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ALK - Q2 2015 Alaska Air Group Inc Earnings Call

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OVERVIEW:

Co. reported 2Q15 adjusted net income of $230m or $1.76 per share.

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PRESENTATION

Operator

Good morning. My name is Stephanie and I will be your conference operator today. At this time, I would like to welcome everyone to the Alaska Air Group second-quarter 2015 earnings conference call. Today's call is being recorded and will be accessible for future playback and www.alaskaair.com.

(Operator Instructions)

Thank you. I would now like to turn the call over to Alaska Air Group's Managing Director of Investor Relations, Lavanya Sareen.

Lavanya Sareen - *Alaska Air Group, Inc. - Managing Director of IR*

Thank you, Stephanie. Good morning, everyone, and thank you for joining us for Alaska Air Group's second-quarter 2015 earnings call. Our CEO, Brad Tilden; our CFO, Brandon Pedersen; Chief Commercial Officer, Andrew Harrison; and Chief Operating Officer, Ben Minicucci will provide highlights from the second quarter and our outlook for the remainder of the year. Several members of our senior management team are also on-hand to help answer your questions.

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. We will refer to certain non-GAAP financial measures, such as adjusted earnings and the earned 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 [directed] quarterly adjusted profit of $230 million, or $1.76 per diluted share. This result compares to the First Call consensus of $1.73 per share and exceeds last year's adjusted net income of $157 million, or $1.13 per diluted share. Additional information about cost expectations, capacity plans, fuel hedging, capital expenditures, and other items can be found in our investor updated included in our Form 8-K filed this morning and is available on our website at Alaskaair.com.

Now I'll turn the call over to Brad.

Brad Tilden - *Alaska Air Group, Inc. - CEO and Chairman*

Thank you, Lavanya, and good morning, everyone. As Lavanya mentioned, we reported a net profit of $230 million for the second quarter, which is 46% higher than 12 months ago. This is our 25th consecutive quarter of profitability, and it's the highest quarterly profit in our history. The 46% growth in our net profit, coupled with the repurchase of 9.5 million shares over the last 12 months, drove our earnings per share up by 56% to $1.76 per share. As we pause to take a look at how we're doing mid-year, and two and-a-half years into the biggest competitive incursion we've seen in a while, I'm happy to share that we are thriving. Our operation is firing on all cylinders, our leaders are focused on execution, and we are generating returns that far exceed our cost of capital.

But before I talk about the returns, I want to spend a few minutes on the underlying drivers of our results. I'll start with safety. Our number one priority is to operate safely, and we think that doing so benefits our overall operation. Because to be safe, we have to all understand our jobs and we have to have the tools and training to do them well. And this focus on doing things right has benefits that extend throughout our airline. Our commitment to operating safely was recently validated by our maintenance team earning the FAA's AMT Diamond Award for maintenance, training, and excellence. This is the 14th consecutive Diamond Award for Alaska Airlines. Horizon Air has also won the award 14 times.

Turning to our operation, we continued to operate well despite some headwinds. As you know, we're growing significantly to strengthen and fortify our franchise in Seattle, and we crossed the 1,000 flight per day threshold on July 2nd. The increased flying, coupled with runway closures in Seattle, LA, and Juneau, created a challenging operational environment this spring and summer, but our people moved quickly. Our system ops team adjusted block and ground times and implemented a dual taxiway in our Seattle hub, which allows us to taxi two planes side by side in opposite directions. Our operations team executed the plan really well; 88.2% of our flights arrived on time and we cancelled only one-half of 1% of our flights. We expect that both of these statistics will lead the seven largest domestic airlines, many of whom are running their own great operations. Our people are delivering on our promise of a safe, reliable and on-time operation, and Ben, Dave, and I, and the rest of the leadership team could not be more proud of them.

On the customer service front, our internal customer satisfaction score for the quarter tied our score from the first quarter of 2015, which was the highest score we've seen since we began tracking this data in 2007. As you know, we also won our eighth consecutive JD Power award for customer service during the quarter. We're pleased that the enhancements to our product and service are resonating with customers, but we have more work to do. The on-board experience is an area where we've made a lot of changes and we have more planned. For example, we've introduced a new in-flight entertainment system, we've improved the meals in both cabins, and we've given our flight attendants mobile devices which facilitate greater personalization in their interaction with customers. In May, we introduced preferred seating, which gives passengers additional leg room, early boarding, and a free drink. We're very interested in seeing how this product is received, as it could lead to more opportunity down the road.

With respect to our schedule, earlier this month we launched new service from Seattle to both Milwaukee and Oklahoma City, and from Portland to St. Louis, with all of these being served with a new aircraft type, the Embraer E-175. The early returns on these markets are very good. We're looking forward to new service this fall to JFK, Raleigh, Charleston, Nashville, and Costa Rica. And finally, recognizing the customer preference and financial -- recognizing that the customer preference and financial success that we have today is due in part to our superior service, we're doubling down on service through a new series of workshops for our customer-facing employees. Ben is going to tell you a bit more about these in a moment.

We expect that each of these changes is going to improve the experience for our customers and help us increase the preference they have for Alaska.

Moving to financials, I felt that we had good performance this quarter. Our pretax margin of 25.7% is 740 basis points higher than last year. This is our best quarterly performance ever, and we expect our margin performance to be near the top of the industry and to exceed the S&P 500 companies on average. Of course, a lot of the improvement is due to lower fuel prices, but we also had relatively strong revenue performance and strong cost performance. The fact that we were able to take the majority of the lower fuel prices to the bottom line is a testament to the focus and diligence of our leadership team. Our ROIC of 22% over the last 12 months far exceeds our cost of capital and speaks to a business that is creating tremendous value for its owners. And to give you a sense for how things are moving, our pretax income for the first six months of 2015 was $610 million, which is about equal to what we earned for all of 2013. More broadly, we expect this to be a record quarter for the industry and an indication that the industry is healthy and focused on earning returns that exceed its cost of capital.

While fuel is low and the economy is generally strong, we believe that this is still a cyclical business. Being flexible is important for producing strong results throughout the cycle. Alaska is the only US airline that has net interest income, and this, combined with the 80 aircraft that we own free and clear, gives us great flexibility, should we see fluctuations in fuel prices or a downturn in the economy. This increased flexibility has allowed us to be profitable through the worst recession since the Great Depression and to perform strongly in the midst of unprecedented competition. But most importantly, our people have proven themselves to be resourceful and resilient.

