UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2021

OR

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

For the transition period from to

Commission File Number 1-8957

ALASKA AIR GROUP, INC.

Delaware	**91-1292054**
(State of Incorporation)	(I.R.S. Employer Identification No.)

19300 International Boulevard, Seattle, WA 98188

Telephone: (206) 392-5040

Securities registered pursuant to Section 12(b) of the Act:

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

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

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

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

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

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

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

The registrant has 124,481,793 common shares, par value $0.01, outstanding at April 30, 2021.

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, 2021

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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. and Horizon Air Industries, Inc. are referred to as “Alaska” 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. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from historical experience or the Company’s present expectations.

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. For a discussion of our risk factors, see Item 1A. "Risk Factors” of the Company’s annual report on Form 10-K for the year ended December 31, 2020. 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, 2021	December 31, 2020
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 1,076**	$ 1,370
Marketable securities	**2,473**	1,976
Total cash and marketable securities	**3,549**	3,346
Receivables - net	**517**	480
Inventories and supplies - net	**57**	57
Prepaid expenses, assets held-for-sale, and other current assets	**161**	123
Total Current Assets	**4,284**	4,006
Property and Equipment		
Aircraft and other flight equipment	**7,933**	7,761
Other property and equipment	**1,407**	1,398
Deposits for future flight equipment	**420**	583
	9,760	9,742
Less accumulated depreciation and amortization	**3,616**	3,531
Total Property and Equipment - Net	**6,144**	6,211
Operating lease assets	**1,423**	1,400
Goodwill	**1,943**	1,943
Intangible assets - net	**105**	107
Other noncurrent assets	**363**	379
Other Assets	**3,834**	3,829
Total Assets	**$ 14,262**	$ 14,046

CONDENSED CONSOLIDATED BALANCE SHEETS *(unaudited)*

(in millions, except share amounts)	March 31, 2021	December 31, 2020
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	**$ 133**	$ 108
Accrued wages, vacation and payroll taxes	**456**	527
Air traffic liability	**1,297**	1,073
Other accrued liabilities	**541**	424
Deferred revenue	**818**	733
Current portion of operating lease liabilities	**271**	290
Current portion of long-term debt	**1,246**	1,138
Total Current Liabilities	**4,762**	4,293
Long-Term Debt, Net of Current Portion	**2,325**	2,357
Noncurrent Liabilities		
Long-term operating lease liabilities, net of current portion	**1,283**	1,268
Deferred income taxes	**365**	407
Deferred revenue	**1,507**	1,544
Obligation for pension and postretirement medical benefits	**663**	665
Other liabilities	**482**	524
	4,300	4,408
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, $0.01 par value, Authorized: 5,000,000 shares, none issued or outstanding	**—**	—
Common stock, $0.01 par value, Authorized: 400,000,000 shares, Issued: 2021 - 133,792,045 shares; 2020 - 133,567,534 shares, Outstanding: 2021 - 124,442,101 shares; 2020 - 124,217,590 shares	**1**	1
Capital in excess of par value	**409**	391
Treasury stock (common), at cost: 2021 - 9,349,944 shares; 2020 - 9,349,944 shares	**(674)**	(674)
Accumulated other comprehensive loss	**(494)**	(494)
Retained earnings	**3,633**	3,764
	2,875	2,988
Total Liabilities and Shareholders' Equity	**$ 14,262**	$ 14,046

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS *(unaudited)*

(in millions, except per share amounts)	Three Months Ended March 31, 2021	2020
Operating Revenues		
Passenger revenue	**$ 659**	$ 1,481
Mileage Plan other revenue	**94**	109
Cargo and other	**44**	46
Total Operating Revenues	**797**	1,636
Operating Expenses		
Wages and benefits	**493**	612
Variable incentive pay	**33**	7
Payroll Support Program grant wage offset	**(411)**	—
Aircraft fuel, including hedging gains and losses	**203**	384
Aircraft maintenance	**81**	115
Aircraft rent	**62**	81
Landing fees and other rentals	**129**	131
Contracted services	**51**	72
Selling expenses	**33**	55
Depreciation and amortization	**97**	108
Food and beverage service	**23**	49
Third-party regional carrier expense	**30**	37
Other	**105**	143
Special items - impairment charges and other	**18**	160
Special items - restructuring charges	**11**	—
Special items - merger-related costs	**—**	3
Total Operating Expenses	**958**	1,957
Operating Loss	**(161)**	(321)
Nonoperating Income (Expense)		
Interest income	**7**	9
Interest expense	**(32)**	(13)
Interest capitalized	**3**	3
Other - net	**10**	5
Total Nonoperating Income (Expense)	**(12)**	4
Loss Before Income Tax	**(173)**	(317)
Income tax benefit	**(42)**	(85)
Net Loss	**$ (131)**	$ (232)
Basic Loss Per Share:	**$ (1.05)**	$ (1.89)
Diluted Loss Per Share:	**$ (1.05)**	$ (1.89)
Shares used for computation:		
Basic	**124.299**	122.818
Diluted	**124.299**	122.818

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS *(unaudited)*

	Three Months Ended March 31,	
(in millions)	**2021**	**2020**
Net Loss	**$ (131)**	$ (232)
Other Comprehensive Income (Loss):		
Related to marketable securities:		
Unrealized holding gain (loss) arising during the period	**(11)**	(1)
Reclassification of (gain) loss into Other - net nonoperating income (expense)	**(4)**	(3)
Income tax effect	**3**	1
Total	**(12)**	(3)
Related to employee benefit plans:		
Reclassification of net pension expense into Wages and benefits and Other - net nonoperating income	**8**	7
Income tax effect	**(2)**	(2)
Total	**6**	5
Related to interest rate derivative instruments:		
Unrealized holding gain (loss) arising during the period	**8**	(25)
Reclassification of loss into Aircraft rent	**—**	1
Income tax effect	**(2)**	5
Total	**6**	(19)
Other Comprehensive Income (Loss)	**—**	(17)
Comprehensive Loss	**$ (131)**	$ (249)

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, 2020	*124.217*	*$ 1*	*$ 391*	*$ (674)*	*$ (494)*	*$ 3,764*	*$ 2,988*
Net loss	—	—	—	—	—	(131)	(131)
Other comprehensive income (loss)	—	—	—	—	—	—	—
Stock-based compensation	—	—	12	—	—	—	12
CARES Act warrant issuance	—	—	8	—	—	—	8
Stock issued under stock plans	0.225	—	(2)	—	—	—	(2)
Balances at March 31, 2021	**124.442**	**$ 1**	**$ 409**	**$ (674)**	**$ (494)**	**$ 3,633**	**$ 2,875**

(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, 2019	*123.000*	*$ 1*	*$ 305*	*$ (643)*	*$ (465)*	*$ 5,133*	*$ 4,331*
Net loss	—	—	—	—	—	(232)	(232)
Other comprehensive income (loss)	—	—	—	—	(17)	—	(17)
Common stock repurchase	(0.538)	—	—	(31)	—	—	(31)
Stock-based compensation	—	—	9	—	—	—	9
Cash dividend declared ($0.375 per share)	—	—		—	—	(45)	(45)
Stock issued under stock plans	0.123	—	—	—	—	—	—
Balance at March 31, 2020	**122.585**	**$ 1**	**$ 314**	**$ (674)**	**$ (482)**	**$ 4,856**	**$ 4,015**

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*

(in millions)	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Cash flows from operating activities:		
Net Loss	**$ (131)**	**$ (232)**
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	**97**	108
Stock-based compensation and other	**12**	9
Special items - impairment charges and other	**18**	160
Special items - restructuring charges	**11**	—
Changes in certain assets and liabilities:		
Changes in deferred tax provision	**(39)**	(44)
Increase in air traffic liability	**224**	210
Increase in deferred revenue	**48**	33
Other - net	**(73)**	(211)
Net cash provided by operating activities	**167**	33
Cash flows from investing activities:		
Property and equipment additions:		
Aircraft and aircraft purchase deposits	**(3)**	(57)
Other flight equipment	**(11)**	(35)
Other property and equipment	**(13)**	(27)
Total property and equipment additions, including capitalized interest	**(27)**	(119)
Purchases of marketable securities	**(1,243)**	(527)
Sales and maturities of marketable securities	**732**	511
Other investing activities	**(5)**	8
Net cash used in investing activities	**(543)**	(127)
Cash flows from financing activities:		
Proceeds from issuance of debt	**189**	825
Common stock repurchases	**—**	(31)
Dividends paid	**—**	(45)
Long-term debt payments	**(115)**	(60)
Other financing activities	**8**	(5)
Net cash provided by financing activities	**82**	684
Net increase (decrease) in cash, cash equivalents, and restricted cash	**(294)**	590
Cash, cash equivalents, and restricted cash at beginning of period	**1,386**	232
Cash, cash equivalents, and restricted cash at end of the period	**$ 1,092**	$ 822
Cash paid during the period for:		
Interest (net of amount capitalized)	**$ 50**	$ 9
Income taxes	**—**	—
Reconciliation of cash, cash equivalents, and restricted cash at end of the period		
Cash and cash equivalents	**$ 1,076**	$ 811
Restricted cash included in Prepaid expenses, assets held-for-sale, and other current assets	**16**	11
Total cash, cash equivalents, and restricted cash at end of the period	**$ 1,092**	$ 822

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 and Horizon. The condensed consolidated financial statements also include McGee Air Services (McGee), 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, 2020. 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, 2021 and the results of operations for the three months ended March 31, 2021 and 2020. Such adjustments were of a normal recurring nature.

