UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2019

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.)

Title of each class	**Name of each exchange on which registered**	**Ticker Symbol**
Common stock, $0.01 par value	New York Stock Exchange	ALK

19300 International Boulevard, Seattle, WA 98188

Telephone: (206) 392-5040

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

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

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

Large accelerated filer	☒	Accelerated filer	☐	Non-accelerated filer (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 ☒

The registrant has 123,272,253 common shares, par value $0.01, outstanding at July 31, 2019.

This document is also available on our website at http://investor.alaskaair.com.

ALASKA AIR GROUP, INC.
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2019

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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. (through July 20, 2018, at which point it was legally merged into Alaska Airlines, 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;
- 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, 2018, 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, 2019	December 31, 2018
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 244**	$ 105
Marketable securities	**1,383**	1,131
Total cash and marketable securities	**1,627**	1,236
Receivables—net	**389**	366
Inventories and supplies—net	**55**	60
Prepaid expenses and other current assets	**147**	125
Total Current Assets	**2,218**	1,787
Property and Equipment		
Aircraft and other flight equipment	**8,417**	8,221
Other property and equipment	**1,238**	1,363
Deposits for future flight equipment	**396**	439
	10,051	10,023
Less accumulated depreciation and amortization	**3,307**	3,242
Total Property and Equipment - Net	**6,744**	6,781
Operating lease assets	**1,696**	—
Goodwill	**1,943**	1,943
Intangible assets - net	**125**	127
Other noncurrent assets	**225**	274
Other Assets	**3,989**	2,344
Total Assets	**$ 12,951**	$ 10,912

CONDENSED CONSOLIDATED BALANCE SHEETS *(unaudited)*

(in millions, except share amounts)	June 30, 2019	December 31, 2018
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	**$ 156**	$ 132
Accrued wages, vacation and payroll taxes	**371**	415
Air traffic liability	**1,173**	788
Other accrued liabilities	**505**	416
Deferred revenue	**768**	705
Current portion of operating lease liabilities	**273**	—
Current portion of long-term debt	**288**	486
Total Current Liabilities	**3,534**	2,942
Long-Term Debt, Net of Current Portion	**1,538**	1,617
Noncurrent Liabilities		
Long-term operating lease liabilities, net of current portion	**1,424**	—
Deferred income taxes	**582**	512
Deferred revenue	**1,181**	1,169
Obligation for pension and postretirement medical benefits	**522**	503
Other liabilities	**197**	418
	3,906	2,602
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, $0.01 par value, Authorized: 5,000,000 shares, none issued or outstanding	**—**	—
Common stock, $0.01 par value, Authorized: 400,000,000 shares, Issued: 2019 - 131,365,855 shares; 2018 - 130,813,476 shares, Outstanding: 2019 - 123,338,144 shares; 2018 - 123,194,430 shares	**1**	1
Capital in excess of par value	**270**	232
Treasury stock (common), at cost: 2019 - 8,027,711 shares; 2018 - 7,619,046 shares	**(593)**	(568)
Accumulated other comprehensive loss	**(422)**	(448)
Retained earnings	**4,717**	4,534
	3,973	3,751
Total Liabilities and Shareholders' Equity	**$ 12,951**	$ 10,912

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS *(unaudited)*

(in millions, except per share amounts)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Operating Revenues				
Passenger revenue	**$ 2,111**	$ 1,997	**3,827**	3,681
Mileage Plan other revenue	**118**	108	**228**	215
Cargo and other	**59**	51	**109**	92
Total Operating Revenues	**2,288**	2,156	**4,164**	3,988
Operating Expenses				
Wages and benefits	**567**	544	**1,124**	1,080
Variable incentive pay	**44**	38	**79**	77
Aircraft fuel, including hedging gains and losses	**502**	475	**922**	884
Aircraft maintenance	**115**	106	**235**	213
Aircraft rent	**82**	77	**165**	151
Landing fees and other rentals	**113**	110	**245**	236
Contracted services	**70**	76	**142**	157
Selling expenses	**87**	88	**159**	166
Depreciation and amortization	**105**	97	**211**	191
Food and beverage service	**53**	55	**102**	105
Third-party regional carrier expense	**42**	39	**83**	76
Other	**136**	141	**274**	282
Special items - merger-related costs	**8**	39	**34**	45
Special items - other	**—**	—	**—**	25
Total Operating Expenses	**1,924**	1,885	**3,775**	3,688
Operating Income	**364**	271	**389**	300
Nonoperating Income (Expense)				
Interest income	**11**	10	**20**	18
Interest expense	**(20)**	(25)	**(42)**	(49)
Interest capitalized	**3**	4	**7**	9
Other—net	**(7)**	(1)	**(17)**	(13)
Total Nonoperating Income (Expense)	**(13)**	(12)	**(32)**	(35)
Income Before Income Tax	**351**	259	**357**	265
Income tax expense	**89**	66	**91**	68
Net Income	**$ 262**	$ 193	**$ 266**	$ 197
Basic Earnings Per Share:	**$ 2.12**	$ 1.57	**$ 2.15**	$ 1.60
Diluted Earnings Per Share:	**$ 2.11**	$ 1.56	**$ 2.14**	$ 1.59
Shares used for computation:				
Basic	**123.418**	123.268	**123.355**	123.212
Diluted	**124.301**	124.036	**124.179**	123.953

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS *(unaudited)*

(in millions)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Net Income	**$ 262**	$ 193	**$ 266**	$ 197
Other Comprehensive Income (Loss):				
Related to marketable securities:				
Unrealized holding gain (loss) arising during the period	**13**	(4)	**27**	(17)
Reclassification of (gain) loss into Other - net nonoperating income (expense)	**—**	1	**2**	3
Income tax effect	**(3)**	—	**(7)**	3
Total	**10**	(3)	**22**	(11)
Related to employee benefit plans:				
Reclassification of net pension expense into Wages and benefits and Other - net nonoperating income (expense)	**8**	7	**16**	14
Income tax effect	**(2)**	(1)	**(4)**	(3)
Total	**6**	6	**12**	11
Related to interest rate derivative instruments:				
Unrealized holding gain (loss) arising during the period	**(7)**	2	**(12)**	8
Reclassification of (gain) loss into Aircraft rent	**—**	—	**1**	1
Income tax effect	**2**	—	**3**	(2)
Total	**(5)**	2	**(8)**	7
Other Comprehensive Income	**11**	5	**26**	7
Comprehensive Income	**$ 273**	$ 198	**$ 292**	$ 204

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY *(unaudited)*

(in millions)	*Common Stock Outstanding*	Common Stock	Capital in Excess of Par Value	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balances at December 31, 2018	*123.194*	$ 1	$ 232	$ (568)	$ (448)	$ 4,534	$ 3,751
Cumulative effect of accounting changes[(a)]	—	—	—	—	—	3	3
Net income	—	—	—	—	—	4	4
Other comprehensive income (loss)	—	—	—	—	15	—	15
Common stock repurchase	*(0.215)*	—	—	(13)	—	—	(13)
Stock-based compensation	—	—	12	—	—	—	12
Cash dividend declared ($0.35 per share)	—	—	—	—	—	(43)	(43)
Stock issued for employee stock purchase plan	*0.391*	—	20	—	—	.	20
Stock issued under stock plans	*0.134*	—	(3)	—	—	—	(3)
Balances at March 31, 2019	*123.504*	$ 1	$ 261	$ (581)	$ (433)	$ 4,498	$ 3,746
Net income	—	—	—	—	—	262	262
Other comprehensive income (loss)	—	—	—	—	11	—	11
Common stock repurchase	*(0.194)*	—	—	(12)	—	—	(12)
Stock-based compensation	—	—	9	—	—	—	9
Cash dividend declared ($0.35 per share)	—	—	—	—	—	(43)	(43)
Stock issued under stock plans	*0.028*	—	—	—	—	—	—
Balances at June 30, 2019	*123.338*	$ 1	$ 270	$ (593)	$ (422)	$ 4,717	$ 3,973

(a) Represents the opening balance sheet adjustment recorded as a result of the adoption of the new lease accounting standard.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY *(unaudited)*

(in millions)	*Common Stock Outstanding*	Common Stock	Capital in Excess of Par Value	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balances at December 31, 2017	*123.061*	$ 1	$ 164	$ (518)	$ (380)	$ 4,193	$ 3,460
Reclassification of tax effects to Retained Earnings	—	—	—	—	(62)	62	—
Net income	—	—	—	—	—	4	4
Other comprehensive income (loss)	—	—	—	—	2	—	2
Common stock repurchase	*(0.186)*	—	—	(13)	—	—	(13)
Stock-based compensation	—	—	12	—	—	—	12
Cash dividend declared ($0.32 per share)	—	—	—	—	—	(40)	(40)
Stock issued for employee stock purchase plan	*0.312*	—	17	—	—	—	17
Stock issued under stock plans	*0.163*	—	(3)	—	—	—	(3)
Balances at March 31, 2018	*123.350*	$ 1	$ 190	$ (531)	$ (440)	$ 4,219	$ 3,439
Net income	—	—	—	—	—	193	193
Other comprehensive income (loss)	—	—	—	—	5	—	5
Common stock repurchase	*(0.204)*	—	—	(13)	—	—	(13)
Stock-based compensation	—	—	9	—	—	—	9
Cash dividend declared ($0.32 per share)	—	—	—	—	—	(39)	(39)
Stock issued under stock plans	*0.058*	—	(1)	—	—	—	(1)
Balances at June 30, 2018	*123.204*	$ 1	$ 198	$ (544)	$ (435)	$ 4,373	$ 3,593

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*

(in millions)	Six Months Ended June 30, 2019	2018
Cash flows from operating activities:		
Net income	**$ 266**	$ 197
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**211**	191
Stock-based compensation and other	**16**	17
Changes in certain assets and liabilities:		
Changes in deferred tax provision	**62**	67
Increase in air traffic liability	**385**	306
Increase in deferred revenue	**75**	52
Other—net	**18**	(104)
Net cash provided by operating activities	**1,033**	726
Cash flows from investing activities:		
Property and equipment additions:		
Aircraft and aircraft purchase deposits	**(172)**	(271)
Other flight equipment	**(83)**	(56)
Other property and equipment	**(78)**	(96)
Total property and equipment additions, including capitalized interest	**(333)**	(423)
Purchases of marketable securities	**(885)**	(529)
Sales and maturities of marketable securities	**663**	474
Other investing activities	**25**	10
Net cash used in investing activities	**(530)**	(468)
Cash flows from financing activities:		
Proceeds from issuance of debt	**254**	—
Long-term debt payments	**(532)**	(258)
Common stock repurchases	**(25)**	(25)
Dividends paid	**(86)**	(79)
Other financing activities	**26**	15
Net cash used in financing activities	**(363)**	(347)
Net increase (decrease) in cash, cash equivalents, and restricted cash	**140**	(89)
Cash, cash equivalents, and restricted cash at beginning of year	**114**	197
Cash, cash equivalents, and restricted cash at end of the period	**$ 254**	$ 108
Cash paid during the period for:		
Interest (net of amount capitalized)	**$ 34**	$ 39
Income taxes	**—**	—
Reconciliation of cash, cash equivalents, and restricted cash at end of the period		
Cash and cash equivalents	**$ 244**	$ 102
Restricted cash included in Prepaid expenses and other current assets	**10**	6
Total cash, cash equivalents, and restricted cash at end of the period	**$ 254**	$ 108

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 in 2018) and Horizon. The 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, 2018. 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, 2019 and the results of operations for the three and six months ended June 30, 2019 and 2018. Such adjustments were of a normal recurring nature.

Certain reclassifications and rounding adjustments 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, 2019 are not necessarily indicative of operating results for the entire year.

NOTE 2. 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 details 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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Passenger ticket revenue, including ticket breakage and net of taxes and fees	**$ 1,792**	$ 1,693	**$ 3,231**	$ 3,121
Passenger ancillary revenue	**147**	137	**271**	254
Mileage Plan passenger revenue	**172**	167	**325**	306
Total Passenger revenue	**$ 2,111**	$ 1,997	**$ 3,827**	$ 3,681

Mileage Plan™ Loyalty Program

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Passenger revenue	**$ 172**	$ 167	**$ 325**	$ 306
Mileage Plan other revenue	**118**	108	**228**	215
Total Mileage Plan revenue	**$ 290**	$ 275	**$ 553**	$ 521

Cargo and Other

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Cargo revenue	**$ 38**	$ 34	**$ 68**	$ 60
Other revenue	**21**	17	**41**	32
Total Cargo and other revenue	**$ 59**	$ 51	**$ 109**	$ 92

Air Traffic Liability and Deferred Revenue

Passenger ticket and ancillary services liabilities

The Company recognized Passenger revenue of $89 million and $79 million from the prior year-end air traffic liability balance for the three months ended June 30, 2019 and 2018, and $563 million and $513 million for the six months ended June 30, 2019 and 2018.

