

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, 1999.

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  
(State or other jurisdiction of  
incorporation or organization)

91-1292054  
(I.R.S. Employer  
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 X No

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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 26,362,624 common shares, par value \$1.00, outstanding  
at March 31, 1999.

1

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 sheets as of March 31,  
1999 and December 31, 1998; (ii) consolidated statements of income for the three  
months ended March 31, 1999 and 1998; (iii) consolidated statement of  
shareholders' equity for the three months ended March 31, 1999; and, (iv)  
consolidated statements of cash flows for the three months ended March 31, 1999  
and 1998. Also attached are the accompanying notes to the Company's consolidated  
financial statements that have changed significantly during the three months  
ended March 31, 1999. These statements, which should be read in conjunction with  
the financial statements in the Company's annual report on Form 10-K for the  
year ended December 31, 1998, include all adjustments that are, in the opinion  
of management, necessary for a fair presentation 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 RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

FIRST QUARTER 1999 COMPARED WITH FIRST QUARTER 1998

The consolidated net income for the first quarter of 1999 was \$20.2 million, or \$0.76 per share (diluted), compared with a net income of \$13.1 million, or \$0.56 per share, in 1998. Consolidated operating income for the first quarter of 1999 was \$28.6 million compared to \$22.5 million for 1998. Financial and statistical data for Alaska and Horizon is shown following the Air Group financial statements. A discussion of this data follows.

ALASKA AIRLINES

REVENUES

Capacity grew by 8.4%, primarily due to above average growth in the Southern California, Arizona and Mexico markets. Traffic grew by 9.9%, resulting in almost a one point increase in passenger load factor. The Mexico, Canada and Northern California markets experienced increases in load factor, while the Seattle-Anchorage and Southeast Alaska markets experienced decreases. Lower passenger yields in the Seattle-Anchorage, Arizona and Mexico markets contributed to an overall 1.6% decrease in yield. The higher load factor combined with the lower yield resulted in an essentially flat revenue per available seat mile (ASM). Consequently, passenger revenues increased 8.1%, essentially in line with the 8.4% increase in capacity.

Freight and mail revenues decreased 2.2%, primarily due to lower mail volumes. Other-net revenues increased 18.9%, primarily due to increased revenue from travel partners in Alaska's frequent flyer program and increased aircraft maintenance services performed for other companies.

EXPENSES

Operating expenses grew by 7.5% as a result of an 8.4% increase in capacity and a 0.8% decrease in cost per ASM. The decrease in cost per ASM was largely due to lower fuel prices in 1999. Without

2

the lower fuel prices, cost per ASM would have increased 1%. Explanations for year-over-year changes in the components of operating expenses are as follows:

- Wages and benefits increased 8.2% due to a 6.4% increase in the number of employees, combined with a 1.7% increase in average wages and benefits per employee. Employees were added in all areas to service the 8.4% capacity (ASM) increase and the 7.3% increase in passengers carried.
- Contracted services increased 13%, exceeding the 8% increase in capacity, due to greater use of temporary employees (particularly in computer systems development), higher facility repair costs incurred and increased navigation fees in Canada and Mexico.
- Fuel expense decreased 10%, as the 8% increase in fuel consumption was more than offset by a 16% decrease in the price of fuel.
- Maintenance expense increased 26%, exceeding the 7% increase in block hours, due to increased engine overhaul expense.
- Aircraft rent increased 9%, primarily due to leasing six more aircraft in 1999.
- Food and beverage expense increased 7%, in line with the 7% increase in passengers carried.
- Commission expense increased 2% on an 8% increase in passenger revenue. As a percentage of passenger revenue, commission expense decreased 6%, from 7.0% to 6.6%. In 1999, 69% of ticket sales were made through travel agents, versus 72% in 1998.
- Other selling expenses increased 13%, higher than the 8% increase in passenger revenues, primarily due to increased credit card sales and related commission rates.

- Landing fees and other rentals increased 26%, higher than the 8% increase in capacity, due to a retroactive adjustment at Seattle and rate increases at Seattle and several other airports.
- Other expense increased 2%, lower than the 8% increase in capacity, primarily due to lower insurance rates and reduced legal expenses.

HORIZON AIR  
REVENUES

Capacity grew by 27.1%, primarily due to above average growth in Canada, Montana and Portland-Spokane markets. Traffic grew by 29.2%, resulting in a one point increase in passenger load factor. Longer average passenger trips contributed to a 5.3% decrease in yield. The lower yield combined with the higher load factor resulted in a 2.7% decrease in revenue per ASM. Consequently, passenger revenues increased 22.3%, somewhat less than the 27.1% increase in capacity.

Other-net revenues increased 173%, or \$1.9 million, primarily due to recording revenues related to aircraft manufacturer's support.

3

EXPENSES

Operating expenses grew by 20.6% as a result of an 27.1% increase in capacity and a 5.2% decrease in cost per ASM. Explanations for year-over-year changes in the components of operating expenses are as follows:

- Wages and benefits increased 18.2% due to a 18.8% increase in the number of employees. Employees were added in all areas to service the 24% increase in passengers carried.
- Contracted services increased 53%, higher than the 27% increase in capacity, due to increased navigation fees in Canada, higher ground handling and security charges and greater use of computer and other consultants.
- Fuel expense increased 7%, as the 31% increase in fuel consumption was partly offset by an 18% decrease in the price of fuel.
- Maintenance expense increased 19%, in line with a 20% increase in block hours flown.
- Aircraft rent increased 9%, as most of the new aircraft acquired in 1998 were leased.
- Food and beverage expense increased 20%, in line with the 29% increase in revenue passenger miles.
- Commission expense increased 18% on a 22% increase in passenger revenue. As a percentage of passenger revenue, commission expense decreased 13%, from 6.0% to 5.2%.
- Other selling expenses increased 23%, in line with the 22% increase in passenger revenues.
- Depreciation and amortization expense increased 41%, primarily due to purchase of more F-28s in 1998 and added depreciation on aircraft spare parts and station equipment.
- Landing fees and other rentals increased 53%, higher than the 27% increase in capacity, primarily due to rent on the new Portland operations center and rate increases at Seattle and Portland airports.
- Other expense increased 23%, in line with the 27% increase in capacity.