In preparing these statements, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities, as well as the reported amounts of revenues and expenses, including impairment charges. Due to the impacts of the coronavirus (COVID-19) pandemic on the Company's business, these estimates and assumptions require more judgment than they would otherwise given the uncertainty of the future demand for air travel, among other considerations. Further, 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, 2021 are not necessarily indicative of operating results for the entire year.

NOTE 2. COVID-19 PANDEMIC

The public health and economic crisis resulting from the outbreak of COVID-19 in the first quarter of 2020 continues to have a significant impact on the Company. Although the relaxation of restrictions by state and local governments and the rollout of vaccination programs have allowed for the return of some demand, passenger enplanements remain significantly below pre-pandemic levels. As a result, we continue to fly far less capacity than normal.

Beginning in 2020, the Company implemented various cost-saving initiatives, including permanently parking aircraft, restructuring the workforce through early-out and incentive leave programs, and obtaining funding available under programs offered by the U.S. Treasury. The impacts of these programs for the three months ended March 31, 2021 are described below.

Lease Return Costs

When 40 leased Aircraft were removed from operating service in 2020, we recorded an estimate of the expected future lease return costs for the aircraft. Lease return costs include the write off of associated maintenance deposits, as the Company no longer expects to perform maintenance events covered by those deposits. The total net charge recorded in 2020 for aircraft that were permanently parked amounted to $209 million. In the first quarter of 2021, the Company recorded an additional $18 million in incremental costs associated with leased aircraft that have been retired and removed from the operating fleet but not yet returned to the lessor, which is classified as Special items - impairment charges and other on the condensed consolidated statement of operations. The lease return cost estimates are based on the Company's best estimate of costs to return aircraft as of the date of this filing.

Workforce restructuring

The Company continues to expect that demand will remain below pre-pandemic levels in 2021, but will continue rebuilding toward 2019 capacity levels. In response, the Company reduced its workforce in 2020 to better align with the expected size of the business. To mitigate the need for involuntary furloughs, various early-out and voluntary leave programs were made available to all frontline work groups, in addition to incentive leave programs made available to Alaska pilots and mechanics. Through these programs over 600 employees took permanent early-outs, and over 3,300 employees took voluntary or incentive leaves. As of March 31, 2021, approximately 2,800 employees remain on a voluntary leave program.

In 2020, as a result of these programs, the Company recorded $220 million in wage expense for those pilots and mechanics on incentive leaves, ongoing medical benefit coverage and lump-sum termination payments. In the first quarter of 2021, the

Company refined capacity expectations and training schedules, and delayed certain recalls to a future period beyond what was anticipated in the accrual at December 31, 2020. As a result, an additional expense of $11 million was recorded as Special items - restructuring charges in the condensed consolidated statement of operations during the three months ended March 31, 2021.

The table below presents a roll forward of the outstanding voluntary leave liability (in millions):

	Three Months Ended March 31, 2021	
Total voluntary leave liability balance at January 1	$	127
Cash payments		(47)
Charges and adjustments		11
Total voluntary leave liability balance at March 31	**$**	**91**

The outstanding accrual is based on the Company's best estimate of capacity expectations and training schedules for 2021 as of the date of this filing. The Company will make the majority of the remaining cash payments associated with this liability in 2021. The balance is reflected in accrued wages, benefits and payroll taxes on the condensed consolidated balance sheet.

CARES Act Funding

During the first quarter of 2021, Alaska, Horizon, and McGee finalized agreements with the U.S. Department of the Treasury (the Treasury) through an extension of the Payroll Support Program (PSP) under the Coronavirus Aid, Relief and Economic Security (CARES) Act, made available under the Consolidated Appropriations Act, 2021 (PSP 2). Under PSP 2 and the supporting agreements, Alaska and Horizon received total funds of approximately $539 million in the first quarter of 2021. Subsequent to March 31, 2021, Alaska and Horizon received notification of an additional $80 million in funds made available under PSP 2. Those additional funds were received on April 29, 2021.

On April 29, 2021, Alaska, Horizon and McGee finalized additional agreements with the Treasury under a third round of the PSP, made available under the American Rescue Plan Act of 2021 (PSP 3). Under PSP 3 and the supporting agreements, Alaska, Horizon, and McGee expect to receive total funds of approximately $584 million in the second quarter of 2021.

Of the amounts received during the three months ended March 31, 2021, $136 million represented unsecured debt and was recorded at par, and $8 million represented warrants recorded at fair value using a Black-Scholes model. Both were recorded on the condensed consolidated balance sheet. The remaining $403 million was recorded as grant proceeds. These amounts are inclusive of additional funding of $8 million made available to McGee under the first installment of PSP program (PSP 1). The grant is recorded as an offset to wages, salaries and benefits as eligible expenses are incurred. During the three months ended March 31, 2021, the Company recognized $411 million of the PSP grant proceeds as a wage offset. Included within this $411 million is approximately $8 million for employee retention credits as in the CARES Act. The Company expects to record any remaining wage offsets in the second quarter of 2021.

Total funds contracted from the Treasury under the three Payroll Support Programs are allocated as follows (in millions):

	Grants		Loans		Warrants		Total Proceeds	
PSP 1	$	757	$	293	$	9	$	1,059
PSP 2		457		159		9		625
PSP 3[(a)]		431		147		6		584
Total	$	1,645	$	599	$	24	$	2,268

(a) - The Company has reached an agreement for total proceeds to be received under PSP 3, however, the allocation of those proceeds are subject to change based on the final Black-Scholes valuation at the funding date.

Funds are exclusively used for continuing to pay employee salaries, wages and benefits. Upon receipt of the funds issued under PSP 3, certain conditions and restrictions were extended. These conditions include, but are not limited to, refraining from conducting involuntary furloughs or reducing employee pay rates through September 30, 2021 and placing limits on executive compensation and severance through April 1, 2023. Alaska Air Group also agreed to continue the suspension of dividends and share repurchases until September 30, 2022.

NOTE 3. REVENUE

Ticket revenue is recorded as Passenger revenue, and represents the primary source of the Company's revenue. Also included in Passenger revenue are passenger ancillary revenues such as bag fees, on-board food and beverage, ticket change fees, and certain revenue from the frequent flyer program. In 2020, the Company eliminated ticket change fees indefinitely from its main cabin and first class fares. Mileage Plan other revenue includes brand and marketing revenue from our co-branded credit card and other partners and certain interline frequent flyer revenue, net of commissions. Cargo and other revenue includes freight and mail revenue, and to a lesser extent, other ancillary revenue products such as lounge membership and certain commissions.

The Company disaggregates revenue by segment in Note 9. The level of detail within the Company’s condensed consolidated 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,	
	2021	**2020**
Passenger ticket revenue, including ticket breakage and net of taxes and fees	**$ 525**	$ 1,213
Passenger ancillary revenue	**50**	116
Mileage Plan passenger revenue	**84**	152
Total Passenger revenue	**$ 659**	$ 1,481

Mileage Plan™ Loyalty Program

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

	Three Months Ended March 31,	
	2021	**2020**
Passenger revenue	**$ 84**	$ 152
Mileage Plan other revenue	**94**	109
Total Mileage Plan revenue	**$ 178**	$ 261

Cargo and Other

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

	Three Months Ended March 31,	
	2021	**2020**
Cargo revenue	**$ 27**	$ 24
Other revenue	**17**	22
Total Cargo and other revenue	**$ 44**	$ 46

Air Traffic Liability and Deferred Revenue

Passenger ticket and ancillary services liabilities

The Company recognized Passenger revenue of $136 million and $489 million from the prior year-end air traffic liability balance for the three months ended March 31, 2021 and 2020.

Given the reduction in demand for air travel stemming from the COVID-19 pandemic, advance bookings and associated cash receipts have been significantly depressed. The Company also experienced elevated cancellations beginning in March 2020 which led to cash refunds or the issuance of credits for future travel. At March 31, 2021, such credits, which are included in the air traffic liability balance, totaled $484 million, net of breakage. In April 2021, the Company announced updated expiration terms for these credits, extending to December 31, 2021 for possible travel through November 30, 2022. Given the ongoing uncertainty in the return of demand for air travel, assumptions about breakage of these credits could change in future periods.

Mileage Plan™ assets and 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 $52 million of such receivables as of March 31, 2021 and $48 million as of December 31, 2020. Given the ongoing uncertainty around the return in demand for air travel, the timing of recognition of mileage credits may differ from current assumptions.

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

	Three Months Ended March 31,	
	2021	**2020**
Total Deferred Revenue balance at January 1	**$ 2,277**	$ 1,990
Travel miles and companion certificate redemption - Passenger revenue	**(84)**	(152)
Miles redeemed on partner airlines - Other revenue	**(4)**	(22)
Increase in liability for mileage credits issued	**136**	207
Total Deferred Revenue balance at March 31	**$ 2,325**	$ 2,023

NOTE 4. FAIR VALUE MEASUREMENTS

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

Fair Value of Financial Instruments on a Recurring Basis

As of March 31, 2021, total cost basis for all marketable securities was $2.5 billion. There were no significant differences between the cost basis and fair value of any individual class of marketable securities.

