UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 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, Washington 98188

Telephone: (206) 392-5040

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

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

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

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

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

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

The registrant has 123,427,980 common shares, par value $0.01, outstanding at April 30, 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 MARCH 31, 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)	March 31, 2019	December 31, 2018
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 215**	$ 105
Marketable securities	**1,221**	1,131
Total cash and marketable securities	**1,436**	1,236
Receivables—net	**358**	366
Inventories and supplies—net	**58**	60
Prepaid expenses and other current assets	**149**	125
Total Current Assets	**2,001**	1,787
Property and Equipment		
Aircraft and other flight equipment	**8,340**	8,221
Other property and equipment	**1,197**	1,363
Deposits for future flight equipment	**325**	439
	9,862	10,023
Less accumulated depreciation and amortization	**3,233**	3,242
Total Property and Equipment - Net	**6,629**	6,781
Operating lease assets	**1,715**	—
Goodwill	**1,943**	1,943
Intangible assets - net	**127**	127
Other noncurrent assets	**225**	274
Other Assets	**4,010**	2,344
Total Assets	**$ 12,640**	$ 10,912

CONDENSED CONSOLIDATED BALANCE SHEETS *(unaudited)*

(in millions, except share amounts)	March 31, 2019	December 31, 2018
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	**$ 157**	$ 132
Accrued wages, vacation and payroll taxes	**301**	415
Air traffic liability	**1,116**	788
Other accrued liabilities	**480**	416
Deferred revenue	**757**	705
Current portion of operating lease liabilities	**275**	—
Current portion of long-term debt	**300**	486
Total Current Liabilities	**3,386**	2,942
Long-Term Debt, Net of Current Portion	**1,664**	1,617
Noncurrent Liabilities		
Long-term operating lease liabilities, net of current portion	**1,443**	**—**
Deferred income taxes	**520**	512
Deferred revenue	**1,158**	1,169
Obligation for pension and postretirement medical benefits	**513**	503
Other liabilities	**210**	418
	3,844	2,602
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, $0.01 par value, Authorized: 5,000,000 shares, none issued or outstanding	**—**	—
Common stock, $0.01 par value, Authorized: 400,000,000 shares, Issued: 2019 - 131,338,245 shares; 2018 - 130,813,476 shares, Outstanding: 2019 - 123,504,308 shares; 2018 - 123,194,430 shares	**1**	1
Capital in excess of par value	**261**	232
Treasury stock (common), at cost: 2019 - 7,833,937 shares; 2018 - 7,619,046 shares	**(581)**	(568)
Accumulated other comprehensive loss	**(433)**	(448)
Retained earnings	**4,498**	4,534
	3,746	3,751
Total Liabilities and Shareholders' Equity	**$ 12,640**	$ 10,912

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS *(unaudited)*

	Three Months Ended March 31,	
(in millions, except per share amounts)	**2019**	**2018**
Operating Revenues		
Passenger revenue	**$ 1,716**	$ 1,684
Mileage Plan other revenue	**110**	107
Cargo and other	**50**	41
Total Operating Revenues	**1,876**	1,832
Operating Expenses		
Wages and benefits	**557**	536
Variable incentive pay	**35**	39
Aircraft fuel, including hedging gains and losses	**420**	409
Aircraft maintenance	**120**	107
Aircraft rent	**83**	74
Landing fees and other rentals	**132**	126
Contracted services	**72**	81
Selling expenses	**72**	78
Depreciation and amortization	**106**	94
Food and beverage service	**49**	50
Third-party regional carrier expense	**41**	37
Other	**138**	141
Special items - merger-related costs	**26**	6
Special items - other	**—**	25
Total Operating Expenses	**1,851**	1,803
Operating Income	**25**	29
Nonoperating Income (Expense)		
Interest income	**9**	8
Interest expense	**(22)**	(24)
Interest capitalized	**4**	5
Other—net	**(10)**	(12)
Total Nonoperating Income (Expense)	**(19)**	(23)
Income Before Income Tax	**6**	6
Income tax expense	**2**	2
Net Income	**$ 4**	$ 4
Basic Earnings Per Share:	**$ 0.03**	$ 0.03
Diluted Earnings Per Share:	**$ 0.03**	$ 0.03
Shares used for computation:		
Basic	**123.291**	123.155
Diluted	**123.915**	123.630

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS *(unaudited)*

	Three Months Ended March 31,	
(in millions)	**2019**	**2018**
Net Income	**$ 4**	$ 4
Other Comprehensive Income (Loss):		
Related to marketable securities:		
Unrealized holding gain (loss) arising during the period	**14**	(13)
Reclassification of (gain) loss into Other - net nonoperating income (expense)	**2**	2
Income tax effect	**(4)**	3
Total	**12**	(8)
Related to employee benefit plans:		
Reclassification of net pension expense into Wages and benefits and Other - net nonoperating income (expense)	**8**	7
Income tax effect	**(2)**	(2)
Total	**6**	5
Related to interest rate derivative instruments:		
Unrealized holding gain (loss) arising during the period	**(5)**	6
Reclassification of (gain) loss into Aircraft rent	**1**	1
Income tax effect	**1**	(2)
Total	**(3)**	5
Other Comprehensive Income	**15**	2
Comprehensive Income	**$ 19**	$ 6

