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FORM 8-K

ALASKA AIR GROUP INC - alk

Filed: October 22, 2009 (period: October 22, 2009)

Report of unscheduled material events or corporate changes.

Table of Contents

[8-K - ALASKA AIR GROUP, INC. FORM 8-K](#)

[ITEM 2.02. Results of Operations And Financial Condition](#)

[ITEM 7.01. Regulation FD Disclosure](#)

[ITEM 9.01. Financial Statements and Other Exhibits](#)

[Signatures](#)

[EX-99.1 \(ALASKA AIR GROUP\)](#)

[EX-99.2 \(INVESTOR UPDATE\)](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

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

October 22, 2009
(Date of earliest event reported)

ALASKA AIR GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation)

1-8957
(Commission File Number)

91-1292054
(IRS Employer Identification No.)

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

98188
(Zip Code)

(206) 392-5040
(Registrant's Telephone Number, Including Area Code)

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

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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ITEM 2.02. Results of Operations And Financial Condition

Alaska Air Group, Inc. today issued a press release reporting financial results for the third quarter of 2009. The press release is filed as Exhibit 99.1.

ITEM 7.01. Regulation FD Disclosure

Pursuant to 17 CFR Part 243 (“Regulation FD”), the Company is submitting information relating to its financial and operational outlook as attached in Exhibit 99.2.

In accordance with General Instruction B.2 of Form 8-K, the information under this item and Exhibit 99.2 shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), nor shall such information be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such a filing. This report will not be deemed an admission as to the materiality of any information required to be disclosed solely to satisfy the requirements of Regulation FD.

ITEM 9.01. Financial Statements and Other Exhibits

Exhibit 99.1	Press Release dated October 22, 2009
Exhibit 99.2	Investor Update dated October 22, 2009

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALASKA AIR GROUP, INC.

Registrant

Date: October 22, 2009

/s/ Brandon S. Pedersen

Brandon S. Pedersen
Vice President/Finance and Controller

/s/ Glenn S. Johnson

Glenn S. Johnson
Executive Vice President/Finance and Chief Financial Officer

**Media contacts:**

Caroline Boren
Alaska Airlines
(206) 392-5101

-or-

Dan Russo
Horizon Air
(206) 392-0218

Investor/analyst contact:

Shannon Alberts
Alaska Air Group
(206) 392-5218

FOR IMMEDIATE RELEASE
2009

Oct. 22,

ALASKA AIR GROUP REPORTS THIRD QUARTER RESULTS

Third Quarter Financial and Other Highlights:

- Net income, excluding special items, was \$83.0 million, or \$2.33 per diluted share, compared to net income excluding special items of \$39.9 million, or \$1.10 per diluted share, in the third quarter of 2008. This compares to a First Call mean estimate of \$2.26 per share.
- Net income under Generally Accepted Accounting Principles (GAAP) of \$87.6 million, or \$2.46 per diluted share, compared to a net loss of \$86.5 million, or \$2.40 per diluted share, in 2008.
- More than \$1.2 billion in unrestricted cash and marketable securities as of Sept. 30, 2009.
- Alaska was No. 1 in U.S. Department of Transportation on-time performance in each month from April to August among major network carriers. Alaska also achieved an unofficial on-time performance of 90 percent in September, while Horizon Air's on-time performance for September was 91.3 percent.

SEATTLE — Alaska Air Group, Inc. (NYSE: ALK) today reported third quarter 2009 net income of \$87.6 million, or \$2.46 per diluted share, compared to a net loss of \$86.5 million, or \$2.40 per diluted share, in the third quarter of 2008. Excluding mark-to-market fuel hedge gains of \$7.3 million (\$4.6 million after tax or \$0.13 per diluted share), the company reported net income of \$83.0 million, or \$2.33 per diluted share, compared to net income of \$39.9 million, or \$1.10 per diluted share, excluding mark-to-market fuel hedge losses and other special items in the third quarter of 2008.

“Our work to reduce capacity to better match demand, redeploy aircraft into promising new markets, and achieve record operational reliability contributed to our best quarterly financial performance in many years,” said Bill Ayer, Alaska Air Group’s chairman and chief executive officer. “My thanks to our people for taking excellent care of customers and for their relentless efforts to improve our business.”

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The following table reconciles the company's adjusted net income and earnings per diluted share (EPS) during the third quarters of 2009 and 2008 to the most directly related amounts as reported in accordance with GAAP (in millions except per-share amounts):

	Three months ended Sept. 30,			
	2009		2008	
	Dollars	Diluted EPS	Dollars	Diluted EPS
Net income and diluted EPS, excluding special items	\$ 83.0	\$ 2.33	\$ 39.9	\$ 1.10
Change in Mileage Plan terms, net of tax	---	---	26.5	0.73
Restructuring charges, net of tax	---	---	(2.3)	(0.06)
Fleet transition costs – MD-80, net of tax	---	---	(13.5)	(0.37)
Fleet transition costs – CRJ-700, net of tax	---	---	(0.4)	(0.01)
Adjustments to reflect the timing of gain recognition resulting from mark-to-market fuel-hedge accounting, net of tax	4.6	0.13	(136.7)	(3.79)
Reported GAAP amounts	\$ 87.6	\$ 2.46	\$ (86.5)	\$ (2.40)

Financial and statistical data for Alaska Airlines and Horizon Air, as well as a reconciliation of the reported non-GAAP financial measures, can be found in the accompanying tables. A glossary of financial terms can be found at the end of this release.

A conference call regarding the third quarter 2009 results will be simulcast via the Internet at 8:30 a.m. Pacific time on Oct. 22, 2009. It can be accessed through the company's Web site at alaskaair.com/investors. For those unable to listen to the live broadcast, a replay will be available after the conclusion of the call at alaskaair.com/investors.

References in this news release to "Air Group," "company," "we," "us" and "our" refer to Alaska Air Group, Inc. and its subsidiaries, unless otherwise specified. Alaska Airlines, Inc. and Horizon Air Industries, Inc. are referred to as "Alaska" and "Horizon," respectively, and together as our "airlines."

