

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 1994.

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.

(Exact name of registrant as specified in its charter)

Delaware 91-1292054
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

19300 Pacific Highway South, Seattle, Washington 98188
(Address of principal executive offices)

Registrant's telephone number, including area code: (206) 431-7040

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS
DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.
Yes_ No_

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

The registrant has 13,353,440 common shares, par value \$1.00, outstanding at March 31, 1994.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

Attached are the following Alaska Air Group, Inc. (the Company or Air Group) unaudited financial statements: (i) consolidated balance sheet as of March 31, 1994 and December 31, 1993; (ii) consolidated statements of income for the quarters ended March 31, 1994 and 1993; (iii) consolidated statement of shareholders' equity for the three months ended March 31, 1994; and, (iv) consolidated statements of cash flows for the quarters ended March 31, 1994 and 1993. Also attached are the accompanying notes to Air Group's consolidated financial statements that have changed significantly during the three months ended March 31, 1994. These statements include all adjustments which are, in the

opinion of management, necessary for a fair statement of the results for the interim periods. The adjustments made were of a normal recurring nature.

Air Group is a holding company incorporated in Delaware in 1985. Its principal subsidiaries are Alaska Airlines, Inc. (Alaska) and Horizon Air Industries, Inc. (Horizon).

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

First Quarter 1994 Compared with First Quarter 1993

The consolidated net loss for the first quarter of 1994 was \$6.3 million, or \$.47 per share. This compares with 1993's first quarter loss of \$15.0 million, or \$1.25 per share. The operating loss for the first quarter of 1994 was \$2.9 million, compared to \$16.8 million loss for the first quarter of 1993.

Operating Revenues

Operating revenues increased 12% to \$280.4 million from \$250.2 million. Passenger revenues increased 10% on a 49% increase in passenger traffic. Traffic gains were due to a 25% increase in system capacity (including new service to Reno and Las Vegas), lower fares that stimulated traffic throughout most of the system, and improvements in market share. Load factor increased from 50.4% in 1993 to 60.1% in 1994. Passenger yields decreased 26% reflecting fare reductions. Average revenue per passenger mile (yield) decreased 5.2 cents, from 20.0 cents in the first quarter of 1993 to 14.8 cents in the first quarter of 1994. Currently, a 1 cent change in yield affects annual revenues by about \$70 million.

Freight, and mail revenues increased \$3.7 million (22%) due to a military charter contract in Alaska, increased freight volumes and increased freight and mail rates. Other-net revenues were up \$3.0 million (34%) due to increased revenues from Alaska's frequent flyer program, maintenance contracts, and inflight liquor sales.

Operating Expenses

While capacity increased 25%, operating expenses increased only 6% to \$283.3 million, compared to \$267.1 million in the first quarter of last year. Operating expenses per available seat mile (ASM) declined 15%, from 11.95 cents in the first quarter of 1993 to 10.15 cents for the current quarter. The lower unit costs were due to an intensive cost reduction effort and better utilization of Alaska's fleet. Alaska's daily aircraft utilization increased 35% from 7.2 hours to 9.7 hours. In addition, lower fuel prices reduced operating expenses by \$5.3 million in the first quarter 1994. The table below shows the major operating expense elements on a unit cost basis for the quarters ended March 31, 1994 and 1993.

| | Operating Expenses Per ASM (In Cents) | | | |
|-----------------------------|---------------------------------------|-------|------------------------|-------------|
| | 1994 | 1993 | Increase (Decrease) | % Change |
| Wages and benefits | 3.32 | 3.96 | (.64) | (16) |
| Aircraft fuel | 1.18 | 1.42 | (.24) | (17) |
| Aircraft maintenance | .60 | .85 | (.25) | (29) |
| Aircraft rent | 1.41 | 1.64 | (.23) | (14) |
| Commissions | .72 | .84 | (.12) | (14) |
| Depreciation & amortization | .46 | .64 | (.18) | (28) |
| Other | 2.46 | 2.60 | (.14) | (5) |
| Total | 10.15 | 11.95 | (1.80) | (15) |

Wages and benefits per ASM decreased 16% primarily due to

improved productivity at Alaska. The number of Alaska employees decreased 1% while Alaska's capacity increased 27% and traffic increased 52%. During March 1994, the Company and the Association of Flight Attendants concluded a new five-year contract, which is effective May 1, 1994. The contract is modeled after the one used at Southwest Airlines and provides flight attendants the opportunity to earn increased wages through increased flying. It also provides a lower starting rate of pay, more flexible work rules, and reduced pension expenses.