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	*123.35*	$ 1	$ 190	$ (531)	$ (440)	$ 4,219	$ 3,439

(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

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*

	Three Months Ended March 31,	
(in millions)	**2019**	**2018**
Cash flows from operating activities:		
Net income	**$ 4**	$ 4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**106**	94
Stock-based compensation and other	**11**	8
Changes in certain assets and liabilities:		
Changes in deferred tax provision	**2**	2
Increase in air traffic liability	**328**	316
Increase in deferred revenue	**41**	26
Other—net	**(24)**	(144)
Net cash provided by operating activities	**468**	306
Cash flows from investing activities:		
Property and equipment additions:		
Aircraft and aircraft purchase deposits	**(53)**	(135)
Other flight equipment	**(29)**	(29)
Other property and equipment	**(33)**	(71)
Total property and equipment additions, including capitalized interest	**(115)**	(235)
Purchases of marketable securities	**(351)**	(238)
Sales and maturities of marketable securities	**275**	301
Other investing activities	**5**	8
Net cash used in investing activities	**(186)**	(164)
Cash flows from financing activities:		

Proceeds from issuance of debt		**254**		—
Long-term debt payments		**(393)**		(120)
Common stock repurchases		**(13)**		(13)
Dividends paid		**(43)**		(40)
Other financing activities		**24**		17
Net cash used in financing activities		**(171)**		(156)
Net increase (decrease) in cash, cash equivalents, and restricted cash		**111**		(14)
Cash, cash equivalents, and restricted cash at beginning of year		**114**		197
Cash, cash equivalents, and restricted cash at end of the period	**$**	**225**	$	183
Cash paid during the period for:				
Interest (net of amount capitalized)	**$**	**18**	$	24
Income taxes		**—**		—
Reconciliation of cash, cash equivalents, and restricted cash at end of the period				
Cash and cash equivalents	**$**	**215**	$	177
Restricted cash included in Prepaid expenses and other current assets		**10**		6
Total cash, cash equivalents, and restricted cash at end of the period	**$**	**225**	$	183

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

NOTE 1. GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

The condensed consolidated financial statements include the accounts of Air Group, or the Company, and its primary subsidiaries, Alaska (including Virgin America) and Horizon. Our condensed consolidated financial statements also include McGee Air Services, a ground services subsidiary of Alaska. The Company conducts substantially all of its operations through these subsidiaries. All significant intercompany balances and transactions have been eliminated. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information. Consistent with these requirements, this Form 10-Q does not include all the information required by GAAP for complete financial statements. It should be read in conjunction with the consolidated financial statements and accompanying notes in the Form 10-K for the year ended December 31, 2018. In the opinion of management, all adjustments have been made that are necessary to fairly present the Company's financial position as of March 31, 2019 and the results of operations for the three months ended March 31, 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 months ended March 31, 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 detail within the Company's statements of operations, segment disclosures, and in this footnote depict the nature, amount, timing and uncertainty of revenue and how cash flows are affected by economic and other factors.

Passenger Ticket and Ancillary Services Revenue

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

	Three Months Ended March 31,	
	2019	**2018**
Passenger ticket revenue, including ticket breakage and net of taxes and fees	**$ 1,439**	$ 1,428
Passenger ancillary revenue	**124**	117
Mileage Plan passenger revenue	**153**	139
Total Passenger revenue	**$ 1,716**	$ 1,684

Mileage Plan™ Loyalty Program

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

	Three Months Ended March 31,	
	2019	**2018**
Passenger revenue	**$ 153**	$ 139
Mileage Plan other revenue	**110**	107
Total Mileage Plan revenue	**$ 263**	$ 246

Cargo and Other

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

	Three Months Ended March 31,	
	2019	**2018**
Cargo revenue	**$ 30**	$ 26
Other revenue	**20**	15
Total Cargo and other revenue	**$ 50**	$ 41

Air Traffic Liability and Deferred Revenue

Passenger ticket and ancillary services liabilities

The Company recognized Passenger revenue of $474 million and $434 million from the prior year-end air traffic liability balance for the three months ended March 31, 2019 and 2018, respectively.

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 $115 million of such receivables as of March 31, 2019 and $119 million as of December 31, 2018.

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

	Three Months Ended March 31,	
	2019	**2018**
Total Deferred Revenue balance at January 1	**$ 1,874**	$ 1,725
Travel miles and companion certificate redemption - Passenger revenue	**(153)**	(139)
Miles redeemed on partner airlines - Other revenue	**(28)**	(19)
Increase in liability for mileage credits issued	**222**	184
Total Deferred Revenue balance at March 31	**$ 1,915**	$ 1,751

NOTE 3. FAIR VALUE MEASUREMENTS

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

Fair Value of Financial Instruments on a Recurring Basis

As of March 31, 2019, total cost basis for all marketable securities was $1.2 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):

