UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

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	**91-1292054**
(State of Incorporation)	(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 x 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 x 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 x	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐	Emerging growth 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 x

The registrant has 123,144,939 common shares, par value $0.01, outstanding at July 31, 2018.

ALASKA AIR GROUP, INC.
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2018

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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 actual results to differ from our expectations are:

- the competitive environment in our industry;
- changes in our operating costs, including fuel, which can be volatile;
- our ability to meet our cost reduction goals;
- our ability to achieve anticipated synergies and timing thereof in connection with our acquisition of Virgin America;
- our ability to successfully integrate the Boeing and Airbus operations into those of Alaska;
- labor disputes and our ability to attract and retain qualified personnel;
- operational disruptions;
- general economic conditions, including the impact of those conditions on customer travel behavior;
- the concentration of our revenue from a few key markets;
- an aircraft accident or incident;
- 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.

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, 2017, 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)*

(in millions)	June 30, 2018	December 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 102**	$ 194
Marketable securities	**1,466**	1,427
Total cash and marketable securities	**1,568**	1,621
Receivables—net	**411**	341
Inventories and supplies—net	**57**	57
Prepaid expenses and other current assets	**180**	133
Total Current Assets	**2,216**	2,152
Property and Equipment		
Aircraft and other flight equipment	**7,788**	7,559
Other property and equipment	**1,291**	1,222
Deposits for future flight equipment	**505**	494
	9,584	9,275
Less accumulated depreciation and amortization	**3,091**	2,991
Total Property and Equipment—Net	**6,493**	6,284
Goodwill	**1,943**	1,943
Intangible assets	**130**	133
Other noncurrent assets	**273**	234
Other Assets	**2,346**	2,310
Total Assets	**$ 11,055**	$ 10,746

Certain historical information has been adjusted to reflect the adoption of new accounting standards. See accompanying notes to condensed consolidated financial statements.

ALASKA AIR GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS *(unaudited)*

(in millions, except share amounts)	June 30, 2018	December 31, 2017
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	**$ 115**	$ 120
Accrued wages, vacation and payroll taxes	**345**	418
Air traffic liability	**1,112**	806
Other accrued liabilities	**483**	400
Deferred revenue	**667**	635
Current portion of long-term debt	**314**	307
Total Current Liabilities	**3,036**	2,686
Long-Term Debt, Net of Current Portion	**1,998**	2,262
Other Liabilities and Credits		
Deferred income taxes	**437**	370
Deferred revenue	**1,110**	1,090
Obligation for pension and postretirement medical benefits	**464**	453
Other liabilities	**417**	425
	2,428	2,338
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, $0.01 par value, Authorized: 5,000,000 shares, none issued or outstanding	**—**	—
Common stock, $0.01 par value, Authorized: 400,000,000 shares, Issued: 2018 - 130,436,306 shares; 2017 - 129,903,498 shares, Outstanding: 2018 - 123,203,707 shares; 2017 - 123,060,638 shares	**1**	1
Capital in excess of par value	**198**	164
Treasury stock (common), at cost: 2018 - 7,232,599 shares; 2017 - 6,842,860 shares	**(544)**	(518)
Accumulated other comprehensive loss	**(435)**	(380)
Retained earnings	**4,373**	4,193
	3,593	3,460
Total Liabilities and Shareholders' Equity	**$ 11,055**	$ 10,746

Certain historical information has been adjusted to reflect the adoption of new accounting standards. See accompanying notes to condensed consolidated financial statements.

ALASKA AIR GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS *(unaudited)*

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per share amounts)	**2018**	**2017**	**2018**	**2017**
Operating Revenues				
Passenger revenue	**$ 1,997**	$ 1,945	**3,682**	3,547
Mileage plan other revenue	**108**	109	**215**	209
Cargo and other	**51**	48	**91**	86
Total Operating Revenues	**2,156**	2,102	**3,988**	3,842
Operating Expenses				
Wages and benefits	**544**	470	**1,080**	920
Variable incentive pay	**38**	27	**77**	58
Aircraft fuel, including hedging gains and losses	**475**	344	**884**	683
Aircraft maintenance	**106**	96	**213**	183
Aircraft rent	**77**	69	**151**	134
Landing fees and other rentals	**110**	99	**236**	214
Contracted services	**76**	77	**157**	158
Selling expenses	**88**	102	**166**	185
Depreciation and amortization	**97**	90	**191**	180
Food and beverage service	**55**	50	**105**	95
Third-party regional carrier expense	**39**	27	**76**	54
Other	**141**	140	**282**	271
Special items—merger-related costs	**39**	24	**45**	63
Special items—other	**—**	—	**25**	—
Total Operating Expenses	**1,885**	1,615	**3,688**	3,198
Operating Income	**271**	487	**300**	644
Nonoperating Income (Expense)				
Interest income	**10**	9	**18**	16
Interest expense	**(25)**	(26)	**(49)**	(51)
Interest capitalized	**4**	4	**9**	8
Other—net	**(1)**	—	**(13)**	(1)
Total Nonoperating Income (Expense)	**(12)**	(13)	**(35)**	(28)
Income Before Income Tax	**259**	474	**265**	616
Income tax expense	**66**	181	**68**	230
Net Income	**$ 193**	$ 293	**$ 197**	$ 386
Basic Earnings Per Share:	**$ 1.57**	$ 2.37	**$ 1.60**	$ 3.12
Diluted Earnings Per Share:	**$ 1.56**	$ 2.36	**$ 1.59**	$ 3.10
Shares used for computation:				
Basic	**123.268**	123.573	**123.212**	123.534
Diluted	**124.036**	124.332	**123.953**	124.374
Cash dividend declared per share:	**$ 0.32**	$ 0.30	**$ 0.64**	$ 0.60

Certain historical information has been adjusted to reflect the adoption of new accounting standards. See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS *(unaudited)*

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2018**	**2017**	**2018**	**2017**
Net Income	**$ 193**	$ 293	**$ 197**	$ 386
Other Comprehensive Income (Loss):				
Related to marketable securities:				
Unrealized holding gain (loss) arising during the period	**(4)**	1	**(17)**	4
Reclassification of (gain) loss into Other—net nonoperating income (expense)	**1**	1	**3**	1
Income tax effect	**—**	(1)	**3**	(2)
Total	**(3)**	1	**(11)**	3
Related to employee benefit plans:				
Reclassification of net pension expense into Wages and benefits	**7**	5	**14**	11
Income tax effect	**(1)**	(1)	**(3)**	(3)
Total	**6**	4	**11**	8
Related to interest rate derivative instruments:				
Unrealized holding gain (loss) arising during the period	**2**	(3)	**8**	(2)
Reclassification of (gain) loss into Aircraft rent	**—**	2	**1**	2
Income tax effect	**—**	1	**(2)**	—
Total	**2**	—	**7**	—
Other Comprehensive Income	**5**	5	**7**	11
Comprehensive Income	**$ 198**	$ 298	**$ 204**	$ 397

Certain historical information has been adjusted to reflect the adoption of new accounting standards. See accompanying notes to condensed consolidated financial statements.

ALASKA AIR GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*

	Six Months Ended June 30,	
(in millions)	**2018**	**2017**
Cash flows from operating activities:		
Net income	**$ 197**	$ 386
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**191**	180
Stock-based compensation and other	**17**	25
Changes in certain assets and liabilities:		
Changes in deferred tax provision	**67**	127
Increase in air traffic liability	**306**	384
Increase in deferred revenue	**52**	69
Other—net	**(104)**	(87)
Net cash provided by operating activities	**726**	1,084
Cash flows from investing activities:		
Property and equipment additions:		
Aircraft and aircraft purchase deposits	**(271)**	(404)
Other flight equipment	**(56)**	(45)
Other property and equipment	**(96)**	(63)
Total property and equipment additions, including capitalized interest	**(423)**	(512)
Purchases of marketable securities	**(529)**	(1,010)
Sales and maturities of marketable securities	**474**	541
Other investing activities	**10**	10
Net cash used in investing activities	**(468)**	(971)
Cash flows from financing activities:		
Long-term debt payments	**(258)**	(159)
Common stock repurchases	**(25)**	(22)
Dividends paid	**(79)**	(74)
Other financing activities	**15**	12
Net cash used in financing activities	**(347)**	(243)
Net increase (decrease) in cash, cash equivalents, and restricted cash	**(89)**	(130)
Cash, cash equivalents, and restricted cash at beginning of year	**197**	328
Cash, cash equivalents, and restricted cash at end of the period	**$ 108**	$ 198
Cash paid during the period for:		
Interest (net of amount capitalized)	**$ 39**	$ 42
Income taxes	**—**	14
Reconciliation of cash, cash equivalents, and restricted cash at end of the period		
Cash and cash equivalents	**$ 102**	$ 198
Restricted cash included in Prepaid expenses and other current assets	**6**	—
Total cash, cash equivalents, and restricted cash at end of the period	**$ 108**	$ 198

Certain historical information has been adjusted to reflect the adoption of new accounting standards. 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 condensed consolidated financial statements include the accounts of Air Group, or the Company, and its primary subsidiaries, Alaska (including Virgin America) and Horizon. Our condensed consolidated financial statements also include McGee Air Services, a ground services subsidiary of Alaska. 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, 2017. In the opinion of management, all adjustments have been made that are necessary to fairly present the Company's financial position as of June 30, 2018 and the results of operations for the three and six months ended June 30, 2018 and 2017. Such adjustments were of a normal recurring nature.

Certain reclassifications have been made to prior year financial statements to conform to classifications used in the current year.

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 and six months ended June 30, 2018 are not necessarily indicative of operating results for the entire year.

Recently Issued Accounting Pronouncements

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.

In July 2018, the FASB issued ASU 2018-11, "Targeted Improvements - Leases (Topic 842)" which amended Topic 842 to provide companies an alternative transition method which would not require adjusting comparative period financial information. The Company plans to utilize this alternative transition method. The new standard is effective for the Company on January 1, 2019. The Company will not early adopt the standard.

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 and related liability associated with leased aircraft. The Company does not expect the new standard to have a material impact on the pattern or amount of expense recognized for aircraft leases on the income statement. Other leases, including airports and real estate, equipment, software and other miscellaneous leases continue to be assessed.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows—Restricted Cash (Topic 230)" related to the presentation of restricted cash on the statement of cash flows, and within the accompanying footnotes. The Company adopted the standard effective January 1, 2018.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The ASU expands the activities that qualify for hedge accounting and simplifies the rules for reporting hedging relationships. The ASU is effective for the Company beginning January 1, 2019. The Company will not early adopt the standard.

In February 2018, the FASB issued ASU 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." The standard allows a reclassification from accumulated other comprehensive income (AOCI) to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amount of the reclassification is the difference between the amount initially recorded directly to other comprehensive income at the previously enacted U.S. federal corporate income tax rate that remains in AOCI and the amount that would have been recorded directly to other comprehensive income using the newly enacted U.S. federal income tax rate. The standard is effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. The Company elected to early adopt the standard effective January 1, 2018. As a result, retained earnings increased approximately $62 million in 2018 due to the reclassification of tax effects in AOCI recorded in prior periods at previously enacted tax rates.

NOTE 2. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Revenue Recognition and Retirement Benefits Accounting Standards

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." The Company adopted the new standard as of January 1, 2018, utilizing a full retrospective transition method. Adoption of the new standard resulted in changes to accounting policies for revenue recognition related to frequent flyer activity, certain ancillary revenues such as change fees, air traffic liabilities, and sales and marketing expenses. As a result of adoption, the Company also changed certain financial statement line item disclosure captions. See Note 3 for a discussion of the impact of this standard.

Although less significant, in March 2017 the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715)," which requires the Company to present the service cost component of net periodic benefit cost as Wages and benefits in the statement of operations. The Company adopted the new standard as of January 1, 2018, utilizing a full retrospective transition method. Under this new standard, all components of net periodic benefit cost are presented in Nonoperating income (expense), except service cost, which remains in Wages and benefits.

Certain line item captions on the balance sheet and statement of operations changed as a result of the newly implemented standards. Accordingly, historical financial information presented below as reported has been presented using the new captions. The cumulative impact to retained earnings at January 1, 2016 as a result of the new revenue recognition standard was $171 million. Below are the impacts of these newly adopted accounting standards to the financial statements.

Condensed consolidated statement of operations for the three and six months ended June 30, 2017 (in millions):

	Three Months Ended June 30, 2017				Six Months Ended June 30, 2017			
		Adjustments				Adjustments		
	As Reported	Revenue Recognition	Retirement Benefits	As Adjusted	As Reported	Revenue Recognition	Retirement Benefits	As Adjusted
Operating Revenues								
Passenger Revenue	$ 1,807	$ 138	$ —	$ 1,945	$ 3,291	$ 256	$ —	$ 3,547
Mileage plan other revenue	128	(19)	—	109	247	(38)	—	209
Cargo and other revenue	167	(119)	—	48	313	(227)	—	86
Total Operating Revenue	2,102	—	—	2,102	3,851	(9)	—	3,842
Operating Expenses								
Wages and benefits	469	—	1	470	917	—	3	920
Selling expenses	97	5	—	102	178	7	—	185
Special items—merger-related costs	24	—	—	24	64	(1)	—	63
All other operating expenses	1,019	—	—	1,019	2,030	—	—	2,030
Total Operating Expenses	1,609	5	1	1,615	3,189	6	3	3,198
Operating Income	493	(5)	(1)	487	662	(15)	(3)	644
Nonoperating Income (Expense)								
Other—net	(1)	—	1	—	(4)	—	3	(1)
All other nonoperating income (expense)	(13)	—	—	(13)	(27)	—	—	(27)
	(14)	—	1	(13)	(31)	—	3	(28)
Income (loss) before income tax	479	(5)	—	474	631	(15)	—	616
Income tax expense (benefit)	183	(2)	—	181	236	(6)	—	230
Net Income (Loss)	$ 296	$ (3)	$ —	$ 293	$ 395	$ (9)	$ —	$ 386

Condensed consolidated statement of cash flows for the six months ended June 30, 2017 (in millions):

	Six Months Ended June 30, 2017		
	As Reported	Adjustments - Revenue Recognition	As Adjusted
Cash flows from operating activities:			
Net income	$ 395	$ (9)	$ 386
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	180	—	180
Stock-based compensation and other	25	—	25
Changes in certain assets and liabilities:			
Changes in deferred tax provision	132	(5)	127
Increase in air traffic liability	406	(22)	384
Increase in deferred revenue	15	54	69
Other—net	(69)	(18)	(87)
Net cash provided by operating activities	1,084	—	1,084
Net cash used in investing activities	(971)	—	(971)
Net cash used in financing activities	(243)	—	(243)
Net increase (decrease) in cash and cash equivalents	(130)	—	(130)
Cash and cash equivalents at beginning of year	328	—	328
Cash and cash equivalents at end of the period	$ 198	$ —	$ 198

NOTE 3. REVENUE

Ticket revenue is recorded as Passenger revenue, and represents the primary source of the Company's revenue. Also included in Passenger revenue are passenger ancillary revenues such as bag fees, on-board food and beverage, ticket change fees, and certain revenue from the frequent flyer program. Mileage Plan™ other revenue includes brand and marketing revenue from our co-branded credit card and other partners and certain interline frequent flyer revenue, net of commissions. Cargo and other revenue includes freight and mail revenue, and to a lesser extent, other ancillary revenue products such as lounge membership and certain commissions.

The Company disaggregates revenue by segment in Note 9. The level of detail within the Company's statements of operations, segment disclosures, and in this footnote depict the nature, amount, timing and uncertainty of revenue and how cash flows are affected by economic and other factors.

Passenger Ticket and Ancillary Services Revenue

The primary performance obligation on a typical passenger ticket is to provide air travel to the Company's passenger. Ticket revenue is collected in advance of travel and recorded as Air Traffic Liability (ATL) on the consolidated balance sheets. The Company satisfies its performance obligation and recognizes ticket revenue on each flight segment when the transportation is provided.

Ancillary passenger revenues relate to items such as checked-bag fees, ticket change fees, and on-board food and beverage sales, all of which are provided at time of flight. As such, the obligation to perform these services is satisfied at the time of travel and is recorded with ticket revenue in Passenger revenue.

Revenue is also recognized for tickets that are expected to expire unused, a concept referred to as "passenger ticket breakage." Passenger ticket breakage is recorded at the flight date using estimates made at the time of sale based on the Company's historical experience of expired tickets, and other facts such as program changes and modifications.

In addition to selling tickets on its own marketed flights, the Company has interline agreements with partner airlines under which it sells multi-city tickets with one or more segments of the trip flown by a partner airline, or it operates a connecting flight sold by a partner airline. Each segment in a connecting flight represents a separate performance obligation. Revenue on segments sold and operated by the Company is recognized as Passenger revenue in the gross amount of the allocated ticket price when the travel occurs, while the commission paid to the partner airline is recognized as a selling expense when the related transportation is provided. Revenue on segments operated by a partner airline is deferred for the full amount of the consideration received at the time the ticket is sold and, once the segment has been flown the Company records the net amount, after compensating the partner airline, as Cargo and other revenue.

A portion of revenue from the Mileage Plan™ program is recorded in Passenger revenue. As members are awarded mileage credits on flown tickets, these credits become a distinct performance obligation to the Company. The Company allocates the transaction price to each performance obligation identified in a passenger ticket contract on a relative standalone selling price basis. The standalone selling price for loyalty mileage credits issued is discussed in the *Loyalty Mileage Credits* section of this Note below. The amount allocated to the mileage credits is deferred on the balance sheet. Once a member travels using a travel award redeemed with mileage credits on one of the Company's airline carriers, the revenue associated with those mileage credits is recorded as Passenger revenue.

Taxes collected from passengers, including transportation excise taxes, airport and security fees and other fees, are recorded on a net basis within passenger revenue in the consolidated statements of operations.

Passenger revenue recognized in the condensed consolidated statements of operations (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Passenger ticket revenue, including ticket breakage and net of taxes and fees	**$ 1,693**	$ 1,668	**$ 3,121**	$ 3,026
Passenger ancillary revenue	**137**	134	**255**	250
Mileage Plan™ passenger revenue	**167**	143	**306**	271
Total passenger revenue	**$ 1,997**	$ 1,945	**$ 3,682**	$ 3,547

As passenger tickets and related ancillary services are primarily sold via credit cards, certain amounts due from credit card processors are recorded as airline traffic receivables. These credit card receivables and receivables from our affinity credit card partner represent the majority of the receivables balance on the Balance Sheet.

For performance obligations with performance periods of less than one year, GAAP provides a practical expedient that allows the Company not to disclose the transaction price allocated to remaining performance obligations and the timing of related revenue recognition. As passenger tickets expire one year from ticketing, if unused or not exchanged, the Company elected to apply this practical expedient.

Mileage Plan™ Loyalty Program

Loyalty mileage credits

The Company's Mileage Plan™ loyalty program provides frequent flyer travel awards to program members based upon accumulated loyalty mileage credits. Mileage credits are earned through travel, purchases using the Mileage Plan™ co-branded credit card and purchases from other participating partners. The program has a 24-month expiration period for unused mileage credits from the month of last account activity. The Company offers redemption of mileage credits through free, discounted or upgraded air travel on Alaska flights or on one of its 16 airline partners, as well as redemption at partner hotels.

The Company uses a relative standalone selling price allocation to allocate consideration to material performance obligations in contracts with customers that include loyalty mileage credits. As directly observable selling prices for mileage credits are not available, the Company determines the standalone selling price of mileage credits primarily using actual ticket purchase prices for similar tickets flown, adjusted for the likelihood of redemption, or breakage. In determining similar tickets flown, the Company considers current market prices, class of service, type of award, and other factors. For mileage credits accumulated through travel on partner airlines, the Company uses actual consideration received from the partners.

Revenue related to air transportation is deferred in the amount of the relative standalone selling price allocated to the loyalty mileage credits as they are issued. The Company satisfies its performance obligation when the mileage credits are redeemed and the related air transportation is delivered.

The Company estimates breakage for the portion of loyalty mileage credits not expected to be redeemed using a statistical analysis of historical data, including actual mileage credits expiring, slow-moving and low-credit accounts, among other factors. The breakage rate for the three and six months ended June 30, 2018 and 2017 was 17.4%. The Company reviews the breakage rate used on an annual basis.

