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ALK - Q1 2012 Alaska Air Group, Inc. Earnings Conference Call

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OVERVIEW:

ALK reported 1Q12 GAAP profit of $40.8m and adjusted net income of $28.3m.

CORPORATE PARTICIPANTS

Chris Berry *Alaska Air Group Inc - Managing Director of IR*

Bill Ayer *Alaska Air Group Inc - Chairman, CEO, President - Alaska Air Group*

Brad Tilden *Alaska Air Group Inc - President and CEO Elect*

Brandon Pedersen *Alaska Air Group Inc - CFO*

Andrew Harrison *Alaska Airlines - VP, Planning and Revenue Management*

Joe Sprague *Alaska Airlines - VP, Marketing*

George Newman *Alaska Airlines - Controller*

CONFERENCE CALL PARTICIPANTS

Bill Greene *Morgan Stanley - Analyst*

Hunter Keay *Wolfe Trahan & Co - Analyst*

Michael Linenberg *Deutsche Bank - Analyst*

Duane Pfennigwerth *Evercore Parners - Analyst*

Ray Neidl *Maxim Group - Analyst*

Helane Becker *Dahlman Rose & Co. - Analyst*

Jamie Baker *JPMorgan Chase & Co. - Analyst*

Dan McKenzie *Rodman and Renshaw - Analyst*

Glenn Engel *BofA Merrill Lynch - Analyst*

Steve O'Hara *Sidoti & Company - Analyst*

Savi Syth *Raymond James - Analyst*

Kevin Crissey *UBS - Analyst*

PRESENTATION

Operator

Good morning, my name is Martina, and I will be your conference operator today. At this time, I would like to welcome everyone to Alaska Air Group first quarter 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.

Chris Berry - *Alaska Air Group Inc - Managing Director of IR*

Thanks, Martina. Good morning, everyone, and thank you for joining us for Alaska Air Group's first quarter 2012 earnings call. Today, Alaska Air Group CEO, Bill Ayer, Alaska Airline's President and Air Group CEO-elect, Brad Tilden, and Alaska Air Group CFO, Brandon Pedersen, will share their thoughts on our first quarter financial results, our operations, and our outlook for the remainder of the year.

Other members of our senior management team are also here to help answer your questions. Our discussion today will include forward looking statements regarding 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 web site.

We will refer often to certain non-GAAP financial measures such as adjusted earnings or unit costs excluding fuel. And, 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 first quarter GAAP profit of $40.8 million.

Excluding the impact of mark-to-market adjustments related to our fuel hedge portfolio, Air Group reported an adjusted net income of $28.3 million, or $0.39 per share. This compares to a first call mean estimate of $0.35 per share and to last year's adjusted net income of $29.5 million, or $0.40 per share. As a reminder, we affected a two-for-one split in March so that we now have about 71 million shares outstanding.

All of our EPS figures and share-related information have been adjusted to reflect the split. 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 on our web site at Alaskaair.com. Now, I'll turn the call over to Bill.

Bill Ayer - *Alaska Air Group Inc - Chairman, CEO, President - Alaska Air Group*

Thanks, Chris, and good morning, everybody. We are pleased to report our second best first quarter profit. The first quarter historically is our weakest quarter, and we've often posted losses due to low seasonal demand. The improvement can be attributed to the structural changes we've made at both Alaska and Horizon over the past decade.

Including an excellent operation, non-fuel unit cost reductions, a young fuel-efficient fleet, and redeployment of aircraft within our network and the start of new profitable markets. As most of you know, this is my last earnings call as CEO. It has been a pleasure working with each of you over the past 10 years in what has been the most interesting and challenging decade in the history of the industry.

I want to thank you for asking excellent questions which have helped us establish some guiding principles and sharpen our focus in building not just a great airline but a great company. While I'm staying on as chairman for the time being, Brad is fully functioning as CEO today, and he's off to a great start.

He's been with me in the trenches every step of the way, first as CFO, and then as President, and deserves much of the credit for the position we're in today. I join the Board and the entire employee group when I say how pleased and fortunate we are to have Brad moving into this role. I also want to thank the Alaska and Horizon employees for our excellent operational performance, for building strong customer loyalty, and for being open to change.

There's no doubt that the future will bring more challenges to the industry. And, our proven ability to work together to make difficult and required changes gives me great optimism about the path ahead. With that, I'll turn the call over to our CEO-elect, Brad Tilden.

Brad Tilden - *Alaska Air Group Inc - President and CEO Elect*

Thank you, Bill, and good morning, everyone. It's an honor to have been asked by Bill and the Board to lead Alaska Air Group. And, it's a privilege to work with the nearly 13,000 employees of Alaska and Horizon who give their all every day serving our customers, running our operation, and helping to reshape the company to compete in a constantly changing industry.

I'm looking forward to this new role and could not feel more positive about our future together. While our company is much stronger today, we all know that this is an extremely competitive and cyclical industry. There will be many challenges in the years ahead for every airline, but I believe that working together we'll tackle these challenges head on and keep this company in a strong position, just as we have in the past.

As Bill alluded, for years we accepted losing money in the first quarter. It was almost a given that we dig ourselves a hole in the first three months and then work our way out of it for the next nine months. But, over the past several years, we've challenged this thinking, and we've seen very positive results.

We've taken deliberate actions to tactically reduce flying, to move aircraft to markets where there's more demand, and to increase productivity by aligning our staffing with our level of flying. It's encouraging to see these efforts paying off. We started the year with a profit for three years in a row now and, in fact, have made a profit for 12 consecutive quarters.

For the first quarter, we had a 22% increase in economic fuel costs which amounted to $62 million. And, a 3.3% increase in capacity. To cover both of these and factoring in our non-fuel cost performance, we needed a $76 million increase in revenues to equal last year's profit.

We were pleased that the $74 million increase that we did see went a long way toward helping us achieve our objective. The net result, as you've seen, was that our profit declined marginally, from $29.5 million last year to $28.3 million this year. Air Group had record load factors for each of the three months in the quarter.

In fact, for our mainline operation, we have a trend of record monthly load factors reaching nearly three years. There are three reasons for our load factor improvement. Two have to do with our schedule, and one has to do with our approach to revenue management.

First, for the last few years, we've been regularly reviewing our schedule and eliminating flights with low load factors or low profitability. Second, many of these aircraft have been moved to leisure destinations which generally have much higher load factors. And, finally, during months with relatively low demand, like January and February, we have had a bias for load factor in managing revenues.

All three of these actions have put upward pressure on the load factor. As we've moved into the heavier travel season, our focus in revenue management has shifted to yields as we worked to convert excess demand into higher prices. We're attempting to manage our revenues in a way that maintains our strong low fare position which is good for our customers and important for our long-term competitive position.

