ALASKA AIR GROUP INC
Form 10-Q
August 08, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2008.

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ________ to ________

Commission file number 1-8957

ALASKA AIR GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**91-1292054**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

19300 International Boulevard, Seattle, Washington 98188

(Address of principal executive offices)

Registrant s telephone number, including area code: (206) 392-5040

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes **x** No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

(Check one):

Large accelerated filer **x** Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes ¨ No **x**

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

The registrant has 36,019,026 common shares, par value $1.00, outstanding at July 31, 2008.

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ALASKA AIR GROUP, INC.

Quarterly Report on Form 10-Q for the three months ended June 30, 2008

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As used in this Form 10-Q, the terms Air Group, our, we and the Company refer to Alaska Air Group, Inc. and its subsidiaries, unless the context indicates otherwise. Alaska Airlines, Inc. and Horizon Air Industries, Inc. are referred to as Alaska and Horizon, respectively, and together as our airlines.

Cautionary Note Regarding Forward-Looking Statements

In addition to historical information, this Form 10-Q contains forward-looking statements within the meaning of 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. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as statements containing the words believe, expect, will, anticipate, intend, estimate, assume or other similar expressions, although not all forward-looking statements contain these identifying words. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from historical experience or the Company s present expectations. Some of the things that could cause our actual results to differ from our expectations are:

- the competitive environment in our industry;
- changes in our operating costs, including fuel, which can be volatile;
- labor disputes and our ability to attract and retain qualified personnel;
- the timing of disposal and amounts of potential lease termination payments with lessors for our remaining MD-80, CRJ-700 and Q200 leased aircraft and related sublease payments from sublessees, if applicable;
- our significant indebtedness;
- compliance with our financial covenants;
- potential downgrades of our credit ratings and the availability of financing;
- our ability to meet our cost reduction goals;
- operational disruptions;
- general economic conditions, as well as economic conditions in the geographic regions we serve;
- the concentration of our revenue from a few key markets;
- actual or threatened terrorist attacks, global instability and potential U.S. military actions or activities;

- insurance costs;
- our inability to achieve or maintain profitability;
- fluctuations in our quarterly results;
- an aircraft accident or incident;
- liability and other claims asserted against us;
- our reliance on automated systems and the risks associated with changes made to those systems;
- our reliance on third-party vendors and partners;
- changes in laws and regulations; and
- increases in government fees and taxes.

You should not place undue reliance on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. Our forward-looking statements are based on the information currently available to us and speak only as of the date on which this report was filed with the SEC. We expressly disclaim any obligation to issue any updates or revisions to our forward-looking statements, even if subsequent events cause our expectations to change regarding the matters discussed in those statements. 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 to our shareholders. For a discussion of these and other risk factors, see Item 1A: Risk Factors of the Company s annual report on Form 10-K for the year ended December 31, 2007. Please consider our forward-looking statements in light of those risks as you read this report.

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PART I. FINANCIAL INFORMATION

Item 1: Condensed Consolidated Financial Statements
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

Alaska Air Group, Inc.

ASSETS

(in millions)	June 30, 2008	December 31, 2007
Current Assets		
Cash and cash equivalents	**$ 179.1**	$ 204.3
Marketable securities	**826.9**	618.5
Total cash and marketable securities	**1,006.0**	822.8
Securities lending collateral	**111.3**	111.9
Receivables - net	**165.0**	138.0
Inventories and supplies - net	**59.7**	46.6
Deferred income taxes	**63.4**	84.9
Fuel hedge contracts	**233.3**	100.7
Prepaid expenses and other current assets	**95.3**	85.4
Total Current Assets	**1,734.0**	1,390.3
Property and Equipment		
Aircraft and other flight equipment	**3,219.2**	2,981.2
Other property and equipment	**590.9**	574.5
Deposits for future flight equipment	**438.4**	430.0
	4,248.5	3,985.7
Less accumulated depreciation and amortization	**1,106.7**	1,023.4
Total Property and Equipment - Net	**3,141.8**	2,962.3
Fuel Hedge Contracts	**71.9**	11.8
Other Assets	**147.8**	126.5
Total Assets	**$ 5,095.5**	$ 4,490.9

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

Alaska Air Group, Inc.