This news release contains forward-looking statements subject to the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. These statements relate to future events and involve known and unknown risks and uncertainties that may cause actual outcomes to be materially different from those indicated by any forward-looking statements. For a comprehensive discussion of potential risk factors, see Item 1A of the company's Annual Report on Form 10-K for the year ended Dec. 31, 2008. Some of these risks include current economic conditions, increases in operating costs including fuel, competition, labor costs and relations, our significant indebtedness, inability to meet cost reduction goals, terrorist attacks, seasonal fluctuations in our financial results, an aircraft accident, changes in laws and regulations, and government fees and taxes. All of the forward-looking statements are qualified in their entirety by reference to the risk factors discussed therein. We operate in a continually changing business environment, and new risk factors emerge from time to time. Management cannot predict such new

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- 2 -

risk factors, nor can it assess the impact, if any, of such new risk factors on our business or events described in any forward-looking statements. We expressly disclaim any obligation to publicly update or revise any forward-looking statements after the date of this report to conform them to actual results. Over time, our actual results, performance or achievements will likely differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements, and such differences might be significant and materially adverse.

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Alaska Airlines and Horizon Air, subsidiaries of Alaska Air Group (NYSE: ALK), together serve more than 90 cities through an expansive network in Alaska, the Lower 48, Hawaii, Canada and Mexico. Alaska Airlines ranked “Highest in Customer Satisfaction Among Traditional Network Carriers” in the J.D. Power and Associates 2008 and 2009 North America Airline Satisfaction StudiesSM. For reservations, visit alaskaair.com. For more news and information, visit the Alaska Airlines/Horizon Air Newsroom at alaskaair.com/newsroom.

- 3 -

Alaska Air Group, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(in millions, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Operating Revenues:				
Passenger	\$ 884.8	\$ 952.8	\$ 2,326.1	\$ 2,592.0
Freight and mail	27.7	30.5	72.3	80.4
Other - net	54.9	39.6	155.3	120.8
Change in Mileage Plan terms	-	42.3	-	42.3
Total Operating Revenues	967.4	1,065.2	2,553.7	2,835.5
Operating Expenses:				
Wages and benefits	246.2	232.1	739.3	711.2
Variable incentive pay	24.0	6.3	52.2	15.0
Aircraft fuel, including hedging gains and losses	199.5	575.6	485.6	1,039.6
Aircraft maintenance	49.7	47.4	169.0	159.6
Aircraft rent	38.3	40.2	115.4	126.1
Landing fees and other rentals	57.3	56.8	165.9	169.7
Contracted services	37.4	40.2	112.6	128.3
Selling expenses	37.0	41.7	97.3	120.3
Depreciation and amortization	55.6	52.1	162.3	152.9
Food and beverage service	12.7	13.5	36.7	39.2
Other	51.1	52.7	158.2	171.4
New pilot contract transition costs	-	-	35.8	-
Restructuring charges	-	3.7	-	3.7
Fleet transition costs - MD-80	-	21.5	-	47.5
Fleet transition costs - CRJ-700	-	0.7	-	6.8
Fleet transition costs - Q200	(1.2)	0.7	8.8	9.7
Total Operating Expenses	807.6	1,185.2	2,339.1	2,901.0
Operating Income (Loss)	159.8	(120.0)	214.6	(65.5)
Nonoperating Income (Expense):				
Interest income	8.3	10.7	24.4	31.5
Interest expense	(25.9)	(25.9)	(77.8)	(74.3)
Interest capitalized	1.4	5.9	6.0	18.5
Other - net	(0.8)	(3.7)	(6.3)	(3.4)
	(17.0)	(13.0)	(53.7)	(27.7)
Income (loss) before income tax	142.8	(133.0)	160.9	(93.2)
Income tax expense (benefit)	55.2	(46.5)	63.4	(32.5)
Net Income (Loss)	\$ 87.6	\$ (86.5)	\$ 97.5	\$ (60.7)
Basic Earnings (Loss) Per Share:	\$ 2.48	\$ (2.40)	\$ 2.71	\$ (1.67)
Diluted Earnings (Loss) Per Share:	\$ 2.46	\$ (2.40)	\$ 2.69	\$ (1.67)
Shares Used for Computation:				
Basic	35.275	36.069	35.981	36.383
Diluted	35.681	36.069	36.292	36.383

Alaska Air Group, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(in millions)	<u>September 30, 2009</u>	<u>December 31, 2008</u>
Cash and marketable securities	\$ 1,230	\$ 1,077
Total current assets	1,686	1,509
Property and equipment-net	3,136	3,168
Other assets	184	159
Total assets	<u>\$ 5,006</u>	<u>\$ 4,836</u>
Current liabilities	\$ 1,282	\$ 1,361
Long-term debt	1,658	1,596
Other liabilities and credits	1,292	1,217
Shareholders' equity	774	662
Total liabilities and shareholders' equity	<u>\$ 5,006</u>	<u>\$ 4,836</u>
Debt to Capitalization, adjusted for operating leases	78%:22%	81%:19%
Number of common shares outstanding	35.251	36.275

Air Group Net Income (Loss) and EPS

Reconciliation:

The following table reconciles Alaska Air Group, Inc.'s net income (loss) and amounts per share during 2009 and 2008 excluding certain noted items to the most directly related amounts as reported in accordance with GAAP (in millions except per share amounts):

	Three Months Ended September 30,			
	2009		2008	
	Dollars	Diluted EPS	Dollars	Diluted EPS
Net income and diluted EPS, excluding the items noted below	\$ 83.0	\$ 2.33	\$ 39.9	\$ 1.10
Change in Mileage Plan terms, net of tax	-	-	26.5	0.73
Restructuring charges, net of tax	-	-	(2.3)	(0.06)
Fleet transition costs - MD-80, net of tax	-	-	(13.5)	(0.37)
Fleet transition costs - CRJ-700, net of tax	-	-	(0.4)	(0.01)
Adjustments to reflect the timing of gain or loss recognition resulting from mark-to-market fuel hedge accounting, net of tax	4.6	0.13	(136.7)	(3.79)
Reported GAAP amounts	\$ 87.6	\$ 2.46	\$ (86.5)	\$ (2.40)

