

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2017

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.

Delaware

(State of Incorporation)

91-1292054

(I.R.S. Employer Identification No.)

19300 International Boulevard, Seattle, Washington 98188

Telephone: (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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company
(Do not check if a smaller reporting company)

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The registrant has 123,603,902 common shares, par value \$0.01, outstanding at April 28, 2017.

ALASKA AIR GROUP, INC.
FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2017

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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," "project," "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, primarily fuel, which can be volatile;
- general economic conditions, including the impact of those conditions on customer travel behavior;
- our ability to meet our cost reduction goals;
- operational disruptions;
- an aircraft accident or incident;
- labor disputes and our ability to attract and retain qualified personnel;
- 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;
- our reliance on automated systems and the risks associated with changes made to those systems;
- changes in laws and regulations;
- our ability to achieve anticipated synergies and timing thereof in connection with the acquisition of Virgin America.

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, 2016, and Item 1A. "Risk Factors" included herein. Please consider our forward-looking statements in light of those risks as you read this report.

PART I

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ALASKA AIR GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS *(unaudited)*

<i>(in millions)</i>	March 31, 2017	December 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 183	\$ 328
Marketable securities	1,527	1,252
Total cash and marketable securities	1,710	1,580
Receivables—net	321	302
Inventories and supplies—net	50	47
Prepaid expenses and other current assets	132	121
Total Current Assets	2,213	2,050
Property and Equipment		
Aircraft and other flight equipment	7,137	6,947
Other property and equipment	1,139	1,103
Deposits for future flight equipment	541	545
	8,817	8,595
Less accumulated depreciation and amortization	3,008	2,929
Total Property and Equipment—Net	5,809	5,666
Goodwill	1,942	1,934
Intangible assets	139	143
Other noncurrent assets	199	169
Other Assets	2,280	2,246
Total Assets	\$ 10,302	\$ 9,962

See accompanying notes to condensed consolidated financial statements.

ALASKA AIR GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS *(unaudited)*

<i>(in millions, except share amounts)</i>	March 31, 2017	December 31, 2016
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 95	\$ 92
Accrued wages, vacation and payroll taxes	281	397
Air traffic liability	1,218	849
Other accrued liabilities	909	878
Current portion of long-term debt	332	319
Total Current Liabilities	2,835	2,535
Long-Term Debt, Net of Current Portion	2,531	2,645
Other Liabilities and Credits		
Deferred income taxes	509	463
Deferred revenue	641	640
Obligation for pension and postretirement medical benefits	334	331
Other liabilities	438	417
	1,922	1,851
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, \$0.01 par value, Authorized: 5,000,000 shares, none issued or outstanding	—	—
Common stock, \$0.01 par value, Authorized: 200,000,000 shares, Issued: 2017 - 129,590,771 shares; 2016 - 129,189,634 shares, Outstanding: 2017 - 123,729,188 shares; 2016 - 123,328,051 shares	1	1
Capital in excess of par value	126	110
Treasury stock (common), at cost: 2017 - 5,861,583 shares; 2016 - 5,861,583 shares	(443)	(443)
Accumulated other comprehensive loss	(299)	(305)
Retained earnings	3,629	3,568
	3,014	2,931
Total Liabilities and Shareholders' Equity	\$ 10,302	\$ 9,962

See accompanying notes to condensed consolidated financial statements.

ALASKA AIR GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(in millions, except per share amounts)	Three Months Ended March 31,	
	2017	2016
Operating Revenues		
Passenger		
Mainline	\$ 1,272	\$ 927
Regional	212	206
Total passenger revenue	1,484	1,133
Freight and mail	24	24
Other—net	241	190
Total Operating Revenues	1,749	1,347
Operating Expenses		
Wages and benefits	448	336
Variable incentive pay	31	32
Aircraft fuel, including hedging gains and losses	339	167
Aircraft maintenance	87	68
Aircraft rent	65	29
Landing fees and other rentals	115	80
Contracted services	81	60
Selling expenses	81	49
Depreciation and amortization	90	88
Food and beverage service	45	31
Third-party regional carrier expense	27	23
Special items—merger-related costs	40	—
Other	134	94
Total Operating Expenses	1,583	1,057
Operating Income	166	290
Nonoperating Income (Expense)		
Interest income	7	6
Interest expense	(25)	(13)
Interest capitalized	4	8
Other—net	—	1
	(14)	2
Income before income tax	152	292
Income tax expense	53	108
Net Income	\$ 99	\$ 184
Basic Earnings Per Share:	\$ 0.80	\$ 1.47
Diluted Earnings Per Share:	\$ 0.79	\$ 1.46
Shares used for computation:		
Basic	123,495	124,550
Diluted	124,299	125,328
Cash dividend declared per share:	\$ 0.30	\$ 0.275

See accompanying notes to condensed consolidated financial statements.

ALASKA AIR GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS *(unaudited)*

<i>(in millions)</i>	Three Months Ended March 31,	
	2017	2016
Net Income	\$ 99	\$ 184
Other Comprehensive Income (Loss):		
Related to marketable securities:		
Unrealized holding gains arising during the period	3	12
Income tax effect	(1)	(4)
Total	2	8
Related to employee benefit plans:		
Reclassification of net pension expense into Wages and benefits	6	5
Income tax effect	(2)	(2)
Total	4	3
Related to interest rate derivative instruments:		
Unrealized holding gains (losses) arising during the period	1	(5)
Reclassification of losses into Aircraft rent	—	1
Income tax effect	(1)	2
Total	—	(2)
Other Comprehensive Income	6	9
Comprehensive Income	\$ 105	\$ 193

See accompanying notes to condensed consolidated financial statements.

ALASKA AIR GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in millions)	Three Months Ended March 31,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 99	\$ 184
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	90	88
Stock-based compensation and other	13	9
Changes in certain assets and liabilities:		
Changes in deferred tax provision	48	(8)
Increase in air traffic liability	369	199
Increase in deferred revenue	1	36
Other—net	(150)	17
Net cash provided by operating activities	470	525
Cash flows from investing activities:		
Property and equipment additions:		
Aircraft and aircraft purchase deposits	(160)	(91)
Other flight equipment	(20)	(15)
Other property and equipment	(36)	(13)
Total property and equipment additions, including capitalized interest	(216)	(119)
Purchases of marketable securities	(557)	(358)
Sales and maturities of marketable securities	285	140
Other investing activities	—	1
Net cash used in investing activities	(488)	(336)
Cash flows from financing activities:		
Long-term debt payments	(101)	(36)
Common stock repurchases	—	(127)
Dividends paid	(37)	(34)
Other financing activities	11	13
Net cash used in financing activities	(127)	(184)
Net increase (decrease) in cash and cash equivalents	(145)	5
Cash and cash equivalents at beginning of year	328	73
Cash and cash equivalents at end of the period	\$ 183	\$ 78
Supplemental disclosure:		
Cash paid during the period for:		
Interest (net of amount capitalized)	\$ 26	\$ 8
Income taxes paid	2	13

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

NOTE 1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

The consolidated financial statements include the accounts of Air Group, or the Company, and its primary subsidiaries, Alaska, Horizon and, starting December 14, 2016, Virgin America. The Company conducts substantially all of its operations through these subsidiaries. All significant intercompany balances and transactions have been eliminated. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information. Consistent with these requirements, this Form 10-Q does not include all the information required by GAAP for complete financial statements. It should be read in conjunction with the consolidated financial statements and accompanying notes in the Form 10-K for the year ended December 31, 2016. In the opinion of management, all adjustments have been made that are necessary to present fairly the Company's financial position as of March 31, 2017 and the results of operations for the three months ended March 31, 2017 and 2016. Such adjustments were of a normal recurring nature.

In preparing these 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. Due to seasonal variations in the demand for air travel, the volatility of aircraft fuel prices, changes in global economic conditions, changes in the competitive environment and other factors, operating results for the three months ended March 31, 2017 are not necessarily indicative of operating results for the entire year.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers"(Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This comprehensive new standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations" to clarify the guidance on determining whether the Company is considered the principal or the agent in a revenue transaction where a third party is providing goods or services to a customer. Entities are permitted to use either a full retrospective or cumulative effect transition method, and are required to adopt all parts of the new revenue standard using the same transition method. The new standard is effective for the Company on January 1, 2018. At this time, the Company believes the most significant impact to the financial statements will be to Mileage Plan™ revenues and liabilities. The Company currently uses the incremental cost approach for miles earned through travel. As this approach will be eliminated with the standard, the Company will be required to increase its liability for earned miles through a relative selling price model by approximately \$350 million to \$450 million. The adoption of the new standard is also expected to result in a change in income statement classification for certain types of revenues, such as ancillary revenues, currently classified as Other revenue to Passenger revenue, which will affect common industry metrics such as PRASM and RASM. The Company continues to evaluate and model the full impact of the standard and plans to apply the full retrospective transition method.

In February 2016, the FASB issued ASU 2016-02, "Leases" (Topic 842), which requires lessees to recognize assets and liabilities for leases currently classified as operating leases. Under the new standard a lessee will recognize a liability on the balance sheet representing the lease payments owed, and a right-of-use-asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and lease liabilities. The new standard is effective for the Company on January 1, 2019. Early adoption of the standard is permitted. At this time, the Company believes the most significant impact to the financial statements will relate to the recording of a right-of-use asset associated with leased aircraft. Other leases, including airports and real estate, equipment, software and other miscellaneous leases continue to be assessed for impact of the ASU. The Company has determined that it will not early adopt the standard.

In March 2016, the FASB issued ASU 2016-09, "Compensation—Stock Compensation" (Topic 718), which simplifies several aspects of accounting for employee share-based payment awards, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The ASU was adopted prospectively as of January 1, 2017. Prior periods have not been adjusted. The adoption of the standard did not have a material impact on the Company's statements of operations or financial position.

In January 2017, the FASB issued ASU 2017-04, "Intangibles—Goodwill and Other" (Topic 350), which eliminates step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The ASU is effective for the Company beginning January 1, 2019. Early adoption of the standard is permitted. Beginning in fiscal 2017, the Company will be required to perform an impairment test for goodwill arising from its acquisition of Virgin America and has adopted the standard effective January 1, 2017.

In March 2017, the FASB issued ASU 2017-07, "Compensation—Retirement Benefits" (Topic 715), which requires employers to disaggregate the service cost component from the other components of net benefit cost and report it in the same line item(s) as other employee compensation costs arising from services rendered during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. These components will not be eligible for capitalization in assets. Employers are also required to disclose the line(s) used to present the other components of net periodic benefit cost, if the components are not presented separately in the income statement. The ASU is effective for the Company beginning January 1, 2018. Early adoption is permitted at the beginning of the annual period for which financial statements have not yet been issued. The Company is evaluating the impact and management has determined not to early adopt the standard.

NOTE 2. ACQUISITION OF VIRGIN AMERICA INC.