Co-brand credit card agreement and other

In addition to mileage credits, the co-brand credit card agreement, referred to herein as the Agreement, also includes performance obligations for waived bag fees, Companion Fare™ offers to purchase an additional ticket at a discount, marketing, and the use of intellectual property including the brand (unlimited access to the use of the Company's brand and frequent flyer member lists), which is the predominant element in the Agreement. The affinity card bank partner is the customer for some elements, including the brand and marketing, while the Mileage Plan™ member is the customer for other elements such as mileage credits, bag waivers, and companion fares.

At the inception of the Agreement, management estimated the selling price of each of the performance obligations. The objective was to determine the price at which a sale would be transacted if the product or service was sold on a stand-alone basis. The Company determined its best estimate of selling price for each element by considering multiple inputs and methods including, but not limited to, the estimated selling price of comparable travel, discounted cash flows, brand value, published selling prices, number of miles awarded and number of miles redeemed. The Company estimated the selling prices and volumes over the term of the Agreement in order to determine the allocation of proceeds to each of the multiple deliverables. The estimates of the standalone selling prices of each element do not change subsequent to the original valuation of the contract unless the contract is materially modified, but the allocation between elements may change based upon the actual and updated projected volumes of each element delivered during the term of the contract.

Consideration received from the bank is variable and is primarily from consumer spend on the card, among other items. The Company allocates consideration to each of the performance obligations, including mileage credits, waived bag fees, companion fares, and brand and marketing, using their relative standalone selling price. Because the performance obligation related to providing use of intellectual property including the brand is satisfied over time, it is recognized in Mileage Plan^{TM} other revenue in the period that those elements are sold. The Company records passenger revenue related to the air transportation and certificates for discounted companion travel when the transportation is delivered.

In contracts with non-bank partners, the Company has identified two performance obligations in most cases - travel and brand. Revenue is recognized using the residual method, where the travel performance obligation is deferred until transportation is provided in the amount of the estimated standalone selling price of the ticket, less breakage. The residual amount, if any, is recognized as commission revenue when the brand element is sold. Mileage credit sales recorded under the residual approach are immaterial to the overall program.

Interline loyalty

The Company has interline arrangements with certain airlines whereby its members may earn and redeem Mileage Plan™ credits on those airlines, and members of a partner airline's loyalty program may earn and redeem frequent flyer program credits on Alaska. When a Mileage Plan™ member earns credits on a partner airline, the partner airline remits a contractually-agreed upon fee to the Company which is deferred until credits are redeemed. When a Mileage Plan™ member redeems credits on a partner airline, the Company pays a contractually agreed upon fee to the other airline, which offsets the revenue recognized associated with the award travel. When a member of a partner airline redeems frequent flyer credits on Alaska, the partner airline remits a contractually-agreed upon amount to the Company, recognized as Passenger revenue upon travel. If the partner airline's member earns frequent flyer program credits on an Alaska flight, the Company remits a contractually-agreed upon fee to the partner airline and records a commission expense.

Mileage Plan™ revenue included in the condensed consolidated statements of operations (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Passenger revenue	**$ 167**	$ 143	**$ 306**	$ 271
Mileage Plan™ other revenue	**108**	109	**215**	209
Total Mileage Plan™ revenue	**$ 275**	$ 252	**$ 521**	$ 480

Mileage Plan™ other revenue is primarily brand and marketing revenue from our affinity card products.

Cargo and Other

The Company provides freight and mail services (cargo). The majority of cargo services are provided to commercial businesses and the United States Postal Service. The Company satisfies cargo service performance obligations and recognizes revenue when the shipment arrives at its final destination, or is transferred to a third-party carrier for delivery.

The Company also earns other revenue for lounge memberships, hotel and car commissions, and certain other immaterial items not intrinsically tied to providing air travel to passengers. Revenue is recognized when these services are rendered and recorded as Cargo and other revenue. The transaction price for Cargo and other revenue is the price paid by the customer.

Cargo and other revenue included in the condensed consolidated statements of operations (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Cargo revenue	**$ 34**	$ 32	**$ 60**	$ 56
Other revenue	**17**	16	**31**	30
Total Cargo and other revenue	**$ 51**	$ 48	**$ 91**	$ 86

Air Traffic Liability and Deferred Revenue

Passenger ticket and ancillary services liabilities

Air traffic liability included on the condensed consolidated balance sheets represents the remaining obligation associated with passenger tickets and ancillary services. The air traffic liability balance fluctuates with seasonal travel patterns. The Company recognized Passenger revenue of $79 million and $89 million from the prior year-end air traffic liability balance for the three months ended June 30, 2018 and 2017, and $513 million and $520 million for the six months ended June 30, 2018 and 2017.

Mileage Plan™ liabilities

The total deferred revenue liability included on the condensed consolidated balance sheets represents the remaining transaction price that has been allocated to Mileage Plan™ performance obligations not yet satisfied by the Company. In general, the current amounts will be recognized as revenue within 12 months and the long-term amounts will be recognized as revenue over, on average, a period of approximately three to four years. This period of time represents the average time that members have historically taken to earn and redeem miles.

The Company records a receivable for amounts due from the affinity card partner and from other partners as mileage credits are sold until the payments are collected. The Company had $103 million of such receivables as of June 30, 2018 and $101 million as of December 31, 2017.

Mileage credits are combined in one homogeneous pool and are not specifically identifiable. As such, loyalty revenues disclosed earlier in this Note are comprised of miles that were part of the deferred revenue and liabilities balances at the beginning of the period and miles that were issued during the period. The table below presents a roll forward of the total frequent flyer liability (in millions):

	Six Months Ended June 30,	
	2018	**2017**
Total Deferred Revenue balance at January 1	**$ 1,725**	$ 1,534
Travel miles and companion certificate redemption - Passenger revenue	**(306)**	(271)
Miles redeemed on partner airlines - Other revenue	**(44)**	(44)
Increase in liability for mileage credits issued	**402**	382
Total Deferred Revenue balance at June 30	**$ 1,777**	$ 1,601

Selling Costs

Certain costs such as credit card fees, travel agency and other commissions paid, as well as Global Distribution Systems (GDS) booking fees are incurred when the Company sells passenger tickets and ancillary services in advance of the travel date. The Company defers such costs and recognizes them as expenses when the travel occurs. Prepaid expense recorded on the consolidated balance sheets for such costs was $31 million and $24 million as of June 30, 2018 and December 31, 2017. The Company recorded related expense on the condensed consolidated statement of operations of $58 million and $66 million for the three months ended June 30, 2018 and 2017, and $109 million and $122 million for the six months ended June 30, 2018 and 2017.

NOTE 4. 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 June 30, 2018, total cost basis for all marketable securities was $1.5 billion. 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):

June 30, 2018	Level 1	Level 2	Total
Assets			
Marketable securities			
U.S. government and agency securities	$ 376	$ —	$ 376
Foreign government bonds	—	28	28
Asset-backed securities	—	231	231
Mortgage-backed securities	—	78	78
Corporate notes and bonds	—	743	743
Municipal securities	—	10	10
Total Marketable securities	376	1,090	1,466
Derivative instruments			
Fuel hedge—call options	—	58	58
Interest rate swap agreements	—	14	14
Total Assets	$ 376	$ 1,162	$ 1,538
Liabilities			
Derivative instruments			
Interest rate swap agreements	—	(4)	(4)
Total Liabilities	$ —	$ (4)	$ (4)

December 31, 2017	Level 1	Level 2	Total
Assets			
Marketable securities			
U.S. government and agency securities	$ 328	$ —	$ 328
Foreign government bonds	—	43	43
Asset-backed securities	—	209	209
Mortgage-backed securities	—	99	99
Corporate notes and bonds	—	726	726
Municipal securities	—	22	22
Total Marketable securities	328	1,099	1,427
Derivative instruments			
Fuel hedge—call options	—	22	22
Interest rate swap agreements	—	9	9
Total Assets	$ 328	$ 1,130	$ 1,458
Liabilities			
Derivative instruments			
Interest rate swap agreements	—	(8)	(8)
Total Liabilities	$ —	$ (8)	$ (8)

The Company uses both 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

Unrealized losses from marketable securities are primarily attributable to changes in interest rates. Management does not believe any unrealized losses represent other-than-temporary impairments based on its evaluation of available information as of June 30, 2018.

Maturities for marketable securities (in millions):

June 30, 2018	**Cost Basis**	**Fair Value**
Due in one year or less	$ 263	$ 262
Due after one year through five years	1,195	1,173
Due after five years through 10 years	31	31
Total	$ 1,489	$ 1,466

Fair Value of Other Financial Instruments

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

Cash, Cash Equivalents and Restricted Cash: Cash equivalents consist of highly liquid investments with original maturities of three months or less, such as money market funds, commercial paper and certificates of deposit. They are carried at cost, which approximates fair value.

The Company's restricted cash balances are primarily used to guarantee various letters of credit, self-insurance programs or other contractual rights. Restricted cash consists of highly liquid securities with original maturities of three months or less. They are carried at cost, which approximates fair value.

Debt: Debt assumed in the acquisition of Virgin America was subject to a non-recurring fair valuation adjustment as part of purchase price accounting. The adjustment is amortized over the life of the associated debt. All other fixed-rate debt is carried at cost. To estimate the fair value of all fixed-rate debt as of June 30, 2018, the Company uses the income approach by discounting cash flows using borrowing rates for comparable debt over the remaining 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 on the consolidated balance sheet and the estimated fair value of long-term fixed-rate debt is as follows (in millions):

	June 30, 2018	**December 31, 2017**
Fixed-rate debt at cost	**$ 838**	$ 956
Non-recurring purchase price accounting fair value adjustment	**3**	3
Total fixed-rate debt	**$ 841**	$ 959
Estimated fair value	**$ 831**	$ 959

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 and six months ended June 30, 2018 or June 30, 2017.

NOTE 5. LONG-TERM DEBT

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

	June 30, 2018	December 31, 2017
Fixed-rate notes payable due through 2028	**$ 841**	$ 959
Variable-rate notes payable due through 2028	**1,485**	1,625
Less debt issuance costs	**(14)**	(15)
Total debt	**2,312**	2,569
Less current portion	**314**	307
Long-term debt, less current portion	**$ 1,998**	$ 2,262
Weighted-average fixed-interest rate	**4.1%**	4.2%
Weighted-average variable-interest rate	**3.5%**	2.8%

During the six months ended June 30, 2018 the Company made debt payments of $258 million, including the prepayment of $43 million of debt.

At June 30, 2018 long-term debt principal payments for the next five years and thereafter are as follows (in millions):

	Total
Remainder of 2018	$ 142
2019	317
2020	435
2021	418
2022	243
Thereafter	768
Total	$ 2,323

Bank Lines of Credit

The Company had three credit facilities totaling $475 million as of June 30, 2018. All three facilities have variable interest rates based on LIBOR plus a specified margin. One credit facility for $250 million expires in June 2021 and is secured by aircraft. A second credit facility for $75 million expires in September 2018, with a mechanism for annual renewal, and is secured by aircraft. Subsequent to June 30, 2018, we increased this credit facility from $75 million to $116 million and extended the maturity date to July 2019. A third credit facility for $150 million 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 $75 million facility, but has no plans to borrow using either of the two other facilities. All three credit facilities have a requirement to maintain a minimum unrestricted cash and marketable securities balance of $500 million. The Company was in compliance with this covenant at June 30, 2018.

NOTE 6. EMPLOYEE BENEFIT PLANS

Net periodic benefit costs for qualified defined-benefit plans include the following (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Service cost	**$ 12**	$ 10	**$ 24**	$ 20
Pension expense included in Wages and benefits	**12**	10	**24**	20
Interest cost	**19**	18	**39**	36
Expected return on assets	**(26)**	(26)	**(53)**	(53)
Recognized actuarial loss (gain)	**8**	6	**16**	13
Pension expense (benefit) included in Nonoperating Income (Expense)	**$ 1**	$ (2)	**$ 2**	$ (4)

NOTE 7. COMMITMENTS AND CONTINGENCIES

Future minimum payments for commitments as of June 30, 2018 (in millions):

	Aircraft Leases	Facility Leases	Aircraft Commitments[(a)]	Capacity Purchase Agreements [(b)]	Aircraft Maintenance Deposits
Remainder of 2018	$ 177	$ 38	$ 467	$ 67	$ 32
2019	349	68	558	138	65
2020	323	61	515	145	68
2021	282	52	562	166	64
2022	264	33	304	174	52
Thereafter	1,071	139	141	1,205	38
Total	$ 2,466	$ 391	$ 2,547	$ 1,895	$ 319

(a) Includes non-cancelable contractual commitments for aircraft and engines, buyer furnished equipment, and aircraft maintenance and parts management.
(b) 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, as well as aircraft leases operated by third-parties. At June 30, 2018, the Company had lease contracts for 10 Boeing 737 (B737) aircraft, 61 Airbus aircraft, 11 Bombardier Q400 aircraft, and 29 Embraer 175 (E175) with SkyWest Airlines, Inc. (SkyWest). The Company has an additional two scheduled lease deliveries of A321neo aircraft through 2019, as well as six scheduled lease deliveries of E175 aircraft through 2021 to be operated by SkyWest. All lease contracts have remaining non-cancelable lease terms ranging from 2018 to 2033. The Company has the option to increase capacity flown by SkyWest with eight additional E175 aircraft with deliveries in 2020. 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 $137 million and $123 million for the three months ended June 30, 2018 and 2017, and $290 million and $261 million for the six months ended June 30, 2018 and 2017.

Aircraft Commitments

Aircraft purchase commitments include non-cancelable contractual commitments for aircraft and engines. As of June 30, 2018, the Company had commitments to purchase 41 B737 aircraft (9 B737 NextGen aircraft and 32 B737 MAX aircraft), with deliveries in the remainder of 2018 through 2023. In the first quarter of 2018 the Company entered into a supplemental agreement with Boeing to defer certain B737 deliveries and to convert 15 MAX8 aircraft orders to MAX9 aircraft orders. The Company also has commitments to purchase 18 E175 aircraft with deliveries in the remainder of 2018 through 2021 and has cancelable purchase commitments for 30 Airbus A320neo aircraft with deliveries from 2021 through 2023. In addition, the Company has options to purchase 37 B737 aircraft and 30 E175 aircraft. The cancelable purchase commitments and option payments are not reflected in the table above.

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. In January 2018, Virgin America filed a motion to decertify the class and Plaintiffs filed a motion for summary judgment seeking the court to rule in their favor on all remaining claims. In July 2018, the Court denied in part and granted in part Virgin America's motion to decertify the class and granted in part and denied in part Plaintiffs' motion for summary judgment. A trial on the remaining claim is currently set for October 2018. The Company believes the claims in this case are without factual and legal merit and intends to defend the remaining claim in this lawsuit and will appeal the claims decided in the Plaintiffs' favor.

Management is currently assessing the potential impact of the July 2018 decision by the Court, and has not yet determined the range of possible outcomes. While management believes the outcome of subsequent appeals will ultimately resolve in favor of the Company's position, damages assessed in the Plaintiffs' favor under the July 2018 ruling could be material. 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 June 30, 2018, the Company declared and paid cash dividends of $0.32 per share, or $40 million. During the six months ended June 30, 2018, the Company declared and paid cash dividends of $0.64 per share, or $79 million.

Common Stock Repurchase

In August 2015, the Board of Directors authorized a $1 billion share repurchase program. As of June 30, 2018, the Company has repurchased 5.5 million shares for $413 million under this program.

Share repurchase activity (in millions, except share amounts):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018		2017		2018		2017	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
2015 Repurchase Program—$1 billion	**204,078**	**$ 13**	256,680	$ 22	**389,739**	**$ 25**	256,680	$ 22

Accumulated Other Comprehensive Loss

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

	June 30, 2018		December 31, 2017	
Related to marketable securities	**$**	**(17)**	$	(5)
Related to employee benefit plans		**(425)**		(376)
Related to interest rate derivatives		**7**		1
Total	**$**	**(435)**	$	(380)

The Company elected to early adopt ASU 2018-02 in the first quarter of 2018. As a result, the Company reclassified approximately $62 million of tax effects in AOCI recorded in prior periods at previously enacted tax rates thus increasing Retained earnings.

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 and six months ended June 30, 2018 and 2017, anti-dilutive shares excluded from the calculation of EPS were not material.

NOTE 9. OPERATING SEGMENT INFORMATION

Alaska Air Group has two operating airlines—Alaska (including Virgin America after the single operating certificate received in January 2018) 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 scheduled air transportation on Alaska's Boeing or Airbus jet aircraft for passengers and cargo throughout the U.S., and in parts of Canada, Mexico, and Costa Rica.
- **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, McGee Air Services, 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's 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 June 30, 2018						
	Mainline	Regional	Horizon	Consolidating & Other[(a)]	Air Group Adjusted[(b)]	Special Items[(c)]	Consolidated
Operating revenues							
Passenger revenues	$ 1,711	$ 286	$ —	$ —	$ 1,997	$ —	$ 1,997
CPA revenues	—	—	137	(137)	—	—	—
Mileage plan other revenue	99	9	—	—	108	—	108
Cargo and other	49	1	1	—	51	—	51
Total operating revenues	1,859	296	138	(137)	2,156	—	2,156
Operating expenses							
Operating expenses, excluding fuel	1,135	249	123	(136)	1,371	39	1,410
Economic fuel	432	65	—	—	497	(22)	475
Total operating expenses	1,567	314	123	(136)	1,868	17	1,885
Nonoperating income (expense)							
Interest income	13	—	—	(3)	10	—	10
Interest expense	(22)	—	(5)	2	(25)	—	(25)
Interest capitalized	4	—	—	—	4	—	4
Other—net	1	(2)	—	—	(1)	—	(1)
Total Nonoperating income (expense)	(4)	(2)	(5)	(1)	(12)	—	(12)
Income (loss) before income tax	$ 288	$ (20)	$ 10	$ (2)	$ 276	$ (17)	$ 259

	Three Months Ended June 30, 2017[(d)]						
	Mainline	Regional	Horizon	Consolidating & Other[(a)]	Air Group Adjusted[(b)]	Special Items[(c)]	Consolidated
Operating revenues							
Passenger revenues	$ 1,677	$ 268	$ —	$ —	$ 1,945	$ —	$ 1,945
CPA revenues	—	—	108	(108)	—	—	—
Mileage plan other revenue	101	8	—	—	109	—	109
Cargo and other	45	2	1	—	48	—	48
Total operating revenues	1,823	278	109	(108)	2,102	—	2,102
Operating expenses							
Operating expenses, excluding fuel	1,030	206	116	(105)	1,247	24	1,271
Economic fuel	304	38	—	—	342	2	344
Total operating expenses	1,334	244	116	(105)	1,589	26	1,615
Nonoperating income (expense)							
Interest income	10	—	—	(1)	9	—	9
Interest expense	(24)	—	(3)	1	(26)	—	(26)
Interest capitalized	3	—	1	—	4	—	4
Other—net	—	—	—	—	—	—	—
Total Nonoperating income (expense)	(11)	—	(2)	—	(13)	—	(13)
Income (loss) before income tax	$ 478	$ 34	$ (9)	$ (3)	$ 500	$ (26)	$ 474

(in millions)	Six Months Ended June 30, 2018						
	Mainline	Regional	Horizon	Consolidating & Other[(a)]	Air Group Adjusted[(b)]	Special Items[(c)]	Consolidated
Operating revenues							
Passenger revenues	$ 3,153	$ 529	$ —	$ —	$ 3,682	$ —	$ 3,682
CPA revenues	—	—	247	(247)	—	—	—
Mileage plan other revenue	197	18	—	—	215	—	215
Cargo and other	88	1	2	—	91	—	91
Total operating revenues	3,438	548	249	(247)	3,988	—	3,988
Operating expenses							
Operating expenses, excluding fuel	2,266	488	227	(247)	2,734	70	2,804
Economic fuel	799	120	—	—	919	(35)	884
Total operating expenses	3,065	608	227	(247)	3,653	35	3,688
Nonoperating income (expense)							
Interest income	24	—	—	(6)	18	—	18
Interest expense	(44)	—	(10)	5	(49)	—	(49)
Interest capitalized	8	—	1	—	9	—	9
Other	(4)	(9)	—	—	(13)	—	(13)
Total Nonoperating income (expense)	(16)	(9)	(9)	(1)	(35)	—	(35)
Income (loss) before income tax	$ 357	$ (69)	$ 13	$ (1)	$ 300	$ (35)	$ 265

(in millions)	Six Months Ended June 30, 2017[(d)]						
	Mainline	Regional	Horizon	Consolidating & Other[(a)]	Air Group Adjusted[(b)]	Special Items[(c)]	Consolidated
Operating revenues							
Passenger revenues	$ 3,052	$ 495	$ —	$ —	$ 3,547	$ —	$ 3,547
CPA revenues	—	—	205	(205)	—	—	—
Mileage plan other revenue	194	15	—	—	209	—	209
Cargo and other	81	3	2	—	86	—	86
Total operating revenues	3,327	513	207	(205)	3,842	—	3,842
Operating expenses							
Operating expenses, excluding fuel	2,030	406	219	(203)	2,452	63	2,515
Economic fuel	596	75	—	—	671	12	683
Total operating expenses	2,626	481	219	(203)	3,123	75	3,198
Nonoperating income (expense)							
Interest income	17	—	—	(1)	16	—	16
Interest expense	(47)	—	(5)	1	(51)	—	(51)
Interest capitalized	7	—	1	—	8	—	8
Other	(1)	—	—	—	(1)	—	(1)
Total Nonoperating income (expense)	(24)	—	(4)	—	(28)	—	(28)
Income (loss) before income tax	$ 677	$ 32	$ (16)	$ (2)	$ 691	$ (75)	$ 616

(a) Includes consolidating entries, Parent Company, McGee Air Services, 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, mark-to-market fuel-hedge accounting charges, and other special items.
(d) Certain historical information has been adjusted to reflect the adoption of new accounting standards.