We have said for some time now that competition should make us better. But as I see these results, talk with our customers, and see our employees out in the operation, I'm convinced that we're a better and stronger Company today than we were three years ago. And our leadership team is heads down and focused on the future; focused on executing our plan to keep Alaska strong and prosperous over the long run, and creating value for our employees, our customers, our communities, and very importantly, our shareholders. The program for customer-facing employees, which I mentioned earlier, is one step in that direction. And I want to turn the call over now to Ben to provide some detail on this.

Ben Minicucci - *Alaska Air Group, Inc. - COO*

Thank you, Brad, and good morning, everyone. At Alaska, we know that a low cost structure is fundamental to our long-term financial success, and we also believe that our success has been fueled by our rich history and culture of customer service that has been a cornerstone of our sustainability. This year, despite winning an eighth JD Power award, we challenged ourselves to up our game in the area of customer service. We created what we call the Beyond Service Workshop that all 8,000 customer-facing employees and their leadership teams will attend throughout 2015. This experience, conducted over one-and-a-half days, is being held in a really unique venue in south Seattle that's designed to celebrate our rich history and roots of customer-service DNA; educate our employees on the competitive landscape; share the essence of our brand with them; and present our service framework built on safety, caring, delivery, and presentation. This framework is designed to engage, empower, and align everyone at Air Group in an effort to create a consistent approach to service that results in exceptional customer experience.

The workshop is very intimate, hands-on, and two-way dialogue facilitated primarily by front-line employees like flight attendants, customer service agents, and reservation agents. They review real-life examples on how to deliver exemplary service in various and sometimes challenging scenarios. The big take-away learnings are empowerment, knowing when to make exceptions to policies and enhancing the trust between management and front-line employees. This investment in our people will help us create additional separation from our competitors and confirm our place on the list of best-in-class service providers. We believe that Beyond Service, when combined with our operational excellence, creates a compelling proposition for our customers and strengthens our brand preference. Now over to Andrew.

Andrew Harrison - *Alaska Air Group, Inc. - Chief Commercial Officer*

Thank you, Dan and good morning, everybody. Our second-quarter passenger revenue increased $57 million, or 4.9% on 10.7% capacity growth. Our second-quarter PRASM was down 5.3% as a result of the 13% increase in capacity in our markets. But notwithstanding this, our PRASM gap to the industry narrowed by 300 basis points to 2.1%. In fact, our June PRASM was 2.1% better than the industry, despite our capacity growth of 7.2%.

As you know, we are growing, and as we grow, we are focused on diversifying our revenue streams and growing our customer base. I want to take a few moments to provide you with some details under each of these areas.

I'll start off with diversifying revenue streams. First, we launched 18 new markets since the beginning of Q2 of 2014. Almost 70% of these markets are profitable within their first year of operation. Additionally, half of these markets would be profitable if fuel were $3 a gallon. We expect all new markets to continue to improve as they mature. Secondly, we'll be launching 18 new markets in the second half of 2015. All of this growth is undergirded by tremendous customer loyalty, continued cost discipline, and matching the right aircraft to the right market. For example, we're very pleased to introduce new Embraer 175s to the fleet earlier this month. This will be a great airplane for us and allow us to serve long, thin markets profitably. By late 2016, we'll have over 15 E-175s in the network, all of which will be operated by our CPA partner, SkyWest.

Third, we introduced a new revenue stream through the preferred seating this quarter, and we are very encouraged to see the highest uptake was on our shorter stage lengths, which have the highest passenger volumes. We will continue to make revenue-enhancing adjustments to this program over time as we learn more about customer behavior and preference. And lastly, we've been very pleased with our first-class revenue performance. Upgrade sales at the gate increased 17%, and our P class or discounted first-class fares helped boost our paid first-class load factor by 1.6 points to 35%. In Q2, our paid first-class PRASM was down only 0.5%, significantly better than our system PRASM performance.

Moving to the second theme, growing our customer base. We continue to focus on customers with our industry-leading on-time performance, improvements to our on-board product and ever-expanding network. Our customers are rewarding our efforts with greater loyalty. Our loyalty program generated $175 million in cash for Q2; that's an increase of 13%. Our active mileage plan members were up 15%, and we grew our card program by 10.5%. Both programs continue to outpace our passenger growth. Our customers increasingly book with us through Alaskaair.com, which is both our lowest cost and highest engagement channel. So far this year, sales through Alaskaair.com are up 3.6 points to 59.1%, and both web and mobile check-in are up 5 points each.

When speaking of customer loyalty, partnerships are key, and yesterday we announced a new mileage plan partnership with Hainan Airways. Hainan offers a premium experience and flies nonstop to Beijing and Shanghai from Seattle and nearly 70 destinations throughout China. Alaska's network provides powerful feed to our international partners, allowing them to grow and, in turn, open up more options for our customers. For example, our feed just to Emirates has doubled in the last two years to 200 passengers a day, allowing Emirates to add a second frequency in Seattle. In fact, since their second frequency add, daily passengers jumped to 275 during July, with a peak day of 410 connecting passengers. Hainan and Icelandair, both carriers we work with as either a partner or through interline, have also increased their international compass in Seattle, ensuring that our customers have better options for their international travel needs.

Creating greater customer affinity and diversifying our revenue base will help us to become successful in the long term. Our Seattle market share for the last 12 months ended December 31, 2015, given current bookings schedules of 51%, is unchanged from 12 months ending December 2012, proof that the changes we have made to our network are working well in the midst of increased competition. As we shift our focus to the back half of the year, Alaska's capacity will be up 7.9% in Q3 and 11.4% in Q4. Stage, gauge and new markets will contribute 3 points to the third quarter and 8 points in the fourth quarter. The remainder is growth in our strong core markets that help us increase our utility. We freed up five aircraft in the fourth quarter by reducing day of week and frequency flying in markets where supply and demand were not aligned. We used these assets to accelerate the launch of new markets.

As we move into Q3, we do have a few things to be mindful of. First, weighted capacity in our Hawaii and Alaska markets is expected to be up 10% and 17%, respectively. Yield pressure in Q2 was most acute in these two regions and will continue into Q3. And second, while the rate of competitive capacity increase is trending down, it remains high at 12 points of growth in Q3 and 8 points of growth in Q4, driven by new competitive adds to markets such as Pasco, Missoula, Kona, and Orlando. In summary, we're growing and diversifying revenues, and at the same time, generating increased customer loyalty, which includes strong growth in our credit card program. We have confidence in the resilience of our business model, and we expect our positive momentum to continue.