Virgin America

On December 14, 2016, the Company acquired 100% of the outstanding common shares and voting interest of Virgin America for \$57 per share, or total cash consideration of \$2.6 billion. Virgin America offers scheduled air transportation throughout the United States and Mexico primarily from its focus cities of Los Angeles, San Francisco and, to a lesser extent, Dallas Love Field, to other major business and leisure destinations in North America. The Company believes the acquisition of Virgin America will provide broader national reach and position it to better serve people living on the West Coast. The combined airline has 1,200 daily departures and leverages Alaska's strength in the Pacific Northwest with Virgin America's strength in California. The Company believes that combining loyalty programs and networks will provide greater benefits for its guests and expand its international partner portfolio, giving guests an even more expansive global reach.

Merger-related costs

For the three months ended March 31, 2017, the Company incurred pretax merger-related costs of \$40 million. Costs classified as merger-related are directly attributable to merger activities and are recorded as "Special items—merger-related costs" within the statements of operations. The Company expects to continue to incur merger-related costs in the future as the integration continues.

Fair values of the assets acquired and the liabilities assumed

The transaction has been accounted for as a business combination using the acquisition method of accounting, which requires, among other things, assets acquired and liabilities assumed to be recognized on the balance sheet at their fair values as of the acquisition date. The purchase price allocation has been prepared on a preliminary basis and is subject to further adjustments as additional information becomes available concerning the fair value of the assets acquired and liabilities assumed. There were no significant fair value adjustments made during the three months ended March 31, 2017. The Company expects to continue obtaining information to assist in determining the fair values of the net assets acquired and will finalize the amounts recognized by December 14, 2017.

Provisional fair values of the assets acquired and the liabilities assumed as of the acquisition date, December 14, 2016, as of March 31, 2017 and December 31, 2016 were as follows:

<i>(in millions)</i>	March 31, 2017	December 31, 2016
Cash and cash equivalents	\$ 645	\$ 645
Receivables	44	44
Prepaid expenses and other current assets	16	16
Property and equipment	561	560
Intangible assets	141	143
Goodwill	1,942	1,934
Other assets	84	84
Total assets	3,433	3,426
Accounts payable	22	22
Accrued wages, vacation and payroll taxes	50	51
Air traffic liabilities	172	172
Other accrued liabilities	198	196
Current portion of long-term debt	125	125
Long-term debt, net of current portion	360	360
Deferred income taxes	(308)	(304)
Deferred revenue	126	126
Other liabilities	92	82
Total liabilities	837	830
Total purchase price	\$ 2,596	\$ 2,596

NOTE 3. FAIR VALUE MEASUREMENTS

In determining fair value, there is a three-level hierarchy based on the reliability of the inputs used. Level 1 refers to fair values based on quoted prices in active markets for identical assets or liabilities. Level 2 refers to fair values estimated using significant other observable inputs and Level 3 refers to fair values estimated using significant unobservable inputs.

Fair Value of Financial Instruments on a Recurring Basis

As of March 31, 2017, total cost basis for all marketable securities was \$1,529 million. There were no significant differences between the cost basis and fair value of any individual class of marketable securities. Fair values of financial instruments on the consolidated balance sheet (in millions):

March 31, 2017	Level 1	Level 2	Total
Assets			
Marketable securities			
U.S. government and agency securities	\$ 416	\$ —	\$ 416
Foreign government bonds	—	38	38
Asset-backed securities	—	194	194
Mortgage-backed securities	—	88	88
Corporate notes and bonds	—	780	780
Municipal securities	—	11	11
Total Marketable securities	416	1,111	1,527
Derivative instruments			
Fuel hedge call options	—	10	10
Interest rate swap agreements	—	9	9
Total Assets	416	1,130	1,546
Liabilities			
Derivative instruments			
Interest rate swap agreements	—	(12)	(12)
Total Liabilities	—	(12)	(12)
December 31, 2016			
Assets			
Marketable securities			
U.S. government and agency securities	\$ 287	\$ —	\$ 287
Foreign government bonds	—	36	36
Asset-backed securities	—	138	138
Mortgage-backed securities	—	89	89
Corporate notes and bonds	—	691	691
Municipal securities	—	11	11
Total Marketable securities	287	965	1,252
Derivative instruments			
Fuel hedge call options	—	20	20
Total Assets	287	985	1,272
Liabilities			
Derivative instruments			
Interest rate swap agreements	—	(5)	(5)
Total Liabilities	—	(5)	(5)

The Company uses the market and income approach to determine the fair value of marketable securities. U.S. government securities are Level 1 as the fair value is based on quoted prices in active markets. Foreign government bonds, asset-backed securities, mortgage-backed securities, corporate notes and bonds, and municipal securities are Level 2 as the fair value is based on standard valuation models that are calculated based on observable inputs such as quoted interest rates, yield curves, credit ratings of the security and other observable market information.

The Company uses the market approach and the income approach to determine the fair value of derivative instruments. The fair value for fuel hedge call options is determined utilizing an option pricing model based on inputs that are readily available in active markets or can be derived from information available in active markets. In addition, the fair value considers the exposure to credit losses in the event of non-performance by counterparties. Interest rate swap agreements are Level 2 as the fair value of these contracts is determined based on the difference between the fixed interest rate in the agreements and the observable LIBOR-based interest forward rates at period end multiplied by the total notional value.

Activity and Maturities for Marketable Securities

Activity for marketable securities (in millions):

	Three Months Ended March 31,	
	2017	2016
Proceeds from sales and maturities	\$ 285	\$ 140
Gross realized gains	1	—
Gross realized losses	(1)	—
Gross unrealized gains	3	10
Gross unrealized losses	(5)	(2)

Maturities for marketable securities (in millions):

March 31, 2017	Cost Basis	Fair Value
Due in one year or less	\$ 236	\$ 236
Due after one year through five years	1,281	1,278
Due after five years through 10 years	12	13
Due after 10 years	—	—
Total	\$ 1,529	\$ 1,527

Unrealized losses from fixed-income securities are primarily attributable to changes in interest rates. Management does not believe any remaining unrealized losses represent other-than-temporary impairments based on its evaluation of available information as of March 31, 2017.

Fair Value of Other Financial Instruments

The Company used the following methods and assumptions to determine the fair value of financial instruments that are not recognized at fair value as described below.

Cash and Cash Equivalents: Carried at amortized cost, which approximates fair value.

Debt: The carrying amount of the Company's variable-rate debt approximates fair value. For fixed-rate debt, the Company uses the income approach to determine the estimated fair value, calculated as the sum of future cash flows discounted at borrowing rates for comparable debt over the weighted life of the outstanding debt. The estimated fair value of the fixed-rate debt is Level 3 as certain inputs used are unobservable.

Fixed-rate debt that is not carried at fair value on the consolidated balance sheet and the estimated fair value of long-term fixed-rate debt is as follows (in millions):

	March 31, 2017	December 31, 2016
Carrying amount	\$ 1,116	\$ 1,179
Fair value	1,130	1,199

Assets and Liabilities Measured at Fair Value on Nonrecurring Basis

Certain assets and liabilities are recognized or disclosed at fair value on a nonrecurring basis, including property, plant and equipment, goodwill, and intangible assets. These assets are subject to fair valuation when there is evidence of impairment. No impairment was recognized in the three months ended March 31, 2017.

NOTE 4. FREQUENT FLYER PROGRAMS

Frequent flyer program deferred revenue and liabilities included in the consolidated balance sheets (in millions):

	March 31, 2017	December 31, 2016
Current Liabilities:		
Other accrued liabilities	\$ 498	\$ 484
Other Liabilities and Credits:		
Deferred revenue	641	638
Other liabilities	22	21
Total	\$ 1,161	\$ 1,143

Frequent flyer program revenue included in the consolidated statements of operations (in millions):

	Three Months Ended March 31,	
	2017	2016
Passenger revenues	\$ 86	\$ 69
Other—net revenues	119	103
Total	\$ 205	\$ 172

NOTE 5. LONG-TERM DEBT

Long-term debt obligations on the consolidated balance sheet (in millions):

	March 31, 2017	December 31, 2016
Fixed-rate notes payable due through 2028	\$ 1,116	\$ 1,179
Variable-rate notes payable due through 2028	1,764	1,803
Less debt issuance costs	(17)	(18)
Total debt	2,863	2,964
Less current portion	332	319
Long-term debt, less current portion	\$ 2,531	\$ 2,645
Weighted-average fixed-interest rate	4.4%	4.4%
Weighted-average variable-interest rate	2.5%	2.4%

During the three months ended March 31, 2017, the Company made debt payments of \$101 million.

At March 31, 2017, long-term debt principal payments for the next five years and thereafter were as follows (in millions):

	Total
Remainder of 2017	\$ 219
2018	350
2019	422
2020	449
2021	422
Thereafter	1,015
Total	\$ 2,877

Bank Lines of Credit

The Company has three credit facilities totaling \$302 million. All three facilities have variable interest rates based on LIBOR plus a specified margin. One credit facility is for \$100 million, expires in September 2017 and is secured by aircraft. The second credit facility is for \$52 million, expires in October 2017 with a mechanism for annual renewal and is secured by

aircraft. The third credit facility was renegotiated in March 2017 and increased from \$100 million to \$150 million. It expires in March 2022 and is secured by certain accounts receivable, spare engines, spare parts and ground service equipment. The Company has secured letters of credit against the \$52 million facility, but has no plans to borrow using either of the two remaining facilities. All three credit facilities have a requirement to maintain a minimum unrestricted cash and marketable securities balance of \$500 million. The Company is in compliance with this covenant at March 31, 2017.

NOTE 6. EMPLOYEE BENEFIT PLANS

Net periodic benefit costs for the qualified defined-benefit plans included the following components for the three months ended March 31, 2017 (in millions):

	Three Months Ended March 31,	
	2017	2016
Service cost	\$ 10	\$ 9
Interest cost	18	18
Expected return on assets	(27)	(27)
Recognized actuarial loss	7	6
Total	\$ 8	\$ 6

NOTE 7. COMMITMENTS AND CONTINGENCIES

Future minimum payments for commitments (in millions) as of March 31, 2017:

	Aircraft Leases	Facility Leases	Aircraft Purchase Commitments	Capacity Purchase Agreements ^(a)	Aircraft Maintenance Deposits	Aircraft Maintenance and Parts Management
Remainder of 2017	\$ 227	\$ 91	\$ 758	\$ 58	\$ 44	\$ 23
2018	318	73	876	80	61	32
2019	306	64	730	85	65	35
2020	279	57	337	90	68	37
2021	242	50	275	94	63	40
Thereafter	953	173	361	676	90	—
Total	\$ 2,325	\$ 508	\$ 3,337	\$ 1,083	\$ 391	\$ 167

(a) Includes all non-aircraft lease costs associated with capacity purchase agreements.

