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ALK - Q1 2016 Alaska Air Group Inc Earnings Call

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OVERVIEW:

Co. reported 1Q16 adjusted net income of $183m and EPS of $1.45.

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PRESENTATION

Operator

Good morning. My name is Sean and I will be your conference operator today. At this time I would like to welcome everyone to the Alaska Air Group first-quarter 2016 earnings conference call. Today's call is being recorded and will be accessible for future playback at www.AlaskaAir.com.

(Operator Instructions) Thank you. I'd 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, IR*

Thanks, Sean. Morning, everyone, and thank you for joining us for Alaska Air Group's first-quarter 2016 earnings call. On the call today our CEO Brad Tilden will provide an overview of the business; our Chief Commercial Officer Andrew Harrison will share the revenue results for the quarter; followed by Brandon Pedersen, our CFO, who will discuss our financial results, capital allocation plans, and outlook for 2016.

Several members of our senior management team are also on hand to help answer your questions. As a reminder, 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 unit costs excluding fuel. We have provided a reconciliation between the most directly comparable GAAP and non-GAAP measures in our earnings release. In addition, today's call may be deemed a solicitation in respect of Alaska Air Group's contemplated acquisition of Virgin America. The information discussed today is qualified in its entirety by the proxy statement that Virgin America will be filing in the future and that will be available on Virgin America's investor relations page at ir.VirginAmerica.com.

All right, with that lengthy disclosure done, let's look at results.

This morning Alaska Air Group reported a first-quarter GAAP net profit of $184 million. Excluding the small impact of mark-to-market adjustments related to our fuel hedge portfolio, Air Group reported a record adjusted net income of $183 million. That's up 23%.

Earnings per share grew by 29.5% to $1.45 per share. The higher growth rate in EPS is driven by over 7.3 million shares that we have repurchased during the last 12 months. Additional information about cost expectations, capacity plans, fuel hedging, capital expenditures, and other items can be found in our investor update included in our Form 8-K issued this morning and available on our website at AlaskaAir.com.

Now I will turn the call over to Brad.

Brad Tilden - *Alaska Air Group, Inc. - President & CEO*

Thanks, Lavanya, and good morning, everyone. Before I jump to the results for this quarter, I want to talk for a minute about our proposed acquisition of Virgin America.

Virgin America and Alaska share similar philosophies about building alignment with and taking care of our people and about putting customers first. Both of us run strong operations. We're both recognized for our terrific customer service, we both have a great onboard product, and we have two of the youngest and most fuel-efficient fleets in the industry.

We're excited about bringing together two great airlines to create an airline that will have a national footprint and one that we believe will be the premier airline for people that live anywhere along the West Coast.

The next steps in the process involve a vote by Virgin America's shareholders sometime in the second quarter and a review by the Department of Justice. We believe this combination strengthens our two airlines and enhances competition from the innovative and low-fare segment of the market, so we are hoping for swift clearance to close, which could be at 60 days or less. Even if the DoJ decides that the deal warrants a closer look, we hope to have clearance well before the end of the year.

In the meantime, we remain focused on execution and integration planning. On that front, I want to share that Ben Minicucci, our Chief Operating Officer, will be leading the charge on integration. He understands operations very well and, while he drives hard for results, he cares a lot about people. And that is the real key to success. We are all fully invested in this, but we are also very excited to see Ben do great things with this responsibility.

We're working hard to lay out the groundwork for a smooth integration and part of that is making sure our standalone business is humming along nicely, so let's talk about the business that our team of 15,000 people is running today.

Lavanya just shared the numbers and it's evident that we are performing well financially, but it's also important to note that the industry as a whole is a lot healthier and producing strong results. What I'm really proud of is that our team is continuously moving the ball forward. We're off to a strong start in 2016 on almost every front.

Let's start with the operation. Our people continue to do a great job of running a good operation. 87.5% of our mainline flights arrived on time in the quarter and that's up 2.5 points from 2015, and I think Horizon's on-time performance will be even higher than that. Our completion rate was 99.3%. We expect that both our mainline on-time performance and our completion rate will lead the eight largest domestic airlines.

Now let's talk about customer service, which we believe is what really differentiates airlines.

Our people are taking great care of our customers and providing them an experience that is unique in this industry. Our customer satisfaction rating of 86.3% is a new record for the first quarter and reflects the time and effort spent by our team last year conducting customer service workshops, which we call Beyond Service.

Our customers are rewarding us with their loyalty and voting with their wallets, literally, by signing up for the Alaska Airlines credit card. Both programs continue to grow at unprecedented rates and are providing us loyal customers, which make our network growth more successful and more profitable. Andrew will talk more about this in a moment.

Our growth is providing greater options to our customers and generating strong returns for our owners. Our network team does a great job of identifying demand and then matching that demand with the right amount of capacity or supply. Sometimes this means getting out of routes that don't meet our return targets, like LA to Vancouver; sometimes this means making small refinements to the schedule; and sometimes it means tapping into new opportunities.

We have added 41 new markets over the last two years and five of them came in the most recent quarter. 41 markets in the aggregate are not only profitable, but are producing fully-allocated returns that are meaningful to our overall business and well above our cost of capital. What's more remarkable is that the five markets added in the last quarter are already profitable and three of them are producing returns that are higher than our cost of capital. So our strategy is working.

Our folks are running a strong operation and taking care of customers on board and on the ground. We are deploying capacity in markets where we enjoy strong customer loyalty and our assets are producing returns that exceed our cost of capital. And these returns are reflected in the numbers that you saw this morning.

Now let's look at those numbers. Our net income for the quarter was $183 million, which was 23% higher than 2015. When we factor in the 7.3 million shares we bought back over the last 12 months, our earnings per share of $1.45 increased 29.5%. We expect this EPS growth to lead all but 36 companies in the S&P 500. In fact, our strong EPS growth stands in contrast to the average company in the S&P 500 where earnings are expected to shrink by 3.5%.

Our pretax margin grew by 260 basis points to 21.5%, bringing our trailing 12-month pretax margin to 24.5%. We expect this to be one of the best margins in the industry and we also expect it to lead about 80% of the companies in the S&P 500.