Total assets were as follows (in millions):

		June 30, 2018		December 31, 2017
Mainline	**$**	**15,334**	$	16,663
Horizon		**1,039**		929
Consolidating & Other		**(5,318)**		(6,846)
Consolidated	**$**	**11,055**	$	10,746

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 our company, segment operations and the 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, 2017. This overview summarizes the MD&A, which includes the following sections:

- *Second Quarter Review*—highlights from the second quarter of 2018 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 and six months ended June 30, 2018. 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. This section includes forward-looking statements regarding our view of the remainder of 2018.

- *Liquidity and Capital Resources*—an overview of our financial position, analysis of cash flows, and relevant contractual obligations and commitments.

SECOND QUARTER REVIEW

Our consolidated pretax income was $259 million during the second quarter of 2018, compared to $474 million in the second quarter of 2017. The decrease in pretax income of $215 million was driven largely by an increase in fuel expense of $131 million and an increase in non-fuel operating expenses of $139 million, partially offset by an increase in operating revenues of $54 million.

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 second quarter of 2018, our on-time performance was 82.5% for Alaska Mainline and 86.4% for our Regional operations. These on-time results are in-line with our historical high standard of running an excellent operation, and an improvement from operational headwinds encountered in 2017.

New Markets

We announced three new routes during the second quarter of 2018. Approximately 88% of projected growth in 2018 is within existing routes and locations, with the rest attributable to our plans to add more routes connecting guests along the West Coast to high demand markets in the lower 48 states and Hawaii.

Shareholder Return

During the second quarter of 2018, we paid cash dividends of $40 million and repurchased 204,078 shares for $13 million.

Labor Update

In July 2018, we ratified a merger transition agreement for dispatchers, represented by the Transport Workers Union (TWU). The agreement brings the Boeing and Airbus dispatch groups together under Alaska's existing CBA. It includes a two-year extension of the existing contract from 2019 to 2021, provides pay rate increases through the new contract term, and paves the way for an integrated seniority list.

Four of our five unionized groups at Alaska have the merger transition agreements required to fully integrate. This is a major milestone just 19 months after the official close of the acquisition of Virgin America in December 2016. A tentative agreement reached with the Aircraft Mechanics Fraternal Association (AMFA) was rejected by Boeing technicians. We will continue to work with AMFA and our technicians to reach a transition agreement.

Outlook

In 2018 and beyond, we are focused on successfully completing the integration of Virgin America. We have completed two of our most significant integration milestones to date and continue to make progress on our integration. In January 2018, Alaska and Virgin America received a Single Operating Certificate (SOC) from the FAA, which recognizes Alaska and Virgin America as one airline. In April, we transitioned to a single Passenger Service System (PSS), which allows us to provide one reservation system, one website and one inventory of flights to our guests. Our transition to a single PSS allows us to unlock many of the revenue synergies expected from the acquisition, as well as provide consistent branding to our guests at all airports gates, ticketing, and check-in areas.

Additionally, in June, we received FAA approval for our Airbus emergency procedures. This allows us to move forward with transition training for flight attendants so they can work on both Boeing and Airbus aircraft. We also integrated to a single weight and balance system in June. This not only allows us to take cargo on Airbus aircraft, which is an important revenue synergy, but it will also improve operational performance.

With the completion of our most recent milestones, our integration is now approximately 85 percent complete. One of the last major milestones to complete is our Airbus fleet reconfiguration. Between now and the end of 2018, we will paint approximately 25 Airbus aircraft with the Alaska livery and will begin reconfiguring Airbus aircraft to align with the Boeing aircraft to achieve one consistent cabin experience for our guests. We will also be integrating our crew management systems in late 2018 and early 2019.

We continue to make investments to enhance our onboard guest experience. Some of the more notable projects underway include adding satellite connectivity to our entire Boeing and Airbus fleets to offer high-speed satellite Wi-Fi, updating and expanding airport lounges in the JFK and Seattle airports, and investment in our Seattle hub airport to open a state-of-the-art 20-gate North Terminal facility. Throughout 2018 we will also be introducing new food and beverage menus, which include more fresh, local, and healthy offerings with a distinct West Coast vibe including salads, protein plates, and fresh snacks. Beginning in July, all Boeing and Airbus flights will have new beverage offerings, including craft beers, new juices and, coming this fall, an updated wine selection.

In April, we entered into a lease agreement with Southwest for 12 airport slots at LaGuardia Airport (LGA) and eight airport slots at Regan National Airport (DCA). The lease begins October 2018 and continues through 2028. This agreement enables us to monetize these valuable slots, and reallocate flying from Dallas Love Field (DAL) to more strategic and profitable opportunities on the West Coast. We maintain the right to resume flying using these slots, should we choose to do so, in 2028 when the agreement expires.

We have also announced new revenue initiatives. This fall, we will introduce a new option for our guests called the "Saver Fare," a low-priced product which we believe will result in annual revenue of approximately $100 million and is incremental to merger synergies. In addition, we have implemented a series of other revenue initiatives, such as offering exit rows for sale, introducing dynamic pricing for our premium class seats, leveraging new technology to better manage revenue post-sale, and eliminating fee waivers for changes made outside of 60 days. We believe these changes provide guests with more options and reflects the significant increase in the value of our expanded network and product, as well as unlocking the substantial synergies from the merger.

Currently, we expect to grow our combined network capacity by approximately 6% in 2018 and approximately 2% in 2019. Current schedules indicate competitive capacity will increase by approximately 4.5% in the third quarter of 2018, and approximately 6% in the fourth quarter of 2018. We believe that our product, our operation, our engaged employees, our award-winning service, and our competitive Mileage Plan™ program, combined with our strong balance sheet and focus on low costs, give us a competitive advantage in our markets.

Our current expectations for capacity and CASM excluding fuel and special items for the second quarter and full year 2018 are summarized below:

	Forecast Q3 2018	Q3 2017	% Change
Capacity (ASMs in millions)	17,095 - 17,145	16,164	~ 5.9%
Cost per ASM excluding fuel and special items (cents)[(a)]	8.36¢ - 8.41¢	8.00¢	~ 4.9%

	Forecast Full Year 2018	Full Year 2017	% Change
Capacity (ASMs in millions)	65,780 - 65,930	62,072	~ 6.1%
Cost per ASM excluding fuel and special items (cents)[(a)]	8.50¢ - 8.53¢	8.25¢	~ 3.2%

(a) 2017 CASMex reflects the impacts of the updated accounting standards, effective for the Company January 1, 2018.

RESULTS OF OPERATIONS

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 excluding 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 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 cash 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 an important metric 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 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.

OPERATING STATISTICS SUMMARY (unaudited)

Below are operating statistics we use to measure operating performance. We often refer to unit revenues and adjusted unit costs, which are non-GAAP measures.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	**2017**	**Change**	**2018**	**2017**	**Change**
Consolidated Operating Statistics:[(a)]						
Revenue passengers (000)	**12,069**	11,391	6.0%	**22,558**	21,399	5.4%
RPMs (000,000) "traffic"	**14,484**	13,554	6.9%	**26,887**	25,262	6.4%
ASMs (000,000) "capacity"	**16,833**	15,612	7.8%	**32,313**	30,006	7.7%
Load factor	**86.0%**	86.8%	(0.8) pts	**83.2%**	84.2%	(1.0) pts
Yield[(d)]	**13.79¢**	14.36¢	(4.0)%	**13.69¢**	14.04¢	(2.5)%
RASM[(d)]	**12.81¢**	13.46¢	(4.8)%	**12.34¢**	12.80¢	(3.6)%
CASM excluding fuel and special items[(b)(d)]	**8.14¢**	7.98¢	2.0%	**8.46¢**	8.17¢	3.5%
Economic fuel cost per gallon[(b)]	**$2.30**	$1.71	34.5%	**$2.22**	$1.75	26.9%
Fuel gallons (000,000)	**216**	201	7.5%	**413**	385	7.3%
ASMs per fuel gallon	**77.9**	77.7	0.3%	**78.2**	77.9	0.4%
Average full-time equivalent employees (FTEs)	**21,655**	19,745	9.7%	**21,461**	19,214	11.7%
Mainline Operating Statistics:						
Revenue passengers (000)	**9,462**	8,941	5.8%	**17,673**	16,715	5.7%
RPMs (000,000) "traffic"	**13,221**	12,525	5.6%	**24,581**	23,352	5.3%
ASMs (000,000) "capacity"	**15,289**	14,341	6.6%	**29,387**	27,602	6.5%
Load factor	**86.5%**	87.3%	(0.8) pts	**83.6%**	84.6%	(1.0) pts
Yield[(d)]	**12.95¢**	13.40¢	(3.4)%	**12.83¢**	13.07¢	(1.8)%
RASM[(d)]	**12.16¢**	12.77¢	(4.8)%	**11.70¢**	12.11¢	(3.4)%
CASM excluding fuel and special items[(b)(d)]	**7.43¢**	7.18¢	3.5%	**7.71¢**	7.35¢	4.9%
Economic fuel cost per gallon[(b)]	**$2.29**	$1.70	34.7%	**$2.22**	$1.74	27.6%
Fuel gallons (000,000)	**188**	179	5.0%	**360**	343	5.0%
ASMs per fuel gallon	**81.3**	80.3	1.2%	**81.5**	80.5	1.2%
Average FTEs	**16,477**	15,447	6.7%	**16,245**	15,227	6.7%
Aircraft utilization	**11.6**	11.4	1.8%	**11.4**	11.1	2.7%
Average aircraft stage length	**1,298**	1,294	0.3%	**1,294**	1,295	(0.1)%
Operating fleet	**228**	221	7 a/c	**228**	221	7 a/c
Regional Operating Statistics:[(c)]						
Revenue passengers (000)	**2,607**	2,450	6.4%	**4,885**	4,685	4.3%
RPMs (000,000) "traffic"	**1,263**	1,030	22.6%	**2,306**	1,910	20.7%
ASMs (000,000) "capacity"	**1,544**	1,270	21.6%	**2,926**	2,404	21.7%
Load factor	**81.8%**	81.1%	0.7 pts	**78.8%**	79.5%	(0.7 pts)
Yield[(d)]	**22.64¢**	26.04¢	(13.1)%	**22.93¢**	25.94¢	(11.6)%
RASM[(d)]	**19.14¢**	21.19¢	(9.7)%	**18.72¢**	20.70¢	(9.6)%
Operating fleet	**89**	78	11 a/c	**89**	78	11 a/c

(a) Except for FTEs, data includes information related to third-party regional capacity purchase flying arrangements.
(b) See reconciliation of this non-GAAP 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.
(d) Certain historical information has been adjusted to reflect the adoption of new accounting standards.

COMPARISON OF THREE MONTHS ENDED JUNE 30, 2018 TO THREE MONTHS ENDED JUNE 30, 2017

Our consolidated net income for the three months ended June 30, 2018 was $193 million, or $1.56 per diluted share, compared to net income of $293 million, or $2.36 per diluted share, for the three months ended June 30, 2017.

Excluding the impact of merger-related costs and mark-to-market fuel hedge adjustments, our adjusted net income for the second quarter of 2018 was $206 million, or $1.66 per diluted share, compared to an adjusted net income of $309 million, or $2.48 per diluted share, in the second quarter of 2017. Historical information has been adjusted to reflect the adoption of new accounting standards effective for the Company January 1, 2018. The following tables reconcile our adjusted net income and adjusted earnings per diluted share (EPS) to amounts as reported in accordance with GAAP:

	Three Months Ended June 30,			
	2018		2017	
(in millions, except per share amounts)	Dollars	Diluted EPS	Dollars	Diluted EPS
GAAP net income and diluted EPS	**$ 193**	**$ 1.56**	$ 293	$ 2.36
Mark-to-market fuel hedge adjustments	**(22)**	**(0.18)**	2	0.02
Special items—merger-related costs	**39**	**0.31**	24	0.19
Income tax effect	**(4)**	**(0.03)**	(10)	(0.09)
Non-GAAP adjusted net income and diluted EPS	**$ 206**	**$ 1.66**	$ 309	$ 2.48

CASM reconciliation is summarized below:

	Three Months Ended June 30,		
(in cents)	2018	2017	% Change
Consolidated:			
CASM	**11.20¢**	10.34¢	8%
Less the following components:			
Aircraft fuel, including hedging gains and losses	**2.82**	2.21	28%
Special items—merger-related costs and other	**0.24**	0.15	60%
CASM excluding fuel and special items	**8.14¢**	7.98¢	2%
Mainline:			
CASM	**10.36¢**	9.48¢	9%
Less the following components:			
Aircraft fuel, including hedging gains and losses	**2.68**	2.13	26%
Special items—merger-related costs and other	**0.25**	0.17	47%
CASM excluding fuel and special items	**7.43¢**	7.18¢	4%

OPERATING REVENUES

Total operating revenues increased $54 million, or 3%, during the second quarter of 2018 compared to the same period in 2017. The changes are summarized in the following table:

	Three Months Ended June 30,		
(in millions)	2018	2017	% Change
Passenger revenue	**$ 1,997**	$ 1,945	3 %
Mileage plan other revenue	**108**	109	(1)%
Cargo and other	**51**	48	6 %
Total operating revenues	**$ 2,156**	$ 2,102	3 %

Passenger Revenue

On a consolidated basis, Passenger revenue for the second quarter of 2018 increased by $52 million, or 3%, on an 8% increase in capacity, partially offset by 4% lower ticket yields and a 1 pt decrease in load factor. The increase in capacity was driven by our continued network expansion and aircraft added to our fleet since the second quarter of 2017. Lower yields are a result of competitive pricing pressure we are experiencing, specifically on the West Coast, while lower load factor is a result of significant capacity growth in our markets by us and our competitors. We are working on a number of revenue initiatives to help improve our revenue performance.

Mileage Plan™ Other Revenue

On a consolidated basis, Mileage Plan™ other revenue decreased $1 million, or 1%, compared to the second quarter of 2017. The decrease is primarily attributable to higher costs for redemption of awards on other airlines, partially offset by an increase in commission revenue from our growing affinity credit card program.

OPERATING EXPENSES

Total operating expenses increased $270 million, or 17%, compared to the second quarter of 2017. 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:

	Three Months Ended June 30,		
(in millions)	**2018**	**2017**	**% Change**
Fuel expense	**$ 475**	$ 344	38%
Non-fuel operating expenses, excluding special items	**1,371**	1,247	10%
Special items—merger-related costs	**39**	24	63%
Total operating expenses	**$ 1,885**	$ 1,615	17%

Fuel Expense

Aircraft fuel expense includes *raw fuel expense* (as defined below) plus the effect of mark-to-market adjustments to our fuel hedge portfolio 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 $131 million, or 38%, compared to the second quarter of 2017. The elements of the change are illustrated in the following table:

	Three Months Ended June 30,			
	2018		2017	
(in millions, except for per gallon amounts)	**Dollars**	**Cost/Gal**	**Dollars**	**Cost/Gal**
Raw or "into-plane" fuel cost	**$ 506**	**$ 2.34**	$ 337	$ 1.69
(Gains) losses on settled hedges	**(9)**	**(0.04)**	5	0.02
Consolidated economic fuel expense	**497**	**2.30**	$ 342	$ 1.71
Mark-to-market fuel hedge adjustments	**(22)**	**(0.10)**	2	0.01
GAAP fuel expense	**$ 475**	**$ 2.20**	$ 344	$ 1.72
Fuel gallons	**216**		201	

Raw fuel expense per gallon for the three months ended June 30, 2018 increased by approximately 38% due to higher West Coast jet fuel prices. West Coast jet fuel prices are impacted by both the price of crude oil, and refining margins associated with the conversion of crude oil to jet fuel. The increase in raw fuel price per gallon during the second quarter of 2018 was primarily driven by a 57% increase in refining margins and a 41% increase in crude oil prices, when compared to the prior year. Fuel gallons consumed increased by 15 million gallons, or 7%, 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.

Gains recognized for hedges that settled during the second quarter were $9 million in 2018, compared to losses of $5 million in the same period in 2017. These amounts represent cash paid for premium expense, offset by any cash received from those hedges at settlement.

Non-fuel Expenses

The table below provides the reconciliation of the operating expense line items, excluding fuel and special items. Significant operating expense variances from 2017 are more fully described below.

	Three Months Ended June 30,		
(in millions)	**2018**	**2017**	**% Change**
Wages and benefits	**$ 544**	$ 470	16 %
Variable incentive pay	**38**	27	41 %
Aircraft maintenance	**106**	96	10 %
Aircraft rent	**77**	69	12 %
Landing fees and other rentals	**110**	99	11 %
Contracted services	**76**	77	(1)%
Selling expenses	**88**	102	(14)%
Depreciation and amortization	**97**	90	8 %
Food and beverage service	**55**	50	10 %
Third-party regional carrier expense	**39**	27	44 %
Other	**141**	140	1 %
Total non-fuel operating expenses, excluding special items	**$ 1,371**	$ 1,247	10 %

Wages and Benefits

Wages and benefits increased during the second quarter of 2018 by $74 million, or 16%. The primary components of Wages and benefits are shown in the following table:

	Three Months Ended June 30,		
(in millions)	**2018**	**2017**	**% Change**
Wages	**$ 411**	$ 359	14%
Pension—Defined benefit plans service cost	**12**	10	20%
Defined contribution plans	**30**	23	30%
Medical and other benefits	**61**	52	17%
Payroll taxes	**30**	26	15%
Total wages and benefits	**$ 544**	$ 470	16%

Wages increased 14% on a 10% increase in FTEs. The increase in FTEs is primarily attributable to the growth in McGee Air Services, which has insourced certain airport group service functions that were previously provided by third-party vendors and reflected in Contracted Services expense. To a lesser extent, we have experienced FTE growth in other areas as the business has grown. The remaining increase in wages is driven by increased wage rates in many work groups, including pilots and flight attendants whose new contract rates became effective in the fourth quarter of 2017 and first quarter of 2018, respectively.

Variable Incentive Pay

Variable incentive pay expense increased by $11 million, or 41%, during the second quarter of 2018 compared to the same period in 2017. This increase was primarily due to a higher wage base on which performance-based pay is determined.

Aircraft Maintenance

Aircraft maintenance expense increased by $10 million, or 10%, during the second quarter of 2018 compared to the same period in 2017. Maintenance costs increased primarily due to a power-by-the-hour engine maintenance arrangement on our B737-800 aircraft which was entered into, and became effective, in the fourth quarter of 2017. Although the agreement results in increased expense earlier in the engine life cycle of B737-800 aircraft, it allows for much more predictable expense patterns over the fleet life.

Landing Fees and Other Rentals

Landing fees and other rental expenses increased by $11 million, or 11%, during the second quarter of 2018 compared to the same period in 2017. This increase was primarily driven by our 8% increase in capacity and rate increases at airports across our network.

Selling Expenses

Selling expenses decreased $14 million, or 14%, during the second quarter of 2018 compared to the same period in 2017. This decrease was primarily due to decreased commission costs from other airlines for transporting their frequent flyer members, lower credit card commissions, and decreased promotional and advertising activities, specifically those related to Virgin America.