Fair values of financial instruments on the condensed consolidated balance sheet (in millions):

	March 31, 2021			December 31, 2020		
	Level 1	**Level 2**	**Total**	**Level 1**	**Level 2**	**Total**
Assets						
Marketable securities						
U.S. government and agency securities	**$ 301**	**$ —**	**$ 301**	$ 407	$ —	$ 407
Equity mutual funds	**7**	**—**	**7**	7	—	7
Foreign government bonds	**—**	**19**	**19**	—	20	20
Asset-backed securities	**—**	**284**	**284**	—	224	224
Mortgage-backed securities	**—**	**293**	**293**	—	290	290
Corporate notes and bonds	**—**	**1,515**	**1,515**	—	978	978
Municipal securities	**—**	**54**	**54**	—	50	50
Total Marketable securities	**308**	**2,165**	**2,473**	414	1,562	1,976
Derivative instruments						
Fuel hedge - call options	**—**	**41**	**41**	—	15	15
Total Assets	**$ 308**	**$ 2,206**	**$ 2,514**	$ 414	$ 1,577	$ 1,991
Liabilities						
Derivative instruments						
Interest rate swap agreements	**—**	**(18)**	**(18)**	—	(25)	(25)
Total Liabilities	**$ —**	**$ (18)**	**$ (18)**	$ —	$ (25)	$ (25)

The Company uses both the market and income approach to determine the fair value of marketable securities. U.S. government securities and equity mutual funds 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 are 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 are the result of expected credit losses based on its evaluation of available information as of March 31, 2021.

Maturities for marketable securities (in millions):

March 31, 2021	**Cost Basis**	**Fair Value**
Due in one year or less	$ 1,158	$ 1,159
Due after one year through five years	1,231	1,246
Due after five years through 10 years	62	61
Total	$ 2,451	$ 2,466

Fair Value of Other Financial Instruments

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

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

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

Debt: To estimate the fair value of all fixed-rate debt as of March 31, 2021, the Company uses the income approach by discounting cash flows or estimation using quoted market prices, utilizing borrowing rates for comparable debt over the remaining life of the outstanding debt. The estimated fair value of the fixed-rate Enhanced Equipment Trust Certificate debt is Level 2, as it is estimated using observable inputs, while the estimated fair value of $612 million of other fixed-rate debt, including PSP notes payable, is classified as Level 3, as it is not actively traded and is valued using discounted cash flows which is an unobservable input.

Fixed-rate debt on the condensed consolidated balance sheet and the estimated fair value of long-term fixed-rate debt is as follows (in millions):

	March 31, 2021	**December 31, 2020**
Total fixed-rate debt	**$ 1,728**	$ 1,662
Estimated fair value	**$ 1,839**	$ 1,778

Assets and Liabilities Measured at Fair Value on a 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 impairments were recorded during the three months ended March 31, 2021.

NOTE 5. LONG-TERM DEBT

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

	March 31, 2021	December 31, 2020
Fixed-rate notes payable due through 2029	**$ 186**	$ 198
Fixed-rate PSP notes payable due through 2031	**426**	290
Fixed-rate EETC payable due through 2025 & 2027	**1,116**	1,174
Variable-rate notes payable due through 2029	**1,876**	1,866
Less debt issuance costs and unamortized debt discount	**(33)**	(33)
Total debt	**3,571**	3,495
Less current portion	**1,246**	1,138
Long-term debt, less current portion	**$ 2,325**	$ 2,357
Weighted-average fixed-interest rate	**4.0 %**	4.3 %
Weighted-average variable-interest rate	**1.7 %**	1.9 %

Approximately $591 million of the Company's total variable-rate notes payable are effectively fixed via interest rate swaps at March 31, 2021, effective weighted-average interest rate for the full debt portfolio to 3.1%.

During the three months ended March 31, 2021, the Company issued $189 million of debt, comprising of $136 million of unsecured loans from the PSP and a $54 million issuance of debt. Debt proceeds were offset by $115 million in scheduled debt payments.

The $426 million PSP notes are unsecured senior term loans with a 10-year term, bearing an interest rate of 1% in years 1 through 5, and an interest rate equal to the Secured Overnight Financing Rate (SOFR) plus 2% in years 6 through 10. The PSP notes are prepayable at par without penalty.

CARES Act

In 2020, the Company finalized an agreement with the Treasury to obtain up to $1.9 billion via a secured term loan facility. Obligations under the loan agreement are secured by assets related to, and revenues generated by, Alaska's Mileage Plan™ frequent flyer program, as well as by 30 aircraft and 15 spare engines.

As of March 31, 2021, the Company has drawn $135 million available under the agreement, and may, at its option, borrow additional amounts in up to two subsequent borrowings until May 28, 2021. All proceeds drawn must be used for certain general corporate purposes and operating expenses in accordance with the terms and conditions of the loan agreement and the applicable provisions of the CARES Act.

In conjunction with the initial draw, the Company granted the Treasury 427,080 warrants to purchase ALK common stock at a strike price of $31.61. The value of the warrants was estimated using a Black-Scholes option pricing model, and the relative fair value of the warrants of $6 million was recorded in stockholders' equity, with an offsetting debt discount to the CARES Act Loan issuance.

Debt Maturity

At March 31, 2021 long-term debt principal payments for the next five years and thereafter are as follows (in millions):

	Total
Remainder of 2021	$ 659
2022	796
2023	334
2024	240
2025	396
Thereafter	1,179
Total	$ 3,604

Bank Lines of Credit

The Company has three credit facilities with capacity totaling $461 million as of March 31, 2021. One of the credit facilities for $120 million expires in March 2022 and is secured by certain accounts receivable, spare engines, spare parts and ground service equipment. The second credit facility for $250 million expires in June 2021 and is secured by aircraft. These two facilities have variable interest rates based on LIBOR plus a specified margin. A third credit facility for $91 million expires in June 2021 and is secured by aircraft..

The Company has an outstanding balance of $363 million on the first and second facilities, which is classified as short-term on the condensed consolidated balance sheet. Subsequent to quarter-end, the Company issued notices to repay the entire outstanding balance. The Company also has secured letters of credit against the third facility. All 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, 2021.

NOTE 6. EMPLOYEE BENEFIT PLANS

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

	Three Months Ended March 31,	
	2021	**2020**
Service cost	**$ 13**	$ 13
Pension expense included in Wages and benefits	**13**	**13**
Interest cost	**14**	19
Expected return on assets	**(31)**	(28)
Recognized actuarial loss	**9**	9
Pension expense included in Nonoperating Income (Expense)	**$ (8)**	**$ —**

NOTE 7. COMMITMENTS AND CONTINGENCIES

Future minimum payments for commitments as of March 31, 2021 (in millions):

	Aircraft Commitments[a]	Capacity Purchase Agreements [b]
Remainder of 2021	$ 111	$ 124
2022	1,325	173
2023	681	178
2024	183	183
2025	15	188
Thereafter	12	877
Total	$ 2,327	$ 1,723

(a) Includes non-cancelable contractual commitments for aircraft and engines, 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, 2021, Alaska had commitments to purchase 51 B737-9 MAX aircraft, with contracted deliveries between 2021 and 2024. Future minimum contractual payments for these aircraft have been updated to reflect the expected delivery timing, but are also subject to change. Horizon also has commitments to purchase three E175 aircraft with deliveries in 2023. Alaska has cancelable purchase commitments for 30 Airbus A320neo aircraft with deliveries from 2024 through 2027. In addition, Alaska has options to purchase 52 B737-9 MAX aircraft, and Horizon has options to purchase 30 E175 aircraft. The cancelable purchase commitments and option payments are not reflected in the table above.

Contingencies

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

In 2015, three flight attendants filed a class action lawsuit seeking to represent all Virgin America flight attendants for damages based on alleged violations of California and City of San Francisco wage and hour laws. 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. In February 2021, an appellate court reversed portions of the lower court decision and significantly reduced the judgment. The determination of total judgment has not been completed as of the date of this filing. Based on the facts and circumstances available, the Company believes the range of potential loss to be between $0 and $22 million, and holds an accrual for $22 million in Other accrued liabilities on the condensed consolidated balance sheets. 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.

In January 2019, a pilot filed a class action lawsuit seeking to represent all Alaska and Horizon pilots for damages based on alleged violations of the Uniformed Services Employment and Reemployment Rights Act (USERRA). Plaintiff received class certification in August 2020. The case is in discovery. The Company believes the claims in the case are without factual and legal merit and intends to defend the lawsuit.

The Company is involved in other litigation around the application of state and local employment laws, like many air carriers. Our defenses are similar to those identified above, including that the state and local laws are preempted by federal law and are unconstitutional because they impede interstate commerce. None of these additional disputes are material.

NOTE 8. SHAREHOLDERS' EQUITY

Common Stock Repurchase

In August 2015, the Board of Directors authorized a $1 billion share repurchase program. As of March 31, 2021, the Company has repurchased 7.6 million shares for $544 million under this program. In March 2020, the Company suspended the share repurchase program indefinitely.

CARES Act Warrant Issuance

As additional taxpayer protection required under PSP 2, during the three months ended March 31, 2021 the Company granted the Treasury a total of 255,874 warrants to purchase Alaska Air Group (ALK) common stock at a strike price of $52.25, based on the closing price on December 24, 2020. The warrants are non-voting, freely transferable, may be settled as net shares or in cash at Alaska's option, and have a five-year term.

