



Executive Q&A

Leaders address concerns about layoffs, how Alaska can weather industry crisis

Alaska Airlines' decision to reduce capacity and its work force has generated many questions by employees. Alaska's World asked the company's senior leadership about the most common concerns and received the following responses.

Alaska Air Group just reported a profit of \$63 million and has \$1 billion in cash on hand. Why can't we use some of that money to keep employees on the payroll until business picks up?

CFO Brad Tilden: While we earned \$63 million under GAAP, we actually lost \$14 million when we adjust for special items, which include gains from fuel hedges that apply to future quarters and impairment losses on MD-80s and CRJ-700s. This \$14 million loss is considerably worse than the \$47 million economic profit we earned last year. So far this year, we've lost \$50 million compared to a profit of \$31 million in the first six months of last year.

Hedge accounting is confusing. For those who are interested, several of our folks put together a helpful explanation that describes how it works in more detail [available on alaskasworld.com]. Profit and loss aside, a business lives and dies by its cash flows. Because of the spike in jet fuel prices, Alaska's and Horizon's operations generated \$163 million less cash in the first half of this year, compared to last.

As for our \$1 billion in cash, that puts us in a better position than many other airlines to ride out this crisis. But

if fuel prices remain high, fares must go up somewhat significantly—and, as they go up, fewer people will travel. When this happens, we'll need to have a slightly smaller schedule. After the dust settles, I think Alaska Air Group will be seen as an airline that did the right things to hold its core business together while taking advantage of opportunities this distressed environment will provide. I would guess our schedule reductions will be smaller than most other airlines.

But there's no doubt about it—employee cutbacks are painful. Simply doing nothing, though, after our financial performance in the first half of 2008 would be irresponsible. So we're taking measured steps. Unfortunately, a smaller airline needs fewer people. We're doing all we can to minimize the number of involuntary layoffs by offering leaves of absence and exploring early-out programs so we can resume growing when the economy improves. And our goal is to get any furloughed employees back to work as soon as we can.

What criteria will be used to decide which management and frontline employees are laid off or furloughed?

Dennis Hamel, vice president of human resources and labor relations: Primary factors in determining non-union layoffs will be the critical nature of each job function and the number of employees performing that function while retaining the most qualified



Don Conrad

High fuel prices and a slowing economy are forcing many airlines to scale back their flight schedules and park aircraft in the desert. Alaska Airlines will retire its last seven MD-80s in a few weeks and reduce capacity this fall and in 2009.

people. For union employees, contract language in our collective bargaining agreements will govern the reduction-in-force process, which includes offering leaves to reduce the number of furloughed positions needed.

Why isn't the company offering Voluntary Severance Incentive (VSI) as it has in the past? And what assistance will Alaska provide to employees who are laid off or furloughed?

Kelley Dobbs, vice president of human resources—strategy, culture and inclusion: We don't want to lose our most seasoned employees, who would be the most likely to request VSI. And given the tough economic conditions, cash preservation is also a priority, so we have to plan with the assumption that this situation could continue for a long time. Offering VSI isn't practical when we're doing everything possible to minimize spending. And we'd like to be selective about reducing our work force where it makes the most sense as our priorities shift.

Severance for affected union employees will be covered by their respec-

tive bargaining agreements. We're still working out the details for non-union employees. In general, they'll be offered a reasonable severance package, including short-term health coverage and travel privileges.

Our operational performance has improved so much recently. Will these layoffs cause our on-time reliability to suffer or mean mandatory overtime for frontline employees? And will other projects be canceled or scaled back—or will we be expected to do more with less?

Glenn Johnson, executive vice president of airport services and maintenance and engineering: We have made phenomenal progress with the operation, and the credit goes to the entire organization for the turnaround! It's incumbent on all of us to ensure we don't allow our operational performance to suffer based on the changes we're making. Not only would that be a disservice to our customers and more stressful for our employees, flight delays mean added expense to the com-

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Why don't we just raise fares to cover fuel costs?

By Don Conrad and Kevin Nguyen

Employees often ask why Alaska Airlines doesn't simply raise fares to cover skyrocketing fuel costs. After all, companies in other industries routinely raise prices when faced with higher expenses for lumber, cement and other supplies needed to make their product.

"To cover our year-over-year increase in unhedged fuel cost for June 2008, we'd need to raise our average ticket price by \$33," says **John MacLeod**, managing director of revenue management. "But, our actual average ticket price went up only \$13 in June, leaving a gap of \$20. That translates into a \$32 million disparity for June alone."

While raising ticket prices to solve the revenue shortfall may seem obvious, it is often easier said than done, according to **Susan Cary**, director of rev-



Don Conrad

Reservations sales agents like Marisa Cifra know how difficult it is to sell tickets on Alaska when a competitor offers a lower fare.

enue management.

"Our ultimate goal is to maximize the amount of revenue we generate from each flight," Cary says. "Simply raising ticket prices may not help us accomplish that goal for a variety of reasons."

Chief among them is the law of supply and demand.

There is some elasticity of demand when it comes to air fares. But, as Cary explains: "At some point, higher ticket prices will discourage a certain number of people from flying, which can lower our total revenue. People may choose to travel by car or train instead of flying, conduct business by video conference, or not travel at all. Travel is one of the first things people and businesses cut from their budget when the economy is down, as it is now."

This is especially true with leisure travelers, where rising costs for gaso-

line, housing, electricity and food are taking a bigger bite out of family budgets.

"It's a delicate operation to maximize revenue without passing the tipping point where people stop flying," Cary says.

Fare increases also encourage some customers to use frequent flier miles instead of paying for a ticket, resulting in zero additional revenue, according to **Ben Crandall**, director of pricing. Indeed, Mileage Plan award travel increased 15 percent during the second quarter, compared with the same period last year.

And revenue returns from increases are not uniform across Alaska's network because fare increases may apply to some markets and not others.

For example, the full coach fare

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Alaska's World

in July



Finance

Air Group shares skid to 13-year low of \$15.34

Shares of Alaska Air Group fell sharply in the last week of June as high fuel prices and a gloomy economy magnified growing concerns about the health of the U.S. airline industry.

Air Group stock dropped 7.4 percent on June 30 alone, closing at a new 13-year low of \$15.34. Company shares have not traded at these levels since the fall of 1995.

A little more than a year ago, AAG stock was trading above \$44 per share. Since then, the airline has lost 69 percent of its market value and is now worth \$552 million, compared with \$1.6 billion in January 2007. Market value, or capitalization, is calculated by multiplying the price of a stock by the total number of shares outstanding.