Mileage Plan™ liabilities

The Company records a receivable for amounts due from the bank partner and from other partners as mileage credits are sold until the payments are collected. The Company had $122 million of such receivables as of June 30, 2019 and $119 million as of December 31, 2018.

The table below presents a roll forward of the total frequent flyer liability (in millions):

	Six Months Ended June 30,	
	2019	**2018**
Total Deferred Revenue balance at January 1	**$ 1,874**	$ 1,725
Travel miles and companion certificate redemption - Passenger revenue	**(325)**	(306)
Miles redeemed on partner airlines - Other revenue	**(51)**	(44)
Increase in liability for mileage credits issued	**451**	402
Total Deferred Revenue balance at June 30	**$ 1,949**	$ 1,777

NOTE 3. FAIR VALUE MEASUREMENTS

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

Fair Value of Financial Instruments on a Recurring Basis

As of June 30, 2019, total cost basis for all marketable securities was $1.4 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, 2019			December 31, 2018		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets						
Marketable securities						
U.S. government and agency securities	**$ 409**	**$ —**	**$ 409**	$ 293	$ —	$ 293
Foreign government bonds	**—**	**25**	**25**	—	26	26
Asset-backed securities	**—**	**189**	**189**	—	190	190
Mortgage-backed securities	**—**	**120**	**120**	—	92	92
Corporate notes and bonds	**—**	**623**	**623**	—	520	520
Municipal securities	**—**	**17**	**17**	—	10	10
Total Marketable securities	**409**	**974**	**1,383**	293	838	1,131
Derivative instruments						
Fuel hedge—call options	**—**	**7**	**7**	—	4	4
Interest rate swap agreements	**—**	**4**	**4**	—	10	10
Total Assets	**$ 409**	**$ 985**	**$ 1,394**	$ 293	$ 852	$ 1,145
Liabilities						
Derivative instruments						
Interest rate swap agreements	**—**	**(10)**	**(10)**	—	(7)	(7)
Total Liabilities	**$ —**	**$ (10)**	**$ (10)**	$ —	$ (7)	$ (7)

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, 2019.

Maturities for marketable securities (in millions):

June 30, 2019	Cost Basis	Fair Value
Due in one year or less	$ 298	$ 299
Due after one year through five years	1,065	1,080
Due after five years through 10 years	4	4
Total	$ 1,367	$ 1,383

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, 2019, 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, 2019	December 31, 2018
Fixed-rate debt at cost	**$ 580**	$ 639
Non-recurring purchase price accounting fair value adjustment	**2**	3
Total fixed-rate debt	**$ 582**	$ 642
Estimated fair value	**$ 595**	$ 641

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, operating lease assets, goodwill, and intangible assets. These assets are subject to fair valuation when there is evidence of impairment. No material impairment charges were taken in the three and six months ended June 30, 2019 and June 30, 2018.

NOTE 4. LONG-TERM DEBT

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

	June 30, 2019	December 31, 2018
Fixed-rate notes payable due through 2028	**$ 582**	$ 642
Variable-rate notes payable due through 2028	**1,255**	1,473
Less debt issuance costs	**(11)**	(12)
Total debt	**1,826**	2,103
Less current portion	**288**	486
Long-term debt, less current portion	**$ 1,538**	$ 1,617
Weighted-average fixed-interest rate	**3.6%**	4.1%
Weighted-average variable-interest rate	**3.6%**	3.9%

During the six months ended June 30, 2019 the Company made debt payments of $532 million, including the prepayment of $392 million of debt. During the six months ended June 30, 2019, the Company obtained additional secured debt financing of $254 million from multiple lenders. The new debt is secured by a total of nine aircraft.

At June 30, 2019 long-term debt principal payments for the next five years and thereafter are as follows (in millions):

		Total
Remainder of 2019	$	146
2020		287
2021		314
2022		275
2023		235
Thereafter		578
Total	$	1,835

Bank Lines of Credit

The Company has three credit facilities with availability totaling $516 million as of June 30, 2019. 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. The second credit facility for $116 million expires in July 2020, with a mechanism for annual renewal, and is secured by aircraft. 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 $116 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, 2019.

NOTE 5. LEASES

In 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," which requires lessees to recognize assets and liabilities for certain operating leases. Under the new standard, a lessee must recognize a liability on the balance sheet representing the lease payments owed, and a lease asset representing its right to use the underlying asset for the lease term. In 2018, the FASB issued ASU 2018-11, "Targeted Improvements - Leases (Topic 842)," which amended Topic 842 to provide a transition method that would not require adjusting comparative period financial information.

The Company transitioned to the new lease accounting standard effective January 1, 2019 utilizing the alternative transition method. Upon transition, the Company recorded a cumulative-effect adjustment to the opening balance of retained earnings of $3 million. The new standard eliminated build-to-suit lease accounting guidance and resulted in the derecognition of build-to-suit assets and liabilities of approximately $150 million each.

The Company elected certain practical expedients under the standard, including the practical expedient allowing a policy election to exclude from recognition short-term lease assets and lease liabilities for leases with an initial term of 12 months or less. Such expense was not material for the six months ended June 30, 2019. Additionally, the Company elected the available package of practical expedients allowing for no reassessment of lease classification for existing leases, no reassessment of expired contracts, and no reassessments of initial direct costs for existing leases.

The Company has five asset classes for operating leases: aircraft, capacity purchase arrangements with aircraft (CPA aircraft), airport and terminal facilities, corporate real estate and other equipment. All capitalized lease assets have been recorded on the condensed consolidated balance sheet as of June 30, 2019 as Operating lease assets, with the corresponding liabilities recorded as Operating lease liabilities. Consistent with past accounting, operating rent expense is recognized on a straight-line basis over the term of the lease.

At June 30, 2019, the Operating lease assets balance by asset class was as follows (in millions):

		Operating lease assets
Aircraft	$	1,012
CPA aircraft		622
Airport and terminal facilities		19
Corporate real estate and other		43
Total Operating lease assets	$	1,696

Aircraft

At June 30, 2019, the Company had operating leases for 10 Boeing 737 (B737), 62 Airbus, and 9 Bombardier Q400 aircraft. Additionally, the Company operates 32 Embraer 175 (E175) aircraft through its capacity purchase arrangement with SkyWest Airlines, Inc. (SkyWest). Remaining lease terms for these aircraft extend up to 12 years, with options to extend, subject to negotiation at the end of the term. As extension is not certain, and rates are highly likely to be renegotiated, the extended term is only capitalized when it is reasonably determinable. While aircraft rent is primarily fixed, certain leases contain rental adjustments throughout the lease term which would be recognized as variable expense as incurred. Variable lease expense for aircraft was $1 million and $2 million for the three and six months ended June 30, 2019, respectively.

Capacity purchase agreements with aircraft (CPA aircraft)

At June 30, 2019, Alaska had CPAs with three carriers, including the Company's wholly-owned subsidiary, Horizon. Horizon sells 100% of its capacity under a CPA with Alaska. Alaska also has CPAs with SkyWest to fly certain routes in the Lower 48 and Canada, and with Peninsula Aviation Services, Inc., (PenAir) to fly certain routes in the state of Alaska. Under these agreements, Alaska pays the carriers an amount which is based on a determination of their cost of operating those flights and other factors intended to approximate market rates for those services. As Horizon is a wholly-owned subsidiary, intercompany leases between Alaska and Horizon have not been recognized under the standard. The agreement with PenAir does not contain a leasing arrangement, resulting in no asset or liability recognized.

Remaining lease terms for CPA aircraft range from 8 years to 11 years. Financial arrangements of the CPAs include a fixed component, representing the costs to operate each aircraft and is capitalized under the new lease accounting standard. CPAs also include variable rent based on actual levels of flying, which is expensed as incurred. Variable lease expense for CPA aircraft for the three and six months ended June 30, 2019 was not material.

Airport and terminal facilities

The Company leases ticket counters, gates, cargo and baggage space, ground equipment, office space and other support areas at numerous airports. For this asset class, the Company has elected to combine lease and non-lease components. The majority of airport and terminal facility leases are not capitalized because they do not meet the definition of controlled assets under the standard, or because the lease payments are entirely variable. For airports where leased assets are identified, and where the contract includes fixed lease payments, operating lease assets and lease liabilities have been recorded. The Company is also commonly responsible for maintenance, insurance and other facility-related expenses and services under these agreements. These costs are recognized as variable expense in the period incurred. Airport and terminal facilities variable lease expense was $61 million and $145 million for the three and six months ended June 30, 2019, respectively.

In 2018, the Company leased 12 airport slots at LaGuardia Airport and eight airport slots at Reagan National Airport to a third party. For these leases, the Company recorded $3 million and $6 million of lease income during the three and six months ended June 30, 2019, respectively.

Corporate real estate and other leases

Leased corporate real estate is primarily for office space in hub cities, land leases, and reservation centers. For this asset class, the Company has elected to combine lease and non-lease components under the standard. Other leased assets are comprised of other ancillary contracts and items including leased flight simulators and spare engines. Variable lease expense related to corporate real estate and other leases for the six months ended June 30, 2019 was $5 million.

Components of Lease Expense

The impact of leases, including variable lease cost, on earnings for the three and six months ended June 30, 2019 was as follows (in millions):

	Classification	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Expense			
Aircraft	Aircraft rent	$ 62	$ 123
CPA aircraft	Aircraft rent	20	40
Airport and terminal facilities	Landing fees and other rentals	62	146
Corporate real estate and other	Landing fees and other rentals	4	9
Total lease expense		$ 148	$ 318
Revenue			
Lease income	Cargo and other revenues	(3)	(6)
Net lease impact		**$ 145**	**$ 312**

Total rent expense for the three and six months ended June 30, 2018 was $137 million and $290 million, respectively.

Supplemental Cash Flow Information

Supplemental cash flow information related to leases was as follows (in millions):

	Six Months Ended June 30, 2019
Cash paid for capitalized operating leases	$ 177
Operating lease assets obtained in exchange for lease obligations	47

Lease Term and Discount Rate

As most leases do not provide an implicit interest rate, the Company generally utilizes the incremental borrowing rate (IBR) based on information available at the commencement date of the lease to determine the present value of lease payments. The weighted average IBR and weighted average remaining lease term (in years) for all asset classes were as follows at June 30, 2019:

	Weighted Average IBR	Weighted Average Remaining Lease Term
Aircraft	4.2%	6.8
CPA aircraft	4.3%	9.7
Airports and terminal facilities	4.1%	10.4
Corporate real estate and other	4.4%	37.7

Maturities of Lease Liabilities

Future minimum lease payments under non-cancellable leases as of June 30, 2019 (in millions):

	Aircraft	CPA Aircraft	Airport and Terminal Facilities	Corporate Real Estate & Other
Remainder of 2019	$ 128	$ 40	1	$ 5
2020	233	79	3	8
2021	194	79	3	6
2022	169	79	2	3
2023	115	79	2	2
Thereafter	324	408	12	74
Total lease payments	$ 1,163	$ 764	$ 23	$ 98
Less: Imputed interest	(151)	(142)	(4)	(54)
Total operating lease liabilities	$ 1,012	$ 622	$ 19	$ 44

As of June 30, 2019, the Company has one scheduled lease delivery of an A321neo aircraft remaining in 2019, valued at $52 million. We also had three scheduled lease deliveries of E175 aircraft in 2021 to be operated by SkyWest. Subsequent to June 30, 2019, the Company canceled these aircraft deliveries through an amendment to the capacity purchase agreement. All future lease contracts have remaining non-cancelable lease terms ranging from 2019 to 2033.

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,	
	2019	**2018**	**2019**	**2018**
Service cost	**$ 10**	$ 12	**$ 21**	$ 24
Pension expense included in Wages and benefits	**10**	12	**21**	24
Interest cost	**22**	19	**44**	39
Expected return on assets	**(23)**	(26)	**(47)**	(53)
Recognized actuarial loss	**9**	8	**18**	16
Pension expense included in Nonoperating Income (Expense)	**$ 8**	$ 1	**$ 15**	$ 2

NOTE 7. COMMITMENTS AND CONTINGENCIES

Future minimum payments for commitments, excluding operating leases, as of June 30, 2019 (in millions):

	Aircraft Commitments[(a)]	Capacity Purchase Agreements [(b)]	Aircraft Maintenance Deposits
Remainder of 2019	$ 255	$ 69	$ 33
2020	542	145	73
2021	553	166	62
2022	303	174	51
2023	103	179	27
Thereafter	32	1,065	9
Total	$ 1,788	$ 1,798	$ 255

(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.