Total warrants outstanding are as follows as of March 31, 2021:

	Number of shares of ALK common stock	Strike Price
PSP 1	928,127	$ 31.61
CARES Act loan warrants	427,080	31.61
PSP 2	255,874	52.25
Total	**1,611,081**	

Subsequent to March 31, 2021, Alaska and Horizon received additional funding under PSP 2. As additional taxpayer protection, the Company granted 45,855 warrants to purchase ALK common stock at a strike price of $52.25, based on the closing price on December 24, 2020. Also subsequent to March 31, 2021, Alaska, Horizon, and McGee received a portion of total funding made available under PSP 3. The Company granted 88,395 warrants to purchase ALK common stock at a strike price of $66.39, based on the closing price on March 10, 2021. The warrants are non-voting, freely transferable, may be settled as net shares or in cash at Alaska's option, and have a five-year term.

Accumulated other comprehensive loss

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

	March 31, 2021	December 31, 2020
Related to marketable securities	**$ 11**	$ 23
Related to employee benefit plans	**(492)**	(498)
Related to interest rate derivatives	**(13)**	(19)
Total	**$ (494)**	$ (494)

Earnings Per Share (EPS)

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, 2021 and 2020, 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 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 SkyWest, 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 a CPA. 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, 2021						
	Mainline	Regional	Horizon	Consolidating & Other[a]	Air Group Adjusted[b]	Special Items[c]	Consolidated
Operating Revenues							
Passenger revenues	$ 506	$ 153	$ —	$ —	$ 659	$ —	$ 659
CPA revenues	—	—	104	(104)	—	—	—
Mileage Plan other revenue	80	14	—	—	94	—	94
Cargo and other	44	—	—	—	44	—	44
Total Operating Revenues	630	167	104	(104)	797	—	797
Operating Expenses							
Operating expenses, excluding fuel	893	265	88	(109)	1,137	(382)	755
Economic fuel	174	52	—	(1)	225	(22)	203
Total Operating Expenses	1,067	317	88	(110)	1,362	(404)	958
Nonoperating Income (Expense)							
Interest income	7	—	—	—	7	—	7
Interest expense	(27)	—	(5)	—	(32)	—	(32)
Interest capitalized	3	—	—	—	3	—	3
Other - net	10	—	—	—	10	—	10
Total Nonoperating Income (Expense)	(7)	—	(5)	—	(12)	—	(12)
Income (Loss) Before Income Tax	$ (444)	$ (150)	$ 11	$ 6	$ (577)	$ 404	$ (173)

	Three Months Ended March 31, 2020						
	Mainline	Regional	Horizon	Consolidating & Other[a]	Air Group Adjusted[b]	Special Items[c]	Consolidated
Operating Revenues							
Passenger revenues	$ 1,234	$ 247	$ —	$ —	$ 1,481	$ —	$ 1,481
CPA revenues	—	—	105	(105)	—	—	—
Mileage Plan other revenue	98	11	—	—	109	—	109
Cargo and other	44	—	—	2	46	—	46
Total Operating Revenues	1,376	258	105	(103)	1,636	—	1,636
Operating Expenses							
Operating expenses, excluding fuel	1,159	269	92	(110)	1,410	163	1,573
Economic fuel	313	62	—	—	375	9	384
Total Operating Expenses	1,472	331	92	(110)	1,785	172	1,957
Nonoperating Income (Expense)							
Interest income	14	—	—	(5)	9	—	9
Interest expense	(12)	—	(5)	4	(13)	—	(13)
Interest capitalized	3	—	—	—	3	—	3
Other - net	6	—	—	(1)	5	—	5
Total Nonoperating Income (Expense)	11	—	(5)	(2)	4	—	4
Income (Loss) Before Income Tax	$ (85)	$ (73)	$ 8	$ 5	$ (145)	$ (172)	$ (317)

(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 allocation and excludes certain charges. See Note A in the accompanying pages for further information.
(c) Includes Payroll Support Program wage offsets, special items and mark-to-market fuel hedge accounting adjustments.

Total assets were as follows (in millions):

		March 31, 2021		December 31, 2020
Mainline	$	**19,951**	$	19,754
Horizon		**1,200**		1,170
Consolidating & Other		**(6,889)**		(6,878)
Consolidated	$	**14,262**	$	14,046

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, 2020. This overview summarizes the MD&A, which includes the following sections:

- *First Quarter Review*—highlights from the first quarter of 2021 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, 2021. 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 2021.

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

FIRST QUARTER REVIEW

Business Recovery and Financial Outlook

The COVID-19 pandemic continues to have a material impact on our business. However, in the first quarter of 2021 we began to see positive momentum toward recovery. Vaccine availability, coupled with the relaxation of restrictions imposed by state and local governments helped to stimulate demand for air travel to the highest level since the onset of the pandemic. Positive revenue and forward booking trends, combined with the benefits from cost-saving measures enacted in 2020 and the PSP wage offset, drove positive operating cash flow of $167 million for the quarter.

During the first quarter of 2021, we also completed key milestones which will be instrumental to our future success. On March 31, 2021, Alaska formally entered the **one**world® alliance as the 14th member airline. Entry into the alliance will move Alaska forward as a global airline and will provide increased connectivity and benefits for our guests and Mileage Plan members. This alliance, coupled with our West Coast International Alliance with American, uniquely positions us for recovery through increased corporate travel and international connectivity.

Also in the first quarter of 2021, we finalized a previously announced deal with Boeing to restructure Alaska's aircraft purchase agreement and increase the number of firm aircraft deliveries. Under the terms of the agreement, Alaska will take delivery of 55 Boeing 737-9 MAX aircraft with options for an additional 52 planes. The deliveries secured under the Boeing agreement, as well as the 13 additional leased 737-9 MAX aircraft from Air Lease Corporation, provide Alaska with the ability to replace most of the outgoing leased Airbus fleet with more fuel efficient and cost-effective Boeing aircraft. The first four aircraft available under this agreement were delivered in the first quarter, with two entering revenue service in March.

In 2021, guidance will be compared to 2019 as we believe it provides meaningful indication of the pace and quality of recovery to pre-pandemic levels. For the second quarter, we are planning for capacity to be approximately 20% below the same period in 2019. We expect to see continued increases in passenger counts during the summer travel season and as more destinations relax restrictions and the vaccine rollout continues. As we have been measured in returning capacity and optimizing the aircraft gauge for flown routes, we anticipate second quarter load factors to range between 70% to 75%.

Our outlook, and the guidance provided, is sensitive to health trends, the vaccine rollout, and regulations and restrictions imposed by state, local and federal authorities. Our plans for 2021 will be responsive to emerging information and the guidance we have provided above is subject to greater uncertainty than we have historically experienced. Our people are focused on keeping our costs low, running a great operation, and welcoming guests back to travel with Next-Level Care to ensure they are safe and comfortable when they fly. These competitive advantages we have cultivated over many years will continue to serve us well in 2021 and beyond, and we are confident that we are prepared to meet the challenges ahead and that we will emerge from the pandemic a stronger and more resilient airline.

Sustainability Updates

As we move into a new phase of recovery, we have shifted attention back to our 2025 strategic plan, which was announced in 2019. Recently, we published updates on our 2025 goals, which include increased commitments towards diversity, equity and inclusion, as well as expanded sustainability efforts. We have highlighted our commitment and support for equity in education through a new 737-900ER livery designed in partnership with the United Negro College Fund. Additionally, in April 2021, we announced strengthened commitments to reduce our carbon footprint, including joining the Amazon Climate Pledge, which calls for reducing our carbon emissions to net-zero by 2040. In order to achieve this, we have identified specific areas of focus, and have placed emphasis on goals which are achievable by 2025, including becoming the most fuel-efficient U.S. airline and reducing emissions from ground service equipment by 50%.

As a reflection of the importance of the commitments made, we have tied a portion of long-term executive compensation to achievement of diversity goals. Additionally, we have incorporated a carbon emission target into our company-wide performance-based pay program.

Financial Overview

Our consolidated pre-tax loss for the first quarter of 2021 was $173 million, compared to a pre-tax loss of $317 million in the first quarter of 2020. The $144 million improvement is primarily driven by the $411 million wage offset from the extension of the Payroll Support Program of the CARES Act, as well as lower wages and benefits and aircraft fuel due to decreased flight activity. These benefits were offset by a decrease of $839 million in operating revenue, primarily a result of reduced demand for business and leisure travel during the COVID-19 pandemic.

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. A glossary of financial terms can be found at the end of this Item 2.