With that, I'll turn this over to Brandon.

Brandon Pedersen - *Alaska Air Group, Inc. - CFO*

Hey, thanks, Andrew, and good morning, everybody. As Brad said, Air Group's adjusted net profit improved by 46%, and earnings per share improved by 56%. On an adjusted pretax basis, we earned $370 million, nearly $120 million more than last year's second quarter. Most of the profit increase was because of lower fuel prices. Still, revenues grew by $62 million, outpacing the $52 million increase in non-fuel costs. We had an exceptional non-fuel cost performance this quarter, with CASM X down 3.5% on the 10.5% increase in capacity. We benefited from a large credit from one of our maintenance providers that accounted for much of the decline in CASM X from our early Q2 guidance. But even without that, costs would have come down nicely. As my good friend, our COO Ben Minicucci likes to say, good cost performance isn't a finance thing; it's because of the great things happening out in the business, and I couldn't agree more. In that vein, I'd like to share an example with you.

In the last contract with our flight attendants, we introduced a new concept we called a productivity premium, which allows our flight attendants to earn up to $2,500 a year for exceeding their monthly line average each quarter. This new provision has played an important role in our sick time declining by about 10% year over year. That's a great outcome, and kudos to our flight attendants and in-flight leadership for making it work. Looking forward, we expect ex-fuel costs to be up about 5.5% in the third quarter and down about 2.5% in the fourth.

Let me quickly touch on the drivers of the Q3 increase. First, we've got tough comps in the wages and benefits line, because we recorded several favorable benefits adjustments last year. We also got a bit ahead of ourselves with hiring this spring, and it impacted our productivity numbers in the second quarter and it will have an impact on Q3 as well. We're working to fix that now so that we're in better shape going into the fall shoulder season. Second, we're expecting maintenance to jump to its highest level of the year. Last year's numbers also include a favorable settlement with a maintenance vendor. And finally, Q3 has the least capacity growth of any quarter this year, so we don't get as much leverage in the denominator. We're still planning for a unit-cost decline of about 0.5% for the full year, consistent with our earlier guidance and our long-standing track record of unit-cost reduction.

Even though we had an outstanding second quarter, we're now expecting higher incentive play, reflecting our great performance against safety, cost, customer and profit targets, which is actually a good thing, continued investments in improving our on-board food and beverage product for our customers, and much higher property tax assessments -- expenses in the second half of the year.

Quickly touching on fuel. Our economic fuel cost per gallon was $2.12, down 34%. But more importantly, our fuel burn on an ASM per-gallon basis improved by another 1.9% or 2.6% so far this year. Cash flow from operations in the first half of the year was $890 million. On balance sheet debt is now $745 million, and even when factoring leases, our investment-grade balance sheet has no net debt. I believe we're the only carrier to have net interest income on our P&L. This creates an important cost advantage that drives more profit to the bottom line. Trailing 12-month after-tax ROIC stands at 22%, almost 600 basis points higher than last year and more than twice our cost of capital. As a result, we're continuing to make smart investments in our business, whether it be in new fuel-efficient airplanes, scimitar winglets to improve fuel efficiency, or mobile devices for our employees so that they can better serve customers.

We'll take delivery of 11 737-900 ERs this year, 19 next year, and 12 900 ERs and our first max in 2017. The vast majority of these airplanes will replace the 27 737-400s we're retiring over the next two years. The result is the main line fleet will grow by 10 units this year and six units total over the next two years. These new airplanes will help us further increase our cost advantage over the higher cost network carriers.

We project full-year CapEx to be approximately $750 million, consistent with prior guidance, which would result in us generating about $500 million of free cash flow using consensus estimates. This quarter, we repurchased 2.5 million shares for $160 million, bringing our year-to-date repurchases to $262 million, or the equivalent of about 3% of the total shares outstanding at the beginning of the year. We've now repurchased more than $1 billion of our stock since 2007. That translates to about one-third of the outstanding shares. Our current $650-million authorization will be completed later this year, and we'll update you on our plans for the next share repurchase authorization once we've met with our Board later this summer. In mid-2013, Alaska initiated a dividend, and it has paid out $148 million in quarterly dividends in less than two years. Our stock continues to have the highest dividend yield in the airline industry.

We're generating strong cash flows that are more diverse than ever. Our investment-grade balance sheet derisks the cash flows to our owners. Our costs continue to come down, we have no net debt, we're buying back a lot of stock, and we're paying a meaningful dividend. This is a high quality industrial business. And more importantly, our people are taking great care of our customers and running a safe and reliable operation, both things they need to do for us to succeed long term.

I want to thank our nearly 15,000 employees for their efforts and congratulate them once again for a record quarter.

And with that, we'll open it up to questions that you may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from the line of Savi Syth with Raymond James. Your line is open.

Savi Syth - *Raymond James & Associates, Inc. - Analyst*

Hey, good morning. Just would like to talk a little bit more on the comment about the new market openings, and the comment where you opened 18 over the last two or three years and you're opening 18 in the second half this year. I was just wondering if that then bodes for greater pressure in unit revenues in the second half? And also, as you think about 2016, is this taking advantage of lower fuel this year and moving forward some of the markets you would have opened? Or should we expect similar new market additions in 2016?

Andrew Harrison - *Alaska Air Group, Inc. - Chief Commercial Officer*

Hi, Savi, this is Andrew. Just a small correction; the 18 new markets have all been started since the second quarter of 2014, and the additional 18 over the rest of this year. These are not in any way response to current levels of fuel at all. In fact, if you look at the new markets, 45% of them are actually to our destinations that have no year-round, nonstop service today. And as we've shared earlier on the call, these markets are all just expansion and diversification of our revenue streams. As it relates to unit revenue, I don't have the number off the top of my head, but what I will tell you is many of these are mid-continent and trans-con longer-stage length markets that we launch.

Brad Tilden - *Alaska Air Group, Inc. - CEO and Chairman*

Savi, it's Brad. I was looking through these numbers a couple days ago. Of those 18 markets, 8 of them are markets you know about. It's Charleston, Raleigh, Nashville, Costa Rica, Milwaukee, Oklahoma City. Then there's a bunch in there like Boise, Reno, LA, Monterey, Eugene, San Jose. There's some smaller markets in there. So it's not 18 mid-con or trans-con routes that are being added, just to make sure you have the correct understanding of what's going on.