CONSOLIDATED NONOPERATING INCOME (EXPENSE) Net nonoperating items improved \$5.3 million over 1998, primarily due to lower interest expense (due to conversion of convertible bonds in 1998 and other debt repayments) and higher interest income (due to higher cash balances).

4

LIQUIDITY AND CAPITAL RESOURCES

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

|  | DECEMBER 31, 1998 | MARCH 31, 1999 | CHANGE    |
|--|-------------------|----------------|-----------|
| (In millions, except debt-to-equity and per share amounts) |                   |                |           |
| Cash and marketable securities                             | \$ 306.6          | \$ 289.4       | \$ (17.2) |
| Working capital (deficit)                                  | 2.9               | (25.7)         | (28.6)    |
| Long-term debt and capital lease obligations               | 171.5             | 165.0          | (6.5)     |
| Shareholders' equity                                       | 789.5             | 814.8          | 25.3      |
| Book value per common share                                | \$ 30.11          | \$ 30.91       | \$ 0.80   |
| Debt-to-equity   | 18%:82%           | 17%:83%        | NA        |

The Company's cash and marketable securities portfolio decreased by \$17 million during the first three months of 1999. Operating activities provided \$76 million of cash during this period. Additional cash was provided by the exercise of stock options (\$5 million). Cash was used for \$95 million of capital expenditures, including the purchase of two new B737-400 aircraft, flight equipment deposits and airframe and engine overhauls and the repayment of debt (\$6 million).

Shareholders' equity increased \$25 million due to net income of \$20 million and issuance of \$5 million of common stock under stock plans.

COMMITMENTS At March 31, 1999, the Company had firm orders for 51 aircraft with a total cost of approximately \$1.4 billion, as set forth below.

| AIRCRAFT                | DELIVERY PERIOD - FIRM ORDERS |       |       |       |         | TOTAL   |
|-------------------------|-------------------------------|-------|-------|-------|---------|---------|
|                         | 1999                          | 2000  | 2001  | 2002  | 2003-05 |         |
| Boeing 737-400          | 1                             | --    | --    | --    | --      | 1       |
| Boeing 737-700          | 6                             | 6     | --    | --    | --      | 12      |
| Boeing 737-900          | --                            | --    | 5     | 5     | --      | 10      |
| de Havilland Dash 8-200 | 3                             | --    | --    | --    | --      | 3       |
| Canadair RJ 700         | --                            | --    | --    | 4     | 21      | 25      |
| Total                   | 10                            | 6     | 5     | 9     | 21      | 51      |
| Cost (Millions)         | \$248                         | \$186 | \$175 | \$267 | \$483   | \$1,359 |

YEAR 2000 COMPUTER ISSUE The Company uses a significant number of computer software programs and embedded operating systems that were not originally designed to process dates beyond 1999. The Company has implemented a project to ensure that the Company's systems will function properly in the year 2000 and thereafter. The Company's Y2K project comprises five phases for each affected system: inventory, assessment, remediation, testing and implementation. The inventory and assessment phases are complete. As of March 31, 1999 the Company has completed remediation of more than 85% of its high-priority systems. By the end of June 1999 the Company expects to substantially complete all phases of the project for all systems. The Company believes that, with modifications to its existing software and systems and/or conversions to new software, the year 2000 issue will not pose significant operational problems. Most of the Company's information technology projects in the last several years have made the affected systems year 2000 compliant. The direct costs of projects solely intended to correct year 2000 problems are currently estimated at less than \$2 million. The Company does not track certain costs attributable to year 2000, such as salaries of

information technology staff not dedicated entirely to the project. Additional systems currently under review may require further resources. The Company does not expect any cost increases to have a material effect on its results of operations.

The Company is also in contact with its significant suppliers and vendors with which its systems interface and exchange data or upon which its business depends. These efforts are designed to minimize the extent to which its business will be vulnerable to their failure to remediate their own year 2000 issues. The Company's business is also dependent upon certain governmental organizations or entities such as the Federal Aviation Administration (FAA) that provide essential aviation industry infrastructure. The Company is working with the Airline Transport Association (ATA) and the International Airline Transport Association (IATA) to monitor the progress of FAA and airports in making their systems year 2000 compliant. In addition, the Company is independently working with certain rural Alaska airports not within ATA's purview. There can be no assurance that such third parties on which the Company's business relies will successfully remediate their systems on a timely basis. The Company's business, financial condition or results of operations could be materially adversely affected by the failure of its systems or those operated by other parties to operate properly beyond 1999. Areas that could be adversely affected include flight operations, maintenance, planning, reservations, sales, accounting and the frequent flyer program.

The Company already has in place certain disaster contingency plans anticipating the potential loss of essential services such as electricity and financial accounting systems. The Company will leverage its year 2000 contingency planning off these existing plans. In addition, the Company is developing and executing additional contingency plans designed to allow continued operation in the event of failure of key internal and third party systems or products. This planning involves (a) making a list of critical operations processes, (b) assessing the effect of their failure on safety, operations and revenue, (c) quantifying the risk of failure of each, and (d) based on the foregoing, developing a discrete contingency plan for each potential failure. The Company expects to complete its contingency planning during the third and fourth quarters of 1999. The foregoing Year 2000 Computer Issue comments include forward-looking statements regarding the performance of the Company. Actual results may differ materially from these projections. Factors that could cause results to differ include the availability of adequate resources to complete the Company's year 2000 plan, the ability to identify and remediate noncompliant systems, and the success of third parties in remediating their year 2000 issues.