Part of the reason for the recent sell-off of Air Group stock was a downgrade to "strong sell" from "sell" by an airline analyst. The stock has since partially recovered, settling at \$17.88 per share on July 31.

— Posted to the Web on July 1



Flight Attendant Christi Gillis demonstrates the new credit card reader.

Inflight

Alaska switching to cashless cabin

Passengers on Alaska Airlines flights soon will no longer need to hunt for cash to pay for onboard purchases. Starting Aug. 5, Alaska Airlines will offer the convenience of using any major credit or debit card for all inflight purchases, and will no longer accept cash onboard.

Flight attendants will use a handheld device from Toronto-based Guest-Logix Inc. to charge credit and debit cards. The airline has been using the point-of-sale devices on its transcontinental routes for more than a year.

— Posted to the Web on July 2

On the Web

July's most-read stories

- 1) Air Group losses mount
- 2) Making our way to Maui
- 3) AAG shares skid to 13-year low
- 4) Alaska heightens urgency and focus on key projects
- 5) The big picture - New online chart documents changes across the industry

Read full versions of these and other stories online. Click the *News Archives* button on the alaskasworld.com home page, then click July 2008.

Strategic planning

Alaska heightens urgency and focus on key projects

Halfway through a year marked by skyrocketing fuel prices, a weak economy and six U.S. carriers that ceased operations, Alaska Airlines leaders continue to reassess strategic initiatives and major projects for 2008. Some efforts are proceeding, while others are being scaled back or canceled to preserve cash and free resources for emerging priorities.

This means focusing efforts on five key areas: preserving cash, redeploying the fleet to trim unprofitable flying and bring in new revenue, increasing revenue in existing markets, saving fuel, and controlling non-fuel costs, including overhead, says **Brad Tilden**, executive vice president of finance, planning and chief financial officer.

— Posted to the Web on July 14

Flight Operations

ALPA seeks mediation in pilot contract talks

The Air Line Pilots Association at Alaska Airlines asked the National Mediation Board for assistance in negotiating with the company on a new contract. The National Mediation Board accepted the request and assigned Gerry McGuckin as mediator.

The company and ALPA have been negotiating over a new contract since January 2007 and have reached tentative agreement on 23 of 31 sections. However, differences remain over key areas, including compensation, insurance, retirement and scope.

— Posted to the Web on July 3

Mileage Plan

Award levels change; fee added for partner travel

Alaska Airlines announced changes to its Mileage Plan program, including new award levels and increased fees. The changes, which the airline is detailing in letters to its frequent fliers, will begin Nov. 1.

Among the changes: The domestic round-trip "Coach Saver" award that has been available at 20,000 miles is increasing to 25,000 miles and a \$25 fee will be assessed for awards booked on a partner airline.

— Posted to the Web on July 24

Alliances

Korean Air joins Alaska as new codeshare partner

Travelers in the Pacific Northwest will have better access to Asia because of a new partnership between Korean Air and Alaska Airlines/Horizon Air. The carriers have entered into a codeshare agreement and expanded frequent flier partnership that will allow members to earn and redeem miles in Korean Air's Skypass or Alaska's Mileage Plan programs.

Alaska also announced it is entering into a strategic partnership with regional air group Frontier Alaska that will allow Frontier customers to earn and redeem miles in Alaska Airlines' Mileage Plan and to book through-travel on Alaska Airlines in select markets, starting this fall.

— Posted to the Web on July 7



Hula dancers welcome Alaska Airlines' inaugural flight to Maui.

Destinations

Alaska Airlines flies inaugural to Maui

Alaska Airlines inaugurated daily, year-round service between Seattle and Kahului on the island of Maui. Flights from Seattle depart daily at 8:20 a.m. Pacific time and arrive at 11:35 a.m. Hawaii time. Return flights depart at 1:05 p.m. Hawaii time and arrive at 9:45 p.m. Pacific time. Starting Oct. 31 through April 25, 2009, Alaska will offer thrice-weekly service between Anchorage and Maui.

— Posted to the Web on July 17



Alaska Airlines dashboard

July 2008

DOT on-time performance

Goal: 80%

2008 79.9%

2007 68.1%

↑ 11.8 points

Scheduled completion rate

Goal: 99%

2008 99.3%

2007 98.8%

↑ 0.5 points

Baggage time to carousel

Average at SEA

First bag 16:19 minutes

Last bag 22:28 minutes

Mishandled baggage rate

Goal: 4 or fewer per 1,000

2008 4.5

2007 8.1

3.6 fewer mishandled bags

Cargo shipped

Pounds of freight

2008 13.4 million

2007 12.9 million

↓ 0.5%

Customer satisfaction overall OPR score

Goal: 72%

June 2008 76%

June 2007 71%

↑ 5 points

Load factor

2008 83.0%

2007 85.8%

↓ 2.8 points

Fuel cost

(AAG price per gallon, inc. hedging)

June 2008 \$4.04

June 2007 \$3.40

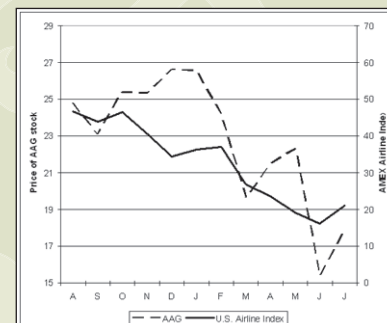
↑ 18.8%

OPR payouts

To be paid in Oct. \$100

Year to date \$500

Air Group stock price



Close (July 31).... \$17.88
52-week range.... \$10.10 - \$28.56

All-737 fleet leads U.S. airlines with modern safety technology

By Kevin Nguyen

When Alaska bids adieu to its last MD-80 in late August, all of the carrier's Boeing 737s will be equipped with several key safety systems—representing the most technologically modern airline fleet in the United States.

These systems help pilots land in poor weather, warn them of terrain and manmade obstructions, and provide pinpoint navigation.

"Other airlines are just now starting to buy these systems or aircraft," says **Chris Glaeser**, vice president of safety. "One hundred percent of our fleet is in this most technologically advanced configuration."