LIABILITIES AND SHAREHOLDERS EQUITY

(in millions except share amounts)	June 30, 2008	December 31, 2007
Current Liabilities		
Accounts payable	**$ 84.2**	$ 101.5
Accrued aircraft rent	**56.8**	59.1
Accrued wages, vacation and payroll taxes	**104.7**	112.3
Other accrued liabilities	**498.4**	448.5
Air traffic liability	**532.2**	364.5
Securities lending obligation	**111.3**	111.9
Current portion of long-term debt	**262.2**	175.9
Total Current Liabilities	**1,649.8**	1,373.7
Long-Term Debt, Net of Current Portion	**1,444.9**	1,124.6
Other Liabilities and Credits		
Deferred income taxes	**128.1**	132.6
Deferred revenue	**442.5**	413.6
Other liabilities	**420.0**	422.4
	990.6	968.6
Commitments and Contingencies		
Shareholders Equity		
Preferred stock, $1 par value Authorized: 5,000,000 shares, none issued or outstanding		
Common stock, $1 par value Authorized: 100,000,000 shares Issued: 2008 - 42,915,668 shares 2007 - 42,821,986 shares	**42.9**	42.8
Capital in excess of par value	**902.4**	895.1
Treasury stock (common), at cost: 2008 - 6,896,506 shares 2007 - 4,771,306 shares	**(161.4)**	(112.5)
Accumulated other comprehensive loss	**(132.8)**	(133.3)
Retained earnings	**359.1**	331.9
	1,010.2	1,024.0
Total Liabilities and Shareholders Equity	**$ 5,095.5**	$ 4,490.9

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

Alaska Air Group, Inc.

	Three Months Ended June 30		Six Months Ended June 30	
(in millions except per-share amounts)	**2008**	**2007**	**2008**	**2007**
Operating Revenues				
Passenger	**$ 863.5**	$ 836.2	**$ 1,639.2**	$ 1,532.0
Freight and mail	**27.7**	27.4	**49.9**	48.6
Other - net	**39.6**	40.8	**81.2**	83.2
Total Operating Revenues	**930.8**	904.4	**1,770.3**	1,663.8
Operating Expenses				
Wages and benefits	**234.4**	236.6	**476.8**	473.6
Variable incentive pay	**5.1**	3.8	**8.7**	14.3
Aircraft fuel, including hedging gains and losses	**182.0**	227.8	**464.0**	412.7
Aircraft maintenance	**54.2**	59.0	**112.2**	117.5
Aircraft rent	**42.3**	44.7	**85.9**	88.0
Landing fees and other rentals	**56.9**	56.5	**112.9**	111.2
Contracted services	**43.6**	39.8	**88.1**	78.4
Selling expenses	**44.1**	41.1	**78.6**	80.1
Depreciation and amortization	**51.5**	43.8	**100.8**	85.7
Food and beverage service	**13.4**	12.8	**25.7**	24.0
Other	**61.5**	57.1	**118.7**	112.0
Fleet transition costs - MD-80	**26.0**		**26.0**	
Fleet transition costs - CRJ-700	**6.1**		**6.1**	
Fleet transition costs - Q200	**3.2**	3.7	**9.0**	6.7
Total Operating Expenses	**824.3**	826.7	**1,713.5**	1,604.2
Operating Income	**106.5**	77.7	**56.8**	59.6
Nonoperating Income (Expense)				
Interest income	**10.5**	13.8	**20.8**	28.2
Interest expense	**(25.0)**	(22.5)	**(48.4)**	(43.5)
Interest capitalized	**6.1**	6.7	**12.6**	13.8
Other - net	**0.1**	(0.7)	**0.3**	(0.9)
	(8.3)	(2.7)	**(14.7)**	(2.4)
Income before income tax	**98.2**	75.0	**42.1**	57.2
Income tax expense	**35.1**	28.9	**14.9**	21.4
Net Income	**$ 63.1**	$ 46.1	**$ 27.2**	$ 35.8
Basic Earnings Per Share:	**$ 1.75**	$ 1.14	**$ 0.75**	$ 0.89
Diluted Earnings Per Share:	**$ 1.74**	$ 1.13	**$ 0.74**	$ 0.88
Shares used for computation:				
Basic	**36.059**	40.450	**36.542**	40.408
Diluted	**36.255**	40.782	**36.876**	40.915