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

ALLIANCES WITH OTHER AIRLINES

Alaska and Horizon have announced a number of new marketing alliances with other airlines that allow reciprocal frequent flyer mileage accrual and redemption privileges and codesharing on certain flights. The purpose of the alliances is to enhance Alaska's and Horizon's revenues by (a) providing our customers more value by offering them more travel destinations and better accrual/redemption opportunities, and (b) gaining access to more connecting traffic from other airlines. The following table shows which of these relationships are existing as of December 31, 1998 (Existing), which are new (New) and which are planned later in 1999 (Planned).

|   | FREQUENT<br>FLYER<br>AGREEMENT<br>----- | CODESHARING--<br>ALASKA FLIGHT #<br>ON FLIGHTS OPERATED<br>BY OTHER AIRLINES<br>----- | CODESHARING--<br>OTHER AIRLINE FLIGHT #<br>ON FLIGHTS OPERATED<br>BY ALASKA/HORIZON<br>----- |
|---|---|---|--|
| MAJOR U.S. OR<br>INTERNATIONAL AIRLINES |   |   |  |
| American Airlines                       | New                                     | Planned   | None   |
| British Airways                         | Existing                                | None  | None   |
| Canadian Airlines                       | New                                     | New   | New  |
| Continental Airlines                    | New                                     | New   | New  |
| KLM                                     | Existing                                | None  | Existing   |
| Northwest Airlines                      | Existing                                | Existing  | Existing   |
| Qantas                                  | Existing                                | None  | New  |
| TWA                                     | Existing                                | None  | None   |
| COMMUTER AIRLINES<br>-----              |   |   |  |
| American Eagle                          | Existing*                               | Existing  | None   |
| Era Aviation                            | Existing*                               | Existing  | None   |
| Harbor Airlines                         | Existing*                               | Existing  | None   |
| Trans States Airlines                   | Existing*                               | Existing  | None   |
| PenAir                                  | Existing*                               | Existing  | None   |
| Reeve Aleutian Airways                  | Existing*                               | Existing  | None   |

\* This airline does not have its own frequent flyer program. However, Alaska's Mileage Plan members can accrue and redeem miles on this airline's route system.

EMPLOYEES

During the first quarter of 1999, Alaska and the Association of Flight Attendants began negotiation of a new labor contract covering approximately 1,700 flight attendants. Alaska and the International Association of Machinists (IAM) are continuing negotiation of a new contract (covering approximately 1,000 rampservice and stock clerk employees) with the assistance of a federal mediator. Alaska and the IAM are also continuing negotiation of a new contract covering approximately 3,200 clerical, office and passenger service employees. Alaska and the Aircraft Mechanics Fraternal Association (AMFA) are continuing negotiation of an initial contract covering approximately 1,100 mechanics, inspectors and cleaners.

7

During the first quarter of 1999, a federal mediator was assigned to assist Horizon and the International Brotherhood of Teamsters in the negotiation of an initial labor contract covering approximately 600 pilots.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibit 3.(ii) - Bylaws of Alaska Air Group, Inc. as amended through January 26, 1999 Exhibit 27 - Financial data schedule.
- (b) No reports on Form 8-K were filed during the first quarter of 1999.

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.

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Registrant

Date: April 28, 1999

/s/ JOHN F. KELLY

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John F. Kelly  
Chairman, President and Chief Executive Officer

/s/ HARRY G. LEHR

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Harry G. Lehr  
Senior Vice President/Finance  
(Principal Financial Officer)

8

CONSOLIDATED BALANCE SHEET  
Alaska Air Group, Inc.

ASSETS

| (In Millions)                     | December 31,<br>1998<br>----- | MARCH 31,<br>1999<br>----- |
|-----------------------------------|-------------------------------|----------------------------|
| CURRENT ASSETS                    |                               |                            |
| Cash and cash equivalents         | \$29.4                        | \$61.1                     |
| Marketable securities             | 277.2                         | 228.3                      |
| Receivables - net                 | 70.6                          | 90.8                       |
| Inventories and supplies          | 44.1                          | 45.6                       |
| Prepaid expenses and other assets | 107.5                         | 116.1                      |

|  |           |           |
|--|-----------|-----------|
| TOTAL CURRENT ASSETS                           | 528.8     | 541.9     |
| PROPERTY AND EQUIPMENT                         |           |           |
| Flight equipment                               | 1,015.4   | 1,089.0   |
| Other property and equipment                   | 283.2     | 296.6     |
| Deposits for future flight equipment           | 164.9     | 162.8     |
|  | 1,463.5   | 1,548.4   |
| Less accumulated depreciation and amortization | 417.0     | 432.3     |
|  | 1,046.5   | 1,116.1   |
| Capital leases:                                |           |           |
| Flight and other equipment                     | 44.4      | 44.4      |
| Less accumulated amortization                  | 29.6      | 30.2      |
|  | 14.8      | 14.2      |
| TOTAL PROPERTY AND EQUIPMENT - NET             | 1,061.3   | 1,130.3   |
| INTANGIBLE ASSETS - SUBSIDIARIES               | 57.5      | 57.0      |
| OTHER ASSETS                                   | 84.2      | 79.5      |
| TOTAL ASSETS                                   | \$1,731.8 | \$1,808.7 |

See accompanying notes to consolidated financial statements.

9

CONSOLIDATED BALANCE SHEET  
Alaska Air Group, Inc.

LIABILITIES AND SHAREHOLDERS' EQUITY

| (In Millions)  | December 31,<br>1998 | MARCH 31,<br>1999 |
|--|----------------------|-------------------|
| CURRENT LIABILITIES  |                      |                   |
| Accounts payable   | \$84.3               | \$86.4            |
| Accrued aircraft rent  | 75.5                 | 63.5              |
| Accrued wages, vacation and payroll taxes                          | 79.4                 | 60.1              |
| Other accrued liabilities  | 80.9                 | 96.3              |
| Air traffic liability  | 178.6                | 233.9             |
| Current portion of long-term debt and<br>capital lease obligations | 27.2                 | 27.4              |
| TOTAL CURRENT LIABILITIES  | 525.9                | 567.6             |
| LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS                       | 171.5                | 165.0             |
| Other Liabilities and Credits                                      |                      |                   |
| Deferred income taxes  | 99.2                 | 111.5             |
| Deferred income  | 41.5                 | 40.5              |
| Other liabilities  | 104.2                | 109.3             |
|  | 244.9                | 261.3             |
| SHAREHOLDERS' EQUITY   |                      |                   |
| Common stock, \$1 par value  |                      |                   |
| Authorized: 50,000,000 shares                                      |                      |                   |
| Issued: 1998 - 28,974,107 shares                                   |                      |                   |
| 1999 - 29,110,762 shares   | 29.0                 | 29.1              |
| Capital in excess of par value                                     | 473.9                | 478.8             |

|  |           |           |
|--|-----------|-----------|
| Treasury stock, at cost: 1998 - 2,750,102 shares |           |           |
| 1999 - 2,748,138 shares                          | (62.7)    | (62.7)    |
| Deferred compensation                            | (1.3)     | (1.2)     |
| Retained earnings                                | 350.6     | 370.8     |
|  | -----     | -----     |
|  | 789.5     | 814.8     |
|  | -----     | -----     |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY       | \$1,731.8 | \$1,808.7 |
|  | -----     | -----     |

See accompanying notes to consolidated financial statements.