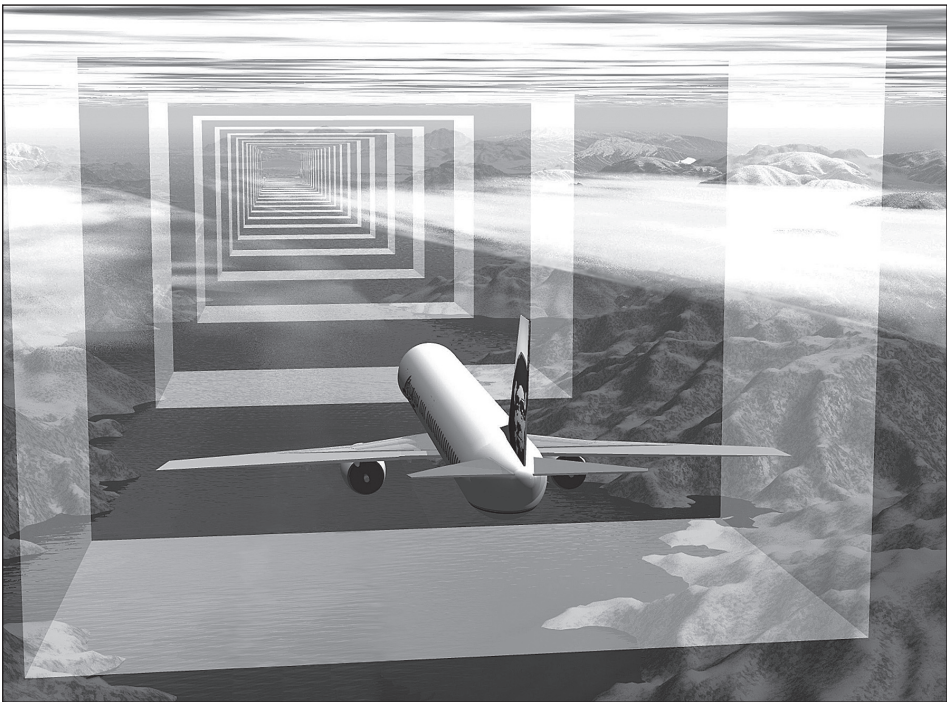
Chief among these systems is Required Navigation Performance (RNP), which enables aircraft to fly more direct routes with pinpoint accuracy and reduces diversions due to weather by using onboard navigation technology and the Global Positioning System satellite network.

RNP was developed by Alaska Airlines in the mid-1990s to improve the carrier's safety and reliability for flights operating in and out of Juneau.

Since then, the carrier has begun using RNP at many other stations throughout the state of Alaska, as well as in Palm Springs, Portland and Washington, D.C. When Alaska retires its remaining MD-80s, it becomes the first carrier to be 100 percent RNP capable.

RNP is particularly beneficial in Southeast Alaska, where it saves thousands of flights from diversions or delays each year due to poor weather. And with fuel prices at record highs, RNP provides a significant advantage in fuel efficiency.

"An all-RNP fleet simplifies the aircraft decision during challenging weather conditions and allows us to fly the most fuel-efficient paths more often," says **Sarah Dalton**, director of air-



Ken Boyer

Using onboard computers connected to the Global Positioning System (GPS) satellite network, Required Navigation Performance (RNP) creates a virtual highway in the sky for Alaska pilots. It is one of the many technological innovations that make the airline's jets among the safest in the industry.



Goal 1: Be No. 1 in safety and compliance.

space and technology. "This further leverages the RNP investments we have already made."

Alaska's 737 fleet is also 100 percent equipped with the Head-up Guidance System (HGS). First used by the carrier

eral Aviation Administration.

"A common fleet type allows all 1,500 pilots to be trained to the same standard," says **Gary Beck**, vice president of flight operations. "The combination of a common fleet, 100 percent head-up displays and fleet-wide automatic landing capability provides a phenomenal advantage in standardizing operations."

All of Alaska's 737s are also equipped with the Enhanced Ground Proximity Warning System (EGPWS), which alerts pilots when they fly at a certain minimum distance above the ground. A recent upgrade added capability known as peaks and obstacles mode, a visual alert system that displays the highest point in the area for reference, including buildings and other manmade structures.

On the heels of these technological enhancements, Alaska is the first U.S. passenger carrier to install the new Runway Awareness and Advisory System (RAAS) in all of its aircraft.

RAAS, developed in partnership with Honeywell Aerospace, provides pilots with audible alerts when they approach and enter taxiways and runways. The system represents another tool aimed at alleviating accidents on the ground—known as runway incursions—which the aviation community regards as one of its biggest safety issues.

According to **Kristin Fuson**, RNP and aircraft technology engineer, the RAAS software upgrade will be completed by fall. Alaska pilots have helped develop and test RAAS during the past three years, with significant coordination from the carrier's Air Line Pilots Association Safety Committee. 

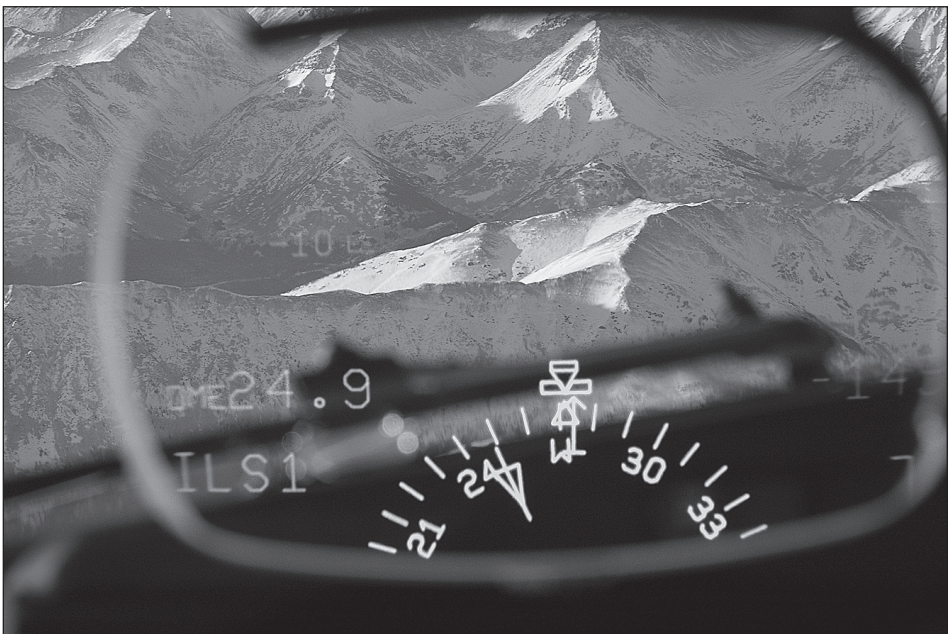
OTHER AIRLINES ARE JUST NOW STARTING TO BUY THESE SYSTEMS OR AIRCRAFT. ONE HUNDRED PERCENT OF OUR FLEET IS IN THE MOST TECHNOLOGICALLY ADVANCED CONFIGURATION.