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (unaudited)

Alaska Air Group, Inc.

(in millions)	*Common Shares Outstanding*	Common Stock	Capital in Excess of Par Value	Treasury Stock, at Cost	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balances at December 31, 2007	38.051	$ 42.8	$ 895.1	$ (112.5)	$ (133.3)	$ 331.9	$ 1,024.0
Net income for the six months ended June 30, 2008						27.2	27.2
Other comprehensive income (loss):							
Related to marketable securities:							
Change in fair value					(6.1)		
Reclassification to earnings					1.6		
Income tax effect					1.6		
					(2.9)		(2.9)
Adjustments related to employee benefit plans:					5.4		
Income tax effect					(2.0)		
					3.4		3.4
Total comprehensive income							27.7
Purchase of treasury stock	*(2.126)*			(48.9)			(48.9)
Stock-based compensation			5.7				5.7
Common stock issued under stock plans	*0.006*		0.1				0.1
Treasury stock issued under stock plans	*0.001*						
Stock issued for employee stock purchase plan	*0.087*	0.1	1.5				1.6
Balances at June 30, 2008	*36.019*	$ 42.9	$ 902.4	$ (161.4)	$ (132.8)	$ 359.1	$ 1,010.2

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Alaska Air Group, Inc.

Six Months Ended June 30

(in millions)	2008	2007
Cash flows from operating activities:		
Net income	**$ 27.2**	$ 35.8
Adjustments to reconcile net income to net cash provided by operating activities:		
Fleet transition costs, including impairment charge	**41.1**	6.7
Depreciation and amortization	**100.8**	85.7
Stock-based compensation	**5.7**	5.4
Changes in fair values of open fuel hedge contracts	**(192.7)**	(4.8)
Gain on sale of assets	**(2.8)**	(1.4)
Changes in deferred income taxes	**14.8**	24.2
Increase in receivables - net	**(27.0)**	(54.9)
Increase in prepaid expenses and other current assets	**(27.1)**	(16.7)
Increase in air traffic liability	**167.7**	181.9
Increase in other current liabilities	**5.9**	1.4
Increase (decrease) in deferred revenue and other-net	**(9.5)**	3.9
Net cash provided by operating activities	**104.1**	267.2
Cash flows from investing activities:		
Property and equipment additions:		
Aircraft and aircraft purchase deposits	**(242.4)**	(411.6)
Other flight equipment	**(20.5)**	(40.6)
Other property and equipment	**(21.2)**	(21.0)
Total property and equipment additions	**(284.1)**	(473.2)
Proceeds from disposition of assets	**5.4**	54.1
Purchases of marketable securities	**(474.1)**	(679.9)
Sales and maturities of marketable securities	**262.6**	630.0
Restricted deposits and other	**1.5**	(9.0)
Net cash used in investing activities	**(488.7)**	(478.0)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	**530.5**	196.1
Long-term debt payments	**(123.9)**	(62.6)
Purchase of treasury stock	**(48.9)**	
Proceeds and tax benefit from issuance of common stock	**1.7**	4.8
Net cash provided by financing activities	**359.4**	138.3
Net change in cash and cash equivalents	**(25.2)**	(72.5)
Cash and cash equivalents at beginning of year	**204.3**	230.7
Cash and cash equivalents at end of period	**$ 179.1**	$ 158.2
Supplemental disclosure of cash paid (received) during the period for:		
Interest (net of amount capitalized)	**$ 31.1**	$ 27.1

Income taxes	**3.9**	(4.1)

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Alaska Air Group, Inc.