Finally, our ROIC for the trailing 12 months of 25.6% is more than 3 times our cost of capital and substantially higher than high-quality industrials in the S&P 500.

As we look forward, our 15,000 employees are operating safely and they are taking care of our customers and each other. Our core business is strong and we're seeing robust demand for our product. As a result, our business is producing the sort of returns that you should expect from high-quality industrials.

I want to thank everybody here -- our very talented and dedicated frontline employees, as well as a terrific leadership team -- all of whom are working very hard to produce these strong results and just as importantly to position us to continue to do so in the future.

With that I will turn the call over to Andrew.

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

Thanks, Brad, and good morning, everyone. Our first-quarter revenue performance was solid, especially when compared to the industry. We grew revenues by $78 million, or 6.1%, while industry revenues declined 1%. We were able to achieve these revenue results in the face of 13% competitive (technical difficulty).

Our load factors remained high, while growing our own capacity 12.9%. Despite expanding capacity over 2 times the industry, our RASM decline of 6.1% was within 50 basis points of the industry. Our growth is enabling us to continue to offer our customers more destinations, grow our revenues, and most importantly, grow a diverse and stable earnings stream.

Our strong business performance is a result of a number of key drivers. First, adding new markets is giving our customers more nonstop choices, as well as providing greater options for connecting passengers. In the last 12 months we've added 23 new markets to our network. In retail parlance, we are putting new products on the shelf and they are selling.

Second, we have new regional jets that enable us to provide customers with nonstop service to destinations they previously could only access via one or two stops. Seven of our 23 markets launched in the past 12 months were only made viable due to the introduction of the Embraer 175. This aircraft delivers the trip costs and range to ensure longer [thin] markets can be served profitably. We are excited about the possibilities of this aircraft and Brandon will share a little more about our delivery stream in just a minute.

Third, our costs have come down approximately 1% for the 12-month period ending March 2016, while we expect industry costs have risen by about 3%. That is a net gap of 4 points in just one year. Our low costs are a sustainable advantage, allowing us to offer low fares and enabling our growth.

Fourth, the combination of a reliable operation, customer-friendly service, growing destinations, and low fares is helping us continue to grow our loyalty customer base. Our loyalty program gives members access to over 950 destinations worldwide.

We grew our active membership another 12% on the heels of 15.5% growth in 2015. Our base of loyalty members is actually 30% larger today than it was two years ago. This is remarkable for a mature program, especially in the face of vigorous competition.

And then lastly, with respect to the credit card accounts, they are up over 12% for the quarter. That's the highest growth since 2010. In addition, the revised economics of our newest credit card agreement is helping our revenue performance. For the first quarter we are tracking ahead of plan and on track to achieve our annual run rate of $60 million.

We expect our growth in cardmembers to remain strong because come June 1 we will be able to go to market with new cardholder products we negotiated with our new agreement. That includes 30,000 bonus miles on approval -- that's an increase of 20% from today -- and a free bag. In addition, new and existing members will no longer incur international transaction fees.

We believe that this is the best airline credit card offering in the market, bar none.

As we shift our focus to the second quarter, I want to highlight a few data points around capacity and demand. Let's start with capacity.

Alaska's capacity will be up approximately 11% in the second quarter. Almost half of that growth is driven by new markets we launched over the last year and about a third is driven by the increase in our stage length. Said another way, ASM growth from core departures will only contribute

2%, which we believe is in line with the strength of the economy in the markets we serve. We expect capacity growth in the second half of 2016 to slow down to 5.5% to 6.5%, which puts our expectation for the full-year capacity growth at 8%.

Moving to competitive outlook, we expect competitive capacity to remain elevated through the summer, up 14% for Q2 and Q3. This is 1 point higher than competitive capacity in the first quarter. Also as reminder, the shift of the Easter holiday to March is expected to reduce April PRASM by about a point.

As we look ahead to the rest of 2016, we will continue to grow our revenue base and deliver strong results. Here's why. First, over 90% of our capacity is deployed in domestic markets. Nearly all US point-of-sale and demand continues to remain solid.

Secondly, you might recall that 18 of the 21 new markets added last year started in the last six months of 2015. So as we move through this year, the percentage of our capacity in markets that have operated less than 12 months drops from 5.5% in the first half of this year to 2.5% in the second half of 2016.

Third, we expect to introduce premium class in September with 75 aircraft in service by year-end. This will help with both revenue and loyalty growth. While the contribution in 2016 is marginal, we expect premium class to add about $85 million in annual profit by 2018.

In summary, we are running a solid operation, taking great care of our customers. The first quarter saw us adding new aircraft, cities, customers, loyalty members, revenue, and profit, all against the backdrop of an industry that shrank revenue this quarter.

With that, I will turn the call over to Brandon.

Brandon Pedersen - *Alaska Air Group, Inc. - EVP, Finance & CFO*

Thanks, Andrew. As you heard, Air Group's adjusted net profit improved by 23% and EPS grew by 29% to $1.45 a share. Our trailing 12-month ROIC of 25.6% was 550 basis points higher than at the end of this point last year.

On an adjusted pretax basis, we earned $290 million, a $50 million, or 21%, increase over prior year. Revenues grew by $78 million. Fuel costs declined by $66 million, and those gains were offset by a $94 million increase in nonfuel costs. This is the seventh consecutive year of profitability in the seasonally-weak first quarter and profit has increased steadily for each of those seven years.

Consolidated nonfuel unit costs were down 1.2%. The leaders are doing a good job managing divisional costs to budget and hitting productivity metrics. For example, our broadest measure of productivity, passengers per FTE, is tracking at 1.8% better than plan on mainline, our flight ops group is spot on their hard-time plan, and our maintenance division productivity is tracking slightly ahead of plan. Just to name a few.

Our people understand how high productivity is an important source of our cost advantage. For the second quarter we forecast unit costs, ex fuel, to be down 1% and for the full year we now expect ex-fuel costs to decline by 0.5%. There are three main drivers from the change from our initial full-year guidance.

First, we've changed our performance-based pay, or PBP, plan to increase the participation level for our supervisors and our managers. These are incredibly important roles and our Board wanted to have their PBP participation better reflect their level of responsibility. PBP has been, and continues to be, a very strong driver of engagement among our employees.