— **CHRIS GLAESER**,
VICE PRESIDENT OF SAFETY

in 1989, the head-up display provides aircraft performance and navigation information in a transparent window positioned between the captain and the aircraft windshield.

HGS technology allows takeoffs and landings at the lowest minimum weather conditions certified by the Fed-



Paul McElroy

The Head-up Guidance System (HGS) installed on all of Alaska's Boeing 737s allows takeoffs and landings at the lowest minimum weather conditions certified by the Federal Aviation Administration. Alaska Airlines first used HGS in 1989.

My Turn

Where's the internal focus?

Even though the Customer Experience Workshops are designed to help us realize that customer service starts internally, an article in the June 13 issue of *Alaska's World* ("Customer service in the Internet age") completely ignored the internal component of the customer experience.

The article was entirely focused on external customer service quality and failed to link the external to the internal customer experience.

Every single service standard must apply internally as well as externally.

It isn't enough to be courteous to our passengers; we must be courteous to one another. It isn't enough to be dependable in terms of on-time departures; we must also be dependable in terms of responding to each other's e-mails and showing up for work on time. Our workplaces must be safe, regardless of whether a passenger will ever enter the area.

Customer service isn't a switch that we turn on when we're interacting with passengers. Nor is it something that applies only to frontline employees.

It is a standard that must be enacted and embraced company-wide, even when there's not a single paying passenger in sight.

By failing to highlight the importance of internal service quality, the *Alaska's World* article presented an outdated, one-sided view of customer service that undermines the message we are sending in the Customer Experience Workshops.

Until we truly embrace the importance of internal service quality, we will not create a culture where exceptional customer service is the norm rather than the exception.

— **Blakely Lord**,
risk management claims manager

Strategic Goals

1. Be No. 1 in safety and compliance
2. Work together to build a diverse and inclusive company where everyone is valued, committed and connected.
3. Deliver on core operational promises: run a reliable, on-time airline.
4. Make flying easy. Provide caring service and great value to keep and win customers.
5. Generate profits that adequately compensate our investors and enable us to fund our future.

How it all began

Decision to buy MD-80 based on price

In “Character & Characters: The Spirit of Alaska Airlines,” Bob Serling describes for the first time the story behind the decision to buy MD-80s over the Boeing 737-300. Below is an excerpt from the book.

By Robert J. Serling

In 1983, Alaska Airlines formed a legal and technical team to help senior management decide which new jetliner would best serve as the queen of the Eskimo fleet.

The competing candidates were the McDonnell Douglas MD-80 and the Boeing 737-300. Both were twin-engine airplanes; the MD-80's engines were aft-mounted and the 737's were in pods under each wing. Each jet had its vociferous supporters, resulting in an internal civil war that pitted the technical staff against the marketing and sales force.

The pro-Boeing contingent was headed by **Gus Robinson**, whose chief ally was **Ken Skidds**. **Ray Vecchi**, supported by the entire sales organization, went down to the McDonnell Douglas factory in Long Beach, California, to inspect the MD-80, a stretched and vastly improved version of the veteran DC-9 series. He returned to Seattle singing its praises.

To be technically correct, the McDonnell Douglas airplane that Alaska initially was interested in was the MD-83, almost identical to the original MD-80 but with more powerful engines and larger fuel tanks for greater range.

And to call either version a “stretched” design was an understatement. The MD-80 fuselage measured just under 148 feet from nose to tail. That was a whopping 15 feet longer than the original DC-9 (the MD-80 originally was called the DC-9 Super 80).

Furthermore, the MD-80 cabin itself was narrow, wide enough for only three-and-two seating in coach, compared to six abreast in the rival Boeing. Alaska's marketers considered this a positive rather than a negative factor, as it meant fewer middle seats, the bane of every coach passenger's existence.

Yet to officers such as Robinson and Skidds, that narrow fuselage meant

drastically reduced cargo space. This, in turn, would severely restrict the MD-80's utilization in the state of Alaska, where cargo capacity was as important as passenger accommodations.

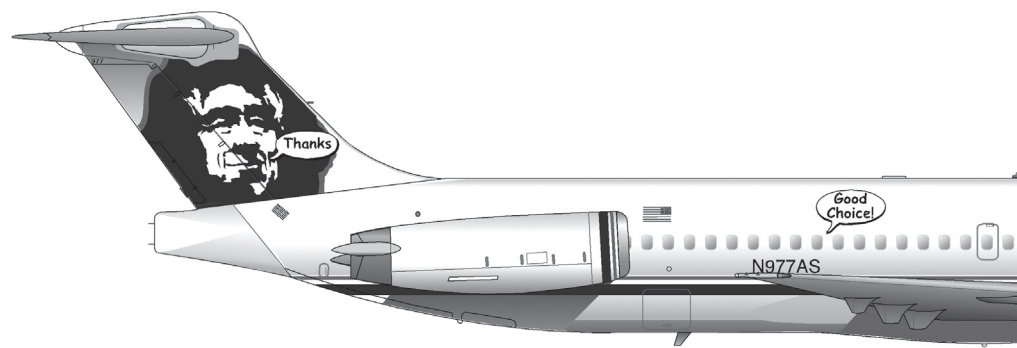
Ray Vecchi urged **Bruce Kennedy** to buy the MD-80, citing its passenger-oriented main cabin, good seat-mile costs, large passenger capacity, and adaptability to Alaska's expanding route system south of Seattle.

“The important thing to remember,” **John Kelly** explained, “is that the MD-80 was ideal for our new expansion into California. Admittedly, the airplane would have been a disaster in Alaska, where cargo is so important, but that's why we also were acquiring more Boeing Combs at the same time.”

Gus Robinson investigated the MD-80, studying its design features and examining the performance and operating-cost figures that had so impressed Vecchi. In Robinson's case, however, all the manufacturer's claims in the world couldn't influence a man who was biased against the MD-80 even before seeing the actual airplane. He was well aware of an incident involving the MD-80 prototype, the first test airplane. It was undergoing precertification test flights, and the FAA test pilot made an exceptionally hard landing, so hard that the long fuselage buckled and almost broke in two. McDonnell Douglas beefed up the fuselage structure to prevent any similar occurrence, but the incident was enough to further sour Robinson's opinion of that elongated fuselage.