Fuel expense per ASM decreased 17% primarily due to a 14% decrease in the cost of fuel. The average cost per gallon was 60.2 cents in the first quarter of 1994, down 9.7 cents from the first quarter of 1993 price of 69.9 cents. Currently, a 1 cent change in fuel prices affects annual fuel costs by about \$2.2 million.

Maintenance expense per ASM decreased 29% due to the replacement of older aircraft with new aircraft during the past year as well as significant improvements in programs, techniques and efficiencies. Aircraft rent per ASM decreased 14% primarily due to a substantial increase in Alaska's average fleet utilization, offset by higher rents for new aircraft acquired during the past year.

Depreciation and amortization expense per ASM decreased 28% due to the retirement of essentially all of Alaska's Boeing 727-200 aircraft during 1993, and increased average fleet utilization. Other expense per ASM decreased 5% due to lower unit costs for food, advertising, promotion, and personnel expenses.

Income Tax Expense (Credit)

The Company estimates an effective annual tax rate of 43% for 1994.

Outlook

The Company expects that the higher traffic and lower yield trends seen in the first quarter of 1994, will continue into the second quarter of 1994. The Company is continuing its efforts to reduce operating expenses and expects the trend toward lower operating unit costs seen in the first quarter 1994 to continue in 1994. In June 1994, Southwest Airlines is expected to begin service in the Pacific Northwest and between the Pacific Northwest and northern California. Most of the new service replaces service provided by Morris Air, which was acquired by Southwest Airlines in December 1993.

Liquidity and Capital Resources

The table below shows the major indicators of financial condition and liquidity at March 31, 1994 and December 31, 1993 and the changes during the three months ended March 31, 1994.

| | March 31, 1994 | December 31, 1993 | Change |
|--------------------------------|--|-------------------|----------|
| | (In millions, except ratios and per share) | | |
| Cash and marketable securities | \$ 97.2 | \$ 101.1 | \$ (3.9) |
| Working capital (deficit) | (84.4) | (61.3) | (23.1) |
| Total assets | 1,191.6 | 1,135.0 | 56.6 |
| Long-term debt | 593.4 | 525.4 | 68.0 |
| Shareholders' equity | 160.9 | 166.8 | (5.9) |
| Book value per common share | \$ 12.05 | \$ 12.51 | \$ (.46) |
| Debt/equity ratio | 79%:21% | 76%:24% | N/A |

The Company's cash and marketable securities portfolio decreased

by \$3.9 million during the first quarter of 1994. Operating activities provided \$36 million of cash in the first quarter 1994. Additional cash was provided by \$78 million in new long-term debt. Cash was used for the purchase of three MD-80 aircraft and other capital expenditures (\$89.6 million), repayment of short-term borrowings (\$20 million), debt payments (\$8.2 million) and restricted deposits (\$2.7 million).

Financing Arrangements

In March 1994, three MD-80 aircraft were financed with \$78 million of interim debt. The Company plans to refinance this debt with a ten-year loan at a variable interest rate based on LIBOR.

At March 31, 1994, Alaska had \$70 million in lines of credit. \$20 million of the lines are available and the balance were being used as part of the above interim financing of three MD-80 aircraft.