Savi Syth - *Raymond James & Associates, Inc. - Analyst*

That's helpful. Thank you. And then just a follow-up on another comment about being mindful about the third quarter and the exposure to Hawaii, and I believe it was Alaska. Could you talk a little bit more about what you're seeing in those markets?

Andrew Harrison - *Alaska Air Group, Inc. - Chief Commercial Officer*

Yes, Savi. Just in general, if you look at -- we've talked about our industry ASMs. Both in Hawaii and Alaska, and especially as we move into the peak summer period, we're seeing higher-than-average industry increases in ASMs in those markets. The good news, though, is we still run good load factors. And given our expanding network, I think we have a number of options, whether it's connecting passengers, management of peak flights, to continue to improve the performance of these regions.

Savi Syth - *Raymond James & Associates, Inc. - Analyst*

Okay. That's helpful. Thank you.

Brad Tilden - *Alaska Air Group, Inc. - CEO and Chairman*

Thank you, Savi.

Operator

Your next question comes from the line of Julie Yates with Credit Suisse. Your line is open.

Julie Yates - *Credit Suisse - Analyst*

Good morning. Thank you for taking my question.

Brad Tilden - *Alaska Air Group, Inc. - CEO and Chairman*

Good morning.

Brandon Pedersen - *Alaska Air Group, Inc. - CFO*

Good morning, Julie.

Julie Yates - *Credit Suisse - Analyst*

I know it's still early and you're still finalizing your plans for next year, but any preliminary indication on how you're thinking about capacity and growth opportunities next year, especially if fuel remains sub-$60 a barrel?

Andrew Harrison - *Alaska Air Group, Inc. - Chief Commercial Officer*

Hey, Julie, it's Andrew. Thank you for the question. We -- as I mentioned in my prepared remarks, we took a really good look at the fourth quarter. And as I shared, we took five lines of flying out and reallocated those. While we were doing that, we were also looking at our 2016 capacity. And what I can share at this preliminary time is that where we see things today, our growth next year will be lower than our growth this year and somewhere in the high single digits. That's all I can share right now.

Julie Yates - *Credit Suisse - Analyst*

Okay. Very helpful. Thank you. And then another question, just the rest of your peers saw pretty dramatic change in the yield environment midway through Q2. You guys obviously have less exposure in the most affected areas and are actually performing more in line with the A4A average than you have in the past for some time. So would you say you saw any material change in the yield environment in the quarter? Or is it more status quo for you guys, with the exception of Hawaii? And just trying to think about that in the context of directionally how PRASM year over year changes in the second half of the year.

Andrew Harrison - *Alaska Air Group, Inc. - Chief Commercial Officer*

Yes, I think as we -- if I just look back over the last six months, our yield decline has been fairly consistent, give or take 1 point. Same with our loads. So we haven't really seen a huge underlying change in the patterns. The only real driver for us, I think, is as we either launch new markets or industry capacity changes a little bit, but the fundamentals of our business we haven't seen any real shift in.

Julie Yates - *Credit Suisse - Analyst*

Okay. And then any comment on just how we should think about PRASM change trending in the second half of the year as comps ease and competitive capacity growth slows?

Andrew Harrison - *Alaska Air Group, Inc. - Chief Commercial Officer*

We don't really provide any type of guidance like that, so I won't be commenting on that. But thank you for the question.

Julie Yates - *Credit Suisse - Analyst*

Okay. Understood. Thank you.

Brad Tilden - *Alaska Air Group, Inc. - CEO and Chairman*

Thank you, Julie.

Operator

Your next question comes from the line of Hunter Keay with Wolfe Research. Your line is open.

Hunter Keay - *Wolfe Research - Analyst*

Good morning, guys.

Brad Tilden - *Alaska Air Group, Inc. - CEO and Chairman*

Good morning, Hunter.

Hunter Keay - *Wolfe Research - Analyst*

So Brad, did you feel like Alaska has the best opportunity in the industry, at least among airlines that you feel like you're comparable to, so likely excluding some of the ULCCs? Would you say you have the best opportunity in the industry to sustain these margins, or at least a level very close to these margins over the next two to three years in the event that fuel prices rise? Given the huge pill you guys just swallowed from competitive capacity growth that was unique to you, and given the line of sight that you have on your non-fuel costs?

Brad Tilden - *Alaska Air Group, Inc. - CEO and Chairman*

Hunter, thank you for the question. I might not bite on the industry part of it, but what I would say is that we're feeling really, really good. These markets that we just launched into Milwaukee and Oklahoma City, Portland, St. Louis, we're going to do Portland to Austin, they look like they're going to have fantastic returns. We're super excited about moving into Raleigh and Charleston and Nashville, Costa Rica there's a lot of excitement. When we look at things, and we're sort of following all the concern about PRASM and all that. When we look at this, we're deploying capacity that's producing great results, great profits for our business, so we're excited about doing that.

As I look at us against the industry, what I would say is that we do have great operational performance. We've got a very good competitive position with respect to our cost structure, which gives us the ability to offer low fares. And you hear us talking a little more about service. The reason this Company is still here today and independent is because we give our customers great service. And we're trying to let our employees know that we know that and we value them and we value what they're doing for our customers. Without saying too much about the other guys, what I would say is we feel very good about the growth that Alaska's putting into the marketplace. And it's great in this environment that we're sort of expanding our capital base and expanding our revenue base, and doing that in a way that's helping the owners of the business.

Hunter Keay - *Wolfe Research - Analyst*

Okay, Brad, thank you. Brandon, a 5% -- the cash deployment obviously is great, on many levels, on an absolute level. A 5% capital deployment yield is not that compelling with record margins and peak margins, if you want to call it that. So I guess can you help me understand the value proposition of continuing to buy planes with cash? I think you said you had, what, 80 of them already you own free and clear. So with interest rates at these levels, again, with the caveat that the buyback is already very robust, why aren't you borrowing more money and buying back more stock at this point?