Lease Commitments

Aircraft lease commitments include future obligations for all of the Company's operating airlines—Alaska, Virgin America and Horizon, as well as aircraft leases operated by third-parties. At March 31, 2017, the Company had lease contracts for 14 Boeing 737 ("B737") aircraft, 53 Airbus aircraft, 15 Bombardier Q400 aircraft and 20 Embraer E175s with SkyWest Airlines, Inc. ("SkyWest"). The Company has 10 scheduled lease deliveries of A321neo aircraft from 2017 through 2018, one of which was delivered subsequent to March 31, 2017. All lease contracts have remaining non-cancelable lease terms ranging from 2017 to 2030. The Company has the option to increase capacity flown by SkyWest with eight additional E175 aircraft deliveries in 2019. Options to lease are not reflected in the commitments table above.

Facility lease commitments primarily include airport and terminal facilities and building leases. Total rent expense for aircraft and facility leases was \$138 million and \$81 million for the three months ended March 31, 2017 and 2016.

Aircraft Purchase Commitments

Aircraft purchase commitments include non-cancelable contractual commitments for aircraft and engines. As of March 31, 2017, the Company had commitments to purchase 51 B737 aircraft (19 B737 NextGen aircraft and 32 B737 MAX aircraft, with deliveries in 2017 through 2023) and 32 E175 aircraft with deliveries in 2017 through 2019. The Company also has an order for 30 Airbus A320neo aircraft with deliveries from 2020 through 2022 with an option to cancel up to a certain period in

advance of delivery in groups of five aircraft. In addition, the Company has options to purchase 41 B737 aircraft and 30 E175 aircraft. Option payments are not reflected in the table above.

Capacity Purchase Agreements ("CPAs")

At March 31, 2017, Alaska had CPAs with three carriers, including the Company's wholly-owned subsidiary, Horizon. Horizon sells 100% of its capacity under a CPA with Alaska. In addition, Alaska has CPAs with SkyWest to fly certain routes in the Lower 48 and Canada and with Peninsula Airways, Inc. ("PenAir") to fly certain routes in the state of Alaska. Under these agreements, Alaska pays the carriers an amount which is based on a determination of their cost of operating those flights and other factors intended to approximate market rates for those services. Future payments (excluding Horizon) are based on minimum levels of flying by the third-party carriers, which could differ materially due to variable payments based on actual levels of flying and certain costs associated with operating flights such as fuel.

Aircraft Maintenance Deposits

Through its acquisition of Virgin America, the Company is contractually required to make maintenance deposit payments to aircraft lessors, which represent maintenance reserves made solely to collateralize the lessor for future maintenance events should the Company not perform required maintenance. Under most leases, the lease agreements provide that maintenance reserves are reimbursable upon completion of the major maintenance event in an amount equal to the lesser of (i) the amount qualified for reimbursement from maintenance reserves held by the lessor associated with the specific major maintenance event or (ii) the qualifying costs related to the specific major maintenance event.

Aircraft Maintenance and Parts Management

The Company has a separate maintenance-cost-per-hour contract for management and repair of certain rotatable parts to support airframe and engine maintenance and repair. This agreement requires monthly payments based upon utilization, such as flight hours, cycles and age of the aircraft, and, in turn, the agreement transfers certain risks to the third-party service provider. There are minimum payments under this agreement, which are reflected in the table above. Accordingly, payments could differ materially based on actual aircraft utilization.

Contingencies

The Company is a party to routine litigation matters incidental to its business and with respect to which no material liability is expected. Liabilities for litigation related contingencies are recorded when a loss is determined to be probable and estimable.

In 2015, three flight attendants filed a class action lawsuit seeking to represent all Virgin America flight attendants for damages based on alleged violations of California and City of San Francisco wage and hour laws. Plaintiffs received class certification in November 2016. Virgin America filed a motion for summary judgment seeking to dismiss all claims on various federal preemption grounds. In January 2017, the Court denied in part and granted in part Virgin America's motion. The Company believes the claims in this case are without factual and legal merit and intends to defend this lawsuit.

Management believes the ultimate disposition of these matters is not likely to materially affect the Company's financial position or results of operations. This forward-looking statement is based on management's current understanding of the relevant law and facts, and it is subject to various contingencies, including the potential costs and risks associated with litigation and the actions of arbitrators, judges and juries.

NOTE 8. SHAREHOLDERS' EQUITY

Dividends

During the three months ended March 31, 2017, the Company declared and paid cash dividends of \$0.30 per share, or \$37 million.

Common Stock Repurchase

In August 2015, the Board of Directors authorized a \$1 billion share repurchase program. As of March 31, 2017, the Company repurchased 4,112,086 shares for \$313 million under this program. The program was paused in the second quarter of 2016 in anticipation of the acquisition of Virgin America. No shares were repurchased during the three months ended March 31, 2017.

Subsequent to March 31, 2017, the Company resumed the share repurchase program and repurchased 129,040 shares for \$11 million through April 28, 2017.

Accumulated Other Comprehensive Loss

Components of accumulated other comprehensive loss, net of tax (in millions):

	March 31, 2017	December 31, 2016
Marketable securities	\$ (1)	\$ (3)
Employee benefit plans	(295)	(299)
Interest rate derivatives	(3)	(3)
Total	\$ (299)	\$ (305)

Earnings Per Share ("EPS")

Diluted EPS is calculated by dividing net income by the average number of common shares outstanding plus the number of additional common shares that would have been outstanding assuming the exercise of in-the-money stock options and restricted stock units, using the treasury-stock method. For the three months ended March 31, 2017 and 2016, anti-dilutive shares excluded from the calculation of EPS were not material.

NOTE 9. OPERATING SEGMENT INFORMATION

Alaska Air Group has three operating airlines—Alaska, Virgin America and Horizon. Each is regulated by the U.S. Department of Transportation’s Federal Aviation Administration. Alaska has CPAs for regional capacity with Horizon, as well as with third-party carriers SkyWest and PenAir, under which Alaska receives all passenger revenues.

Under U.S. GAAP, operating segments are defined as components of a business for which there is discrete financial information that is regularly assessed by the Chief Operating Decision Maker ("CODM") in making resource allocation decisions. Financial performance for the operating airlines and CPAs is managed and reviewed by the Company's CODM as part of three reportable operating segments:

- **Mainline** - includes Alaska's and Virgin America’s scheduled air transportation for passengers and cargo throughout the U.S., and in parts of Canada, Mexico, Costa Rica and Cuba.
- **Regional** - includes Horizon's and other third-party carriers’ scheduled air transportation for passengers across a shorter distance network within the U.S. under CPAs. This segment includes the actual revenues and expenses associated with regional flying, as well as an allocation of corporate overhead incurred by Air Group on behalf of the regional operations.
- **Horizon** - includes the capacity sold to Alaska under CPA. Expenses include those typically borne by regional airlines such as crew costs, ownership costs and maintenance costs.

The CODM makes resource allocation decisions for these reporting segments based on flight profitability data, aircraft type, route economics and other financial information.

The "Consolidating and Other" column reflects parent company activity, consolidating entries and other immaterial business units of the company. The "Air Group Adjusted" column represents a non-GAAP measure that is used by the Company CODM to evaluate performance and allocate resources. Adjustments are further explained below in reconciling to consolidated GAAP results.

Operating segment information is as follows (in millions):

	Three Months Ended March 31, 2017						
	Mainline	Regional	Horizon	Consolidating & Other ^(a)	Air Group Adjusted ^(b)	Special Items ^(c)	Consolidated
Operating revenues							
Passenger							
Mainline	\$ 1,272	\$ —	\$ —	\$ —	\$ 1,272	\$ —	\$ 1,272
Regional	—	212	—	—	212	—	212
Total passenger revenues	1,272	212	—	—	1,484	—	1,484
CPA revenues	—	—	97	(97)	—	—	—
Freight and mail	23	1	—	—	24	—	24
Other—net	222	17	1	1	241	—	241
Total operating revenues	1,517	230	98	(96)	1,749	—	1,749
Operating expenses							
Operating expenses, excluding fuel	998	200	103	(97)	1,204	40	1,244
Economic fuel	292	36	—	1	329	10	339
Total operating expenses	1,290	236	103	(96)	1,533	50	1,583
Nonoperating income (expense)							
Interest income	7	—	—	—	7	—	7
Interest expense	(22)	—	(2)	(1)	(25)	—	(25)
Other	3	—	—	1	4	—	4
	(12)	—	(2)	—	(14)	—	(14)
Income (loss) before income tax	\$ 215	\$ (6)	\$ (7)	\$ —	\$ 202	\$ (50)	\$ 152

	Three Months Ended March 31, 2016						
	Mainline	Regional	Horizon	Consolidating & Other ^(a)	Air Group Adjusted ^(b)	Special Items ^(c)	Consolidated
Operating revenues							
Passenger							
Mainline	\$ 927	\$ —	\$ —	\$ —	\$ 927	\$ —	\$ 927
Regional	—	206	—	—	206	—	206
Total passenger revenues	927	206	—	—	1,133	—	1,133
CPA revenues	—	—	103	(103)	—	—	—
Freight and mail	23	1	—	—	24	—	24
Other—net	172	17	1	—	190	—	190
Total operating revenues	1,122	224	104	(103)	1,347	—	1,347
Operating expenses							
Operating expenses, excluding fuel	701	186	105	(102)	890	—	890
Economic fuel	144	25	—	—	169	(2)	167
Total operating expenses	845	211	105	(102)	1,059	(2)	1,057
Nonoperating income (expense)							
Interest income	6	—	—	—	6	—	6
Interest expense	(12)	—	(1)	—	(13)	—	(13)
Other	7	—	—	2	9	—	9
	1	—	(1)	2	2	—	2
Income (loss) before income tax	\$ 278	\$ 13	\$ (2)	\$ 1	\$ 290	\$ 2	\$ 292

(a) Includes consolidating entries, Parent Company and other immaterial business units.

(b) The Air Group Adjusted column represents the financial information that is reviewed by management to assess performance of operations and determine capital allocations and does not include certain income and charges.

(c) Includes merger-related costs and mark-to-market fuel-hedge accounting charges.

Total assets were as follows (in millions):

	March 31, 2017	December 31, 2016
Mainline	\$ 15,735	\$ 15,260
Horizon	719	690
Consolidating & Other	(6,152)	(5,988)
Consolidated	<u>\$ 10,302</u>	<u>\$ 9,962</u>

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand the Company, our segment operations and our present business environment. MD&A is provided as a supplement to – and should be read in conjunction with – our consolidated financial statements and the accompanying notes. All statements in the following discussion that are not statements of historical information or descriptions of current accounting policy are forward-looking statements. Please consider our forward-looking statements in light of the risks referred to in this report's introductory cautionary note and the risks mentioned in "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2016. This overview summarizes the MD&A, which includes the following sections:

- *First Quarter Review*—highlights from the first quarter of 2017 outlining some of the major events that happened during the period and how they affected our financial performance.
- *Results of Operations*—an in-depth analysis of our revenues by segment and our expenses from a consolidated perspective for the three months ended March 31, 2017. To the extent material to the understanding of segment profitability, we more fully describe the segment expenses per financial statement line item. Financial and statistical data is also included here. As Virgin America was acquired on December 14, 2016, its financial and operational results are reflected in the three months ended March 31, 2017 but not in the comparative prior period. However, for comparability purposes, we have added "Combined Comparative" information for the prior year, which is more fully described below. This section includes forward-looking statements regarding our view of the remainder of 2017.
- *Liquidity and Capital Resources*—an overview of our financial position, analysis of cash flows, and relevant contractual obligations and commitments.