Third-party regional carrier expense

Third-party regional carrier expense, which represents payments made to SkyWest and PenAir under our CPA agreements, increased by $12 million, or 44%, during the second quarter of 2018 compared to the same period in 2017. This increase is primarily due to the additional nine E175 aircraft operated by SkyWest compared to the second quarter of 2017.

Special Items – Merger-related Costs

We recorded special items of $39 million for merger-related costs associated with our acquisition of Virgin America during the second quarter of 2018, compared to $24 million during the same period in 2017. Costs incurred in the second quarter of 2018 consisted primarily of IT integration costs as well as the write off of Virgin America related assets connected with our transition to a single PSS in April. We expect to continue to incur merger-related costs through 2019.

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 $288 million in the second quarter of 2018, compared to $478 million in the second quarter of 2017. The $190 million decrease in pretax profit was primarily driven by a $128 million increase in economic fuel cost and a $105 million increase in non-fuel operating expenses, partially offset by a $34 million increase in passenger revenues.

The increase in Mainline passenger revenue for the second quarter of 2018 was primarily driven by capacity growth, partially offset by lower average fares.

Higher raw fuel prices and an increase in gallons consumed to support additional flying drove the increase in Mainline fuel expense. Non-fuel operating expenses increased due to higher wages to support our growth, and higher operating expenses as described above.

Regional

Our Regional operations incurred a pretax loss of $20 million in the second quarter of 2018, compared to a pretax profit of $34 million in the second quarter of 2017. The pretax loss was attributable to higher fuel costs, and higher non-fuel operating expense, partially offset by an $18 million increase in operating revenues.

Regional passenger revenue increased 7% compared to the second quarter of 2017, primarily driven by a 22% increase in capacity and an increase in load factor of 0.7 pts, partially offset by 13% lower ticket yields. The increase in capacity is due to an increase in departures from new E175 deliveries, an increase in average aircraft stage length, and the annualization of new routes introduced over the past 12 months. Lower yields are a result of competitive pricing pressure we are experiencing, specifically on the West Coast.

Horizon

Horizon achieved a pretax profit of $10 million in the second quarter of 2018, compared to a pretax loss of $9 million in the second quarter of 2017. The change was primarily driven by a $29 million increase in operating revenue, attributable to the additional nine E175 aircraft added to Horizon's fleet since the second quarter of 2017 and better operating performance in 2018.

COMPARISON OF SIX MONTHS ENDED JUNE 30, 2018 TO SIX MONTHS ENDED JUNE 30, 2017

Our consolidated net income for the six months ended June 30, 2018 was $197 million, or $1.59 per diluted share, compared to net income of $386 million, or $3.10 per diluted share, for the six months ended June 30, 2017.

Excluding the impact of merger-related costs, mark-to-market fuel hedge adjustments, and a special employee tax reform bonus in connection with the passing of the Tax Cuts and Jobs Act (TCJA), our adjusted net income for the six months ended June 30, 2018 was $224 million, or $1.81 per diluted share, compared to an adjusted net income of $433 million, or $3.48 per diluted share, in the six months ended June 30, 2017. Historical information has been adjusted to reflect the adoption of new accounting standards effective for the Company as of January 1, 2018. The following tables reconcile our adjusted net income and adjusted earnings per diluted share (EPS) to amounts as reported in accordance with GAAP:

	Six Months Ended June 30,			
	2018		2017	
(in millions, except per share amounts)	Dollars	Diluted EPS	Dollars	Diluted EPS
Reported GAAP net income and diluted EPS	**$ 197**	**$ 1.59**	$ 386	$ 3.10
Mark-to-market fuel hedge adjustments	**(35)**	**(0.28)**	12	0.10
Special items—employee tax reform bonus	**25**	**0.20**	—	—
Special items—merger-related costs	**45**	**0.36**	63	0.51
Income tax effect on special items and fuel hedge adjustments	**(8)**	**(0.06)**	(28)	(0.23)
Non-GAAP adjusted net income and diluted EPS	**$ 224**	**$ 1.81**	$ 433	$ 3.48

Our operating costs per ASM are summarized below:

	Six Months Ended June 30,		
(in cents)	2018	2017	% Change
Consolidated:			
CASM	**11.41¢**	10.66¢	7 %
Less the following components:			
Aircraft fuel, including hedging gains and losses	**2.74**	2.28	20 %
Special items—merger-related costs	**0.21**	0.21	— %
CASM excluding fuel and special items	**8.46¢**	8.17¢	4 %
Mainline:			
CASM	**10.54¢**	9.79¢	8 %
Less the following components:			
Aircraft fuel, including hedging gains and losses	**2.60**	2.20	18 %
Special items—merger-related costs	**0.23**	0.24	(4)%
CASM excluding fuel and special items	**7.71¢**	7.35¢	5 %

OPERATING REVENUES

Total operating revenues increased $146 million, or 4%, during the first six months of 2018 compared to the same period in 2017. The changes are summarized in the following table:

	Six Months Ended June 30,		
(in millions)	2018	2017	% Change
Passenger revenue	**$ 3,682**	$ 3,547	4%
Mileage plan other revenue	**215**	209	3%
Cargo and other	**91**	86	6%
Total operating revenues	**$ 3,988**	$ 3,842	4%

Passenger Revenue

On a consolidated basis, Passenger revenue for the first six months of 2018 increased by $135 million, or 4%, on an 8% increase in capacity, partially offset by 2.5% lower ticket yields and a 1 pt decrease in load factor. The increase in capacity was driven by our continued network expansion and aircraft added to our fleet since June 30, 2017. Lower yields are a result of competitive pricing pressure we are experiencing, specifically on the West Coast, while lower load factor is a result of significant capacity growth in our markets by us and our competitors. We are working on a number of revenue initiatives to help improve our revenue performance.

Mileage Plan™ Other Revenue

On a consolidated basis, Mileage Plan™ other revenue increased $6 million or 3% in the first six months of 2018 compared to the first six months of 2017. The increase is primarily attributable to an increase in commission revenue from our growing affinity credit card program, partially offset by increasing costs for redemption of awards on other airlines.

OPERATING EXPENSES

Total operating expenses increased $490 million, or 15%, compared to the first six months of 2017. 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:

	Six Months Ended June 30,		
(in millions)	**2018**	**2017**	**% Change**
Fuel expense	**$ 884**	$ 683	29 %
Non-fuel operating expenses, excluding special items	**2,734**	2,452	12 %
Special items—merger-related costs	**45**	63	(29)%
Special items—employee tax reform bonus	**25**	—	NM
Total operating expenses	**$ 3,688**	$ 3,198	15 %

Fuel Expense

Aircraft fuel expense increased $201 million, or 29%, compared to the six months ended June 30, 2017. The elements of the change are illustrated in the following table:

	Six Months Ended June 30,			
	2018		**2017**	
(in millions, except for per gallon amounts)	**Dollars**	**Cost/Gal**	**Dollars**	**Cost/Gal**
Raw or "into-plane" fuel cost	**$ 929**	**$ 2.25**	$ 663	$ 1.73
(Gains) losses on settled hedges	**(10)**	**(0.03)**	8	0.02
Consolidated economic fuel expense	**919**	**2.22**	$ 671	$ 1.75
Mark-to-market fuel hedge adjustments	**(35)**	**(0.08)**	12	0.03
GAAP fuel expense	**$ 884**	**$ 2.14**	$ 683	$ 1.78
Fuel gallons	**413**		385	

The raw fuel price per gallon increased 30% due to higher West Coast jet fuel prices. 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 six months of 2018 was driven by a 31% increase in crude oil prices and a 53% increase in refining margins.

Gains recognized for hedges that settled in the first six months of 2018 were $10 million, compared to losses of $8 million in the same period in 2017. These amounts represent cash paid for premium expense, offset by cash received from settled hedges.

We currently expect our economic fuel price per gallon to be higher in the third quarter of 2018 compared to the third quarter of 2017 due to our current estimate of higher crude prices and higher refining margins.

Non-fuel Expense and Non- special items

	Six Months Ended June 30,		
(in millions)	2018	2017	% Change
Wages and benefits	**$ 1,080**	$ 920	17 %
Variable incentive pay	**77**	58	33 %
Aircraft maintenance	**213**	183	16 %
Aircraft rent	**151**	134	13 %
Landing fees and other rentals	**236**	214	10 %
Contracted services	**157**	158	(1)%
Selling expenses	**166**	185	(10)%
Depreciation and amortization	**191**	180	6 %
Food and beverage service	**105**	95	11 %
Third-party regional carrier expense	**76**	54	41 %
Other	**282**	271	4 %
Total non-fuel operating expenses, excluding special items	**$ 2,734**	$ 2,452	12 %

Wages and Benefits

Wages and benefits increased during the first six months of 2018 by $160 million, or 17%, compared to 2017. The primary components of wages and benefits are shown in the following table:

	Six Months Ended June 30,		
(in millions)	2018	2017	% Change
Wages	**$ 818**	$ 696	18%
Pension—Defined benefit plans service cost	**24**	20	20%
Defined contribution plans	**58**	48	21%
Medical and other benefits	**121**	104	16%
Payroll taxes	**59**	52	13%
Total wages and benefits	**$ 1,080**	$ 920	17%

Wages increased $122 million, or 18%, on a 12% increase in FTEs. The increase in FTEs is primarily attributable to the growth in McGee Air Services, which has insourced certain airport ground service functions that were previously provided by third-party vendors and reflected in Contracted services expense. Additionally, higher wage rates for Boeing and Airbus pilots and flight attendants as a result of new contract rates effective in the fourth quarter or 2017 and the first quarter of 2018, respectively, resulted in higher wages in the current year.

Costs associated with our defined contribution plans increased $10 million, or 21%, due to FTE growth, increased participation throughout all labor groups, and higher contribution rates for Boeing and Airbus pilots and flight attendants as a result of new contract rates effective in the fourth quarter of 2017 and the first quarter of 2018, respectively.

Medical and other benefits expense increased $17 million, or 16%, primarily due to FTE growth and rising medical costs.

For the full year, we expect wages and benefits to increase at a rate greater than capacity growth, due to higher wage rates for certain labor groups and the continued growth of McGee Air Services.

Variable Incentive Pay

Variable incentive pay expense increased during the first six months of 2018 by $19 million, or 33% compared to the same period in 2017. This increase was primarily due to a higher wage base as a result of higher wages noted above.

For the full year, we expect variable incentive pay expense to be higher than in 2017 due to a higher wage base resulting from the new wage rates effective over the past year, particularly for pilots and flight attendants.

Aircraft Maintenance

Aircraft maintenance expense increased by $30 million, or 16%, during the first six months of 2018 compared to the same period in 2017. Maintenance costs increased primarily due to a power-by-the-hour engine maintenance arrangement on our B737-800 aircraft that we entered into, and became effective, in the fourth quarter of 2017.

For the full year, we expect aircraft maintenance expense to increase at a greater rate than capacity growth in 2018.

Aircraft Rent

Aircraft rent expense increased by $17 million, or 13%, during the first six months of 2018 compared to the same period in 2017. Aircraft rent increased primarily due to the addition of six A321neos added to our mainline fleet and nine E175s added to our regional fleet since June 30, 2017, partially offset by the return of four Q400 and four B737-400 aircraft.

For the full year, we expect aircraft rent to increase at a greater rate than capacity due to additional leased A321neo and E175 aircraft added to our fleet in 2018.

Landing Fees and Other Rentals

Landing fees and other rental expenses increased by $22 million, or 10%, during the first six months of 2018 compared to the same period in 2017. This increase was primarily driven by our capacity increase of 8% and rate increases at airports across our network.

For the full year, we expect landing fees and other rental expense to grow at a greater rate than projected capacity growth, due to anticipated rate increases at airports across our network.

Selling Expenses

Selling expenses decreased $19 million, or 10%, during the first six months of 2018 compared to the same period in 2017. This decrease was primarily due to decreased commission costs from other airlines for transporting their frequent flyer members, lower credit card commissions, and decreased promotional and advertising activities, specifically those related to Virgin America.

For the full year, we expect selling expenses to be lower than in 2017 for the reasons mentioned above.

Food and Beverage Service

Food and beverage expense increased $10 million, or 11%, during the first six months of 2018 compared to the same period in 2017. This increase was primarily due to enhancements to our onboard menu offerings to provide higher quality food and beverage products, the addition of premium class offerings, and increased number of passengers.

For the full year, we expect food and beverage expense to increase at a rate consistent with our projected capacity growth.

Third-Party Regional Carrier Expense

Third-party regional carrier expense, which represents payments made to SkyWest and Pen Air under our CPAs, increased $22 million, or 41%, during the first six months of 2018 compared to the same period in 2017. The increase is primarily due to the additional nine E175 aircraft operated by SkyWest in the current year.

For the full year, we expect third-party regional carrier expense to increase at a greater rate than our consolidated capacity growth due to increased flying by our regional partners.

Special Items—Merger-Related Costs

We recorded special items of $45 million for merger-related costs associated with our acquisition of Virgin America in the first six months of 2018, compared to $63 million in the first six months of 2017. Costs incurred in the first six months of 2018 consisted primarily of severance and retention costs, IT integration costs, and the write off of Virgin America related assets connected with our transition to a single PSS in April. We expect to incur merger-related costs for the remainder of 2018, and continuing through 2019.

ADDITIONAL SEGMENT INFORMATION

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

Mainline

Mainline adjusted pretax profit was $357 million in the first six months of 2018, compared to $677 million in the same period in 2017. The $320 million decrease in pretax profit was primarily driven by a $236 million increase in Mainline non-fuel operating expenses and a $203 million increase in Mainline fuel expense. These increases were partially offset by a $111 million increase in Mainline passenger revenue.

Non-fuel operating expenses increased on higher wages related to new contract wage rates for pilots and flight attendants, and higher other operating expense categories as described above. Higher raw fuel prices and an increase in gallons consumed drove an increase in Mainline fuel expense. Mainline revenue increased primarily due to increased revenue passengers on lower average fares.

Regional

Our Regional operations incurred a pretax loss of $69 million in the first six months of 2018, compared to a pretax profit of $32 million in the first six months of 2017. The pretax loss was attributable to higher raw fuel costs and higher non-fuel operating expense, partially offset by a $34 million increase in operating revenues.

Horizon

Horizon contributed a pretax profit of $13 million in the first six months of 2018, compared to pretax loss of $16 million in the same period in 2017. The change was primarily driven by a $42 million increase in operating revenue, attributable to the addition of nine E175 aircraft added to Horizon's fleet over the past twelve months.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are:

- Our existing cash and marketable securities balance of $1.6 billion, and our expected cash from operations;
- Our 83 unencumbered operating aircraft that could be financed, if necessary;
- Our combined bank line-of-credit facilities, with no outstanding borrowings, of $400 million. Information about these facilities can be found in Note 5 to the condensed consolidated financial statements.

During the six months ended June 30, 2018, we took free and clear delivery of three B737-900ER aircraft and five E175 aircraft. We made debt payments totaling $258 million, including the prepayment of $43 million of debt, and paid dividends totaling $79 million.

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

(in millions)	June 30, 2018		December 31, 2017		Change
Cash and marketable securities	**$**	**1,568**	$	1,621	(3) %
Cash, marketable securities, and unused lines of credit as a percentage of trailing twelve months' revenue		**24%**		26%	(2) pts
Long-term debt, net of current portion	**$**	**1,998**	$	2,262	(12)%
Shareholders' equity	**$**	**3,593**	$	3,460	4%

Debt-to-capitalization, adjusted for aircraft operating leases

(in millions)	June 30, 2018		December 31, 2017		Change
Long-term debt	$	1,998	$	2,262	12%
Capitalization of aircraft operating leases[a]		1,883		1,671	(13)%
Adjusted debt	$	3,881	$	3,933	1%
Shareholders' equity		3,593		3,460	(4)%
Total Capital	$	7,474	$	7,393	(1)%
Debt-to-capitalization, adjusted for aircraft operating leases		52%		53%	(1) pt

(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 six months of 2018, net cash provided by operating activities was $726 million, compared to $1,084 million during the same period in 2017. The $358 million decrease in our operating cash flows is primarily attributable to a decrease in net income, driven by rising fuel prices, higher non-fuel operating costs, significant new market development, and continuing competitive pressures. Additionally, we had a smaller year-over-year increase in air traffic liability due to changes in sales patterns and an overall decline in fares, partially offset by capacity growth.

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

Cash Used in Investing Activities

Cash used in investing activities was $468 million during the first six months of 2018, compared to $971 million during the same period of 2017. Our capital expenditures were $423 million in the first six months of 2018, a decrease of $89 million compared to the six months ended June 30, 2017. This is primarily driven by lower spend on other property and equipment compared to the same period of 2017. Our net purchases of marketable securities decreased by $414 million from the prior year, which is generally timing related. Internally, we analyze our cash and marketable securities balance in the aggregate.

The table below reflects our full-year expectation for capital expenditures based on our current intentions. It does not reflect our actual contractual obligations at this time, nor does it reflect the capital expenditures that would be incurred if we exercised options that are available to us. We have options to acquire 37 B737 aircraft with deliveries from 2020 through 2024, and options to acquire 30 E175 aircraft with deliveries in 2021 to 2023. Options will be exercised only if we believe return on invested capital targets can be met. The table below excludes any associated capitalized interest.

(in millions)	2018	2019	2020
Targeted capital expenditures	$ 1,000	$ 750	$ 750

Cash Used in Financing Activities

Cash used in financing activities was $347 million during the first six months of 2018 compared to $243 million during the same period in 2017. During the first six months of 2018 we made debt payments of $258 million, including the prepayment of $43 million of debt, dividend payments totaling $79 million, and had $25 million in common stock repurchases.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Aircraft Commitments

As of June 30, 2018, we have firm orders to purchase or lease 67 aircraft. We also have cancelable purchase commitments for 30 Airbus A320neo with deliveries from 2021 through 2023. We could incur a loss of pre-delivery payments and credits as a cancellation fee. We also have options to acquire 37 B737 aircraft with deliveries from 2020 through 2024 and 30 E175 aircraft with deliveries from 2021 through 2023. In addition to the 29 E175 aircraft currently operated by SkyWest in our regional fleet, we have firm orders to lease six E175 aircraft with deliveries in 2018 through 2021, and 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 June 30, 2018:

	Actual Fleet	Expected Fleet Activity[a]				
Aircraft	**June 30, 2018**	**2018 Additions**	**2018 Removals**	**December 31, 2018**	**2019 Changes**	**December 31, 2019**
B737 Freighters	3	—	—	3	—	3
B737 Passenger Aircraft[c]	154	5	—	159	7	166
Airbus Passenger Aircraft	71	—	—	71	1	72
Total Mainline Fleet	**228**	**5**	**—**	**233**	**8**	**241**
Q400 operated by Horizon[b]	45	—	(8)	37	(7)	30
E175 operated by Horizon[b]	15	11	—	26	4	30
E175 operated by third party[b]	29	3	—	32	—	32
Total Regional Fleet	**89**	**14**	**(8)**	**95**	**(3)**	**92**
Total	**317**	**19**	**(8)**	**328**	**5**	**333**

(a) The expected fleet counts at December 31, 2018 and 2019 are subject to change.
(b) Aircraft are either owned or leased by Horizon or operated under capacity purchase agreement with a third party.
(c) Aircraft deliveries reflect the supplemental agreement entered with Boeing in the first quarter of 2018 which deferred certain B737 deliveries. Our first MAX9 delivery is scheduled for 2019.

For future firm orders and option exercises, we may finance the aircraft through cash flow from operations, long-term debt, or lease arrangements.

Fuel Hedge Positions

All of our future 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 are hedged against volatile crude oil price increases. During a period of decline in crude oil prices, we only forfeit cash previously paid for hedge premiums. Our crude oil positions are as follows:

	Approximate % of Expected Fuel Requirements	Weighted-Average Crude Oil Price per Barrel	Average Premium Cost per Barrel
Third Quarter 2018	50%	$ 65	$ 1
Fourth Quarter 2018	50%	68	1
Remainder 2018	**50%**	**$ 67**	**$ 1**
First Quarter 2019	40%	70	1
Second Quarter 2019	30%	72	2
Third Quarter 2019	20%	74	2
Fourth Quarter 2019	10%	77	3
Full Year 2019	**25%**	**$ 72**	**$ 2**

Contractual Obligations

The following table provides a summary of our obligations as of June 30, 2018. For agreements with variable terms, amounts included reflect our minimum obligations.

