity going forward? And are you at a point where you can get back to some growth in the State of Alaska ASMs? Or is that on ongoing need to cut?

Andrew Harrison - *Alaska Air Group Inc - VP Planning and Revenue Management*

So the State of Alaska is interesting only because the summer is obviously very different than the rest of the year. We're still watching other carriers' load and make decisions about the summer in the State of Alaska. One of the things that I will say, core Alaska outside of summer seasonality is not really growing. It's very static and all of that. Our biggest challenge, quite honestly, which may not be as significant to your world, is that we have peaks and troughs. Even this Christmas we were too tight and I heard about it and so we need to add some more flights during certain peak periods of the time. Overall, I would say that we're very comfortable with that State of Alaska capacity. And again there's just tweaking going on there, but I don't see any major changes in that as we sit here today.

David Fintzen - *Barclays Capital - Analyst*

Okay, thanks.

Maybe just to follow-up on maintenance -- maybe for Brandon -- you mentioned maintenance is sort of front-end loaded. If I look back over the last number of years, on an ASM basis maintenance is down. I think it's down in the teens over the last four or five years. Is maintenance cost pressure going to be an ongoing theme over the next few years? Or will you get past the first of this year and beginning of this year and that's the worst of it for the foreseeable future?

Ben Minicucci - *Alaska Air Group Inc - COO*

David, I think this is a peak -- It's Ben Minicucci here.

I think this here is a peak with some heavy maintenance visits on our classic 737s. In terms of going forward, we do plan to level load this thing with power by the hour contracts on the majority of our Dash 7 engines. So our goal is to make sure the maintenance costs stay within a tight range.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

This is Brandon.

Just to follow-up, as I said in my prepared comments, a lot of the increase is lease-return provision or lease-return expense coming through. We start accruing for those lease return costs about a year out, and so as we look at the number of leased aircraft that are going back in the fourth quarter of this year and first half of next year, lots of that expense will hit in 2013. So it's really the combination of that, the combination of what Ben just talked about, offset by some maintenance declines at Horizon.

I think it's also important to reiterate what you said in your lead-in, which was maintenance expense has come down. And that really reflects the modernization of the fleet and the great work that our maintenance folks have done to improve their processes and just get much better.

David Fintzen - *Barclays Capital - Analyst*

But it's not like over the next couple years you hit at a point where you start hitting a lot of heavy maintenance on the beginning of that fleet modernization and that becomes a big pressure point?

Ben Minicucci - *Alaska Air Group Inc - COO*

I'm trying to convince Brandon to get rid of those classics. (laughter)

Brandon Pedersen - *Alaska Air Group Inc - CFO*

I was just going to say we start getting more expense on those classics and then ultimately we will get to a point where we have the initial wave of 800s that came in, start to need engine overhauls. But as Ben said we're looking to various -- we're looking really into a power by the hour deal to spread that cost out.

Brad Tilden - *Alaska Air Group Inc - CEO*

You've got these figures, but just as a reminder for everybody on the call, of our 124 737s, 30 are classic; so it's a quarter of the airplanes that are kind of subject to the tail end of the maintenance cost curve.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Right.

David Fintzen - *Barclays Capital - Analyst*

Okay, great. That's very helpful, appreciate all the color.

Ben Minicucci - *Alaska Air Group Inc - COO*

Thanks, David.

Operator

Savi Syth, Raymond James.

Savi Syth - *Raymond James - Analyst*

Just on the Boston market, I was wondering if you could comment on some of the markets you've opened up within the last year and how those are progressing. And also, I know this is extremely early stages, so maybe you don't have any color, but I thought the Boston/San Diego route was interesting and just maybe how that's looking?

Andrew Harrison - *Alaska Air Group Inc - VP Planning and Revenue Management*

Hello, Savi, it's Andrew. I think as you maybe have heard earlier, even over 2012 we've had 20 new markets, 11 mainline, 9 regional. As it relates specifically to some of the San Diego, I think is what you may be alluding to, but we've had some growth in San Diego. We've had regional growth in there, while using Horizon, Monterey, Santa Rosa, and Fresno. We serve Mexico out of there, we serve Hawaii out of there. We've been growing that.

San Diego/Boston, again, is in keeping with there; and Portland and Seattle and really that's a market where there is no -- Jet Blue has some service there but it's very much point-of-sale to the East Coast folks. So there's no direct service at all to folks living in San Diego and so we've started that; and as you've seen Orlando. And this is all part of our strategy of balancing. You've seen us start Philadelphia, you've seen us start Salt Lake City. We'll be starting Salt Lake City markets out of Seattle and also some extra markets out of California. But they're all doing as we've expected and they will take time to develop.