10

CONSOLIDATED STATEMENT OF INCOME  
Alaska Air Group, Inc.

|   |         |         |
|---|---------|---------|
| Three Months Ended March 31<br>(In Millions Except Per Share Amounts) | 1998    | 1999    |
|   | -----   | -----   |
| OPERATING REVENUES  |         |         |
| Passenger   | \$378.3 | \$419.4 |
| Freight and mail  | 21.0    | 20.7    |
| Other - net   | 17.1    | 21.1    |
|   | -----   | -----   |
| TOTAL OPERATING REVENUES  | 416.4   | 461.2   |
|   | -----   | -----   |
| OPERATING EXPENSES  |         |         |
| Wages and benefits  | 136.9   | 151.9   |
| Contracted services   | 13.6    | 15.6    |
| Aircraft fuel   | 46.1    | 42.9    |
| Aircraft maintenance  | 28.8    | 35.4    |
| Aircraft rent   | 47.0    | 51.3    |
| Food and beverage service   | 11.4    | 12.4    |
| Commissions   | 22.6    | 23.7    |
| Other selling expenses  | 21.5    | 24.6    |
| Depreciation and amortization   | 17.9    | 19.7    |
| Loss on sale of assets  | --      | 0.1     |
| Landing fees and other rentals  | 16.9    | 22.2    |
| Other   | 31.2    | 32.8    |
|   | -----   | -----   |
| TOTAL OPERATING EXPENSES  | 393.9   | 432.6   |
|   | -----   | -----   |
| OPERATING INCOME  | 22.5    | 28.6    |
|   | -----   | -----   |
| NONOPERATING INCOME (EXPENSE)   |         |         |
| Interest income   | 3.9     | 4.7     |
| Interest expense  | (6.8)   | (3.8)   |
| Interest capitalized  | 1.6     | 2.2     |
| Other - net   | 0.8     | 1.7     |
|   | -----   | -----   |
|   | (0.5)   | 4.8     |
|   | -----   | -----   |
| Income before income tax  | 22.0    | 33.4    |
| Income tax expense  | 8.9     | 13.2    |
|   | -----   | -----   |
| NET INCOME  | \$13.1  | \$20.2  |
|   | -----   | -----   |
|   | -----   | -----   |
| BASIC EARNINGS PER SHARE  | \$0.69  | \$0.77  |
|   | -----   | -----   |
|   | -----   | -----   |
| DILUTED EARNINGS PER SHARE  | \$0.56  | \$0.76  |
|   | -----   | -----   |
|   | -----   | -----   |
| Shares used for computation:  |         |         |
| Basic   | 19.087  | 26.313  |
| Diluted   | 26.384  | 26.504  |

See accompanying notes to consolidated financial statements.

11

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

| (IN MILLIONS)   | COMMON<br>SHARES<br>OUTSTANDING | COMMON<br>STOCK | CAPITAL IN<br>EXCESS OF<br>PAR VALUE | TREASURY<br>STOCK<br>AT COST | DEFERRED<br>COMPEN-<br>SATION | RETAINED<br>EARNINGS | TOTAL   |
|---|---------------------------------|-----------------|--------------------------------------|------------------------------|-------------------------------|----------------------|---------|
| BALANCES AT DECEMBER 31, 1998                           | 26.224                          | \$29.0          | \$473.9                              | \$(62.7)                     | \$(1.3)                       | \$350.6              | \$789.5 |
| Net income for the three months<br>ended March 31, 1999 |                                 |                 |                                      |                              |                               | 20.2                 | 20.2    |
| Stock issued under stock plans                          | 0.139                           | 0.1             | 4.9                                  | 0.0                          |                               |                      | 5.0     |
| Employee Stock Ownership Plan<br>shares allocated       |                                 |                 |                                      |                              | 0.1                           |                      | 0.1     |
| BALANCES AT MARCH 31, 1999                              | 26.363                          | \$29.1          | \$478.8                              | \$(62.7)                     | \$(1.2)                       | \$370.8              | \$814.8 |

See accompanying notes to consolidated financial statements.

12

CONSOLIDATED STATEMENT OF CASH FLOWS  
Alaska Air Group, Inc.

| Three Months Ended March 31 (In Millions)           | 1998    | 1999   |
|---|---------|--------|
| CASH FLOWS FROM OPERATING ACTIVITIES:               |         |        |
| Net income  | \$13.1  | \$20.2 |
| Adjustments to reconcile net income to cash:        |         |        |
| Depreciation and amortization                       | 17.9    | 19.7   |
| Amortization of airframe and engine overhauls       | 9.6     | 11.1   |
| Loss on disposition of assets                       | --      | 0.1    |
| Deferred income taxes                               | 6.3     | 12.3   |
| Increase in accounts receivable                     | (13.5)  | (20.2) |
| Increase in other current assets                    | (4.6)   | (10.1) |
| Increase in air traffic liability                   | 46.8    | 55.3   |
| Decrease in other current liabilities               | (1.2)   | (13.7) |
| Other-net   | (0.7)   | 1.6    |
| Net cash provided by operating activities           | 73.7    | 76.3   |
| CASH FLOWS FROM INVESTING ACTIVITIES:               |         |        |
| Purchases of marketable securities                  | (84.2)  | (25.7) |
| Sales and maturities of marketable securities       | 20.9    | 74.6   |
| Flight equipment deposits returned                  | 5.7     | --     |
| Additions to flight equipment deposits              | (12.9)  | (24.1) |
| Additions to property and equipment                 | (109.4) | (71.2) |
| Restricted deposits and other                       | (0.5)   | 3.1    |
| Net cash used in investing activities               | (180.4) | (43.3) |
| CASH FLOWS FROM FINANCING ACTIVITIES:               |         |        |
| Proceeds from sale and leaseback transactions       | 82.9    | --     |
| Long-term debt and capital lease payments           | (6.7)   | (6.3)  |
| Proceeds from issuance of common stock              | 5.6     | 5.0    |
| Net cash provided by (used in) financing activities | 81.8    | (1.3)  |
| Net decrease in cash and cash equivalents           | (24.9)  | 31.7   |
| Cash and cash equivalents at beginning of period    | 102.6   | 29.4   |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD          | \$77.7  | \$61.1 |