(in millions)	Remainder of 2018	2019	2020	2021	2022	Beyond 2022	Total
Current and long-term debt obligations	$ 142	$ 317	$ 435	$ 418	$ 243	$ 768	$ 2,323
Operating lease commitments [(a)]	215	417	384	334	297	1,210	2,857
Aircraft maintenance deposits [(b)]	32	65	68	64	52	38	319
Aircraft commitments [(c)]	467	558	515	562	304	141	2,547
Interest obligations [(d)]	44	83	69	51	37	72	356
Other obligations	71	145	152	173	181	1,225	1,947
Total	$ 971	$ 1,585	$ 1,623	$ 1,602	$ 1,114	$ 3,454	$ 10,349

(a) Operating lease commitments generally include aircraft operating leases, airport property and hangar leases, office space, and other equipment leases. Included here are E175 aircraft 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, buyer furnished equipment, and aircraft maintenance and parts management.
(d) For variable-rate debt, future obligations are shown above using forecasted interest rates as of June 30, 2018.

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 fell below $500 million. Under another such agreement, we could be required to maintain a reserve if our cash and marketable securities balance fell 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, any future tax reform efforts at the federal level, as well as other legislative changes that are beyond our control. We believe that we will have the liquidity available to make our future tax payments.

CRITICAL ACCOUNTING ESTIMATES

With the exception of the items noted below, there have been no material changes to our critical accounting estimates for the six months ended June 30, 2018. 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, 2017.

Frequent Flyer Programs

Alaska's Mileage Plan™ loyalty program awards mileage credits to members who fly on our airlines and our airline partners, referred to as flown miles. We also sell services, including miles for transportation, Companion Fare™ certificates, bag fee waivers, and access to our brand and customer lists to a major bank that offers Alaska affinity credit cards. To a lesser extent, miles for transportation are also sold to other non-airline partners, such as hotels and car rental agencies. The outstanding miles may be redeemed for travel on our airlines or any of our airline partners. As long as Mileage Plan™ is in existence, we have an obligation to provide this future travel.

Mileage credits and the various other services we sell under our loyalty program represent performance obligations that are part of a multiple deliverable revenue arrangement. Accounting guidance requires that we use a relative standalone selling price allocation to allocate consideration received to the material performance obligations in these contracts. Our relative standalone selling price allocation models are refreshed when contracts originate or are materially modified.

At June 30, 2018 we had approximately 229 billion miles outstanding, resulting in an aggregate deferred revenue balance of $1.8 billion. The deferred revenue resulting from our relative selling price allocations requires significant management judgment. There are uncertainties inherent in these estimates. Therefore, different assumptions could affect the amount and/or timing of revenue recognition. The most significant assumptions are described below.

1. *The rate at which we defer sales proceeds related to services sold:*

   We estimate the standalone selling price for each performance obligation, including mileage credits, by considering multiple inputs and methods, including but not limited to, the estimated selling price of comparable travel, discounted cash flows, brand value published selling prices, number of miles awarded and the number of miles redeemed. We estimate the selling prices and volumes over the terms of the agreements in order to determine the allocation of proceeds to each of the multiple deliverables.

2. *The number of miles that will not be redeemed for travel (breakage):*

   We estimate how many miles will be used per award. For example, our members may redeem mileage credits for award travel to various locations or choose between a highly restricted award and an unrestricted award. Our estimates are based on the current requirements in our Mileage Plan™ program and historical award redemption patterns.

We regularly review significant Mileage Plan™ assumptions and change our assumptions if facts and circumstances indicate that a change is necessary. Any such change in assumptions could have a significant effect on our financial position and results of operations.

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

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

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, 2017.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of June 30, 2018, 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 June 30, 2018.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company’s internal controls over financial reporting during the quarter ended June 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Our internal control over financial reporting is based on the 2013 framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework).

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. In January 2018, Virgin America filed a motion to decertify the class and Plaintiffs filed a motion for summary judgment seeking the court to rule in their favor on all remaining claims. In July 2018, the Court denied in part and granted in part Virgin America's motion to decertify the class and granted in part and denied in part Plaintiffs' motion for summary judgment. A trial on the remaining claim is currently set for October 2018. The Company believes the claims in this case are without factual and legal merit and intends to defend the remaining claim in this lawsuit and will appeal the claims decided in the Plaintiffs' favor.

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, 2017.

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

This table provides certain information with respect to our purchases of shares of our common stock during the second quarter of 2018.

	Total Number of Shares Purchased	Average Price Paid per Share	Maximum remaining dollar value of shares that can be purchased under the plan (in millions)
April 1, 2018 - April 30, 2018	92,550	$ 62.14	
May 1, 2018 - May 31, 2018	43,838	59.46	
June 1, 2018 - June 30, 2018	67,690	62.04	
Total	204,078	$ 61.53	$ 587

The shares were purchased pursuant to a $1 billion repurchase plan authorized by the Board of Directors in August 2015.

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

August 8, 2018

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Form	Date of First Filing	Exhibit Number
3.1	Amended and Restated Certificate of Incorporation of Registrant	10-Q	August 3, 2017	3.1
10.1*	Alaska Air Group Operational Performance Rewards Plan Description, adopted January 3, 2005; Amended January 17, 2018	10-K	February 15, 2018	10.25
10.2*	Alaska Air Group Performance Based Pay Plan, Amended and Restated January 17, 2018	10-K	February 15, 2018	10.26
10.3†*	General Release Agreement dated July 6, 2018 among Peter Hunt, Virgin America Inc. and Alaska Airlines, Inc.	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			

<u>GENERAL RELEASE AGREEMENT</u>

This General Release Agreement (this "<u>Agreement</u>") is entered into this _6th_ day of July 2018, by and among Peter Hunt, an individual ("<u>Employee</u>"), Virgin America Inc., a Delaware corporation (the "<u>Corporation</u>"), and Alaska Airlines, Inc., an Alaska corporation ("<u>Alaska</u>") (individually, a "party" and collectively, the "parties").

WHEREAS, Employee previously agreed to work through a June 14, 2018 employment period ("<u>Employment Period</u>");

WHEREAS, Employee worked through Employee's Employment Period;

WHEREAS, the parties have agreed that Employee's employment with the Corporation and Alaska terminated on June 14, 2018 (the "<u>Separation Date</u>");

WHEREAS, Employee received a payment of $5,979,295.67 on December 19, 2016, such amount representing the value as of December 14, 2016 of Employee's stock in the Corporation, which vested on an accelerated basis on December 14, 2016;

WHEREAS, Employee received a payment of $1,372,967 on February 13, 2017, such amount representing the amount Employee would have received under the Virgin America Inc. Change in Control Severance Plan (and Summary Plan Description) Effective November 19, 2014 ("<u>CIC Plan</u>") as a cash severance payment ("<u>Closing Bonus</u>") had Employee not waived Employee's rights under the CIC Plan in the Alaska Airlines Offer Letter (as defined below) and the July 2016 General Release Agreement (as defined below);

WHEREAS, Employee received a payment of $186,030.10 on March 10, 2017, such amount representing the amount that Employee received under the Virgin America Inc. Management Executive Compensation Plan ("<u>ICP Plan</u>") for fiscal year 2016;

WHEREAS, Employee received a payment of $450,450.18 on January 26, 2018 pursuant to the Alaska Airlines Offer Letter (as defined below), such amount representing the amount that Employee received under the Alaska Air Group, Inc. Performance-Based Pay Plan ("<u>PBP Plan</u>") for fiscal year 2017; and

WHEREAS, subject to Employee's timely execution and delivery, and non-revocation of this Agreement, the parties acknowledge that Employee is entitled to the following severance benefits (collectively referred to herein as "<u>Severance Benefits</u>"):

(a) Vesting of Employee's "First Grant" (as that term was defined in the Alaska Airlines Offer Letter (as defined below) of RSUs, such RSUs to be settled in accordance with the terms of the grant agreement for the First Grant;

(b) Vesting of Employee's "Second Grant" (as that term was defined in the Alaska Airlines Offer Letter (as defined below) of RSUs, such RSUs to be settled in accordance with the terms of the grant agreement for the Second Grant;

(c) A cash payment in the amount of $14,281.44, such amount representing a payment that Employee may use to cover certain healthcare expenses if Employee so chooses ("Cash Healthcare Payment") and such Cash Healthcare Payment to be paid on or before August 13, 2018;

(d) A cash payment in the amount of $121,875, such amount representing a pro-rated payment under the PBP Plan based on Employee's target participation rate for five (5) months of Employee's employment in 2018 ("2018 PBP Payment") and such 2018 PBP Payment to be paid on or before August 13, 2018;

(e) Career counseling and career transition consulting services in an amount of up to $10,000, which will be available to Employee as of the Separation Date, provided by Lee Hecht Harrison, and billed directly to Alaska; and

(f) Lifetime, positive-space, first-class cabin air travel for Employee, Employee's covered family members, and dependents[1] for leisure travel ("Travel Benefits"), such Travel Benefits to be on flights operated by Alaska Airlines, Inc. and flights operated by Horizon Air Industries, Inc. and SkyWest on behalf of Alaska Airlines, Inc. under capacity purchase arrangements.

NOW, THEREFORE, in consideration of the covenants undertaken and the releases contained in this Agreement, the parties agree as follows:

I. Termination. Employee's employment with the Corporation, Alaska, and with any of their subsidiaries and affiliates terminated on the Separation Date. Employee waives any right or claim to reinstatement as an employee of the Corporation, Alaska, or any of their subsidiaries and affiliates. Employee hereby confirms that Employee terminated from any position as an officer, director, employee, member, and in any other capacity with the Corporation, Alaska, or any of their subsidiaries and affiliates that the Employee may have previously had, and Employee does not currently hold any such position.

II. Delivery of Release Agreement. The parties acknowledge and agree that Employee's right to receive the Severance Benefits provided for herein is subject to Employee's timely execution and delivery of this Agreement to Alaska no later than 11:59 p.m. Pacific Daylight Time on July 29, 2018 and Employee's not revoking this Agreement pursuant to any revocation right afforded by applicable law. Employee must email an executed copy of this Agreement to employee.records@alaskaair.com. To revoke the Agreement, Employee must email employee.records@alaskaair.com with notice of revocation.

III. Continuing Obligations. Employee's right to receive the Severance Benefits provided herein is subject to Employee's continued compliance with Employee's obligations hereunder. In addition, in order to receive the Travel Benefits described herein, the Employee must timely remit all necessary travel-related tax payments and withholdings to Alaska through the payment means established by Alaska (including as those payment means may change from

[1] "Covered family members" and "dependents" will mean a spouse or domestic partner and dependent children under age 19 or between the ages of 19 and 25 who are full-time students, who are at least 50% financially dependent on the Employee, and whose permanent residence is with the Employee.

time to time) so that Alaska can timely remit all necessary travel-related taxes to the proper taxing authorities. If the Employee fails to timely remit any such payments, then the Employee's Travel Benefits will be subject to cancellation by Alaska. Employee will receive an IRS Form W-2 for the imputed value of Travel Benefits based on the same methodology used by Alaska.

IV. Acknowledgment of Final Wage Payments. Employee acknowledges and agrees that Employee's employment with the Corporation, Alaska, and with any of their subsidiaries and affiliates in any capacity terminated effective on the Separation Date. By signing below, Employee acknowledges that, except for the Severance Benefits provided for herein and any "true up" owed under the Alaska Air Group, Inc. Alaskasaver Plan ("Alaskasaver Plan") for the 2018 plan year, the Corporation, Alaska, and their subsidiaries and affiliates have paid all salary, wages, bonuses, accrued vacation, commissions, reimbursement of expenses, and any and all other benefits and compensation that Employee earned during Employee's employment with the Corporation and Alaska. All benefits and perquisites of employment other than the Severance Benefits provided for herein and any above-referenced "true up" ceased as of the Separation Date and Employee will not receive any further salary, bonuses, vacation, vesting of any equity or benefits, or other forms of compensation other than the Severance Benefits provided herein after the Separation Date from the Corporation, Alaska, or any of their subsidiaries or affiliates. Employee agrees that all payments due to Employee from the Corporation, Alaska, or any of their subsidiaries and affiliates after the Separation Date shall be determined under this Agreement and the First Grant and Second Grant grant agreements and not under the Employee's offer letter dated May 26, 2011 with the Corporation ("Offer Letter"), Employee's offer letter from Alaska Airlines, Inc. dated July 8, 2016 ("Alaska Airlines Offer Letter"), the general release agreement between Employee and the Corporation dated July 11, 2016 ("July 2016 General Release Agreement"), the first supplemental release agreement between Employee and the Corporation dated January 16, 2017 ("January 2017 First Supplemental Release Agreement"), the CIC Plan, the PBP Plan, and/or any other documents.

V. Waiver of Any Rights Under Other Agreements or Plans. In consideration for the Severance Benefits and without limiting the generality of the releases set forth in Sections VI-VIII below, Employee hereby expressly and irrevocably waives Employee's rights to receive any payments or benefits under the Offer Letter, Alaska Airlines Offer Letter, the July 2016 General Release Agreement, the January 2017 First Supplemental Release Agreement, the CIC Plan, the PBP Plan, the Alaska Air Group, Inc. Operational Performance Rewards Plan ("OPR Plan") Plan, and any other Corporation, Alaska, or Alaska Air Group, Inc. benefits plans or programs, including, without limitation, any severance payments, other payments, or benefits provided in the Offer Letter, Alaska Airlines Offer Letter, the July 2016 General Release Agreement, the January 2017 First Supplemental Release Agreement, the CIC Plan, the PBP Plan, the OPR Plan, and any other Corporation, Alaska, or Alaska Air Group, Inc. benefits plans and/or programs, and hereby acknowledges and agrees that Employee's rights with respect to such Offer Letter, Alaska Airlines Offer Letter, the July 2016 General Release Agreement, the January 2017 First Supplemental Release Agreement, the CIC Plan, the PBP Plan, the OPR Plan, and any other Corporation, Alaska, or Alaska Air Group, Inc. benefits plans and/or programs have terminated except as set forth in Section IV above. Notwithstanding the foregoing, Employee's obligations under the "Confidentiality/Proprietary Information" section of such Offer Letter, if any, the Team Member Invention Assignment and Confidentiality Agreement with the Corporation or Alaska, if any, under Section XI below (or any other confidentiality or similar agreement between Employee and the Corporation or Alaska or any Alaska Air Group, Inc. or Alaska policy currently in effect), and the First Grant and Second Grant grant agreements continue in effect.

VI. Release. Employee, on Employee's own behalf and on behalf of Employee's descendants, dependents, heirs, executors, administrators, assigns, and successors, and each of them, hereby acknowledges full and complete satisfaction of and releases and discharges and covenants not to sue the Corporation, Alaska, and each of their respective divisions, subsidiaries, parents, or affiliated corporations, past and present, and each of them, as well as their assignees, successors, directors, officers, stockholders, partners, representatives, attorneys, agents, or employees, past or present, or any of them (individually and collectively, "Releasees"), from and with respect to any and all claims, agreements, obligations, demands, and causes of action, known or unknown, suspected or unsuspected, arising out of or in any way connected with Employee's employment or any other relationship with or interest in the Corporation or Alaska or the termination thereof, including, without limiting the generality of the foregoing, any claim for severance pay, profit sharing, bonus or similar benefit, equity-based awards and/or dividend equivalents thereon, pension, retirement, life insurance, health or medical insurance, or any other fringe benefit, or disability benefit, or any other claims, agreements, obligations, demands, and causes of action, known or unknown, suspected or unsuspected, resulting from any act or omission by or on the part of Releasees committed or omitted prior to the date of this Agreement, including, without limiting the generality of the foregoing, any claim under Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act, the Family and Medical Leave Act, the Fair Credit Reporting Act, the Employee Retirement Income Security Act of 1974, the Worker Adjustment and Retraining Notification Act, the Sarbanes-Oxley Act, the California Fair Employment and Housing Act, the California Labor Code (including, by way of example but not of limitation, Section 132a), the California Worker Adjustment and Retraining Notification Act, the California Fair Pay Act, the California Business and Profession Code, the Industrial Welfare Commission Wage Orders, the California Family Rights Act, or any other federal, state, or local law, principle of law, regulation, or ordinance (collectively, the "Claims"); provided that such release and covenant not to sue shall not limit Employee's rights, benefits, or Claims under (i) this Agreement, (ii) the Consolidated Omnibus Budget Reconciliation Act ("COBRA"), (iii) any applicable Corporation or Alaska indemnification, including the indemnification provisions in the Corporation's certificate of incorporation and/or bylaws, as applicable, and in any written indemnification agreement in effect on April 1, 2016, (iv) any Alaska insurance policy or Corporation insurance policy in effect on or before the date of the closing of the purchase of Virgin America Inc. by Alaska Air Group, Inc., including any automobile insurance, general liability insurance, director & officer liability insurance, employment practices liability insurance, and fiduciary liability insurance, or (v) the Alaskasaver Plan and/or the Virgin America Inc. 401(k) Plan in accordance with the terms of the applicable plan, as administered by the Corporation or Alaska or their delegates, as applicable, in accordance with the Internal Revenue Code; and provided further that this release does not cover any Claim that cannot be so released as a matter of applicable law, including, but not limited to, the right to file a charge with or participate in an investigation conducted by certain government agencies. Employee does waive, however, any damages or individual relief, including monetary relief, should any agency pursue any claims on Employee's behalf, if this waiver is permitted by applicable law. Employee acknowledges and agrees that Employee has received any and all leave and other benefits that Employee has been and is entitled to pursuant to the Family and Medical Leave Act of 1993. Employee further acknowledges and represents that Employee is not aware of any facts that would establish or support any violation by the Corporation or Alaska of AIR21 or any FAA safety regulations, or of other safety or security-related laws that apply to the Corporation or Alaska.

VII. 1542 Waiver. It is the intention of Employee in executing this Agreement that the same shall be effective as a bar to each and every Claim hereinabove specified. In furtherance of this intention, Employee hereby expressly waives any and all rights and benefits conferred upon Employee by the provisions of SECTION 1542 OF THE CALIFORNIA CIVIL CODE and expressly consents that this Agreement (including, without limitation, the Release set forth above) shall be given full force and effect according to each and all of its express terms and provisions, including those related to unknown and unsuspected Claims, if any, as well as those relating to any other Claims hereinabove specified. SECTION 1542 provides:

> "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR."

Employee acknowledges that Employee may hereafter discover Claims or facts in addition to or different from those which Employee now knows or believes to exist with respect to the subject matter of this Agreement and which, if known or suspected at the time of executing this Agreement, may have materially affected this settlement. Nevertheless, Employee hereby waives any right, Claim or cause of action that might arise as a result of such different or additional Claims or facts. Employee acknowledges that Employee understands the significance and consequences of the foregoing Release and such specific waiver of SECTION 1542.

VIII. ADEA Waiver. Employee expressly acknowledges and agrees that by entering into this Agreement, Employee is waiving any and all rights or claims that Employee may have arising under the Age Discrimination in Employment Act of 1967, as amended ("ADEA"), which have arisen on or before the date of execution of this Agreement. Employee further expressly acknowledges and agrees that:

(a) In return for this Agreement, Employee will receive consideration (i.e., something of value) beyond that which Employee was already entitled to receive before entering into this Agreement;

(b) Employee is hereby advised in writing by this Agreement to consult with an attorney before signing this Agreement;

(c) Employee was given a copy of this Agreement and Information and Eligibility Criteria Notice Pursuant to the Older Workers Benefit Protection Act Disclosure Under Title 29 U.S. Code Section 626(f)(1)(H) ("Exhibit A") on June 14, 2018 and was then informed that Employee had forty-five (45) days within which to consider this Agreement and that if Employee wished to execute this Agreement prior to expiration of such period, Employee will have done so voluntarily (after consultation with counsel, if Employee so chose) and with full knowledge that Employee is waiving Employee's right to have the full duration of such period to consider this Agreement; and that such period to consider this Agreement would not and will not be re-started or extended based on any changes, whether material or immaterial, that are or were made to this Agreement within such period after Employee received it;

(d) Nothing in this Agreement prevents or precludes Employee from challenging or seeking a determination in good faith of the validity of this waiver under the ADEA, nor does it impose any condition precedent, penalties or costs from doing so, unless specifically authorized by federal law; and

(e) Employee was informed that Employee has seven (7) days following the date of execution of this Agreement in which to revoke this Agreement, and this Agreement will become null and void if Employee elects revocation during that time. Any revocation must be in writing, by email, and must be received by employee.records@alaskaair.com during the seven-day revocation period. In the event that Employee exercises Employee's right of revocation, this Agreement will not be effective, and neither the Corporation, Alaska, nor Employee will have any obligations under this Agreement.