Next, third-party regional expense was understated in our initial guidance. The new guidance now properly reflects the increase in SkyWest CPA flying costs through the year. And finally, new minimum wage requirements in certain markets are having a greater impact than we initially modeled. In addition, our results in Q1, and thus our full-year forecast, includes some costs associated with our Virgin America deal.

Going forward, we will be excluding deal and integration costs from our guidance since the timing and amount of these costs are variable. We will also begin excluding them from our adjusted results.

Even with the revised cost guidance, 2016 will be the 14th year out of the last 15 for mainline cost reduction and the seventh year in a row for Air Group. As a result, our cost advantage over the legacy carriers will further widen this year.

Turning to fuel, our economic fuel cost per gallon was $1.29, down from $1.98 in Q1 of last year, which contributed to the $66 million decline in economic fuel expense. Our fuel burn on an ASM per gallon basis improved by another 1.8% since Q1 last year and will just continue to get better as we work through the retirement of the 737-400 classics by the end of 2017 and replace them with 737-900ERs, which are 25% more fuel-efficient.

Our cash flow from operations was $527 million and we ended the quarter with nearly $1.6 billion in cash. Even after adjusting for leases, we're in a net cash position of almost $600 million. Our debt to cap, including leases, now stands at 26%. Our net cash position, the 95 unencumbered aircraft in our fleet, our investment-grade balance sheet, and our long track record of conservative financial management put us in a strong position to raise the capital necessary to fund the proposed acquisition of Virgin America.

Our treasury team is hard at work with potential lenders. Initial results are very encouraging, both in terms of the number of and diversity of lenders that will work with us.

Andrew mentioned the order for E175s. We're excited to add this jet to the Horizon fleet and the profit opportunity that it opens up in new markets. We're impressed with Embraer's commitment to working by our side as the Horizon team incorporates the E175 efficiently into our operation.

We currently have seven SkyWest E175s operating in our network and expect to have 15 by the end of the year. Horizon will start taking delivery of the E175 in 2017. The Q400 will continue to fly our shorter routes and Bombardier remains an important business partner of ours. In the mainline operation, we took delivery of six 737-900ERs in the first quarter and we will take another 13 by year-end.

On an Air Group standalone basis, we are currently expecting CapEx to be approximately $750 million this year, which includes $685 million of CapEx associated with firm orders and $70 million of CapEx for Boeing 737 options that we are likely to exercise. We've produced over $400 million of free cash flow in the first quarter of 2016 alone, further strengthening our balance sheet, while allowing us to continue to return capital to our owners.

Through yesterday we've repurchased a total of 2.1 million shares for $161 million, or 1.7% of the shares outstanding as of the beginning of the year. We also paid $34 million in dividends so far this year.

As we announced on April 4, planning to slow share repurchases in order to help fund the acquisition. We expect total share repurchases for 2016 to be between $190 million and $200 million. So when combined with our dividend, which will continue and is currently yielding 1.4%, we expect total return to shareholders to be about $325 million this year.

We are off to a great start in 2016, but we have much work ahead as we go through the integration effort. Although there's a lot going on, we are mindful that we need to remain focused on the core business. We're going to maintain the same level of discipline and budget rigor so that we hit our operational and financial goals.

I'm super-focused on the risk that we lose a bit of budget discipline with the integration work and we are setting up controls now to ensure that that does not happen. I want to thank everyone involved in the integration in advance for the huge effort that they are about to undertake to combine Alaska and Virgin America into the premier airline for people on the West Coast.

With that, let's go to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Savi Syth, Raymond James.

Savi Syth - *Raymond James & Associates - Analyst*

Good morning. Just on the CapEx front, we are seeing this step up in 2017 even without the options. Wondering if you could provide a little bit more color as we look over the next couple years on CapEx and the likelihood of those options.

And then also maybe on the funding side; I know there's $2 billion related to the acquisition. Are you planning to raise anymore debt beyond that? And with the E175s any chance of the sale-leaseback or is that set financing?

Brandon Pedersen - *Alaska Air Group, Inc. - EVP, Finance & CFO*

Savi, it's Brandon. Maybe I will start with the first and Mark can take the second. In terms of CapEx, specifically for 2017, if you look at our old guidance on the firm, it was about $620 million. Our new guidance on firm is $925 million. That change is about $300 million.

Nearly all of that is related to the E175 purchase. So if you just look at those 30 firms, the way it staggers out is $40 million in 2016, $280 million in 2017, and roughly $250 million in 2018 and 2019. So the big increase in CapEx is simply related to the regional jet order that we placed.

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

Savi, this is Mark. Good morning. On the financing side we are going to raise the $2 billion, as we talked about a couple weeks ago, and that process is going very well. We're getting strong demand. We've got exceptional collateral and it's a rare opportunity really for a lot of these lenders to work with Alaska, because, as you know, we haven't been borrowing over the last six or seven years.

Going forward, we're going to manage leverage in that 40% to 50% range and borrow for some aircraft and pay cash for some aircraft.

Savi Syth - *Raymond James & Associates - Analyst*

Very helpful, thank you. Just for the second question on the state of Alaska; I know there has been some concerns with the budgetary cuts there and the oil and gas sector there that there might be some demand impact. Can you talk about what you are seeing there and how that has impacted demand?

Joe Sprague - *Alaska Air Group, Inc. - SVP, Communications and External Relations*

Savi, this is Joe. If I screw this up, Andrew can correct me on the demand, but I don't think we've seen anything really appreciable up or down with respect to demand in the state of Alaska. We are heading into the summer months and they are expecting a record summer for tourism, so I think our numbers over the next few months are likely to be quite strong.

But with respect to the oil and gas traffic, there's still a fair bit of exploration activity happening on the North Slope and I think things have been, more or less, steady.

Savi Syth - *Raymond James & Associates - Analyst*

Very helpful, thank you.

Operator

Rajeev Lalwani, Morgan Stanley.