Savi Syth - *Raymond James - Analyst*

How do they compare versus markets in the Pacific Northwest in the sense of, is it a greater leisure mix? And just the profitability in general?

Andrew Harrison - *Alaska Air Group Inc - VP Planning and Revenue Management*

On the Orlando, that's very much a leisure mix market and we see that all day long, just like Fort Lauderdale from Seattle. On the San Diego/Boston, to be determined, obviously, as we haven't really started that yet. But we do expect to see some mix of business traffic, which is certainly in the Boston marketplace as well as good leisure traffic. It's picking up quite well, just to be honest with you.

Savi Syth - *Raymond James - Analyst*

All right, great. Thank you.

Brad Tilden - *Alaska Air Group Inc - CEO*

And Savi, this is Brad.

Just to be really clear, I would call that a San Diego strategy, not a Boston strategy.

Savi Syth - *Raymond James - Analyst*

Sure, makes sense. Thanks guys.

Brad Tilden - *Alaska Air Group Inc - CEO*

Thank you.

Operator

Mike Linenberg, Deutsche Bank.

Mike Linenberg - *Deutsche Bank - Analyst*

Just two questions here.

One, Brandon, when you look at your numbers, and whether you look at leverage or coverage ratios, right now Alaska is performing probably the best that its performed and you could go back 20, 30 years; and even profitability, et cetera. And yet when we go back and we look at how the rating agencies looked at you as a Company -- back in the early 90s, early 90s you were an investment grade credit on a senior unsecured basis. And you look at a lot of the metrics today and they are a bit higher than what they were back then. And yet if I look at just on Bloomberg here, it looks like you're a BB minus on a senior unsecured basis from S&P.

What do they tell you now? Do you need to get to a 23% operating margin? (laughter) What do you need to get to an investment grade? Because you're well above what you were back then. What's changed?

Brandon Pedersen - *Alaska Air Group Inc - CFO*

It's an absolute mystery, frankly, and you're absolutely right. Maybe I'll ask Mark Eliasen to chime in on that.

Mark Eliasen - *Alaska Air Group Inc - VP Finance & Treasurer*

Mike, this is Mark.

I'll just say we have a great relationship with S&P and we talk to them frequently. We respect what they've done and they will say right away that their standards have changed over time. They've changed over time as a result of issues that happened in 2008. But they have I think respect and admiration for what we've done for the business. Our leverage going down, they appreciate. We kept them posted before we did our stock buyback; we consulted with them. And I think we have a good dialogue there. One thing that they do point out is that we are a smaller airline and that's a challenge for us; but I think that they respect our numbers and they put us on a positive outlook so we're looking for good things coming forward.

Mike Linenberg - *Deutsche Bank - Analyst*

I didn't mean to just pick on S&P, I would say Fitch and Moody's, they all take the same view on the industry, which, arguably it just feels like it's a better industry today than what it was in the early 1990s. But I guess it's an opinion. They are not on the same page as of yet.

Mark Eliasen - *Alaska Air Group Inc - VP Finance & Treasurer*

Our creditors look at us and they do look at the S&P rating, but they put us in a higher category than S&P does. And that's who really counts, is the people who lend us money.

Mike Linenberg - *Deutsche Bank - Analyst*

Okay, good. And just my second question -- I go back, I think it was about a couple months back there was a five- or six-page press release out between, it was from both you and Delta, and it talked about a lot of good things going on in Seattle and talked about the growth of the code share. It's obviously been very positive for both of you. And then not too long after that, you know we see Delta flying from Seattle to Los Angeles, which is obviously an important market for you guys.

So I'm curious what's behind that. I don't know, maybe it was just in response to you guys announcing the Seattle/Salt Lake service; maybe it's just some fun sparring between partners. What gives there?

Brad Tilden - *Alaska Air Group Inc - CEO*

Mike, it's Brad.