Aircraft Commitments

Aircraft purchase commitments include non-cancelable contractual commitments for aircraft and engines. As of June 30, 2019, the Company had commitments to purchase 32 B737 MAX9 aircraft, with deliveries in the remainder of 2019 through 2023. Future minimum contractual payments for these aircraft have been updated to reflect the most current anticipated delivery timing for B737 MAX9 aircraft, which has been delayed as a result of the grounding order mandated by the FAA on March 13, 2019. The Company also has commitments to purchase five E175 aircraft with deliveries in the remainder of 2019 through 2021 and has cancelable purchase commitments for 30 Airbus A320neo aircraft with deliveries from 2023 through 2025. In addition, the Company has options to purchase 37 B737 MAX aircraft from 2021 through 2024 and 30 E175 aircraft from 2021 through 2023. The Company also has the option to increase capacity flown by SkyWest with eight additional E175 aircraft with deliveries from 2021 to 2022. 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. The court certified a class of approximately 1,800 flight attendants in November 2016. The Company believes the claims in this case are without factual and legal merit.

In July 2018, the Court granted in part Plaintiffs' motion for summary judgment, finding Virgin America, and Alaska Airlines, as a successor-in-interest to Virgin America, responsible for various damages and penalties sought by the class members. On February 4, 2019, the Court entered final judgment against Virgin America and Alaska Airlines in the amount of approximately $78 million. It did not award injunctive relief against Alaska Airlines.

The Company is seeking an appellate court ruling that the California laws on which the judgment is based are invalid as applied to national airlines pursuant to the U.S. Constitution and federal law and for other employment law and improper class certification reasons. The Company remains confident that a higher court will respect the federal preemption principles that were enacted to shield inter-state common carriers from a patchwork of state and local wage and hour regulations such as those at issue in this case and agree with the Company's other bases for appeal. For these reasons, no loss has been accrued.

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.

NOTE 8. SHAREHOLDERS' EQUITY

Common Stock Repurchase

In August 2015, the Board of Directors authorized a $1 billion share repurchase program. As of June 30, 2019, the Company has repurchased 6.3 million shares for $463 million under this program.

Accumulated Other Comprehensive Loss

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

	June 30, 2019	December 31, 2018
Related to marketable securities	**$ 11**	$ (11)
Related to employee benefit plans	**(428)**	(440)
Related to interest rate derivatives	**(5)**	3
Total	**$ (422)**	$ (448)

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, 2019 and 2018, 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 was 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 Air Group 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, 2019						
	Mainline	Regional	Horizon	Consolidating & Other[(a)]	Air Group Adjusted[(b)]	Special Items[(c)]	Consolidated
Operating revenues							
Passenger revenues	$ 1,767	$ 344	$ —	$ —	$ 2,111	$ —	$ 2,111
CPA revenues	—	—	112	(112)	—	—	—
Mileage Plan other revenue	105	13	—	—	118	—	118
Cargo and other	57	—	—	2	59	—	59
Total operating revenues	1,929	357	112	(110)	2,288	—	2,288
Operating expenses							
Operating expenses, excluding fuel	1,167	268	95	(116)	1,414	8	1,422
Economic fuel	422	77	—	—	499	3	502
Total operating expenses	1,589	345	95	(116)	1,913	11	1,924
Nonoperating income (expense)							
Interest income	17	—	—	(6)	11	—	11
Interest expense	(19)	—	(7)	6	(20)	—	(20)
Interest capitalized	3	—	—	—	3	—	3
Other - net	(7)	—	—	—	(7)	—	(7)
Total nonoperating income (expense)	(6)	—	(7)	—	(13)	—	(13)
Income (loss) before income tax	$ 334	$ 12	$ 10	$ 6	$ 362	$ (11)	$ 351

	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

	Six Months Ended June 30, 2019						
	Mainline	Regional	Horizon	Consolidating & Other[(a)]	Air Group Adjusted[(b)]	Special Items[(c)]	Consolidated
Operating revenues							
Passenger revenues	$ 3,189	$ 638	$ —	$ —	$ 3,827	$ —	$ 3,827
CPA revenues	—	—	228	(228)	—	—	—
Mileage Plan other revenue	205	23	—	—	228	—	228
Cargo and other	105	1	1	2	109	—	109
Total operating revenues	3,499	662	229	(226)	4,164	—	4,164
Operating expenses							
Operating expenses, excluding fuel	2,319	542	192	(234)	2,819	34	2,853
Economic fuel	780	143	—	—	923	(1)	922
Total operating expenses	3,099	685	192	(234)	3,742	33	3,775
Nonoperating income (expense)							
Interest income	33	—	—	(13)	20	—	20
Interest expense	(40)	—	(15)	13	(42)	—	(42)
Interest capitalized	7	—	—	—	7	—	7
Other - net	(17)	—	—	—	(17)	—	(17)
Total nonoperating income (expense)	(17)	—	(15)	—	(32)	—	(32)
Income (loss) before income tax	$ 383	$ (23)	$ 22	$ 8	$ 390	$ (33)	$ 357

	Six Months Ended June 30, 2018						
	Mainline	Regional	Horizon	Consolidating & Other[(a)]	Air Group Adjusted[(b)]	Special Items[(c)]	Consolidated
Operating revenues							
Passenger revenues	$ 3,152	$ 529	$ —	$ —	$ 3,681	$ —	$ 3,681
CPA revenues	—	—	247	(247)	—	—	—
Mileage Plan other revenue	197	18	—	—	215	—	215
Cargo and other	89	1	2	—	92	—	92
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 - net	(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

(a) Includes consolidating entries, Air Group 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 excludes certain income and charges.
(c) Includes merger-related costs, mark-to-market fuel-hedge accounting adjustments, and other special items.

Total assets were as follows (in millions):

	June 30, 2019	December 31, 2018
Mainline	**$ 19,050**	$ 16,853
Horizon	**1,222**	1,229
Consolidating & Other	**(7,321)**	(7,170)
Consolidated	**$ 12,951**	$ 10,912

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, 2018. This overview summarizes the MD&A, which includes the following sections:

- *Second Quarter Review*—highlights from the second quarter of 2019 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, 2019. 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 2019.

- *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 $351 million during the second quarter of 2019, compared to $259 million in the second quarter of 2018. The increase in pretax profit was driven primarily by an increase in operating revenues of $132 million, offset by an increase in fuel expense of $27 million and an increase in non-fuel operating expenses of $12 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.

Accomplishments and Highlights

During the second quarter of 2019, we earned our 12th consecutive J.D. Power award for Highest in Customer Satisfaction Among Traditional Carriers in North America.

Shareholder Return

During the second quarter of 2019, we paid cash dividends of $43 million and repurchased 193,774 shares for $12 million.

Operations Performance

During the second quarter of 2019, our on-time performance was 82.8% for our Mainline operations and 87.4% for our Regional operations. These on-time results were first among both major and regional airlines in the second quarter, and are consistent with our historical high standard of running an excellent operation.

Labor Update

In June 2019, we reached a tentative agreement with the Aircraft Mechanics Fraternal Association (AMFA) to integrate Airbus technicians into the collective bargaining agreement with Boeing technicians, as well as extend the term by two years. This tentative agreement was subsequently ratified by our technicians in July 2019. Also in June 2019, we reached a tentative agreement with the International Association of Machinists (IAM) for new five-year contracts for clerical, office, passenger service, ramps service and stores agents employees. Voting on this agreement concludes in the third quarter of 2019. Both the IAM and AMFA agreements include signing bonuses and wage rate increases to be implemented in the period of ratification. The annual impact of these contracts thereafter is expected to be approximately $50 million. If the IAM agreement is ratified, we expect to record $24 million in signing bonuses and $24 million in wage rate increases in the second half of 2019.

Outlook

With the integration largely behind us, we are focused on improving our returns with the long-term goal of achieving 13% to 15% pretax margins over the business cycle. Recently implemented revenue initiatives, including our Saver Fare product, are providing meaningful revenue growth. We have also begun realizing the full synergies expected as a result of the merger. Cross-fleeting opportunities have allowed us to move larger gauge, lower unit cost aircraft into markets with high demand. This flexibility with our fleet allows us to evaluate all existing and potential new routes, including aircraft type, so that we can maximize our margins and provide the best network utility for our guests.

As we move through 2019, we continue to work on a number of notable guest experience projects. We expect more than half of our Mainline fleet will be equipped with high-speed satellite Wi-Fi by the end of the year, providing our guests with increased connectivity. In July, we opened our new flagship lounge in the North Satellite of Sea-Tac Airport, and are working closely with the Port of Seattle to open a state-of-the-art 20-gate North Satellite Concourse by Summer 2021. We are also well underway on our cabin interior retrofit of our Airbus fleet, which will allow us to align the product across both Mainline aircraft platforms. These projects, along with our ongoing rotation of on-board menu offerings, refreshed aircraft interiors, and expanded and updated airport lounges, demonstrates our commitment to providing our guests more options and significant value. Combined, we expect our revenue initiatives and synergies will contribute an incremental $330 million of revenue in 2019.

We also continue to invest in our people and culture. In the second quarter, we completed our final all-employee workshop, Flight Path, which allowed for face-to-face conversations between leaders and employees from all departments and to bring us together as one team. We know our people are our greatest competitive advantage and that investment, along with ongoing investments in our product, will allow us to continue to be recognized in the industry as one of the best in customer service and satisfaction.

Currently, we expect to grow our combined network capacity by approximately 2.1% in 2019, and approximately 3% - 4% in 2020. Current schedules indicate competitive capacity will decrease by approximately 1% in the third quarter of 2019, and increase approximately 3% in the fourth quarter of 2019, based on available schedules as of the date of filing. We believe that our product, operation, engaged employees, award-winning service, and competitive Mileage Plan™ program, combined with our strong balance sheet and focus on low costs, give us a competitive advantage in our markets.

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 annual cash incentive plan, which covers the majority of employees within the Air Group organization.

- 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,		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
Consolidated Operating Statistics:[(a)]						
Revenue passengers (000)	**12,026**	12,069	(0.4)%	**22,442**	22,558	(0.5)%
RPMs (000,000) "traffic"	**14,638**	14,484	1.1%	**27,087**	26,887	0.7%
ASMs (000,000) "capacity"	**16,980**	16,833	0.9%	**32,487**	32,313	0.5%
Load factor	**86.2%**	86.0%	0.2 pts	**83.4%**	83.2%	0.2 pts
Yield	**14.43¢**	13.79¢	4.6%	**14.13¢**	13.69¢	3.2%
RASM	**13.48¢**	12.81¢	5.2%	**12.82¢**	12.34¢	3.9%
CASM excluding fuel and special items[(b)]	**8.33¢**	8.14¢	2.3%	**8.68¢**	8.46¢	2.6%
Economic fuel cost per gallon[(b)]	**$2.27**	$2.30	(1.3)%	**$2.20**	$2.22	(0.9)%
Fuel gallons (000,000)	**220**	216	1.9%	**419**	413	1.5%
ASMs per fuel gallon	**77.2**	77.9	(0.9)%	**77.5**	78.2	(0.9)%
Average full-time equivalent employees (FTEs)	**21,921**	21,655	1.2%	**21,876**	21,461	1.9%
Mainline Operating Statistics:						
Revenue passengers (000)	**9,206**	9,462	(2.7)%	**17,070**	17,673	(3.4)%
RPMs (000,000) "traffic"	**13,207**	13,221	(0.1)%	**24,379**	24,581	(0.8)%
ASMs (000,000) "capacity"	**15,241**	15,289	(0.3)%	**29,114**	29,387	(0.9)%
Load factor	**86.7%**	86.5%	0.2 pts	**83.7%**	83.6%	0.1 pts
Yield	**13.38¢**	12.95¢	3.3%	**13.08¢**	12.83¢	1.9%
RASM	**12.66¢**	12.16¢	4.1%	**12.02¢**	11.70¢	2.7%
CASM excluding fuel and special items[(b)]	**7.65¢**	7.43¢	3.0%	**7.96¢**	7.71¢	3.2%
Economic fuel cost per gallon[(b)]	**$2.26**	$2.29	(1.3)%	**$2.19**	$2.22	(1.4)%
Fuel gallons (000,000)	**187**	188	(0.5)%	**356**	360	(1.1)%
ASMs per fuel gallon	**81.5**	81.3	0.2%	**81.8**	81.5	0.4%
Average FTEs	**16,551**	16,477	0.4%	**16,504**	16,245	1.6%
Aircraft utilization	**11.1**	11.6	(4.3)%	**10.7**	11.4	(6.1)%
Average aircraft stage length	**1,311**	1,298	1.0%	**1,308**	1,294	1.1%
Operating fleet	**238**	228	10 a/c	**238**	228	10 a/c
Regional Operating Statistics:[(c)]						
Revenue passengers (000)	**2,820**	2,607	8.2%	**5,372**	4,885	10.0%
RPMs (000,000) "traffic"	**1,431**	1,263	13.3%	**2,708**	2,306	17.4%
ASMs (000,000) "capacity"	**1,739**	1,544	12.6%	**3,373**	2,926	15.3%
Load factor	**82.3%**	81.8%	0.5 pts	**80.3%**	78.8%	1.5 pts
Yield	**24.06¢**	22.64¢	6.3%	**23.57¢**	22.93¢	2.8%
RASM	**20.51¢**	19.14¢	7.2%	**19.62¢**	18.72¢	4.8%
Operating fleet	**94**	89	5 a/c	**94**	89	5 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.