	Nine Months Ended September 30,			
	2009		2008	
	Dollars	Diluted EPS	Dollars	Diluted EPS
Net income (loss) and diluted EPS, excluding the items noted below	\$ 84.1	\$ 2.32	\$ (12.0)	\$ (0.33)
Change in Mileage Plan terms, net of tax	-	-	26.5	0.73
New pilot contract transition costs, net of tax	(22.3)	(0.61)	-	-
Restructuring charges, net of tax	-	-	(2.3)	(0.06)
Fleet transition costs - MD-80, net of tax	-	-	(29.8)	(0.82)
Fleet transition costs - CRJ-700, net of tax	-	-	(4.2)	(0.12)
Adjustments to reflect the timing of gain or loss recognition resulting from mark-to-market fuel hedge accounting, net of tax	35.7	0.98	(38.9)	(1.07)
Reported GAAP amounts	\$ 97.5	\$ 2.69	\$ (60.7)	\$ (1.67)

Alaska Airlines Financial and Statistical Data

Financial Data (in millions):	Three Months Ended September 30,			Nine Months Ended September 30,		
	2009	2008	% Change	2009	2008	% Change
Operating Revenues:						
Passenger	\$ 702.0	\$ 751.2	(6.5)	\$ 1,844.3	\$ 2,041.2	(9.6)
Freight and mail	26.5	29.2	(9.2)	69.0	77.1	(10.5)
Other - net	48.4	33.5	44.5	136.5	101.2	34.9
Change in Mileage Plan terms	-	42.3	NM	-	42.3	NM
<i>Total mainline operating revenues</i>	<u>776.9</u>	<u>856.2</u>	(9.3)	<u>2,049.8</u>	<u>2,261.8</u>	(9.4)
Passenger - purchased capacity	81.9	85.7	(4.4)	211.4	233.9	(9.6)
Total Operating Revenues	<u>858.8</u>	<u>941.9</u>	(8.8)	<u>2,261.2</u>	<u>2,495.7</u>	(9.4)
Operating Expenses:						
Wages and benefits	199.1	182.5	9.1	594.9	558.9	6.4
Variable incentive pay	20.8	4.9	324.5	44.0	10.8	307.4
Aircraft fuel, including hedging gains and losses	166.6	479.1	(65.2)	405.9	864.0	(53.0)
Aircraft maintenance	36.5	32.6	12.0	129.4	112.1	15.4
Aircraft rent	27.2	26.3	3.4	81.8	82.4	(0.7)
Landing fees and other rentals	43.0	42.3	1.7	124.4	126.9	(2.0)
Contracted services	29.7	31.9	(6.9)	88.6	100.5	(11.8)
Selling expenses	29.4	33.1	(11.2)	76.8	95.6	(19.7)
Depreciation and amortization	45.1	42.8	5.4	132.6	123.2	7.6
Food and beverage service	12.0	12.8	(6.3)	34.9	37.1	(5.9)
Other	38.0	41.0	(7.3)	119.3	130.2	(8.4)
New pilot contract transition costs	-	-	NM	35.8	-	NM
Restructuring charges	-	3.7	NM	-	3.7	NM
Fleet transition costs - MD-80	-	21.5	NM	-	47.5	NM
<i>Total mainline operating expenses</i>	<u>647.4</u>	<u>954.5</u>	(32.2)	<u>1,868.4</u>	<u>2,292.9</u>	(18.5)
Purchased capacity costs	74.7	85.6	(12.7)	206.3	246.8	(16.4)
Total Operating Expenses	<u>722.1</u>	<u>1,040.1</u>	(30.6)	<u>2,074.7</u>	<u>2,539.7</u>	(18.3)
Operating Income (Loss)	<u>136.7</u>	<u>(98.2)</u>		<u>186.5</u>	<u>(44.0)</u>	
Interest income	9.6	12.8		29.2	38.2	
Interest expense	(22.4)	(23.5)		(67.5)	(67.5)	
Interest capitalized	1.4	4.8		5.7	16.1	
Other - net	(0.5)	(3.3)		(5.3)	(2.7)	
	<u>(11.9)</u>	<u>(9.2)</u>		<u>(37.9)</u>	<u>(15.9)</u>	
Income (Loss) Before Income Tax	<u>\$ 124.8</u>	<u>\$ (107.4)</u>		<u>\$ 148.6</u>	<u>\$ (59.9)</u>	
Mainline Operating Statistics:						
Revenue passengers (000)	4,240	4,532	(6.4)	11,796	13,037	(9.5)
RPMs (000,000) "traffic"	5,020	5,012	0.2	13,812	14,410	(4.1)
ASMs (000,000) "capacity"	6,097	6,306	(3.3)	17,469	18,628	(6.2)
Passenger load factor	82.3%	79.5%	2.8 pts	79.1%	77.4%	1.7pts
Yield per passenger mile	13.98¢	14.99¢	(6.7)	13.35¢	14.17¢	(5.8)
Operating revenue per ASM "RASM"	12.74¢	13.58¢	(6.2)	11.73¢	12.14¢	(3.4)
Change in Mileage Plan terms per ASM	0.00¢	0.67¢	NM	0.00¢	0.23¢	NM
RASM excluding change in Mileage Plan terms	12.74¢	12.91¢	(1.3)	11.73¢	11.91¢	(1.5)
Passenger revenue per ASM	11.51¢	11.91¢	(3.4)	10.56¢	10.96¢	(3.6)
Operating expense per ASM	10.62¢	15.14¢	(29.9)	10.70¢	12.31¢	(13.1)
Operating expense per ASM excluding fuel, restructuring charges and fleet transition costs (a)	7.89¢	7.14¢	10.5	8.17¢	7.40¢	10.4
GAAP fuel cost per gallon	\$ 2.07	\$ 5.57	(62.8)	\$ 1.77	\$ 3.34	(47.0)
Economic fuel cost per gallon (b)	\$ 2.15	\$ 3.47	(38.0)	\$ 1.98	\$ 3.14	(36.9)
Fuel gallons (000,000)	80.1	86.0	(6.9)	229.9	258.3	(11.0)
	<u>9,002</u>	<u>9,594</u>	(6.2)	<u>8,987</u>	<u>9,785</u>	(8.2)