IX. No Transferred Claims. Employee represents and warrants to the Corporation and Alaska that Employee has not heretofore assigned or transferred to any person not a party to this Agreement any released matter or any part or portion thereof.

X. Cooperation. Following the Separation Date, Employee will cooperate with the Corporation or Alaska in connection with any internal or governmental investigation or administrative, regulatory, arbitral, or judicial proceeding involving the Corporation, Alaska, or any of their parents, subsidiaries, or affiliates (collectively, the "Company Group") with respect to matters relating to Employee's employment or engagement with the Corporation, Alaska, or Company Group (collectively, "Litigation"). This cooperation includes, but is not limited to, Employee making Employee available to the Corporation, Alaska, or any other member of the Company Group (or their respective attorneys or auditors) upon reasonable notice for: (i) interviews, factual investigations, and providing declarations or affidavits that provide truthful information in connection with any Litigation; (ii) appearing at the request of the Corporation, Alaska, or any member of the Company Group to give testimony without requiring service of a subpoena or other legal process; and (iii) volunteering to the Corporation, Alaska, or any member of the Company Group pertinent information or documents related to any Litigation. Alaska shall reimburse Employee for reasonable expenses that Employee incurs in connection with such cooperation in accordance with Alaska's business expense reimbursement policies.

XI. Confidentiality. Employee hereby acknowledges and agrees that Employee is and will continue to be subject to any confidentiality or other restrictive covenants in favor of the Corporation or Alaska as and to the extent provided for in the Offer Letter, in the Corporation's Playbook, Alaska's People Policies, the Alaska Air Group Code of Conduct, and/or any employment agreement, confidentiality agreement, offer letter, or similar agreement Employee may have with the Corporation or Alaska and Employee further acknowledges and agrees that, to the extent not governed by one of the referenced policies, agreements, or documents, Employee will not disclose confidential and proprietary business information about the Corporation, Alaska, Horizon Air Industries, Inc., or Alaska Air Group, Inc., including, but not limited to, non-disclosure of business marketing plans, business and pricing strategies, trade secrets, personally identifiable information about guests and/or employees, future route and/or service offerings, financial forecasts, engineering ideas and designs, or vendor arrangements (the "Confidentiality Obligations"). In addition, the parties hereby acknowledge and agree that the information contained in this Agreement and any communications related to this Agreement are confidential and shall not be disclosed by a party to any other person, except as required to comply with applicable law and except for necessary disclosure to a party's respective subsidiaries and affiliates and legal, tax, and financial advisors who also agree to keep such information confidential. Notwithstanding the foregoing sentence, a party may truthfully respond to a lawful and valid subpoena or other legal process and may disclose such information where required to satisfy legal requirements. In addition, nothing herein shall preclude a party from providing truthful information or documents to a government authority with jurisdiction over such party in connection with an investigation by that authority, as to a possible violation of applicable law.

XII. Miscellaneous.

A. Successors.

(i) This Agreement is personal to Employee and shall not, without the prior written consent of Alaska, be assignable by Employee.

(ii) This Agreement shall inure to the benefit of and be binding upon the Corporation, Alaska, and their respective successors and assigns and any such successor or assignee shall be deemed substituted for the Corporation or Alaska under the terms of this Agreement for all purposes. As used herein, "successor" and "assignee" shall include any person, firm, corporation or other business entity which at any time, whether by purchase, merger or otherwise, directly or indirectly acquires the ownership of the Corporation or Alaska or to which the Corporation or Alaska assigns this Agreement by operation of law or otherwise.

B. Waiver. No waiver of any breach of any term or provision of this Agreement shall be construed to be, nor shall be, a waiver of any other breach of this Agreement. No waiver shall be binding unless in writing and signed by the party waiving the breach.

C. Modification. This Agreement may not be amended or modified other than by a written agreement executed by Employee and the Chief Executive Officer of the Corporation or Alaska or their designee.

D. Complete Agreement. This Agreement constitutes and contains the entire agreement and final understanding concerning Employee's relationship with the Corporation, Alaska, and their subsidiaries and affiliates and the other subject matters addressed herein between the parties, and supersedes and replaces all prior negotiations and all agreements proposed or otherwise, whether written or oral, concerning the subject matters hereof. Any representation, promise, or agreement not specifically included in this Agreement shall not be binding upon or enforceable against either party. This Agreement is an integrated agreement; provided, however, that Employee's obligations under the Confidentiality Obligations and the First Grant and Second Grant grant agreements are outside the scope of this integration provision.

E. Severability. If any provision of this Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of this Agreement, which can be given effect without the invalid provisions or applications and to this end the provisions of this Agreement are declared to be severable.

F. Governing Law. This Agreement shall be deemed to have been executed and delivered within the State of California, and the rights and obligations of the parties hereunder shall be construed and enforced in accordance with, and governed by, the laws of the State of California without regard to principles of conflict of laws.

G. Legal Counsel; Mutual Drafting. Each party recognizes that this is a legally binding contract and acknowledges and agrees that they have had the opportunity to consult with legal counsel of their choice. Each party has cooperated in the drafting, negotiation, and preparation of this Agreement. Hence, in any construction to be made of this Agreement, the same shall not be construed against either party on the basis of that party being the drafter of such language. Employee agrees and acknowledges that Employee has read and understands this Agreement, is entering into it freely and voluntarily, and has been advised to seek counsel prior to entering into this Agreement and has had ample opportunity to do so.

H. Notices.

(i) All notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given and made if delivered by hand, otherwise delivered against receipt therefor, or sent by registered or certified mail, postage prepaid, return receipt requested, unless expressly provided for otherwise in this Agreement. Any notice shall be duly addressed to the parties hereto as follows:

(a) if to the Corporation:

Virgin America Inc.
Attn: Ben Minicucci, Chief Executive Officer, Virgin America Inc.
19300 International Boulevard
Seattle, WA 98188

with a copy to:

Alaska Airlines, Inc.
19300 International Boulevard
SeaTac, WA 98188
Attn: Vice President, People

(b) if to Alaska:

Alaska Airlines, Inc.
19300 International Boulevard
SeaTac, WA 98188
Attn: Vice President People

(c) if to Employee, at the last address of Employee on the books of Alaska.

(ii) Any party may alter the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this Section for the giving of notice. Any communication shall be effective when delivered by hand, when otherwise delivered against receipt therefor, or five (5) business days after being mailed in accordance with the foregoing.

I. Counterparts. This Agreement may be executed in counterparts, and each counterpart, when executed, shall have the efficacy of a signed original. Photographic copies of such signed counterparts may be used in lieu of the originals for any purpose.

J. Arbitration of Disputes. Disputes or controversies arising under Section XI or Employee's Confidentiality Obligations may be brought only by a party in the state or federal courts located in San Mateo or San Francisco County, California. Any remaining and timely controversy or claim arising out of or relating to this Agreement, its enforcement, arbitrability, interpretation, and/or the termination thereof, the employment or other relationship between the parties and/or the termination thereof, or any alleged breach, default, or misrepresentation in connection with this Agreement or any of its provisions, including, by way of example but not of limitation, and, without limiting the generality of the foregoing, any alleged violation of local, state, or federal statute, common law, or constitution, regardless of which party is pressing the claim, shall be submitted to final and binding arbitration, to be held in San Francisco, California, before a single arbitrator selected from the Judicial Arbitration and Mediation Services, Inc. ("JAMS"), in accordance with the then-current JAMS Arbitration Rules and Procedures for employment disputes (which may be found at www.jamsadr.com under the Rules/Clauses tab), as modified by the terms and conditions in this paragraph; provided, however, that this agreement to arbitrate does not apply to any claims that as a matter of law cannot be subject to arbitration. The parties will select the arbitrator by mutual agreement or, if the parties cannot agree, then by striking from a list of qualified arbitrators supplied by JAMS from its labor and employment law panel. Final resolution of any dispute through arbitration may include any remedy or relief that is provided for by any applicable law. Statutes of limitations shall be the same as would be applicable if the action were brought in court. The arbitrator selected pursuant to this Agreement will allow such discovery as is necessary for a full and fair exploration of the issues and dispute, consistent with the expedited nature of arbitration. At the conclusion of the arbitration, the arbitrator shall issue a written decision that sets forth the essential findings and conclusions upon which the arbitrator's award or decision is based. Any award or relief granted by the arbitrator under this Agreement shall be final and binding on the parties to this Agreement and may be enforced by any court of competent jurisdiction. Alaska will pay all arbitration costs, including the arbitrator's fees, provided that if Employee is the party initiating the claim, Employee will pay an arbitration filing fee not to exceed the filing fee to initiate a claim in the court of general jurisdiction in the state in which Employee is (or was last) employed by Alaska, recognizing, however, that each side bears its own deposition, witness, expert and attorneys' fees and other expenses to the same extent as if the matter were being heard in court. If, however, any party prevails on a claim, which affords the prevailing party attorneys' fees and costs, then the arbitrator may award reasonable fees and costs to the prevailing party. The arbitrator may not award fees or costs to a party that would not otherwise be entitled to such an award under applicable law. The arbitrator shall resolve any dispute as to the reasonableness of any fee or cost. The parties acknowledge and agree that they are hereby waiving any rights to trial by jury in any action or proceeding brought by either of the parties against the other in connection with any matter whatsoever arising out of or in any way connected with this Agreement (and/or the termination thereof), the employment or other relationship between the parties (and/or the termination thereof), and/or any alleged breach, default, or misrepresentation in connection with this Agreement or any of its provisions.

K. Number and Gender. Where the context requires, the singular shall include the plural, the plural shall include the singular, and any gender shall include all other genders.

L. Headings. The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

M. Taxes. Alaska has the right to withhold from any payment hereunder the amount required by law to be withheld with respect to such payment or other benefits provided to Employee. Other than as to such withholding right, Employee shall be solely responsible for any taxes due as a result of the payments and benefits received by Employee contemplated by this Agreement.

[Remainder of page intentionally left blank.]

I have read the foregoing agreement and I accept and agree to the provisions it contains and hereby execute it voluntarily with full understanding of its consequences.

EXECUTED this _6th_ day of __July__ (month), 2018, at _San Francisco (city), _CA_ (state).

Employee

/S/ Peter Hunt
Peter Hunt

EXECUTED this _17th_ day of __July__ 2018, at Seattle, Washington.

Virgin America Inc.,
a Delaware corporation,

Alaska Airlines, Inc.,
an Alaska corporation,

/S/ Ben Minicucci
By: Ben Minicucci
Their: Chief Executive Officer of Virgin America, Inc. and President and Chief Operating Officer of Alaska Airlines, Inc.

EXHIBIT A - ADEA RELEASE AGREEMENT
INFORMATION AND ELIGIBILITY CRITERIA NOTICE PURSUANT TO THE OLDER WORKERS BENEFIT PROTECTION ACT DISCLOSURE UNDER TITLE 29 U.S. CODE SECTION 626(f)(1)(H)
DISCLOSURE STATEMENT – FEBRUARY 25, 2018

Pursuant to the Older Workers Benefits Protection Act, this is a list of the departments, job titles and ages (as of the date listed above) of Alaska Airlines, Inc. employees who were formerly Virgin America Inc. employees on December 14, 2016, except those who are part of a collective bargaining unit, who are selected and not selected for involuntary termination or position elimination. Employees listed as "Selected" were selected for involuntary termination or position elimination based on position and responsibilities, in light of projected overlap and anticipated needs given the Alaska Air Group, Inc. purchase of Virgin America Inc. and eventual merger of Virgin America Inc. operations into Alaska Airlines, Inc. operations. Employee terminations began occurring following the close of the purchase of Virgin America Inc. by Alaska Air Group, Inc. on December 14, 2016, and are scheduled to proceed for approximately twenty-five (25) months thereafter. Employees listed as "Not Selected" have been offered roles in the combined Virgin America Inc.-Alaska Airlines, Inc. organization in a non-collective bargaining unit position.

Employees listed as "Not Selected" and denoted with an asterisk ("*") were initially selected but applied for and received a new position within the combined Virgin America Inc.-Alaska Airlines, Inc. organization.

Department (As of Dec. 14, 2016)	Job Title (As of Dec. 14, 2016)	Department (As of Feb. 25, 2018)	Job Title (As of Feb. 25, 2018)	Selected (Ages as of Feb. 25, 2018)	Not Selected (Ages as of Feb. 25, 2018)
Airports & Guest Services	Administrative Assistant	Airports & Guest Services	Coordinator Station Operations		61
Airports & Guest Services	Customer Service Agent Zone 1	Airports & Guest Services	Policy & Procedure Spclst II		28
Airports & Guest Services	Guest Relations Agent	Airports & Guest Services	Guest Relations Agent	35, 44	27, 61
Airports & Guest Services	Guest Relations Specialist	Airports & Guest Services	Guest Relations Specialist	30, 33, 33, 44, 55, 62	42, 52, 61
Airports & Guest Services	Guest Relations Supervisor	Airports & Guest Services	Guest Relations Supervisor		30, 33
Airports & Guest Services	Guest Services Manager	Airports & Guest Services	Director Station Operations		46
Airports & Guest Services	Guest Services Manager	Airports & Guest Services	Mgr Station Admin & Compliance		47
Airports & Guest Services	GuestRelations Insight Analyst	Airports & Guest Services	GuestRelations Insight Analyst	35	
Airports & Guest Services	Manager, Guest Relations	Airports & Guest Services	Ticket Counter Manager		47
Airports & Guest Services	Manager, OCC GS Support	Airports & Guest Services	Manager, OCC GS Support	60	
Airports & Guest Services	OCC Guest Services Supervisor	Airports & Guest Services	Mgr Customer Operations SOC		34, 34, 35
Airports & Guest Services	OCC Guest Services Supervisor	Airports & Guest Services	OCC Guest Services Supervisor	34	
Airports & Guest Services	Ramp Operations Supervisor	Airports & Guest Services	Station Duty Manager		28, 34

Department (As of Dec. 14, 2016)	Job Title (As of Dec. 14, 2016)	Department (As of Feb. 25, 2018)	Job Title (As of Feb. 25, 2018)	Selected (Ages as of Feb. 25, 2018)	Not Selected (Ages as of Feb. 25, 2018)
Airports & Guest Services	Ramp Operations Supervisor	Airports & Guest Services	Station Supervisor		28, 29, 30, 31, 32, 33, 39, 39, 44, 49, 55, 66
Airports & Guest Services	Station Director	Airports & Guest Services	MD, Station Operations Seattle		46
Airports & Guest Services	Station Manager III	Airports & Guest Services	Customer Service Manager II		51
Airports & Guest Services	Station Manager Level II	Airports & Guest Services	Customer Service Manager I		26, 40, 42, 59
Airports & Guest Services	Station Manager Level II	Airports & Guest Services	Customer Service Manager II		36, 45, 45
Airports & Guest Services	Station Manager Level II	Airports & Guest Services	Manager Ground Operations II		50*, 54
Airports & Guest Services	Station Manager Level II	Airports & Guest Services	Station Manager Level II	60	
Airports & Guest Services	Supv, Procedures and Process	Airports & Guest Services	Supv, Procedures and Process		48
Airports & Guest Services	Supv. Airport Gst Svcs II	Airports & Guest Services	Station Duty Manager		33
Airports & Guest Services	Supv. Airport Gst Svcs II	Airports & Guest Services	Station Supervisor		29, 36*, 45, 48
Airports & Guest Services	Supv. Airport Gst Svcs II	Airports & Guest Services	Supv. Airport Gst Svcs II	41, 42	
Airports & Guest Services	Supv. Airport Gst Svcs. I	Airports & Guest Services	Station Duty Manager		44, 52
Airports & Guest Services	Supv. Airport Gst Svcs. I	Airports & Guest Services	Station Supervisor		26, 27*, 30, 30, 31, 35, 35, 37, 41*, 42*, 44, 44, 49, 56
Airports & Guest Services	Supv. Airport Gst Svcs. I	Airports & Guest Services	Supv. Airport Gst Svcs. I	29, 31, 40	
Airports & Guest Services	Supv, Procedures and Process	Inflight	Inflight Supervisor		34*
Airports & Guest Services	Continuous Improvement Rep	Legal & Gov't Affairs	Sr Quality Assurance Auditor		30
Airports & Guest Services	Mgr, Continuous Improvement	Legal & Gov't Affairs	Sr Quality Assurance Auditor		51
Airports & Guest Services	Supv. Airport Gst Svcs II	Marketing	Onboard Food & Beverage Spclst		30
Airports & Guest Services	Customer Service Agent Zone 1	Operations Control Center	Manager Crew Planning - TEMP	60	
Airports & Guest Services	Lead Customer Service Agent Z2	Operations Control Center	Mgr Customer Operations SOC		25
Airports & Guest Services	Supv. Airport Gst Svcs II	Tech Operations	Mgr Central Reserv. Control		35*
Corporate Security	Director Security	Corporate Security	MD Security		58
Corporate Security	Manager Corporate Security	Corporate Security	Mgr Security Compliance Ops		48
Corporate Security	Regulatory Security Coordinato	Corporate Security	Physical Security		36

Department (As of Dec. 14, 2016)	Job Title (As of Dec. 14, 2016)	Department (As of Feb. 25, 2018)	Job Title (As of Feb. 25, 2018)	Selected (Ages as of Feb. 25, 2018)	Not Selected (Ages as of Feb. 25, 2018)
			Program Spec		
Corporate Security	Fraud Analyst	Marketing	Fraud Analyst	38	
Corporate Security	Security Investigative Manager	Marketing	Security Investigative Manager	41	
Executive	Executive Assistant to CEO	Executive	Executive Assistant to CEO	63	
Executive	SVP & CFO	Executive	President Virgin America	48	
Executive	VP, Controller	Executive	VP, Controller	47	
Executive	VP Rev Mgmt & Products	Planning	VP Revenue Management		54
Facilities	CRE Contract Services Manager	Facilities	CRE Contract Services Manager	64	
Facilities	Director, Real Estate/Facs	Facilities	MD CA Airport Real Estate		47
Finance	Accounts Payable Analyst	Finance	Accounts Payable Analyst	47	
Finance	Director, Revenue Accounting	Finance	Director, Revenue Accounting		53
Finance	Financial Plan & Analy Manager	Finance	Financial Plan & Analy Manager	37	
Finance	Guest Refunds Lead	Finance	Guest Refunds Lead	36	
Finance	Heavy Maint. Materials Supv	Finance	Heavy Maint. Materials Supv	70	
Finance	Junior Accountant Analyst	Finance	Junior Accountant Analyst	25	
Finance	Manager Accounts Payable	Finance	Manager Accounts Payable	37	
Finance	Materials Manager	Finance	Director SCM-Airbus Operations		46
Finance	Mgr. Revenue Acct.	Finance	Mgr. Revenue Acct.	33	
Finance	Payroll Analyst - NonCrew	Finance	Payroll Analyst - NonCrew	57	48
Finance	Sr Staff Accountant	Finance	Sr Staff Accountant	30	
Finance	Staff Accountant	Planning	Staff Accountant	39	
Finance	Heavy Materials Manager	Tech Operations	Manager Heavy Materials		57
Finance	Manager Accounting	Tech Operations	Manager Accounting	33, 39	
Finance	Sr Staff Accountant	Tech Operations	Sr Staff Accountant	28, 33, 60	
Finance	Staff Accountant	Tech Operations	Staff Accountant	28	
Flight Operations	Assistant Chief Pilot	Flight Operations	Director Base Chief Pilot		50
Flight Operations	Base Chief Pilot	Flight Operations	Director Base Chief Pilot		48, 49
Flight Operations	Crew Qualification Specialist	Flight Operations	Crew Qualification	37, 57	