COMPARISON OF THREE MONTHS ENDED JUNE 30, 2019 TO THREE MONTHS ENDED JUNE 30, 2018

Our consolidated net income for the three months ended June 30, 2019 was $262 million, or $2.11 per diluted share, compared to net income of $193 million, or $1.56 per diluted share, for the three months ended June 30, 2018.

Excluding the impact of merger-related costs and mark-to-market fuel hedge adjustments, our adjusted net income for the second quarter of 2019 was $270 million, or $2.17 per diluted share, compared to an adjusted net income of $206 million, or $1.66 per diluted share, in the second quarter of 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,			
	2019		2018	
(in millions, except per share amounts)	Dollars	Diluted EPS	Dollars	Diluted EPS
GAAP net income and diluted EPS	**$ 262**	**$ 2.11**	$ 193	$ 1.56
Mark-to-market fuel hedge adjustments	**3**	**0.02**	(22)	(0.18)
Special items - merger-related costs	**8**	**0.06**	39	0.31
Income tax effect of reconciling items above	**(3)**	**(0.02)**	(4)	(0.03)
Non-GAAP adjusted net income and diluted EPS	**$ 270**	**$ 2.17**	$ 206	$ 1.66

CASM reconciliation is summarized below:

	Three Months Ended June 30,		
(in cents)	2019	2018	% Change
Consolidated:			
CASM	**11.33¢**	11.20¢	1 %
Less the following components:			
Aircraft fuel, including hedging gains and losses	**2.96**	2.82	5 %
Special items - merger-related costs	**0.04**	0.24	(83)%
CASM excluding fuel and special items	**8.33¢**	8.14¢	2 %
Mainline:			
CASM	**10.50¢**	10.36¢	1 %
Less the following components:			
Aircraft fuel, including hedging gains and losses	**2.79**	2.68	4 %
Special items - merger-related costs	**0.06**	0.25	(76)%
CASM excluding fuel and special items	**7.65¢**	7.43¢	3 %

OPERATING REVENUES

Total operating revenues increased $132 million, or 6%, during the second quarter of 2019 compared to the same period in 2018. The changes are summarized in the following table:

	Three Months Ended June 30,		
(in millions)	2019	2018	% Change
Passenger revenue	**$ 2,111**	$ 1,997	6%
Mileage Plan other revenue	**118**	108	9%
Cargo and other	**59**	51	16%
Total operating revenues	**$ 2,288**	$ 2,156	6%

Passenger Revenue

On a consolidated basis, Passenger revenue for the second quarter of 2019 increased by $114 million, or 6%, on a 4.6% increase in yield and a 0.9% increase in traffic. The increase in yield is primarily a result of the revenue initiatives implemented in 2018 to help counter the competitive pricing dynamic in many of the markets we serve. Increased traffic was driven by new routes and aircraft added to our fleet since the second quarter of 2018.

Mileage Plan other revenue

On a consolidated basis, Mileage Plan revenue for the second quarter of 2019 increased by $10 million, or 9%, compared to the second quarter of 2018, due largely to increased commissions received from our affinity card partner from growth in overall cardholders.

Cargo and other

On a consolidated basis, Cargo and other revenue for the second quarter of 2019 increased by $8 million, or 16%, due to increased volumes on our freighters as a result of new contracts entered into in late 2018 and a strong seafood harvest season in the state of Alaska.

OPERATING EXPENSES

Total operating expenses increased $39 million, or 2%, compared to the second quarter of 2018. 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)	**2019**	**2018**	**% Change**
Fuel expense	**$ 502**	$ 475	6 %
Non-fuel operating expenses, excluding special items	**1,414**	1,371	3 %
Special items - merger-related costs	**8**	39	(79)%
Total operating expenses	**$ 1,924**	$ 1,885	2 %

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 $27 million, or 6%, compared to the second quarter of 2018. The elements of the change are illustrated in the following table:

	Three Months Ended June 30,			
	2019		**2018**	
(in millions, except for per gallon amounts)	**Dollars**	**Cost/Gal**	**Dollars**	**Cost/Gal**
Raw or "into-plane" fuel cost	**$ 495**	**$ 2.25**	$ 506	$ 2.34
(Gains) losses on settled hedges	**4**	**0.02**	(9)	(0.04)
Consolidated economic fuel expense	**499**	**2.27**	$ 497	$ 2.30
Mark-to-market fuel hedge adjustments	**3**	**0.01**	(22)	(0.10)
GAAP fuel expense	**$ 502**	**$ 2.28**	$ 475	$ 2.20
Fuel gallons	**220**		216	

Raw fuel expense per gallon for the three months ended June 30, 2019 decreased by approximately 4% due to lower 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 decrease in raw fuel price per gallon during the second quarter of 2019 was primarily driven by a 12% decrease in crude oil prices, partially offset by an 11% increase in refining margins, when compared to the prior year. Fuel gallons consumed increased by 4 million gallons, or 2%, due to increased capacity and a slight increase in block hours.

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 as 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.

Losses recognized for hedges that settled during the second quarter were $4 million in 2019, compared to gains of $9 million in the same period in 2018. These amounts represent cash received from hedges at settlement, offset by cash paid for premium expense.

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 2018 are more fully described below.

	Three Months Ended June 30,		
(in millions)	**2019**	**2018**	**% Change**
Wages and benefits	**$ 567**	$ 544	4 %
Variable incentive pay	**44**	38	16 %
Aircraft maintenance	**115**	106	8 %
Aircraft rent	**82**	77	6 %
Landing fees and other rentals	**113**	110	3 %
Contracted services	**70**	76	(8)%
Selling expenses	**87**	88	(1)%
Depreciation and amortization	**105**	97	8 %
Food and beverage service	**53**	55	(4)%
Third-party regional carrier expense	**42**	39	8 %
Other	**136**	141	(4)%
Total non-fuel operating expenses, excluding special items	**$ 1,414**	$ 1,371	3 %

Wages and Benefits

Wages and benefits increased during the second quarter of 2019 by $23 million, or 4%, on 1% growth in FTE's. The primary components of Wages and benefits are shown in the following table:

	Three Months Ended June 30,		
(in millions)	**2019**	**2018**	**% Change**
Wages	**$ 421**	$ 411	2 %
Pension—Defined benefit plans service cost	**11**	12	(8)%
Defined contribution plans	**35**	30	17 %
Medical and other benefits	**69**	61	13 %
Payroll taxes	**31**	30	3 %
Total wages and benefits	**$ 567**	$ 544	4 %

Medical and other benefits expense increased $8 million, or 13%, primarily due to increased volume of high-dollar value medical claims as compared to the prior-year period, and an overall cost increase in medical services and products.

Aircraft Maintenance

Aircraft maintenance expense increased by $9 million, or 8%, during the second quarter of 2019 compared to the same period in 2018. The increase is primarily due to higher volumes and costs of scheduled maintenance events as compared to the prior period.

Depreciation and Amortization

Depreciation and amortization increased by $8 million, or 8%, during the second quarter of 2019 compared to the same period in 2018, primarily due to the addition of 13 owned E175s and nine owned B737-900ERs to our fleet since the second quarter of 2018, as well as the accelerated depreciation on our Q400 fleet as we continue the retirement of a portion of this fleet.

Special Items - Merger-related Costs

We recorded special items of $8 million in the second quarter of 2019 for merger-related costs associated with our acquisition of Virgin America, compared to $39 million in the same period of 2018. Costs incurred in the second quarter of 2019 are primarily a result of certain technology costs and the painting of Airbus aircraft.

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 $334 million in the second quarter of 2019, compared to $288 million in the second quarter of 2018. The $46 million increase in pretax profit was primarily driven by a $56 million increase in Passenger revenues, an $8 million increase in Cargo and other revenue, and a $10 million decrease in economic fuel cost, partially offset by a $32 million increase in non-fuel operating expenses.

The increase in Mainline passenger revenue for the second quarter of 2019 was primarily driven by the impact of our revenue initiatives and synergies, as well as improved pricing across the majority of our markets as compared to the prior year.

Lower raw fuel prices, offset by an increase in gallons consumed, drove the decrease in Mainline fuel expense. Non-fuel operating expenses increased due to higher aircraft ownership costs as we continue to add to our Mainline fleet, and increased maintenance expense as compared to the second quarter of 2018.

Regional

Our Regional operations generated a pretax profit of $12 million in the second quarter of 2019, compared to a pretax loss of $20 million in the second quarter of 2018. The shift to pretax profit was attributable to a $61 million increase in operating revenues, partially offset by a $12 million increase in fuel costs and a $19 million increase in non-fuel operating expenses.

Regional passenger revenue increased 20% compared to the second quarter of 2018, primarily driven by a 13% increase in capacity and 7% higher unit revenues. The increase in capacity is due to an increase in departures from new E175 deliveries, and an increase in average aircraft stage length. Increased unit revenues as compared to the prior-year quarter are due to improving fares in certain markets across our Regional network.

The increase in non-fuel operating expenses is primarily due to higher ownership costs associated with three E175 aircraft operated by SkyWest that were added to the regional fleet over the past 12 months, as well as higher CPA rates on a 13% increase in capacity.

Horizon

Horizon achieved a pretax profit of $10 million in both the second quarter of 2019 and 2018. Flat profit as compared to the prior year is primarily due to higher depreciation costs, offset by improved cost management and improved operational performance.

COMPARISON OF SIX MONTHS ENDED JUNE 30, 2019 TO SIX MONTHS ENDED JUNE 30, 2018

Our consolidated net income for the six months ended June 30, 2019 was $266 million, or $2.14 per diluted share, compared to net income of $197 million, or $1.59 per diluted share, for the six months ended June 30, 2018.

Our adjusted net income for the six months ended June 30, 2019 was $291 million, or $2.34 per diluted share, compared to an adjusted net income of $224 million, or $1.81 per diluted share, in the six months ended June 30, 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,			
	2019		2018	
(in millions, except per share amounts)	**Dollars**	**Diluted EPS**	**Dollars**	**Diluted EPS**
Reported GAAP net income and diluted EPS	**$ 266**	**$ 2.14**	$ 197	$ 1.59
Mark-to-market fuel hedge adjustments	**(1)**	**(0.01)**	(35)	(0.28)
Special items - merger-related costs	**34**	**0.27**	45	0.36
Special items - other[(a)]	**—**	**—**	25	0.20
Income tax effect on special items and fuel hedge adjustments	**(8)**	**(0.06)**	(8)	(0.06)
Non-GAAP adjusted net income and diluted EPS	**$ 291**	**$ 2.34**	$ 224	$ 1.81

Our operating costs per ASM are summarized below:

	Six Months Ended June 30,		
(in cents)	**2019**	**2018**	**% Change**
Consolidated:			
CASM	**11.62¢**	11.41¢	2 %
Less the following components:			
Aircraft fuel, including hedging gains and losses	**2.84**	2.74	4 %
Special items - merger-related costs	**0.10**	0.13	(23)%
Special items - other[(a)]	**—**	0.08	(100)%
CASM excluding fuel and special items	**8.68¢**	8.46¢	3 %
Mainline:			
CASM	**10.76¢**	10.54¢	2 %
Less the following components:			
Aircraft fuel, including hedging gains and losses	**2.68**	2.60	3 %
Special items - merger-related costs	**0.12**	0.14	(14)%
Special items - other[(a)]	**—**	0.09	(100)%
CASM excluding fuel and special items	**7.96¢**	7.71¢	3 %

(a) Special items - other is the employee tax reform bonus awarded in January 2018.

OPERATING REVENUES

Total operating revenues increased $176 million, or 4%, during the first six months of 2019 compared to the same period in 2018. The changes are summarized in the following table:

	Six Months Ended June 30,		
(in millions)	**2019**	**2018**	**% Change**
Passenger revenue	**$ 3,827**	$ 3,681	4%
Mileage Plan other revenue	**228**	215	6%
Cargo and other	**109**	92	18%
Total operating revenues	**$ 4,164**	$ 3,988	4%

Passenger Revenue

On a consolidated basis, Passenger revenue for the first six months of 2019 increased by $146 million, or 4%, on a 1% increase in capacity, 3.2% higher ticket yields and a slight increase in load factor. The increase in capacity was driven by our continued network expansion and aircraft added to our fleet since June 30, 2018. Increased yields are largely the result of revenue initiatives we implemented in 2019 to help counter the competitive pricing dynamic in certain markets.

Cargo and other

On a consolidated basis, Cargo and other revenue increased $17 million, or 18%, in the first six months of 2019 compared to the first six months of 2018. The increase is primarily attributable to increased freight and mail volumes on our freighters as a result of new contracts entered into in late 2018 and a strong seafood harvest season in the state of Alaska.