Average number of full-time equivalent employees

Aircraft utilization (blk hrs/day)	9.9	10.8	(8.3)	9.9	10.8	(8.3)
Average aircraft stage length (miles)	1,044	981	6.4	1,027	975	5.3
Operating fleet at period-end	116	110	6 a/c	116	110	6 a/c

Regional Operating Statistics:

RPMs (000,000)	298	304	(2.0)	777	873	(11.0)
ASMs (000,000)	383	391	(2.0)	1,058	1,153	(8.2)
Passenger load factor	77.8%	77.7%	0.1pts	73.4%	75.7%	(2.3) pts
Yield per passenger mile	27.48¢	28.19¢	(2.5)	27.21¢	26.79¢	1.6
Operating revenue per ASM	21.38¢	21.92¢	(2.5)	19.98¢	20.29¢	(1.5)
Operating expenses per ASM	19.50¢	21.89¢	(10.9)	19.50¢	21.41¢	(8.9)

NM = Not Meaningful

(a) See page 9 for a reconciliation of these non-GAAP measures and a discussion about why these measures may be important to investors.

(b) See page 11 for a reconciliation of economic fuel cost.

Horizon Air Financial and Statistical Data

Financial Data (in millions):	Three Months Ended September 30,			Nine Months Ended September 30,		
	2009	2008	% Change	2009	2008	% Change
Operating Revenues:						
Passenger - brand flying	\$ 105.4	\$ 120.3	(12.4)	\$ 283.7	\$ 330.7	(14.2)
Passenger - Alaska capacity purchase arrangement	69.9	81.1	(13.8)	191.2	231.2	(17.3)
<i>Total passenger revenue</i>	175.3	201.4	(13.0)	474.9	561.9	(15.5)
Freight and mail	0.7	0.8	(12.5)	2.0	2.1	(4.8)
Other - net	2.2	1.9	15.8	6.0	6.2	(3.2)
Total Operating Revenues	178.2	204.1	(12.7)	482.9	570.2	(15.3)
Operating Expenses:						
Wages and benefits	44.4	47.9	(7.3)	137.0	147.2	(6.9)
Variable incentive pay	3.2	1.4	128.6	8.2	4.2	95.2
Aircraft fuel, including hedging gains and losses	32.9	96.5	(65.9)	79.7	175.6	(54.6)
Aircraft maintenance	13.2	14.8	(10.8)	39.6	47.5	(16.6)
Aircraft rent	11.1	13.9	(20.1)	33.6	43.7	(23.1)
Landing fees and other rentals	14.6	14.7	(0.7)	42.4	43.6	(2.8)
Contracted services	8.4	7.1	18.3	23.8	22.0	8.2
Selling expenses	7.6	8.6	(11.6)	20.5	24.7	(17.0)
Depreciation and amortization	10.2	9.0	13.3	28.8	28.8	-
Food and beverage service	0.7	0.7	-	1.8	2.1	(14.3)
Other	9.4	9.7	(3.1)	29.0	33.7	(13.9)
Fleet transition costs - CRJ-700	-	0.7	NM	-	6.8	NM
Fleet transition costs - Q200	(1.2)	0.7	NM	8.8	9.7	NM
Total Operating Expenses	154.5	225.7	(31.5)	453.2	589.6	(23.1)
Operating Income (Loss)	23.7	(21.6)		29.7	(19.4)	
Interest income	0.5	1.1		1.5	3.8	
Interest expense	(5.1)	(5.5)		(16.2)	(16.9)	
Interest capitalized	-	1.0		0.3	2.3	
Other - net	-	(0.1)		(0.2)	0.1	
	(4.6)	(3.5)		(14.6)	(10.7)	
Income (Loss) Before Income Tax	\$ 19.1	\$ (25.1)		\$ 15.1	\$ (30.1)	
Combined Operating Statistics: (a)						
Revenue passengers (000)	1,815	1,989	(8.7)	5,055	5,754	(12.1)
RPMs (000,000) "traffic"	666	721	(7.6)	1,799	2,074	(13.3)
ASMs (000,000) "capacity"	855	945	(9.5)	2,470	2,831	(12.8)
Passenger load factor	77.9%	76.3%	1.6 pts	72.8%	73.3%	(0.5) pts
Yield per passenger mile	26.32¢	27.93¢	(5.8)	26.40¢	27.09¢	(2.5)
Operating revenue per ASM	20.84¢	21.60¢	(3.5)	19.55¢	20.14¢	(2.9)
Passenger revenue per ASM	20.50¢	21.31¢	(3.8)	19.23¢	19.85¢	(3.1)
Operating expenses per ASM	18.07¢	23.88¢	(24.3)	18.35¢	20.83¢	(11.9)
Operating expense per ASM excluding fuel and						
CRJ-700 fleet transition costs (b)	14.22¢	13.60¢	4.6	15.12¢	14.38¢	5.1
GAAP fuel cost per gallon	\$ 2.11	\$ 5.61	(62.4)	\$ 1.76	\$ 3.37	(47.8)
Economic fuel cost per gallon (c)	\$ 2.19	\$ 3.45	(36.5)	\$ 1.98	\$ 3.18	(37.7)
Fuel gallons (000,000)	15.6	17.2	(9.3)	45.1	52.1	(13.4)
Average number of full-time equivalent employees	3,269	3,687	(11.3)	3,320	3,777	(12.1)
Aircraft utilization (blk hrs/day)	8.4	8.5	(1.2)	8.3	8.4	(1.2)
Average aircraft stage length (miles)	334	325	2.8	326	324	0.6
Operating fleet at period-end	55	63	(8 a/c)	55	63	(8 a/c)

NM = Not Meaningful

(a) Represents combined information for all Horizon flights, including those operated under a Capacity Purchase Agreement (CPA) with Alaska. See page 10 for additional line of business information.

(b) See page 10 for a reconciliation of these non-GAAP measures and a discussion about why these measures may be important to investors.