FIRST QUARTER REVIEW

Our consolidated pretax income was \$152 million during the first quarter of 2017, compared to \$292 million in the first quarter of 2016. The decrease in pretax income of \$140 million was primarily driven by a \$354 million increase in non-fuel expense and \$172 million increase in fuel expense, partially offset by an increase in revenues of \$402 million.

As we completed the acquisition of Virgin America on December 14, 2016, our results of operations for the three months ended March 31, 2017 include those of Virgin America and the impact of purchase accounting. Our results of operations for the three months ended March 31, 2016 do not include those of Virgin America.

See "Results of Operations" below for further discussion of changes in revenues and operating expenses and our reconciliation of non-GAAP measures to the most directly comparable GAAP measure.

Operations Performance

During the first quarter of 2017, winter weather posed significant challenges to our operations resulting in on-time performance of 78.4% for Alaska, 64.7% for Virgin America and 70.9% for Horizon. These results are not in line with our standards, and our operational teams are focused on improving our on-time performance.

New Markets

In March 2017 we announced 13 new nonstop markets from San Francisco and San Jose as part of our strategy to grow our presence in the Bay Area. The routes mark the single largest new market announcement in our history. We also announced seven new nonstop markets from San Diego. In total, we have announced 37 new markets since the acquisition of Virgin America.

Shareholder Return

During the first quarter of 2017, we paid cash dividends of \$37 million. In connection with our acquisition of Virgin America, we paused our share repurchases starting in the second quarter of 2016 with no shares repurchased during the three months ended March 31, 2017. Subsequent to March 31, 2017, we resumed the share repurchase program and repurchased 129,040 shares for \$11 million through April 28, 2017.

Outlook

We completed the acquisition of Virgin America on December 14, 2016, positioning us as the fifth largest airline in the U.S. with an unparalleled ability to serve West Coast travelers. The acquisition of Virgin America provides a platform for growth of our low-fare, premium product, a powerful West Coast network for our guests and enhanced international partnerships. Additionally, Virgin America provides access to constrained gates, particularly on the East Coast, creating increased utility for our guests.

In 2017 and beyond, we are focused on the successful integration of Virgin America, while continuing to work towards obtaining a Single Operating Certificate ("SOC"). We currently expect to receive an SOC in early 2018. Our priority throughout the integration process is to run three great airlines and maintain a safe and compliant operation, while providing a great experience for our guests. The combined Company will adopt Alaska's name and logo, retiring the Virgin America name sometime in 2019. Over the next few years we will focus on enhancing our guest experience and will adopt certain aspects of Virgin America's brand elements, including enhanced inflight entertainment content, mood lighting, music and the relentless desire to make flying a different experience for guests. We will continue to enhance our fresh, healthy, West Coast-inspired onboard food and beverage menus. This year, Alaska First Class guests will be able to pre-select meals before they fly. Alaska's main cabin guests will also be able to pre-pay for their meals in advance by early 2018, with Airbus flights soon to follow. Our onboard Free Chat service and free entertainment will be added to Airbus flights in August 2017. We also plan to expand the premium class offering on our Airbus fleet beginning in 2018 and have our entire fleet equipped with high-speed satellite Wi-Fi by the end of 2019.

In 2018, Alaska Mileage Plan™ will become our sole loyalty program, offering guests more rewards, an expansive global partner network and the only major airline loyalty program that still rewards a mile flown with a mile earned on Alaska and Virgin America flights.

We intend to minimize any disruption to our guests during the integration efforts by being transparent about the progress we are making and how the changes may affect them. Employee engagement throughout the integration will remain a top priority as well, ensuring that employees remain engaged, informed and excited about the new Air Group. We will remain focused on capturing the value and synergies created by combining these two great companies.

In April 2017, we reached a tentative agreement with the International Brotherhood of Teamsters to amend the eight-year contract with Horizon's pilots, which will provide Horizon the ability to attract and retain the best pilots in the regional industry. The agreement contains several provisions, including a ratification bonus of approximately \$10 million and higher pay rates and is included in the cost guidance noted below.

Currently, we expect to grow our combined network capacity in 2017 by approximately 8.5%. The growth rate compares 2017 system-wide capacity to historical Air Group and Virgin America combined capacity in 2016. This compares to a 10.2% combined growth in 2016 on the same basis. Current schedules indicate competitive capacity will increase by approximately 1% in the second quarter of 2017 compared to the prior year. We believe that our product, our operation, our engaged employees, our award-winning service, and our award-winning Mileage Plan™ and Elevate® programs, combined with our strong balance sheet, give us the ability to compete vigorously in our markets.

Our current expectations for capacity and CASM excluding fuel and special items are summarized below. These expectations are from a "Combined Comparative" perspective, calculated as the sum of historical results for Alaska Air Group and Virgin America for the three months ended March 31, 2016:

	Forecast Q2 2017	Change Y-O-Y	Forecast Full Year 2017	Change Y-O-Y
Consolidated:				
Capacity (ASMs in millions)	15,625 - 15,675	~ 6.0%	62,800 - 63,000	~ 8.5%
Cost per ASM excluding fuel and special items (cents)	7.88¢ - 7.93¢	~ 3.0%	8.00¢ - 8.05¢	flat

RESULTS OF OPERATIONS

COMPARISON OF THREE MONTHS ENDED MARCH 31, 2017 COMPARED TO THREE MONTHS ENDED MARCH 31, 2016

Our consolidated net income for the first quarter of 2017 was \$99 million, or \$0.79 per diluted share, compared to net income of \$184 million, or \$1.46 per diluted share, in the first quarter of 2016.

ADJUSTED (NON-GAAP) RESULTS AND PER-SHARE AMOUNTS

We believe disclosure of earnings excluding the impact of merger-related costs, mark-to-market gains or losses or other individual special revenues or expenses is useful information to investors because:

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

Although we are presenting these non-GAAP amounts for the reasons above, investors and other readers should not necessarily conclude that these amounts are non-recurring, infrequent, or unusual in nature.

Excluding the impact of merger-related costs and mark-to-market fuel hedge adjustments, our adjusted consolidated net income for the first quarter of 2017 was \$130 million, or \$1.05 per diluted share, compared to an adjusted consolidated net income of \$183 million, or \$1.45 per diluted share, in the first quarter of 2016. The following tables reconcile our adjusted net income and earnings per diluted share ("EPS") during the three months ended March 31, 2017 and 2016 to amounts as reported in accordance with GAAP:

<i>(in millions, except per share amounts)</i>	Three Months Ended March 31,			
	2017		2016	
	Dollars	Diluted EPS	Dollars	Diluted EPS
Reported GAAP net income	\$ 99	\$ 0.79	\$ 184	\$ 1.46
Mark-to-market fuel hedge adjustments	10	0.08	(2)	(0.02)
Special items—merger-related costs	40	0.33	—	—
Income tax effect on special items and fuel hedge adjustments	(19)	(0.15)	1	0.01
Non-GAAP adjusted income and per-share amounts	<u>\$ 130</u>	<u>\$ 1.05</u>	<u>\$ 183</u>	<u>\$ 1.45</u>

CASM reconciliation is summarized below:

<i>(in cents)</i>	Three Months Ended March 31,		
	2017	2016	% Change
Consolidated:			
CASM	11.00¢	10.11¢	8.8 %
Less the following components:			
Aircraft fuel, including hedging gains and losses	2.36	1.60	47.5 %
Special items—merger-related costs	0.27	—	NM
CASM excluding fuel and special items	<u>8.37¢</u>	<u>8.51¢</u>	(1.6)%
Mainline:			
CASM	10.11¢	9.01¢	12.2 %
Less the following components:			
Aircraft fuel, including hedging gains and losses	2.28	1.52	50.0 %
Special items—merger-related costs	0.30	—	NM
CASM excluding fuel and special items	<u>7.53¢</u>	<u>7.49¢</u>	0.5 %

OPERATING STATISTICS SUMMARY (unaudited)

Below are statistics we use to measure operating performance. As the acquisition closed on December 14, 2016, Consolidated and Mainline amounts presented below include Virgin America results for the three months ended March 31, 2017 and not for the comparative prior period. We often refer to CASM excluding fuel and special items, which is a non-GAAP measure.

	Three Months Ended March 31,		
	2017	2016	Change
Consolidated Operating Statistics:^(a)			
Revenue passengers (000)	10,018	7,835	27.9%
RPMs (000,000) "traffic"	11,708	8,571	36.6%
ASMs (000,000) "capacity"	14,394	10,453	37.7%
Load factor	81.3%	82.0%	(0.7) pts
Yield	12.68¢	13.22¢	(4.1)%
PRASM	10.31¢	10.84¢	(4.9)%
RASM	12.15¢	12.88¢	(5.7)%
CASM excluding fuel and special items ^(b)	8.37¢	8.51¢	(1.6)%
Economic fuel cost per gallon ^(b)	\$1.78	\$1.29	38.0%
Fuel gallons (000,000)	184	132	39.4%
ASMs per fuel gallon	78.2	79.2	(1.3)%
Average full-time equivalent employees (FTEs)	18,682	14,357	30.1%
Mainline Operating Statistics:			
Revenue passengers (000)	7,783	5,642	37.9%
RPMs (000,000) "traffic"	10,827	7,716	40.3%
ASMs (000,000) "capacity"	13,260	9,354	41.8%
Load factor	81.7%	82.5%	(0.8) pts
Yield	11.75¢	12.01¢	(2.2)%
PRASM	9.59¢	9.91¢	(3.2)%
RASM	11.44¢	11.99¢	(4.6)%
CASM excluding fuel and special items ^(b)	7.53¢	7.49¢	0.5%
Economic fuel cost per gallon ^(b)	\$1.78	\$1.28	39.1%
Fuel gallons (000,000)	164	113	45.1%
ASMs per fuel gallon	80.8	82.8	(2.4)%
Average FTEs	15,007	11,123	34.9%
Aircraft utilization	10.8	10.6	1.9%
Average aircraft stage length	1,245	1,237	0.6%
Operating fleet	217	152	65 a/c
Regional Operating Statistics:^(c)			
Revenue passengers (000)	2,234	2,192	1.9%
RPMs (000,000) "traffic"	880	855	2.9%
ASMs (000,000) "capacity"	1,134	1,100	3.1%
Load factor	77.6%	77.7%	(0.1) pts
Yield	24.13¢	24.09¢	0.2%
PRASM	18.73¢	18.72¢	0.1%
Operating fleet	73	67	6 a/c

(a) Except for FTEs, data includes information related to third-party regional capacity purchase flying arrangements.

(b) See reconciliation of this measure to the most directly related GAAP measure in the accompanying pages.

(c) Data presented includes information related to flights operated by Horizon and third-party carriers.