We feel good about these efforts, and right now we don't see signs in either the economy or our future bookings that would keep us from continuing this strategy. Our January and February loads were three points higher than last year, helping us to produce break-even results for those two months, while March was up a point and a half from 2011.

As a result of our actions, our PRASM has increased 13.5% on a stage link adjusted basis since January of 2010 versus 11.1% for the industry. Incidentally, we chose January, 2010, as the base year because that is when Southwest started reporting data to the ATA, and their inclusion does impact the numbers. As you probably have seen, we had several new announcements in the first quarter.

First we announced new service from Seattle to Philadelphia, and three new Horizon flights out of San Diego. These were anticipated in our growth plan for the year, and they are detailed in our press release. We also announced our bid for two new long-haul routes into Reagan National Airport from Portland and San Diego.

We greatly appreciate the overwhelming amount of support we received from customers, employees, and public officials including 10 US Senators who have inundated the DOT with more than 16,000 letters, emails, and calls. We expect to find out about these slots sometime in May. And, we just opened our new terminal at LAX. The check-in area, the gates, and our airport club room are modern and efficient. We're really proud of our team and the work that was done there.

Unlike many airport projects, Alaska managed this project, and our folks did an excellent job bringing the project in on time, under budget, and producing a net reduction in our terminal rent expense. The new terminal will be a welcome change for our customers and will make flying through LAX a much better experience, particularly for those customers arriving from Mexico and going through customs and immigration.

Turning to operational performance, the Seattle winter storm in January caused a bit of a hiccup in what was otherwise another strong quarter for on-time performance. The mainline operation posted on-time performance of 84.5% in the first quarter, and Horizon performed even better at 88.2%. On a rolling 12-month basis through February, Alaska's mainline on-time performance ranks first among the top 10 US carriers.

As you probably saw in our investor update, advanced book-to-load factors were up about 2.5 points in the next couple of months. Looking forward, we're seeing solid demand in all of our regions. And, as I mentioned earlier, our focus on the schedule and our continuing shift to leisure-oriented markets is bringing the average system load factor up.

But, from a revenue management perspective, we're focusing on increasing yields to recover the higher fuel costs and to meet, or exceed, our goal of a 10% return on invested capital. Given this quarter's solid results and the current demand environment, we're cautiously optimistic about 2012. The biggest headwind is high fuel prices, and their impact both on our cost structure and on the pocketbooks of our customers.

We're watching both fuel prices and demand carefully and will attempt to move quickly to adjust our schedule should that be necessary as we've done many times in the past. Before I turn the call over to Brandon, I want to again thank our employees for their incredible dedication to helping this company get through the past decade and for making Alaska and Horizon what they are today.

I also want to thank Bill for his 30 years of service to Alaska Air Group. Under his leadership as CEO for the past 10 years, we transformed this company into an industry leader in nearly every respect. His common sense approach to the business and his commitment to doing the right thing at every juncture are remarkable. And, all of us here are honored to have been on his team. With that, I will now turn the call over to Brandon.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Thanks, Brad, and hello, everybody. As Chris said, Air Group reported an adjusted profit of $28.3 million compared to a $29.5 million profited last year. This result brings our trailing 12-month return on invested capital to 11.6% versus the 11.3% at the end of the first quarter last year.

On an adjusted pretax basis, profit was down by $2 million from the 2011 first quarter resulting in a slight decline in our pre-tax margin from 5.1% in 2011 to 4.5% this year. The decline in earnings was primarily driven by the $62 million, or 22% increase, in economic fuel costs and a $21 million increase in adjusted non-fuel operating expenses.

We were able to recapture nearly all of these cost increases with growth in operating revenues. Nonoperating costs also fell by $7 million. Consolidated operating revenues were up $74 million, or nearly 8%, with the bulk of the increase coming from passenger revenue growth.

Yields and load factors were up for both main line and regional operations which resulted in consolidated PRASM increasing by 4.7%. With fuel on an economic basis, our all-in unit costs were up 5.8% from the 2011 first quarter. So, our PRASM shortfall to maintain the same pretax margin was about a point.

I know some of you have had questions about our strong load factors, vis-a-vis our PRASM growth, which was not quite enough to cover the fuel and capacity-related cost increases. Brad provided some information from the three things that are driving load factor gains, calling flights are lower load factors, adding capacity in strong load factor markets, and purposely managing load factors in January and February.

However, there are a few other things that are negatively impacting PRASM trends right now. First, we are growing capacity in long-haul markets such as Hawaii. Our average main line stage length was up 2.9% over last year, the longer stage lengths put pressure on PRASM, although there is certainly a CASM benefit, as well.

Second, mileage plan redemption revenue, which is included in passenger revenue, was down $7.7 million or 15% this quarter. Although the number of awards redeemed is up slightly, the per-mile rate used to recognize revenue is lower than last year. We expect this trend to continue through the third quarter.

And, finally, ancillary revenues, specifically bag fees, are not keeping pace with the increase in capacity. Bag fee revenue, because of the Club 49 Alaska resident loyalty program and changing customer behavior, was down about $2.8 million or 8% on a 4.2% increase in passengers.

Although the bag fees are down, we believe there are still opportunities to increase ancillary revenues through things like hotels, cars, first-class upgrades, and other products and services our customers value. Most you know that we report many ancillary revenues including bag fees in passenger revenue.

Because our reporting convention is different than most others in the industry, starting next quarter, we're going to report ancillary revenues in other revenue rather than in passenger revenue. We'll reclassify prior periods, as well. Turning now to costs.

As I said a moment ago, economic fuel costs were up $62 million or 22%. Economic fuel price per gallon for the quarter was $3.41, up 19%. Our current guidance for the second quarter is $3.47, and to provide some context, for all of 2011, our average economic fuel price per gallon was $3.18, which was the highest annual average ever.

If fuel stays at current levels for the full year, we'll add $180 million to our fuel bill on top of the record costs in 2011. It's worth noting that the fuel comps are easier in the last three quarters of this year than they were in Q1. We feel that we're well positioned to compete in this environment of higher fuel prices given our fleet, which is the most fuel-efficient in the industry on a gallons burned per RPM basis, our hedging program, and our strong balance sheet.

For the first quarter, our hedges basically broke even. For the remainder of the year, we have 50% of our planned consumption hedged at $100 per barrel at an average premium cost of $10 per barrel. We also maintained short-term swaps on the refining margin and we are 50% hedged for the second quarter at $33 per barrel.

We believe our hedging program offers more protection against rising fuel prices than any other airline in the industry. The fuel efficiency of our fleet will get even better as we go forward. We're anxious to take delivery of our first three 737-900ER aircrafts later this year.

We now expect 22 of the 900ERs to come into our fleet between now and the end of 2014. With 181 seats, the 900ERs will be even more fuel efficient than our current airplanes on a per-seat basis. Our non-fuel costs, excluding 2011 fleet transition costs, increased by $21 million, or 3.4% this quarter, meaning that consolidated CASM ex fuel was basically flat.