OPERATING EXPENSES

Total operating expenses increased $87 million, or 2%, compared to the first six months of 2018. 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)	**2019**	**2018**	**% Change**
Fuel expense	**$ 922**	$ 884	4 %
Non-fuel operating expenses, excluding special items	**2,819**	2,734	3 %
Special items - merger-related costs	**34**	45	(24)%
Special items - other	**—**	25	NM
Total operating expenses	**$ 3,775**	$ 3,688	2 %

Fuel Expense

Aircraft fuel expense increased $38 million, or 4%, compared to the six months ended June 30, 2018. The elements of the change are illustrated in the following table:

	Six Months Ended June 30,			
	2019		**2018**	
(in millions, except for per gallon amounts)	**Dollars**	**Cost/Gal**	**Dollars**	**Cost/Gal**
Raw or "into-plane" fuel cost	**$ 916**	**$ 2.18**	$ 929	$ 2.25
(Gains) losses on settled hedges	**7**	**0.02**	(10)	(0.03)
Consolidated economic fuel expense	**923**	**2.20**	$ 919	$ 2.22
Mark-to-market fuel hedge adjustments	**(1)**	**—**	(35)	(0.08)
GAAP fuel expense	**$ 922**	**$ 2.20**	$ 884	$ 2.14
Fuel gallons	**419**		413	

The raw fuel price per gallon decreased 3% due to lower 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 decrease in raw fuel price per gallon during the first six months of 2019 was driven by a 12% decrease in crude oil prices, partially offset by a 19% increase in refining margins.

Losses recognized for hedges that settled in the first six months of 2019 were $7 million, compared to gains of $10 million in the same period in 2018. These amounts represent cash received from settled hedges, offset by cash paid for premium expense.

We currently expect our economic fuel price per gallon to be approximately 5% lower in the third quarter of 2019 compared to the third quarter of 2018 due to our current estimate of lower crude prices, partially offset by increased refining margins.

Non-fuel Expense and Non- special items

	Six Months Ended June 30,		
(in millions)	**2019**	**2018**	**% Change**
Wages and benefits	**$ 1,124**	$ 1,080	4 %
Variable incentive pay	**79**	77	3 %
Aircraft maintenance	**235**	213	10 %
Aircraft rent	**165**	151	9 %
Landing fees and other rentals	**245**	236	4 %
Contracted services	**142**	157	(10)%
Selling expenses	**159**	166	(4)%
Depreciation and amortization	**211**	191	10 %
Food and beverage service	**102**	105	(3)%
Third-party regional carrier expense	**83**	76	9 %
Other	**274**	282	(3)%
Total non-fuel operating expenses, excluding special items	**$ 2,819**	$ 2,734	3 %

Wages and Benefits

Wages and benefits increased during the first six months of 2019 by $44 million, or 4%, on a 2% increase in FTEs. The primary components of wages and benefits are shown in the following table:

	Six Months Ended June 30,		
(in millions)	**2019**	**2018**	**% Change**
Wages	**$ 845**	$ 818	3 %
Pension—Defined benefit plans service cost	**21**	24	(13)%
Defined contribution plans	**66**	58	14 %
Medical and other benefits	**132**	121	9 %
Payroll taxes	**60**	59	2 %
Total wages and benefits	**$ 1,124**	$ 1,080	4 %

Medical and other benefits expense increased $11 million, or 9%, primarily due to increased volume of high-dollar value medical claims as compared to the prior-year period as well as FTE growth.

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 higher medical and defined-contribution costs.

Aircraft Maintenance

Aircraft maintenance expense increased by $22 million, or 10%, during the first six months of 2019 compared to the same period in 2018. The increase is primarily due to higher volumes and costs of scheduled and unscheduled maintenance events as compared to the prior-year period.

For the full year, we expect aircraft maintenance expense to be approximately 3 - 4% higher than in 2018, for the reasons mentioned above.

Aircraft Rent

Aircraft rent expense increased by $14 million, or 9%, during the first six months of 2019 compared to the same period in 2018, primarily due to the addition of one leased A321neo to our Mainline fleet and three E175s to our regional fleet since June 30, 2018.

For the full year, we expect aircraft rent expense to be approximately 5 - 6% higher than in 2018, for the reasons mentioned above.

Contracted Services

Contracted services decreased by $15 million, or 10%, during the first six months of 2019 compared to the same period in 2018. This decrease is primarily a result of lower contractor and consulting spend due to the timing of certain project work and price negotiations with our vendor partners.

For the full year, we expect contracted services expense to be approximately 9 - 10% lower than in 2018, for the reasons mentioned above.

Depreciation and Amortization

Depreciation and amortization increased $20 million, or 10%, during the first six months of 2019 compared to the same period in 2018, primarily due to the addition of 13 owned E175s and nine owned B737-900ERs to our fleet since the second quarter of 2018.

For the full year, we expect depreciation and amortization to be approximately 8 - 9% higher than 2018 for the reasons mentioned above.

Special Items—Merger-Related Costs

We recorded special items of $34 million in the first six months of 2019 for merger-related costs associated with our acquisition of Virgin America, compared to $45 million in the first six months of 2018. Costs incurred in the first six months of 2019 are primarily a result of expenses associated with legacy Virgin America flight attendants and pilot vacation balances, which were subject to a one-time true-up in accordance with the integrated labor agreements. We expect to incur merger-related costs for the remainder of 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 $383 million in the first six months of 2019, compared to $357 million in the same period in 2018. The $26 million increase in pretax profit was primarily driven by a $61 million increase in Mainline operating revenue and a $19 million decrease in Mainline fuel expense. These improvements were partially offset by a $53 million increase in Mainline non-fuel operating expenses.

As compared to the prior year, increased Mainline revenues are primarily attributable to a 2% increase in yields, driven by our revenue initiatives and pricing improvements in many of our markets. Non-fuel operating expenses increased primarily due to increased aircraft ownership and maintenance costs as compared to the prior year. Lower raw fuel prices and a decrease in gallons consumed drove the decrease in Mainline fuel expense.

Regional

Our Regional operations incurred a pretax loss of $23 million in the first six months of 2019, compared to a pretax loss of $69 million in the first six months of 2018. The improvement was attributable to a $114 million increase in operating revenues, partially offset by a $23 million increase in fuel costs and a $54 million increase in non-fuel operating expenses. The increase in non-fuel operating expenses is primarily due to higher CPA rates on a 15% increase in capacity and higher ownership costs associated with three E175 aircraft operated by SkyWest that were added to the regional fleet over the past 12 months.

Horizon

Horizon achieved a pretax profit of $22 million in the first six months of 2019, compared to pretax profit of $13 million in the same period in 2018, primarily due to improved cost management and improved operational performance.

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 112 unencumbered aircraft that could be financed, if necessary;
- Our combined bank line-of-credit facilities, with no outstanding borrowings, of $400 million.

During the six months ended June 30, 2019, we took free and clear delivery of four B737-900ER and two E175 aircraft. We made net debt payments totaling $278 million, including the prepayments of certain loans, offset by new borrowings to take advantage of the current interest rate environment. We also continued to return capital to our shareholders by paying dividends totaling $86 million and repurchasing $25 million of our common stock.

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

(in millions)	June 30, 2019		December 31, 2018		Change
Cash and marketable securities	**$**	**1,627**	$	1,236	32 %
Cash, marketable securities, and unused lines of credit as a percentage of trailing twelve months' revenue		**24%**		20%	4 pts
Long-term debt, net of current portion	**$**	**1,538**	$	1,617	(5)%
Shareholders’ equity	**$**	**3,973**	$	3,751	6%

Debt-to-capitalization, adjusted for operating leases

(in millions)	June 30, 2019		December 31, 2018		Change
Long-term debt, net of current portion	$	1,538	$	1,617	(5)%
Capitalized operating leases[(a)]		1,697		1,768	(a)
Adjusted debt	$	3,235	$	3,385	(4)%
Shareholders' equity		3,973		3,751	6%
Total Capital	$	7,208	$	7,136	1%
Debt-to-capitalization, including operating leases		45%		47%	(2) pts

(a) Following the adoption of the new lease accounting standard on January 1, 2019, this represents the total capitalized Operating lease liability, whereas prior year periods were calculated utilizing the present value of aircraft lease payments. This change had no impact to the ratio.

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 2019, net cash provided by operating activities was $1.0 billion, compared to $726 million during the same period in 2018. The $307 million increase in our operating cash flows is primarily attributable to an increase in revenue, a larger increase in our air traffic liability and deferred revenue in 2019 as compared to the same period in 2018 and the timing of cash outlays for expenses incurred.

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 $530 million during the first six months of 2019, compared to $468 million during the same period of 2018. Our capital expenditures were $333 million in the first six months of 2019, a decrease of $90 million compared to the six months ended June 30, 2018. This is primarily driven by lower cash outlays for deliveries of and advance deposits on aircraft in the first half of 2019 as compared to the same period of 2018. Our net purchases of marketable securities were $222 million in the first six months of 2019, compared to $55 million in the six months ended June 30, 2018. The increase in purchases is primarily driven by stronger operating cash flows as compared to 2018. Internally, we analyze and manage 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 or cancelable purchase commitments that are available to us. We have options to acquire 37 B737 aircraft with deliveries from 2021 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)	2019	2020
Expected capital expenditures	$ 725	$ 775

Cash Used in Financing Activities

Cash used in financing activities was $363 million during the first six months of 2019 compared to $347 million during the same period in 2018. During the first six months of 2019, we made debt payments of $532 million, including the prepayment of $392 million of debt, dividend payments totaling $86 million, and had $25 million in common stock repurchases. These payments were partially offset by the receipt of funds from new secured debt financing of $254 million in the first quarter of 2019.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Aircraft Commitments

As of June 30, 2019, we have firm orders to purchase or lease 41 aircraft. We also have cancelable purchase commitments for 30 Airbus A320neo with deliveries from 2023 through 2025. 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 2021 through 2024 and 30 E175 aircraft with deliveries from 2021 through 2023. In addition to the 32 E175 aircraft currently operated by SkyWest in our regional fleet, we have options in future periods to add regional capacity by having SkyWest operate up to eight more E175 aircraft.

The following table summarizes expected fleet activity by year as of June 30, 2019, and are subject to change:

	Actual Fleet	Expected Fleet Activity				
Aircraft	**June 30, 2019**	**2019 Additions**	**2019 Removals**	**December 31, 2019**	**2020 Changes[c]**	**December 31, 2020**
B737 Freighters	3	—	—	3	—	3
B737 Passenger Aircraft[a]	163	1	—	164	9	173
Airbus Passenger Aircraft	72	1	(1)	72	(2)	70
Total Mainline Fleet	**238**	**2**	**(1)**	**239**	**7**	**246**
Q400 operated by Horizon[b]	34	2	(3)	33	(1)	32
E175 operated by Horizon	28	2	—	30	—	30
E175 operated by third party	32	—	—	32	—	32
Total Regional Fleet	**94**	**4**	**(3)**	**95**	**(1)**	**94**
Total	**332**	**6**	**(4)**	**334**	**6**	**340**

(a) Two of the three 737-MAX9 aircraft that were originally scheduled for delivery in 2019 have been shifted to 2020 in light of the recent MAX grounding, based on our best estimate of the expected delivery dates.
(b) Two Q400 aircraft that were previously removed from our operating fleet will be returning to revenue service. We expect these additions to occur in late 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 2019	50%	76	2
Fourth Quarter 2019	50%	74	2
Remainder 2019	**50%**	**$ 75**	**$ 2**
First Quarter 2020	40%	71	2
Second Quarter 2020	30%	69	2
Third Quarter 2020	20%	70	2
Fourth Quarter 2020	10%	69	3
Full Year 2020	**24%**	**$ 70**	**$ 2**

Contractual Obligations

The following table provides a summary of our obligations as of June 30, 2019. For agreements with variable terms, amounts included reflect our minimum obligations.

(in millions)	Remainder of 2019	2020	2021	2022	2023	Beyond 2023	Total
Current and long-term debt obligations	$ 146	$ 287	$ 314	$ 275	$ 235	$ 578	$ 1,835
Aircraft lease commitments	168	312	273	248	194	732	1,927
Facility lease commitments	6	11	9	5	4	86	121
Aircraft maintenance deposits	33	73	62	51	27	9	255
Aircraft purchase commitments	255	542	553	303	103	32	1,788
Interest obligations [(a)]	31	50	40	31	24	40	216
Other obligations [(b)]	69	152	173	181	186	1,079	1,840
Total	$ 708	$ 1,427	$ 1,424	$ 1,094	$ 773	$ 2,556	$ 7,982

(a) For variable-rate debt, future obligations are shown above using forecasted interest rates as of June 30, 2019.
(b) Primarily comprised of non-aircraft lease costs associated with capacity purchase agreements.

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

There have been no material changes to our critical accounting estimates during the three months ended June 30, 2019. 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, 2018.

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 capitalized operating leases) 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, Airbus 320 family and Airbus 321neo 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 purchase 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, 2018.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of June 30, 2019, 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, 2019.

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, 2019, 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. The court certified a class of approximately 1,800 flight attendants in November 2016. The Company believes the claims in this case are without factual and legal merit.