Note 1. Basis of Presentation and Significant Accounting Policies

Organization and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Alaska Air Group, Inc. (Air Group or the Company) include the accounts of the parent company, Alaska Air Group, Inc., and its principal subsidiaries, Alaska Airlines, Inc. (Alaska) and Horizon Air Industries, Inc. (Horizon), through which the Company conducts substantially all of its operations. These interim condensed consolidated financial statements are unaudited and should be read in conjunction with the consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2007. In the opinion of management, all adjustments have been made that are necessary to present fairly the Company s financial position as of June 30, 2008, as well as the results of operations for the three and six months ended June 30, 2008 and 2007. The adjustments made were of a normal recurring nature.

The Company s condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). In preparing these condensed consolidated financial statements, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities, as well as the reported amounts of revenues and expenses. Significant estimates made include assumptions used to record liabilities; expenses and revenues associated with the Company s Mileage Plan; amounts paid to lessors upon aircraft lease terminations; the fair market value of surplus or impaired aircraft, engines and parts; assumptions used in the calculations of pension expense in the Company s defined-benefit plans; and the amounts of certain accrued liabilities. Actual results may differ from the Company s estimates.

Reclassifications

The Company has made certain reclassifications to conform the prior year s data to the current format.

Securities Lending

The Company lends certain marketable securities to third parties for a time period of less than one year. During the time period in which these securities are loaned to the third parties, the Company requires cash collateral for 102% of the daily market value of the loaned securities. As of June 30, 2008, the Company had $109.2 million of securities on loan under the program. These affected securities are included as marketable securities under current assets on the consolidated balance sheets.

New Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board issued Statement of Financial Standards (SFAS) No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*. SFAS 161 requires entities that use derivative instruments to provide certain qualitative disclosures about their objectives and strategies for using such instruments, amounts and location of the derivatives in the financial statements, among other disclosures. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. Because of the importance and prominence of the Company s fuel-hedging program, management believes that the current disclosures included in quarterly and annual filings include many of the disclosures required under SFAS 161. Therefore, the Company currently does not anticipate that the adoption of SFAS 161 will have a material impact on the disclosures already provided.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which allows entities the option to measure eligible financial instruments at fair value as of specified dates. Such election, which may be applied on an instrument-by-instrument basis, is typically irrevocable once elected. This statement was effective beginning January 1, 2008. The Company did not elect the fair value option upon adoption.

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In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value and expands disclosure about fair-value measurements required under other accounting pronouncements. SFAS 157 does not change existing guidance as to whether or not an instrument is carried at fair value. The Company partially adopted this standard for financial assets and liabilities as of January 1, 2008. In accordance with FASB Staff Position No. 157-2, the Company has deferred adoption of SFAS 157 as it relates to nonfinancial assets and liabilities until January 1, 2009.

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Cash, Cash Equivalents and Marketable Securities

The Company uses the market approach in determining the fair value of its cash, cash equivalents and marketable securities. The securities held by the Company are valued based on observable prices in active markets and considered to be liquid and easily tradable. Amounts measured at fair value as of June 30, 2008 are as follows:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 137.1	$ 42.0	$	$ 179.1
Marketable securities	129.0	697.9		826.9
Total	$ 266.1	$ 739.9	$	$ 1,006.0

Note 2. Fleet Transition

Alaska Transition to All-Boeing 737 Fleet

In March 2006, the Company s Board of Directors approved a plan to accelerate the retirement of its MD-80 fleet (15 owned and 11 leased aircraft at the time) and remove those aircraft from service by the end of 2008. At June 30, 2008, seven MD-80s were in the operating fleet, all but two of which are under short-term operating lease arrangements that expire in 2008. All of the MD-80 aircraft will be removed from service by the end of August 2008.