RESULTS OF OPERATIONS

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

We believe disclosure of earnings excluding the impact of the Payroll Support Program grant wage offset, special items, 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 the Payroll Support Program grant wage offset, impairment and restructuring charges and merger-related costs) from our unit metrics, we believe that we have better visibility into the results of operations as we focus on cost-reduction initiatives emerging from the COVID-19 pandemic. 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 the Payroll Support Program grant wage offset, impairment and restructuring charges and 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 other items as specified in our plan documents) is an 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 have historically compared our airline 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 these items as noted above 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,		
	2021	**2020**	**Change**
Consolidated Operating Statistics:[(a)]			
Revenue passengers (000)	**4,666**	8,932	(47.8)%
RPMs (000,000) "traffic"	**5,393**	10,656	(49.4)%
ASMs (000,000) "capacity"	**10,397**	15,304	(32.1)%
Load factor	**51.9%**	69.6%	(17.7) pts
Yield	**12.22¢**	13.90¢	(12.1)%
RASM	**7.67¢**	10.69¢	(28.3)%
CASM excluding fuel and special items[(b)]	**10.93¢**	9.22¢	18.5%
Economic fuel cost per gallon[(b)]	**$1.79**	$1.93	(7.3)%
Fuel gallons (000,000)	**126**	194	(35.1)%
ASMs per fuel gallon	**82.4**	78.9	4.4%
Average full-time equivalent employees (FTEs)	**17,140**	22,473	(23.7)%
Mainline Operating Statistics:			
Revenue passengers (000)	**3,151**	6,675	(52.8)%
RPMs (000,000) "traffic"	**4,589**	9,582	(52.1)%
ASMs (000,000) "capacity"	**8,853**	13,697	(35.4)%
Load factor	**51.8%**	70.0%	(18.2) pts
Yield	**11.02¢**	12.88¢	(14.4)%
RASM	**7.11¢**	10.05¢	(29.3)%
CASM excluding fuel and special items[(b)]	**10.08¢**	8.46¢	19.1%
Economic fuel cost per gallon[(b)]	**$1.77**	$1.92	(7.8)%
Fuel gallons (000,000)	**98**	163	(39.9)%
ASMs per fuel gallon	**90.3**	84.0	7.5%
Average FTEs	**12,473**	16,818	(25.8)%
Aircraft utilization	**8.5**	10.1	(15.8)%
Average aircraft stage length	**1,303**	1,306	(0.2)%
Operating fleet[(d)]	**201**	225	(24) a/c
Regional Operating Statistics:[(c)]			
Revenue passengers (000)	**1,515**	2,257	(32.9)%
RPMs (000,000) "traffic"	**804**	1,074	(25.1)%
ASMs (000,000) "capacity"	**1,544**	1,607	(3.9)%
Load factor	**52.1%**	66.8%	(14.7 pts)
Yield	**19.04¢**	23.04¢	(17.4)%
RASM	**10.84¢**	16.09¢	(32.6)%
Operating fleet	**94**	94	— a/c

(a) Except for FTEs, data includes information related to third-party regional capacity purchase flying arrangements.
(b) See reconciliation of this non-GAAP measure to the most directly related GAAP measure in the accompanying pages.
(c) Data presented includes information related to flights operated by Horizon and third-party carriers.
(d) Excludes all aircraft permanently removed from operating service.

Given the unusual nature of 2020, we believe that some analysis of specific financial and operational results compared to 2019 provides meaningful insight. The table below includes comparative results from 2021 to 2019.

FINANCIAL INFORMATION AND OPERATING STATISTICS - 2019 RESULTS (unaudited)
Alaska Air Group, Inc.

	Three Months Ended March 31,		
	2021	**2019**	**Change**
Passenger revenue	**$ 659**	$ 1,716	(62) %
Mileage plan other revenue	**94**	110	(15) %
Cargo and other	**44**	50	(12) %
Total operating revenues	**$ 797**	$ 1,876	(58) %
Operating expense, excluding fuel and special items	**$ 1,137**	$ 1,405	(19) %
Economic fuel	**203**	420	(52) %
Special items	**(382)**	26	NM
Total operating expenses	**$ 958**	$ 1,851	(48) %
Total nonoperating expense	**(12)**	(19)	(37) %
Income (loss) before income tax	**$ (173)**	$ 6	NM
Consolidated Operating Statistics[a]:			
Revenue passengers (000)	**4,666**	10,417	(55) %
RPMs (000,000) "traffic"	**5,393**	12,449	(57) %
ASMs (000,000) "capacity"	**10,397**	15,508	(33) %
Load Factor	**51.9%**	80.3%	(28.4) pts
Yield	**12.22¢**	13.78¢	(11) %
RASM	**7.67¢**	12.10¢	(37) %
CASMex	**10.93¢**	9.06¢	21 %
FTEs	**17,140**	21,832	(21) %

(a) 2019 comparative operating statistics have been recalculated using the information presented above, and as filed in our first quarter 2019 Form 10-Q

COMPARISON OF THREE MONTHS ENDED MARCH 31, 2021 TO THREE MONTHS ENDED MARCH 31, 2020

Our consolidated net loss for the three months ended March 31, 2021 was $131 million, or $1.05 per share, compared to a net loss of $232 million, or $1.89 per share, for the three months ended March 31, 2020.

Excluding the impact of the Payroll Support Program grant wage offset, special items and mark-to-market fuel hedge adjustments, our adjusted net loss for the first quarter of 2021 was $436 million, or $3.51 per share, compared to an adjusted net loss of $102 million, or $0.83 per share, in the first quarter of 2020. The following tables reconcile our adjusted net loss per share (EPS) to amounts as reported in accordance with GAAP:

	Three Months Ended March 31,			
	2021		2020	
(in millions, except per share amounts)	Dollars	EPS	Dollars	EPS
GAAP net loss per share	**$ (131)**	**$ (1.05)**	$ (232)	$ (1.89)
Payroll Support Program grant wage offset	**(411)**	**(3.31)**	—	—
Mark-to-market fuel hedge adjustments	**(22)**	**(0.18)**	9	0.07
Special items - impairment charges and other	**18**	**0.14**	160	1.30
Special items - restructuring charges	**11**	**0.09**	—	—
Special items - merger-related costs	**—**	**—**	3	0.03
Income tax effect of reconciling items above	**99**	**0.80**	(42)	(0.34)
Non-GAAP adjusted net loss per share	**$ (436)**	**$ (3.51)**	$ (102)	$ (0.83)

CASM reconciliation is summarized below:

	Three Months Ended March 31,		
(in cents)	2021	2020	% Change
Consolidated:			
CASM	**9.21 ¢**	12.79 ¢	(28)%
Less the following components:			
Payroll Support Program grant wage offset	**(3.95)**	—	NM
Aircraft fuel, including hedging gains and losses	**1.95**	2.51	(22)%
Special items - impairment charges and other	**0.17**	1.04	(83.6)
Special items - restructuring charges	**0.11**	—	NM
Special items - merger-related costs	**—**	0.02	(100)%
CASM excluding fuel and special items	**10.93 ¢**	9.22 ¢	19 %
Mainline:			
CASM	**8.07 ¢**	11.55 ¢	(30)%
Less the following components:			
Payroll Support Program grant wage offset	**(4.06)**	—	NM
Aircraft fuel, including hedging gains and losses	**1.72**	2.35	(27)%
Special items - impairment charges and other	**0.20**	0.72	NM
Special items - restructuring charges	**0.13**	—	NM
Special items - merger-related costs	**—**	0.02	(100)%
CASM excluding fuel and special items	**10.08 ¢**	8.46 ¢	19 %

OPERATING REVENUES

Total operating revenues decreased $839 million, or 51%, during the first quarter of 2021 compared to the same period in 2020. The changes are summarized in the following table:

	Three Months Ended March 31,				
(in millions)	2021		2020		% Change
Passenger revenue	**$**	**659**	$	1,481	(56)%
Mileage Plan other revenue		**94**		109	(14)%
Cargo and other		**44**		46	(4)%
Total operating revenues	**$**	**797**	$	1,636	(51)%

Passenger Revenue

On a consolidated basis, Passenger revenue for the first quarter of 2021 decreased by $822 million, or 56%, on a 49% decline in traffic and a 12% decrease in yield. Although demand remains depressed due to the COVID-19 pandemic, which impacted revenues beginning in March 2020, we began to see increasing load factors in March 2021 stimulated by the relaxation of state and local restrictions and distribution of vaccinations. These improvements were offset by lower yields, stemming from promotional activities undertaken to stimulate demand and increase bookings during what is typically a low booking period.

We expect to see continued revenue improvement, primarily driven by leisure travelers, in the second quarter.

Mileage Plan other revenue

On a consolidated basis, Mileage Plan other revenue decreased $15 million, or 14%, as compared to the same prior-year period, largely due to a reduction in awards by Alaska Mileage Plan members redeemed on other airlines, coupled with a reduction in commissions from our bank card partners.

OPERATING EXPENSES

Total operating expenses decreased $999 million, or 51%, compared to the first quarter of 2020. 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)	2021		2020		% Change
Fuel expense	**$**	**203**	$	384	(47)%
Non-fuel operating expenses, excluding special items		**1,137**		1,410	(19)%
Payroll Support Program grant wage offset		**(411)**		—	NM
Special items - impairment charges and other		**18**		160	(89)%
Special items - restructuring charges		**11**		—	NM
Special items - merger-related costs		**—**		(3)	(100)%
Total operating expenses	**$**	**958**	$	1,957	(51)%

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 decreased $181 million, or 47%, compared to the first quarter of 2020. The elements of the change are illustrated in the following table:

	Three Months Ended March 31,			
	2021		2020	
(in millions, except for per gallon amounts)	Dollars	Cost/Gal	Dollars	Cost/Gal
Raw or "into-plane" fuel cost	**$ 222**	**$ 1.77**	$ 370	$ 1.91
Losses on settled hedges	**3**	**0.02**	5	0.02
Consolidated economic fuel expense	**225**	**1.79**	$ 375	$ 1.93
Mark-to-market fuel hedge adjustments	**(22)**	**(0.18)**	9	0.05
GAAP fuel expense	**$ 203**	**$ 1.61**	$ 384	$ 1.98
Fuel gallons	**126**		194	

Raw fuel expense per gallon for the three months ended March 31, 2021 decreased by approximately 7% 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 2021 was primarily driven by a 37% decrease in refining margins, offset by a 24% increase in crude oil prices when compared to the prior year. Adjustments to inventory held in the first quarter of 2020, which were not required in the first quarter of 2021, also contributed to the year-over-year reduction, coupled with a decline in consumption of 68 million gallons, or 35%, on a reduction in scheduled departures.