(c) See page 11 for a reconciliation of economic fuel cost.

Note A: Pursuant to Regulation G, we are providing disclosure of the reconciliation of reported non-GAAP financial measures to their most directly comparable financial measures reported on a GAAP basis. We believe that consideration of this measure of unit costs excluding fuel, purchased capacity costs, and other noted items may be important to investors for the following reasons:

- By eliminating fuel expense and certain special items from our unit cost metrics, we believe that we have better visibility into the results of our non-fuel cost-reduction initiatives. Our industry is highly competitive and is characterized by high fixed costs, so even a small reduction in non-fuel operating costs can result in a significant improvement in operating results. In addition, we believe that all domestic carriers are similarly impacted by changes in jet fuel costs over the long run, so it is important for management (and thus investors) to understand the impact of (and trends in) company-specific cost drivers such as labor rates and productivity, airport costs, maintenance costs, etc., which are more controllable by management.
- Cost per ASM excluding fuel and certain special items is one of the most important measures used by managements of both Alaska and Horizon and by the Air Group Board of Directors in assessing quarterly and annual cost performance.
- Cost per ASM excluding fuel (and other items as specified in our plan documents) is an important metric for the employee incentive plan that covers company management and certain other employee groups.
- Cost per ASM excluding fuel and certain special items is a measure commonly used by industry analysts, and we believe it is the basis by which they compare our airlines to others in the industry. The measure is also the subject of frequent questions from investors.
- Disclosure of the individual impact of certain noted items provides investors the ability to measure and monitor performance both with and without these special items. We believe that disclosing the impact of certain items, such as new pilot contract transition costs and fleet transition costs, is important because it provides information on significant items that are not necessarily indicative of future performance. Industry analysts and investors consistently measure our performance without these items for better comparability between periods and among other airlines.
- Although we disclose our “mainline” passenger unit revenues for Alaska, we do not (nor are we able to) evaluate mainline unit revenues excluding the impact that changes in fuel costs have had on ticket prices. Fuel expense represents a large percentage of our total mainline operating expenses. Fluctuations in fuel prices often drive changes in unit revenues in the mid-to-long term. Although we believe it is useful to evaluate non-fuel unit costs for the reasons noted above, we would caution readers of these financial statements not to place undue reliance on unit costs excluding fuel as a measure or predictor of future profitability because of the significant impact of fuel costs on our business.

The following tables reconcile our non-GAAP financial measures to the most directly comparable GAAP financial measures for both Alaska Airlines, Inc. and Horizon Air Industries, Inc.:

Alaska Airlines, Inc.

(in millions, except for per ASM information)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<u>Mainline unit cost reconciliations:</u>				
Mainline operating expenses	\$ 647.4	\$ 954.5	\$ 1,868.4	\$ 2,292.9
Mainline ASMs	6,097	6,306	17,469	18,628
Mainline operating expenses per ASM	10.62¢	15.14¢	10.70¢	12.31¢
Mainline operating expenses	\$ 647.4	\$ 954.5	\$ 1,868.4	\$ 2,292.9
Less: aircraft fuel	(166.6)	(479.1)	(405.9)	(864.0)
Less: new pilot contract transition costs	-	-	(35.8)	-
Less: restructuring charges	-	(3.7)	-	(3.7)
Less: fleet transition costs - MD-80	-	(21.5)	-	(47.5)
Mainline operating expenses excluding fuel, restructuring charges and fleet transition costs	\$ 480.8	\$ 450.2	\$ 1,426.7	\$ 1,377.7
Mainline ASMs	6,097	6,306	17,469	18,628
Mainline operating expenses per ASM excluding fuel, restructuring charges and fleet transition costs	7.89¢	7.14¢	8.17¢	7.40¢
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<u>Reconciliation to GAAP income (loss) before taxes:</u>				
Income before taxes, excluding items noted below	\$ 118.7	\$ 56.6	\$ 137.0	\$ 1.4
Change in Mileage Plan terms	-	42.3	-	42.3
New pilot contract transition costs	-	-	(35.8)	-
Restructuring charges	-	(3.7)	-	(3.7)
Fleet transition costs - MD-80	-	(21.5)	-	(47.5)

Adjustments to reflect timing of gain or loss recognition resulting from				
mark-to-market accounting on fuel hedges	<u>6.1</u>	<u>(181.1)</u>	<u>47.4</u>	<u>(52.4)</u>
GAAP income (loss) before taxes as reported	<u>\$ 124.8</u>	<u>\$ (107.4)</u>	<u>\$ 148.6</u>	<u>\$ (59.9)</u>

- 9 -

Horizon Air Industries, Inc.

(in millions, except for per ASM unit information)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Unit cost reconciliations:				
Operating expenses	\$ 154.5	\$ 225.7	\$ 453.2	\$ 589.6
ASMs	855	945	2,470	2,831
Operating expenses per ASM	18.07¢	23.88¢	18.35¢	20.83¢
Operating expenses	\$ 154.5	\$ 225.7	\$ 453.2	\$ 589.6
Less: aircraft fuel	(32.9)	(96.5)	(79.7)	(175.6)
Less: fleet transition costs - CRJ-700	-	(0.7)	-	(6.8)
Operating expenses excluding fuel and CRJ-700 fleet transition costs	\$ 121.6	\$ 128.5	\$ 373.5	\$ 407.2
ASMs	855	945	2,470	2,831
Operating expenses per ASM excluding fuel and CRJ-700 fleet transition costs	14.22¢	13.60¢	15.12¢	14.38¢
Unit cost reconciliations-excluding all fleet transition costs:				
Operating expenses	\$ 154.5	\$ 225.7	\$ 453.2	\$ 589.6
Less: aircraft fuel	(32.9)	(96.5)	(79.7)	(175.6)
Less: fleet transition costs - CRJ-700	-	(0.7)	-	(6.8)
Less: fleet transition costs - Q200	1.2	(0.7)	(8.8)	(9.7)
Operating expenses excluding fuel and all fleet transition costs	\$ 122.8	\$ 127.8	\$ 364.7	\$ 397.5
ASMs	855	945	2,470	2,831
Operating expenses per ASM excluding fuel and all fleet transition costs	14.36¢	13.52¢	14.77¢	14.04¢