|   |       |       |
|---|-------|-------|
|   | ----- | ----- |
| Supplemental disclosure of cash paid during the period for:   |       |       |
| Interest (net of amount capitalized)  | \$4.4 | \$2.3 |
| Income taxes  | --    | \$4.4 |
| Noncash investing and financing activities:   |       |       |
| 1998 - \$59.6 million of convertible debentures were converted into 1.9 million shares of common stock. |       |       |
| 1999 - None   |       |       |

See accompanying notes to consolidated financial statements.

13

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS THAT HAVE CHANGED SIGNIFICANTLY DURING THE THREE MONTHS ENDED MARCH 31, 1999 Alaska Air Group, Inc.

NOTE 1. EARNINGS PER SHARE (SEE NOTE 9 TO CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 1998)

Earnings per share (EPS) calculations were as follows for the three months ended March 31, respectively (in millions except per share amounts):

|                                   | 1998   | 1999   |
|-----------------------------------|--------|--------|
|                                   | -----  | -----  |
| Net income                        | \$13.1 | \$20.2 |
| Avg. shares outstanding           | 19.087 | 26.313 |
|                                   | -----  | -----  |
| BASIC EARNINGS PER SHARE          | \$0.69 | \$0.77 |
|                                   | -----  | -----  |
| Net income                        | \$13.1 | \$20.2 |
| After-tax interest on:            |        |        |
| 6-1/2% debentures                 | 1.3    | --     |
| 6-7/8% debentures                 | 0.3    | --     |
|                                   | -----  | -----  |
| DILUTED EPS INCOME                | \$14.7 | \$20.2 |
|                                   | -----  | -----  |
| Avg. shares outstanding           | 19.087 | 26.313 |
| Assumed conversion of:            |        |        |
| 6-1/2% debentures                 | 6.002  | --     |
| 6-7/8% debentures                 | 1.036  | --     |
| Assumed exercise of stock options | 0.259  | 0.191  |
|                                   | -----  | -----  |
| DILUTED EPS SHARES                | 26.384 | 26.504 |
|                                   | -----  | -----  |
| DILUTED EARNINGS PER SHARE        | \$0.56 | \$0.76 |
|                                   | -----  | -----  |

NOTE 2. OPERATING SEGMENT INFORMATION (SEE NOTE 11 TO CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 1998)

Operating segment information for Alaska Airlines, Inc. (Alaska) and Horizon Air Industries, Inc. (Horizon) for the three months ended March 31 was as follows (in millions):

|                                      | 1998    | 1999    |
|--------------------------------------|---------|---------|
|                                      | -----   | -----   |
| Operating revenues:                  |         |         |
| Alaska                               | \$344.1 | \$371.9 |
| Horizon                              | 75.1    | 93.0    |
| Elimination of intercompany revenues | (2.8)   | (3.7)   |

|   |                           |                           |
|---|---------------------------|---------------------------|
| CONSOLIDATED                            | -----<br>416.4<br>-----   | -----<br>461.2<br>-----   |
| Pretax income (loss):                   |                           |                           |
| Alaska                                  | 24.1                      | 30.8                      |
| Horizon                                 | 0.5                       | 3.0                       |
| Air Group                               | (2.6)                     | (0.4)                     |
| CONSOLIDATED                            | -----<br>22.0<br>-----    | -----<br>33.4<br>-----    |
| Total assets at end of period:          |                           |                           |
| Alaska                                  | 1,450.3                   | 1,626.3                   |
| Horizon                                 | 162.3                     | 202.7                     |
| Air Group                               | 683.1                     | 814.9                     |
| Elimination of<br>intercompany accounts | (693.4)                   | (835.2)                   |
| CONSOLIDATED                            | -----<br>1,602.3<br>----- | -----<br>1,808.7<br>----- |

14

ALASKA AIRLINES FINANCIAL AND STATISTICAL DATA

|                                | Quarter Ended March 31   |                          |             |
|--------------------------------|--------------------------|--------------------------|-------------|
| FINANCIAL DATA (IN MILLIONS):  | 1998                     | 1999                     | %<br>CHANGE |
|                                | -----                    | -----                    | -----       |
| Operating Revenues:            |                          |                          |             |
| Passenger                      | \$309.8                  | \$335.0                  | 8.1         |
| Freight and mail               | 18.4                     | 18.0                     | (2.2)       |
| Other - net                    | 15.9                     | 18.9                     | 18.9        |
| Total Operating Revenues       | -----<br>344.1<br>-----  | -----<br>371.9<br>-----  | 8.1         |
| Operating Expenses:            |                          |                          |             |
| Wages and benefits             | 110.7                    | 119.8                    | 8.2         |
| Employee profit sharing        | 2.0                      | 3.0                      | 50.0        |
| Contracted services            | 12.0                     | 13.5                     | 12.5        |
| Aircraft fuel                  | 39.1                     | 35.4                     | (9.5)       |
| Aircraft maintenance           | 18.3                     | 23.0                     | 25.7        |
| Aircraft rent                  | 37.2                     | 40.5                     | 8.9         |
| Food and beverage service      | 11.0                     | 11.8                     | 7.3         |
| Commissions                    | 21.6                     | 22.1                     | 2.3         |
| Other selling expenses         | 17.2                     | 19.4                     | 12.8        |
| Depreciation and amortization  | 15.1                     | 15.9                     | 5.3         |
| Loss on sale of assets         | 0.0                      | 0.1                      |             |
| Landing fees and other rentals | 13.3                     | 16.7                     | 25.6        |
| Other                          | 24.1                     | 24.6                     | 2.1         |
| Total Operating Expenses       | -----<br>321.6<br>-----  | -----<br>345.8<br>-----  | 7.5         |
| Operating Income               | -----<br>22.5<br>-----   | -----<br>26.1<br>-----   | 16.0        |
| Interest income                | 4.4                      | 5.2                      |             |
| Interest expense               | (4.7)                    | (3.8)                    |             |
| Interest capitalized           | 1.1                      | 1.7                      |             |
| Other - net                    | 0.8                      | 1.6                      |             |
|                                | -----<br>1.6<br>-----    | -----<br>4.7<br>-----    |             |
| Income Before Income Tax       | -----<br>\$24.1<br>----- | -----<br>\$30.8<br>----- | 27.8        |