This was slightly better than our initial guidance of up 1%, although some planned spending has shifted a bit to the second and third quarters. For the second quarter, we again expect CASM to be flat. And, for the full year, however -- but, for the full year, however, we still expect consolidated non-fuel unit costs to be down about 1.5%.

Moving to our balance sheet, we ended the quarter with just over $1.1 billion in cash and short-term investments representing about 26% of trailing 12 months' revenues. We generated $150 million of operating cash flow in the first quarter compared to $119 million last year.

Capital spending was about $70 million during the quarter so we again generated positive free cash flow. We took delivery of two 737-800s during the quarter and will get one more in May. All with the new Boeing Sky Interior which is getting rave reviews from our customers and our employees alike.

Then, as I said, our first three 900ERs will be delivered in the fourth quarter. We recently exercised one, and intend to exercise another two, options for 737-900ERs that will be delivered in the fourth quarter of 2013. We're also finalizing a deal to sell and lease back under short-term leases three 737-700s that will leave the fleet at roughly the same time the three new 900ERs arrive.

In short, we're swapping out three smaller 700s for three larger 900ER airplanes. The economics of upgauging are attractive and the move reflects our bias toward larger aircraft. We also agreed to purchase two new Q400 aircraft from Bombardier to replace two of our older Q400s.

The new aircraft will be delivered in the second quarter, and the older two will go out of the fleet after the summer travel season. These two replacement aircraft will further improve Horizon's reliability. With those changes, we now expect CapEx to be just over $500 million for the year. This figure does not include proceeds from the sale of the three 700s.

Even with the higher CapEx, we still expect to achieve our goal of generating free cash flow. During the quarter, our Board authorized a new $50 million stock repurchase program under which we repurchased 203,000 shares for $7.1 million, bringing total first quarter repurchases to approximately $8.8 million. We also prepaid another $22 million worth of debt along with approximately $37 million of normal debt prepayments, bringing our debt-to-cap ratio down to 60%.

We are now into what looks to be a third very good year in a row. Since the beginning of 2010, we have produced about $1.4 billion of operating cash flow, we've invested in the business by buying nine 737-800 and two Q400 aircraft free and clear that we've deployed to markets that are performing well. We've protected our shareholders from future shocks by reducing debt and lease obligations by $900 million, and when combined with $345 million increase in equity, our debt-to-cap ratio has come down by 16 points.

We've also returned capital it to shareholders by repurchasing more than $130 million of our common stock. And, although included in the operating cash flow numbers we've contributed nearly $300 million to our pension plans when none was required and shared $165 million of incentive pay with our employees.

We continue to believe that a balanced approach to capital allocation makes sense. Invest in the business, deliver the balance sheet, and provide a return to shareholders. Overall, it was a solid quarter. We continue to hit our ROIC goal.

We produced our 12th consecutive quarterly profit that was near last year's record result despite the significant increase in fuel prices. We had record load factors and continued our excellent operational performance. We are all proud of these results. At this time, I'll turn it back over to Brad to kick off the Q&A.

Brad Tilden - *Alaska Air Group Inc - President and CEO Elect*

Thanks, Brandon. As many of you know, Alaska Airlines is turning 80 years old this year, and Horizon turned 30 last year. One of the jobs we have as a leadership team is to retain the pride and spirit that come from our past while ensuring the company is nimble and lean, aggressive, open to new ideas, and quick to implement changes.

We know that if we have the right culture we'll attract the right folks, identify the right objectives, and create an environment where people want to make Alaska and Horizon better year after year. I'm sharing this because all of us here believe that being open to and driving change and assuring that both airlines continue to improve are very high priorities.

And, operating with this set of beliefs is how we will best serve the interests of customers, employees, and shareholders. I want to once again thank our employees for a great start to the year. And, at this time, we're ready for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Bill Greene, Morgan Stanley.

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Bill Greene - *Morgan Stanley - Analyst*

Yes, great, thank you. Best of luck to you in your future endeavors, Bill. And, Brad, good luck filling the shoes. So, the -- as I look at the quarter here, obviously, you made a lot of comments here on the load factors and the changes that are structurally going on.

Can you offer any further color around what is exactly going on in the fare environment? You mentioned the bag fees not keeping up because of changes. It doesn't feel like fares are keeping up with fuel either. So, maybe any help on thinking about how do we get the industry back to fully recover this big cost here?

Andrew Harrison - *Alaska Airlines - VP, Planning and Revenue Management*

Bill, this is Andrew. Can't really speak for the industry per se, but I think what I can say from our position is there has been some fare increases, as you may be aware. A couple in the first quarter, some systemwide. To your point, not huge. One of the things we're focusing on the most is really our own opportunity inside the house here and our revenue management.

We measure what we call sold too soon, and we reduced the number of flights we sold out too quickly by 30% in our first quarter, which is a weaker environment. And, we have our eyes firmly fixed on where we have opportunity going forward over the next couple of quarters. I think for us, on top of the fare increases that we have been able to pass, we feel very good with that.

Bill Greene - *Morgan Stanley - Analyst*

I guess what I was getting at is, do you feel we have either too much capacity or too weak demand?

Andrew Harrison - *Alaska Airlines - VP, Planning and Revenue Management*

Going forward, I feel right now that given the fuel environment and our business, our goal is to make sure that we recoup the cost of fuel. And, we're looking at this going forward and we feel fairly good about that in the short term.

Brad Tilden - *Alaska Air Group Inc - President and CEO Elect*

Yes, Bill, this is Brad just jumping in. As we look at the first quarter where the result came very close to last year, and we look at the advances and the schedule, what we've got set for the summer, we feel good about our ability to recoup the fuel prices and meet our objective of a 10% return on invested capital.

Bill Greene - *Morgan Stanley - Analyst*

Yes. Andrew, you mentioned this comment about selling out too soon. Does that mean advanced load factors should come down as you hold seats back? Is that what you're trying to say?

Andrew Harrison - *Alaska Airlines - VP, Planning and Revenue Management*

I think what I'm saying is that we are technically -- but I think when you look at our advances and what we've been doing on the sold too soon, I think you're seeing good, solid advances. I think what I'm sharing with you is that we are feeling good about reducing our sold too soon. So, I think both aspects are working very well for us right now.

Bill Greene - *Morgan Stanley - Analyst*

Okay.

Andrew Harrison - *Alaska Airlines - VP, Planning and Revenue Management*

On the load factor, as you've seen historically, it tends to hold where our advances are, give or take.

Bill Greene - *Morgan Stanley - Analyst*

Okay. Then just one question for Brandon. You've got some great cost control in the guidance for this year. Correct me if I'm wrong, but I think we have the flight attendants becoming amendable later this year.

So, we probably don't -- I know it takes a while to negotiate a contract, but how do we think about labor inflation going forward? What's the right way to think about what gets priced -- or what should get marked into the cost structure?