After Kennedy quoted Vecchi's fulsome praise of the MD-80, Robinson's input was decidedly negative. “Bruce,” he snorted, “if all those things were true, I'd buy the airplane myself. But for starters, it's nothing but a long, narrow tube, and I never did like to ride in one of them.”

There were other factors involved in Alaska's eventual choice of the MD-80 over the 737-300. First and foremost, the latter fell short of Alaska's strong preference for a 140-passenger airplane. The MD-80 met that requirement, while the 737-300 was about 20 seats shy of Alaska's desired capacity. The “long tube” de-



Cleared

Alaska Airlines bids farewell to the

When Alaska Airlines' first MD-80 rolled out of the McDonnell Douglas factory in 1985 it represented the latest and greatest mid-range passenger airliner on the market, with state-of-the-art autoland technology and simplified aircraft systems monitoring.

“It also offered 25 percent greater fuel efficiency than a 727,” says **Dennis Mellen**, MD-80 fleet captain, who has flown the aircraft almost exclusively for the past 25 years.

Alaska Airlines' initial order was for nine of the single-aisle twin-jets. It acquired eight more with the 1987 merger with Jet America.

Eventually, the airline would operate 44 MD-80s, primarily on north-south routes in the Lower 48.

Several of the aircraft acquired from Jet America came equipped with long-range fuel tanks. They proved ideal for flights to the Russian Far East, which Alaska served for nearly 10 years in the 1990s.

Pilots loved the fact that “the aircraft was less complicated to fly than a 737, had virtually no variants and all the same capabilities as a 737,” Mellen says. “I know those of us who flew the MD-80 will miss it. When I climb into that



sign to which Gus Robinson had objected utilized its greater length to achieve greater passenger capacity.

Boeing was planning to build a 737-400 series with at least 140 seats, but that project was still in the preproduction phase and the McDonnell Douglas entry promised far earlier delivery dates. So delivery time was the second factor in Alaska's final choice.

The third factor was price and financing terms. The Long Beach company had long since fallen far behind Boeing in jetliner sales, a decline that began when the 707 eclipsed the late-starting DC-8 and then really went into a nose-dive because Douglas had no jet to compete against the popular 727. With MD-

80 sales sluggish, McDonnell Douglas was extremely anxious to get a Seattle-based customer.

So Alaska's negotiators were holding some high cards. The initial team that went down to Long Beach to work out a deal consisted of Robinson, **Irv Bertram**, and **Bob Gray**, with **Ray Vingo** ready in the wings to handle the financing for whatever deal was worked out.

This was Gray's first experience in aircraft purchasing. He was assigned to the negotiating team largely because he was a respected member of Kennedy's own “inner circle” of veteran officers that the CEO had come to trust.

The team's strategy was to take advantage of McDonnell Douglas's strong de-



CEO Bruce Kennedy speaks during a ceremony Feb. 19, 1985, as Alaska Airlines takes delivery of its first MD-80 at the McDonnell Douglas factory in Long Beach.

The man who flew too much

Alaska MD-80 pilot set world record

By Don Conrard

By the time Captain **George “Skip” Ziegler** hung up his wings and retired from Alaska Airlines in August 2007, he'd accumulated more than 18,000 hours of flight time in the MD-80.

No pilot in the world is believed to have more.

The Boeing Co. recognized that fact when it presented Ziegler with a personalized MD-80 data plate as a token of “appreciation for your unparalleled dedication to the MD-80 ‘Whisper Jet.’ ”

The unique retirement gift is similar to an automobile license plate. Bolted to the airframe, the data plate displays the aircraft's make, model, serial number and manufacture date.

Ziegler's plate features his name as the make and birthday as the manufacture date.

“Your personalized airplane data plate is a legal document and closely controlled



to land

the MD-80 after 23 years of service


aircraft, it's like putting on a pair of old, comfortable shoes."

Other employee groups tended to have mixed feelings about the MD-80 as the company began acquiring the newer 737s.

Flight attendants disliked the small galley and overhead bins. But they liked the three/two seating, which it made it easier to talk passengers into changing seats, and the mid-cabin "ironing board" jump-seat because they could sit and talk with passengers.

Ramp service agents complained about the relatively small cargo hold overheads—even though the capacities were virtually the same as Boeing jets—while customer service agents had to be careful not to damage the low-mounted main cabin door when coupling the jetway to the aircraft.

Still, the aircraft served Alaska Airlines well for many years, until skyrocketing fuel costs and higher maintenance led to its retirement from the fleet later this month.

"The MD-80 uses about 1,100 gallons per hour, compared to 950 gallons per hour for the 737-400 and 800 gallons per hour for Next Generation 737s," Mellen says. "That's a 20- to 30-percent savings in fuel burn." 

sire to sell the MD-80 to an airline based in Boeing's backyard, first enticing them with a tentative order and then playing a trump card to get the deal they sought.

"We knew McDonnell Douglas was coming out with an improved MD-80 model, the MD-83," Bertram related, "and that was the airplane we really wanted."

McDonnell Douglas asked the negotiating team to sign a letter of intent to buy six MD-82s. This basically was identical to the original MD-80 and was an airplane that Alaska *didn't* want. When the team was asked to sign the letter, the airline's negotiators played their trump card. "We told them," Bertram said, "that we'd sign only if they gave us six

MD-83s instead of the 82s, and for the same price. They agreed and we struck a deal."

The MD-83s that Alaska ordered were not standard models; in fact, they really were hybrids. They had the MD-83's larger and more powerful engines, but to obtain at least a little more cargo space, the MD-82's smaller fuel tanks were substituted. In addition, a new heavier landing gear replaced the MD-83's standard gear to compensate for the slightly increased cargo capacity.

Even with a price break, Ray Vingo didn't think the company had sufficient cash reserves for what amounted to a nine-aircraft order, including its commitment to Boeing. So he worked out a

leasing deal with a Japanese company for the first two airplanes that reduced the substantial required down payment.

With a few contractual issues still up in the air, Kennedy sent Vecchi, Robinson, and Gray down to Long Beach to close the deal. Then he faced the unpleasant chore of phoning Thornton Wilson, Boeing's short-tempered CEO, whom everyone called T, and telling him that Alaska was going to buy the MD-80.

"Damn it, Bruce," Wilson grumbled, "you *know* we build better airplanes than they do."

"The decision was based mostly on price," Kennedy explained. "They were very aggressive on price. The MD-83 matched the seating capacity of the Boeing 727-200s it would replace, while the 737-300 would not."