|                                    | -----  | -----  |          |
|------------------------------------|--------|--------|----------|
| OPERATING STATISTICS:              |        |        |          |
| Revenue passengers (000)           | 2,863  | 3,072  | 7.3      |
| RPMS (000,000)                     | 2,459  | 2,701  | 9.9      |
| ASMs (000,000)                     | 3,798  | 4,117  | 8.4      |
| Passenger load factor              | 64.7%  | 65.6%  | 0.9 pts  |
| Breakeven load factor              | 60.0%  | 59.9%  | (0.1)pts |
| Yield per passenger mile           | 12.60c | 12.40C | (1.6)    |
| Operating revenue per ASM          | 9.06c  | 9.03C  | (0.3)    |
| Operating expenses per ASM         | 8.47c  | 8.40C  | (0.8)    |
| Fuel cost per gallon               | 57.5c  | 48.5C  | (15.8)   |
| Fuel gallons (000,000)             | 67.9   | 73.1   | 7.7      |
| Average number of employees        | 8,353  | 8,885  | 6.4      |
| Aircraft utilization (block hours) | 11.3   | 11.1   | (1.8)    |
| Operating fleet at period-end      | 80     | 86     | 7.5      |
| c = cents                          |        |        |          |

15

HORIZON AIR FINANCIAL AND STATISTICAL DATA

|                                | Quarter Ended March 31 |        |       |
|--------------------------------|------------------------|--------|-------|
|                                | 1998                   | 1999   | %     |
| FINANCIAL DATA (IN MILLIONS):  | -----                  | -----  | ----- |
| Operating Revenues:            |                        |        |       |
| Passenger                      | \$71.4                 | \$87.3 | 22.3  |
| Freight and mail               | 2.6                    | 2.7    | 3.8   |
| Other - net                    | 1.1                    | 3.0    | 172.7 |
| Total Operating Revenues       | 75.1                   | 93.0   | 23.8  |
| Operating Expenses:            |                        |        |       |
| Wages and benefits             | 24.2                   | 28.6   | 18.2  |
| Employee profit sharing        | 0.1                    | 0.5    | 400.0 |
| Contracted services            | 1.7                    | 2.6    | 52.9  |
| Aircraft fuel                  | 7.0                    | 7.5    | 7.1   |
| Aircraft maintenance           | 10.5                   | 12.5   | 19.0  |
| Aircraft rent                  | 9.9                    | 10.8   | 9.1   |
| Food and beverage service      | 0.5                    | 0.6    | 20.0  |
| Commissions                    | 3.8                    | 4.5    | 18.4  |
| Other selling expenses         | 4.3                    | 5.3    | 23.3  |
| Depreciation and amortization  | 2.7                    | 3.8    | 40.7  |
| Landing fees and other rentals | 3.6                    | 5.5    | 52.8  |
| Other                          | 6.4                    | 7.9    | 23.4  |
| Total Operating Expenses       | 74.7                   | 90.1   | 20.6  |
| Operating Income               | 0.4                    | 2.9    | 625.0 |
| Interest expense               | (0.4)                  | (0.5)  |       |
| Interest capitalized           | 0.5                    | 0.5    |       |
| Other - net                    | 0.0                    | 0.1    |       |
|                                | 0.1                    | 0.1    |       |
| Income Before Income Tax       | \$0.5                  | \$3.0  | 500.0 |

OPERATING STATISTICS:

|                                    |        |        |          |
|------------------------------------|--------|--------|----------|
| Revenue passengers (000)           | 924    | 1,146  | 24.0     |
| RPMS (000,000)                     | 233    | 301    | 29.2     |
| ASMs (000,000)                     | 394    | 501    | 27.1     |
| Passenger load factor              | 59.0%  | 60.0%  | 1.0 pts  |
| Breakeven load factor              | 58.6%  | 57.8%  | (0.8)pts |
| Yield per passenger mile           | 30.65c | 29.04C | (5.3)    |
| Operating revenue per ASM          | 19.06c | 18.54C | (2.7)    |
| Operating expenses per ASM         | 18.96c | 17.97C | (5.2)    |
| Fuel cost per gallon               | 61.8c  | 51.0C  | (17.6)   |
| Fuel gallons (000,000)             | 11.3   | 14.8   | 31.0     |
| Average number of employees        | 2,783  | 3,305  | 18.8     |
| Aircraft utilization (block hours) | 7.4    | 7.8    | 5.4      |
| Operating fleet at period-end      | 53     | 61     | 15.1     |

c = cents

BYLAWS  
OF  
ALASKA AIR GROUP, INC.

As Amended and in Effect January 26, 1999  
(Date of Previous Amendment: February 8, 1996)

ARTICLE I

REGISTERED OFFICE AND AGENT

The registered office of the corporation is located at Corporate Trust Center, 1209 Orange Street, 9, County of New Castle, Delaware 19801, and the name of its registered agent at such address is The Corporation Trust Company.