What I would say is that we have an extraordinarily good relationship with both Delta and American. They are our two domestic alliances, they're our biggest alliances; and I think the partnerships work really well. We have a network where we fly a lot up and down the West Coast and out of the West Coast, and Delta in particular has all kinds of wide bodies they fly out of Seattle, I think eight wide bodies between Amsterdam and Charles de Gaulle, and Narita and Haneda, they're adding, and Beijing and Shanghai. So, big picture, it's an extraordinarily good relationship and we get that what we do in this relationship is, we help them fill those wide bodies flying out of Seattle. And then that feed is really important to Alaska because it helps us justify more 737s flying in places like Seattle/Salt Lake, Seattle/LA, and Seattle/Newark, and so forth. Once in a while in relationships like this, there are little things, and you mentioned a couple of them; and I think they are little things that happen along the edges, but I don't think we should let them distract any of us from what overall is an exceptionally good relationship.

Mike Linenberg - *Deutsche Bank - Analyst*

Okay, fair enough. Thank you. Thanks, everyone.

Operator

Duane Pfennigwerth, Evercore Partners.

Duane Pfennigwerth - *Evercore Partners - Analyst*

Just a couple quick ones for Andrew. Historically, how much does an earlier Easter help March PRASM?

Andrew Harrison - *Alaska Air Group Inc - VP Planning and Revenue Management*

So yes, this year, it's moving to the Sunday on March 31. For us, Duane, it's not a huge change. Basically, the schools in the Pacific Northwest are staying put their vacation time. It's California that moves. So us personally, with this week earlier, we don't believe it's going to be a major impact on our first quarter results. That's our thinking.

Duane Pfennigwerth - *Evercore Partners - Analyst*

Okay, thanks.

And then, you may have touched on this, but just in terms of system competing capacity trends in the March quarter versus what you saw in 4Q, and maybe you could comment on the State of Alaska and then Hawaii specifically.

Andrew Harrison - *Alaska Air Group Inc - VP Planning and Revenue Management*

So looking forward, I look forward a couple of quarters. As you know, industry capacity changes for the summer going forward. But looking forward, we see certain pressure in some of the Pacific Northwest to the Bay and Southern California. We see a little bit of pressure in the Bay Area to Mexico. But overall, on a weighted average, competitive capacity in air markets is marginally down over the next few quarters, so we see that fairly stable there.

I think you mentioned the State of Alaska. We have our summer schedule out there right now. We're going to be up just a little bit, but again overall no major changes there.

Duane Pfennigwerth - *Evercore Partners - Analyst*

Okay, thanks very much.

Andrew Harrison - *Alaska Air Group Inc - VP Planning and Revenue Management*

Thanks, Dave (sic). (laughter)

Operator

Kevin Crissey, UBS.

Kevin Crissey - *UBS - Analyst*

So, maybe for Andrew/Joe here, I'm not sure, but if I think about a flight that's not booking up well, it seems that the industry response is to start lowering fares. But that doesn't necessarily have to be the issue. You could just not be getting enough attention to your website to sell your product. It wasn't the price that was the sticking point; it was the overall traffic to your selling source. When I think about what an OTA does, they might buy more, get more attention on Google or however they want to do it. How should we think, as you grow your web direct, how should we think about how your website and that strategy fits in maybe with your revenue management process? Thank you.

Joe Sprague - *Alaska Air Group Inc - VP Marketing*

It's a good question, Kevin.

This is Joe, and I would say Andrew's team and the marketing team work closely together in a number of different areas and this is a particularly key one. I mentioned earlier that our share of bookings at AlaskaAir.com has grown substantially over the last couple of years, and one of the fun things to track is how much it spikes up whenever Andrew's revenue management team does do a fare sale, and then we get out and really promote that sale. It has a very direct impact obviously on our AlaskaAir.com bookings. We try and help that process along, and especially as we are going into some new markets, whether it be Hawaii or some of the other California new markets, the nice thing about online bookings is that we are able to target our advertising very directly.

So we can geotarget, whether it's online advertising or the actual search results that would produce a direction for a consumer to come to AlaskaAir.com. We're spending a bit more on paid search, but we're also targeting it pretty aggressively, more so than we've done in the past. And the other thing, just general advertising and promotion -- we're doing a lot more to raise awareness in new markets, both of our new service, but also of AlaskaAir.com, in particular being a great source for low fares for that new service. So as we grow our customer base, we get people joining the mileage plan, we've had big increases in mileage plan membership the last year. That allows us to also communicate directly with those customers. We do a lot of e-mail marketing to customers that we have in the database and that also is a channel to shift people directly to AlaskaAir.com.

Kevin Crissey - *UBS - Analyst*

Perfect. Thank you for that.

Operator

Steve O'Hara, Sidoti.