Reconciliation to GAAP income (loss) before taxes:

Income (loss) before taxes, excluding mark-to-market fuel hedging gains (losses) and CRJ-700 fleet transition costs	\$ 17.9	\$ 12.7	\$ 5.4	\$ (13.6)
Fleet transition costs - CRJ-700	-	(0.7)	-	(6.8)
Adjustments to reflect timing of gain or loss recognition resulting from mark-to-market accounting on fuel hedges	1.2	(37.1)	9.7	(9.7)
GAAP income (loss) before taxes as reported	\$ 19.1	\$ (25.1)	\$ 15.1	\$ (30.1)

Line of Business Information:

Horizon brand flying includes those routes in the Horizon system not covered by the Alaska Capacity Purchase Agreement (CPA). Horizon bears the revenue risk in those markets and, as a result, traffic, yield and load factor impact revenue recorded by Horizon. In the CPA arrangement, Horizon is insulated from market revenue factors and is guaranteed contractual revenue amounts based on operational capacity. As a result, yield and load factor information is not presented.

Three Months Ended September 30, 2009

	Capacity and Mix				Load Factor		Yield		RASM	
	2009 Actual (000,000)	2008 Actual (000,000)	Change Y-O-Y	Current % Total	Actual	Point Change Y-O-Y	Actual	Change Y-O-Y	Actual	Change Y-O-Y
Brand Flying	487	568	(14.3%)	57%	77.9%	2.9	27.81¢	(1.5%)	22.26¢	2.9%
Alaska CPA System	368	377	(2.4%)	43%	NM	NM	NM	NM	18.97¢	(11.8%)
Total	855	945	(9.5%)	100%	77.9%	1.6	26.32¢	(5.8%)	20.84¢	(3.5%)

NM= Not Meaningful

Nine Months Ended September 30, 2009

	Capacity and Mix			Load Factor		Yield		RASM		
	2009 Actual (000,000)	2008 Actual (000,000)	Change Y-O-Y	Current % Total	Actual	Point Change Y-O-Y	Actual	Change Y-O-Y	Actual	Change Y-O-Y
Brand Flying Alaska CPA System Total	1,463	1,736	(15.7%)	59%	72.1%	1.0	26.90¢	0.4%	19.94¢	2.1%
	1,007	1,095	(8.0%)	41%	NM	NM	NM	NM	18.98¢	(10.1%)
	2,470	2,831	(12.8%)	100%	72.8%	(0.5)	26.40¢	(2.5%)	19.55¢	(2.9%)

NM= Not Meaningful

Alaska Airlines Fuel Reconciliation

(in millions, except for per gallon amounts)

	Three Months Ended September 30,			
	2009		2008	
	Dollars	Cost/Gal	Dollars	Cost/Gal
Raw or "into-plane" fuel cost	\$ 159.5	\$ 1.99	\$ 334.5	\$ 3.89
Minus gains, or plus the losses, during the period on settled hedges	13.2	0.16	(36.5)	(0.42)
Economic fuel expense	\$ 172.7	\$ 2.15	\$ 298.0	\$ 3.47
Adjustments to reflect timing of (gain) or loss recognition resulting from				
mark-to-market accounting	(6.1)	(0.08)	181.1	2.10
GAAP fuel expense	\$ 166.6	\$ 2.07	\$ 479.1	\$ 5.57
Fuel gallons	80.1		86.0	

	Nine Months Ended September 30,			
	2009		2008	
	Dollars	Cost/Gal	Dollars	Cost/Gal
Raw or "into-plane" fuel cost	\$ 410.6	\$ 1.79	\$ 918.8	\$ 3.56
Minus gains, or plus the losses, during the period on settled hedges	42.7	0.19	(107.2)	(0.42)
Economic fuel expense	\$ 453.3	\$ 1.98	\$ 811.6	\$ 3.14
Adjustments to reflect timing of (gain) or loss recognition resulting from				
mark-to-market accounting	(47.4)	(0.21)	52.4	0.20
GAAP fuel expense	\$ 405.9	\$ 1.77	\$ 864.0	\$ 3.34
Fuel gallons	229.9		258.3	

Horizon Air Fuel Reconciliation

(in millions, except for per gallon amounts)

	Three Months Ended September 30,			
	2009		2008	
	Dollars	Cost/Gal	Dollars	Cost/Gal
Raw or "into-plane" fuel cost	\$ 31.4	\$ 2.01	\$ 66.9	\$ 3.89
Minus gains, or plus the losses, during the period on settled hedges	2.7	0.18	(7.5)	(0.44)
Economic fuel expense	\$ 34.1	\$ 2.19	\$ 59.4	\$ 3.45
Adjustments to reflect timing of (gain) or loss recognition resulting from				
mark-to-market accounting	(1.2)	(0.08)	37.1	2.16
GAAP fuel expense	\$ 32.9	\$ 2.11	\$ 96.5	\$ 5.61
Fuel gallons	15.6		17.2	

	Nine Months Ended September 30,			
	2009		2008	
	Dollars	Cost/Gal	Dollars	Cost/Gal
Raw or "into-plane" fuel cost	\$ 80.7	\$ 1.79	\$ 187.9	\$ 3.61
Minus gains, or plus the losses, during the period on settled hedges	8.7	0.19	(22.0)	(0.43)
Economic fuel expense	\$ 89.4	\$ 1.98	\$ 165.9	\$ 3.18
Adjustments to reflect timing of (gain) or loss recognition resulting from				
mark-to-market accounting	(9.7)	(0.22)	9.7	0.19
GAAP fuel expense	\$ 79.7	\$ 1.76	\$ 175.6	\$ 3.37
Fuel gallons	45.1		52.1	

Glossary of Financial Terms

ASM - available seat miles, or “capacity” – represents total seats available across the fleet multiplied by the number of miles flown

RPM – revenue passenger miles, or “traffic” – the number of those available seats that were filled with paying passengers; one passenger traveling one mile is one RPM