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Hi, Bill. You know, the way I think about labor is from a big high-level perspective. We want to pay our people good, market-based wages. We don't want to be top in the industry, but we want to be toward the top in the industry, maybe second, third, fourth, fifth in the industry in terms of base wage rate.

But, we want to fund that with really high productivity and then reward our employees with generous gain sharing when things go really well. I guess I don't know exactly the answer to your question. But, what I do think is that we'll be aiming to achieve a result that has us having, as I said, good, solid wages, but more of a variable component than a fixed component.

Bill Greene - *Morgan Stanley - Analyst*

Okay. That's great. Thank you for all the time.

Operator

Hunter Keay, Wolfe Trahan.

Hunter Keay - *Wolfe Trahan & Co - Analyst*

Thanks, good morning.

Brad Tilden - *Alaska Air Group Inc - President and CEO Elect*

Hi, Hunter.

Hunter Keay - *Wolfe Trahan & Co - Analyst*

Hey, a little more on the RM strategy. Again, if the leisure shift is enough to materially drive your loads up, shouldn't it also -- shouldn't there also be some associated negative yield impact? And, I guess the second part of this is what makes you feel the need to pursue that strategy in the first place? Are you seeing unfavorable competitive capacity trends in some of your core business markets?

Andrew Harrison - *Alaska Airlines - VP, Planning and Revenue Management*

I think it's very important to differentiate our first quarter from our second and our third, given our seasonality. I think what I'm saying here is that in the first quarter, specifically January and February, it's a very weak demand environment. If you just look over the last three years, 85% of our PRASM increase in 2010 first quarter was volume. 62% was in '11, and 67% was in '12.

Whereas in the second quarter, the volume is under 50% versus our yield. So, as we move forward, what I can share is that we've had both load factor, and in our regions and specifically our growth regions, yield improvements. And, in some cases, double digit. We're not doing this big tradeoff between load factor and yield per se, we're bringing both up which is encouraging.

Hunter Keay - *Wolfe Trahan & Co - Analyst*

Okay. Thanks, Andrew. On the bag fee commentary, I think you said, what, bag fee revenue was down 8%. I think I might have missed that. Is that correct?

Andrew Harrison - *Alaska Airlines - VP, Planning and Revenue Management*

Yes.

Hunter Keay - *Wolfe Trahan & Co - Analyst*

Okay. So, I guess that begs the question then, if you do have more leisure flying, why is bag fee revenue down so much? And secondly, at what point is it time to maybe address the fact that your bag fee structures, which are clear and the customers understand it, but are out of whack with the industry?

Because by my math, I'm looking at about maybe a $40 million annual revenue good guy simply by raising the first bag fee by about $5 which would bring you in line with some of your other competitors. Any thoughts on that, guys? And, thanks a lot.

Joe Sprague - *Alaska Airlines - VP, Marketing*

You bet, Hunter. This is Joe Sprague from marketing. A couple of thoughts on bag fees. Just so everyone knows, our bag fees were about $35 million in the first quarter, which was down from $38 million a year ago.

A couple of reasons, they were noted in Brandon's commentary, we have seen a definite shift in passenger behavior. That's not recent. That began over a year ago from folks not checking as many bags. And then, our Club 49 state of Alaska loyalty program for residents up there, which we did budget for and planned on causing some reduction in our bag fees, and that plan is coming in just about like what we expected.

That's having some impact, as well. That's the background on the bag fees. Any of our ancillary revenue streams, we do try and apply some guiding principles to which is to keep them simple and to ensure that they offer good value to our customers.

We're still the only airline in the industry that's offering a baggage service guarantee in exchange for our bag fees, and we feel good about that. And, if you look across our other ancillary items, obviously smaller than bag fees, but virtually all of them, hotel, car, food and beverage, even pet fees, were all up nicely on a year-over-year basis.

Brad Tilden - *Alaska Air Group Inc - President and CEO Elect*

And, Hunter, this is Brad. With respect to the idea of raising the bag fee from $20 to $25, it's a really difficult question. We obviously get the math. We spend a lot of time talking about it.

The benefit of doing it, obviously is that you get the quick impact to earnings. We know from just being out in the marketplace that customers really don't like these -- they don't like these ancillary fees. What we're committed to do here is to cover -- to achieve the 10% ROIC, to produce overall revenues that cover our cost of operating and produce the right profit, and then to try to structure this in a way that feels equitable and fair to our customers.

We came to $20 instead of $25 because we're competing against Southwest a lot, and our average stage length is shorter than some of our major competitors. That's the logic we've used to date to get to where we are. Not saying that we wouldn't change this down the road, but there is tension on both sides of the question, is what I'd say.

Hunter Keay - *Wolfe Trahan & Co - Analyst*

Okay, thanks, Brad and Joe, appreciate it.

Operator

Michael Linenberg, Deutsche Bank.

Michael Linenberg - *Deutsche Bank - Analyst*

Hey, good morning, everyone. And, I guess, Bill, it's been a great run. But, you're leaving the airline in very capable hands, so.

Bill Ayer - *Alaska Air Group Inc - Chairman, CEO, President - Alaska Air Group*

No doubt. Thank you.

Michael Linenberg - *Deutsche Bank - Analyst*

I guess with respect to that, back to some of the commentary. I guess, Brad, you mentioned, you talked about the focus on yields. And, as we move into the peak season, and it is somewhat remarkable how strong your booked load factor, not just for April and May but even June, you're up 2.5 points.

There was -- I know that there was an attempt to raise fares over the last day or so. And, it's ongoing. Is that something that Alaska has participated in?

Andrew Harrison - *Alaska Airlines - VP, Planning and Revenue Management*

So, Michael, two things. On the advances, I will -- as we did in the first quarter, we have moved capacity from the below average network load factor, California and Mid-Con in the first quarter, we shrunk those. We moved them to Hawaii.

You're seeing a similar thing in the second quarter. I will acknowledge we had too many seats in the state of Alaska in the second quarter last year and we cut capacity 10% in both April and May. And, we're seeing a very significant load factor pop there, and we continue to increase Hawaii. So, again, as Brad mentioned, you're continuing to see in these advances the shifting of our network to a higher load factor market.

Secondly, on the fare increases, yes, we've seen some stuff -- I'm not -- we were looking at some -- looking at competitive changes yesterday. But, we're still in the midst of looking at what's the right thing for Alaska Air, do we manage our inventory, and how are our markets looking. Right now we've not done anything too aggressive in the last 24 hours.

Michael Linenberg - *Deutsche Bank - Analyst*

Okay. Then, my second question, on the ancillary piece, and I think Brandon, you mentioned that you're going to follow the path of others and move it out of passenger into other. Where are we now on a per-passenger basis? Do you have that, what the ancillary piece is per passenger? And, what that was maybe a year ago?