	March 31, 2019			December 31, 2018		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets						
Marketable securities						
U.S. government and agency securities	**$ 367**	**$ —**	**$ 367**	$ 293	$ —	$ 293
Foreign government bonds	**—**	**22**	**22**	—	26	26
Asset-backed securities	**—**	**217**	**217**	—	190	190
Mortgage-backed securities	**—**	**87**	**87**	—	92	92
Corporate notes and bonds	**—**	**514**	**514**	—	520	520
Municipal securities	**—**	**14**	**14**	—	10	10
Total Marketable securities	**367**	**854**	**1,221**	293	838	1,131
Derivative instruments						
Fuel hedge—call options	**—**	**9**	**9**	—	4	4
Interest rate swap agreements	**—**	**8**	**8**	—	10	10
Total Assets	**$ 367**	**$ 871**	**$ 1,238**	$ 293	$ 852	$ 1,145
Liabilities						
Derivative instruments						
Interest rate swap agreements	**—**	**(8)**	**(8)**	—	(7)	(7)
Total Liabilities	**$ —**	**$ (8)**	**$ (8)**	$ —	$ (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 March 31, 2019.

Maturities for marketable securities (in millions):

March 31, 2019	Cost Basis	Fair Value
Due in one year or less	$ 217	$ 217
Due after one year through five years	991	993
Due after five years through 10 years	11	11
Total	$ 1,219	$ 1,221

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 March 31, 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):

	March 31, 2019	December 31, 2018
Fixed-rate debt at cost	**$ 512**	$ 639
Non-recurring purchase price accounting fair value adjustment	**3**	3
Total fixed-rate debt	**$ 515**	$ 642
Estimated fair value	**$ 518**	$ 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 months ended March 31, 2019 and March 31, 2018.

NOTE 4. LONG-TERM DEBT

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

	March 31, 2019	December 31, 2018
Fixed-rate notes payable due through 2028	**$ 515**	$ 642
Variable-rate notes payable due through 2028	**1,461**	1,473
Less debt issuance costs	**(12)**	(12)
Total debt	**1,964**	2,103
Less current portion	**300**	486
Long-term debt, less current portion	**$ 1,664**	$ 1,617
Weighted-average fixed-interest rate	**3.8%**	4.1%
Weighted-average variable-interest rate	**3.8%**	3.9%

During the three months ended March 31, 2019 the Company made debt payments of $393 million, including the prepayment of $320 million of debt. During the three months ended March 31, 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 March 31, 2019 long-term debt principal payments for the next five years and thereafter are as follows (in millions):

	Total	
Remainder of 2019	$	220
2020		300
2021		327
2022		288
2023		261
Thereafter		577
Total	$	1,973

Bank Lines of Credit

The Company has three credit facilities with availability totaling $516 million as of March 31, 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 2019, 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 March 31, 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 not recognize 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 three months ended March 31, 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 March 31, 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 March 31, 2019, the Operating lease assets balance by asset class was as follows (in millions):

	Operating lease assets	
Aircraft	$	1,015
CPA aircraft		636
Airport and terminal facilities		19
Corporate real estate and other		45
Total Operating lease assets	$	1,715

Aircraft

At March 31, 2019, the Company had operating leases for 10 Boeing 737 (B737), 61 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 11 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 for the three months ended March 31, 2019.

Capacity purchase agreements with aircraft (CPA aircraft)

At March 31, 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 months ended March 31, 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 $84 million for the three months ended March 31, 2019.

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 of lease income during the three months ended March 31, 2019.

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 was not material.

Components of Lease Expense

The impact of leases, including variable lease cost, on earnings for the three months ended March 31, 2019 was as follows (in millions):

	Classification		Three Months Ended March 31, 2019
Expense			
Aircraft	Aircraft rent		61
CPA aircraft	Aircraft rent		20
Airport and terminal facilities	Landing fees and other rentals		85
Corporate real estate and other	Landing fees and other rentals		5
Total lease expense		$	171
Revenue			
Lease income	Cargo and other revenues		(3)
Net lease impact		**$**	**168**

Total rent expense for the three months ended March 31, 2018 was $153 million.

Supplemental Cash Flow Information

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

		Three Months Ended March 31, 2019
Cash paid for capitalized operating leases	$	88
Operating lease assets obtained in exchange for lease obligations		—

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 March 31, 2019:

	Weighted Average IBR	Weighted Average Remaining Lease Term
Aircraft	4.2%	6.7
CPA aircraft	4.3%	10.0
Airports and terminal facilities	4.1%	10.6
Corporate real estate and other	4.2%	38.7

Maturities of Lease Liabilities

Future minimum lease payments under non-cancellable leases as of March 31, 2019 (in millions):

	Aircraft	CPA Aircraft	Airport and Terminal Facilities	Corporate Real Estate & Other
Remainder of 2019	$ 191	$ 60	2	$ 6
2020	228	79	3	7
2021	189	79	3	6
2022	164	79	2	3
2023	110	79	2	2
Thereafter	287	408	12	73
Total lease payments	$ 1,169	$ 784	$ 24	$ 97
Less: Imputed interest	(150)	(148)	(5)	(53)
Total operating lease liabilities	$ 1,019	$ 636	$ 19	$ 44