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 2021, compared to losses of $5 million in the same period in 2020. 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, the Payroll Support Program grant wage offset and special items. Significant operating expense variances from 2020 are more fully described below.

	Three Months Ended March 31,		
(in millions)	2021	2020	% Change
Wages and benefits	**$ 493**	$ 612	(19)%
Variable incentive pay	**33**	7	371 %
Aircraft maintenance	**81**	115	(30)%
Aircraft rent	**62**	81	(23)%
Landing fees and other rentals	**129**	131	(2)%
Contracted services	**51**	72	(29)%
Selling expenses	**33**	55	(40)%
Depreciation and amortization	**97**	108	(10)%
Food and beverage service	**23**	49	(53)%
Third-party regional carrier expense	**30**	37	(19)%
Other	**105**	143	(27)%
Total non-fuel operating expenses, excluding special items	**$ 1,137**	$ 1,410	(19)%

Wages and Benefits

Wages and benefits decreased during the first quarter of 2021 by $119 million, or 19%, compared to 2020. The primary components of Wages and benefits are shown in the following table:

	Three Months Ended March 31,		
(in millions)	**2021**	**2020**	**% Change**
Wages	**$ 357**	$ 453	(21)%
Pension - Defined benefit plans service cost	**13**	13	— %
Defined contribution plans	**32**	38	(16)%
Medical and other benefits	**65**	76	(14)%
Payroll taxes	**26**	32	(19)%
Total wages and benefits	**$ 493**	$ 612	(19)%

Wages decreased $96 million, or 21%, on a 24% reduction in FTEs. Decreased wages as compared to the prior period are primarily the result of voluntary early-outs, as well as leaves of absence and incentive lines accepted in 2020 which have carried into 2021. The reductions to defined-contribution plan expense, medical and other benefits, and payroll taxes are a direct result of the decline in wages.

Variable Incentive Pay

Variable incentive pay expense increased $26 million, or 371%, during the first quarter of 2021 compared to the same period in 2020 on increased expectation of achievement of key financial and operational metrics.

Aircraft Maintenance

Aircraft maintenance expense decreased by $34 million, or 30%, during the first quarter of 2021 compared to the same period in 2020. This is primarily due to a significant reduction in engine events and heavy checks, coupled with lower spend on components and materials, on reduced utilization of our aircraft. Further contributing to the year-over-year decline is a reduction in project spend, which was largely halted in March 2020.

We expect increased aircraft maintenance expense in the second quarter as we return capacity and increase utilization of our aircraft.

Landing fees and other rentals

Landing fees and other rentals decreased by $2 million, or 2%, during the first quarter of 2021 compared to the same period in 2020 on a 30% decrease in departures. Decreased departure-related costs were largely offset by rate increases at many of our hub airports.

We expect landing fees and other rentals to increase in the second quarter as we increase capacity and departures on increased rates at many of our hub airports, and due to a renegotiated lease at our largest airport hub, Seattle-Tacoma International Airport.

Contracted Services

Contracted services decreased by $21 million, or 29%, during the first quarter of 2021 compared to the same period in 2020 driven primarily by decreased departures and passengers as compared to the prior-year period as a result of the COVID-19 pandemic.

Selling Expense

Selling expense decreased by $22 million, or 40%, during the first quarter of 2021 compared to the same period in 2020, primarily driven by a significant reduction in distribution costs and credit card commissions. Reduced marketing spend and sponsorship costs also contributed to the year-over-year decline given the renegotiation of certain contracts.

We anticipate increased selling expense in the second quarter consistent with increased bookings as demand for air travel grows.

Food and Beverage Service

Food and beverage service decreased by $26 million, or 53%, during the first quarter of 2021 compared to the same period in 2020. This decrease is consistent with the overall reduction in revenue passengers as compared to the prior-year period, as well as temporary elimination of buy-on-board service.

We expect food and beverage service to increase in the second quarter as we increase service offerings onboard our aircraft.

Third-party Regional Carrier Expense

Third-party regional carrier expense, which represents payments made to SkyWest under our CPA, decreased by $7 million, or 19%, during the first quarter of 2021 compared to the same period in 2020. The reduction in expense is primarily due to a pass through of CARES Act PSP funding received in the first quarter to offset SkyWest pilot and flight attendant wages and benefits.

Special Items - Impairment and other charges

We recorded impairment and other charges of $18 million in the first quarter of 2021, consisting of costs associated with leased aircraft that have been retired and removed from the operating fleet but not yet returned to the lessor.

Special Items - Restructuring charges

We recorded restructuring charges of $11 million in the first quarter of 2021 for pilots on incentive lines as a result of delayed recalls beyond what was anticipated at December 31, 2020 due to training limitations and other factors.

ADDITIONAL SEGMENT INFORMATION

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

Mainline

Mainline recorded a pre-tax loss of $444 million in the first quarter of 2021, compared to a pre-tax loss of $85 million in the first quarter of 2020. The $359 million incremental loss recorded was primarily driven by a $728 million decrease in Passenger revenues as a result of the COVID-19 pandemic, offset by a $266 million decrease in non-fuel operating costs and a $139 million decrease in economic fuel cost.

The decrease in Mainline passenger revenue for the first quarter of 2021 was primarily driven by a 52% decline in traffic on a 35% decrease in capacity. The overall decreases in both traffic and capacity were driven by the significant reduction in demand as a result of the COVID-19 pandemic.

Non-fuel operating expenses decreased significantly on cost savings driven by reduced variable costs on reduced capacity, as well as decreased wages and benefits expense from voluntary leaves of absence and reduced aircraft rent charges as a result of impairment recorded in 2020. Lower raw fuel prices, combined with a 40% decrease in gallons consumed, drove the decline in Mainline fuel expense.

Regional

Regional operations generated a pretax loss of $150 million in the first quarter of 2021, compared to a pretax loss of $73 million in the first quarter of 2020. The increase in the pretax loss was attributable to a $91 million decline in operating revenues, partially offset by a $10 million decrease in fuel costs and a $4 million decrease in non-fuel operating expenses.

Regional passenger revenue decreased 38% compared to the first quarter of 2020, primarily driven by a 25% decline in traffic on a 4% decrease in capacity. The overall decrease in both traffic and capacity are driven by the significant reduction in demand as a result of the COVID-19 pandemic.

The decrease in non-fuel operating expenses is primarily due to the pass through of CARES Act PSP funding received in the first quarter to offset SkyWest pilot and flight attendant wages and benefits.

Horizon

Horizon achieved a pretax profit of $11 million in the first quarter of 2021 compared to $8 million in the first quarter of 2020. Profit recorded by Horizon in the first quarter is primarily the result of incremental flying as a proportion of overall Air Group capacity as compared to the prior year. Horizon revenues are recorded based upon purchased capacity, and are not impacted by changes to ticket prices and customer demand. Horizon profit is also the result of continued significant cost reduction efforts implemented in response to the COVID-19 pandemic.

LIQUIDITY AND CAPITAL RESOURCES

As a result of the COVID-19 pandemic, we have taken, and will continue to take action to reduce costs, manage liquidity and help to preserve the relative strength of our balance sheet. In 2020, we took significant actions to enhance and preserve our liquidity, withstand depressed demand, and prepare for the recovery ahead. In 2021 we have achieved the following, which we believe positions us well for recovery:

- Generated positive operating cash flow of $167 million, bolstered by improved advance bookings for increased demand for air travel and inclusive of approximately $400 million of PSP grant funding;
- Decreased adjusted net debt to $1.6 billion at March 31, 2021 from $1.7 billion at December 31, 2020;
- Received a combined $546 million of grants and loans from the U.S. Treasury under an extension of the PSP, and anticipate a supplemental payment of $80 million in late April under PSP 2;
- Received notification from the U.S. Treasury that Alaska, Horizon and McGee are eligible to obtain an additional $584 million in incremental payroll support funding under a third round of the PSP;
- Finalized a previously announced amendment to the existing aircraft purchase agreement with Boeing, which significantly reduced our 2021 capital commitments and provides slide rights to defer as much as $350 million of our commitments from 2022 to later years, and;
- Maintained low capital expenditures, which are expected to range between $150 million to $200 million during 2021, including renegotiated timing of pre-delivery payments and deferral of non-essential capital projects.

Although we have no plans to access equity markets at this time, we believe our equity would be of high interest to investors. Alaska also has access to $1.8 billion in additional funding made available under the CARES Act loan program, although there currently is no expectation that we will draw on those funds.

As the business continues to recover and eventually returns to profitability, reducing outstanding debt and strengthening our balance sheet will be a high priority. Based on our expectations about the recovery ahead, we expect to generate cash flow from operations of $450 million to $550 million in the second quarter including funds received as part of the CARES Act PSP.