Joe Sprague - *Alaska Airlines - VP, Marketing*

Yes, Michael, this is Joe again. It was about $11. Just shy of $11.60 for first quarter this year. It was $12.27 last year, same quarter.

Michael Linenberg - *Deutsche Bank - Analyst*

Okay, very good. Thank you.

Operator

Duane Pfennigwerth, Evercore Partners.

Duane Pfennigwerth - *Evercore Parners - Analyst*

Hi, good morning.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Hey, Duane.

Duane Pfennigwerth - *Evercore Parners - Analyst*

Just on your cost guide for the full year, can you talk about the progression of that, if there's any quarter where it might, the magnitude of that cost decline might be greater than some other quarter?

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Yes, hi, Duane, it's Brandon. So, as you know, we were basically -- and I'll talk in consolidated terms. In Q1, we were basically flat. In Q2, we've guided to flat, but we've retained our guidance of down a point to point and a half for the year.

So, just logically doing the math, you would assume that the second half of the year is down 2% to 3%. As I see it, and this is a very tentative right now, but I see Q3 basically being down 1% to 2%, and Q4 being down 3% to 4%. Now, I will share with you that I'm just a tiny bit worried about that because I -- any time the goodness is all promised toward the latter half of the year, I get a tiny bit nervous.

But, we are really focused on making sure that we understand what costs are landing where, and at this point, we feel really good about our guidance. What I can tell you is that there are a couple of divisions in particular internally that haven't really met their cost goals in the first quarter of the year. So, we're really going to make sure that we understand what we need to do to get back on track with those costs. That's kind of how I see it shaking out.

Duane Pfennigwerth - *Evercore Parners - Analyst*

Okay, that's helpful. And then, just wondering how you could -- how you characterize the competitive environment now versus when we had this conversation last quarter? And, if you could summarize competing supply on your routes, as you define it, over the next couple of quarters versus what we saw here?

Andrew Harrison - *Alaska Airlines - VP, Planning and Revenue Management*

Duane, this is Andrew. I think there hasn't been really much of a huge change from, I suppose, our perspective just as we look at the world somewhat flat in the second quarter. A little bit up in the third quarter.

We've seen in some specific markets some carriers like Spirit continue to increase on the west coast. Virgin continues to increase into some of our markets on the west coast. But, overall, we haven't seen a very material change in the supply aspect of seats in our regions at this stage.

Duane Pfennigwerth - *Evercore Parners - Analyst*

Okay, and then, just one last one. Just with respect to fuel efficiency, ASM production. It looks like your guidance actually implies that that gets a little bit worse year to year. But, my guess is with larger aircraft and longer stage length that should actually get better. Any thoughts?

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Hi, Duane, it's Brandon again. Just short end, from a fuel efficiency standpoint, it's simply load factors that are pulling down fuel efficiency. But, longer term, I think you hit the nail on the head.

We're really excited about what we're going to be able to do with the larger airplanes. And then, you're right, longer stage lengths do help that. But, then again -- as I said, that's a little farther out.

Duane Pfennigwerth - *Evercore Parners - Analyst*

Okay. Thank you.

Operator

Ray Neidl, Maxim Group.

Ray Neidl - *Maxim Group - Analyst*

Good morning, and Bill --.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Good morning, Ray.

Ray Neidl - *Maxim Group - Analyst*

I've enjoyed working with you over the years, and I hope we'll stay in contact.

Bill Ayer - *Alaska Air Group Inc - Chairman, CEO, President - Alaska Air Group*

Thanks, Ray.

Ray Neidl - *Maxim Group - Analyst*

Just to verify some of your competitors, your big route is Seattle/Anchorage. And, it's hard for other airlines to duplicate what you have intrastate Alaska. Are you seeing more in tougher competition on that particular route which I think has been a big money maker for you in the past? And, going forward, do you expect to see even more competition in that route?

Joe Sprague - *Alaska Airlines - VP, Marketing*

Hey, Ray, this is Joe. Not specifically Seattle/Anchorage. We are watching some of the low cost competitors coming in to some of our markets and taking actions to address that.

With respect to Alaska, the state of Alaska, the one notable entry has been JetBlue in the Long Beach/Anchorage market. Of courser, we have seasonal Los Angeles/Anchorage nonstop service that addresses that, as well. But, Seattle/Anchorage has been fairly steady with respect to competition.

Ray Neidl - *Maxim Group - Analyst*

Okay, great.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Hey, it's Brandon, I'll just add one thing to that. You're right, we do make money in Seattle/Anchorage. One of the benefits of the network changes that we've made over the last few years is that there's really been good diversification of profit across the network. So, we're not depending on any particular market or state or region to make money.

The other thing is that whether it's Seattle/Anchorage or any of our markets, we do expect more low-cost competition as we move forward. That's what we're trying to do, how we've positioned the company from a revenue -- on the revenue and pricing side, what we're trying to do with costs. It's all about how we make this thing successful and sustainable long term, recognizing that there's going to be low-cost competition growing in all of our markets.

Ray Neidl - *Maxim Group - Analyst*

Okay. As usual, you anticipated my followup question, but, I'll ask it anyway. I know there's lots of potential growth in the Hawaiian service market there. It's been very successful. But, from the other end, more in leisure markets going south, past Mexico, Central America, Caribbean, Northern South America, is that on your radar horizon in the distance, or do you just have your plate full right now?

Andrew Harrison - *Alaska Airlines - VP, Planning and Revenue Management*

Ray, this is Andrew. We are always looking for opportunities. In southern California, one of the things just longer term I suppose is looking at the new MAX that Boeing's got coming down the road that has longer stage lengths, it can fly further. We are looking at all of those opportunities, really up and down the west coast from California, but, nothing definitive to say right now.

Ray Neidl - *Maxim Group - Analyst*

Okay, great. And, just one final thing, congratulations getting your debt to capitalization ratio down to 60%. Is that going to keep going down? Your cash flow is so strong, that it appears that thing could start moving toward the Southwest levels.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Yes, Ray, it's Brandon. Yes, I think it will continue to move down. We see, as I said, 2012 coming in as a pretty good year. So, that drives equity up, and we don't anticipate any more debt. In fact, we continue to see debt coming down. So, just the math would suggest that it's going to continue to come down. We're not aiming to quote be Southwest like necessarily, but I think everyone would agree that lower leverage is better, especially as an airline where you have lots of operating leverage, as well.

Ray Neidl - *Maxim Group - Analyst*

Okay, great. Thank you, very much.

Brad Tilden - *Alaska Air Group Inc - President and CEO Elect*

Thanks, Ray.

Operator

Helane Becker, Dahlman Rose.

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

Thanks, very much, operator. Hi, everybody. Bill, congratulations, and best wishes to you. It's been great working with you these past many years. And, Brad, also congratulations to you on your new position.