Department (As of Dec. 14, 2016)	Job Title (As of Dec. 14, 2016)	Department (As of Feb. 25, 2018)	Job Title (As of Feb. 25, 2018)	Selected (Ages as of Feb. 25, 2018)	Not Selected (Ages as of Feb. 25, 2018)
			Specialist		
Flight Operations	Crew Records/Training Sch	Flight Operations	Flt Trn Resourse Pln Admstr		37
Flight Operations	Director FO Training	Flight Operations	Director FO Training		50
Flight Operations	Director, Flight Standards & QA	Flight Operations	Director Fleet Captain		43
Flight Operations	Executive Assistant	Flight Operations	Base Coordinator		39
Flight Operations	Flight Ops Engineer	Flight Operations	Flight Ops Engineer	52	26
Flight Operations	Ground School Instructor	Flight Operations	Flt Courseware Dev & Instruct		34, 55, 70
Flight Operations	Ground Training & Systems Mgr	Flight Operations	Flt Courseware Dev & Instruct		32
Flight Operations	Manager Flight Efficiency	Flight Operations	Manager Flight Efficiency	30	
Flight Operations	Mgr Inst Sys Design & Training	Flight Operations	Manager Flight Operations Trai		46
Flight Operations	Mgr. Flight Ops Engineering	Flight Operations	Principal Flight Ops Engineer		55
Flight Operations	Mgr. Tech Pubs.	Flight Operations	Mgr. Tech Pubs.	32	
Flight Operations	Standards Captain	Flight Operations	Line Pilots - Captain		43, 45, 50, 55
Flight Operations	Supv Pilot Crew Records/Sched	Flight Operations	Sr Flight Training Scheduler		47
Flight Operations	Technical Writer	Flight Operations	Technical Writer	32	
Flight Operations	Technical Data Mgmt Spec 3	Tech Operations	Engineering Specialist II		52
Inflight	Cabin Safety & Compliance Mgr	Inflight	Cabin Safety & Compliance Mgr	45	
Inflight	Catering Operations Analyst	Inflight	Catering Operations Analyst	32	52
Inflight	Director, Inflight	Inflight	MD Inflight Operations		53
Inflight	Flight Attendant Leader	Inflight	Inflight Supervisor		30
Inflight	In-Flight Manager	Inflight	Inflight Base Manager III		44, 45
Inflight	In-Flight Manager	Inflight	Inflight Duty Manager		53
Inflight	InFlight Operational Lead Supv	Inflight	Inflight Supervisor		40
Inflight	Inflight Policy& Proc Analyst	Inflight	Inflight Policy& Proc Analyst		51
Inflight	InFlight Supervisor	Inflight	Inflight Supervisor		39, 49, 50*, 61
Inflight	InFlight Supervisor	Inflight	Supervisor Inflght Performance		44
Inflight	Mgr. Inflight Catering	Inflight	Mgr. Inflight Catering	61	
Inflight	Project Manager, InFlight	Inflight	Project Manager,	41	

Department (As of Dec. 14, 2016)	Job Title (As of Dec. 14, 2016)	Department (As of Feb. 25, 2018)	Job Title (As of Feb. 25, 2018)	Selected (Ages as of Feb. 25, 2018)	Not Selected (Ages as of Feb. 25, 2018)
			InFlight		
Inflight	Uniforms& Promotions Supervisor	Inflight	Uniforms& Promotions Supervisor	31	
IT	Applications Administrator	IT	Applications Administrator		28, 37, 48
IT	Bus Systems Partner Manager	IT	Manager IT Applications		57
IT	Data Scientist Corp. Analytics	IT	Sr Solutions Architect		32
IT	Database Architect	IT	Senior Database Administrator		51
IT	Director IT Operations	IT	MD IT Operations	41	
IT	IT Business Systems Analy	IT	IT Business Systems Analy		56
IT	IT Business Systems Analy	IT	Solutions Architect		34, 48
IT	IT Project Analyst	IT	Sr Field Service Specialist		40
IT	IT Support Tech Analyst	IT	Field Services Technician I		36, 44
IT	IT Support Tech Analyst	IT	Field Services Technician II		28, 38, 38, 54
IT	Jr. Windows Systems Admin	IT	Enterprise Systems Engineer II		39, 41
IT	Linux Systems Administrator	IT	Enterprise Systems Engineer II		51
IT	Manager IT Technical Supp	IT	Manager IT Field Services		41
IT	Mgr. IT Infrastructure & Data	IT	Manager Compute Platforms		51
IT	Network Engineer	IT	Network Engineer III		34
IT	Network Engineer	IT	Network Operations Engineer II		38
IT	Senior Security Engineer	IT	Information Security Tools Eng		47
IT	Sr Applications Administrator	IT	Sr Applications Administrator		51
IT	Sr. Linux Systems Engineer	IT	Sr Enterprise Systems Engineer		38
IT	Sr. Telephony Engineer	IT	Voice Network Engineer		50
IT	Sr. Windows Systems Administra	IT	Sr Enterprise Systems Engineer		30
IT	Director, Software Engineering	Marketing	Director, Software Engineering	45	
IT	Jr. Software QA Engineer	Marketing	Jr. Software QA Engineer		33

Department (As of Dec. 14, 2016)	Job Title (As of Dec. 14, 2016)	Department (As of Feb. 25, 2018)	Job Title (As of Feb. 25, 2018)	Selected (Ages as of Feb. 25, 2018)	Not Selected (Ages as of Feb. 25, 2018)
IT	Manager, Web Technology & Test	Marketing	Manager, Web Technology & Test		40
IT	Mgr - Software Engineer	Marketing	Mgr - Software Engineer		34
IT	QA Java Engineer	Marketing	QA Java Engineer		29
IT	Sr. IT Architect	Marketing	Sr. IT Architect		48
IT	Sr. IT Web Developer	Marketing	Sr. IT Web Developer		47
IT	Sr. Software Test Engineer	Marketing	Sr. Software Test Engineer		32
IT	Mgr, MX Technical Projects	Tech Operations	MC Duty Manager		49
Marketing	Director,Guest Loyalty	Marketing	Director,Guest Loyalty	34	
Marketing	Manager, Product Development	Marketing	Director Onboard Brand Exp		53
Marketing	Manager, Web Development -Mktg	Marketing	Manager, Web Development - Mktg	48	
Marketing	Marketing Writer	Marketing	Senior Copywriter		40
Marketing	Sr Analyst,Marketing Analytics	Marketing	Personalization Strategy Mgr		28
Marketing	Manager, Maintenance Planning	Operations Control Center	Sector Manager		38*
Operations Control Center	Crew Payroll Supervisor	Flight Operations	Supervisor Crew Pay		37
Operations Control Center	Crew Planning Analyst	Flight Operations	Crew Planner II		32
Operations Control Center	Crew Resource Analyst	Flight Operations	Duty Mgr Pilot Crew Scheduling		45
Operations Control Center	Lead Crew Scheduler	Flight Operations	Tech Editor & Pubs Specialist		34
Operations Control Center	Supervisor, Crew Pay & Support	Flight Operations	Flt Ops QA & Sys Support Anlys		35
Operations Control Center	CSS Supervisor	Operations Control Center	Mgr on Duty, Crew Scheduling	33	
Operations Control Center	Manager Dispatch	Operations Control Center	Manager Dispatch	53	
Operations Control Center	Manager, OCC Policies & Admin	Operations Control Center	Director System Operations		40
Operations Control Center	System Ops Center Manager	Operations Control Center	System Ops Center Manager	41, 44, 59, 65	40
Operations Control Center	Manager Pilot Crew Scheduling	People	Manager, Labor Relations	39	
People	Corporate Learning Dev. Instr	Airports & Guest Services	Supv Instructional Design		47
People	InFlight Learning Instr II	Inflight	Flight Attendant Leader		52

Department (As of Dec. 14, 2016)	Job Title (As of Dec. 14, 2016)	Department (As of Feb. 25, 2018)	Job Title (As of Feb. 25, 2018)	Selected (Ages as of Feb. 25, 2018)	Not Selected (Ages as of Feb. 25, 2018)
People	Teammate& Community Events Mgr	Marketing	Marketing Manager - Bay Area		40*
People	HR Operations Manager	People	HR Operations Manager	39	
People	Leave of Absence Specialist	People	Leave of Absence Specialist	29	
People	LMS and Analytics Analyst	People	LMS and Analytics Analyst	33	
People	Manager Benefits and Wellness	People	Manager Benefits and Wellness	36	
People	Manager, Leave Administration	People	HR Business Partner		36
People	Manager, TM Relations Programs	People	Manager, TM Relations Programs	48	
People	Mgr Learning Ops & Delivery	People	Manager Training Delivery		45
People	Mgr. Travel & Accomodations	People	Mgr. Travel & Accomodations	60	
People	Ramp Instructor II	People	Training Delivery Specialist		37, 55
People	Recruitment Coordinator	People	Recruiter		28
People	Recruitment Coordinator	People	Recruitment Coordinator		42
People	Supv. GS & CC Learning	People	Manager, GS & CC Learning	31	
People	Talent Acquisition Manager	People	Senior Recruiter		49, 54
People	Team Travel Specialist	People	Team Travel Specialist	28	
People	Workers Comp Program Manager	People	Sr Leave& Disability Admnstrtr		31
Planning	National Acct Mgr (Corp)	Legal & Gov't Affairs	Gen Mgr Sales & Cmmnty Mktg		47
Planning	Sales & Distribution Analyst	Legal & Gov't Affairs	Community Relations Specialist		44
Planning	National Acct Mgr (Corp)	Planning	Sales & Community Mktng Mgr		41, 53
Planning	Sr Analyst - Schedule Planning	Planning	Sr Schedule Planning Analyst		34
Planning	Sr Analyst- Price and Rev Mgt	Planning	Mgr. Revenue Acct.	36	
Planning	Sr Analyst- Price and Rev Mgt	Planning	Sr Pricing Analyst		33
Planning	Sr Analyst- Price and Rev Mgt	Planning	Yield Mgmt Analyst II		35

Department (As of Dec. 14, 2016)	Job Title (As of Dec. 14, 2016)	Department (As of Feb. 25, 2018)	Job Title (As of Feb. 25, 2018)	Selected (Ages as of Feb. 25, 2018)	Not Selected (Ages as of Feb. 25, 2018)
Safety	ASAP Safety Manager	Safety	Safety Mgmt System ASAP Mgr		36
Safety	Emergency Prepardedness Mgr.	Safety	Emergency Prepardedness Mgr.	49	
Safety	FOQA Data Safety Analyst	Safety	FOQA Data Safety Analyst	33	
Sales	CC-QA Policy & Procedure Spec	Airports & Guest Services	CC-QA Policy & Procedure Spec	29	
Sales	Contact Ctr Systems Admin	Marketing	Call Center Technology Spclst		50*
Sales	eCommerce Specialist	Marketing	eCommerce Specialist		34
Sales	Reservation Systems Manager	Marketing	Reservation Systems Manager	43	
Sales	Sr. Reservation Systems Analys	Marketing	Sr. Reservation Systems Analys	33, 39	
Sales	Contact Center Strategy Mgr	Sales	Contact Center Strategy Mgr	53	
Sales	Executive Sales Support Spec	Sales	Executive Sales Support Spec	51	
Sales	Lead Reservations Sales Agent	Sales	Lead Reservations Sales Agent		50, 67
Sales	Manager Agency Distribution	Sales	Manager Agency Distribution	49	
Sales	Sr. Reservation Systems Analys	Sales	Sr. Reservation Systems Analys	34	
Tech Operations	Maintenance Analyst Planner	Flight Operations	MEL/CDL Program Manager		34
Tech Operations	Administrative Assistant	Tech Operations	Line Maintenance Coordinator		42
Tech Operations	Airworthiness Directive Coord	Tech Operations	Airworthiness Directive Coord		32
Tech Operations	Airworthiness Directive Coord	Tech Operations	Airworthiness Directve Analyst		38
Tech Operations	Business Process Manager	Tech Operations	Sr Business Process Analyst		63
Tech Operations	CASS Manager	Tech Operations	Manager Quality Assurance		48
Tech Operations	Dir Cabin Sys Proj Eng & PD	Tech Operations	MD Cabin Systems & Prod Design		37
Tech Operations	Director of MCC & Line Mainten	Tech Operations	MD MCC & Line Maintenance		55
Tech Operations	Director, Chief Engineer	Tech Operations	Director Chief Engineer		55
Tech Operations	Engine Records Analyst	Tech Operations	Aircraft Records Analyst II		58
Tech Operations	General Manager	Tech Operations	General		54

Department (As of Dec. 14, 2016)	Job Title (As of Dec. 14, 2016)	Department (As of Feb. 25, 2018)	Job Title (As of Feb. 25, 2018)	Selected (Ages as of Feb. 25, 2018)	Not Selected (Ages as of Feb. 25, 2018)
	Heavy MX		Manager Heavy MX		
Tech Operations	IFE Engineer	Tech Operations	Project Engineer II		33, 34
Tech Operations	Interiors Project Engineer	Tech Operations	Project Engineer II		41
Tech Operations	Lead Maintenance Technician	Tech Operations	Line Maintenance Supv		41
Tech Operations	Lead Maintenance Technician	Tech Operations	Maintenance Controller		37
Tech Operations	Line Maintenance Manager	Tech Operations	Maintenance Controller		45
Tech Operations	Line Maintenance Manager	Tech Operations	Manager, Line Maintenance		39, 54, 56, 57
Tech Operations	Line Maintenance Supv	Tech Operations	Maintenance Controller		55
Tech Operations	Line Maintenance Supv	Tech Operations	Supervisor Line Maintenance		30, 35, 39, 47, 51, 53, 53, 55, 55, 55, 62
Tech Operations	Maintenance Analyst Planner	Tech Operations	Maintenance Analyst Planner	60, 62	31, 34, 38, 43, 52, 57, 60
Tech Operations	Maintenance Controller	Tech Operations	Maintenance Control Duty Mgr		49, 62
Tech Operations	Maintenance Controller	Tech Operations	Maintenance Controller		38, 39, 53, 54, 58, 58, 64
Tech Operations	Maintenance Program Analyst	Tech Operations	Sr Engineering Specialist		55
Tech Operations	Maintenance Program Engineer	Tech Operations	Engineer II		58
Tech Operations	Maintenance Technician DAL	Tech Operations	Maintenance Controller		51
Tech Operations	Maintenance Training Instr.	Tech Operations	Technical Training Instructor		63
Tech Operations	Manager Avionics Engineer	Tech Operations	Manager Engineering		33
Tech Operations	Manager Component Shops	Tech Operations	Airframe Vendor Maint Rep		44
Tech Operations	Manager, Aircraft Records	Tech Operations	Manager, Aircraft Records		47
Tech Operations	Manager,Reliability &MaintProg	Tech Operations	Mgr AD/CFR Aircraft Info Sys		50
Tech Operations	MC Duty Manager	Tech Operations	Maintenance Controller		45
Tech Operations	MC Duty Manager	Tech Operations	MC Duty Manager		40, 41, 55
Tech Operations	MEL Engineer	Tech Operations	Engineer II		56
Tech Operations	Mgr, Maintenance Control Ctr	Tech Operations	Mgr, Maintenance Control Ctr		56
Tech Operations	Mgr. Interiors & Systems Engin	Tech Operations	Manager Project Engineering		55
Tech Operations	Mgr.TO Training	Tech Operations	Manager Technical Training M&E		61

Department (As of Dec. 14, 2016)	Job Title (As of Dec. 14, 2016)	Department (As of Feb. 25, 2018)	Job Title (As of Feb. 25, 2018)	Selected (Ages as of Feb. 25, 2018)	Not Selected (Ages as of Feb. 25, 2018)
Tech Operations	New Aircraft Analyst	Tech Operations	Aircraft Records Analyst II		35
Tech Operations	Powerplant Engineer	Tech Operations	Senior Engineer		38
Tech Operations	Project Engineering Manager	Tech Operations	Manager Project Engineering		38
Tech Operations	Project Engineering Manager	Tech Operations	Project Engineer II		30
Tech Operations	Project Manager, Ops Projects	Tech Operations	Project Manager III		56
Tech Operations	Quality Rep	Tech Operations	Compliance Specialist		63
Tech Operations	Quality Rep	Tech Operations	Sr Quality Assurance Auditor		33, 49, 50, 50, 56, 58, 58, 60, 65
Tech Operations	Records Analyst II	Tech Operations	Aircraft Records Analyst II		34, 43, 50, 54, 56, 58, 62
Tech Operations	Reliability Analyst	Tech Operations	Engineering Specialist I		27
Tech Operations	Reliability Analyst	Tech Operations	Engineering Specialist II		31
Tech Operations	Senior Records Analyst	Tech Operations	Sr Aircraft Records Analyst		35
Tech Operations	Systems Engineer	Tech Operations	Engineer II		30
Tech Operations	Tech Operations Supervisor	Tech Operations	Airframe Vendor Maint Rep		48, 57
Tech Operations	Tech Operations Supervisor	Tech Operations	Maintenance Technician LAX JFK		32
Tech Operations	Technical Data Mgmt Analyst	Tech Operations	Sr Engineering Specialist		49
Tech Operations	Technical Instructor	Tech Operations	Technical Training Instructor		50, 59, 63
Tech Operations	Tooling Maintenance Coordinato	Tech Operations	Tooling Coordinator		40, 64
Tech Operations	Training Coordinator	Tech Operations	M&E Train Content Developer		33

INFORMATION AND ELIGIBILITY CRITERIA NOTICE PURSUANT TO THE OLDER WORKERS BENEFIT PROTECTION ACT DISCLOSURE UNDER TITLE 29 U.S. CODE SECTION 626(f)(1)(H)
DISCLOSURE STATEMENT -- JUNE 2, 2017

Pursuant to the Older Workers Benefits Protection Act, this is a list of the job titles and ages (as of the dates shown in the chart below) of Virgin America Inc. employees, except those who are part of a collective bargaining unit, who were selected and not selected for involuntary termination or position elimination and initial severance eligibility as of the dates shown in the chart below. Employees were selected based on position and responsibilities, in light of projected overlap and anticipated needs given the Alaska Air Group, Inc. purchase of Virgin

America Inc. Employees listed as "Selected" are eligible for severance based on the criteria in the Virgin America Inc. change-in-control severance plans. Employee terminations began occurring following the close of the transaction on December 14, 2016, and are scheduled to proceed for approximately twenty-five (25) months thereafter.

Employees listed as "Not Selected" have been offered roles in the combined Virgin America Inc.-Alaska Airlines, Inc. organization and are ineligible for severance, unless otherwise further explained with an asterisk. Employees listed as "Not Selected" and denoted with an asterisk ("*") were given a job offer in the combined Virgin America Inc.-Alaska Airlines, Inc., declined that offer, and it is unknown as of the date of this disclosure whether or when they will be selected for employment termination. Employees listed for the March 10, 2017 and June 2, 2017 selections indicated with a caret (^) experienced a job title change, and thus are listed under a different job title as of December 14, 2016.