ARTICLE II

MEETING OF STOCKHOLDERS

SECTION 1. ANNUAL MEETINGS.

A meeting of the stockholders for the purpose of electing directors and for the transaction of such other business as may properly be brought before the meeting shall be held annually at two o'clock in the afternoon on the third Tuesday of May, or at such other time or such other day as shall be fixed by resolution of the Board of Directors. If the day fixed for the annual meeting shall be a legal holiday such meeting shall be held on the next succeeding business day.

SECTION 2. SPECIAL MEETINGS.

Special meetings of the stockholders for any purpose or purposes may be called at any time by a majority of the Board of Directors or by the Chairman of the Board.

SECTION 3. PLACE OF MEETINGS.

All meetings of the stockholders may be held at such places as shall be stated in the notice of the meeting.

SECTION 4. NOTICE OF MEETINGS.

Except as otherwise provided by statute, written notice of each meeting of the stockholders shall be given not less than thirty and not more than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting. If mailed, notice will be given when deposited in the United States mails, postage prepaid, directed to such stockholder at his address as it appears in the stock ledger of the corporation.

When a meeting is adjourned to another time and place, notice of the adjourned meeting need not be given if the time and place thereof are announced at the meeting at which the adjournment is given. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

SECTION 5. QUORUM.

At any meeting of the stockholders, the holders of record of a majority of the total number of shares of outstanding stock of the corporation entitled to vote, present in person or represented by proxy, shall constitute a quorum for all purposes.

If a quorum is present at any meeting of stockholders, the affirmative vote of the holders of a majority of the stock present in person or represented

by proxy and entitled to vote on the subject matter shall be the act of the stockholders, except as otherwise expressly provided in the Certificate of Incorporation, these Bylaws or applicable law.

In the absence of a quorum at any meeting, the holders of a majority of the stock entitled to vote thereat, present in person or represented by proxy at the meeting, may adjourn the meeting, from time to time, until the holders of the number shares requisite to constitute a quorum shall be present in person or represented at the meeting.

#### SECTION 6. ORGANIZATION.

At each meeting of the stockholders, the Chairman of the Board, or in his absence such person as shall have been designated by the Board of Directors, or in the absence of such designation a person elected by the holders of the majority in number of shares of stock present in person or represented by proxy and entitled to vote, shall act as chairman of the meeting.

The Secretary, or in his absence, an Assistant Secretary or, in the absence of the Secretary and all of the Assistant Secretaries, any person appointed by the chairman of the meeting, shall act as secretary of the meeting.

#### SECTION 7. VOTING.

Unless otherwise provided in the Certificate of Incorporation or a resolution of the Board of Directors creating a series of stock, at each meeting of the stockholders, each holder of shares entitled to vote at such meeting shall be entitled to one vote for each share of stock having voting power in respect of each matter upon which a vote is to be taken. Shares of its own capital stock belonging to the corporation, or to another corporation if a majority of the shares entitled to vote in the election of directors of such other corporation is held by the corporation, shall neither be entitled to vote nor counted for quorum purposes.

#### SECTION 8. NOTIFICATION OF NOMINATIONS.

Nominations for the election of Directors may be made by or at the direction of the Board of Directors. A stockholder may also nominate a person or persons for election as Directors, but only if written notice of such stockholder's intent to make such nominations is received by the Secretary of the corporation, not later than (i) with respect to an election to be held at a regular annual meeting of stockholders, 90 days in advance of the third Tuesday in May, and (ii) with respect to an election to be held at any other meeting of the stockholders, the close of business on the 10th day following the date of the first public disclosure, which may include any public filing by the corporation with the Securities and Exchange Commission, of the Originally Scheduled Date of such meeting. Each such notice shall set forth (a) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (b) a representation that the stockholder is a holder of record entitled to vote at such meeting; (c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming them) pursuant to which the nomination is to be made; (d) such other information regarding each nominee as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had each nominee been nominated by the Board of Directors; and (e) the consent of each nominee to serve as a Director if elected. The chairman of any meeting of stockholders to elect Directors and the Board of Directors shall refuse to recognize the nomination of any person not made in compliance with the foregoing procedure. For purposes of these Bylaws, the "Originally Scheduled Date" of any meeting of stockholders shall be the date such meeting is scheduled to occur in the notice first given to stockholders regardless of whether such meeting is continued or adjourned or whether any subsequent notice is given for such meeting or the record date of such meeting is changed.

#### SECTION 9. PROPER BUSINESS FOR STOCKHOLDERS' MEETINGS.

At any annual or special meeting of the stockholders of the corporation, only business properly brought before the meeting may be transacted. To be properly brought before an annual meeting, business (i) must be specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (iii) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before a meeting by a stockholder, written notice thereof

must have been received by the Secretary of the corporation, not later than (i) with respect to a regular annual meeting, 90

days in advance of the third Tuesday in May, and (ii) with respect to any other meeting, the close of business on the 10th day following the date of the first public disclosure, which may include any public filing by the corporation with the Securities and Exchange Commission, of the Originally Scheduled Date of such meeting. Any such notice shall set forth as to each matter the stockholder proposes to bring before the meeting (i) a brief description of the business desired to be brought before the meeting, and the reasons for conducting such business at the meeting and the language of the proposal, (ii) the name and address of the stockholder proposing such business, (iii) a representation that the stockholder is a holder of record of stock of the corporation entitled to vote at such meeting, and (iv) any material interest of the stockholder in such business. No business shall be conducted at any meeting of stockholders except in accordance with this paragraph, and the chairman of any meeting of stockholders and the Board of Directors shall refuse to permit any business to be brought before meeting without compliance with the foregoing procedures.

### ARTICLE III

#### BOARD OF DIRECTORS

##### SECTION 1. NUMBER, QUALIFICATION AND TERM OF OFFICE.

A majority of the members of the Board of Directors shall not be employees of the Company. These Bylaws shall not be amended to change the requirement for a majority of outside directors unless approved by a vote of the shareholders, or by a vote of a majority of the outside directors, but in no case prior to September 14, 1995. The number, qualification and term of office of the Directors shall be as set forth in the Certificate of Incorporation.