We believe that analysis of specific financial and operational results on a combined basis provides more meaningful year-over-year comparisons. The discussion below includes "Combined Comparative" results for the three months ended March 31, 2016, determined as the sum of the historical consolidated results of Air Group and of Virgin America. Virgin America's financial information has been conformed to reflect Air Group's historical financial statement presentation. This information does not purport to reflect what our financial and operational results would have been had the acquisition been consummated at the beginning of the periods presented.

COMBINED COMPARATIVE OPERATING STATISTICS

	Three Months Ended March 31,				Change
	2017	2016 as Reported	2016 Virgin America	2016 Combined	
Consolidated:					
Revenue passengers (in 000)	10,018	7,835	1,767	9,602	4.3 %
RPMs (in 000,000)	11,708	8,571	2,615	11,186	4.7 %
ASMs (in 000,000)	14,394	10,453	3,266	13,719	4.9 %
Load Factor	81.3%	82.0%	(a)	81.5%	(0.2) pts
PRASM	10.31¢	10.84¢	(a)	10.66¢	(3.3)%
RASM	12.15¢	12.88¢	(a)	12.47¢	(2.6)%
CASMex	8.37¢	8.51¢	(a)	8.36¢	0.1 %
FTEs	18,682	14,357	2,686	17,043	9.6 %
Mainline:					
RPMs (in 000,000)	10,827	7,716	2,615	10,331	4.8%
ASMs (in 000,000)	13,260	9,354	3,266	12,620	5.1%
Load Factor	81.7%	82.5%	(a)	81.9%	(0.2) pts
PRASM	9.59¢	9.91¢	(a)	9.95¢	(3.6)%

(a) 2016 Combined operating statistics have been recalculated using the combined results.

COMBINED COMPARATIVE OPERATING REVENUES

Total operating revenues increased \$402 million, or 30%, during the first quarter of 2017 compared to the same period in 2016. On a Combined Comparative basis, total operating revenues increased \$39 million or 2%. The changes, including the reconciliation of the impact of Virgin America on the comparative results, are summarized in the following table:

(in millions)	Three Months Ended March 31,				Change	
	2017	2016 as Reported	2016 Virgin America	2016 Combined	\$ Combined	% Combined
Passenger						
Mainline	\$ 1,272	\$ 927	\$ 329	\$ 1,256	\$ 16	1%
Regional	212	206	—	206	6	3%
Total passenger revenue	1,484	1,133	329	1,462	22	2%
Freight and mail	24	24	—	24	—	—%
Other—net	241	190	34	224	17	8%
Total operating revenues	\$ 1,749	\$ 1,347	\$ 363	\$ 1,710	\$ 39	2%

Passenger Revenue—Mainline

On a consolidated basis, Mainline passenger revenue for the first quarter of 2017 increased by \$345 million, or 37%. Overall, Mainline capacity increased 41.8%, while unit revenues declined 3.2%. On a Combined Comparative basis, mainline passenger revenue for the first quarter of 2017 remained relatively flat. Increase in capacity of 5.1% was partially offset by a 3.6% decrease in unit revenues compared to the combined first quarter of 2016. The increase in capacity was driven primarily by new routes and aircraft added to our fleet since the first quarter of 2016. The decrease in PRASM was driven by lower ticket yields primarily due to increased competitive capacity in the markets we serve and our own growth.

Passenger Revenue—Regional

Regional passenger revenue increased 3% compared to the first quarter of 2016 primarily, driven by a 3.1% increase in capacity on flat PRASM.

Other—Net

Other—net revenue increased \$51 million, or 27%, from the first quarter of 2016. On a Combined Comparative basis other—net revenue increased \$17 million, or 8%. Mileage Plan revenue contributed \$13 million of the increase, primarily driven by more miles sold and other cash receipts, including bag fee revenue, from our affinity credit card partner and higher rates paid by our other airline partners.

COMBINED COMPARATIVE OPERATING EXPENSES

Total operating expenses increased \$526 million, or 50%, compared to the first quarter of 2016. On a Combined Comparative basis, total operating expenses increased \$195 million, or 14%. We believe it is useful to summarize operating expenses as follows, which is consistent with the way expenses are reported internally and evaluated by management:

(in millions)	Three Months Ended March 31,				Change	
	2017	2016 as Reported	2016 Virgin America	2016 Combined	\$ Combined	% Combined
Fuel expense	\$ 339	\$ 167	\$ 71	\$ 238	\$ 101	42%
Non-fuel expenses	1,244	890	260	1,150	94	8%
Total operating expenses	\$ 1,583	\$ 1,057	\$ 331	\$ 1,388	\$ 195	14%

The table below provides the reconciliation of the impact of Virgin America on the comparative results for each of our non-fuel operating expenses. Significant operating expense variances from 2016 are more fully described below.

(in millions)	Three Months Ended March 31,				Change	
	2017	2016 as Reported	2016 Virgin America	2016 Combined	\$ Combined	% Combined
Wages and benefits	\$ 448	\$ 336	\$ 72	\$ 408	\$ 40	10 %
Variable incentive pay	31	32	6	38	(7)	(18)%
Aircraft maintenance	87	68	17	85	2	2 %
Aircraft rent	65	29	47	76	(11)	(14)%
Landing fees and other rentals	115	80	27	107	8	7 %
Contracted services	81	60	15	75	6	8 %
Selling expenses	81	49	30	79	2	3 %
Depreciation and amortization	90	88	8	96	(6)	(6)%
Food and beverage service	45	31	12	43	2	5 %
Third-party regional carrier expense	27	23	—	23	4	17 %
Special items—merger-related costs	40	—	2	2	38	NM
Other	134	94	24	118	16	14 %
Total non-fuel operating expenses	\$ 1,244	\$ 890	260	1,150	94	8 %

Aircraft Fuel

Aircraft fuel expense includes both *raw fuel expense* (as defined below) plus the effect of mark-to-market adjustments to our fuel hedge portfolio included in our consolidated statement of operations as the value of that portfolio increases and decreases. Our aircraft fuel expense can be volatile, because it includes these gains or losses in the value of the underlying instrument as crude oil prices and refining margins increase or decrease. *Raw fuel expense* is defined as the price that we generally pay at the airport, or the “into-plane” price, including taxes and fees. Raw fuel prices are impacted by world oil prices and refining costs,

which can vary by region in the U.S. *Raw fuel expense* approximates cash paid to suppliers and does not reflect the effect of our fuel hedges.

Aircraft fuel expense increased \$172 million, or 103% compared to the first quarter of 2016. On a Combined Comparative basis, aircraft fuel expense increased \$101 million or 42%. The elements of the change are illustrated in the following table:

<i>(in millions, except for per gallon amounts)</i>	Three Months Ended March 31,					
	2017		2016 as Reported		2016 Combined	
	Dollars	Cost/Gal	Dollars	Cost/Gal	Dollars	Cost/Gal
Raw or "into-plane" fuel cost	\$ 325	\$ 1.76	\$ 165	\$ 1.26	\$ 222	\$ 1.27
Losses on settled hedges	4	0.02	4	0.03	19	0.11
Consolidated economic fuel expense	329	1.78	169	1.29	\$ 241	\$ 1.38
Mark-to-market fuel hedge adjustments	10	0.06	(2)	(0.02)	(3)	(0.02)
GAAP fuel expense	\$ 339	\$ 1.84	\$ 167	\$ 1.27	\$ 238	\$ 1.36
Fuel gallons	184		132		175	

On a Combined Comparative basis, raw fuel expense per gallon for the three months ended March 31, 2017 increased by 39%. West Coast jet fuel prices are impacted by both the price of crude oil, as well as refining margins associated with the conversion of crude oil to jet fuel. The increase in raw fuel price per gallon during the first quarter of 2017 was primarily driven by a 54% increase in crude oil prices and an increase in refining margins of 10%, when compared to the prior year. Fuel gallons consumed increased by 9 million gallons, or 5.1%, in line with the increase in capacity.

We also evaluate *economic fuel expense*, which we define as raw fuel expense adjusted for the cash we receive from, or pay to, hedge counterparties for hedges that settle during the period, and for the premium expense that we paid for those contracts. A key difference between aircraft fuel expense and economic fuel expense is the timing of gain or loss recognition on our hedge portfolio. When we refer to economic fuel expense, we include gains and losses only when they are realized for those contracts that were settled during the period based on their original contract terms. We believe this is the best measure of the effect that fuel prices are currently having on our business because it most closely approximates the net cash outflow associated with purchasing fuel for our operations. Accordingly, many industry analysts evaluate our results using this measure, and it is the basis for most internal management reporting and incentive pay plans.

We recognized losses of \$4 million for hedges that settled during the first quarter of each 2017 and 2016 as reported. These amounts represent the net cash paid including the premium expense recognized for those hedges.

Wages and Benefits

Wages and benefits increased during the first quarter of 2017 by \$112 million. On a Combined Comparative basis, wages and benefits increased by \$40 million, or 10%. The primary components of wages and benefits, including a reconciliation of 2016 on a Combined Comparative basis, are shown in the following table:

(in millions)	Three Months Ended March 31,				Change	
	2017	2016 as Reported	2016 Virgin America	2016 Combined	\$ Combined	% Combined
Wages	\$ 337	\$ 251	\$ 55	\$ 306	\$ 31	10%
Pension—Defined benefit plans	8	6	—	6	2	33%
Defined contribution plans	25	16	6	22	3	14%
Medical and other benefits	52	44	6	50	2	4%
Payroll taxes	26	19	5	24	2	8%
Total wages and benefits	\$ 448	\$ 336	\$ 72	\$ 408	\$ 40	10%

On a Combined Comparative basis, wages increased 10% with a 9.6% increase in FTEs. The increase in FTEs was to support the growth in our business and to increase staffing during the irregular operations in the quarter resulting from winter storms on the West Coast.

Aircraft Rent

Aircraft rent expense increased by \$36 million, or 124%, during the first quarter of 2017 compared to the same period in 2016. On a Combined Comparative basis, aircraft rent expense decreased by \$11 million, or 14%. The decrease was primarily driven by lower rent expense on certain leases at Virgin America from purchase accounting adjustments and the retirement of 13 leased 737-400 aircraft.

Special Items—Merger-Related Costs

We recorded special items of \$40 million for merger-related costs associated with our acquisition of Virgin America. These costs consisted primarily of severance and retention costs. We expect to continue to incur merger-related costs throughout 2017. We did not record any special items in the first quarter of 2016.

Other Operating Expenses

Other operating expenses increased by \$40 million, or 43%, during the first quarter of 2017 compared to the same period in 2016. On a Combined Comparative basis, other operating expenses increased \$16 million, or 14%. The increase is primarily due to additional costs incurred for crew hotel costs, deicing fluid costs and other costs associated with irregular operations during recent winter storms.

Additional Segment Information

Refer to Note 9 of the consolidated financial statements for a detailed description of each segment. Below is a summary of each segment's profitability.