Commitments

During the first quarter of 1994, Alaska took delivery of two new B737-400 aircraft under eight-year operating leases. In April 1994, Alaska further restructured its aircraft orders with McDonnell Douglas and replaced the order for ten MD-90s plus options with an order for four MD-80s. Two MD-80s will be delivered in 1996 and two in 1997. The net effect will reduce future capital spending by approximately \$360 million.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

In December 1992, the U.S. Department of Justice filed suit against most major domestic airlines, including the Company, alleging that they have violated the antitrust laws by conspiring to fix prices for domestic airline tickets in violation of Section 1 of the Sherman Act. During March 1994, six of the airlines, including the Company, entered into consent decrees with the U.S. Department of Justice. The agreement requires no refunds or monetary cost to the Company and is expected to be approved by the court in second quarter 1994.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibit 11 - Statement regarding computation of per-share earnings.

(b) No reports on Form 8-K were filed during the first quarter 1994.

Signatures

Pursuant to the requirements of the Securities 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.

Registrant

Date: April 29, 1994

Raymond J. Vecchi
Chairman, President and Chief Executive Officer

J. Ray Vingo

Vice President/Finance, Chief Financial
Officer, Treasurer and Director

CONSOLIDATED BALANCE SHEET
Alaska Air Group, Inc.

ASSETS

| (In Thousands) | March 31, 1994 | December 31, 1993 |
|--|-------------------|----------------------|
| Current Assets | | |
| Cash and cash equivalents | \$27,555 | \$27,179 |
| Marketable securities | 69,606 | 73,970 |
| Receivables - net | 77,337 | 75,274 |
| Inventories and supplies | 42,245 | 41,269 |
| Prepaid expenses and other assets | 39,250 | 56,498 |
| Total Current Assets | 255,993 | 274,190 |
| Property and Equipment | | |
| Flight equipment | 705,610 | 614,717 |
| Other property and equipment | 216,933 | 217,967 |
| Deposits for future flight equipment | 63,674 | 79,765 |
| | 986,217 | 912,449 |
| Less accumulated depreciation and amortization | 249,112 | 247,145 |
| | 737,105 | 665,304 |
| Capital leases | | |
| Flight and other equipment | 44,381 | 44,381 |
| Less accumulated amortization | 19,606 | 19,079 |
| | 24,775 | 25,302 |
| Total Property and Equipment - Net | 761,880 | 690,606 |
| Intangible Assets - Subsidiaries | 67,201 | 67,711 |
| Other Assets | 106,513 | 102,447 |
| Total Assets | \$1,191,587 | \$1,134,954 |

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET
Alaska Air Group, Inc.

LIABILITIES AND SHAREHOLDERS' EQUITY

| (In Thousands) | March 31, 1994 | December 31, 1993 |
|---|-------------------|----------------------|
| Current Liabilities | | |
| Accounts payable | \$47,280 | \$45,582 |
| Accrued aircraft rent | 32,364 | 39,119 |
| Other accrued liabilities | 44,532 | 46,679 |
| Accrued wages, vacation pay and payroll tax | 41,900 | 40,192 |
| Short-term borrowings | - | 20,000 |
| Air traffic liability | 134,431 | 108,360 |
| Current portion of long-term debt and capital lease obligations | 39,897 | 35,575 |
| Total Current Liabilities | 340,404 | 335,507 |
| Long-Term Debt and Capital Lease Obligations | 593,405 | 525,418 |
| Other Liabilities and Credits | | |
| Deferred income taxes | 15,826 | 20,998 |
| Deferred income | 24,882 | 25,827 |
| Other liabilities | 56,151 | 60,371 |
| | 96,859 | 107,196 |
| Shareholders' Equity | | |
| Common stock, \$1 par value | | |
| Authorized: | 30,000,000 shares | |
| Issued: 1994 - | 16,507,031 shares | |

| | | |
|--|-------------|-------------|
| 1993 - 16,495,210 shares | 16,507 | 16,495 |
| Capital in excess of par value | 152,146 | 152,017 |
| Treasury stock, at cost: 1994 - 3,153,591 | | |
| 1993 - 3,153,589 | (71,807) | (71,807) |
| Deferred compensation | (5,555) | (5,813) |
| Retained earnings | 69,628 | 75,941 |
| | 160,919 | 166,833 |
| Total Liabilities and Shareholders' Equity | \$1,191,587 | \$1,134,954 |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
Alaska Air Group, Inc.