Steve O'Hara - *Sidoti & Company - Analyst*

I was curious just about the restructuring of the Horizon business and making it a branded regional. I'm just wondering, in terms of the benefits and the costs of having an in-house regional versus a partner like SkyWest, what do you gain by having the in- house regional? What do you lose by having it? And then do you ever look at the possibility of either selling that business or spinning it off?

Brad Tilden - *Alaska Air Group Inc - CEO*

Steve, I think maybe just first to pause and back up a couple steps.

Horizon has gone through a lot of changes in the last five or six years, but a lot in the last couple years. You know about the branding stuff; there have been efforts to get some of their costs down to lower levels. A lot of the back office stuff that isn't completely visible to people outside the Company, but back office functions have been hugely streamlined so that there's one team working on all of these functions instead of two. On other calls we've talked about the tremendous job that Glenn Johnson and his leadership team have done, and I look at it and I see a lot less effort happening for the two companies and I see a regional business that's producing $100 million a year of pre-tax profit, so it looks really good.

Your specific question about spinning off Horizon or having someone else do that for us -- I think the way we look at this is we've got something that if we can do it ourselves and make it work well that's what we want it to do, and we feel that it is working well. Horizon has the Q400; there's not a lot of those flown in the United States. It's a tremendous airplane for the markets where we're using it, kind of shorter stage things from Seattle and Portland and so forth. It's a tremendous airplane. And Horizon has a lot of knowhow with that airplane and also a long tradition of providing great customer service. So it's profitable, it's producing good returns on capital, it's meeting our objectives, and we like the current setup.

Chris Berry - *Alaska Air Group Inc - Managing Dir., IR*

We have time for maybe one more question here. Hey, Stephen, sorry -- you got another follow-up there?

Steve O'Hara - *Sidoti & Company - Analyst*

No, I'm all set, thanks.

Brad Tilden - *Alaska Air Group Inc - CEO*

Thanks, Steve.

Operator

Hunter Keay, Wolfe Trahan.

Hunter Keay - *Wolfe Trahan - Analyst*

Do you guys disclose what variable incentive pay would be at baseline target this year?

Brandon Pedersen - *Alaska Air Group Inc - CFO*

At target, baseline incentive pay for PBP and OPR is right around $60 million.

Hunter Keay - *Wolfe Trahan - Analyst*

Again. Okay, cool, thanks; and one for Andrew.

Andrew, as you talked about adjusting some of the schedule in certain Hawaiian markets, obviously you can't down gauge, I don't think you'll be taking dots off the map any time soon. Have you given thought to maybe moving departures around to complement Allegiant in markets where you compete, so they take them out there or you take them back or something like that, given the fact some of the markets are very low frequency markets?

Andrew Harrison - *Alaska Air Group Inc - VP Planning and Revenue Management*

So to your point, Hunter, a couple things on Hawaii is, with Allegiant coming in and doing two or three a week, we get to bring them back or whatever. The big picture here is, Hawaii is extremely sensitive to the time of the day of the departure. And off the West Coast, it's 8, 9, 10, 11 in the morning. Really what we've done is, looking at the outer islands like Kona and Lihue -- and you're going to see already in the public booking system there that we're going to split Oakland and San Jose, Kona and Lihue, to go three to four times a week, each of those cities. So that's what we're doing.

Half of our capacity is in the Pacific Northwest. The other roughly is in California. So what you're seeing us there is not taking dots off the map, to your point. But we're going to really match supply with demand because Hawaii is extremely seasonal, especially in California. We're just going to be more focused on that going forward than perhaps we have been.

Hunter Keay - *Wolfe Trahan - Analyst*

Okay, thank you again.

Brad Tilden - *Alaska Air Group Inc - CEO*

Thanks, Hunter.

Operator

I have no further questions in queue. I'll turn the call back over to Mr. Brad Tilden.

Brad Tilden - *Alaska Air Group Inc - CEO*

Okay, thanks everybody for joining us today. We look forward to talking with you again next quarter. We'll see you.

Operator

Thank you for participating in today's conference call. This call will be available for replay beginning at 4.00 Eastern Standard Time today through 11.59 PM. Eastern Standard Time on February 24, 2013. The conference ID number for the replay is 37716850; the number to dial for the replay is 1-800-585-8367 or 1-404-537-3406. Also the call will be accessible for future playback at www.AlaskaAir.com.

Thank you. This concludes today's conference call. You may now disconnect.