Mainline

Mainline recorded pretax profit of \$215 million in the first quarter of 2017 compared to \$278 million in the first quarter of 2016. On a Combined Comparative basis, Mainline pretax profit decreased by \$92 million. The table below provides the reconciliation of the impact of Virgin America on the comparative results for our Mainline segment, excluding merger-related costs and mark-to-market fuel-hedge accounting charges:

	Three Months Ended March 31,				
	2017	2016 as Reported	2016 Virgin America	2016 Combined	Change
Mainline					
Operating revenues	\$ 1,517	\$ 1,122	\$ 363	\$ 1,485	\$ 32
Non-fuel operating expenses	998	701	258	959	39
Economic fuel	292	144	72	216	76
Operating income	227	277	33	310	(83)
Nonoperating income (expense)	(12)	1	(4)	(3)	(9)
Pretax profit	\$ 215	\$ 278	\$ 29	\$ 307	\$ (92)

The \$92 million decrease in Combined Comparative pretax profit was primarily driven by a \$76 million increase in economic fuel expense, a \$39 million increase in non-fuel operating expenses and higher non-operating expenses, partially offset by a \$32 million increase in operating revenues. The increase in economic fuel expense was driven by higher raw fuel costs. The increase in non-fuel expense was primarily driven by higher wages to support our growth. The increase in operating revenues was driven by higher capacity and increase in Other—net revenue as described above.

Regional

Regional incurred a pretax loss of \$6 million in the first quarter of 2017 compared to pretax income of \$13 million in the first quarter of 2016. This change was primarily driven by a \$14 million increase in non-fuel operating expenses due to the increase in capacity of 3.1% and higher fuel costs.

Horizon

Horizon incurred a pretax loss of \$7 million in the first quarter of 2017 compared to \$2 million in the first quarter of 2016. The decline is primarily driven by a \$6 million decrease in CPA revenues, 100% of which are from Alaska and eliminated in consolidation.

GLOSSARY OF AIRLINE TERMS

Aircraft Utilization - block hours per day; this represents the average number of hours per day our aircraft are in transit

Aircraft Stage Length - represents the average miles flown per aircraft departure

ASMs - available seat miles, or "capacity"; represents total seats available across the fleet multiplied by the number of miles flown

CASM - operating costs per ASM, or "unit cost"; represents all operating expenses including fuel and special items

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

Debt-to-capitalization ratio - represents adjusted debt (long-term debt plus the present value of future operating lease payments) divided by total equity plus adjusted debt

Diluted Earnings per Share - represents earnings per share ("EPS") using fully diluted shares outstanding

Diluted Shares - represents the total number of shares that would be outstanding if all possible sources of conversion, such as stock options, were exercised

Economic Fuel - best estimate of the cash cost of fuel, net of the impact of settled fuel-hedging contracts in the period

Free Cash Flow - total operating cash flow generated less cash paid for capital expenditures

Load Factor - RPMs as a percentage of ASMs; represents the number of available seats that were filled with paying passengers

Mainline - represents flying Boeing 737 and Airbus 320 family jets and all associated revenues and costs

PRASM - passenger revenue per ASM; commonly called "passenger unit revenue"

Productivity - number of revenue passengers per full-time equivalent employee

RASM - operating revenue per ASMs, or "unit revenue"; operating revenue includes all passenger revenue, freight & mail, Mileage Plan and other ancillary revenue; represents the average total revenue for flying one seat one mile

Regional - represents capacity purchased by Alaska from Horizon, SkyWest and PenAir. In this segment, Regional records actual on-board passenger revenue, less costs such as fuel, distribution costs, and payments made to Horizon, SkyWest and PenAir under the respective capacity purchased arrangement (CPAs). Additionally, Regional includes an allocation of corporate overhead such as IT, finance, other administrative costs incurred by Alaska and on behalf of Horizon.

RPMs - revenue passenger miles, or "traffic"; represents the number of seats that were filled with paying passengers; one passenger traveling one mile is one RPM

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

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are:

- Our existing cash and marketable securities balance of \$1.7 billion, and our expected cash from operations;
- Our 58 unencumbered aircraft in our operating fleet that could be financed, if necessary;
- Our combined \$250 million bank line-of-credit facilities, with no currently outstanding borrowings. Information about these facilities can be found in Note 5 to the consolidated financial statements.

During the three months ended March 31, 2017, we took free and clear delivery of three B737-900ER aircraft and one E175 aircraft. We made debt payments totaling \$101 million and paid dividends totaling \$37 million.

In our cash and marketable securities portfolio, we invest only in securities that meet our primary investment strategy of maintaining and securing investment principal. The portfolio is managed by reputable firms that adhere to our investment policy that sets forth investment objectives, approved and prohibited investments, and duration and credit quality guidelines. Our policy and the portfolio managers are continually reviewed to ensure that the investments are aligned with our strategy.

The table below presents the major indicators of financial condition and liquidity:

<i>(in millions, except debt-to-capital amounts)</i>	March 31, 2017	December 31, 2016	Change
Cash and marketable securities	\$ 1,710	\$ 1,580	8.2 %
Cash, marketable securities, and unused lines of credit as a percentage of trailing twelve months' revenue	31%	31%	0 pts
Long-term debt, net of current portion	\$ 2,531	\$ 2,645	(4.3)%
Shareholders' equity	\$ 3,014	\$ 2,931	2.8%
Long-term debt-to-capital including net present value of aircraft operating lease payments ^(a)	58%	59%	(1) pts

(a) Calculated using the present value of remaining aircraft lease payments for aircraft in our operating fleet as of the balance sheet date.

The following discussion summarizes the primary drivers of the increase in our cash and marketable securities balance and our expectation of future cash requirements.

ANALYSIS OF OUR CASH FLOWS

Cash Provided by Operating Activities

For the first three months of 2017, net cash provided by operating activities was \$470 million, compared to \$525 million during the same period in 2016. A decrease in our net income, significantly impacted by higher fuel costs and \$40 million of merger-related costs, contributed to the \$55 million decrease in our operating cash flows. This was partially offset by a larger build in air traffic liability in 2017 compared to the prior year.

We typically generate positive cash flows from operations and expect to use that cash flow to buy aircraft and capital equipment, make scheduled debt payments and to return capital to shareholders.

Cash Used in Investing Activities

Cash used in investing activities was \$488 million during the first three months of 2017, compared to \$336 million during the same period of 2016. Our capital expenditures were \$216 million in the first three months of 2017, an increase of \$97 million compared to the three months ended March 31, 2016. Although more aircraft were delivered in 2016 compared to 2017, there were more deposits made on future aircraft in the current year. Our net purchases of marketable securities increased by \$54 million from the prior year, which is generally related to timing of cash needs.

The table below reflects our full-year expectation for capital expenditures and additional expenditures if options are exercised. Options will be exercised only if we believe return on invested capital targets can be met. The table below excludes any associated capitalized interest.

<i>(in millions)</i>	2017	2018	2019
Aircraft and aircraft purchase deposits—firm	\$ 805	\$ 685	\$ 595
Other flight equipment	125	190	135
Other property and equipment	225	275	210
Total property and equipment additions	\$ 1,155	\$ 1,150	\$ 940
Option aircraft and aircraft deposits, if exercised ^(a)	\$ 55	\$ 230	\$ 710

(a) We have options to acquire 41 B737 aircraft with deliveries from 2019 through 2024, options to acquire 30 A320neo aircraft with deliveries from 2020 through 2022, and options to acquire 30 E175 aircraft with deliveries in 2019 to 2021.

Cash Used by Financing Activities

Net cash used by financing activities was \$127 million during the first three months of 2017 compared to \$184 million during the same period in 2016. During the first three months of 2017 we made debt payments of \$101 million and dividend payments totaling \$37 million.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Aircraft Commitments

As of March 31, 2017, we have firm orders to purchase or lease 93 aircraft. We also have an order for 30 Airbus A320neo with deliveries from 2020 through 2022 with an option to cancel up to three years in advance of delivery in groups of five aircraft. We could incur a loss of pre-delivery payments and credits as a cancellation fee. We also have options to acquire 41 B737 aircraft with deliveries from 2019 through 2024 and 30 E175 aircraft with deliveries from 2019 through 2021. In addition to the 20 E175 aircraft currently operated by SkyWest in our regional fleet, we have options in future periods to add regional capacity by having SkyWest operate up to eight more E175 aircraft.

The following table summarizes expected fleet activity by year as of March 31, 2017:

Aircraft	Actual Fleet	Expected Fleet Activity ^(a)				
	March 31, 2017	Remaining 2017 Additions Changes	Remaining 2017 Removals Changes	December 31, 2017	2018-2019 Changes	December 31, 2019
B737 Freighters & Combis ^(b)	6	3	(6)	3	—	3
B737 Passenger Aircraft ^(b)	148	11	(8)	151	15	166
Airbus Passenger Aircraft ^(b)	63	5	—	68	4	72
Total Mainline Fleet	217	19	(14)	222	19	241
Q400 operated by Horizon	52	—	—	52	(15)	37
E-175 operated by Horizon	1	12	—	13	20	33
E-175 operated by third party	20	—	—	20	—	20
Total Regional Fleet	73	12	—	85	5	90
Total	290	31	(14)	307	24	331

(a) The expected fleet counts at December 31, 2017 and beyond are subject to change.

(b) Remaining 2017 changes in passenger aircraft reflect delivery of 11 Boeing 737-900ER aircraft and five A321neo aircraft, retirement of seven B737-400 passenger aircraft and the conversion of one B737-700 aircraft into a freighter. The freighter and combi changes reflect retirement of five combis and one freighter and the reintroduction of three B737-700 aircraft as freighters.

For future firm orders, and if we exercise our options for additional deliveries, we may finance the aircraft through internally generated cash, long-term debt or lease arrangements.

Fuel Hedge Positions

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

	Approximate % of Expected Fuel Requirements	Weighted-Average Crude Oil Price per Barrel	Average Premium Cost per Barrel
Second Quarter 2017	50%	\$ 62	\$ 2
Third Quarter 2017	50%	62	2
Fourth Quarter 2017	40%	63	2
Remainder 2017	47%	62	2
First Quarter 2018	30%	63	2
Second Quarter 2018	20%	63	2
Third Quarter 2018	10%	60	2
Full Year 2018	15%	\$ 63	\$ 2

Contractual Obligations

The following table provides a summary of our principal payments under current and long-term debt obligations, operating lease commitments, aircraft purchase commitments and other obligations as of March 31, 2017.

(in millions)	Remainder of 2017	2018	2019	2020	2021	Beyond 2021	Total
Current and long-term debt obligations	\$ 219	\$ 350	\$ 422	\$ 449	\$ 422	\$ 1,015	\$ 2,877
Operating lease commitments ^(a)	318	391	370	336	292	1,126	2,833
Aircraft maintenance deposits ^(b)	44	61	65	68	63	90	391
Aircraft purchase commitments ^(c)	758	876	730	337	275	361	3,337
Interest obligations ^(d)	67	94	83	68	51	113	476
Aircraft maintenance and parts management ^(e)	23	32	35	37	40	—	167
Other obligations ^(f)	61	84	89	94	98	692	1,118
Total	<u>\$ 1,490</u>	<u>\$ 1,888</u>	<u>\$ 1,794</u>	<u>\$ 1,389</u>	<u>\$ 1,241</u>	<u>\$ 3,397</u>	<u>\$ 11,199</u>

(a) Operating lease commitments generally include aircraft operating leases, airport property and hangar leases, office space, and other equipment leases. Included here are Airbus aircraft operated by Virgin America and E175 aircraft that are operated by SkyWest under a capacity purchase agreement.