Bill Ayer - *Alaska Air Group Inc - Chairman, CEO, President - Alaska Air Group*

Thanks, Helene.

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

So, here is my question. With respect to your new routes as you go into these new markets like Philadelphia and some of these others, are you noticing an increase in the number of inquiries you're getting for Frequent Flyers? Can just talk about trends you're seeing in members in your Frequent Flyer program?

Joe Sprague - *Alaska Airlines - VP, Marketing*

Helane, this is Joe. Yes, we are definitely seeing an increase in Frequent Flyer program membership, we can get you the numbers after the call. We have put some special focus on that in the Portland market where we've had a particular focus over the last couple of years. We've seen really significant growth in mileage plan membership and have a focus on that in California, as well.

So, very positive trend. And, we're trying to do some things to highlight the popularity and the benefits of the Alaskan Airlines mileage plan program. Which, with our alliances with a number of different global airlines, really makes it a highly -- has great utility for members in the program vis-a-vis the relative size of our airline.

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

Okay. And then, can I just ask a maintenance-related maintenance question? I noticed that your maintenance costs in the first quarter were down by about 6%. And, I guess with the fleet getting younger, that trend should continue. Although, I don't -- I think you're only taking the one aircraft in May and then nothing until the fourth quarter. Can you just talk about what we should expect in that going forward?

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Sure, Helane, it's Brandon. Let me ask George Newman, our Controller, to address that question.

George Newman - *Alaska Airlines - Controller*

Okay. So, through the first quarter, we're -- essentially the Alaska maintenance is flat. And, where we're really getting a benefit is that we phased out the CRJs on Horizon. And, that's where most of the savings are coming in.

So, that we're essentially down approximately $3 million. I think there's some timing differences. So, we may have some of that, and we lose that benefit going forward. But, based on our fleet age, I don't see significant increases in maintenance down the road.

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

Okay. And, just for my last question, Brandon, can you just comment on April unit revenues given the changes in -- that you and Andrew were talking about earlier in load factor and holdbacks and things like that? How should we think about that?

Brandon Pedersen - *Alaska Air Group Inc - CFO*

No.

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

I tried to say it seriously, too. Okay, thank you. Have a nice day.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Take care.

Operator

Jamie Baker, JPMorgan.

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

Hey, Brad. I may also have to settle for a one-word answer to my question, but here it is anyway. I think the best airline management in the business would be a management that could get revenue to rise and costs to fall. Obviously, managers in other industries can do that.

And, I obviously understand the challenges that are unique to the airline industry. But then, I start reading about Delta possible buying a refinery. I'm kind of struck by the fact that, hey, at least they're trying to think outside the box and exercise some real control over fuel costs. I'm not suggesting at all that this is the best strategy for Alaska. Your current profitability speaks for itself.

But, I am wondering if there's any management or Board appetite for trying to do things differently going forward. You're obviously running a great airline, you've been mindful of shareholders, but I've got to wonder if there are opportunities to think outside the box, maybe in ways that are unairline and less traditional. Any thoughts?

Brad Tilden - *Alaska Air Group Inc - President and CEO Elect*

Yes. So, Jamie, yes. I think thinking outside the box is really good. We were all intrigued when we saw the news announcement regarding Delta's interest in this refinery. I think if you're in the airline business, you have to understand Delta's frustration. Crack spreads have gone for over the years from $0.13 to --.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

$0.80.

Brad Tilden - *Alaska Air Group Inc - President and CEO Elect*

To $0.80. They're up 500% or something like that over the last several years. So, I think doing something to try to address what's happened to refining costs and so forth, what I would say is you can understand Delta's frustration. You can understand why they would be interested in something like that. Would we be interested in thinking outside the box, sure. I think you want to be open-minded about that. Is there more we want to say about that right now, probably not. Anyway, is that helpful, Jamie?

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

Yes, that's good color. I appreciate it. All right, good luck, thanks.

Brad Tilden - *Alaska Air Group Inc - President and CEO Elect*

Thanks, Jamie.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Bye, Jamie.

Operator

Dan McKenzie, Rodman and Renshaw Securities.

Dan McKenzie - *Rodman and Renshaw - Analyst*

Hey, good morning, guys. I guess at the risk of sounding monotonous here, congratulations to you both. It's not that many years ago when we all pretty much laughed at the idea of you hitting a 10% return on invested capital, and you did it, so.

Brad Tilden - *Alaska Air Group Inc - President and CEO Elect*

Thanks, Dan.

Dan McKenzie - *Rodman and Renshaw - Analyst*

Anyways, a couple questions here. The first is a house cleaning item. What are Alaska's total unencumbered assets at this point? And, of that, how much would be aircraft related?

Brandon Pedersen - *Alaska Air Group Inc - CFO*

So, total unencumbered aircraft is 30 airplanes on the Alaska side and 4 airplanes on the Horizon side. So, the 4 are Q400s. The 30 airplanes, I think, I'd have to check this, but I think it's 25 737-800s and 5 other airplanes. That's probably plus or minus one off from actual.

Dan McKenzie - *Rodman and Renshaw - Analyst*

Got it. And, that would pretty much compromise or encompass all the total unencumbered assets then?

Brandon Pedersen - *Alaska Air Group Inc - CFO*

That's just airplanes.

Dan McKenzie - *Rodman and Renshaw - Analyst*

Yes.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Total unencumbered assets? Fortunately, the big table that we're sitting at is unencumbered. I don't know that we have a good answer to the question. If you look at our balance sheet, there's lots and lots of assets that are unencumbered. One of the things that we've done over a long period of time is maintained a relatively conservative balance sheet.

If you look at our $200 million line of credit, it's two tranches of $100 million each. One of those $100 million tranches is secured by parts and receivables, although we haven't used that and we don't have any intent to use that facility. But, other stuff, I mean, we obviously have lots and lots of assets. And, all of them are unencumbered except for the mortgage debt that we have on the airplanes absent the 34 that I talked about.

Brad Tilden - *Alaska Air Group Inc - President and CEO Elect*

Yes, Dan. I think the big categories, Dan, would be buildings and spare engines and simulators and inventory receivables.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

For sure.

Brad Tilden - *Alaska Air Group Inc - President and CEO Elect*

Yes.

Dan McKenzie - *Rodman and Renshaw - Analyst*

Okay, that's helpful, thanks. And then, I did get distracted a little bit. I'm not sure if you already answered this question. But, if you had implemented the bag fees -- the bag fee reclassification in the first quarter, how would have the first quarter PRASM trends been impacted? It sounds like they would have been slightly higher just given the drag from the bag fees.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Dan, can you -- I'm not sure I understood your question exactly. Can you rephrase the question?

Dan McKenzie - *Rodman and Renshaw - Analyst*

So, Alaska includes the bag fees in the passenger PRASM. It sounds like you want to reclassify those starting the second quarter. I think if I heard correctly.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Oh, sure. Okay.