Rajeev Lalwani - *Morgan Stanley - Analyst*

Thanks for the time. I wanted to ask about just competitive capacity, I guess specifically from the ULCCs. They have added some in recent weeks and months and I was just curious to see how that has been playing out; if there's been just irrational competition, if you will, or anything like that. That's the first question.

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

Rajeev, it's Andrew. From our perspective, the competitive capacity hasn't materially changed as it relates to the ULCCs it's both in Portland and Seattle about eight departures a day. If you look at our competitive capacity numbers, which we've been dealing with double-digit numbers since the fourth quarter of 2014, over 70% of that is actually from the big network carriers.

Again, we remain vigilant as it relates to competition, but there's been no material changes for us since the last time we spoke.

Rajeev Lalwani - *Morgan Stanley - Analyst*

Okay. But in terms of places where the ULCCs have added, the pricing activity hasn't gotten out of control or hasn't been incredibly weak with maybe legacies matching those sorts of low fares or anything like that?

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

I'll kick this over to Shane because we have seen some pricing activities, but really more coming from the majors versus anything else.

Shane Tackett - *Alaska Air Group, Inc. - VP, Revenue Management*

Yes, in Vegas and LA it's a little hard to say it's all due to the LCCs, because there's been a lot of capacity from others coming into those markets. They're full flights; the demand has been really strong.

There are lower prices in the market, but we haven't had to use them a ton and so our goal is just to use as many of the discount prices as we have to and get back into our structure. And we did a good job of that and haven't been too concerned about what's going on in those two markets.

Rajeev Lalwani - *Morgan Stanley - Analyst*

Great, I'll leave off there. Thanks, guys.

Operator

Michael Linenberg, Deutsche Bank.

Michael Linenberg - *Deutsche Bank - Analyst*

Two questions here. It looked like that Horizon's margin performance had declined March quarter versus fourth quarter. And maybe I'm doing the numbers wrong here, but it looked like you had like a 9% operating margin last quarter and it looked like it actually went negative this quarter. Is that right or is there some sort of one-off in the numbers that I'm missing?

David Campbell - *Alaska Air Group, Inc. - President & COO, Horizon Air*

Michael, this is David Campbell. What you are seeing there is the restructuring costs from our commit-to-compete exercise. We ended up with about $7 million worth of costs up from severance paid from the reduction in force as well as the signing bonuses. That's the bulk of the shift we've seen.

Operationally, the revenue I think is still very solid there. We were down a little bit in terms of capacity. For the first two months of the year we actually pulled down two lines of flying just to make sure we had enough focus on taking care of our customers.

Michael Linenberg - *Deutsche Bank - Analyst*

Okay, great. Thanks, David. My second question, this is to Mark. Mark, when you mentioned the $2 billion of financing and how there was a positive response from the market, you talked about -- you mentioned exceptional collateral. Is the $2 billion financing that is being used for the Virgin deal, is that all secured or are you going to look to do a mix of secured and unsecured? What's going on there?

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

Mike, that's a great question. I would say that it will be all secured. We are able to do unsecured, we just like the pricing, frankly, better on the secured borrowing. The 737-800s and 900s that we have are very new. We've got over 70 of those really desirable aircraft that are unencumbered and it's just a great source of borrowing.

Brad Tilden - *Alaska Air Group, Inc. - President & CEO*

My comments to that is I've asked that question to these guys several times, should we be doing some unsecured? And the pricing does look attractive, but it's just not good enough to take you there instead of to secured financing.

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

And we will be an unsecured borrower at some point. Just for this transaction it made sense to use that collateral we have.

Michael Linenberg - *Deutsche Bank - Analyst*

Okay, great. Is that just all -- is that aircraft assets or would you consider --? I know you do have some slots at airports like Reagan National and I'm sure you also probably have some hard assets maybe you could potentially pledge. Or is it 100% aircraft?

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

This will be 100% aircraft. We do have a lot of assets, but the aircraft is what will get us the lowest rate, frankly.

Michael Linenberg - *Deutsche Bank - Analyst*

Okay, great. Thank you.

Operator

Hunter Keay, Wolfe Research.

Hunter Keay - *Wolfe Research - Analyst*

Good morning. Andrew, as we look at your own growth slowing and your competitor capacity growth I don't know maybe slowing a little bit in the fourth quarter, is there a scenario where Alaska actually starts outperforming the industry on RASM again in the second half or towards the end of the year in sort of an all-else-equal environment?

And let me give you an out if you don't want to answer it that way. Is there a scenario where maybe the improvement in the rate of change in PRASM actually moves faster than your capacity decelerates, for whatever reason, as we move through the year?

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

Thank you for taxing my intellectual abilities here, Hunter. What I can tell you is that when we look at this, we do still believe that really the pricing environment is somewhat connected to the price of fuel today.

As you know, we don't give guidance that far out. What I will tell you is that are book load factors are based -- they were flat in March, they will be flat in April, and they will be flat in May. So we're seeing good, solid demand as we come into the peak season for us.

Hunter Keay - *Wolfe Research - Analyst*

Got it. All right, that's cool. And then, I only want to ask two questions, so I'm going to ask sort of a loaded one.

Ben, can you talk to me about your plan of attack on integration at a high level? Are you going to use be using consultants? And you just thinking you will have some targets that maybe some targets that maybe we're not going to see underneath the surface. As you ramp up the integration process are you going to be more inclined to maybe slow the organic growth a little bit?

Then also a separate question for Brad. Can you talk to us about how the meetings went with DoJ?

Brad Tilden - *Alaska Air Group, Inc. - President & CEO*

We will get been to answer the first one and I cannot talk to you because I wasn't in them, but we will get Kyle Levine -- we will see if he is willing to say anything about the DoJ meetings. Go ahead.

Ben Minicucci - *Alaska Air Group, Inc. - COO & EVP, Operations*

Good morning, Hunter; it's Ben. I'm really excited so far at how we have begun this integration process. At this point we have created the structure of which -- how we're going to attack the integration. We are starting to fill the structure with strong team members.

I have been down to San Francisco a couple times; I met with their folks, so we've got a lot of strong momentum. I will tell you that we are focused on and we are going to be disciplined at achieving the revenue and cost synergies that we identified through our due diligence.