As of March 31, 2019, the Company has two scheduled lease deliveries of A321neo aircraft in 2019, valued at $104 million. We also have three scheduled lease deliveries of E175 aircraft in 2021 to be operated by SkyWest. The Company does not intend to operate these E175 aircraft, and is working to remove those aircraft from 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 March 31,	
	2019	**2018**
Service cost	**$ 11**	$ 12
Pension expense included in Wages and benefits	**11**	12
Interest cost	**22**	20
Expected return on assets	**(24)**	(27)
Recognized actuarial loss	**9**	8
Pension expense included in Nonoperating Income (Expense)	**$ 7**	$ 1

NOTE 7. COMMITMENTS AND CONTINGENCIES

Future minimum payments for commitments, excluding operating leases, as of March 31, 2019 (in millions):

	Aircraft Commitments[(a)]	Capacity Purchase Agreements [(b)]	Aircraft Maintenance Deposits
Remainder of 2019	$ 417	$ 104	$ 47
2020	519	145	65
2021	553	166	59
2022	305	174	48
2023	107	179	24
Thereafter	33	1,065	8
Total	$ 1,934	$ 1,833	$ 251

(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 March 31, 2019, the Company had commitments to purchase 32 B737 MAX9 aircraft, with deliveries in the remainder of 2019 through 2023. The Company also has commitments to purchase seven 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 MAX9 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

Dividends

During the three months ended March 31, 2019, the Company declared and paid cash dividends of $0.35 per share, or $43 million.

Common Stock Repurchase

In August 2015, the Board of Directors authorized a $1 billion share repurchase program. As of March 31, 2019, the Company has repurchased 6.1 million shares for $451 million under this program.

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

	Three Months Ended March 31,			
	2019		2018	
	Shares	Amount	Shares	Amount
2015 Repurchase Program—$1 billion	**214,891**	**$ 13**	185,661	$ 13

Accumulated Other Comprehensive Loss

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

	March 31, 2019	December 31, 2018
Related to marketable securities	**$ 1**	$ (11)
Related to employee benefit plans	**(434)**	(440)
Related to interest rate derivatives	**—**	3
Total	**$ (433)**	$ (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 months ended March 31, 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 March 31, 2019						
	Mainline	Regional	Horizon	Consolidating & Other[a]	Air Group Adjusted[b]	Special Items[c]	Consolidated
Operating revenues							
Passenger revenues	$ 1,422	$ 294	$ —	$ —	$ 1,716	$ —	$ 1,716
CPA revenues	—	—	116	(116)	—	—	—
Mileage Plan other revenue	100	10	—	—	110	—	110
Cargo and other	48	1	1	—	50	—	50
Total operating revenues	1,570	305	117	(116)	1,876	—	1,876
Operating expenses							
Operating expenses, excluding fuel	1,152	274	97	(118)	1,405	26	1,431
Economic fuel	358	66	—	—	424	(4)	420
Total operating expenses	1,510	340	97	(118)	1,829	22	1,851
Nonoperating income (expense)							
Interest income	16	—	—	(7)	9	—	9
Interest expense	(21)	—	(8)	7	(22)	—	(22)
Interest capitalized	4	—	—	—	4	—	4
Other - net	(10)	—	—	—	(10)	—	(10)
Total nonoperating income (expense)	(11)	—	(8)	—	(19)	—	(19)
Income (loss) before income tax	$ 49	$ (35)	$ 12	$ 2	$ 28	$ (22)	$ 6

	Three Months Ended March 31, 2018						
	Mainline	Regional	Horizon	Consolidating & Other[a]	Air Group Adjusted[b]	Special Items[c]	Consolidated
Operating revenues							
Passenger revenues	$ 1,441	$ 243	$ —	$ —	$ 1,684	$ —	$ 1,684
CPA revenues	—	—	110	(110)	—	—	—
Mileage Plan other revenue	98	9	—	—	107	—	107
Cargo and other	40	—	1	—	41	—	41
Total operating revenues	1,579	252	111	(110)	1,832	—	1,832
Operating expenses							
Operating expenses, excluding fuel	1,131	239	104	(111)	1,363	31	1,394
Economic fuel	367	55	—	—	422	(13)	409
Total operating expenses	1,498	294	104	(111)	1,785	18	1,803
Nonoperating income (expense)							
Interest income	11	—	—	(3)	8	—	8
Interest expense	(22)	—	(5)	3	(24)	—	(24)
Interest capitalized	4	—	1	—	5	—	5
Other - net	(5)	(7)	—	—	(12)	—	(12)
Total nonoperating income (expense)	(12)	(7)	(4)	—	(23)	—	(23)
Income (loss) before income tax	$ 69	$ (49)	$ 3	$ 1	$ 24	$ (18)	$ 6

(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 does not include 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):

	March 31, 2019	December 31, 2018
Mainline	**$ 18,698**	$ 16,853
Horizon	**1,209**	1,229
Consolidating & Other	**(7,267)**	(7,170)
Consolidated	**$ 12,640**	$ 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:

- *First Quarter Review*—highlights from the first 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 months ended March 31, 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.

FIRST QUARTER REVIEW

Our consolidated pretax income was $6 million during both the first quarter of 2019 and 2018. Flat pretax profit was driven primarily by an increase in fuel expense of $11 million and an increase in non-fuel operating expenses of $37 million, offset by an increase in operating revenues of $44 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.