We believe that our current cash and marketable securities balance, combined with available sources of liquidity, will be sufficient to fund our operations and meet our debt payment obligations, and to remain in compliance with the financial debt covenants in existing financing arrangements for the foreseeable future.

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

(in millions)	**March 31, 2021**	**December 31, 2020**	**Change**
Cash and marketable securities	**$ 3,549**	$ 3,346	6 %
Cash, marketable securities, and unused lines of credit as a percentage of trailing twelve months' revenue	**130 %**	94 %	36 pts
Total debt	**3,571**	3,495	2 %
Shareholders' equity	**$ 2,875**	$ 2,988	(4)%

Debt-to-capitalization, adjusted for operating leases

(in millions)	March 31, 2021	December 31, 2020	Change
Long-term debt, net of current portion	$ 2,325	$ 2,357	(1)%
Capitalized operating leases	1,554	1,558	—%
COVID-19 related borrowings[a]	788	734	7%
Adjusted debt, net of current portion of long-term debt	$ 4,667	$ 4,649	—%
Shareholders' equity	2,875	2,988	(4)%
Total invested capital	$ 7,542	$ 7,637	(1)%
Debt-to-capitalization, including operating leases	62 %	61 %	1 pt

(a) To best reflect our leverage, we included the short-term borrowings stemming from the COVID-19 pandemic in the above calculation, although these borrowings are classified as current in the condensed consolidated balance sheets.

Adjusted net debt to earnings before interest, taxes, depreciation, amortization, special items and rent

(in millions)	March 31, 2021	December 31, 2020
Current portion of long-term debt	**$ 1,246**	**$ 1,138**
Current portion of operating lease liabilities	**271**	**290**
Long-term debt, net of current portion	**2,325**	**2,357**
Long-term operating lease liabilities, net of current portion	**1,283**	**1,268**
Total adjusted debt	**5,125**	**5,053**
Less: Cash and marketable securities	**(3,549)**	**(3,346)**
Adjusted net debt	**$ 1,576**	**$ 1,707**

(in millions)	Twelve Months Ended March 31, 2021	Twelve Months Ended December 31, 2020
GAAP Operating Loss[a]	**$ (1,615)**	**$ (1,775)**
Adjusted for:		
Payroll Support Program grant wage offset and special items	**(474)**	**71**
Mark-to-market fuel hedge adjustments	**(39)**	**(8)**
Depreciation and amortization	**409**	**420**
Aircraft rent	**280**	**299**
EBITDAR	**$ (1,439)**	**$ (993)**
Adjusted net debt to EBITDAR	**(1.1x)**	**(1.7x)**

(a) Operating loss can be reconciled using the trailing twelve month operating income as filed quarterly with the SEC.

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 2021, net cash provided by operating activities was $167 million, compared to $33 million during the same period in 2020. The $134 million increase in our operating cash flows is primarily attributable to a $101 million improvement to net loss, aided by the receipt and recognition of $403 million in PSP grant funding made available by the U.S. Treasury. Additionally, improvement in our operating cash flows is due to increased advanced bookings and significant reduction in refund activity when compared to the first quarter of 2020.

Cash Used in Investing Activities

Cash used in investing activities was $543 million during the first three months of 2021, compared to $127 million during the same period of 2020. The increase to cash used in investing activities is primarily due to an increase in net purchases of marketable securities, which were $511 million in the first three months of 2021, compared to $16 million in the three months ended March 31, 2020. Increased net purchases is primarily driven by additional cash on hand from borrowings and the PSP program, which allowed the Company to invest additional funds. These increases were offset by reduced capital expenditures in 2021 as a result of postponing non-critical capital expenditures beginning in March 2020.

Cash Provided by Financing Activities

Cash from financing activities was $82 million during the first three months of 2021 compared to cash provided by financing activities of $684 million during the same period in 2020. During the first three months of 2021, we had proceeds from debt issuances of $189 million, primarily a result of the loan portion of the proceeds from the CARES Act PSP, compared to $825 million issued in 2020 in response to the COVID-19 pandemic. These proceeds were partially offset by debt payments of $115 million.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Aircraft Commitments

As of March 31, 2021, we have firm orders to purchase 54 aircraft, and firm commitments to lease 13 aircraft. Alaska also has cancellable purchase commitments for 30 Airbus A320neo aircraft with deliveries from 2024 through 2027. At this time, we do not expect to take delivery of these 30 Airbus aircraft. Alaska also has options to acquire 52 B737-9 MAX aircraft with deliveries from 2023 through 2026, and Horizon has options to acquire 30 E175 aircraft with deliveries from 2022 through 2024. Options will be exercised only if we believe return on invested capital targets can be met over the long term.

The following table summarizes our anticipated fleet count by year, as of March 31, 2021:

Aircraft	Actual Fleet March 31, 2021	Anticipated Fleet Activity[a] 2021 Additions	2021 Removals	Dec 31, 2021	2022 Changes	Dec 31, 2022	2023 Changes	Dec 31, 2023
B737 Freighters	3	—	—	3	—	3	—	3
B737-700	11	—	—	11	—	11	—	11
B737-800	61	—	—	61	—	61	—	61
B737-900	12	—	—	12	—	12	—	12
B737-900ER	79	—	—	79	—	79	—	79
B737-9 MAX	4	8	—	12	31	43	13	56
A320[b]	21	—	—	21	(8)	13	(13)	—
A321neo	10	—	—	10	—	10	—	10
Total Mainline Fleet	**201**	**8**	**—**	**209**	**23**	**232**	**—**	**232**
Q400 operated by Horizon[c]	32	—	—	32	—	32	—	32
E175 operated by Horizon[c]	30	—	—	30	—	30	3	33
E175 operated by third party[c]	32	—	—	32	—	32	—	32
Total Regional Fleet	**94**	**—**	**—**	**94**	**—**	**94**	**3**	**97**
Total	**295**	**8**	**—**	**303**	**23**	**326**	**3**	**329**

(a) Anticipated fleet activity reflects intended early retirement and extensions or replacement of certain leases, not all of which have been contracted yet.
(b) Actual fleet at March 31, 2021, excluding Airbus aircraft permanently parked in response to COVID-19 capacity reductions.
(c) Aircraft are either owned or leased by Horizon or operated under capacity purchase agreement with a third party.

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. We typically hedge up to 50% of our expected consumption. Our crude oil positions are as follows:

	Approximate Gallons Hedged (in millions)	Weighted-Average Crude Oil Price per Barrel	Average Premium Cost per Barrel
Second Quarter 2021	80	$59	$2
Third Quarter 2021	100	$60	$2
Fourth Quarter 2021	70	$59	$3
Remainder of 2021	**250**	**$59**	**$2**
First Quarter 2022	40	$59	$3
Second Quarter 2022	35	$61	$3
Third Quarter 2022	15	$67	$4
Full Year 2022	**90**	**$61**	**$3**

Contractual Obligations

The following table provides a summary of our contractual obligations as of March 31, 2021. For agreements with variable terms, amounts included reflect our minimum obligations.

(in millions)	Remainder of 2021	2022	2023	2024	2025	Beyond 2025	Total
Current and long-term debt obligations	$ 659	$ 796	$ 334	$ 240	$ 396	$ 1,179	$ 3,604
Aircraft lease commitments[a]	246	280	219	167	159	633	1,704
Facility lease commitments	8	10	9	8	6	87	128
Aircraft-related commitments[b]	111	1,325	681	183	15	12	2,327
Interest obligations [c]	67	86	71	61	55	151	491
Other obligations [d]	135	184	189	196	197	898	1,799
Total	$ 1,226	$ 2,681	$ 1,503	$ 855	$ 828	$ 2,960	$ 10,053

(a) Future minimum lease payments for aircraft includes commitments for aircraft which have been removed from operating service, as we have remaining obligation under existing terms.
(b) Includes non-cancelable contractual commitments for aircraft and engines, buyer furnished equipment, and contractual aircraft maintenance obligations.
(c) For variable-rate debt, future obligations are shown above using interest rates forecast as of March 31, 2021.
(d) 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 difference will reverse, including via asset impairment, 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 or loss and cash taxes payable and refundable in the short-term are impacted by many items, including the amount of book income generated (which can be volatile depending on revenue, demand for air travel 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.

CRITICAL ACCOUNTING ESTIMATES

There have been no material changes to our critical accounting estimates during the three months ended March 31, 2021. 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, 2020.

GLOSSARY OF AIRLINE TERMS

Adjusted net debt - long-term debt, including current portion, plus capitalized operating leases, less cash and marketable securities

Adjusted net debt to EBITDAR - represents adjusted net debt divided by EBITDAR (trailing twelve months earnings before interest, taxes, depreciation, amortization, special items and rent)

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

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

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

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

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

Debt-to-capitalization ratio - represents adjusted debt (long-term debt plus capitalized operating leases) divided by total equity plus adjusted debt

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

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

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

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 and SkyWest. In this segment, Regional records actual on-board passenger revenue, less costs such as fuel, distribution costs, and payments made to Horizon and SkyWest under the respective capacity purchased arrangement (CPA). Additionally, Regional includes an allocation of corporate overhead such as IT, finance, and 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, 2020.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of March 31, 2021, 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, 2021.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company’s internal controls over financial reporting during the quarter ended March 31, 2021, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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

PART II

ITEM 1. LEGAL PROCEEDINGS

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. In February 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. In February 2021, an appellate court reversed portions of the lower court decision and significantly reduced the judgment. The determination of total judgment has not been completed as of the date of this filing. Based on the facts and circumstances available, the Company believes the range of potential loss to be between $0 and $22 million, and has recorded $22 million on the condensed consolidated balance sheets. 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.