In July 2018, the Court granted in part Plaintiffs' motion for summary judgment, finding Virgin America, and Alaska Airlines, as a successor-in-interest to Virgin America, responsible for various damages and penalties sought by the class members. On February 4, 2019, the Court entered final judgment against Virgin America and Alaska Airlines in the amount of approximately $78 million. It did not award injunctive relief against Alaska Airlines.

The Company is seeking an appellate court ruling that the California laws on which the judgment is based are invalid as applied to national airlines pursuant to the U.S. Constitution and federal law and for other employment law and improper class certification reasons. The Company remains confident that a higher court will respect the federal preemption principles that were enacted to shield inter-state common carriers from a patchwork of state and local wage and hour regulations such as those at issue in this case and agree with the Company's other bases for appeal. For these reasons, no loss has been accrued.

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, 2018.

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 2019.

	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, 2019 - April 30, 2019	77,317	$ 59.67	
May 1, 2019 - May 31, 2019	51,592	60.92	
June 1, 2019 - June 30, 2019	64,865	61.71	
Total	193,774	$ 60.68	$ 537

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 6, 2019

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, Inc. Employee Stock Purchase Plan for Offering Periods commencing on or after September 1, 2019	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 - The instance document does not appear in the interactive data file because XBRL tags are embedded within the inline XBRL document.			
101.SCH†	XBRL Taxonomy Extension Schema Document			
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document			
101.DEF†	XBRL Taxonomy Extension Definition Linkbase Document			
101.LAB†	XBRL Taxonomy Extension Label Linkbase Document			
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document			
†	Filed herewith			
*	Indicates management contract or compensatory plan arrangement			

ALASKA AIR GROUP, INC. EMPLOYEE STOCK PURCHASE PLAN

(As amended by the Board on February 15, 2019
for Offering Periods commencing on or after September 1, 2019)

1. PURPOSE

The purpose of this Plan is to assist Eligible Employees in acquiring a stock ownership interest in the Company, at a favorable price and upon favorable terms, pursuant to a plan which is intended to qualify as an "employee stock purchase plan" under Section 423 of the Code. This Plan is also intended to encourage Eligible Employees to remain in the employ of the Company or a Participating Subsidiary and to provide them with an additional incentive to advance the best interests of the Company.

2. DEFINITIONS

Capitalized terms used herein which are not otherwise defined shall have the following meanings.

(a) "**Account**" means the bookkeeping account maintained by the Company, or by a record keeper on behalf of the Company, for a Participant pursuant to Section 7(a).

(b) "**Board**" means the Board of Directors of the Company, as defined below.

(c) "**Code**" means the U.S. Internal Revenue Code of 1986, as amended from time to time.

(d) "**Commission**" means the U.S. Securities and Exchange Commission.

(e) "**Committee**" means the committee appointed by the Board to administer the Plan pursuant to Section 12.

(f) "**Common Stock**" means the common stock, par value $0.01 per share, of the Company, and such other securities or property as may become the subject of Options pursuant to an adjustment made under Section 17.

(a) "**Company**" means Alaska Air Group, Inc., a Delaware corporation, and its successors.

(b) "**Compensation**" means an Eligible Employee's base pay, inclusive of overtime and any employer paid leave. Compensation also includes any amounts contributed as salary reduction contributions to a plan qualifying under Section 401(k), 125, or 129 of the Code. Any other form of remuneration is excluded from Compensation, including (but not limited to) the following: cash bonuses, severance pay, hiring bonuses, prizes, awards, relocation or housing allowances, stock option exercises, stock appreciation right payments, the vesting or grant of restricted stock, the payment of stock units, performance awards, auto allowances, tuition reimbursement, perquisites, non-cash compensation and other forms of imputed income. Notwithstanding the foregoing, Compensation shall not include any amounts deferred under or paid from any nonqualified deferred compensation plan maintained by the Company or any Subsidiary (including, without limitation, the Company's Nonqualified Deferred Compensation Plan).

(c) "**Contributions**" means the bookkeeping amounts credited to the Account of the Participant pursuant to this Plan, equal in amount to the amount of Compensation that the Participant has elected to contribute for the purchase of Common Stock under and in accordance with this Plan.

(d) "**Effective Date**" means March 11, 2010, the date on which this Plan was initially adopted by the Board.

(e) "**Eligible Employee**" means, subject to Section 3, any person employed by the Company or any Subsidiary which has been designated in writing by the Committee as a "Participating Subsidiary"; provided, however, that "Eligible Employee" shall not include any employee whose customary employment is for less than five (5) months in a calendar year.

(f) "**Exchange Act**" means the U.S. Securities Exchange Act of 1934, as amended from time to time.

(g) "**Exercise Date**" means, with respect to an Offering Period, the last day of that Offering Period.

(h) "**Fair Market Value**" on any date means:

(1) if the Common Stock is listed or admitted to trade on a national securities exchange, the closing price of a share of Common Stock on such date on the principal national securities exchange on which the Common Stock is so listed or admitted to trade, or, if there is no trading of the Common Stock on such date, then the closing price of a share of Common Stock on such exchange on the next preceding date on which there was trading in the shares of Common Stock; or

(2) in the absence of exchange data required to determine Fair Market Value pursuant to the foregoing, the value as established by the Committee as of the relevant time for purposes of this Plan.

(i) "**Grant Date**" means, with respect to an Offering Period, the first day of that Offering Period.

(j) "**Individual Limit**" has the meaning given to such term in Section 4(b).

(k) "**Offering Period**" means the six (6) month period commencing on each Grant Date; provided, however, the Committee may declare, as it deems appropriate and in advance of the applicable Offering Period, a shorter (not to be less than three months) Offering Period or a longer (not to exceed 27 months) Offering Period. Unless otherwise expressly provided by the Committee in advance of a particular Offering Period, the Grant Date for that Offering Period may not occur on or before the Exercise Date for the immediately preceding Offering Period.

(l) "**Option**" means the option to acquire shares of Common Stock granted to a Participant pursuant to Section 8.

(m) "**Option Price**" means the per share exercise price of an Option as determined in accordance with Section 8(b).

(n) "**Parent**" means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company in which each corporation (other than the Company) owns stock possessing 50% or more of the total combined voting power of all classes of stock in one or more of the other corporations in the chain.

(o) "**Participant**" means an Eligible Employee who has elected to participate in this Plan and who has filed a valid and effective Subscription Agreement to make Contributions pursuant to Section 6.

(p) "**Participating Subsidiary**" shall have the meaning given to such term in Section 19(c).

(q) "**Plan**" means this Alaska Air Group, Inc. Employee Stock Purchase Plan, as it may be amended or restated from time to time.

(r) "**Subscription Agreement**" means the written agreement or applicable electronic form of agreement filed by an Eligible Employee with the Company pursuant to Section 6 to participate in this Plan.

(s) "**Subsidiary**" means any corporation (other than the Company) in an unbroken chain of corporations (beginning with the Company) in which each corporation (other than the last corporation) owns stock possessing 50% or more of the total combined voting power of all classes of stock in one or more of the other corporations in the chain.

3. ELIGIBILITY

Any person employed as an Eligible Employee as of a Grant Date may participate in this Plan during the Offering Period in which such Grant Date occurs, subject to the Eligible Employee satisfying the requirements of Section 6; provided, however, that the Committee may impose a requirement, prior to the start of an Offering Period, that an individual be employed with the Company or a Participating Subsidiary for a specified period of time (which shall be less than two years) prior to the applicable Grant Date to be eligible to participate in that Offering Period.

4. STOCK SUBJECT TO THIS PLAN; SHARE LIMITATIONS

(a) ***Aggregate Share Limit***. Subject to the provisions of Section 17, the capital stock that may be delivered under this Plan will be shares of the Company's authorized but unissued Common Stock. The maximum number of shares of Common Stock that may be delivered pursuant to Options granted under this Plan is 8,000,000 shares, subject to adjustments pursuant to Section 17.

(b) ***Individual Share Limit***. The maximum number of shares of Common Stock that any one individual may acquire upon exercise of his or her Option with respect to any one Offering Period is 8,000, subject to adjustments pursuant to Section 17 (the "**Individual Limit**"). The Committee may amend the Individual Limit, effective no earlier than the first Offering Period commencing after the adoption of such amendment, without stockholder approval.

(c) ***Shares Not Actually Delivered***. Shares that are subject to or underlie Options, which for any reason are cancelled, terminated, forfeited, fail to vest, or for any other reason are not paid or delivered under this Plan shall again, except to the extent prohibited by law, be available for subsequent Options under this Plan.

5. OFFERING PERIODS

During the term of this Plan, the Company will grant Options to purchase shares of Common Stock in each Offering Period to all Participants in that Offering Period. Unless otherwise specified by the Committee in advance of the Offering Period, Offering Periods will be of approximately six (6) months duration and will commence on November 1 and May 1 each year and will end on the following April 30 and October 31, respectively; provided that there will be an Offering Period of approximately eight (8) months commencing on September 1, 2019 and ending on April 30, 2020. Each Option shall become effective on the Grant Date of the Offering Period with respect to which the Option is granted. The term of each Option shall be the duration of the related Offering Period and shall end on the Exercise Date of that Offering Period. The first Offering Period shall commence as of a date determined by the Board or Committee, but no earlier than the Effective Date. Offering Periods shall continue until this Plan is terminated in accordance with Section 18 or 19, or, if earlier, until no shares of Common Stock remain available for Options pursuant to Section 4.

6. PARTICIPATION

(a) ***Enrollment***. An Eligible Employee may become a Participant in this Plan by completing a Subscription Agreement on a form approved by and in a manner prescribed by the Committee (or its delegate). To become effective, a Subscription Agreement must be signed by the Eligible Employee and be filed with the Company at the time specified by the Committee, but in all cases prior to the start of the Offering Period with respect to which it is to become effective, and must set forth a whole percentage (or, if the Committee so requires, a stated amount) of the Eligible Employee's Compensation to be credited to the Participant's Account as Contributions each pay period.

(b) ***Contribution Limits***. Notwithstanding the foregoing, a Participant may not elect to contribute less than one percent (1%) nor more than ten percent (10%) (or such other limit as the Committee may establish prior to the start of the applicable Offering Period) of his or her Compensation during any one pay period as Plan Contributions. The Committee also may prescribe other limits, rules or procedures for Contributions.

(c) ***Content and Duration of Subscription Agreements***. Subscription Agreements shall contain the Eligible Employee's authorization and consent to the Company's withholding from his or her Compensation the amount of his or her Contributions. An Eligible Employee's Subscription Agreement, and his or her participation election and withholding consent thereon, shall remain valid for all Offering Periods until (1) the Eligible Employee's participation terminates pursuant to the terms hereof, (2) the Eligible Employee files a new Subscription Agreement that becomes effective, or (3) the Committee requires that a new Subscription Agreement be executed and filed with the Company.

7. METHOD OF PAYMENT OF CONTRIBUTIONS

(a) ***Participation Accounts***. The Company shall maintain on its books, or cause to be maintained by a record keeper, an Account in the name of each Participant. The percentage of Compensation elected to be applied as Contributions by a Participant shall be deducted from such Participant's Compensation on each payday during the period for payroll deductions set forth below and such payroll deductions shall be credited to that Participant's Account as soon as administratively practicable after such date. A Participant may not make any additional payments to his or her Account. A Participant's Account shall be reduced by any amounts used to pay the Option Price of shares acquired, or by any other amounts distributed pursuant to the terms hereof.

(b) ***Payroll Deductions***. Subject to such other rules as the Committee may adopt, payroll deductions with respect to an Offering Period shall commence as of the first day of the payroll period which coincides with or immediately follows the applicable Grant Date and shall end on the last date of the payroll period which coincides with or immediately proceeds the applicable Exercise Date, unless sooner terminated by the Participant as provided in Section 7(d) or until his or her participation terminates pursuant to Section 11.

(c) ***Changes in Contribution Elections for Next Offering Period; One-Time Reduction Permitted During an Offering Period***. A Participant may discontinue, increase, or decrease the level of his or her Contributions (within the Plan limits) by completing and filing with the

Company, on such terms as the Committee (or its delegate) may prescribe, a new Subscription Agreement which indicates such election. Subject to any other timing requirements that the Committee may impose, an election pursuant to this Section 7(c) shall be effective with the first Offering Period that commences after the Company's receipt of such election , provided that a Participant may, on one occasion only during an Offering Period, elect to decrease (but not increase) the level of his or her Contributions (subject to Section 6(b)) by filing a new Subscription Agreement with the Company indicating such election, which election shall be effective as soon as administratively practicable following its receipt by the Company. Except as contemplated by the foregoing proviso and Section 7(d) and 7(e), changes in Contribution levels may not take effect during an Offering Period. Other modifications or suspensions of Subscription Agreements are not permitted.