| Quarter Ended March 31 (In Thousands) | 1994 | 1993 |
|---------------------------------------|------------|-------------|
| Operating Revenues | | |
| Passenger | \$248,221 | \$224,757 |
| Freight and mail | 20,236 | 16,568 |
| Other - net | 11,925 | 8,917 |
| Total Operating Revenues | 280,382 | 250,242 |
| Operating Expenses | | |
| Wages and benefits | 92,795 | 88,699 |
| Aircraft fuel | 32,927 | 31,731 |
| Aircraft maintenance | 16,801 | 19,026 |
| Aircraft rent | 39,408 | 36,691 |
| Commissions | 19,997 | 18,715 |
| Depreciation and amortization | 12,927 | 14,420 |
| Other | 68,455 | 57,806 |
| Total Operating Expenses | 283,310 | 267,088 |
| Operating Loss | (2,928) | (16,846) |
| Other Income (Expense) | | |
| Interest income | 1,424 | 1,776 |
| Interest expense | (9,877) | (9,863) |
| Interest capitalized | 103 | - |
| Gain (loss) on sale of assets | (175) | 178 |
| Other - net | 441 | 892 |
| | (8,084) | (7,017) |
| Loss before income tax credit | (11,012) | (23,863) |
| Income tax credit | (4,699) | (8,830) |
| Net Loss | \$ (6,313) | \$ (15,033) |

Net Loss Per Common Share:

| | | |
|--------------------------------------|------------|-------------|
| Primary - | | |
| Net loss | \$ (6,313) | \$ (15,033) |
| Preferred stock dividends | - | (1,645) |
| Net loss applicable to common shares | \$ (6,313) | \$ (16,678) |
| Average shares outstanding (000) | 13,349 | 13,334 |
| Net loss per common share | \$ (0.47) | \$ (1.25) |

The dilutive effect of the Company's common stock equivalents and convertible securities was anti-dilutive for 1994 and 1993.

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
Alaska Air Group, Inc.

| (In Thousands) | ----- Common Stock----- | | | Deferred Compen- sation | Retained Earnings |
|--|-------------------------|--------------------------------------|------------------------------|-------------------------------|----------------------|
| | \$1 Par Value | Capital in Excess of Par Value | Treasury Stock at Cost | | |
| Balances at December 31, 1993 | \$16,495 | \$152,017 | (\$71,807) | (\$5,813) | \$75,941 |
| Net loss for the three month ended March 31, 1994 | | | | | (6,313) |

| | | | | | |
|---|----------|-----------|------------|-----------|----------|
| Stock issued under stock plans | 12 | 129 | | | |
| Employee Stock Ownership Plan shares allocated | | | | 258 | |
| Balances at March 31, 1994 | \$16,507 | \$152,146 | (\$71,807) | (\$5,555) | \$69,628 |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Alaska Air Group, Inc.

| Quarter Ended March 31 (In Thousands) | 1994 | 1993 |
|--|-----------|----------|
| Cash and cash equivalents at beginning of quarter | \$27,179 | \$6,880 |
| Cash flows from operating activities: | | |
| Net loss | (6,313) | (15,033) |
| Adjustments to reconcile net loss to cash: | | |
| Depreciation and amortization | 12,927 | 14,420 |
| Amortization of airframe and engine overhauls | 4,976 | 7,277 |
| Loss (gain) on disposal of assets and debt retirement | 175 | (504) |
| Deferred income taxes | (5,172) | (11,162) |
| Increase in accounts receivable | (2,063) | (5,025) |
| Decrease in other current assets | 16,272 | 8,035 |
| Increase in air traffic liability | 26,071 | 11,497 |
| Decrease in other current liabilities | (5,496) | (4,241) |
| Interest on zero coupon notes | 2,522 | 2,350 |
| Leased aircraft return payments and other-net | (7,904) | (2,957) |
| Net cash provided by operating activities | 35,995 | 4,657 |
| Cash flows from investing activities: | | |
| Proceeds from disposition of assets | 1,727 | 232 |
| Purchases of marketable securities | (132,500) | (77,950) |
| Sales and maturities of marketable securities | 136,864 | 97,072 |
| Restricted deposits | (2,674) | (3,997) |
| Future flight equipment deposits returned | 610 | - |
| Additions to future flight equipment deposits | (672) | - |
| Additions to property and equipment | (88,902) | (8,924) |
| Net cash provided by (used in) investing activities | (85,547) | 6,433 |
| Cash flows from financing activities: | | |
| Repayment of short-term borrowings | (20,000) | - |
| Proceeds from issuance of long-term debt | 78,000 | - |
| Long-term debt and capital lease payments | (8,213) | (8,146) |
| Proceeds from issuance of common stock | 141 | 124 |
| Cash dividends | - | (1,573) |
| Gain on debt retirement | - | 326 |
| Net cash provided by (used in) financing activities | 49,928 | (9,269) |
| Net increase in cash and cash equivalents | 376 | 1,821 |
| Cash and cash equivalents at end of quarter | 27,555 | 8,701 |
| Supplemental disclosure of cash paid during the quarter for: | | |
| Interest (net of amount capitalized) | 7,122 | 6,767 |
| Income taxes | - | - |
| Noncash investing and financing activities | None | None |