Shareholder Return

During the first quarter of 2019, we paid cash dividends of $43 million and repurchased 214,891 shares for $13 million.

Recent Events & Operations Performance

In February, the Pacific Northwest was impacted by significant winter storms, which resulted in the cancellation of approximately 1,100 of our flights over a ten-day period. This inclement weather negatively impacted our first quarter revenues by approximately $15 million and increased operational costs by approximately $5 million. These winter storms, along with Air Traffic Control delays in San Francisco, had significant impacts to our on-time performance. During the first quarter of 2019, our on-time performance was 76.9% for our Mainline operations and 77.0% for our Regional operations.

Outlook

In 2019 and beyond, we are focused on completing our integration of Boeing and Airbus operations and realizing the full synergies from the merger. We are investing in our people and culture through programs such as an all-employee workshop called Flight Path that allows for face-to-face conversations between leaders and our employees from all stations to bring us together as one team. We recently completed the final workshop, with all of our 21,000 employees attending one session over the past several months. 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.

In 2019, some of the more notable guest experience enhancement projects underway include adding high-speed satellite Wi-Fi connectivity to our Boeing and Airbus fleets, further upgrades to our onboard menu offerings, updating and expanding airport lounges, and working with the Port of Seattle to open a state-of-the-art 20-gate North Satellite Concourse at Sea-Tac Airport. We also have begun the cabin interior retrofit of our Airbus fleet, which will allow us to align the product across both Mainline aircraft platforms.

We have also announced new revenue initiatives that are incremental to our expected merger synergies. In Fall 2018, we introduced a new option for our guests called the "Saver Fare," a low-priced product that we believe will result in incremental annual revenue of over $100 million in 2019. In addition, we have implemented a series of other revenue initiatives that we expect to add $50 million of revenue in 2019, such as continuing to grow revenues in our premium class cabin, leveraging new technology to better manage revenue post-sale, and eliminating fee waivers for changes made outside of 60 days. Furthermore, we announced an increase in our checked bag fees which is expected to add approximately $50 million of incremental revenue, bringing the expected total from new revenue initiatives to $200 million annually. We believe these changes provide guests with more options and reflect the significant increase in the value of our expanded network and product.

Currently, we expect to grow our combined network capacity by approximately 2% in 2019 and approximately 3% - 4% in 2020. Current schedules indicate competitive capacity will increase by approximately 2% in the second quarter of 2019, and approximately 3% in the third quarter of 2019. We believe that our product, our operation, our engaged employees, our award-winning service, and our competitive Mileage Plan™ program, combined with our strong balance sheet and focus on low costs, give us a competitive advantage in our markets.

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 March 31,		
	2019	**2018**	**Change**
Consolidated Operating Statistics:[a]			
Revenue passengers (000)	**10,417**	10,489	(0.7)%
RPMs (000,000) "traffic"	**12,449**	12,403	0.4%
ASMs (000,000) "capacity"	**15,508**	15,480	0.2%
Load factor	**80.3%**	80.1%	0.2 pts
Yield	**13.78¢**	13.58¢	1.5%
RASM	**12.10¢**	11.84¢	2.2%
CASM excluding fuel and special items[b]	**9.06¢**	8.81¢	2.8%
Economic fuel cost per gallon[b]	**$2.13**	$2.14	(0.5)%
Fuel gallons (000,000)	**199**	197	1.0%
ASMs per fuel gallon	**77.9**	78.6	(0.9)%
Average full-time equivalent employees (FTEs)	**21,832**	21,266	2.7%
Mainline Operating Statistics:			
Revenue passengers (000)	**7,864**	8,211	(4.2)%
RPMs (000,000) "traffic"	**11,172**	11,360	(1.7)%
ASMs (000,000) "capacity"	**13,874**	14,098	(1.6)%
Load factor	**80.5%**	80.6%	(0.1) pts
Yield	**12.73¢**	12.69¢	0.3%
RASM	**11.31¢**	11.20¢	1.0%
CASM excluding fuel and special items[b]	**8.30¢**	8.02¢	3.5%
Economic fuel cost per gallon[b]	**$2.12**	$2.13	(0.5)%
Fuel gallons (000,000)	**169**	172	(1.7)%
ASMs per fuel gallon	**82.1**	82.0	0.1%
Average FTEs	**16,457**	16,013	2.8%
Aircraft utilization	**10.4**	11.2	(7.1)%
Average aircraft stage length	**1,304**	1,285	1.5%
Operating fleet	**237**	224	13 a/c
Regional Operating Statistics:[c]			
Revenue passengers (000)	**2,553**	2,278	12.1%
RPMs (000,000) "traffic"	**1,277**	1,043	22.4%
ASMs (000,000) "capacity"	**1,634**	1,382	18.2%
Load factor	**78.2%**	75.5%	2.7 pts
Yield	**23.03¢**	23.70¢	(2.8)%
RASM	**18.68¢**	18.26¢	2.3%
Operating fleet	**93**	83	10 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 MARCH 31, 2019 TO THREE MONTHS ENDED MARCH 31, 2018

Our consolidated net income for both the three months ended March 31, 2019 and three months ended March 31, 2018 was $4 million, or $0.03 per diluted share.