You know little bit about us, a little bit about me; we're going to be extremely disciplined with metrics and scorecards as we drive this thing through. But we're going to be also very sensitive to the cultural and the brand issues that we have to bring together as well. So I am extremely positive and optimistic we are going to do this well. Our goal is to do this hopefully in a way that people can look back and say this is one of the best integrations that has been executed in a long time.

Hunter Keay - *Wolfe Research - Analyst*

Good.

Kyle Levine - *Alaska Air Group, Inc. - VP, Legal & General Counsel*

Hunter, this is Kyle. So as you know, the regulatory review situation is just getting started, but what I will say is so far, so good. I'm not going to presume to say what the DoJ is going to -- how they are going to view it or what timing they are going to impose.

But I will tell you that they we're answering their questions and we're working really hard to show them why we think this is such a good combination for consumers and competition. We are hoping, conservatively, that we're going to have closing before the end of the year.

Brandon Pedersen - *Alaska Air Group, Inc. - EVP, Finance & CFO*

Hunter, it's Brandon. Just I will add one more thing. You asked about our use of consultants. Yes, we are going to use some consultants, but one of the controls that I talked about in my prepared remarks is how much we're going to use on consultants.

We're going to keep a very tight lid on that. The price matters a lot. We want to build the talent internally and take ownership internally, and so while there will be consultants, the budget for consultants is going to be tightly controlled.

Hunter Keay - *Wolfe Research - Analyst*

Thanks, Brandon.

Operator

Helane Becker, Cowen and Company.

Helane Becker - *Cowen Securities - Analyst*

Thanks very much, operator. Hi, guys. Thank you very much for taking my question.

One of the things that we are seeing a lot of here on the East Coast is -- and we're seeing it in Seattle -- really increased security lines. People having to wait more than maybe 20 minutes, up to an hour sometimes, and I just wondering how you guys are thinking about handling that as you go into the busy summer months.

Because Sea-Tac is pretty close to full capacity at this point. You've got a lot of people wanting to fly and yet you don't really have the staffing that you need -- the TSA actually doesn't have the staffing you need to process all those passengers. How are you thinking about that for the summer?

Ben Minicucci - *Alaska Air Group, Inc. - COO & EVP, Operations*

Helane, it's Ben. We actually met with the TSA administrator, Neffenger, and we had a real positive meeting. I came away actually feeling a lot more optimistic than when I went into it.

They are on top of the problem. They understand their staffing issues. They are looking at technology. They are looking at dogs; adding more dogs, which actually accelerates the screening process.

What I will say from a month ago to now, we have seen improvements in Seattle and I'm actually -- we are actually going to use also third-party vendors in certain parts of the screening process to help TSA move their staffing where it's critical.

So we're looking at all our key airports and working hand-in-hand with the TSA. This is not just a TSA problem; this is everyone's problem and I am actually more optimistic that I was going into the summer. They know it's a big issue and they are focused on it.

Helane Becker - *Cowen Securities - Analyst*

Okay. Is that going to cost you more money?

Ben Minicucci - *Alaska Air Group, Inc. - COO & EVP, Operations*

There will be some costs, not -- I don't think it's going to be material. Just to help with some screening or just identification, personal identification prior to entering the screening process.

Helane Becker - *Cowen Securities - Analyst*

Okay. Thanks, Ben. Brandon, I just have a question about interest expense. It was $13 million in the quarter, up from $11 million, and yet your debt went down a little bit. So why did that extra $2 million occur?

Can you also say what the credit card contributed in the first quarter?

Brandon Pedersen - *Alaska Air Group, Inc. - EVP, Finance & CFO*

Go ahead, Chris is going to take that.

Chris Berry - *Alaska Air Group, Inc. - Controller & Managing Director, Accounting*

Helane, this is Chris. On the interest expense line item, one of the things that happened that you might recall, at the end of the year last year we had -- for this Proposition 1 here in Seattle we had to sort of accrue some back wages associated with that. There's some statutory interest on those back wages that we recorded in the first quarter, so that's why the interest is up even though the debt is down. So that's related to that.

And then the credit card, really the mileage plan overall on that Other line item really was up about $25 million, $30 million for the quarter. That was kind of the contribution there. And a lot of that is driven by again the new credit card deal that we have and the new economics on that deal that started in January.

Then just the volume. As Andrew mentioned in his remarks, credit card holders are up 12%, so that really drove volume and the number of miles sold to the affinity card partner. Overall, it's really good economics and really good result for the quarter on that.

THOMSON REUTERS

Helane Becker - *Cowen Securities - Analyst*

Great. Thanks very much for your help.

Operator

Jamie Baker, JPMorgan.

Jamie Baker - *JPMorgan - Analyst*

Good morning, everybody. As you know, I happened to be in the Bay Area when the deal was announced and I must say that, as a New Yorker, I grossly underestimated just how strong of a cult-like following Virgin has built out there. I don't ordinarily allow my earnings models to be influenced by passenger preference and stuff like that, but I'm thinking I might have to make an exception this time.

I know it has only been 2.5 weeks, but does your analysis still assume that you retain 100% of the Virgin loyalists? It really seems to me that you might be -- you might want to be modeling for some spill there.

Brad Tilden - *Alaska Air Group, Inc. - President & CEO*

Jamie, it's Brad. I will start; maybe Andrew wants to pop in. But I think it's a really good question.

We were attracted to Virgin because they have built an incredible company in nine years. You are right; there is a very, very strong allegiance to that company. The employees feel a tremendous amount of passion for the Company and the customers do. And that's -- I will just say that's why the Company is so attractive to us.

So the biggest challenge, I think, for this leadership team isn't --. We're going to have all kinds of challenges: bringing the [certificate] together, doing this safely, integrating collective-bargaining agreements, seniority lists, and all of that. The biggest challenge is going to be bringing the customers together and that's what we're focused on.

That's why we've talked a lot about the brand. We're going to go into this with a humble approach. We're going to look at both product sets, the tangible product features. We're going to look at Virgin's approach, look at Alaska's approach, and over 12 or 18 months make a decision of what's best for our collective customers. As we look at the brand, we're going to think about the brand and do what's best.