T cooled off quickly. "Well," he said philosophically, "Bill Allen [Boeing's former CEO] told me years ago never to regret losing a sale on which you would have lost money."

It was sportsmanship that Kennedy was not to forget.

Deliveries began early in 1984, and the first delivery flight turned into a nightmare for both McDonnell Douglas and Alaska Airlines. The only exception to the general embarrassment was Gus Robinson, who, without a doubt, was justified in thinking, "*I told you so.*"

Alaska had invited a planeload of various dignitaries to ride on the airline's first MD-83 from Long Beach to Seattle. The new jet then would be flown to Anchorage for the formal delivery, thus avoiding the stiff sales tax that would be levied if delivery took place in Seattle.

Problem 1: The first airplane was temporarily fitted with older, less powerful engines. The bigger power plants that Alaska had ordered hadn't yet been certificated by the FAA. Because the airplane was underpowered, it was slower than Alaska's old Boeings. (In truth, even when the larger engines were installed, the MD-83 was still slower than the old 727s.)

Problem 2: Because of a mechanical glitch, the airplane was late taking off from Long Beach.

Problem 3: The water system failed as soon as the plane was airborne, so it was impossible to flush any of the toilets.

The only thing that went right on the Long Beach-Seattle leg was the meal service, which was so good that most of the guests weren't aware that a brand-


new jetliner was being delivered in a condition no air carrier could tolerate. Irv Bertram used a yellow legal pad to list the airplane's more obvious flaws and defects.

Bertram's list, however, wasn't as long as the one Gus Robinson compiled mostly on the leg between Seattle and Anchorage, which took four hours because of headwinds and the temporary engines. There was a McDonnell Douglas vice president aboard, and it must have been a long four hours listening to both Robinson's and Bertram's complaints.

Robinson was furious. He and Ken Skidds were fervent believers in a saying that had been quoted throughout the aviation community since the jet age began: "If it ain't Boeing, I ain't going!" And in truth, no Boeing jetliner would ever have left the delivery flight line in the condition of Alaska's first MD-83.

"The airplane had been through two prior shakedown flights, the first by the manufacturer and the second by the airline," Bertram recalled, "and we shouldn't have had all these deficiencies show up on the delivery flight. What we didn't know was that McDonnell Douglas had been having a lot of production problems because of major management upheavals. In addition to sloppy work on the assembly line, it took forever to get the bigger engines we had ordered, so we wound up having to use leased engines on four of the airplanes. But in the long run, we saved more money that way than if the airplanes had been delivered with the bigger engines."

One rather significant aspect of choosing the MD-83 over the 737-300 was that Kennedy went along not only with Vecchi, but also with younger management such as John Kelly in marketing, while rejecting the advice of older officers such as Robinson and Skidds. Robinson at the time was executive vice president and chief operating officer, the second-highest position in the company.

It wasn't a case of Kennedy disregarding the opinions of experienced veterans and listening instead to youthful go-getters. Rather, it was an indication that Kennedy had become his own man. He had honestly weighed the merits and faults of both airplanes, listened to their detractors and supporters alike, and then made up his own mind. He was being completely honest when he told T Wilson that the decision to go with the MD-83 was based primarily on price. 

by Boeing and the FAA," said Dennis O'Donoghue, vice president of flight operations, test and validation for Boeing Commercial Airplanes. "To our knowledge, you are the highest-time MD-80 pilot in the world."

"It's a record that is likely never to be broken," said **Kevin Finan**, retired executive vice president of strategic projects, who noted that major airlines, including Alaska, are retiring their MD-80 fleets. "Skip was the 'Iron Man' of the MD-80."


Overall, Ziegler accumulated an astonishing 23,000 to 24,000 hours of civilian and military flight time during his 38-year career.

"You brought all home safely and weathered the all-too-often assortment of flight, ground and training checks flawlessly—a truly remarkable achievement," O'Donoghue said.

Inspired by an uncle who was a radio operator on a B-17 bomber during World War II, Ziegler began his aviation career flying C-141 cargo jets in the U.S. Air Force. He retired from the Air Force Reserves in 1990 with the rank of major.

Along with Finan, Ziegler was a member of the first class of pilots hired by Jet America when it was founded in 1981. He flew the MD-80 ever since (and joined Alaska Airlines when the carrier acquired Jet America in 1986).

"I'm the MD-80's No. 1 fan," Ziegler said. "It was love at first sight. I like the way it looks, the way it flies and how quiet it is. It's just a terrific aircraft."

Ziegler also loves classic cars and owns more than 70, including 25 1932 Fords. Like the MD-80, when Ziegler finds something he likes, he sticks with it. 



Don Conrard

Captain George Ziegler waves goodbye as he retires in 2007 as the highest-time MD-80 pilot in the world. Ziegler flew the aircraft for more than 18,000 hours.