Brandon Pedersen - *Alaska Air Group, Inc. - CFO*

Hi, Hunter. That fits squarely into the what have you done for me lately category. I actually don't feel bad about where our balance sheet is. We have kind of a fortress balance sheet going right now. We're proud of the fact that we've been able to finance all our CapEx with operating cash flow and that there's still a whole bunch of money left over for us to return to our shareholders. We've always said that we would use debt to manage the capital structure, and we originally thought we would probably do that in 2015. But cash flow has been really strong, and so I think that we'll probably end up not doing that in 2015 but perhaps early in 2016. But that doesn't mean that we're not really focused on making sure that our capital structure sits in the right place and that we're doing the right things for owners in terms of capital return.

Hunter Keay - *Wolfe Research - Analyst*

All right, man. Thank you a lot.

Brad Tilden - *Alaska Air Group, Inc. - CEO and Chairman*

Thank you, Hunter.

Operator

Your next question comes from the line of Joseph DeNardi with Stifel. Your line is open.

Joseph DeNardi - *Stifel Nicolaus - Analyst*

Thank you. Good morning.

Brad Tilden - *Alaska Air Group, Inc. - CEO and Chairman*

Good morning.

Joseph DeNardi - *Stifel Nicolaus - Analyst*

Brad, I think on the last call you talked about revisiting the fourth-quarter capacity outlook, and sounds like Andrew did that to some extent and redeployed some of that capacity. So why was that decision made? And what makes you feel comfortable that coming in at the higher end of the guidance is the right way to do it?

Brad Tilden - *Alaska Air Group, Inc. - CEO and Chairman*

Thank you, Joe. Yes, so let's just talk about that a little bit more. I think what we would say is that we totally agree with the premise of your question, which is that understanding the natural demand and getting the capacity right is the best thing you can do to ensure that you have profitable returns on your investment. So we went through our fourth-quarter schedule and we did day of week cuts, we did time of day cuts, and we actually produced five -- we reduced our flying by five airplanes, which on the base of 140 is a lot. And then the question is what -- and that will help all of the returns and all of those, whatever, 250 city pairs or whatever it is. And then we took those five airplanes and said what's the best thing to do with them. Is the best thing to park them and let them sit idle? Or is the best thing to deploy them in new markets where we can deploy them and produce returns that exceed our cost to capital? So I guess what we're saying, Joe, is we do agree with the premise of the question. And I think you're going the see some of the economic benefit come through with that, but we did redeploy the airplanes.

Having said all of that, I will also tell you that as we think about our 2016 growth, our mindset has moved a little bit in the last couple of months. As we look at everything that we're looking at, we were thinking of something a little more robust a couple of months ago, and we're actually bringing that number down. We haven't actually shared that number with the Street yet, but our mindset has come down by 2 or 3 percentage points from where it would have been, let's just say 60 days ago, or something like that.

Joseph DeNardi - *Stifel Nicolaus - Analyst*

Okay. That's helpful. Following onto that, should we assume that if your ROIC continues to exceed your cost of capital the way it is, that you're going to exercise all of your CapEx options and that number's going to continue to go up and your capacity run rate is going to be higher than the historical average?

Brad Tilden - *Alaska Air Group, Inc. - CEO and Chairman*

I'm not sure, I might need to think about your question a little bit more. But I do think that we are going to try to do the right thing. I think the Company has been a leader in this area. We're going to do the right thing for the owners of this business. If the right thing is to take new capital and deploy it in places, we've got a tremendous economic engine here and it's sort of rooted in Seattle. If the right place is to grow Seattle and invest in Seattle, I think you will see us do that. But we will also -- I don't know. As I just said in my earlier response, we do understand that getting capacity right is a big part of having the right returns on an investment. And we will -- I think this Company's been quite good at that, and I think you should expect us to continue to be focused on it.

Joseph DeNardi - *Stifel Nicolaus - Analyst*

Okay. And then if I could just slip in a last one for Andrew. On the -- American getting to a single [res] system later this year, can you quantify what benefit you might realize from that based on some discussions you're having with them about new opportunities once they get that?

Andrew Harrison - *Alaska Air Group, Inc. - Chief Commercial Officer*

Joe, actually, I'm going to provide more information later on through the quarter on this. What I will tell you is, to your point, a single res system opens up significant ability for our customers to have a massively expanded network from which to accrue and redeem miles on. We've continued to see double-digit growth in our relationship with sharing passengers with American. And again, as this unfolds and we get better visibility, we'll definitely share more with you on this topic.

Joseph DeNardi - *Stifel Nicolaus - Analyst*

Okay. Thank you.

Andrew Harrison - *Alaska Air Group, Inc. - Chief Commercial Officer*

Thank you, Joe.

Operator

Your next question comes from the line of Helane Becker with Cowen. Your line is open.

Helane Becker - *Cowen Securities LLC - Analyst*

Thank you, operator. Hi, everybody. Thank you for the time. I have two questions -- or three questions. One is, Seattle I think is one of the fastest growing cities in the country, and maybe the fastest. And as you think about all these passengers who are traveling through your airport, what type of investment should we think about that you have to make in airport infrastructure to handle the growth?

Ben Minicucci - *Alaska Air Group, Inc. - COO*

Helane, it's Ben. It's a great question, Helane. About, I'm going to say about a year ago, we did see some issues processing passengers. I'll tell you what we did at the ticket counter area. We almost doubled our size in taking more ticket counter space. So where it was very congested, now it flows fairly easily. I can tell you on the gates, we optimized how we use our gate to get quicker turns on our gates to make sure we could deal with the increased capacity. We're also using gates across the whole airport, so from the south end to the north end. And third, we're investing in technology. I think we're working on technology where customers can quickly get into the gate -- or get from the curb to the gate in under 60 minutes. I think that's one thing there. And then the biggest one is an investment in our north satellite, which is about a $400-million investment that will add approximately eight gates over the next two to four years.

Helane Becker - *Cowen Securities LLC - Analyst*

You said curb to gate in less than 60 minutes. Isn't that a long time, though?

Ben Minicucci - *Alaska Air Group, Inc. - COO*

Well, -- sorry. One of the things we were looking at was how you drop your bags. So for example, if you show up at the curb, you can get through the ticket counter in under 60 seconds. Thank you for correcting.

Helane Becker - *Cowen Securities LLC - Analyst*

Oh, okay. I was prepared to be scared. And then I think, Brad, you said there was a Board meeting coming up this summer. Is that when we would hear you think about reauthorizing or increasing the share repurchase program? We think you only have about $120 million left, based on your information today. Why wouldn't you have increased it?