Alaska has four MD-80 aircraft under long-term lease arrangements, all of which have been or will be retired prior to the end of their lease terms. Two of the aircraft were retired during the second quarter and placed in temporary storage at an aircraft storage facility. As a result, the Company recorded a $26.0 million charge in the second quarter reflecting the remaining discounted future lease payments and other contract-related costs. The Company expects to record a similar charge in its statement of operations in the third quarter when the remaining two aircraft are retired.

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Horizon Transition to All-Q400 Fleet

Horizon has an arrangement with another carrier to sublease 16 of its Bombardier Q200 aircraft. As of June 30, 2008, all of the 16 aircraft were delivered to the other carrier with sublease terms that approximate Horizon s lease terms. Each of these subleases resulted in a loss for Horizon approximating the difference between the cumulative future lease payments and the expected sublease receipts that was recorded when the specific aircraft was removed from Horizon s fleet. During the three months ended June 30, 2008, two of the Q200s were delivered to the other carrier, resulting in a sublease loss of $2.9 million. During the six months ended June 30, 2008, five of the aircraft were delivered, resulting in an $8.7 million loss.

On April 23, 2007, Horizon announced an order for 15 additional Q400 aircraft, with options to purchase 20 more. These aircraft will be delivered in 2008 and 2009. With this order, Horizon plans to phase out its remaining leased Q200 aircraft by October 2008 and is in the process of negotiating transactions that would allow it to dispose of these aircraft. One of these Q200 aircraft was removed from service during the second quarter and the associated lease was terminated resulting in a net $0.3 million charge to Horizon. The Company may have losses on the phase-out of the remaining Q200s, depending on market conditions at the time and the structure of the disposal transaction used. However, the nature, timing or amount of any potential loss or gain cannot be reasonably estimated at this time.

On April 23, 2008, the Company s Board of Directors approved a plan to transition Horizon to an all-Q400 fleet and remove its CRJ-700 fleet from operations within two years, along with the Q200 transition described above. As a result of the decision, the Company determined that its two owned CRJ-700s were impaired and recorded an impairment charge on the aircraft and their related spare parts of $5.5 million in the second quarter of 2008 to reduce the carrying value of these assets to their estimated fair value. Salvage values and estimated useful lives were also revised to correspond to the shorter period of expected use.

The Company also recorded a $0.6 million severance charge related to this fleet transition. The Company expects a charge in the third quarter as well related to severance programs offered to other impacted employees, primarily Horizon pilots. The amount of the charge has not yet been quantified, but it is not expected to be material.

As noted above, Horizon plans to remove all 18 leased CRJ-700 aircraft from operations by the end of 2009, which is well before the end of the contractual lease terms. The Company is currently evaluating various alternatives to dispose of these leased aircraft in the most economically feasible way. The nature, timing or amount of any potential gain or loss associated with these transactions cannot be reasonably estimated at this time.

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Note 3. Fuel Hedge Contracts

The Company s operations are inherently dependent upon the price and availability of aircraft fuel. To manage economic risk associated with fluctuations in aircraft fuel prices, the Company periodically enters into call options, collar structures and swap agreements for crude oil, among other initiatives.

The Company records derivative instruments, all of which are currently fuel hedge contracts, on the balance sheet at their fair value. Changes in the fair value of these fuel hedge contracts are recorded each period in aircraft fuel expense.

The following table summarizes the components of aircraft fuel expense for the three and six months ended June 30, 2008 and 2007 (in millions):

	Three Months Ended June 30		Six Months Ended June 30	
	2008	**2007**	**2008**	**2007**
Raw or into-plane fuel cost	**$ 393.3**	$ 231.9	**$ 705.2**	$ 427.4
Changes in value and settlement of fuel hedge contracts	**(211.3)**	(4.1)	**(241.2)**	(14.7)
Aircraft fuel expense	**$ 182.0**	$ 227.8	**$ 464.0**	$ 412.7

The Company realized gains of $56.0 million and $5.9 million during the three months ended June 30, 2008 and 2007, respectively, on fuel hedge contracts that settled during the period. Gains on the settled hedges were $85.2 million and $7.7 million during the six months ended June 30, 2008 and 2007, respectively.