Excluding the impact of merger-related costs and mark-to-market fuel hedge adjustments, our adjusted net income for the first quarter of 2019 was $21 million, or $0.17 per diluted share, compared to an adjusted net income of $18 million, or $0.14 per diluted share, in the first 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 March 31,			
	2019		2018	
(in millions, except per share amounts)	Dollars	Diluted EPS	Dollars	Diluted EPS
GAAP net income and diluted EPS	**$ 4**	**$ 0.03**	$ 4	$ 0.03
Mark-to-market fuel hedge adjustments	**(4)**	**(0.03)**	(13)	(0.11)
Special items - merger-related costs	**26**	**0.21**	6	0.05
Special items - other[(a)]	**—**	**—**	25	0.20
Income tax effect of reconciling items above	**(5)**	**(0.04)**	(4)	(0.03)
Non-GAAP adjusted net income and diluted EPS	**$ 21**	**$ 0.17**	$ 18	$ 0.14

(a) Special items - other includes special charges associated with the employee tax reform bonus awarded in January 2018.

CASM reconciliation is summarized below:

	Three Months Ended March 31,		
(in cents)	2019	2018	% Change
Consolidated:			
CASM	**11.94¢**	11.65¢	3%
Less the following components:			
Aircraft fuel, including hedging gains and losses	**2.71**	2.64	3%
Special items - merger-related costs	**0.17**	0.04	NM
Special items - other[(a)]	**—**	0.16	NM
CASM excluding fuel and special items	**9.06¢**	8.81¢	3%
Mainline:			
CASM	**11.04¢**	10.72¢	3%
Less the following components:			
Aircraft fuel, including hedging gains and losses	**2.55**	2.51	2%
Special items - merger-related costs	**0.19**	0.04	NM
Special items - other[(a)]	**—**	0.15	NM
CASM excluding fuel and special items	**8.30¢**	8.02¢	4%

(a) Special items - other includes special charges associated with the employee tax reform bonus awarded in January 2018.

OPERATING REVENUES

Total operating revenues increased $44 million, or 2%, during the first quarter of 2019 compared to the same period in 2018. The changes are summarized in the following table:

	Three Months Ended March 31,				
(in millions)	**2019**		**2018**		**% Change**
Passenger revenue	**$**	**1,716**	$	1,684	2%
Mileage Plan other revenue		**110**		107	3%
Cargo and other		**50**		41	22%
Total operating revenues	**$**	**1,876**	$	1,832	2%

Passenger Revenue

On a consolidated basis, Passenger revenue for the first quarter of 2019 increased by $32 million, or 2%, on slight increases in capacity and load factor, as well as a 1.5% increase in yield. The increase to yield is primarily a result of the revenue initiatives we implemented in 2018 to help counter the competitive pricing dynamic in certain markets.

Cargo and other

On a consolidated basis, Cargo and other revenue for the first quarter of 2019 increased by $9 million, or 22%, due to increased volumes on our freighters as a result of new contracts entered into in late 2018.

OPERATING EXPENSES

Total operating expenses increased $48 million, or 3%, compared to the first 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 March 31,				
(in millions)	**2019**		**2018**		**% Change**
Fuel expense	**$**	**420**	$	409	3%
Non-fuel operating expenses, excluding special items		**1,405**		1,363	3%
Special items - merger-related costs		**26**		6	NM
Special items - other		**—**		25	NM
Total operating expenses	**$**	**1,851**	$	1,803	3%

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 $11 million, or 3%, compared to the first quarter of 2018. The elements of the change are illustrated in the following table:

	Three Months Ended March 31,			
	2019		2018	
(in millions, except for per gallon amounts)	Dollars	Cost/Gal	Dollars	Cost/Gal
Raw or "into-plane" fuel cost	**$ 421**	**$ 2.11**	$ 423	$ 2.15
(Gains) losses on settled hedges	**3**	**0.02**	(1)	(0.01)
Consolidated economic fuel expense	**424**	**2.13**	$ 422	$ 2.14
Mark-to-market fuel hedge adjustments	**(4)**	**(0.02)**	(13)	(0.07)
GAAP fuel expense	**$ 420**	**$ 2.11**	$ 409	$ 2.07
Fuel gallons	**199**		197	

Raw fuel expense per gallon for the three months ended March 31, 2019 decreased by approximately 2% 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 first quarter of 2019 was primarily driven by a 13% decrease in crude oil prices, offset by a 29% increase in refining margins, when compared to the prior year. Fuel gallons consumed increased by 2 million gallons, or 1%, due to 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 first quarter were $3 million in 2019, compared to gains of $1 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 March 31,		
(in millions)	2019	2018	% Change
Wages and benefits	**$ 557**	$ 536	4 %
Variable incentive pay	**35**	39	(10)%
Aircraft maintenance	**120**	107	12 %
Aircraft rent	**83**	74	12 %
Landing fees and other rentals	**132**	126	5 %
Contracted services	**72**	81	(11)%
Selling expenses	**72**	78	(8)%
Depreciation and amortization	**106**	94	13 %
Food and beverage service	**49**	50	(2)%
Third-party regional carrier expense	**41**	37	11 %
Other	**138**	141	(2)%
Total non-fuel operating expenses, excluding special items	**$ 1,405**	$ 1,363	3 %