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS THAT HAVE CHANGED
SIGNIFICANTLY DURING THE THREE MONTHS ENDED MARCH 31, 1994
Alaska Air Group, Inc.

Note 1. Long-Term Debt (See Note 3 to Consolidated Financial
Statements at December 31, 1993)

In March 1994, three MD-80 aircraft were financed with \$78 million of interim debt with a term of up to ten years and variable interest rate based on LIBOR. The Company plans to

refinance this debt with a new ten-year loan at a variable interest rate based on LIBOR.

At March 31, 1994, Alaska had \$70 million in lines of credit. \$20 million of the lines are available and the balance were being used as part of the above interim financing of three MD-80 aircraft.

At March 31, 1994, under the most restrictive loan provisions, Alaska had \$23.8 million of excess net worth and its cash dividend payments to Air Group were limited to \$17.7 million.

Note 2. Commitments (See Note 5 to Consolidated Financial Statements at December 31, 1993)

During the first quarter of 1994, Alaska took delivery of two new B737-400 aircraft under eight-year operating leases. In April 1994, Alaska further restructured its aircraft orders with McDonnell Douglas and replaced the order for ten MD-90s plus options with an order for four MD-80s. Two MD-80s will be delivered in 1996 and two in 1997. The net effect will reduce future capital spending by approximately \$360 million.

Alaska Air Group, Inc.
 Computation of Earnings Per Common Share
 (In thousands, except per share)

EXHIBIT 11

| | Three Months Ended March 31, | |
|--|---------------------------------|------------|
| | 1994 | 1993 |
| | ----- | ----- |
| Primary - | | |
| Income before accounting change | (\$6,313) | (\$15,033) |
| Deduct dividends on preferred shares | - | (1,573) |
| Deduct preferred stock accretion | - | (72) |
| | ----- | ----- |
| Income applicable to common shares | (\$6,313) | (\$16,678) |
| | ===== | ===== |
| Average number of shares outstanding | 13,349 | 13,334 |
| Assumed exercise of stock options | - | - |
| | ----- | ----- |
| Average shares as adjusted | 13,349 | 13,334 |
| | ===== | ===== |
| Earnings per common share | (\$0.47) | (\$1.25) |
| | ===== | ===== |
| Fully Diluted - | | |
| Net income | (\$6,313) | (\$15,033) |
| After tax interest on convertible securities | 2,428 | 2,317 |
| | ----- | ----- |
| Income applicable to common shares | (\$3,885) | (\$12,716) |
| | ===== | ===== |
| Average number of shares outstanding | 13,349 | 13,334 |
| Common stock equivalents | 18 | 36 |
| Common stock reserved for conversion | 8,901 | 9,093 |
| | ----- | ----- |
| Average shares as adjusted | 22,268 | 22,463 |
| | ===== | ===== |
| Earnings per Common Share | (\$0.17) | (\$0.57) |
| | ===== | ===== |
| | * | * |

* Anti-dilutive