August 2008

35 YEARS

Debora Borchers
C.S.A. - Air Freight/SEA

30 YEARS

Jeffrey Peerson
Systems Analyst/SEA

25 YEARS

William Allyn
Captain/SEA

Gary April
Captain/SEA

Janet Barbrack
Flight Attendant/SEA

Gregory Capp
Flight Attendant/SEA

Patrice DeLaurell
Flight Attendant/LAX

James Ellis
Flight Attendant/SEA

Tara Greaves
Flight Attendant/SEA

Catherine Henno
Flight Attendant/LAX

Kelley Hoedemaker
Flight Attendant/SEA

Ralph Holmes
Flight Attendant/SEA

Gary Isenhower
Captain/SEA

Robert Jakel
Captain/SEA

Bennie Johnson
Managing Director Flight
Operations Planning &

Resource Management/SEA
Kathryn Kaluakini
Flight Attendant/LAX

Patti Kohlrus
Flight Attendant/SEA

Mary Koruga
Flight Attendant/SEA

Paul Mickelson
Captain/SEA

Lisa Myer
Flight Attendant/SEA

Robin Nakashima
Flight Attendant/SEA

Donna Puglisi
Flight Attendant/LAX

Leisa Russell
Flight Attendant/SEA

Linda Russell
Flight Attendant/SEA

Janice Sidwell
Flight Attendant/SEA

Jeffrey Stevens
Chief Dispatcher/SEA

Eric Thorsen
Flight Attendant/SEA

Joyce Wright
Flight Attendant/SEA

20 YEARS

Mark Ellingson
Lead Ramp - Air Freight/SEA

Staheli Foster
Ramp Service/OTZ

Joshua Guay
Ramp Service/ANC

Debbie Herman
Flight Attendant/PDX

Martin Goepfert
Manager Contract Services/
MWH

Bruce Huseth

Sr. Technical Services
Specialist/SEA **Jeffrey Russ**
Station Supervisor/SEA

Vicki Stubbs
Stores Agent/SEA

Philip Tenning
Technical Training
Instructor/SEA

15 YEARS

Kim Hansen
Flight Attendant/PDX

Leta Hayes
Buyer/SEA

Lisa Jones
Customer Service
Manager/CDV

Pamela Kupper-Jones
Flight Attendant/SEA

Joel O'Francia
Line Aircraft Technician/SEA

10 YEARS

James Anderson
Avionics Technician/SEA

Jerry Campbell
Simulator Technician/SEA

Diane Friday
Operations Agent/SFO

Sherrijon Gaspard
Flight Attendan/LAX

Kymberly Iseda
Accounting Specialist/SEA

Amanda Johnson
Sabre Project
Administrator/SEA

Jenny Kennedy
Flight Attendant/PDX

Lorrie Kovalenko
Administrative Coordinator/SEA

Eric Lemcke
Web Content Publisher/KVY

Traci Lonigro
Flight Attendant/SEA

Shannon Martinson
Asst. To Executive Vice
President Marketing
& Planning/SEA

Shane Metcalf
Captain/ANC

Francene Mikulich
Cargo System Control
Agent/KVY

Kimberly Morton
Flight Attendant/LAX

Kimberley O'Connell
Administrative Assistant/PDX

Aaron Paez
Customer Service
Agent Mexico/SJD

Stephanie Patla
Reservations Sales Agent/PHX

Christy Prado
Crew Scheduler/SEA

Steve Pulse
First Officer/SEA

Yesenia Rios

Customer Service Agent/OAK
Evon Rodriguez
Flight Attendant/ANC

Kristin Rost
Yield Management Analyst/SEA

Benjamin Rusk
Sr. Systems Analyst/SEA

Guy Smith
Flight Attendant/LAX

Brenda Spivey
Manager National
Tour Accounts/SEA

Philip Totten
Line Aircraft Technician/ANC

Gene Vey
First Officer/SEA

Karen Watkins
Flight Attendant/SEA

Zhimondre Watson
Customer Service Agent/SEA

Joseph Wheat
Lead Line Avionics
Technician/SEA

Margaret Williams
Reservations Sales Agent/PHX

5 YEARS

Melinda Waham
Flight Training Compliance
Manager/SEA

Dear Alaska Airlines ...
kudos from customers

We wanted to tell you how much we enjoyed **Marybeth Walker** as our flight attendant. She is such a wonderful customer service-oriented employee. She makes everyone feel great about flying on Alaska Airlines. We really appreciated her laughter and professionalism. You are very lucky to have Mary represent Alaska Airlines.

— L.T., Kirkland, WA

My husband has dementia, which can make travel a challenge, but he enjoys going. This trip was for his grandson's high school graduation. **Rikke Teer** was the primary flight attendant in our cabin on this return flight. She was kind and understanding. Her assistance and attitude made our flight so much more pleasant. Thank you for hiring and training such great people.

— A.P., Omak, WA

I would like to commend **Michelle Ferrell**, a new Alaska Airlines customer service agent, for her outstanding service in Anchorage. She helped me solve a problem with professionalism and charm. Thanks!

— L.B., Juneau, AK

Catherine Cook was our flight attendant and she was helpful, courteous and tried to give 110 percent customer service. We were trying to get an upgrade to first class when stopping in San Francisco, but it was full. She made my 91-year-old dad

comfortable, even though we didn't get into first class. Please recognize her for her great service. It doesn't happen enough when flying.

— P.P., Sun River, OR

[Reservation Sales Agent] **Roberta Carmichael** at the Partner Desk in Seattle turned nothing into something. My wife and I wanted to travel from Israel to Los Angeles next year, so we called 11 months in advance to use miles for a business class flight. We wanted to fly a U.S. carrier. Nothing was available for our one-month time frame, even that far in advance. Through extra diligence, Roberta was able to book us on Air France. It took an hour on the phone, but she did it. Thanks to her, we can look forward to a special trip.

— G.M., Omer, OR

My letter is primarily to recognize **Fred Balderas**. He embodies the perfect example of what customer service is all about. For several hours, I was on the phone with Alaska Airlines and Travelocity, ending each conversation more frustrated than the last. At one point, I called a friend and cried. When I explained, humbly and in detail, to Fred, he understood that I had been given the runaround and graciously took care of my reservation. You are so fortunate to have an employee who actually listens and shows that he cares. In the age of technology and computers, we still like to be heard and helped. Fred Balderas is what customer service is all about. Many can learn from him.

— S.D., Bremerton, WA

in some confusion between return destinations, the one I wanted did not get booked. [Reservation Sales Agent] **Robert Brooks** at your center in Boise was exceptional in finding my reservation because, of course, in my panic I lost everything and quickly resubmitted the correct information to the computer. He was very courteous and seemed by his voice to love his job. Thank you for having such a good employee.

— M.M., Covina, CA

Dear Alaska Airlines

Our flight to Lihue was on my wife's and my 28th anniversary. I had surprised her by changing the original reservation she had made to first class. I informed our flight attendant, **Christy Baskett**, of the occasion. After a great dinner, she came over and apologized that she and Alaska wanted to help us celebrate, but they had no champagne glasses. We said that didn't matter. (Heck after 28 years, you've had champagne in paper cups before.) She made our flight a very special day. Please let her know that kind of service keeps people coming back.