The Company uses the market approach in determining the fair value of its hedge portfolio. The Company s fuel hedging contracts consist of over-the-counter contracts, which are not traded on an exchange. The fair value of these contracts is determined based on observable inputs that are readily available in active markets or can be derived from information available in active, quoted markets. Therefore, the Company has categorized these contracts as Level 2 in the fair value hierarchy described in SFAS 157.

Outstanding future fuel hedge positions are as follows:

	Approximate % of Expected Fuel Requirements	Gallons Hedged (in millions)	Approximate Crude Oil Price per Barrel
Third Quarter 2008	50%	56.5	$ 78
Fourth Quarter 2008	50%	51.5	$ 77
Remainder of 2008	**50%**	**108.0**	**$ 78**
First Quarter 2009	46%	38.9	$ 106
Second Quarter 2009	39%	35.0	$ 105
Third Quarter 2009	30%	28.9	$ 107
Fourth Quarter 2009	24%	21.1	$ 105
Full Year 2009	**35%**	**123.9**	**$ 106**
First Quarter 2010	12%	10.2	$ 121
Second Quarter 2010	10%	8.6	$ 120
Third Quarter 2010	5%	5.7	$ 120
Fourth Quarter 2010	5%	5.1	$ 120
Full Year 2010	**8%**	**29.6**	**$ 120**

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As of June 30, 2008 and December 31, 2007, the fair values of the Company s fuel hedge positions were $305.2 million and $112.5 million, respectively, including capitalized premiums of $67.7 million and $30.9 million, respectively, and are presented as both current and non-current assets in the condensed consolidated balance sheets.

Note 4. Long-term Debt

Long-term debt obligations were as follows (in millions):

	June 30, 2008	December 31, 2007
Fixed-rate notes payable due through 2022	**$ 1,282.1**	$ 783.9
Variable-rate notes payable due through 2019	**277.7**	430.8
Pre-delivery payment facility expiring in 2009	**147.3**	85.8
Long-term debt	**1,707.1**	1,300.5
Less current portion	**(262.2)**	(175.9)
	$ 1,444.9	$ 1,124.6

During the first six months of 2008, Alaska borrowed $196.0 million using fixed-rate debt secured by flight equipment and another $140.9 million from its pre-delivery payment facility. Alaska made payments of $121.4 million, including $79.4 million on its pre-delivery payment facility. Additionally, Horizon financed 13 of its recently delivered Q400 aircraft using a fixed-rate debt arrangement with proceeds totaling $193.6 million and made normal debt payments of $2.5 million.

Note 5. Common Stock Repurchase

In September 2007, the Board of Directors authorized the Company to repurchase up to $100 million of its common stock. The Company completed the $100 million common stock repurchase program on February 29, 2008. Under that program, the Company repurchased 4,113,782 shares, or 10 percent of the outstanding stock at the start of the program, at an average price of $24.31 per share. During the three months ended March 31, 2008, the Company repurchased 1,520,500 shares for approximately $37.2 million.

In March 2008, the Company announced a new $50 million common stock repurchase program. Through June 30, 2008, the Company had repurchased 605,700 shares of its common stock for approximately $11.7 million under this new program. In April 2008, the Company temporarily ceased further repurchases under this program given the uncertainty in the economic environment. However, if the circumstances warrant, the Company may from time to time consider repurchasing shares of its common stock under the existing share repurchase program.

Note 6. Employee Benefit Plans

Pension Plans - Qualified Defined Benefit

Net pension expense for the three and six months ended June 30, 2008 and 2007 included the following components (in millions):