Wages and Benefits

Wages and benefits increased during the first quarter of 2019 by $21 million, or 4%. The primary components of Wages and benefits are shown in the following table:

	Three Months Ended March 31,		
(in millions)	2019	2018	% Change
Wages	**$ 424**	$ 407	4 %
Pension—Defined benefit plans service cost	**10**	12	(17)%
Defined contribution plans	**31**	28	11 %
Medical and other benefits	**63**	60	5 %
Payroll taxes	**29**	29	— %
Total wages and benefits	**$ 557**	$ 536	4 %

Wages increased 4% on a 3% increase in FTEs. The increase in FTEs is largely attributable to growth in flight crews as we work to integrate and cross-train our Airbus and Boeing crews, and in maintenance technicians due to an increase in maintenance activity.

Aircraft Maintenance

Aircraft maintenance expense increased by $13 million, or 12%, during the first quarter of 2019 compared to the same period in 2018. The increase is primarily due to higher volumes of scheduled and unscheduled maintenance events as compared to the prior period.

Aircraft Rent

Aircraft rent expense increased by $9 million, or 12%, during the first quarter of 2019 compared to the same period in 2018, primarily due to the addition of two A321neos to our Mainline fleet and seven E175s to our regional fleet since March 31, 2018.

Contracted Services

Contracted services decreased by $9 million, or 11%, during the first quarter of 2019 compared to the same period in 2018. This decrease is primarily due to lower contractor and consulting spend due to the timing of certain project work and price negotiations with our vendor partners.

Depreciation and Amortization

Depreciation and amortization increased by $12 million, or 13%, during the first quarter of 2019 compared to the same period in 2018, primarily due to the addition of 15 owned E175s and 11 owned B737-900ERs to our fleet since the first quarter of 2018, as well as the accelerated depreciation on our Q400 fleet as we begin to retire a portion of this fleet.

Special Items - Merger-related Costs

We recorded special items of $26 million for merger-related costs associated with our acquisition of Virgin America in the first quarter of 2019, compared to $6 million in the same period of 2018. Costs incurred in the first quarter of 2019 are 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.

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 $49 million in the first quarter of 2019, compared to $69 million in the first quarter of 2018. The $20 million decrease in pretax profit was primarily driven by a $19 million decrease in passenger revenues and a $21 million increase in non-fuel operating expenses, partially offset by a $9 million decrease in economic fuel cost and an $8 million increase in Cargo and other revenue.

The decrease in Mainline passenger revenue for the first quarter of 2019 was primarily driven by a 1.7% decrease in traffic, offset by the impact of our recently launched revenue initiatives.

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 first quarter of 2018.

Regional

Our Regional operations incurred a pretax loss of $35 million in the first quarter of 2019, compared to a pretax loss of $49 million in the first quarter of 2018. The improvement in pretax loss was attributable to a $53 million increase in operating revenues, partially offset by an $11 million increase in fuel costs and a $35 million increase in non-fuel operating expenses.

Regional passenger revenue increased 21% compared to the first quarter of 2018, primarily driven by an 18% increase in capacity and an increase in load factor of 2.7 pts, partially offset by 3% lower ticket yields. The increase in capacity is due to an increase in departures from new E175 deliveries, and an increase in average aircraft stage length. Lower yields are a result of competitive pricing pressure we continue to experience, specifically on the West Coast.

The increase in non-fuel operating expenses is primarily due to higher ownership costs associated with seven E175 aircraft operated by SkyWest that were added to the regional fleet over the past twelve months, as well as higher CPA rates on an 18% increase in capacity.

Horizon

Horizon achieved a pretax profit of $12 million in the first quarter of 2019, compared to a pretax profit of $3 million in the first quarter of 2018. The change was primarily driven by a $6 million increase in operating revenue, attributable to the additional 15 E175 aircraft added to Horizon's fleet since the first quarter of 2018 and a decrease of $7 million in non-fuel operating expenses.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are:

- Our existing cash and marketable securities balance of $1.4 billion, and our expected cash from operations;
- Our 107 unencumbered aircraft that could be financed, if necessary;
- Our combined bank line-of-credit facilities, with no outstanding borrowings, of $400 million.

During the three months ended March 31, 2019, we took free and clear delivery of four B737-900ER aircraft. We made debt payments totaling $393 million, including the prepayment of $320 million of debt, and obtained additional secured debt financing of $254 million. We also continued to return capital to our shareholders by paying dividends totaling $43 million and repurchasing $13 million of our common stock.