Dan McKenzie - *Rodman and Renshaw - Analyst*

I'm trying to get a sense of how that -- go ahead.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Yes, so what you're saying basically is how much is going to move in the first quarter from passenger revenue down to other revenue?

Dan McKenzie - *Rodman and Renshaw - Analyst*

Correct, yes.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

It is roughly $58 million -- no, excuse me. I'd call it about $55 million will shift from one to the other.

Dan McKenzie - *Rodman and Renshaw - Analyst*

Okay.

Brad Tilden - *Alaska Air Group Inc - President and CEO Elect*

Dan, I think it's almost a point of PRASM.

Bill Ayer - *Alaska Air Group Inc - Chairman, CEO, President - Alaska Air Group*

Yes. That's a better way.

Dan McKenzie - *Rodman and Renshaw - Analyst*

Okay. That's helpful.

Brad Tilden - *Alaska Air Group Inc - President and CEO Elect*

Our PRASM would have been up another point had they been reclassed.

Dan McKenzie - *Rodman and Renshaw - Analyst*

Got it, okay. That's helpful. I appreciate that. And then, just one final quick question here. You did mention interest in shifting to larger aircraft such as the 900. And, given the increased trans flying, should we infer that there could be a further shift, such as a shift to potentially a 757?

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Brandon Pedersen - *Alaska Air Group Inc - CFO*

Dan, it's Brandon, no. We love operating one fleet type. I think there are just so many benefits that come from that. The company worked really, really hard to get from three fleet types down to one on the Alaska side and really do the same on the Horizon side, as well. So, both companies now are enjoying all of the benefits that come from operating one single fleet type. We don't have any intention to move away from that at all.

Dan McKenzie - *Rodman and Renshaw - Analyst*

Understood.

Brad Tilden - *Alaska Air Group Inc - President and CEO Elect*

Helane asked about this earlier. But, I think If you look at the company's success, Dan, over the last 10 years, going to a single airplane, going to larger airplanes, newer airplanes where we don't have the maintenance expense, in this environment where fuel goes up, our fuel cost per passenger is much lower on a large airplane.

This -- moving to an all 737 fleet at Alaska and all Q400s at Horizon and being in airplanes that are at the higher, larger gauge in their class, I think it's been very, very helpful for the company. I think what we want to do is for the next little bit is keep things clean and simple.

Dan McKenzie - *Rodman and Renshaw - Analyst*

Understood. Thank you very much, guys.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

All right, Dan, have a good day.

Operator

Glenn Engel, Bank of America Merrill Lynch.

Glenn Engel - *BofA Merrill Lynch - Analyst*

Good morning. Bill, I would say you're probably the only CEO I know whose stock is higher now than when he started.

Bill Ayer - *Alaska Air Group Inc - Chairman, CEO, President - Alaska Air Group*

Right. Good, thanks.

Glenn Engel - *BofA Merrill Lynch - Analyst*

Two questions on PRASM. One is, when you look to the first quarter, can you talk about the regions, which markets had outperformed the system which underperformed. And two, it seems like when I look through your quarter, in peak months your PRASM gap relative to the industry seems to narrow versus off-peak months. And, does that bode well for the Spring and Summer quarters?

THOMSON REUTERS

Andrew Harrison - *Alaska Airlines - VP, Planning and Revenue Management*

So, Glenn, on your first question, really -- we don't normally talk about specifically about regions. When I look across the regions, we felt very good about every region with its PRASM increases. Many representing the network change and some even double digit.

Where we didn't do so well is where we had a little bit too much capacity. And, as I shared, into the second quarter, we're making some adjustments there. So, again, it really, on average, was across the board strength. No one particular region outshone the other. On the second one, your question was that our unit revenue gap versus the industry's?

Glenn Engel - *BofA Merrill Lynch - Analyst*

Relative to the industry's, yes.

Andrew Harrison - *Alaska Airlines - VP, Planning and Revenue Management*

What was your statement again?

Glenn Engel - *BofA Merrill Lynch - Analyst*

You seem to be -- your PRASM gap, your PRASM seemed to underperform more at the beginning of the year than it did in March. And, I thought I've seen really lately it seems like in peak months your PRASM relative to the industry looks relatively better than your PRASM gains in off-peak months.

Andrew Harrison - *Alaska Airlines - VP, Planning and Revenue Management*

Yes, that would be somewhat of a fair statement, although I would say we will start to significantly increase our stage length going up to the 4% range plus over the next couple of quarters. And, the industry as I see it is probably flat to down. So, that's going to offset some of that work that you're seeing there.

Glenn Engel - *BofA Merrill Lynch - Analyst*

Okay. Thank you.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Thank, Glenn.

Operator

Steve O'Hara, Sidoti and Company.

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

Hi, good morning.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Hi, Steve.

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

I think Hawaii's been a pretty good growth market for you guys the last several years here. Just wondering your thoughts on additional competition coming in. You started, I think, flying more head-to-head routes with Hawaiian. How should we think about that market as maybe the visitor or capacity maybe nears or eclipses the peak? And, maybe where are we now and long term how you see that market?

Andrew Harrison - *Alaska Airlines - VP, Planning and Revenue Management*

Steve, I suppose a couple of thoughts. Essentially our growth this year, the 6%, essentially Hawaii's over 100% of that. And, it's mostly California, Hawaii growth. I mean, if you just look at the main line alone, this winter it will be about 25% of our capacity. But, so it's grown significantly.

But, we've always said, and as we will continue to believe, is that our goal is to match the supply with the demand. And, also look very carefully at about our costs to serve Hawaii and the aircraft that we're serving to make sure that it continues to be strong and vibrant. So, while today I couldn't particularly tell you where this is going to go over the next 12 months, we will continue to refine.

We've learned a lot about Hawaii over the last two, three years with the increases, the seasonalities are very different between the Pacific Northwest and California. So, I think at this time what it would be safe to say is that we will continue to, I believe, build and strengthen that franchise. But, at this point I wouldn't be prepared to say about any to the extent of that past the fourth quarter.

Brad Tilden - *Alaska Air Group Inc - President and CEO Elect*

Yes, Steve, this is Brad. One of the things that has been really encouraging to us is our ability to stimulate these markets. We've gone into a lot of these markets, I think folks know the low fare position we've taken.

We have had DOT data, the lowest fares off the West Coast to Hawaii for six quarters in a row now. So, we've gone in and we've been particularly surprised in California with our ability to go in with the low fares and grow the market. So, that's good. And, I think that bodes well for a bit more Hawaii.

I think if you were to go up a couple feet and look at it from a larger -- a higher level perspective, there was a big void in the market when ATA and Aloha pulled out in March of 2008. And, that void is largely filled in now. So, I'm not sure that there's a ton more opportunity there. But, given the stimulation that we are seeing, we think that there is some incremental opportunity.