But our goal -- I guess what I just want to reassure you, we are aware of the value that that company has brought to its customers. Our goal isn't to lose that. Our goal is to gain that as a foothold in the state of California as something that we grow in the decade or two ahead.

In terms of specific modeling, I haven't done any specific modeling on this. Maybe our team has. But I think the long-term idea isn't to lose passengers, it's to grow them substantially over the 5, 10, 15 years that are in front of us.

Jamie Baker - *JPMorgan - Analyst*

Have you put any thought into what the costs would be to retrofit your current flying with much of the hard product that makes Virgin so curiously popular? To me.

Brad Tilden - *Alaska Air Group, Inc. - President & CEO*

There's a lot to be done there. We are really just starting that now, Jamie. We are starting to look at the transcon service out of San Francisco and LA to JFK in particular. The product offering is different than what we have done (technical difficulty).

But it will be a complex analysis. There's RASM implications, there's loyalty [implications, and there's] cost implications. And we are going to try to do this in a way where we're known for innovation, we're known for great service, we're known for low fares, and for the analyst community, we are known for making money and making returns. So we've got our work cut out for us, but that's what we're going to be thinking about.

Jamie Baker - *JPMorgan - Analyst*

As a follow-up, other than maybe just an email or a phone call saying congratulations, have either Boeing or Airbus reached out in a meaningful way to start discussing how they might participate in the fleet simplification process? I'm just trying to gauge how eager they might be or if that is a work in progress.

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

Jamie, this is Mark. I'll just answer -- start out by saying that we have a fabulous relationship with Boeing. We have a terrific partnership really with all the manufacturers we work with. We don't work directly with Airbus today, but we will be talking to them and we anticipate the same type of relationship.

Brad Tilden - *Alaska Air Group, Inc. - President & CEO*

I will underscore what Mark has said. We couldn't be more appreciative of the relationship we have with Boeing. We get treated like an airline that's much bigger than we actually are and they've been fantastic to us.

Jamie Baker - *JPMorgan - Analyst*

Okay, thank you very much. Really appreciate it.

Operator

Julie Yates, Credit Suisse.

Julie Yates - *Credit Suisse - Analyst*

Good morning. I am going to try a crack at Hunter's first question a little differently.

Andrew, you mentioned you've added 23 new markets to the network in the last 12 months. And as new market additions slow in the back half of the year and perhaps into 2017, when do you start to see a tailwind to your unit revenues from the market maturation dynamic? And how meaningful could that be?

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

Julie, I think we're already seeing good tailwinds as we go in and as Brad mentioned in his remarks. I think the bigger issue, honestly, is just where do competitive capacity numbers continue to be over the remainder of the year. And then really the industry pricing environment. I think those two things are the biggest variables for us.

At the end of the day, as we look into the back half of the year, we're entering into very strong demand periods for us. We feel very confident about how we've set up the summer, how we've set up our network, so we feel very good about that.

Julie Yates - *Credit Suisse - Analyst*

Okay. Is there a preliminary estimate on competitive capacity in the fourth quarter?

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

You know, I took a look at that. Honestly, especially with Southwest and others, they are not all nailed down, so I looked at that. It's a little elevated, but I don't believe it. There's a lot of clean up and true up that is going to happen over the next few months for the fourth quarter.

Julie Yates - *Credit Suisse - Analyst*

Okay, got it. Then are there any trends you can highlight just maybe between leisure and business in Q1? Then also just how advanced yields are looking for the peak summer period.

Joe Sprague - *Alaska Air Group, Inc. - SVP, Communications and External Relations*

This is Joe. I will just mention that corporate traffic for Alaska Airlines was actually really strong over the last quarter. It did outpace system revenue a bit and the strength of that is really coming from the Seattle market, where the economy is not only doing quite well, but a lot of the large corporations that are headquartered here are some of the most prosperous companies in the country right now.

Tech is doing well, professional services, and also the retail sector. Companies like Costco and Amazon are doing well and they are traveling a lot.

Shane Tackett - *Alaska Air Group, Inc. - VP, Revenue Management*

Julie, the leisure side of the business is very strong. As you know, a lot of our ASMs are into Hawaii and other parts of Mexico, East Coast leisure destinations.

I might just sort of backtrack onto what Andrew said and mention a couple of other things. From our perspective, if you look at the pricing environment in general, it's actually very stable. There is a little more discount use in the trough periods; that's what we would expect. And if you want -- we don't give guidance, but what I would say is yield is most likely to come when and if capacity slows down and oil starts to go up.

The only other thing I would just want to say is we are here today due to low costs and low fares, and we believe that carrying more people at a slightly lower fair is the best thing long term for folks. We want our customers to know they don't have to aggressively price shop us. We think over the long term that's ultimately PRASM positive for us.

Julie Yates - *Credit Suisse - Analyst*

Okay. Then just one more longer term. Maybe how do we think about the percent of your business that is corporate today and then how you expect that mix to change with the Virgin acquisition as you have a stronger foothold in major markets like LA and San Francisco and a more expansive network?

Joe Sprague - *Alaska Air Group, Inc. - SVP, Communications and External Relations*

Good question, thanks. This is Joe again. You know, I think today it's relatively small. We do have great network utility out of Seattle and that sort of overlaps with a lot of corporate activity here in Seattle.

Outside of Seattle historically haven't had a strong base for corporate travel. That certainly will change with the Virgin America acquisition. We're really excited to get down and get smarter about what the opportunities are in SoCal and especially in the Bay Area. There are a lot of overlap in some of the tech companies between Seattle and the Bay Area, so we will have little bit of a head start in the relationship there.

So I would just say that -- we don't have exact numbers today, but that is going to evolve and I think corporate will become a more important part of our network going forward.

Brad Tilden - *Alaska Air Group, Inc. - President & CEO*

I might just jump on that, Julie. Business travel will be important and we will want to be the go-to airline for business travel up and down the West Coast. But A4A just sent out some updated information which sort of confirms something a lot of us already knew.

Basically showed that roughly 70% of the market -- I think the survey period was the last 12 months. 70% of the market in the last 12 months was leisure and that's up from 50%. Joe, you might remember, but it's 20 years ago or something like that. But the business has just moved more and more towards leisure.