RASM - total operating revenue divided by ASMs; operating revenue includes all passenger revenue, freight & mail, Mileage Plan, and other ancillary revenue; commonly called “unit revenue” and represents the average total revenue for flying one seat one mile

PRASM – passenger revenue per ASM; commonly called “passenger unit revenue”

Yield – passenger revenue per RPM; this represents the average revenue for flying one passenger one mile

CASM – total operating costs per ASM; this represents all operating expenses including fuel and special items; commonly called “unit cost”

CASMex – operating costs excluding fuel and special items per ASM; this metric is used to help track progress toward reduction of non-fuel operating costs since fuel is largely out of our control

Economic fuel – best estimate of the cash cost of fuel, net of the impact of our fuel-hedging program

Mainline – represents flying on Alaska jets and all associated revenues and costs

Purchased Capacity Flying – represents operations whereby Horizon and, to a much lesser extent, another small carrier in the state of Alaska fly certain routes for Alaska using Horizon’s or the other carrier’s fleets



Investor Update – October 22, 2009

References in this update to “Air Group,” “Company,” “we,” “us,” and “our” refer to Alaska Air Group, Inc. and its subsidiaries, unless otherwise specified.

This update includes actual third quarter consolidated statistical information and forecasted operational and financial information for our subsidiaries Alaska Airlines, Inc. (Alaska) and Horizon Air Industries, Inc. (Horizon). Our disclosure of operating cost per available seat mile, excluding fuel and other items, provides us (and may provide investors) with the ability to measure and monitor our performance without these items. The most directly comparable GAAP measure is total operating expense per available seat mile. However, due to the large fluctuations in fuel prices, we are unable to predict total operating expense for any future period with any degree of certainty. In addition, we believe the disclosure of fuel expense on an economic basis is useful to investors in evaluating our ongoing operational performance. Please see the cautionary statement under “Forward-Looking Information.”

Please see our press release dated today for actual financial and statistical information for the third quarter of 2009.

Forward-Looking Information

This update contains forward-looking statements subject to the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. These statements relate to future events and involve known and unknown risks and uncertainties that may cause actual outcomes to be materially different from those indicated by any forward-looking statements. For a comprehensive discussion of potential risk factors, see Item 1A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2008. Some of these risks include current economic conditions, increases in operating costs including fuel, competition, labor costs and relations, our significant indebtedness, inability to meet cost reduction goals, terrorist attacks, seasonal fluctuations in our financial results, an aircraft accident, laws and regulations, and government fees and taxes. All of the forward-looking statements are qualified in their entirety by reference to the risk factors discussed therein. We operate in a continually changing business environment, and new risk factors emerge from time to time. Management cannot predict such new risk factors, nor can it assess the impact, if any, of such new risk factors on our business or events described in any forward-looking statements. We expressly disclaim any obligation to publicly update or revise any forward-looking statements after the date of this report to conform them to actual results. Over time, our actual results, performance or achievements will likely differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements, and such differences might be significant and materially adverse.

AIR GROUP – CONSOLIDATED

Third Quarter Statistics

	Three Months Ended Sept. 30		
	2009	2008	Change
Capacity (ASMs in millions)*	6,952	7,251	(4.1)%
Traffic (RPMs in millions)	5,686	5,733	(0.8)%
Revenue passengers (000s)	6,055	6,521	(7.1)%
Load factor	81.8%	79.1%	2.7 pts
Passenger revenue per ASM (cents)	12.73	13.14	(3.1)%
Cost per ASM, excluding fuel and special items (cents)	8.76	8.04	9.0%

* Capacity includes Alaska mainline operations, Horizon brand flying, and CPA flying with Horizon only.

Forecast Information

	Forecast	Change	Forecast	Change
	Q4 2009	Y-O-Y	Full Year 2009	Y-O-Y
Capacity (ASMs in millions)*	6,400	flat	26,340	(5)%
Cost per ASM excluding fuel and special items (cents)**	9.2 – 9.3	6% – 7%	9.1	8%
Fuel Gallons (000,000)	88	(2)%	363	(9)%
Economic fuel cost per gallon***	\$2.30	(9)%	\$2.05	(32)%

* Capacity includes Alaska mainline operations, Horizon brand flying, and CPA flying with Horizon only.

** Our forecasts of cost per ASM excluding fuel are based on forward-looking estimates, which will likely differ from actual results. Q200 fleet transition charges for Horizon are not considered special items in this forecast.

***Because of the volatility of fuel prices, actual amounts may differ significantly from our estimates.

Nonoperating Expense

Our consolidated nonoperating expense is estimated to be approximately \$18 million in the fourth quarter 2009.

ALASKA AIRLINES – MAINLINE

Forecast Information

	Forecast	Change	Forecast	Change
	Q4 2009	Y-O-Y	Full Year 2009	Y-O-Y
Capacity (ASMs in millions)	5,580	flat	23,050	(5)%
Cost per ASM excluding fuel and special items (cents)*	8.3	6%	8.2	10%
Fuel gallons (000,000)	73	(4)%	303	(9)%
Economic fuel cost per gallon**	\$2.29	(9)%	\$2.05	(32)%

* For Alaska, our forecasts of mainline cost per ASM excluding fuel are based on forward-looking estimates, which will likely differ from actual results. Special items for the year include the pilot contract transition costs recorded in the second quarter of 2009.

** Because of the volatility of fuel prices, actual amounts may differ significantly from our estimates. Our economic fuel cost per gallon estimate for the fourth quarter includes the following per-gallon assumptions: crude oil cost – \$1.90 (\$80 per barrel); refining margin – 22 cents; taxes and fees – 13 cents; cost of settled hedges – 4 cents.

Changes in Advance Booked Load Factors (percentage of ASMs that are sold)

	October	November	December
Point Change Y-O-Y	+3.5 pts	+2.5 pts	flat

ALASKA – PURCHASED CAPACITY

Alaska has Capacity Purchase Agreements (CPA) with Horizon for certain routes and with a third party for service between Anchorage and Dutch Harbor, AK.