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

(in millions)	March 31, 2019	December 31, 2018	Change
Cash and marketable securities	**$ 1,436**	$ 1,236	16 %
Cash, marketable securities, and unused lines of credit as a percentage of trailing twelve months' revenue	**18%**	20%	(2) pts
Long-term debt, net of current portion	**$ 1,664**	$ 1,617	3%
Shareholders' equity	**$ 3,746**	$ 3,751	—%

Debt-to-capitalization, adjusted for certain operating leases

(in millions)	March 31, 2019	December 31, 2018	Change
Long-term debt, net of current portion	$ 1,664	$ 1,617	3%
Capitalization of certain operating leases[a]	1,718	1,768	(a)
Adjusted debt	$ 3,382	$ 3,385	—%
Shareholders' equity	3,746	3,751	—%
Total Capital	$ 7,128	$ 7,136	—%
Debt-to-capitalization, adjusted for certain operating leases	47%	47%	—%

(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 three months of 2019, net cash provided by operating activities was $468 million, compared to $306 million during the same period in 2018. The $162 million increase in our operating cash flows is primarily attributable to 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 in the first quarter.

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 $186 million during the first three months of 2019, compared to $164 million during the same period of 2018. Our capital expenditures were $115 million in the first three months of 2019, a decrease of $120 million compared to the three months ended March 31, 2018. This is primarily driven by lower cash outlays for deliveries of and advance deposits on aircraft in the first quarter of 2019 as compared to the same period of 2018. Our net purchases of marketable securities were $76 million in the first three months of 2019, compared to net sales of $63 million in the three months ended March 31, 2018. The shift to net 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	$ 750	$ 750

Cash Used in Financing Activities

Cash used in financing activities was $171 million during the first three months of 2019 compared to $156 million during the same period in 2018. During the first three months of 2019, we made debt payments of $393 million, including the prepayment of $320 million of debt, dividend payments totaling $43 million, and had $13 million in common stock repurchases. These payments were offset by the receipt of funds from new secured debt financing of $254 million during the first three months of 2019.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Aircraft Commitments

As of March 31, 2019, we have firm orders to purchase or lease 44 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 March 31, 2019, and are subject to change:

	Actual Fleet	**Expected Fleet Activity**				
Aircraft	**March 31, 2019**	**2019 Additions**	**2019 Removals**	**December 31, 2019**	**2020 Changes**	**December 31, 2020**
B737 Freighters	3	—	—	3	—	3
B737 Passenger Aircraft[a]	163	3	—	166	2	168
Airbus Passenger Aircraft	71	2	(1)	72	(2)	70
Total Mainline Fleet	**237**	**5**	**(1)**	**241**	**—**	**241**
Q400 operated by Horizon	35	—	(4)	31	(8)	23
E175 operated by Horizon	26	4	—	30	—	30
E175 operated by third party	32	—	—	32	—	32
Total Regional Fleet	**93**	**4**	**(4)**	**93**	**(8)**	**85**
Total	**330**	**9**	**(5)**	**334**	**(8)**	**326**

(a) Our first MAX9 delivery is scheduled for 2019. We do not currently anticipate any impact to the delivery schedule as a result of the recent MAX events and investigations.

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
Second Quarter 2019	50%	$ 76	$ 1
Third Quarter 2019	50%	76	2
Fourth Quarter 2019	40%	75	2
Full Year 2019	**47%**	**$ 75**	**$ 2**
First Quarter 2020	30%	71	2
Second Quarter 2020	20%	68	3
Third Quarter 2020	10%	71	2
Total 2020	**15%**	70	**$ 2**

Contractual Obligations

The following table provides a summary of our obligations as of March 31, 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	$ 220	$ 300	$ 327	$ 288	$ 261	$ 577	$ 1,973
Aircraft lease commitments	251	307	268	243	189	695	1,953
Facility lease commitments	8	10	9	5	4	85	121
Aircraft maintenance deposits	47	65	59	48	24	8	251
Aircraft purchase commitments	417	519	553	305	107	33	1,934
Interest obligations [(a)]	52	57	46	34	26	43	258
Other obligations [(b)]	111	152	173	181	186	1,079	1,882
Total	$ 1,106	$ 1,410	$ 1,435	$ 1,104	$ 797	$ 2,520	$ 8,372

(a) For variable-rate debt, future obligations are shown above using forecasted interest rates as of March 31, 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 March 31, 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 the present value of future operating lease payments) divided by total equity plus adjusted debt

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

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

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

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

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

Mainline - represents flying Boeing 737, 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 March 31, 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 March 31, 2019.

Changes in Internal Control over Financial Reporting

Except as noted below, there have been no changes in the Company’s internal controls over financial reporting during the quarter ended March 31, 2019, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

During the quarter ended March 31, 2019, the Company implemented internal controls to ensure it has adequately implemented the new accounting standard related to leases effective January 1, 2019. The modified and new controls have been designed to address risks associated with accounting for and reporting of leases.

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 first 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)
January 1, 2019 - January 31, 2019	83,444	$ 62.59	
February 1, 2019 - February 28, 2019	48,117	64.33	
March 1, 2019 - March 31, 2019	83,330	55.85	
Total	214,891	$ 60.36	$ 549

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

May 9, 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
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

EXHIBIT 31.1

CERTIFICATIONS

I, Bradley D. Tilden, certify that:

1. I have reviewed this annual report on Form 10-Q of Alaska Air Group, Inc. for the period ended March 31, 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.

May 9, 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 March 31, 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.

May 9, 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 March 31, 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.

May 9, 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 March 31, 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.

May 9, 2019

By /s/ BRANDON S. PEDERSEN

Brandon S. Pedersen
Executive Vice President/Finance and Chief Financial Officer