Brad Tilden - *Alaska Air Group, Inc. - CEO and Chairman*

That would be a good time for us to talk with the Board about a question like that. And the Board meeting is in early August, 3rd, 4th, 5th of August, something like that.

Helane Becker - *Cowen Securities LLC - Analyst*

Great. Well, Thank you. Those were all my questions.

Brad Tilden - *Alaska Air Group, Inc. - CEO and Chairman*

Thank you, Helane.

Ben Minicucci - *Alaska Air Group, Inc. - COO*

Thank you, Helane.

Operator

Your next question comes from the line of Jamie Baker with JPMorgan. Your line is open.

Jamie Baker - *JPMorgan - Analyst*

Hey, good morning, team. Continuing on that last point, I don't want to take anything away from your second quarter. You were absolutely correct to point out the strength in margins, the degree to which ROIC exceeded that of last year, best quarter in the your history, and so forth. No argument. No pushback on any of that. But what is lacking in the release today is how these results might be impacting your behavior going forward. Ordinarily, I also would have expected perhaps an upward revision to your ROIC target or maybe another added layer to the buyback or a boosted dividend. I don't want to read too much into this, but why the conservatism in light of such strong results? Is it merely that you just haven't met with the Board yet? Or are you keeping your powder deliberately dry for something else? And of course, that will lead us to speculate on what that might be.

Brandon Pedersen - *Alaska Air Group, Inc. - CFO*

Jamie, it's Brandon. Maybe I'll take that, and Brad can clean up the mess that I make. I don't think you should read anything into our lack of a big bang of any sort. We're really proud of our second-quarter results. We think we're doing the right thing for the business, not just in the short term and the long term. And you know Alaska, we have a methodical way of doing things. We think about longer-term things like the longer-term track record of dividend increases that we want to show you years from now. We think about the timing of Board meetings for authorization of share repurchase programs. So I don't think you should necessarily read anything into the fact that we had a great quarter but we didn't take some big, bold action. I think those things will come with time, and we'll continue our track record of doing the right things for our customers and our owners and our shareholders.

Brad Tilden - *Alaska Air Group, Inc. - CEO and Chairman*

Jamie, just to put a little bit of punch on that, I think in time you will see a new -- I shouldn't speak for the Board, but you know our history with share repurchases. And I think it would be totally appropriate to assume that that continues. We do want to increase the dividend regularly. I think you should expect to see that occur. We have been talking about this ROIC goal, and what we've been talking about that a little bit if the last few days. I think as we put the finishing touches on our 2016 plan, that might be a time for us to come out with some new thinking on that. I'll tell you that we do -- we have done a lot of looking, not just at airlines but at high quality industrial companies. And we're getting ourselves schooled up on what are they generally earning in terms of returns of -- in terms of what's the gap in terms of ROICs above their cost of capital and getting ourselves smarter about that, and I think you'll see something from us there as well.

Jamie Baker - *JPMorgan - Analyst*

It's a high-grade analysis to be conducting, I'm sure. Okay. Thank you very much for that color. That was excellent. I appreciate it.

Operator

Your next question comes from the line of Duane Pfennigwerth with Evercore ISI. Your line is open.

Duane Pfennigwerth - *Evercore ISI - Analyst*

Hey, thank you.

Brad Tilden - *Alaska Air Group, Inc. - CEO and Chairman*

Good morning, Duane.

Duane Pfennigwerth - *Evercore ISI - Analyst*

Just following up to Helane's question a little bit on Seattle and the capacity utilization of that airport today. As it relates to Alaska and also competitors that are trying to grow there, can you talk about how much excess capacity there is in that airport at peak times of the day?

Ben Minicucci - *Alaska Air Group, Inc. - COO*

Duane, it's Ben. Peak times of the day, there is no capacity; I can tell you that. There are capacity in the shoulders, and as we talked to the port here, long term in the next two to five, six years when these capital projects get built for bigger gates, there are going to be constraints even at the peak time of days. Peak time of day, this airport is full, unless you do some other type of things. So I would say that's the quick answer. We're full at the peak. There's some capacity in the shoulders.

Duane Pfennigwerth - *Evercore ISI - Analyst*

Thank you for that. And then Brandon, just a quick one for you. How do you expect us to believe your cost guidance for the third quarter?

Brandon Pedersen - *Alaska Air Group, Inc. - CFO*

Duane, I expect you to believe our cost guidance because that's what we put in our investor update, and we try our best to forecast our costs for the quarter and for the year. And what I will tell you is things come earlier sometimes than we expect and things come later sometimes than we expect. And our costs -- we adjust our cost guidance through the quarter. And as you saw this quarter, our actual cost result was right in the range of our last investor update.

Duane Pfennigwerth - *Evercore ISI - Analyst*

Okay. Thank you very much.

Brad Tilden - *Alaska Air Group, Inc. - CEO and Chairman*

Thank you, Duane.

Operator

Your next question comes from the line of Darryl Genovesi with UBS. Your line is open.

Darryl Genovesi - *UBS Securities LLC - Analyst*

Hi, guys. Thank you for taking the question. Brandon, I was going to ask you about the CASM guidance for the third quarter as well. I think Duane kind of took care of it. But thinking about how the guidance has changed for the full year, relative to the guidance that you provided us with Q1 results back in April, I heard the list of items that you rattled off. It seemed to me that maybe the maintenance credit was perhaps the only one that you wouldn't have seen coming. So just wondering with the level of -- with the magnitude of the beat and the Q2 cost trajectory, why wouldn't the full year move?

Brandon Pedersen - *Alaska Air Group, Inc. - CFO*

Well, Darryl, it's Brandon. Thank you for the questions. Just to give you a little bit of context, there was a big maintenance credit in the quarter and that was worth about 2% of the 3.5% reduction in unit costs. And then just good cost performance in the last month and just normal closing stuff was about the other 1.5% of that. Our actual cost result was at the low end of the range that we provided, so we were within the range.

You're right. In my prepared remarks, I did try to give context to the Q3 increase in cost. And what I will say is there's things that are, as I said to Duane, there are things that result in just timing, things landing in one quarter or another. And in this quarter we've got things that make it a really hard comp, and so we're up 5.5%. Notwithstanding that, we still think that we're down a 0.5% for the year. Your question might be you how come we're not leveraging more of that cost savings in Q2 into the back half. It's an excellent question. We would like to do more. We're super focused on cost reductions, but there are some things like incentive pay that is higher than we expect, property taxes that were much higher than we expected, and continued investments into the on-board product that is going to eat up some of that goodness that we saw in the second quarter.