For leisure to work, you've got to have a strong economy. Businesses need to be doing well. You've got to have people with money in their pockets to buy tickets.

The point I am making is that we feel really good about this combination with Virgin because we're really well set to serve the high end of that leisure market as well as the business market. So we think we are really in the sweet spot of where the demand is and perhaps in even an underserved segment of the market here.

Julie Yates - *Credit Suisse - Analyst*

Got it. All right, thanks for the color.

Operator

David Fintzen, Barclays.

David Fintzen - *Barclays Capital - Analyst*

Good morning, everyone. Just a quick cleanup question. On the second-half capacity growth, A) could you repeat that? I thought you said 5%. But also is it pretty constant through 3Q, 4Q, or does that really tail off 4Q?

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

David, it's Andrew. It tails off so we -- in my prepared remarks been about 5.5% to 6.5%, but it really tails down in the fourth quarter.

THOMSON REUTERS

I do want to add one thing, though, as part of our guidance is, as you all know, we've applied for two flights to Cuba. Also with Newark being, I suppose, unconstrained for some period of time and we have often wanted to grow in Newark. So if there is anything to report on opportunity for us in Newark and Cuba, we will update you on that when we have something to update you on and adjust our guidance for capacity growth.

David Fintzen - *Barclays Capital - Analyst*

Okay, great. Then just, Brandon, appreciate sort of not losing budget focus. But you are going to -- there's a lot going on in Alaska standalone, a lot of innovation you have been working on and now a deal. What falls off the plate in terms of the initiatives, particularly on the standalone Alaska time, just to get everything done over the next couple of years?

Brandon Pedersen - *Alaska Air Group, Inc. - EVP, Finance & CFO*

David, that's a great question. It's one we actually talked about the other day. We have a lot of people focused on the integration, as you point out, and so we are asking the question: are there things that should come off the list?

Some of the really important and revenue-positive stuff, like premium class, won't, but there probably are some things internally that will slow down that we could move to future years. It's an important question and one that we haven't answered fully yet.

David Fintzen - *Barclays Capital - Analyst*

Then just is the IT platform in a place where you can -- if you have to go about maintaining the Virgin brand or at least the Virgin revenue premium in maybe a different way, do you have enough flexibility in the IT platform to sort of be innovative around pricing? Or is that a long-term process in the way we should think about it?

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

This is Andrew. We are both -- Virgin America and ourselves are on Sabre reservation systems, so from a platform -- from the just core bookings system, we're in a good place there but a lot of work to be done. Like anything, we will likely find all sorts of technical challenges.

David Fintzen - *Barclays Capital - Analyst*

I'm sure. Thank you, appreciate all the color.

Operator

Dan McKenzie, Buckingham Research.

Dan McKenzie - *Buckingham Research Group - Analyst*

Thanks for the time here. My question I guess is perhaps for Brandon or Joe. It follows up on the last question.

We are seeing some marketing initiatives from your peers with respect to the unbundling and then the rebundling, or repackaging of fares. I'm wondering what work Alaska has done here and how would you characterize the marketing opportunities, just in terms of ancillary revenue per passenger.

Shane Tackett - *Alaska Air Group, Inc. - VP, Revenue Management*

I may take that; this is Shane again. We are -- we have been sort of interested as the industry has evolved back towards fare families or bundling. We haven't done a lot of that; we haven't needed to really, so it's sort of a greenfield opportunity for us going forward.

The biggest ancillary revenue opportunity, as you know, is paid seats and that's really what we're working on, the premium economy project that Andrew talked about in the opening remarks and you guys know about. We are starting to think about what happens after that and I think there are a lot of opportunities for us to look at bundling or fare families and those sort of things. But it's early days yet for us to talk about what sort of valuation that might have.

Dan McKenzie - *Buckingham Research Group - Analyst*

Got it. Shane, I guess if you could just remind us what is the ancillary revenue per passenger today at Alaska and where -- how do we think about that trajectory?

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

It was $12.91 for this last quarter. It was actually up 11.8%, Dan, but that was primarily due -- you may recall, we had a big credit card or a free bag promotion for our loyalty in January. So that's really the driving force of last year, where we were giving a lot away in free bags, but we've normalized again. So was actually up to $12.91 per passenger.

Shane Tackett - *Alaska Air Group, Inc. - VP, Revenue Management*

Premium economy adds something like $3 or $4 to that.

Dan McKenzie - *Buckingham Research Group - Analyst*

Okay, thanks for the time, guys.

Operator

Adam Hackel, CRT.

Adam Hackel - *Sterne Agee CRT - Analyst*

Thanks for taking the question. You know while I'm in the queue I'm going to ask some sort of tech-related question, so here it comes.

Couple things. First of all, just curious kind of going back to the Virgin product here. Just some personal experience and from those I talked to out in Bay Area, it seems like they do a lot of things very differently, but they are kind of smaller things.

Just curious what you guys think about things like -- the ones that are obvious are the mood lighting, the in-flight video, and the touchscreen ordering. All those kind of small in-flight things. How are you guys looking at that in terms of bringing that potentially to Alaska?

THOMSON REUTERS

Ben Minicucci - *Alaska Air Group, Inc. - COO & EVP, Operations*

Adam, this is Ben. This is what the integration team is going to do. We're going to bring those teams that specialize in those areas from both airlines and together, with the joint team, we're going to be thoughtful, we're going to be deliberate, and maybe to go back to the other point is, we want to make sure we keep the existing Virgin customers and make this thing even better than it is.

So we are actually excited about getting our energies behind that. And I think we're going to be in a better place than we are today.

Adam Hackel - *Sterne Agee CRT - Analyst*

It seems like between the Virgin product and Alaska's service you actually have a pretty nice combination there.

I guess one more. We talked about this a little bit before, but in terms of the job Virgin has done within the corporate side of kind of Silicon Valley tech world, what are some things that they have done that you guys can potentially apply in Seattle, if you've done any of that yet?

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

Sorry, Adam, can you --? We missed that first part of that question.

Adam Hackel - *Sterne Agee CRT - Analyst*

Sure. Just the success that Virgin has had in the corporate side on Silicon Valley in the tech community. I know they said seven of their top 10 corporate accounts were tech. Just some of the things that they may have done that you guys maybe learn from and use in your Seattle base.