	December 14, 2016		March 10, 2017		June 2, 2017	
Job Title	Selected	Not Selected	Selected	Not Selected	Selected	Not Selected
Airports & Guest Services						
Administrative Assistant	51	60	51	60	51	61
Continuous Improvement Rep		29		29		29
Director Airport Ops & Gst Ser	55, 57		56, 57		56, 58	
DOT Compliance Analyst		38		38		
Executive Assistant	29		29			
GS and Baggage Ops Supv	30		31		31	
GS Policy & Procedures Spec	26		27		27	
Guest Relations Agent		22, 25, 30*, 32, 34*, 43*, 60, 61		22, 26, 30*, 33, 34*, 43*, 60, 61		23, 26, 33, 34*, 44*, 60, 61
Guest Relations Specialist	29	31*, 32*, 34, 41, 42*, 51, 54*, 60, 61*	29	32*, 32*, 34, 41, 43*, 51, 54*, 60, 61*	29	32*, 33*, 34, 41, 43*, 51, 55*, 61*, 61
Guest Relations Supervisor		28, 31		29, 32		29, 32
Guest Services Manager		45, 46		45, 46		45, 47
GuestRelations Insight Analyst		33*		34*		34*
Manager, Guest Relations		46		46		46
Manager, OCC GS Support	59		59		60	
Manager, Policies & Procedures	47		47		47	
Mgr, Continuous Improvement		49		50		50
OCC Guest Services Supervisor	33, 33, 33, 34	32	33, 33, 33, 34	33	33, 34, 34, 34	33
Ramp Operations Mgr I	48		48			
Ramp Operations Mgr II		34, 41		34, 41		34, 41
Ramp Operations Supervisor		27, 27, 28, 29, 30, 31, 32, 32, 38, 38, 43, 48, 54, 65		27, 27, 29, 29, 30, 31, 32, 33, 38, 38, 43, 48, 54, 65		27, 27, 29, 29, 30, 31, 32, 33, 38, 38, 44, 49, 55, 66

	December 14, 2016		March 10, 2017		June 2, 2017	
Job Title	Selected	Not Selected	Selected	Not Selected	Selected	Not Selected
Ramp Safety & Ops Specialist	32, 51		32, 52		32	
Station Concierge Supervisor	35		35			
Station Director	57	45	57	45	57	45
Station Manager III	38	35, 50	38	36, 50	38	36, 50
Station Manager Level I	64		64		64	
Station Manager Level II	42, 49, 58, 59	25, 35, 37, 39, 40, 41, 44, 44, 53, 58	43, 49, 59, 59	25, 35, 37, 39, 40, 41, 44, 44, 53, 58	43, 49, 59, 59	26, 35, 38, 40, 40, 42, 45, 45, 53, 58
Supv, Procedures and Process	32	47	33	47	33	47
Supv. Airport Gst Svcs II	27, 28, 31, 34, 34, 35, 36, 40, 41, 42, 42, 43, 44, 46, 50	28, 29, 30, 32, 34, 44, 47	27, 28, 31, 34, 34, 35, 36, 40, 42, 42, 42, 43, 44, 46, 50	28, 29, 31, 32, 34, 44, 47	27, 28, 32, 34, 34, 36, 36, 41, 42, 42, 42, 44, 45, 47, 51	28, 31, 33, 34, 44, 48
Supv. Airport Gst Svcs. I	26, 27, 27, 28, 30, 30, 30, 31, 31, 34, 39, 39, 41, 41, 41, 50, 51, 57	25, 28, 28, 30, 34, 34, 36, 41, 42, 43, 43, 48, 50, 55	26, 27, 28, 28, 30, 30, 30, 31, 31, 34, 39, 40, 41, 41, 42, 50, 51, 57	26, 29, 29, 30, 34, 34, 36, 41, 43, 43, 43, 48, 51, 55	27, 28, 28, 30, 30, 30, 31, 34, 40, 40, 41, 42, 42, 50, 52	26, 26, 29, 29, 31, 34, 35, 36, 41, 43, 43, 43, 49, 51, 55
Corporate Security						
Director Security		57				
Fraud Analyst	37		37		37	
Manager Corporate Security		47		47		48
MD Safety & Security				57^		57^
Regulatory Security Coordinator		35		35		35
Security Investigative Manager	39		40		40	
Executive						
CEO & President	56					
Chief Marketing Officer	54					
Chief Operating Officer	60					
Executive Assistant to CEO	62		62		62	
President Virgin America			47^		47^	
SVP & CFO	47					
SVP General Counsel	60					
SVP People & Inflight	64					
SVP Planning/Sales/Rev. Mgmt.	57					
SVP Technical Operations	52					
VP Rev Mgmt & Products		52				

	December 14, 2016		March 10, 2017		June 2, 2017	
Job Title	Selected	Not Selected	Selected	Not Selected	Selected	Not Selected
VP Treasurer	52					
VP, Branding & Communications	41		41		41	
VP, Controller	46		46		46	
VP, Flight Operations	61		61		61	
VP/Chief Technology Officer	47					
Facilities						
CRE Contract Services Manager	63		63		64	
Director, Real Estate/Facs		46				
Manager Airline Facilities		34*	34		34	
MD CA Airport Real Estate				46^		47^
Finance						
Accounts Payable Analyst	26, 36, 46		26, 36, 46		26, 36, 46	
Aircraft and Lease Manager	48		48		49	
Banking Operations Manager	48		49			
Buyer Analyst	33		33			
Catering Procurement Mgr	38		38		38	
Contract Administration Mgr.	39		39			
Director Financial Planning	41, 41					
Director Internal Audit	38					
Director Procurement	49					
Director SCM-Airbus Operations				45^		45^
Director, Assistant Controller	43		43		43	
Director, Ex Report/Tech Acct	43					
Director, Investor Relations	37					
Director, Revenue Accounting		52		52		52
Div. Finance Mgr II	34		34		34	
Executive Assistant	39		39			
Financial Plan & Analy Manager	27, 33, 35, 47		28, 33^, 36, 47		33^, 36, 47	
Guest Refunds Lead	35		35		36	
Heavy Maint. Materials Supv		69		69		70
Heavy Materials Manager		55		56		56
Junior Accountant Analyst	24, 35		24, 36		24, 36	
Manager Accounting	29, 32, 38		29, 32, 38		29, 33, 38	
Manager Accounts Payable	36		36		36	
Manager Payroll		48		48		48
Materials Manager		45				
MD Financial Planning			41^		41^	
MD Procurement			49^		49^	
Mgr. Revenue Acct.	32		33		33, 35^	
Payroll Analyst - NonCrew	56	46	56	47		47, 56

	December 14, 2016		March 10, 2017		June 2, 2017	
Job Title	Selected	Not Selected	Selected	Not Selected	Selected	Not Selected
Revenue Accounting Analyst	45		45		45	
Sr Staff Accountant	26, 27, 29, 29, 32, 58		27, 28, 29, 29, 32, 59		27, 29, 33, 59	
Sr. Technical Accountant	33					
Staff Accountant	27, 30, 38		27, 38		27, 38	
Flight Operations						
Assistant Chief Pilot		49				
Base Chief Pilot	47	40, 47	47	40, 48	48	41, 48
Brand& Communication Specialist	27		27		27	
Crew Qualification Specialist	36, 56		36, 56		37, 56	
Crew Records/Training Sch		36		36		37
Director FO Training		49		49		49
Director, Operations				46^		47^
Director, System Chief Pilot		46				
Director,Flight Standards & QA		41		42		42
Executive Assistant		38		38		39
Flight Operations Auditor	51		51		52	
Flight Operations Project Mgr.	32		32		32	
Flight Ops Engineer	51		51	25	51	26
Ground School Instructor		33, 54, 69		33, 54, 69		33, 54, 69
Ground Training & Systems Mgr		31		31		31
Manager Flight Efficiency	29		29		29	
Mgr Flight Ops Training	40		41		41	
Mgr Inst Sys Design & Training		45		45		45
Mgr. Flight Ops Engineering		53		54		54
Mgr. Flight Technical	54		55		55	
Mgr. Tech Pubs.	31		31		31	
Program Mgr, Corporate Process	32					
Standards Captain		41, 44, 49, 54		42, 44, 49, 54		42, 44, 49, 55
Supv Pilot Crew Records/Sched		46		46		46
System Chief Pilot				49^		49^
Technical Data Mgmt Analyst	26		26		26	
Technical Data Mgmt Spec 2	41, 42		41, 42		41, 42	
Technical Data Mgmt Spec 3	31, 51		31, 51		32, 51	
Technical Writer	31		31		31	
Inflight						
Administrative Assistant		27		27		28

	December 14, 2016		March 10, 2017		June 2, 2017	
Job Title	Selected	Not Selected	Selected	Not Selected	Selected	Not Selected
Cabin Safety & Compliance Mgr	44		44		45	
Catering Operations Analyst		31, 51		31, 51		31, 51
Director, Inflight		52				
InFlight Guest Experience Mgr	57		57		57	
In-Flight Manager		42, 43		43, 44		43, 44
InFlight Operational Lead Supv	38	39	38	39	38	39
InFlight Operations Manager		52		52		53
Inflight Policy& Proc Analyst		50		50		50
InFlight Supervisor	39, 49, 56, 64	28, 38, 43, 48, 60	39, 49, 57, 65	28, 38, 43, 48, 60	39, 49, 65	29, 38, 43, 48, 60
MD, VX InFlight				52^		52^
Mgr, InFlight Communications	31					
Mgr. Inflight Catering	60		60		61	
Project Manager, InFlight	40		40		40	
Uniforms& Promotions Supervisor	30		30		31	
IT						
Applications Administrator		27, 35, 47		27, 36, 47		28, 36, 48
Bus Systems Partner Manager		55		56		56
Data Scientist Corp. Analytics		31		31		32
Database Architect		50		50		50
Dir,Integration Project Mgmt			36^		36^	
Director IT Operations	40					
Director, Software Engineering	44		44		44	
IT Business Systems Analy		33, 46, 55, 56		33, 47, 55, 57		34, 47, 55
IT Network Manager		46		47		47
IT Project Analyst		39		39		39
IT Support Tech Analyst		27, 35, 37, 37, 42, 53		27, 35, 37, 37, 43, 53		27, 35, 37, 38, 43, 54
Jr. Software QA Engineer		32		32		32
Jr. Windows Systems Admin		38, 39		38, 40		39, 40
Linux Systems Administrator		49		50		50
Manager IT Technical Supp		39		40		40
Manager, Web Technology & Test		39		39		39
MD IT Operations			40^		40^	
Mgr - Software Engineer		32		33		33
Mgr. IT Infrastructure & Data		50		50		50
Network Engineer		33, 37		33, 37		33, 37
Program Project Mgr.	36					
QA Java Engineer		28		28		28
Senior Security Engineer		45		46		46

	December 14, 2016		March 10, 2017		June 2, 2017	
Job Title	Selected	Not Selected	Selected	Not Selected	Selected	Not Selected
Sr Applications Administrator		50		50		51
Sr Network Engineer		47		48		48
Sr. IT Architect		47		47		47
Sr. IT Web Developer		46		46		47
Sr. Linux Systems Engineer		37, 45		37, 46		37, 46
Sr. Software Test Engineer		31		31		32
Sr. Telephony Engineer		48		49		49
Sr. Windows Systems Administra		29, 31		29, 32		30, 32
Legal & Gov't Affairs						
Director& Assoc General Counsel	34, 38		35, 38		35, 39	
Director& Deputy GeneralCounsel	47		48		48	
Paralegal (Contracts Adm)	60		60		61	
Marketing						
Co-Brand Prgm Lead, Marketing			35^		36^	
Corp Comm Manager	34		34		34	
Design Director Manager	38		38			
Digital Graphic Designer	30		30			
Digital Marketing Manager	49		50		50	
Digital Promotions Manager	55		55			
Director Corporate Commun	31					
Director Digital Marketing	38		38			
Head of Brand Creative	40		40		40	
Head of Public Relations	40		40		41	
IFE Content & Partnership Mgr	41		41		41	
Interim Director,Guest Loyalty			33^		33^	
Jr. Designer	27		28		28	
Manager - Brand Marketing	33, 42		33, 42		33	
Manager, Media Relations	27		27		27	
Manager, Product Development		51		52		
Manager, Web Development -Mktg	47		47		47	
Marketing Coordinator	30		30		31	
Marketing Web Developer	30, 38		30, 38		30, 38	
Marketing Writer		39		39		39
Mgr Non-Airline Partnerships	40		40			
Senior Advisor	47		47		48	
Social Media Community Analyst	29		29		29	
Social Media Manager	43		43		43	
Sr Analyst Co-Brand Marketing	35					

	December 14, 2016		March 10, 2017		June 2, 2017	
Job Title	Selected	Not Selected	Selected	Not Selected	Selected	Not Selected
Sr Analyst,Marketing Analytics	31	27	31			
Sr Loyalty Analyst		34*	34			
Operations Control Center						
Crew Payroll Supervisor		35		36		36
Crew Planning Analyst	31		31		31	
Crew Planning Mgr.	63		63		63	
Crew Resource Analyst		43		44		44
CSS Supervisor	30, 32		31, 32		31, 32	
Director – OCC	60					
Director, Crew Resources	60		60		60	
Manager Dispatch	52		52		52	
Manager Pilot Crew Scheduling	38		38		38	
Manager, OCC Policies & Admin		39		39		39
MD, OCC			60^		61^	
Mgr,ITM CrewScheduling/Fcsting	31		32			
Supervisor, Crew Pay & Support		34		34		34
System Ops Center Manager	40, 43, 58, 63	39	40, 43, 58, 64	39	40, 43, 58, 64	40
People						
Comp & Benefits Analyst	28		28		28	
Compensation Manager	34		35			
Corp Learning Logistics Supv	25		25		25	
Corporate Learning Dev. Instr		46		46		46
Director Compensation & Ben	39					
Director Corporate Learning	49					
Director, People	39					
Director, Teammate Relations	43					
Drug & Alcohol Specialist	36		36		36	
Executive Assistant	32		33			
GS Instructor I		29		29		29
GS Learning Instructor II	33	27*	33	27*	33	
HR Business Partner	38, 38		38		39	
HR Operations Manager	38		38		39	
InFlight Learning Exp Supv		33		33		33
InFlight Learning Instr II	43, 51		43, 51		43, 51	
Learning Technologies Designer	35		35		35	
Leave of Absence Specialist	27		28		28	
LMS and Analytics Analyst	31		32		32	

	December 14, 2016		March 10, 2017		June 2, 2017	
Job Title	Selected	Not Selected	Selected	Not Selected	Selected	Not Selected
Manager Benefits and Wellness	35		35		35	
Manager Leadership Development	61		61			
Manager Recruitment	43		43		44	
Manager, GS & CC Learning			30^		30^	
Manager, Leave Administration		35		35		36
Manager, Teammate Experience	40		40		40	
Manager, TM Relations Programs	47		47		48	
MD Corporate Learning			49^		50^	
MD, VX People			39^		39^	
Mgr Learning Ops & Delivery		44				
Mgr, Learning Design & Tech		35				
Mgr. Drug/Alcohol Program	44		44		44	
Mgr. Travel & Accomodations	59		59		60	
Ramp Instructor II		36, 54		36, 54		36, 55
Recruiter		31		32		32
Recruitment Coordinator		27, 36, 41, 48		27, 36, 41, 48		28, 37, 41, 49
Supervisor Ramp Learning	46		46		47	
Supv. GS & CC Learning	30					
Talent Acquisition Manager		48, 53, 58		48, 53, 58		48, 53, 58
Team Travel Specialist	27		27		28	
Teammate Communication Spec	30					
Teammate Experience Guru	54		54		55	
Teammate Experience Specialist			29^		29^	
Teammate Relations - JD	33		33			
Teammate& Community Events Mgr	39		39		40	
Workers Comp Program Manager		30		30		31
Planning						
Ancillary Revenue Manager		26		26		
Commercial Project Specialist	29					
Director Network Planning	37		37		38	
Director of Sales	51		52		52	
National Acct Mgr (Corp)		40, 41, 46, 52		40, 42, 46, 52		40, 42, 46, 52
Network Planning Manager		34				
Pricing Manager	38		38			

	December 14, 2016		March 10, 2017		June 2, 2017	
Job Title	Selected	Not Selected	Selected	Not Selected	Selected	Not Selected
Revenue Planning&Inventory Mgr		34				
Revenue Strategy Manager	36					
Sales & Distribution Analyst		43		43		43
Sr Analyst - Schedule Planning		33		33		
Sr Analyst- Price and Rev Mgt	28, 29, 32	31*, 32, 33, 35*, 40*	28, 29, 35	31*, 41*	28, 29, 31, 41	
			Safety			
ASAP Safety Manager		35		36		36
Director of Safety	59					
Emergency Prepardedness Mgr.	48		48		48	
FOQA Data Safety Analyst	31		32		32	
FOQA Program Manager	33		33			
Ground Safety Manager		48		48		
SIMS & IEP Manager	34		34			
			Sales			
Call Center Supervisor	32		32			
CC-QA Policy & Procedure Spec	28		28		29	
Contact Center Strategy Mgr	52		52		52	
Contact Ctr Systems Admin	49		50		50	
Director, Distribution	44					
eCommerce Specialist		33		33		34
Elevate Call Center Specialist	29		30		30	
Executive Sales Support Spec	49		50		50	
Manager Agency Distribution	48		48		48	
MD Virgin America Integration			45^		45^	
Reservation Systems Manager	42		42		42	
Sr. Analyst Distribution Analy	38		38		38	
Sr. Analyst, Sales Distributio	27		27			
Sr. Reservation Systems Analys	32, 33, 38		32, 34, 38		32, 34, 38	
			Tech Operations			
Administrative Assistant		41		42		42
Airworthiness Direcive Coordin		37		37		32, 37
Business Process Manager		62		62		62
CASS Manager		47		47		47
Chief Engineer		54		54		54
Dir Cabin Sys Proj Eng & PD		35				
Dir. Chief Insp QA/Traing	65		65			
Director of Base MX & Planning	56					
Director of Engineering	48					

	December 14, 2016		March 10, 2017		June 2, 2017	
Job Title	Selected	Not Selected	Selected	Not Selected	Selected	Not Selected
Director of MCC & Line Mainten		54				
Engine Records Analyst		56		57		57
ETOPS Program Manager	55		55		55	
General Manager Heavy MX		53		53		53
IFE Engineer		31, 32		32, 33		32, 34
Interiors Engineer		40		41		41
Interiors Project Engineer		37		37		37
Line Maintenance Manager		38, 44, 53, 55, 56		38, 44, 53, 55, 56		39, 45, 54, 56, 56
Line Maintenance Supv		29, 34, 38, 46, 50, 51, 51, 52, 53, 54, 54, 54, 54, 61		29, 34, 39, 46, 50, 51, 52, 52, 54, 54, 54, 54, 61		29, 34, 39, 46, 50, 52, 53, 54, 54, 55, 55, 62
Maintenance Analyst Planner	46, 58, 61	33, 37, 56, 59	46, 59, 61	33, 33, 37, 56, 59	59, 61	33, 33, 38, 56, 59
Maintenance Controller		37, 38, 38, 41, 48, 52, 53, 56, 57, 61, 63		37, 38, 39, 41, 48, 52, 53, 57, 57, 61, 63		37, 39, 48, 52, 54, 57, 57, 61, 63
Maintenance Program Analyst				54^		54^
Maintenance Program Engineer		57		57		57
Maintenance Training Instr.		60, 62		62		62, 68
Manager Avionics Engineer		32		32		32
Manager Component Shops		43		43		44
Manager, Aircraft Records		46		46		47
Manager, Maintenance Planning	36, 43		37, 43		37, 44	
Manager,Reliability&MaintProg		38, 49		38, 49		50
MC Duty Manager	39	39, 44, 53	40	39, 44, 54	40	40, 44, 54
MD MCC & Line Maintenance				54^		54^
MEL Engineer		55		55		56
Mgr, Maintenance Control Ctr		55		55		55
Mgr, MX Technical Projects		48		49		49
Mgr. Interiors & Systems Engin		54		54		54
Mgr.TO Training		59		60		60
New Aircraft Analyst		34		34		34
Powerplant Engineer		37		38		38
Project Engineering Manager				29		29
Project Manager, Ops Projects		55		55		55

	December 14, 2016		March 10, 2017		June 2, 2017	
Job Title	Selected	Not Selected	Selected	Not Selected	Selected	Not Selected
Quality Rep	62	31, 48, 49, 49, 49, 55, 56, 56, 59, 59, 64	62	32, 48, 49, 49, 49, 55, 57, 57, 59, 59, 64	63	32, 49, 49, 50, 56, 57, 57, 60, 60, 64
Records Analyst II		33, 42, 49, 53, 55, 57, 61		33, 42, 49, 53, 55, 57, 61		33, 42, 49, 53, 56, 57, 62
Reliability Analst		29, 54		30		26, 30
Senior Records Analyst		34		35		35
Structures Engineer		44		44		39
Systems Engineer		29		30		30
Tech Operations Supervisor		31, 42, 47, 54, 56		31, 42, 47, 55, 56		31, 43, 47, 55, 57
Technical Data Mgmt Analyst		48		48		48
Technical Instructor		49, 58, 62		49, 58, 62		49, 58, 62
Tooling Maintenance Coordinato		39, 63		39, 63		39, 63
Training Coordinator		32		32		32
Trax Systems Manager	32		32		32	

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 June 30, 2018;

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.

August 8, 2018

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 June 30, 2018;

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.

August 8, 2018

By /s/ BRANDON S. PEDERSEN

Brandon S. Pedersen

Executive Vice President/Finance and Chief Financial Officer

EXHIBIT 32.1

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 June 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bradley D. Tilden, Chief Executive 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.

August 8, 2018

By /s/ BRADLEY D. TILDEN

Bradley D. Tilden

Chairman, President and Chief Executive 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 June 30, 2018 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.

August 8, 2018

By /s/ BRANDON S. PEDERSEN

Brandon S. Pedersen

Executive Vice President/Finance and Chief Financial Officer