Darryl Genovesi - *UBS Securities LLC - Analyst*

Okay, thank you for that. And then I also just want to ask you quickly on the fuel efficiency of the fleet. I think you said it's up 2.6%, 2.6% better over the course of the last two quarters. I think you were 2.5% better on average in 2014 compared to 2013 as well. Should we essentially assume that you're on a 200, 250 basis points a year improvement trajectory until you're done retiring all the classics?

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

Hey, Darryl, it's Mark Eliasen. I'll just say that we're focused on fuel efficiency on all aspects of our business. We do think that getting the classics out of there, as you know, we have 27 of them. They burn the same amount of fuel as a 900 ER, yet carry 25% fewer passengers. As we get those 27 out of the fleet over the next year-and-a-half, that will improve our fuel efficiency. I can't give you the exact number as far as how many BPs that will improve it. But that, along with many other things we're doing, you should see our fuel efficiency continue to rise.

Brad Tilden - *Alaska Air Group, Inc. - CEO and Chairman*

We could run those numbers, but there's a bunch of retirements. What is it, Mark? 27 737-400 retirements in 2016 and 2017.

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

Yes. In the next year and-a-half.

Brad Tilden - *Alaska Air Group, Inc. - CEO and Chairman*

It should pop pretty substantially when that occurs.

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

And our winglet program; we're putting winglets, the split winglets on our NG fleet so that'll help as well. And then, of course, when we get the max in 2017, that's going to be another improvement. We see continued fuel-efficiency improvements throughout as long as we can see.

Darryl Genovesi - *UBS Securities LLC - Analyst*

Great. Thank you very much, guys.

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

Thank you.

Operator

Your next question comes from the line of David Fintzen from Barclays. Your line is open.

Dave Fintzen - *Barclays Capital - Analyst*

Hey, good morning, everyone. First question really for Andrew. If my memory serves, going bag to the Investor Day, you had started to talk about filling out the Seattle markets that you hadn't touched historically. Obviously, you've been doing that this year. Can you just help us think through

2016? Are you largely through that process, or are there another wave of markets that you think could keep you busy in Seattle and then into Portland for a while?

Andrew Harrison - *Alaska Air Group, Inc. - Chief Commercial Officer*

Good morning. I think while we don't talk about future markets, I have shared in my prepared remarks we got the Embraer 175 coming on-board, which this aircraft actually allows us to unlock cities that we really can't fly on the Q4s and the mainline jets profitably. So I think you're going to continue to see us continue to work those types of markets.

It's not just new markets. I didn't get a chance to mention, but like -- as Brad mentioned on competition, just looking at the second quarter, about 8.5% of our capacity was driven by first-class ASMs. But our revenues contribution by that was over 14%. And so, we continue to look at our cabins and our classes of service, and I still believe there's big opportunity to continue to invest in our product in the first class and increase that. Overall in the Pacific Northwest, as we continue to manage our costs, as we continue to look at our network and grow our network and grow our connections as well as our international connections, we continue to see opportunity to grow in the Pacific Northwest.

Dave Fintzen - *Barclays Capital - Analyst*

Okay. That's helpful. Just to mix a little bit of what you said in terms of improve the product with some of the cost comments, should we think of that product improvement as when we get a sustained beat in a quarter, not to get too carried away with it over -- for some period? Because it will just accelerate some of those investments in on-board product? Is that the way we should translate that comment into cost going forward?

Andrew Harrison - *Alaska Air Group, Inc. - Chief Commercial Officer*

No, I don't think so. I think when you look at, like Brandon shared around like, for instance, food and beverage. But as traditional here, when we launch new products, we have a lot of process, boarded to consumed ratios of food. So we have a lot of opportunity, even though we're adding cost to our aircraft through investments on on-board product, to actually continue to get more efficient in productivity. And I think Ben's become -- and his team have become just amazing folks at getting capacity out of our core operations. So as we invest in our product, we're going to get better about getting efficiency and productivity out of that as well. So personally, I think you shouldn't expect to see that, a continued cost increase overall.

Brandon Pedersen - *Alaska Air Group, Inc. - CFO*

Hey, David. It's Brandon. One other thought there. We talk a lot about the drivers of the cost increases, and we get into things like food and beverage. A lot of our on-board product is buy on-board, and we're seeing nice growth in buy on-board sales. Our customers really -- there is a good uptake of that product. And that's pretty small in the context of the revenue line. But it is an offset to the cost that we talk about down below.

Dave Fintzen - *Barclays Capital - Analyst*

That's helpful. Appreciate all that color. Thank you.

Brandon Pedersen - *Alaska Air Group, Inc. - CFO*

Thank you.

Operator

Your next question comes from the line of Richard Talwar with Deutsche Bank. Your line is open.

Mike Linenberg - *Deutsche Bank - Analyst*

Hey, it's Mike Linenberg. If I could just jump in, in front of Rich, if that's okay. Good morning, everyone. Two questions here. Andrew, if I could just go back to what you had mentioned earlier about the connection with Emirates. You said that previously it was 200 passengers a day between you and them, and that with the second flight that that had moved to 270. How much of that is stimulative or is that just all shift, share shift?

Andrew Harrison - *Alaska Air Group, Inc. - Chief Commercial Officer*

I don't know the exact answer to that question. But what I will tell you is that -- and you even take out Hainan, for instance, where the marketing machine has been set on idle and has done nothing, we're already seeing significant increases in connecting traffic there. And we haven't even begun to market this new relationship. I can't speak to where it's coming, where it's going, as far as stimulation or share shift. All I know is there's good demand for these connections and we're going to continue to grow.

Mike Linenberg - *Deutsche Bank - Analyst*

And when you mentioned the marketing machine on idle, that's because, as I recall correctly, I don't think you have a code share with Emirates. Is that right, or do you have one?

Andrew Harrison - *Alaska Air Group, Inc. - Chief Commercial Officer*

I think with Hainan, but even as we think about our international partners and we talk about how we can market better together in the marketplace, we just -- we have not done a good job at leveraging our international carriers and working together to become more of a joint force in the marketplace. And you're going to see more of that, and I think there's going to be good things in store.