Forecast Information (Horizon CPA)

	Forecast Q4 2009	Change Y-O-Y	Forecast Full Year 2009	Change Y-O-Y
Capacity (ASMs in millions)	350	16%	1,360	(3)%
Cost per ASM (cents)*	19.6	(7)%	19.4	(9)%

* Costs associated with the Horizon CPA agreement represent the amount paid by Alaska to Horizon for operating costs plus a specified profit margin and are eliminated in consolidation.

Changes in Advance Booked Load Factors (percentage of ASMs that are sold)

	October	November	December
Point Change Y-O-Y	+2.5 pts	+3.0 pts	+2.5 pts

HORIZON AIR

Forecast Information

	Forecast Q4 2009	Change Y-O-Y	Forecast Full Year 2009	Change Y-O-Y
Capacity (ASMs in millions)*	820	4%	3,290	(9)%
Cost per ASM excluding fuel and CRJ-700 fleet transition charges (cents)**	15.4 – 15.5	3%	15.2 – 15.3	5%
Cost per ASM excluding fuel and all fleet transition charges (cents)**	15.4 – 15.5	3% – 4%	14.9 – 15.0	5%
Fuel gallons (in millions)	15	3%	60	(10)%
Economic fuel cost per gallon***	\$2.34	(10)%	\$2.07	(32)%

* Capacity includes brand flying and CPA flying for Alaska. Brand capacity is expected to decline approximately 3% in the fourth quarter of 2009 compared to the prior-year period.

** For Horizon, our forecast of cost per ASM excluding fuel is based on forward-looking estimates, which may differ significantly from actual results.

*** Because of the volatility of fuel prices, actual amounts may differ significantly from our estimates. Our economic fuel cost per gallon estimate for the fourth quarter includes the following per-gallon assumptions: crude oil cost – \$1.90 (\$80 per barrel); refining margin – 22 cents; taxes and fees – 18 cents; cost of settled hedges – 4 cents.

Changes in Advance Booked Load Factors – Brand Flying (percentage of ASMs that are sold)

	October	November	December
Point Change Y-O-Y	+1.5 pts	+0.5 pts	-2.0 pts

AIR GROUP – BALANCE SHEET

Cash and Share Count

(in millions)	September 30, 2009	December 31, 2008
Cash and marketable securities	\$ 1,230	\$ 1,077
Common shares outstanding	35.251	36.275

Capital Expenditures

Total expected gross capital expenditures for 2009 are as follows (in millions):

	Total 2009 Estimate*		
	Aircraft-related	Non-aircraft	Total
Alaska	\$ 290	\$ 64	\$ 354
Horizon	80	6	86
Air Group	\$ 370	\$ 70	\$ 440

*Amounts exclude any proceeds from the sale of assets.

Firm Aircraft Commitments

The tables below reflect the current delivery schedules for firm aircraft.

	Q4 2009	2010	2011	2012	2013	Beyond 2013	Total
Alaska (B737-800)*	--	6	1	2	2	4	15
Horizon (Q400)*	3	-	-	4	4	-	11
Totals	3	6	1	6	6	4	26

* Alaska has options to acquire 40 additional B737-800s and Horizon has options to acquire 10 Q400s.

Projected Fleet Count

		Actual Fleet Count		Expected Fleet Activity					
		Dec. 31, 2008	Sept. 30, 2009	Q4 Changes	Dec. 31, 2009 ²	2010 Changes	Dec. 31, 2010 ²	2011 Changes	Dec. 31, 2011 ²
Alaska	Seats								
737-400F ¹	---	1	1	---	1	---	1	---	1
737-400C ¹	72	5	5	---	5	---	5	---	5
737-400	144	31	28	---	28	(5)	23	(2)	21
737-700	124	20	19	---	19	(2)	17	---	17
737-800	157	41	51	---	51	6	57	1	58
737-900	172	12	12	---	12	---	12	---	12
Totals		110	116	---	116	(1)	115	(1)	114
		Actual Fleet Count		Expected Fleet Activity					
Horizon	Seats	Dec. 31, 2008	Sept. 30, 2009	Q4 Changes	Dec. 31, 2009 ²	2010 Changes	Dec. 31, 2010 ²	2011 Changes	Dec. 31, 2011 ²
Q200	37	6	---	---	---	---	---	---	---
Q400	76	35	37	3	40	---	40	---	40
CRJ-700 ³	70	18	18	(3)	15	---	15	---	15
Totals		59	55	---	55	---	55	---	55

¹ F=Freighter; C=Combination freighter/passenger

² The expected fleet counts at December 31, 2009, 2010 and 2011 are subject to change.

³ The planned CRJ fleet activity is subject to change as we finalize the fleet transition plan and is dependent on our ability to remarket the CRJ aircraft. If we are unable to dispose of the CRJ aircraft to coincide with the delivery of the Q400 aircraft, we plan to reduce the average utilization of Horizon's fleet in order to maintain capacity plans.

*Future Fuel Hedge Positions**

	Approximate % of Expected Fuel Requirements	Approximate Crude Oil Price per Barrel
Fourth Quarter 2009	50%	\$76
Full Year 2009	50%	\$76
First Quarter 2010	46%	\$68
Second Quarter 2010	47%	\$68
Third Quarter 2010	46%	\$72
Fourth Quarter 2010	33%	\$78
Full Year 2010	43%	\$71
First Quarter 2011	26%	\$86
Second Quarter 2011	24%	\$79
Third Quarter 2011	21%	\$80
Fourth Quarter 2011	15%	\$81
Full Year 2011	22%	\$82
First Quarter 2012	10%	\$87
Full Year 2012	2%	\$87

*All of our future positions are call options, which are designed to effectively cap the cost of the crude oil component of our jet fuel purchases. With call options, we benefit from a decline in crude oil prices, as there is no cash outlay other than the premiums we pay to enter into the contracts.

Additionally, we have used either fixed-price physical contracts or financial swaps to fix the refining margin component for approximately 47% of our fourth quarter 2009 estimated jet fuel purchases and 27% of our first quarter 2010 estimated jet fuel purchases at an average price of 22 cents per gallon and 25 cents per gallon, respectively.