(d) ***Withdrawal During an Offering Period***. A Participant may terminate his or her Contributions during an Offering Period (and receive a distribution of the balance of his or her Account in accordance with Section 11) by completing and filing with the Company, in such form and on such terms as the Committee (or its delegate) may prescribe, a written withdrawal form or applicable electronic withdrawal form which shall be signed by the Participant. Such termination shall be effective as soon as administratively practicable after its receipt by the Company. A withdrawal election pursuant to this Section 7(d) with respect to an Offering Period shall only be effective, however, if it is received by the Company prior to the Exercise Date of the Offering Period (or such earlier deadline that the Committee may reasonably require to process the withdrawal prior to the applicable Exercise Date). Partial withdrawals of Accounts are not permitted.

(e) ***Discontinuance of Contributions During an Offering Period***. A Participant may discontinue his or her Contributions at any time during an Offering Period by completing and filing with the Company, on such terms as the Committee (or its delegate) may prescribe, a new Subscription Agreement which indicates such election. If a Participant elects to discontinue his or her Contributions pursuant to this Section 7(e), the Contributions previously credited to the Participant's Account for that Offering Period shall be used to exercise the Participant's Option as of the applicable Exercise Date in accordance with Section 9 (unless the Participant makes a timely withdrawal election in accordance with Section 7(d), in which case such Participant's Account shall be paid to him or her in cash in accordance with Section 11(a)).

8. GRANT OF OPTION

(a) ***Grant Date; Number of Shares.*** On each Grant Date, each Eligible Employee who is a Participant during that Offering Period shall be granted an Option to purchase a number of shares of Common Stock. The Option shall be exercised on the Exercise Date. The number of shares of Common Stock subject to the Option shall be determined by dividing the Participant's Account balance as of the applicable Exercise Date by the Option Price, subject to the limits of Section 8(c).

(b) ***Option Price.*** The Option Price per share of the shares subject to an Option for an Offering Period shall be the lesser of: (i) 85% of the Fair Market Value of a Share on the Grant Date of that Offering Period; or (ii) 85% of the Fair Market Value of a Share on the Exercise Date of that Offering Period; provided, however, that the Committee may provide prior to the start of any Offering Period that the Option Price for that Offering Period shall be determined by applying a discount amount (not to exceed 15%) to either (1) the Fair Market Value of a share of Common Stock on that Grant Date of that Offering Period, or (2) the Fair Market Value of a share of Common Stock on the Exercise Date of that Offering Period, or (3) the lesser of the Fair Market Value of a share of Common Stock on the Grant Date of that Offering Period or the Fair Market Value of a share of Common Stock on the Exercise Date of that Offering Period. Notwithstanding anything to the contrary in the preceding provisions of this Section 8(b), in no event shall the Option Price per share be less than the par value of a share of Common Stock.

(c) ***Limits on Share Purchases.*** Notwithstanding anything else contained herein, the maximum number of shares subject to an Option for an Offering Period shall be subject to the Individual Limit in effect on the Grant Date of that Offering Period (subject to adjustment pursuant to Section 17) and any person who is otherwise an Eligible Employee shall not be granted any Option (or any Option granted shall be subject to compliance with the following limitations) or other right to purchase shares under this Plan to the extent:

(1) it would, if exercised, cause the person to own stock (within the meaning of Section 423(b)(3) of the Code) possessing 5% or more of the total combined voting power or value of all classes of stock of the Company, or of any Parent, or of any Subsidiary; or

(2) such Option causes such individual to have rights to purchase stock under this Plan and any other plan of the Company, any Parent, or any Subsidiary which is qualified under Section 423 of the Code which accrue at a rate which exceeds $25,000 of the Fair Market Value of the stock of the Company, of any Parent, or of any Subsidiary (determined at the time the right to purchase such stock is granted, before giving effect to any discounted purchase price under any such plan) for each calendar year in which such right is outstanding at any time.

For purposes of the foregoing, a right to purchase stock accrues when it first becomes exercisable during the calendar year. In determining whether the stock ownership of an Eligible Employee equals or exceeds the 5% limit set forth above, the rules of Section 424(d) of the Code (relating to attribution of stock ownership) shall apply, and stock which the Eligible Employee may purchase under outstanding options shall be treated as stock owned by the Eligible Employee.

9. EXERCISE OF OPTION

(a) ***Purchase of Shares***. Unless a Participant withdraws pursuant to Section 7(d) or the Participant's Plan participation is terminated as provided in Section 11, his or her Option for the purchase of shares shall be exercised automatically on the Exercise Date for that Offering Period, without any further action on the Participant's part, and the maximum number of whole shares of Common Stock subject to such Option (subject to the limits of Section 8(c)) shall be purchased at the Option Price with the balance of such Participant's Account.

(b) ***Account Balance Remaining After Purchase***. If any amount which is not sufficient to purchase a whole share remains in a Participant's Account after the exercise of his or her Option on the Exercise Date: (1) such amount shall be credited to such Participant's Account for the next Offering Period, if he or she is then a Participant; or (2) if such Participant is not a Participant in the next Offering Period, or if the Committee so elects, such amount shall be refunded to such Participant as soon as administratively practicable after such date. If the share limit of Section 4(a) is reached, any amount that remains in a Participant's Account after the exercise of his or her Option on the Exercise Date to purchase the number of shares that he or she is allocated shall be refunded to the Participant as soon as administratively practicable after such date. If any amount which exceeds the limits of Section 8(c) remains in a Participant's Account after the exercise of his or her Option on the Exercise Date, such amount shall be refunded to the Participant as soon as administratively practicable after such date.

10. DELIVERY OF SHARES

As soon as administratively practicable after the Exercise Date, the Company shall, provide for the crediting of the shares of Common Stock purchased upon exercise of a Participant's Option in book entry form in the name of the Participant, or provide for an alternative arrangement for the delivery of such shares to a broker or record keeping service for the benefit of the Participant. In the event the Company is required to obtain from any commission or agency authority to deliver such shares, the Company will seek to obtain such authority. If the Company is unable to obtain from any such commission or agency authority which counsel for the Company deems necessary for the lawful issuance of any such certificate or other delivery of such shares, or if for any reason the Company cannot issue or deliver shares of Common Stock and satisfy Section 21, the Company shall be relieved from liability to any Participant except that the Company shall return to each Participant to whom such shares cannot be issued or delivered the amount of the balanced credited to his or her Account that would have otherwise been used for the purchase of such shares. Without limiting the generality of Section 12(b)(3), if shares are delivered to a broker for the benefit of a Participant as described above, the Committee may adopt such policies and procedures as it determines appropriate regarding the Participant's ability to transfer such shares from such broker account before the expiration of two years from the Grant Date of the Offering Period for which those shares were acquired and one year from the Exercise Date of the Offering Period for which those shares were acquired (provided, that nothing in this Section 10 shall prohibit a sale of such shares by the Participant on the open market or a transfer of such shares upon the death of the Participant).

11. TERMINATION OF EMPLOYMENT; CHANGE IN ELIGIBLE STATUS

(a) ***General***. Except as provided in Section 11(b) below, if a Participant ceases to be an Eligible Employee for any reason (including, without limitation, due to the Participant's death, disability, resignation or retirement, or due to a layoff or other termination of employment with or without cause), or if the Participant elects to withdraw from the Plan pursuant to Section 7(d), at any time prior to the Exercise Date for the Offering Period in which he or she participates, such Participant shall not be eligible to exercise the Option for that Offering Period and Participant's Account shall be paid to him or her (or, in the event of the Participant's death, to the person or persons entitled thereto under Section 13) in cash, and such Participant's Option and participation in the Plan shall automatically terminate as of the time that the Participant ceased to be an Eligible Employee.

(b) ***Change in Eligible Status; Leave***. If a Participant (1) ceases to be an Eligible Employee during an Offering Period but remains an employee of the Company or a Subsidiary through the Exercise Date (for example, and without limitation, due to a change in the Participant's employer from the Company or a Participating Subsidiary to a non-Participating Subsidiary, if the Participant's employer ceases to maintain the Plan as a Participating Subsidiary but otherwise continues as a Subsidiary, or if the Participant's customary level of employment no longer satisfies the requirements set forth in the definition of Eligible Employee), or (2) during an Offering Period commences a sick leave, military leave, or other leave of absence approved by the Company or a Participating Subsidiary, and the leave meets the requirements of Treasury Regulation Section 1.421-1(h)(2) and the Participant is an employee of the Company or a Subsidiary or on such leave as of the applicable Exercise Date, such Participant's Contributions shall cease (subject to Section 7(d)), and the Contributions previously credited to the Participant's Account for that Offering Period shall be used to exercise the Participant's Option as of the applicable Exercise Date in accordance with Section 9 (unless the Participant makes a timely withdrawal election in accordance with Section 7(d), in which case such Participant's Account shall be paid to him or her in cash in accordance with Section 11(a)).

(c) ***Re-Enrollment***. A Participant's termination from Plan participation precludes the Participant from again participating in this Plan during that Offering Period. However, such termination shall not have any effect upon his or her ability to participate in any succeeding Offering Period, provided that the applicable eligibility and participation requirements are again then met. A Participant's termination from Plan participation shall be deemed to be a revocation of that Participant's Subscription Agreement and such Participant must file a new Subscription Agreement to resume Plan participation in any succeeding Offering Period.

(d) ***Change in Subsidiary Status.*** For purposes of this Plan, if a Subsidiary ceases to be a Subsidiary, each person employed by that Subsidiary will be deemed to have terminated employment for purposes of this Plan, unless the person continues as an employee of the Company or another Subsidiary.

12. ADMINISTRATION

(a) ***The Committee***. The Board shall appoint the Committee, which shall be composed of not less than two members of the Board. The Board may, at any time, increase or decrease the number of members of the Committee, may remove from membership on the Committee all or any portion of its members, and may appoint such person or persons as it desires to fill any vacancy existing on the Committee, whether caused by removal, resignation, or otherwise. The Board may also, at any time, assume the administration of all or a part of this Plan, in which case references (or relevant references in the event the Board assumes the administration of only certain aspects of this Plan) to the "Committee" shall be deemed to be references to the Board. Action of the Committee with respect to this Plan shall be taken pursuant to a majority vote or by the unanimous written consent of its members. No member of the Committee shall be entitled to act on or decide any matters relating solely to himself or herself or solely to any of his or her rights or benefits under this Plan.

(b) ***Powers and Duties of the Committee***. Subject to the express provisions of this Plan, the Committee shall supervise and administer this Plan and shall have the full authority and discretion: (1) to construe and interpret this Plan and any agreements defining the rights and obligations of the Company, any Subsidiary, and Participants under this Plan; (2) to further define the terms used in this Plan; (3) to prescribe, amend and rescind rules and regulations relating to the administration of this Plan (including, without limitation, deadlines for making elections or for providing any notices contemplated by this Plan, which deadlines may be more restrictive than any deadlines otherwise contemplated by this Plan); and (4) to make all other determinations and take such other action as contemplated by this Plan or as may be necessary or advisable for the administration of this Plan or the effectuation of its purposes. Notwithstanding anything else contained in this Plan to the contrary, the Committee may also adopt rules, procedures or sub-plans applicable to particular Subsidiaries or locations, which sub-plans may be designed to be outside the scope of Section 423 of the Code and need not comply with the otherwise applicable provisions of this Plan.

(c) ***Decisions of the Committee are Binding***. Any action taken by, or inaction of, the Company, any Subsidiary, the Board or the Committee relating or pursuant to this Plan and within its authority hereunder or under applicable law shall be within the absolute discretion of that entity or body and shall be conclusive and binding upon all persons.

(d) ***Indemnification***. Neither the Board nor any Committee, nor any member thereof or person acting at the direction thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with this Plan, and all such persons shall be entitled to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including, without limitation, attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under any directors and officers liability insurance coverage that may be in effect from time to time.

(e) ***Reliance on Experts***. In making any determination or in taking or not taking any action under this Plan, the Committee or the Board, as the case may be, may obtain and may rely upon the advice of experts, including professional advisors to the Company. No director, officer or agent of the Company or any Participating Subsidiary shall be liable for any such action or determination taken or made or omitted in good faith.

(f) ***Delegation***. The Committee may delegate ministerial, non-discretionary functions to individuals who are officers or employees of the Company or a Subsidiary.

1. DEATH BENEFITS

If a Participant dies, the Company shall deliver all shares and/or cash payable pursuant to the terms hereof to the executor or administrator of the estate of the Participant, or if no such executor or administrator has been appointed, the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the Participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

2. TRANSFERABILITY

Neither Contributions credited to a Participant's Account nor any Options or rights with respect to the exercise of Options or the right to receive shares under this Plan may be anticipated, alienated, encumbered, assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution, or as provided in Section 13) by the Participant. Any such attempt at anticipation, alienation, encumbrance, assignment, transfer, pledge or other disposition shall be without effect and all amounts shall be paid and all shares shall be delivered in accordance with the provisions of this Plan. Amounts payable or shares deliverable pursuant to this Plan shall be paid or delivered only to (or credited in the name of, as the case may be) the Participant or, in the event of the Participant's death, the Participant's beneficiary pursuant to Section 13.