Mike Linenberg - *Deutsche Bank - Analyst*

Okay. Just to be clear, you don't have a code share with them, with Emirates, that's right?

Andrew Harrison - *Alaska Air Group, Inc. - Chief Commercial Officer*

Correct.

Mike Linenberg - *Deutsche Bank - Analyst*

And then just secondly, on some of these new markets out of Los Angeles, like Costa Rica, I think Baltimore is another one. Correct me in I'm wrong on that, but they have lower yield. Are you -- are these markets going to receive the support of American marketing from day one? Or is -- are you going to have the American code share on them or is that a longer-term opportunity?

Andrew Harrison - *Alaska Air Group, Inc. - Chief Commercial Officer*

I can't really comment on future code or no code. But I think what a fair statement of facts are is that both American and Alaska are very excited about our partnership. We are working together where we can, and Los Angeles is a natural partnership ground for us there. And I think as we look -- launch any new market, we think about our customer base, our alliances and partnerships and how can we work together.

Mike Linenberg - *Deutsche Bank - Analyst*

Okay, great. So they're already being marketed though, right? You've already loaded the flights to Costa Rica and Baltimore?

Andrew Harrison - *Alaska Air Group, Inc. - Chief Commercial Officer*

Correct.

Mike Linenberg - *Deutsche Bank - Analyst*

Okay. Great. Very good. Thank you.

Brad Tilden - *Alaska Air Group, Inc. - CEO and Chairman*

Thank you, Mike.

Operator

Your next question comes from the line of Daniel MacKenzie with Buckingham Research. Your line is open.

Daniel McKenzie - *Buckingham Research Group - Analyst*

Hey, good morning, guys. Thank you for the time here. A couple questions. Where is the analysis leading you on a more expanded preferred seating product? So call it five or six rows with more leg room versus what's offered today. How are you balancing the pros and cons of that investment with what your code share partners are already doing?

Andrew Harrison - *Alaska Air Group, Inc. - Chief Commercial Officer*

Dan, as Brad alluded in his prepared remarks, we're finding some very interesting results just with our preferred seating and the behaviors. And as we've mentioned before, we continue to look at our on-board product and maximizing revenue for each shift that we fly and looking at the loyalty program. So all I can say is that we continue to look at how this plays out for us, and we don't have anything to report other than that.

Daniel McKenzie - *Buckingham Research Group - Analyst*

Okay. Very good. And just following up on Mike's question, there's obviously a lot of moving pieces with respect to revenue from code share partners. But where are we today exactly? What is the total revenue from code share partners, and does that reflect a decline or an increase from a year ago? And how do he with think about that revenue -- that piece of the revenue puzzle looking ahead?

Andrew Harrison - *Alaska Air Group, Inc. - Chief Commercial Officer*

I think, if you just look at Q2 really big picture including inner-line codes, partners, everybody, I think it's about 15% comes from those other carriers. And as we've shared previously income buckets, Delta's down over 40% in the second quarter. But we also have good increases on our own metal and our partners's metal. So it's shifting around, but overall it's still fairly stable as the big picture pie goes, as it relates to connectivity.

Daniel McKenzie - *Buckingham Research Group - Analyst*

Good job, Andrew. If I could squeeze one final one here. Bill Gates had a nice interview this quarter on biofuels. If you believe him, probably will be a huge payday some day. You guys are one of the first to stick your toes in the water here years ago. I realize the investment here is tiny, and notwithstanding where oil is today, is this something you guys are still pursuing? If so, when could the investment realistically drive some kind of a return?

Joe Sprague - *Alaska Air Group, Inc. - VP of Marketing*

Dan, this is Joe Sprague. Biofuels is absolutely something we're still interested in. In fact, we're hoping to do yet another demonstration flight later this year with a new type of biofuels. As you pointed out, we were the first airline in the country to fly a series of biofuels flights when we did so a couple years ago. Notwithstanding the lower fuel prices today, we do believe that this is an important part of our fuel supply going forward, both for fuel efficiency, fuel cost reasons, but also just for really positive environmental reasons. And the fact that the airline industry is going to have some sort of standard that they're going to have to adhere to coming down from [IKO] in the years ahead. And we think biofuels is going to have to be a part of that solution. Our intent is to absolutely continue to be a leader in this area.

A challenge is the lack of production facilities for biofuels, and that's starting to be addressed a little bit around the country. But we're tracking that very closely and working with our good partners at Boeing and elsewhere to make certain we are in a position that we can optimize that when more fuel supply comes online.

Daniel McKenzie - *Buckingham Research Group - Analyst*

Very good, thank you, guys.

Brad Tilden - *Alaska Air Group, Inc. - CEO and Chairman*

Thank you.

Lavanya Sareen - *Alaska Air Group, Inc. - Managing Director of IR*

We have time for one more question.

Operator

Your next question comes from the line of Rajeev Lalwani with Morgan Stanley. Your line is open.

Rajeev Lalwani - *Morgan Stanley - Analyst*

Hi. Thank you for squeezing me in there. Just a question on the cost side. I get there is a fair amount of moving parts this year, but can you just talk going forward maybe what some of the biggest risks are for you in terms of continuing to keep it -- CASM X at sort of a flat to down level?

Brandon Pedersen - *Alaska Air Group, Inc. - CFO*

Rajeev, good morning, it's Brandon. Thinking into the future, we've said a couple of times tonight or this morning that our bias is to continue to work toward driving costs down to make us look more like a low-cost carrier and expand the gap that we have over the legacy carriers. In terms of risks, you never know. One thing we do have is nice visibility to our labor costs over the next few years. I think we've talked about the increase in fuel -- or the increase in our fuel competitiveness, as we think about fuel CASM coming down. Other than that, it just -- it's all about investments that we have and that we choose to make. Who knows what's going to happen to pensions; that's always one that seems to come out and bite us some how. I don't know. It's a good question. I don't have anything specific to offer in terms of risk. I think we do have pretty good visibility over the next couple of years.

Rajeev Lalwani - *Morgan Stanley - Analyst*

Great, that was it, gentlemen.

Brad Tilden - *Alaska Air Group, Inc. - CEO and Chairman*

Thank you. Okay, everybody. I think we are at the end of the hour and I'm guessing that there's another call starting now. Thank you for tuning in, and we look forward to speaking with you next quarter.

Operator

Thank you for participating in today's conference call. This call will be available for future playback at www.alaskaair.com. You may now disconnect.