(b) Aircraft maintenance deposits relate to leased Airbus aircraft.

(c) Represents non-cancelable contractual payment commitments for aircraft and engines.

(d) For variable-rate debt, future obligations are shown above using interest rates in effect as of March 31, 2017.

(e) Includes minimum obligations under a parts management and maintenance agreement with a third-party vendor.

(f) Includes minimum obligations associated with the SkyWest third-party CPA. Refer to Note 7 in the consolidated financial statements for further information.

Credit Card Agreements

We have agreements with a number of credit card companies to process the sale of tickets and other services. Under these agreements, there are material adverse change clauses that, if triggered, could result in the credit card companies holding back a reserve from our credit card receivables. Under one such agreement, we could be required to maintain a reserve if our credit rating is downgraded to, or below, a rating specified by the agreement or our cash and marketable securities balance falls below \$500 million. Under another such agreement, we could be required to maintain a reserve if our cash and marketable securities balance falls below \$500 million. We are not currently required to maintain any reserve under these agreements, but if we were, our financial position and liquidity could be materially harmed.

Deferred Income Taxes

For federal income tax purposes, the majority of our assets are fully depreciated over a seven-year life using an accelerated depreciation method or bonus depreciation, if available. For financial reporting purposes, the majority of our assets are depreciated over 15 to 25 years to an estimated salvage value using the straight-line basis. This difference has created a significant deferred tax liability. At some point in the future the depreciation basis will reverse, potentially resulting in an increase in income taxes paid.

While it is possible that we could have material cash obligations for this deferred liability at some point in the future, we cannot estimate the timing of long-term cash flows with reasonable accuracy. Taxable income and cash taxes payable in the short term are impacted by many items, including the amount of book income generated (which can be volatile depending on revenue and fuel prices), usage of net operating losses, whether "bonus depreciation" provisions are available, as well as other legislative changes that are beyond our control. We believe that we have the liquidity to make our future tax payments.

CRITICAL ACCOUNTING ESTIMATES

There have been no material changes to our critical accounting estimates for the three months ended March 31, 2017. For information on our critical accounting estimates, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2016.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

There have been no material changes in market risk from the information provided in Item 7A. "Quantitative and Qualitative Disclosure About Market Risk" in our Annual Report on Form 10-K for the year ended December 31, 2016.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of March 31, 2017, an evaluation was performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer (collectively, our "certifying officers"), of the effectiveness of the design and operation of our disclosure controls and procedures. These disclosure controls and procedures are designed to ensure that the information required to be disclosed by us in our periodic reports filed with or submitted to the Securities and Exchange Commission (the SEC) is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and includes, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to our management, including our certifying officers, as appropriate, to allow timely decisions regarding required disclosure. Our certifying officers concluded, based on their evaluation, that disclosure controls and procedures were effective as of March 31, 2017.

Changes in Internal Control over Financial Reporting

Except as noted below, there have been no changes in our internal control over financial reporting during the quarter ended March 31, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

In the fourth quarter of 2016, we acquired Virgin America (see Note 2). As permitted by Securities and Exchange Commission Staff interpretive guidance for newly acquired businesses, management excluded Virgin America from its annual evaluation of internal control over financial reporting as of December 31, 2016. We are implementing internal controls over significant processes specific to the acquisition that we believe are appropriate in consideration of related integration of operations, systems, control activities, and accounting for the merger and merger-related transactions. As of the date of this Quarterly Report on Form 10-Q, we are in the process of further integrating the acquired Virgin America operations into our overall internal controls over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

We are a party to routine litigation matters incidental to our business. Management believes the ultimate disposition of these matters is not likely to materially affect our financial position or results of operations. This forward-looking statement is based on management's current understanding of the relevant law and facts, and it is subject to various contingencies, including the potential costs and risks associated with litigation and the actions of judges and juries.

In 2015, three flight attendants filed a class action lawsuit seeking to represent all Virgin America flight attendants for damages based on alleged violations of California and City of San Francisco wage and hour laws. Plaintiffs received class certification in November 2016. Virgin America filed a motion for summary judgment seeking to dismiss all claims on various federal preemption grounds. In January 2017, the Court denied in part and granted in part Virgin America's motion. Virgin America believes the claims in this case are without factual and legal merit and intends to defend this lawsuit.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors affecting our business, financial condition or future results from those set forth in Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following documents are filed as part of this report:

1. *Exhibits*: See Exhibit Index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALASKA AIR GROUP, INC.

/s/ CHRISTOPHER M. BERRY

Christopher M. Berry

Vice President Finance and Controller

May 4, 2017

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Form	Date of First Filing	Exhibit Number
10.1*†	Alaska Air Group Operational Performance Rewards Plan Description, adopted January 3, 2005; Amended February 14, 2017	10-Q		
10.2*†	Alaska Air Group Performance Based Pay Plan, Amended and Restated January 18, 2017	10-Q		
31.1†	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	10-Q		
31.2†	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	10-Q		
32.1†	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	10-Q		
32.2†	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	10-Q		
101.INS†	XBRL Instance Document			
101.SCH†	XBRL Taxonomy Extension Schema Document			
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document			
101.DEF†	XBRL Taxonomy Extension Definition Linkbase Document			
101.LAB†	XBRL Taxonomy Extension Label Linkbase Document			
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document			
†	Filed herewith			
*	Indicates management contract or compensatory plan arrangement			

ALASKA AIR GROUP
OPERATIONAL PERFORMANCE REWARDS
PLAN DESCRIPTION

Adopted January 3, 2005; Amended February 14, 2017

The Board of Directors of Alaska Air Group, Inc. (the “Company”) has adopted the Operational Performance Rewards Plan (the “Plan”) to reward employees of Alaska Airlines, Inc. (“Alaska”), Horizon Air Industries, Inc. (“Horizon”) and Virgin America Inc. (“Virgin”) (each a “Subsidiary”) for achieving certain operational performance targets. This description is provided to explain the key elements of how the Plan will operate. This Plan is effective beginning with the 2017 Plan year and each year thereafter until amended or terminated as provided herein.

1. ELIGIBILITY

All officers and other full-, variable- or part-time employees of Alaska, Horizon and Virgin (including employees in Canada and Mexico, if permitted by applicable law and labor contracts) are eligible to participate in the Plan, and will receive one or more payments under the Plan if they meet the criteria in this paragraph. Payments under the Plan (“Awards”) are earned monthly and paid quarterly. Eligible persons who are full-, variable- or part-time employees of Alaska, Horizon or Virgin on active status as of the close of business on the last day of the quarter during which any of the operational targets applicable to such employee’s Subsidiary are met (each a “Participant,” or collectively “Participants”) will be eligible for a payout for each month of the quarter in which the Participant had eligible earnings as defined in the Company’s Performance Based Pay Plan. For persons with Voluntary Severance Incentive or equivalent severance packages (whether voluntary or not), the last day of eligible employment will not include any of the period during which the employee has ceased working but is still otherwise treated as on payroll.

2. ACCRUAL OF AWARDS

An Award will accrue for each Participant as of the close of business of the last day of any quarter in which the applicable Subsidiary has achieved one or more of the performance goals set forth in Exhibit A. Each Subsidiary does not need to achieve all of the performance goals in a given quarter to accrue an Award; each goal reached in a given Target Period (as defined in Exhibit A) will apply separately towards the Award to that Subsidiary’s Participants for that quarter.

3. PAYMENT OF AWARDS

Accrued Awards will be paid quarterly. The Company will use reasonable efforts to pay accrued Awards to Participants within sixty (60) days of the end of each calendar quarter. The Company may pay Awards through regular payroll or by separate check in the Company’s discretion, and in either case the Company may withhold applicable taxes and garnishments from such payments. The Company will pay a deceased Participant’s Award to the beneficiary designated by the Participant for purposes of the Company’s group term life insurance plan covering the deceased Participant, and in the absence of any designation, will be paid to the Participant’s estate.

4. ESTABLISHMENT OF PERFORMANCE GOALS

The Compensation and Leadership Development Committee of the Board (the “Compensation Committee”) will establish the periodic performance goals for each Plan year during the life of this

Plan, and will provide an exhibit to this Plan that outlines goals and the payout amounts for each goal. Each such attachment will be labeled “Exhibit A: Operational Performance Rewards Plan Goals and Award Levels for [year]” and communicated to eligible employees.

5. AMENDMENT; TERMINATION; INTERPETATION

The Board, acting through the Compensation Committee, retains the right at any time to modify the Plan in any manner that it deems appropriate or to terminate the Plan, provided that no amendment or termination shall be effective sooner than the first day of the month following the Compensation Committee’s action on such amendment or termination. No termination of the Plan shall affect Awards accrued before the effective date of termination. Management may interpret or amend this Plan Description with respect to administrative issues that do not affect benefit amounts and are not otherwise material to the overall benefits provided by the Plan. The Compensation Committee shall have discretion to interpret and resolve any material issue or dispute under the Plan, and its decision concerning any aspect of the operation of the Plan will be final and conclusive. The Compensation Committee will review the Plan annually and may make changes to the Plan and/or Exhibit A for the next Plan year.

6. MISCELLANEOUS

This description, including its attachments, constitutes the entire understanding relating to the Plan, and supersedes all prior oral or written agreements, representations or commitments relating to the Plan or any Award. This Plan is not a commitment of the Company, Alaska, Horizon or Virgin, to any officer or employee of such company to continue that individual in its employ for any reason. Any employee who files suit against his or her employer for wrongful termination shall automatically cease to be a Participant. This description and the rights and obligations provided for herein shall be construed and interpreted in accordance with the law of the state of Washington, excluding its conflicts of law rules.

ALASKA AIR GROUP PERFORMANCE BASED PAY PLAN
(Amended and Restated January 18, 2017)

The Board of Directors (the "Board") of Alaska Air Group, Inc. (the "Company") has adopted the Performance-Based Pay Plan (the "Plan") to reward employees of Alaska Airlines, Inc. ("Alaska"), Virgin America Inc. ("Virgin") and Horizon Air Industries, Inc. ("Horizon"). The Board has delegated authority to the Compensation and Leadership Development Committee (the "Committee") to administer the Plan. The Performance Based Pay Award ("Award") of each eligible Plan Participant will depend upon the degree to which the Company, Alaska, Virgin and Horizon achieve the applicable performance goals and, if applicable, an award modifier, set by the Committee for each calendar year (a "Plan Year") and upon the discretion of the Committee as explained below.