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

Okay. And then, just real quick, you've given the ancillary per passenger. I mean, is that just bag fees and hotels, seat assignments? What does that include?

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Hey, Steve, it's Brandon. I'll kind of give a broad rundown. It includes first-class upgrades. It includes res fees, ticket change fees, bag fees, all of our buy-on-board revenue and then the commissions that we make from hotel and cars, as well.

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

Okay. So, it's a pretty comprehensive number?

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Yes, yes, yes. Yes.

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

All right. Thank you, very much.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Thanks, Steve.

Brad Tilden - *Alaska Air Group Inc - President and CEO Elect*

Thanks, Steve.

Operator

Savi Syth, Raymond James.

Savi Syth - *Raymond James - Analyst*

Hi, thanks for taking my question. Just on the bag fee trends, is it deteriorating further or after the initial reaction to the fees? Has the trends evened out so we should be lapping that pretty soon?

Joe Sprague - *Alaska Airlines - VP, Marketing*

Yes, Savi, this is Joe. I think it is starting to even out. Particularly the impact with the Club 49 bag fees. The period of the year which has a higher percentage of point of origin traffic coming out of the state of Alaska, in other words, residents leaving the state on vacation and so forth, is the period we've been in for the last six months.

As we shift more into the summer months, that shifts completely around with more visitors going to Alaska that won't be Club 49 members. And so, yes, I think we're probably starting to see that stabilize. But, I would note that this trend in passenger behavior overall, and I don't think it's unique to Alaska Airlines, of folks just checking fewer bags, where that trend continues, I don't know. But, we've certainly seen a fair bit of that, as well.

Brad Tilden - *Alaska Air Group Inc - President and CEO Elect*

And Joe, Club 49 started --.

Joe Sprague - *Alaska Airlines - VP, Marketing*

October.

Brad Tilden - *Alaska Air Group Inc - President and CEO Elect*

In October. So, we've got two more quarters until we've kind of lapped that.

Joe Sprague - *Alaska Airlines - VP, Marketing*

Yes.

Savi Syth - *Raymond James - Analyst*

Okay. And then, just on the comment on ancillary revenue, so have you started -- the items that you looked at, have you started seeing the contribution from those revenues and it's bag fees that are just offsetting them? Or what's the growth that we could see from just doing more ancillary revenues?

Joe Sprague - *Alaska Airlines - VP, Marketing*

Yes. I mean, Brandon just gave a good rundown of what they are. I can tell you that food and beverage in particular, although it doesn't have the same contribution as bag fees, that is a number that has been up. In fact, we had a record month in March for buy-on-board food and beverage.

We've got a great product there that we're trying to offer a nice experience for our customers, but it is producing good revenue, as well. And, in virtually all those other areas that Brandon listed on a quarter over -- year-over-year basis in the first quarter, we have seen growth there. I think as we look ahead to growing the airline and more passengers over time, we think we're going to be in good shape on ancillary.

Savi Syth - *Raymond James - Analyst*

All right, great. And, just one last maintenance item. What's the current portion of debt?

Brandon Pedersen - *Alaska Air Group Inc - CFO*

It is probably right around $175 million.

Savi Syth - *Raymond James - Analyst*

All right, great. Thank you.

Operator

Kevin Crissey, UBS.

Kevin Crissey - *UBS - Analyst*

Thank you, very much. Maybe, this is for Andrew. Based on what's been booked today and then thinking forward for the remainder of April travel, do your comparisons get easier or harder as we go forward? If I knew the numbers as of today, would I expect the year-over-year change to get worse or better? Just on comp?

Andrew Harrison - *Alaska Airlines - VP, Planning and Revenue Management*

If I understand your question, I mean, we have -- our comps, so in 2011 on the mainline side, we have a higher comp to deal with. If we had about 8.5% growth in 2011, April was 4.7% last year and June was 6.8%. I suppose without getting into detail there is that I suppose I feel very good about how we're tracking and how we expect to track with our PRASM. If you just look at history, I don't see anything earthshattering differently than that.

Kevin Crissey - *UBS - Analyst*

Okay, all right. What I meant was -- but that's useful, as well, thank you. What I really meant was just looking at April travel, and so your April RASM, did you last year do better with early bookings and weekend closer in, or was it relatively stable, or was close-end bookings tougher?

Andrew Harrison - *Alaska Airlines - VP, Planning and Revenue Management*

There's been a little bit of a change this year with Easter moving two weeks earlier in. But, I suppose, we've just -- the Spring Break here in the Pacific Northwest is very strong. It was very strong last year.

It was very strong this year. And, so for us, I suppose I keep going back to what I shared earlier, was about not selling out at these load factors our airplanes too early and making sure we work the yield. So, that's what we've been doing. I'm not 100% sure I'm getting to your question.

Kevin Crissey - *UBS - Analyst*

Okay.

Brad Tilden - *Alaska Air Group Inc - President and CEO Elect*

Kevin, are you asking about the real close-end demand, the next 11 days or something to help us finish out the month? Is that what you're asking?

Kevin Crissey - *UBS - Analyst*

Yes, exactly. Say I knew what your RASM was for all flights booked up to this point, which I don't, but say I did, would I expect that year-over-year change to get easier or harder in the next 11 days?

Brad Tilden - *Alaska Air Group Inc - President and CEO Elect*

I'll let Andrew speak for himself. But, I don't know -- I'm not sitting here with a strong sense of exactly where we were last year at this point in time. So, I don't have a strong sense of how to shape that for you.

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Kevin Crissey - *UBS - Analyst*

Okay. No problem. How about capacity by month in Q2? The change in capacity?

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Yes. Kevin, it's Brandon, hi. I can give you that. By month we are going to be roughly -- April's the lowest. It's probably 2.5%, May is probably 7.5%, and June's probably 7% on a consolidated basis.

Kevin Crissey - *UBS - Analyst*

Thank you.

Brandon Pedersen - *Alaska Air Group Inc - CFO*

Just rough numbers. There's some rounding there.

Kevin Crissey - *UBS - Analyst*

Thanks, guys, and congrats.

Brad Tilden - *Alaska Air Group Inc - President and CEO Elect*

Thanks, Kevin.

Chris Berry - *Alaska Air Group Inc - Managing Director of IR*

Hi, Martina, we're going to end it there. We'll wrap up here.

Brad Tilden - *Alaska Air Group Inc - President and CEO Elect*

Yes. Thanks, everybody, for joining us today. We're looking forward to talking with you again next quarter.

Operator

Thank you for participating in today's conference call. This call will be available for replay beginning at 3.00 p.m. Eastern Time today through 11.59 p.m. Eastern Time on May 25, 2012. The conference ID number for the replay is 37715652. The number to dial for the replay is 1-800-642-1687 or 1-706-645-9291. Also, the call will be accessible for future playback at www.Alaskaair.com. You may now disconnect.