In January 2019, a pilot filed a class action lawsuit seeking to represent all Alaska and Horizon pilots for damages based on alleged violations of the Uniformed Services Employment and Reemployment Rights Act (USERRA). Plaintiff received class certification in August 2020. The case is in discovery. The Company believes the claims in the case are without factual and legal merit and intends to defend the lawsuit.

The Company is involved in other litigation around the application of state and local employment laws, like many air carriers. Our defenses are similar to those identified above, including that the state and local laws are preempted by federal law and are unconstitutional because they impede interstate commerce. None of these additional disputes are material.

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, 2020.

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

Historically, the Company purchased shares pursuant to a $1 billion repurchase plan authorized by the Board of Directors in August 2015. In March 2020, the Company suspended the share repurchase program indefinitely. When the repurchase program is restarted, the plan has remaining authorization to purchase an additional $456 million in shares.

On February 19, 2021, the Company issued 12,197 warrants to the United States Department of the Treasury (“Treasury”) in connection with the Payroll Support Program (PSP) under the Coronavirus Aid, Relief and Economic Security (CARES) Act, resulting in warrants to purchase a total of 928,127 shares of the Company’s common stock that have been issued to Treasury in connection with the payroll support program. Each warrant is exercisable at a strike price of $31.61 per share of common stock and will expire on the fifth anniversary of the issue date of the warrant. Such warrants were issued to Treasury in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended (the “Securities Act”).

On various dates between January 15, 2021 and April 29, 2021, the Company issued an aggregate of 305,499 warrants to the Treasury in connection with an extension of the PSP under the CARES Act, made available under the Consolidated Appropriations Act, 2021. Each warrant is exercisable at a strike price of $52.25 per share of common stock and will expire on the fifth anniversary of the issue date of the warrant. Such warrants were issued to Treasury in reliance on the exemption from registration provided by the Securities Act.

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 6, 2021

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Form	Date of First Filing	Exhibit Number
3.1	Amended and Restated Certificate of Incorporation of Registrant	10-Q	August 3, 2017	3.1
10.1†*	Supplemental Agreement No. 15 to Purchase Agreement No. 3866 between the Boeing Company and Alaska Airlines, Inc.	10-Q		
31.1†	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	10-Q		
31.2†	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	10-Q		
32.1†	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	10-Q		
32.2†	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	10-Q		
101.INS†	XBRL Instance Document - 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
*	Certain confidential information contained in this exhibit, marked by [***], has been omitted because it (i) is not material and it (ii) would likely cause competitive harm to the Company if it were to be publicly disclosed.

Supplemental Agreement No. 15

to

Purchase Agreement No. 3866

between

The Boeing Company

and

Alaska Airlines, Inc.

Relating to Boeing Models 737-8 and 737-9 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of March 29, 2021, by and between THE BOEING COMPANY (**Boeing**) and ALASKA Airlines, Inc. (**Customer**).

WHEREAS, the parties hereto entered into Purchase Agreement No. 3866 dated October 10, 2012 (**Purchase Agreement**), as amended and supplemented, relating to Boeing Models 737-8 aircraft (**737-8 Aircraft**) and 737-9 aircraft (**737-9 Aircraft**) (collectively **Aircraft**);

WHEREAS, Boeing and Customer have agreed to update and amend the Purchase Agreement to add twenty-three (23) incremental 737-9 Aircraft, amend certain terms and conditions related to advance payments and escalation, revise the Option Aircraft quantity and exercise dates, and remove Purchase Right Aircraft; and

WHEREAS, Customer has agreed to replace nine (9) firm Aircraft with the purchase of nine (9) Remarket Aircraft as outlined in this Supplemental Agreement.

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties agree to amend the Purchase Agreement as follows:

1. Purchase Agreement Table of Contents and Tables:

   a. The Purchase Agreement "Table of Contents," is hereby deleted in its entirety and replaced with the revised Table of Contents, attached hereto, to reflect the changes made in this Supplemental Agreement No. 15.

b. The Purchase Agreement "Table 1 to Purchase Agreement No. PA-03866," is hereby deleted in its entirety and replaced with revised Table 1-A, 1-B, and 1-C, attached hereto, to reflect the revisions to scheduled delivery months, replacement of nine (9) firm Aircraft with nine (9) Remarket Aircraft and the addition of twenty-three (23) incremental Aircraft as outlined in this Supplemental Agreement No. 15.

2. Exhibits:

a. Exhibits A-3 through A-8, "Remarket Aircraft Configuration 737-9," relating to the Remarket Aircraft configuration and attached hereto, is hereby incorporated into the Purchase Agreement as part of this Supplemental Agreement 15.

b. Exhibit B-1, "Aircraft Delivery Requirements and Responsibilities," relating to the Remarket Aircraft and attached here to, is hereby incorporated into the Purchase Agreement as part of this Supplemental Agreement 15.

3. Letter Agreements:

a. Letter Agreement ASA-PA-3866-LA-09439R4, entitled "Special Matters – Models 737-8 and 737-9," is hereby deleted and replaced in its entirety with a revised Letter Agreement ASA-PA-3866-LA-09439R5, entitled "Special Matters," attached hereto, to reflect changes made in this Supplemental Agreement 15.

b. Letter Agreement ASA-PA-3866-LA-09440R5, entitled "Option Aircraft," is hereby deleted in its entirety and replaced with a revised Letter Agreement ASA-PA-3866-LA-09440R6, attached hereto, to reflect the Parties' revision to the quantity and other terms and conditions of the Option Aircraft available to Customer in this Supplemental Agreement 15.

c.Letter Agreement ASA-PA-3866-LA-09441R1, entitled "Aircraft Model Substitution," is hereby deleted in its entirety and replaced with a revised Letter Agreement ASA-PA-3866-LA-09441R2, attached hereto, to reflect changes made in this Supplemental Agreement 15.

d. Letter Agreement ASA-PA-3866-LA-09442R1 [* * *] is deleted in its entirety from the Purchase Agreement [* * *] as part of this Supplemental Agreement 15.

e. Letter Agreement ASA-PA-3866-LA-09445R1, entitled "Special Matters – Option Aircraft," is hereby deleted in its entirety and replaced with a revised Letter Agreement ASA-PA-3866-LA-09445R2, attached hereto, to reflect changes made in this Supplemental Agreement 15.

f. Letter Agreement ASA-PA-3866-09446R1 [* * *] is deleted in its entirety [* * *] from the Purchase Agreement.

g. Letter Agreement ASA-PA-3866-LA-09448, entitled "Remarket Aircraft," attached hereto with tables and exhibits, is incorporated into the Purchase Agreement as part of this Supplemental Agreement 15.

h. Letter Agreement ASA-PA-3866-LA-09449, entitled "Remarket Aircraft Open Configuration Matters," attached hereto, is incorporated into the Purchase Agreement as part of this Supplemental Agreement 15.

i. Letter Agreement ASA-PA-3866-LA-09450, entitled "Remarket Aircraft Open Matters," attached hereto, is incorporated in the Purchase Agreement as part of this Supplemental Agreement 15.

j. Letter Agreement ASA-PA-3866-LA-09451, entitled "Escalation Program," attached hereto, is incorporated into the Purchase Agreement as part of this Supplemental Agreement 15.

k. Letter Agreement ASA-PA-3866-LA-09452, entitled "Advance Payment Matters," attached hereto, is incorporated into the Purchase Agreement as part of this Supplemental Agreement 15.

l. Letter Agreement 6-1162-LLL-0130R3 [* * *] is deleted in its entirety from the Purchase Agreement to reflect the Parties' incorporation of the commercial terms of said Letter Agreement into ASA-PA-3866-09439R5.

m. Letter Agreement 6-1162-MVL-030 [* * *] is deleted in its entirety from the Purchase Agreement to reflect the Parties' incorporation of the commercial terms of said Letter Agreement into ASA-PA-3866-09439R5.

The Purchase Agreement will be deemed to be supplemented to the extent provided herein as of the date hereof and as so supplemented will continue in full force and effect.

EXECUTED IN DUPLICATE as of the day and year first written above.

THE BOEING COMPANY

By ______________________________

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: ______________________________

ALASKA AIRLINES, INC.

By ______________________________

Its SVP Fleet, Finance and Alliances & Treasurer

EXHIBIT 31.1

CERTIFICATIONS

I, Benito Minicucci, certify that:

1. I have reviewed this annual report on Form 10-Q of Alaska Air Group, Inc. for the period ended March 31, 2021;

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 6, 2021

By /s/ BENITO MINICUCCI

Benito Minicucci
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Shane R. Tackett, certify that:

1. I have reviewed this annual report on Form 10-Q of Alaska Air Group, Inc. for the period ended March 31, 2021;

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 6, 2021

By /s/ SHANE R. TACKETT

Shane R. Tackett

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, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Benito Minicucci, 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 6, 2021

By /s/ BENITO MINICUCCI

Benito Minicucci
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, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Shane R. Tackett, 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 6, 2021

By /s/ SHANE R. TACKETT

Shane R. Tackett
Executive Vice President/Finance and Chief Financial Officer