— R.B, Kent, WA

On June 29, I made a reservation, but



Coming Up

Wed, Aug 13	M&E Tour / Seattle Hangar
Wed, Aug 13	Retiree Picnic, noon, Angle Lake Park
Fri, Aug 15	Portland Station Picnic / Portland
Sat, Aug 16	Summer Picnic / Seattle
Mon, Aug 25	Blood Drive / Seattle Flight Ops
Thu, Aug 28	M&E Tour / Seattle Hangar
Mon, Sep 1	Labor Day
Thu, Sep 11	M&E Tour / Seattle Hangar
Wed, Sep 24	M&E Tour / Seattle Hangar
Thu, Oct 9	M&E Tour / Seattle Hangar
Canceled	Employee Reception / Puerto Vallarta
Thu, Oct 23	AAG Q3 Earnings Announced
Sun, Oct 26	Seattle-Mpls./St. Paul Service Begins
Wed, Oct 29	M&E Tour / Seattle Hangar
Fri, Oct 31	Anchorage-Maui Service Begins
Tue, Nov. 11	Veterans Day
Mon, Nov 17	Seattle-Kona Service Begins
Wed, Nov 19	Blood Drive/Seattle Hangar
Wed, Nov 19	M&E Tour / Seattle Hangar
Thu, Nov 20	Holiday Craft Bazaar/Gold Coast Center
Thu-Fri, Nov 27-28	Thanksgiving
Wed, Dec 17	M&E Tour / Seattle Hangar
Thu, Dec 25	Christmas

For more info on these events, click 'Employee event calendar' on the aw.com home page



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Higher fares may mean less total revenue

Continued from Page One

between Seattle and Spokane has increased \$3 in recent weeks while the Seattle-Boston fare has gone up \$125. Sale fares, which are highly competitive, have not seen significant increases this year.

Taxes also raise the final price of a ticket, which may discourage people from flying.

“What concerns customers is the total amount of money they have to spend. In some markets, taxes represent a large portion of the final price,” Cary says.

For example, taxes add \$103 to the final price of any fare between Los Angeles and Los Cabos. Taxes for domestic flights are less, such as \$44 between Seattle and Anchorage.

Competition is another major factor restricting Alaska’s ability to raise fares.

The airline flies against low-cost carriers in about half its markets. It is very difficult for Alaska to raise fares unless other carriers go along.

“People are willing to pay a bit more to fly on us because of the high-quality service we offer, but not much more,” Cary says. “In general, if the price is

about the same, people will choose us. Otherwise, price-conscious customers may fly on the less expensive airline.”

Concern about price image is another restraint on fares.

“If we are perceived as a high-fare airline, some customers may not even consider flying with us,” Cary says.

This is why many airlines, including Alaska, are adopting so-called “à la-cart” pricing. It allows carriers to

continue to match advertised fares by competitors, while customers choose the services they are willing to pay extra for, such as an inflight meal.

While the industry agrees fares must go up, cash-strapped carriers are often reluctant to raise prices, even when offered fares are unprofitable. These airlines, afraid of liquidity problems, need cash immediately.

“Most airlines are realizing this time is different,” Crandall says. “We’ve seen our relevant competitors raise fares in recent months, including Southwest.”

Despite its well-hedged position against rising fuel costs, Southwest has increased fares three times in the past six months.

Ultimately, Alaska’s ability to raise fares will depend on excess capacity coming out of the market. Almost every major carrier has announced plans to reduce domestic flying 10 percent to 15 percent.

“Fewer seats in the market will allow us to reduce the number of low-fare seats on each flight, raising the average ticket price and increasing total revenue,” MacLeod says.

In the end, Cary is confident the industry will adjust to rising oil prices, though. “Make no mistake, fares will go up.”

Alaska Air Group loses \$50 million so far in 2008

Halfway through what is turning out to be the most challenging year in airline history, Alaska Air Group announced a second quarter adjusted net loss of \$14.1 million. This compares with an adjusted net profit of \$47.2 million during the same period a year ago.

In announcing its second quarter financial results, Air Group reported a net profit of \$63.1 million under Generally Accepted Accounting Principles (GAAP), compared with \$46.1 million during the same period a year ago.

Adjusted losses for the first half of 2008 total \$50.4 million, which the company said is adding urgency to executing its plan to ensure Air Group’s survival.

As part of this plan, Alaska Airlines announced capacity cutbacks in the fourth quarter and during 2009 that will result in employee layoffs and furloughs. The airline plans to reduce its management ranks by 5 percent, effective Sept. 1, and will notify affected management employees no later than mid-August. Details on operational furloughs will be available in early September.

On the Web

Read more about Air Group’s second quarter financial performance in the July News Archives on alaskasworld.com

Air Group’s second quarter compared with other airlines

		Q2 2008 net results*	Adj. earnings per share
Profit	Delta	\$137 million	35 cents
	Southwest	\$121 million	16 cents
Loss	JetBlue	- \$7 million	- 3 cents
	Continental	- \$25 million	- 25 cents
	AirTran	- \$31 million	- 29 cents
	Northwest	- \$80 million	- 30 cents
	Alaska Air Group	- \$14 million	- 39 cents
	US Airways	- \$101 million	- \$1.11
	United	- \$151 million	- \$1.19
	American	- \$284 million	- \$1.13

* Adjusted for special charges

Future decisions depend on fuel prices, action by competitors

Continued from Page One

pany.

We intend to staff the operation to achieve all of our goals—operational and financial—without undue demand on any group or individual. And the Project Management Office continues to re-evaluate our key initiatives and recommend changes based on available resources going forward.

What can employees do to help the company return to profitability?

Gregg Saretsky, executive vice president of flight and marketing: Keep providing our unique brand of safe, reliable and genuinely caring service. That’s our ace card to maintain the loyalty of our customers and gain new converts.

We also need to be mindful of opportunities to cut expenses—across the board, but especially in terms of our fuel consumption. We’ve done a

lot to conserve by reducing our APU usage, implementing single-engine taxi procedures, taking weight off our aircraft and such. There’s more we can do—and ideas to achieve that will come from our employees.

Finally, we have to be open to change. Our industry is much different now than it was 10 years ago and it will continue to morph. That’s the nature of any successful business. We need to embrace this reality and let go of things that no longer work while maintaining the best of our traditions.

Fuel prices have been coming down lately. Can Alaska Airlines change course and avoid layoffs? And if prices go back up, will the cutbacks announced so far be enough or will the company impose a hiring freeze, reduce benefits or lay off more employees?

CEO Bill Ayer: We can’t predict the future, but one thing I’m certain of is that our industry will look different six

months to a year from now. How different will depend on the cost of fuel and what actions other airlines take.

Certainly, current fuel costs and fare levels don’t add up to a viable long-term business plan. Fuel prices need to come down or fares need to go up—or both—so Alaska and the rest of the industry can be profitable again. Airlines also need to cut domestic capacity. Alaska isn’t pulling back as much as most other carriers and we’ll keep taking advantage of market opportunities when they make sense.

For now, we’re making the minimum reductions necessary based on current projections. We know this is unsettling for employees over the next month or so, but we felt an obligation to announce our intentions once they became clear. We’ll continue to share details as soon as we know them.

Whatever happens, we can’t afford to be disconnected and lose hope. Everyone across the company needs to work together to identify opportunities and find good solutions.

Key information

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