3. USE OF FUNDS; INTEREST

All Contributions received or held by the Company under this Plan will be included in the general assets of the Company and may be used for any corporate purpose. Notwithstanding anything else contained herein to the contrary, no interest will be paid to any Participant or credited to his or her Account under this Plan (in respect of Account balances, refunds of Account balances, or otherwise). Amounts payable under this Plan shall be payable in shares of Common Stock or from the general assets of the Company and, except for any shares that may be reserved on the books of the Company for issuance with respect to this Plan, no special or separate reserve, fund or deposit shall be made to assure payment of amounts that may be due with respect to this Plan.

4. REPORTS

Statements shall be provided (either electronically or in written form, as the Committee may provide from time to time) to Participants as soon as administratively practicable following each Exercise Date. Each Participant's statement shall set forth, as of such Exercise Date, that Participant's Account balance immediately prior to the exercise of his or her Option, the Option Price, the number of whole shares purchased and his or her remaining Account balance, if any.

5. ADJUSTMENTS OF AND CHANGES IN THE STOCK

Upon or in contemplation of any reclassification, recapitalization, stock split (including a stock split in the form of a stock dividend), or reverse stock split; any merger, combination, consolidation, or other reorganization; split-up, spin-off, or any similar extraordinary dividend distribution in respect of the Common Stock (whether in the form of securities or property); any exchange of Common Stock or other securities of the Company, or any similar, unusual or extraordinary corporate transaction in respect of the Common Stock; or a sale of substantially all of the assets of the Company as an entirety occurs; then the Committee shall equitably and proportionately adjust (1) the number and type of shares or the number and type of other securities that thereafter may be made the subject of Options (including the specific maxima and numbers of shares set forth elsewhere in this Plan), (2) the number, amount and type of shares (or other securities or property) subject to any or all outstanding Options, (3) the Option Price of any or all outstanding Options, and/or (4) the securities, cash or other property deliverable upon exercise of any outstanding Options, in each case to the extent necessary to preserve (but not increase) the level of incentives intended by this Plan and the then-outstanding Options.

Upon the occurrence of any event described in the preceding paragraph, or any other event in which the Company does not survive (or does not survive as a public company in respect of its Common Stock); then the Committee may make provision for a cash payment or for the substitution or exchange of any or all outstanding Options for cash, securities or property to be delivered to the holders of any or all outstanding Options based upon the distribution or consideration payable to holders of the Common Stock upon or in respect of such event.

The Committee may adopt such valuation methodologies for outstanding Options as it deems reasonable in the event of a cash or property settlement and, without limitation on other methodologies, may base such settlement solely upon the excess (if any) of the amount payable upon or in respect of such event over the Option Price of the Option.

In any of such events, the Committee may take such action sufficiently prior to such event to the extent that the Committee deems the action necessary to permit the Participant to realize the benefits intended to be conveyed with respect to the underlying shares in the same manner as is or will be available to stockholders generally.

6. POSSIBLE EARLY TERMINATION OF PLAN AND OPTIONS

Upon a dissolution or liquidation of the Company, or any other event described in Section 17 that the Company does not survive or does not survive as a publicly-traded company in respect of its Common Stock, as the case may be, the Plan and, if prior to the last day of an Offering Period, any outstanding Option granted with respect to that Offering Period shall terminate, subject to any provision that has been expressly made by the Board for the survival, substitution, assumption, exchange or other settlement of the Plan and Options. In the event a Participant's Option is terminated pursuant to this Section 18 without a provision having been made by the Board for a substitution, exchange or other settlement of the Option, such Participant's Account shall be paid to him or her in cash without interest.

7. TERM OF PLAN; AMENDMENT OR TERMINATION

(a) ***Effective Date; Termination***. This Plan became effective as of the Effective Date. No new Offering Periods shall commence on or after February 14, 2029 and this Plan shall terminate as of the Exercise Date on or immediately following such date unless sooner terminated pursuant to Section 18 or this Section 19. In the event that all of the shares of Common Stock made available under this Plan are subscribed prior to the expiration of this Plan, this Plan shall terminate at the end of that Offering Period and the shares available shall be allocated for purchase by Participants in that Offering Period on a pro- rata basis determined with respect to Participants' Account balances.

(b) ***Board Amendment Authority***. The Board may, at any time, terminate or, from time to time, amend, modify or suspend this Plan, in whole or in part and without notice. Stockholder approval for any amendment or modification shall not be required, except to the extent required by law or applicable stock exchange rules or required under Section 423 of the Code in order to preserve the intended tax consequences of this Plan. No Options may be granted during any suspension of this Plan or after the termination of this Plan, but the Committee will retain jurisdiction as to Options then outstanding in accordance with the terms of this Plan. No amendment, modification, or termination pursuant to this Section 19(b) shall, without written consent of the Participant, affect in any manner materially adverse to the Participant any rights or benefits of such Participant or obligations of the Company under any Option granted under this Plan prior to the effective date of such change. Changes contemplated by Section 17 or Section 18 shall not be deemed to constitute changes or amendments requiring Participant consent.

(c) ***Certain Additional Committee Authority***. Notwithstanding the amendment provisions of Section 19(b) and without limiting the Board's authority thereunder and without limiting the Committee's authority pursuant to any other provision of this Plan, the Committee shall have the right (1) to designate from time to time the Subsidiaries whose employees may be eligible to participate in this Plan (including, without limitation, any Subsidiary that may first become such after the date stockholders first approve this Plan) (each a "**Participating Subsidiary**"), and (2) to change the service and other qualification requirements sets forth under the definition of Eligible Employee in Section 2 (subject to the requirements of Section 423(b) of the Code and applicable rules and regulations thereunder). Any such change shall not take effect earlier than the first Offering Period that starts on or after the effective date of such change. Any such change shall not require stockholder approval.

8. NOTICES

All notices or other communications by a Participant to the Company contemplated by this Plan shall be deemed to have been duly given when received in the form and manner specified by the Committee (or its delegate) at the location, or by the person, designated by the Committee (or its delegate) for that purpose.

9. CONDITIONS UPON ISSUANCE OF SHARES

This Plan, the granting of Options under this Plan and the offer, issuance and delivery of shares of Common Stock are subject to compliance with all applicable federal and state laws, rules and regulations (including but not limited to state and federal securities laws) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith. The person acquiring any securities under this Plan will, if requested by the Company and as a condition precedent to the exercise of his or her Option, provide such assurances and representations to the Company as the Committee may deem necessary or desirable to assure compliance with all applicable legal requirements.

10. PLAN CONSTRUCTION

(a) ***Section 16***. It is the intent of the Company that transactions involving Options under this Plan (other than "**Discretionary Transactions**" as that term is defined in Rule 16b-3(b)(1) promulgated by the Commission under Section 16 of the Exchange Act, to the extent there are any Discretionary Transactions under the Plan), in the case of Participants who are or may be subject to the prohibitions of Section 16 of the Exchange Act, satisfy the requirements for exemption under Rule 16b-3(c) promulgated by the Commission under Section 16 of the Exchange Act to the maximum extent possible. Notwithstanding the foregoing, the Company shall have no liability to any Participant for Section 16 consequences of Options or other events with respect to this Plan.

(b) ***Section 423***. Except as the Committee may expressly provide in the case of one or more sub-plans adopted pursuant to Section 12(b), this Plan and Options are intended to qualify under Section 423 of the Code. Accordingly, all Participants are to have the same rights and privileges (within the meaning of Section 423(b)(5) of the Code and except as not required thereunder to qualify this Plan under Section 423) under this Plan, subject to differences in Compensation among Participants and subject to the Contribution and share limits of this Plan.

(c) ***Interpretation***. If any provision of this Plan or of any Option would otherwise frustrate or conflict with the intents expressed above, that provision to the extent possible shall be interpreted so as to avoid such conflict. If the conflict remains irreconcilable, the Committee may disregard the provision if it concludes that to do so furthers the interest of the Company and is consistent with the purposes of this Plan as to such persons in the circumstances.

11. EMPLOYEES' RIGHTS

(a) ***No Employment Rights***. Nothing in this Plan (or in any Subscription Agreement or other document related to this Plan) will confer upon any Eligible Employee or Participant any right to continue in the employ or other service of the Company or any Subsidiary, constitute any contract or agreement of employment or other service or effect an employee's status as an employee at will, nor shall interfere in any way with the right of the Company or any Subsidiary to change such person's compensation or other benefits or to terminate his or her employment or other service, with or without cause. Nothing contained in this Section 23(a), however, is intended to adversely affect any express independent right of any such person under a separate employment or service contract other than a Subscription Agreement.

(b) ***No Rights to Assets of the Company***. No Participant or other person will have any right, title or interest in any fund or in any specific asset (including shares of Common Stock) of the Company or any Subsidiary by reason of any Option hereunder. Neither the provisions of this Plan (or of any Subscription Agreement or other document related to this Plan), nor the creation or adoption of this Plan, nor any action taken pursuant to the provisions of this Plan will create, or be construed to create, a trust of any kind or a fiduciary relationship between the Company or any Subsidiary and any Participant, Beneficiary or other person. To the extent that a Participant, Beneficiary or other person acquires a right to receive payment pursuant to this Plan, such right will be no greater than the right of any unsecured general creditor of the Company.

(c) ***No Stockholder Rights***. A Participant will not be entitled to any privilege of stock ownership as to any shares of Common Stock not actually delivered to and held of record by the Participant. No adjustment will be made for dividends or other rights as a stockholder for which a record date is prior to such date of delivery.

12. MISCELLANEOUS

(a) ***Governing Law***. This Plan, the Options, Subscription Agreements and other documents related to this Plan shall be governed by, and construed in accordance with, the laws of the State of Delaware.

(b) ***Severability***. If any provision shall be held by a court of competent jurisdiction to be invalid and unenforceable, the remaining provisions of this Plan shall continue in effect.

(c) ***Captions and Headings***. Captions and headings are given to the sections of this Plan solely as a convenience to facilitate reference. Such captions and headings shall not be deemed in any way material or relevant to the construction of interpretation of this Plan or any provision hereof.

(d) ***No Effect on Other Plans or Corporate Authority***. The adoption of this Plan shall not affect any other Company or Subsidiary compensation or incentive plans in effect. Nothing in this Plan will limit or be deemed to limit the authority of the Board or Committee (1) to establish any other forms of incentives or compensation for employees of the Company or any Subsidiary (with or without reference to the Common Stock), or (2) to grant or assume options (outside the scope of and in addition to those contemplated by this Plan) in connection with any proper corporate purpose; to the extent consistent with any other plan or authority. Benefits received by a Participant under an Option granted pursuant to this Plan shall not be deemed a part of the Participant's compensation for purposes of the determination of benefits under any other employee welfare or benefit plans or arrangements, if any, provided by the Company or any Subsidiary, except where the Committee or the Board (or the Board of Directors of the Subsidiary that sponsors such plan or arrangement, as applicable) expressly otherwise provides or authorizes in writing.

13. TAX WITHHOLDING

Notwithstanding anything else contained in this Plan herein to the contrary, the Company may deduct from a Participant's Account balance as of an Exercise Date, before the exercise of the Participant's Option is given effect on such date, the amount of taxes (if any) which the Company reasonably determines it or any Subsidiary may be required to withhold with respect to such exercise. In such event, the maximum number of whole shares subject to such Option (subject to the other limits set forth in this Plan) shall be purchased at the Option Price with the balance of the Participant's Account (after reduction for tax withholding amount).

Should the Company for any reason be unable, or elect not to, satisfy its or any Subsidiary's tax withholding obligations in the manner described in the preceding paragraph with respect to a Participant's exercise of an Option, or should the Company or any Subsidiary reasonably determine that it or an affiliated entity has a tax withholding obligation with respect to a disposition of shares acquired pursuant to the exercise of an Option prior to satisfaction of the holding period requirements of Section 423 of the Code, the Company or Subsidiary, as the case may be, shall have the right at its option to (1) require the Participant to pay or provide for payment of the amount of any taxes which the Company or Subsidiary reasonably determines that it or any affiliate is required to withhold with respect to such event or (2) deduct from any amount otherwise payable to or for the account of the Participant the amount of any taxes which the Company or Subsidiary reasonably determines that it or an affiliate is required to withhold with respect to such event.

14. NOTICE OF SALE

Any person who has acquired shares under this Plan shall give prompt written notice to the Company of any sale or other transfer of the shares if such sale or transfer occurs(1) within the two-year period after the Grant Date of the Offering Period with respect to which such shares were acquired, or (2) within the twelve-month period after the Exercise Date of the Offering Period with respect to which such shares were acquired.

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, 2019;

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 6, 2019

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, 2019;

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 6, 2019

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, 2019 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 6, 2019

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, 2019 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 6, 2019

By /s/ BRANDON S. PEDERSEN

Brandon S. Pedersen

Executive Vice President/Finance and Chief Financial Officer