At the beginning of each Plan Year, the Committee will determine the elected officers and employees of Alaska, Virgin and Horizon to whom Awards will be granted for that Plan Year that are intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code ("Section 162(m)"). Such Awards ("Section 162(m) Awards") will be granted pursuant to, and subject to the limitations and requirements of Section 5.1.4 and 5.2 of the Alaska Air Group, Inc. 2016 Performance Incentive Plan (the "2016 PIP"), as last approved by the Company's stockholders on May 12, 2016 (including the limit on the maximum per-person Award of \$5 million per year, established by Section 5.2.3 of the 2016 PIP).

This Amended and Restated Plan is effective beginning with the 2017 Plan Year and each year thereafter until amended, restated or terminated, pursuant to Paragraph 8.

1. ELIGIBILITY

Eligibility to participate in the Plan during a Plan Year is limited to U.S. and Canadian employees, and Mexico management employees, of Alaska, Virgin and Horizon ("Eligible Employees") who:

- (a) are employees of Alaska, Virgin or Horizon on December 31 of the Plan Year for which the Award is being paid, or
- (b) were employees during a portion of the Plan Year for which the Award is being paid but were not employees on December 31 because their employment ended due to retirement, disability or death. (For example, if an employee retires from Alaska, Virgin or Horizon and his/her last day of employment is on or between January 1 and December 31, 2014, he/she would be eligible for an award for the 2014 Plan Year, but would not be eligible for an Award for the 2015 Plan Year because he/she was not an employee during any part of the 2015 Plan Year, even though his/her first day of retirement might be January 1, 2015.)

For the sake of clarity, "Eligible Employees" shall not include Mexico non-management employees of Alaska, Virgin or Horizon, or employees of McGee Air Services, Inc.

Eligible Employees who are on temporary medical leave, military leave, furlough, or company-approved leave of absence as of December 31 of the Plan Year shall remain eligible under the Plan. Unless otherwise provided in a separate agreement, an individual whose employment with Alaska, Virgin or Horizon ends prior to December 31 of the Plan Year for any reason not set forth above, for example, resignation or termination (with or without cause), forfeits any Award under this Plan. In addition, employees terminated for cause, as determined by Alaska, Virgin or Horizon, shall forfeit any Award under this Plan, regardless of their employment status on December 31 of the Plan Year. Notwithstanding the foregoing, contract employees or independent contractors as classified by Alaska, Virgin or Horizon, shall be excluded from participation hereunder, regardless of whether an agency or court subsequently re-classifies such individuals as employees of Alaska, Virgin or Horizon. An Eligible Employee who meets all the requirements for an Award is a "Plan Participant" for such Plan Year. Participation in the Plan does not guarantee that any Award will be paid if applicable performance goals specified for the Plan Year are not achieved for the year.

2. CALCULATION OF THE AWARD

The size of the Award earned for a Plan Year will depend upon the extent to which the performance goals and, if applicable, an award modifier has been achieved during that Plan Year, and upon the discretion of the Committee. Separate performance weighting has been established for each performance goal.

A Plan Participant's Award is determined by the following formula: Eligible Earnings X Participation Rate X Payout Award Percentage.

"Eligible Earnings" means the aggregate wages or salary paid during the Plan Year to the Plan Participant for services performed for Alaska, Virgin or Horizon, *including* cash received for vacation payouts in connection with the Plan

Participant's transfer between any two entities (i.e., Alaska, Virgin and Horizon) or in connection with retirement, death or disability, amounts that the Plan Participant could have received in cash had the Plan Participant not elected to contribute the amount to an employee benefit plan maintained by the Company or an affiliate and any other voluntary payment the Plan Participant makes which reduces his/her compensation (such as the Plan Participant's voluntary contribution to an Internal Revenue Code ("Code") Section 401(k) Plan, Code Section 125 medical account, dependent day care spending account, or charitable gift), but **excluding** commissions, all bonuses (including any payment received under this Plan), and all other forms of incentive or other supplemental pay, employee benefits paid by the employer (such as employer contributions to a Code Section 401(k) Plan), worker's compensation payments, disability payments, cash and non-cash fringe benefits and perquisites (such as per diems, auto expense reimbursement, relocation reimbursement or travel reimbursement).

"Participation Rate" shall mean the percentage level communicated to each Eligible Employee or class of Eligible Employee.

"Payout Award Percentage" means the sum of the weighted payout of each performance goal, calculated in the manner specified by Paragraph 3, herein. However, in the case of an elected officer of Alaska, Virgin or Horizon, the Plan Participant's Award under this Plan, is limited to three times the elected officer's Eligible Earnings for the Plan Year, and is further limited as set forth in Paragraph 6 hereof. Awards may be paid in cash only.

All calculations will be performed by the Finance Department of Alaska and will be subject to approval by the Committee (such approval by the Committee to be in writing in the case of Section 162(m) Awards consistent with the requirements of Section 162(m)). Once approved by the Committee, such calculations shall be conclusively presumed to be accurate.

3. PERFORMANCE WEIGHTING

In order for any Award to be payable as to a particular performance goal, a "Threshold" performance level for that goal must be achieved. The payout percentage for a particular performance goal will be 25% if the "Threshold" level is reached, 100% if the "Target" level is reached, and 200% if the "Maximum" level is achieved. This determination applies to each goal individually. If performance for a particular goal is between the Threshold and Target levels, or between the Target and Maximum levels, the payout percentage for that goal will be determined by linear interpolation between those two levels. The payout percentage for each goal as so determined will then be multiplied by the weighting factor for that goal, as specified in Annex 1 Performance-Based Pay Plan Goals and Measures described in Paragraph 4 for the applicable Plan Year (the "weighted payout percentages").

4. PERFORMANCE GOALS AND APPLICABLE PERFORMANCE WEIGHTING FACTORS

The Committee will establish the performance goals and, if applicable, an award modifier for each Plan Year during the life of this Plan, and will annually approve an Annex 1 Performance-Based Pay Plan Goals and Measures to this Plan that outlines the performance goals, award modifiers and the weighting factors and an Annex 2 Performance-Based Pay Plan Participation Rates.

5. DISCRETIONARY FACTOR

In the case of a Plan Participant described in Paragraph 1 who retired, terminated employment due to disability, or died during the year, or a Plan Participant who took a leave of absence or worked a reduced schedule during any portion of the year, the Committee retains absolute discretionary authority to adjust the Award to such Plan Participant based upon the Committee's determination of such Plan Participant's contribution to the Company or its affiliates or any other factors as the Committee may determine appropriate. However, in the case of Awards to any elected officer of Alaska, Virgin or Horizon, the Award cannot be increased above the amount authorized in the original grant; and, in the case of Section 162(m) Awards payable after retirement or any other termination of employment (other than due to the Plan Participant's death or disability), the Committee has discretion only to reduce (but not increase) the amount that would otherwise be payable under the Award based on achievement of the applicable performance goals. Moreover, the amount of any Award payable for the Plan Year to any elected officer whose Award might potentially be subject to the deduction limitations of Code Section 162(m) cannot exceed the maximum limit on any such individual's Award of \$5 million per year, established by Section 5.2.3 of the 2016 PIP.

6. TIMING OF AWARDS

Payment of Awards for a Plan Year will be made no later than March 15 of the following year. A deceased Plan Participant's Award will be paid to the beneficiary designated by the Participant for purposes of the Company's or its affiliates' group term life insurance plans covering the deceased Participant, and in the absence of any designation, will be paid or distributed to the Participant's estate.

7. PLAN PARTICIPANT TRANSFERS BETWEEN ALASKA AND HORIZON

If a Plan Participant transfers between Alaska and Virgin, Alaska and Horizon or Horizon and Virgin, the Plan Participant's Award under this Plan, and any payment in respect of such Award, shall be separately determined by the Committee based on Eligible Earnings, Participation Rate and Payout Award Percentage attributable to each entity. This will result in a separate Award based on Alaska service and performance, a separate Award based on Virgin service and performance, and a separate Award based on Horizon service and performance, as applicable.

8. AMENDMENT

The Board, acting on its own or through the Committee, retains the right to modify the Plan at any time in any manner that it deems appropriate, provided that (a) no amendment that adversely affects the rights of Plan Participants or their beneficiaries shall be effective for a Plan Year that ended prior to the Plan Year in which the amendment was adopted, and (b) it will not terminate the Plan for any Plan Year during that Plan Year unless it is clear that Plan Participants will not receive any payment with respect to Awards granted for that Plan Year.

9. CLAWBACK POLICY.

The Award is subject to the terms of the Company's recoupment, clawback or similar policy as it may be in effect from time to time, as well as any similar provisions of applicable law, any of which could in certain circumstances require forfeiture of the Award and repayment or forfeiture of any cash received with respect to the Award.

10. MISCELLANEOUS

- a. This Plan, including its attachments, constitutes the entire understanding relating to an Award to any employee of Alaska, Virgin or Horizon, and supersedes all prior oral or written agreements, representations or commitments relating to such Awards.
- b. This Plan is not a commitment of the Company, Alaska, Virgin or Horizon, to any officer or employee of such company, to continue that individual in its employ in order to qualify for an Award. Nothing contained in this Plan may be considered to be a promise of continued employment. Any employee who shall file suit against his or her employer for wrongful termination shall automatically cease to be a Plan Participant.
- c. This Plan and the rights and obligations provided for herein shall be construed and interpreted in accordance with the law of the state of Washington, excluding its conflicts of law rules.
- d. No unpaid Award will be subject to the debts, liabilities, contracts or engagements of any Plan Participant, and may not be alienated, pledged, garnished or sold, and any attempt to do so shall be void.
- e. All Awards are subject to applicable federal, state, and local deductions.
- f. This Plan is intended to be an exception to, or otherwise be in compliance with, Section 409A of the Internal Revenue Code of 1986, as amended. This Plan shall be interpreted to comply with Section 409A. Further, it is the intent of the Company that, in the case of Section 162(m) Awards, this Plan, each such Award, any amounts paid with respect to such Awards, shall qualify as performance-based compensation or will otherwise be exempt from deductibility limitations under Section 162(m). Any provision, application or interpretation of this Plan inconsistent with this intent to satisfy the standards in Section 162(m) as to the Section 162(m) Awards shall be disregarded.

Dated: January 18, 2017

Alaska Air Group, Inc.

J. Kenneth Thompson
Chairman
Compensation and Leadership Development Committee

EXHIBIT 31.1

CERTIFICATIONS

I, Bradley D. Tilden, certify that:

1. I have reviewed this annual report on Form 10-Q of Alaska Air Group, Inc. for the period ended March 31, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- e) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 4, 2017

By /s/ BRADLEY D. TILDEN

Bradley D. Tilden

Chairman, President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Brandon S. Pedersen, certify that:

1. I have reviewed this annual report on Form 10-Q of Alaska Air Group, Inc. for the period ended March 31, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 4, 2017

By /s/ BRANDON S. PEDERSEN

Brandon S. Pedersen

Executive Vice President/Finance and Chief Financial Officer

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Alaska Air Group, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brandon S. Pedersen, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 4, 2017

By /s/ BRANDON S. PEDERSEN

Brandon S. Pedersen

Executive Vice President/Finance and Chief Financial Officer