Joe Sprague - *Alaska Air Group, Inc. - SVP, Communications and External Relations*

Adam, this is Joe. Yes, one thing is we have operated down in San Francisco ourselves, obviously a much more limited presence, but we've actually had our own corporate salespeople in the Bay Area for 25 years so we've got couple of folks down there now that know these accounts.

Obviously Virgin America has their own team down there and, as you've heard from them, they do have good relationships with these tech companies down there. So between the small presence we've had down there combined with theirs, we're excited to get to know these accounts better. And as I mentioned earlier in the call, a lot of them are companies that also have a presence here in Seattle so we're looking to build on those relationships as much as we possibly can.

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

The other thing I would add, too, is if you think of our global alliances and our foreign flag carriers, I think we will be bringing a very deep and rich portfolio of international carriers to California, where we have all sorts of reciprocal benefits and earning and burning opportunities. So we really see opportunity for the corporate, both domestic and international traveler, as we move forward.

Adam Hackel - *Sterne Agee CRT - Analyst*

Great. Thanks, guys.

Operator

Tom Banse, KUOW Radio Seattle.

Tom Banse - *KUOW Radio Seattle - Media*

Thanks for taking the questions. I have a follow-up question on keeping the loyalty of the Virgin customers. I am curious, maybe for Ben or Brad perhaps, did your meetings down in San Francisco or your assessment of the customer reaction after the acquisition made public change any of your thinking about how long to keep the Virgin brand as an independent operation?

Brad Tilden - *Alaska Air Group, Inc. - President & CEO*

Tom, it's Brad. I will start and maybe Ben wants to jump on as well.

We did have a good meeting down there I think a week ago Tuesday with a huge turnout of Virgin employees. And we also got a chance to walk around the terminal and just sort of visit a little bit. I don't know that it changed our perception, but we did sense firsthand the love those employees have for the Company and the loyalty those customers have for the brand and the product. So we got closer to it, we sensed it firsthand, and I think that was important thing for us to experience.

I must say, we're looking forward to the challenge. I'll just restate: the big challenge in front of us is to get all of the value out of this acquisition. What we really -- the reason we are doing this is to get a foothold, a bigger foothold in the state of California, something that we can grow in the decades ahead. The good news is that Alaska Airlines is good at building loyalty and growing customers, and that's what we are going to be doing in California. What I will just say is we are all really looking forward to that.

Anything you want to add, Ben?

Ben Minicucci - *Alaska Air Group, Inc. - COO & EVP, Operations*

That's perfect, Brad.

Tom Banse - *KUOW Radio Seattle - Media*

Thank you.

Operator

Dominic Gates, The Seattle Times.

Dominic Gates - *The Seattle Times - Media*

Good morning. My question is for Brad. Can you tell us what has been the financial impact on Alaska of the $15 minimum wage legislation that has gone into effect or has been pressing you? And do you intend to continue fighting it?

Brad Tilden - *Alaska Air Group, Inc. - President & CEO*

Dominic, maybe we'll just chat about that for a minute. I think Alaska's position on that has been misunderstood. When that actually started, it started in the city of Sea-Tac, which is a community here with 11 square miles, and our minimum wage at the time went from something like $9-and-change to $15.

Alaska's position was A) this is kind of -- the playing field isn't level. This is sort of a patchwork way of rolling out a new idea for our society. And so what we have sort of said is this does have the ability to penalize a hometown airline and an airline that we think is a tremendous -- we think we bring a lot of value to the community for customers and employees and so forth.

So we just said -- we did pushback on the Sea-Tac minimum wage ordinance, but it was really in a sense of let's do something in a less patchwork fashion. As you know I think, we -- at the same time as we did that, we asked our contractors two or three years ago to take their own minimum wages up from the rates they were to $12 an hour. And I think they've gone to $15 an hour, if I'm not -- I think they've all gone to $15 an hour. So I guess in that sense we are not fighting it anymore; they are at $15 an hour.

But I guess the other point, Dominic, that we've tried to make throughout this thing is I think there's a challenge for all of us right now to work with our economy so that these economies benefit everybody who's participating in the economy. But we don't damage the businesses too much in the process, and that's another point Alaska has tried to make as we roll through this.

I don't know, maybe just to summarize, society is going through a process here. We are participants in that process. We want to do our civic duty; we want these jobs to be good jobs for people. But what we do want to do is make sure you've got an environment or an economy where businesses can thrive and grow and bring value to customers and employees and owners.

Dominic Gates - *The Seattle Times - Media*

Well, now that it's -- so you are saying that it has essentially been implemented now and you don't have to fight it anymore? Has it damaged -- what has been the financial impact in the first quarter of that? Have you been able to assess that?

Brandon Pedersen - *Alaska Air Group, Inc. - EVP, Finance & CFO*

Dominic, it's Brandon. Maybe I'll take that. We're not going to share a number, only because it's hard to share a number because it's really hard to say how you measure that. Is it just the direct impact on the contractors and do you measure that from where they were three years ago when it started, or versus the voluntary increases that Alaska implemented? And then how do you measure the impact it has on to other work groups that aren't directly impacted by the $15 an hour, so there's a trickle impact into other work groups?

So it's really hard to put a specific number on it, but what I will say is that it has been meaningful. But it's something that -- it's real and we are doing our part here.

Brad Tilden - *Alaska Air Group, Inc. - President & CEO*

Brandon, you guys, we did -- in the fourth quarter we shared a number as our contractors took their employees to $15 an hour.

Brandon Pedersen - *Alaska Air Group, Inc. - EVP, Finance & CFO*

We didn't share the specifics of that number.

Brad Tilden - *Alaska Air Group, Inc. - President & CEO*

Oh, we didn't share the number then? Okay, good. Got it.

Operator

There are no further questions at this time. I turn the call back over to Brad Tilden for closing remarks.

Brad Tilden - *Alaska Air Group, Inc. - President & CEO*

Thanks, everybody, for tuning in. We appreciate your support. We look forward to talking 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. Thank you, you may now disconnect.