##### SECTION 2. VACANCIES.

Vacancies in the Board of Directors and newly created directorships resulting from any increase in the authorized number of Directors may be filled by a majority of the Directors then in office, although less than a quorum, or by a sole remaining Director, at any regular or special meeting of the Board of Directors.

##### SECTION 3. RESIGNATIONS.

Any Director may resign at any time upon written notice to the Secretary of the corporation. Such resignation shall take effect on the date of receipt of such notice or at any later date specified therein; and the acceptance of such resignation shall not be necessary to make it effective.

##### SECTION 4. MEETINGS.

Meetings of the Board of Directors may be called by the Chairman of the Board and shall be called by the Secretary on the written request of a majority of Directors. The Board of Directors may hold its meetings at such place as the Chairman of the Board or in his absence a majority of Directors from time to time may determine. Notice of each meeting shall be sent to each Director by first class mail or by telephone, telegraph or any other means of electronic communication in each case directed to his residence or usual place of business, or delivered to him in person or given to him orally. Notice by mail shall be sent by the Secretary at least ten (10) days previous, and notice by telephone, telegraph or other electronic communication at least five (5) days previous, to the time fixed for the meeting; unless, in case of exigency the Chairman of the Board shall prescribe a shorter notice. A written waiver of notice, signed by the Director entitled to notice, whether before or after the time of the meeting, shall be deemed equivalent to notice. The notice of meeting shall state the time and place of the meeting.

##### SECTION 5. QUORUM AND MANNER OF ACTING.

Except as otherwise provided by statute, the Certificate of Incorporation, or these Bylaws, the presence of a majority of the total number of Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, and the act of a majority of the Directors present at any such meeting at which a quorum is present shall be the act of the

Board of Directors. In the absence of a quorum, a majority of the Directors present may adjourn the meeting, from time to time, until a quorum is present.

#### SECTION 6. ORGANIZATION.

At every meeting of the Board of Directors, the Chairman of the Board or in his absence, a chairman chosen by a majority of the Directors present shall act as chairman of the meeting. The Secretary, or in his absence, an Assistant Secretary, or in the absence of the Secretary and all the Assistant Secretaries, any person appointed by the chairman of the meeting, shall act as secretary of the meeting.

#### SECTION 7. CONSENT OF DIRECTORS IN LIEU OF MEETING.

Unless otherwise restricted by the Certificate of Incorporation or by these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors, or any committee designated by the Board, may be taken without a meeting if all members of the Board or committee consent thereto in writing, and such written consent is filed with the minutes of the proceedings of the Board or committee.

#### SECTION 8. TELEPHONIC MEETINGS.

Members of the Board of Directors, or any committee designated by the Board, may participate in a meeting of the Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in such a meeting shall constitute presence in person at such meeting.

### ARTICLE IV

#### COMMITTEES OF THE BOARD OF DIRECTORS

##### SECTION 1. EXECUTIVE COMMITTEE.

The Board of Directors may, in its discretion, designate annually an Executive Committee consisting of the Chairman of the Board and not less than two other Directors as it may from time to time determine, provided that the majority of Executive Committee members shall be nonemployee directors. The Board of Directors shall appoint the Chairman of the Executive Committee from among the members of the Committee. Except as limited by statute, by the Certificate of Incorporation, by these Bylaws, or by further action of the Board of Directors, the Executive Committee may exercise all the power of the Board of Directors. All action taken by the Executive Committee shall be subject to revision or alteration of the Board; but no such revision or alteration of any such action shall affect any act or right of any third party dependent upon such action and having occurred or arisen prior to notice to such third party of such revision or alteration. Any person dealing with the corporation may rely upon a copy of any of said minutes, votes or resolution, certified by the Chairman of the Committee or by the Secretary or any Assistant Secretary of the corporation, and a copy so certified shall be conclusive evidence of the matters therein stated. The Executive Committee shall not, unless specifically authorized by a resolution of the Board of Directors, spend, finance or commit the Company to any sum exceeding \$7.5 million in any one instance for nonaircraft capital assets or \$40 million in any one instance for aircraft acquisitions.

Meetings of the Executive Committee shall be held at the call of the Chairman of the Executive Committee or the Chairman of the Board. In addition, the Committee shall hold as many special meetings as it determines necessary.

##### SECTION 2. OTHER COMMITTEES.

The Board of Directors may, by resolution passed by a majority of the Directors, designate such other committees, consisting of one or more Directors, as it may from time to time determine, and each such committee shall serve for such term and shall have and may exercise such duties, functions and powers as the Board of Directors may from time to time prescribe. The Chairman of each such committee shall be designated by the Board of Directors.

##### SECTION 3. COMMITTEE; BOOKS AND RECORDS.

Notice of committee meetings shall be governed by the provisions of Article III, Section 4, above. Each committee shall keep a record of its acts and proceedings, and all action of the committee shall be reported to the Board of Directors at the next meeting of the Board, except that minutes of each Executive Committee meeting shall be forwarded to each Director within seven days of such meeting.

SECTION 4. QUORUM AND MANNER OF ACTION.

At each meeting of any committee the presence of a majority of the members of such committee shall be necessary to constitute a quorum for the transaction of business, and if a quorum is present the concurrence of a majority of those present shall be necessary for the taking of any action.

ARTICLE V

OFFICERS

SECTION 1. NUMBER

The officers of the corporation shall be a Chairman of the Board, a President, a Secretary, and such other officers as may be elected by the Board of Directors or appointed by the Chairman of the Board. Any number of offices may be held by the same person.

SECTION 2. ELECTION, TERM OF OFFICE AND QUALIFICATIONS.

The officers of the corporation shall be elected annually by the Board of Directors. Each officer elected by the Board of Directors shall hold office until his successor shall have been duly elected and qualified, or until he shall have died, resigned or been removed in the manner hereinafter provided.

SECTION 3. RESIGNATIONS.

Any officer may resign at any time upon written notice to the Chairman of the Board. Such resignation shall take effect on the date of its receipt, or on any later date specified therein; and the acceptance of such resignation shall not be necessary to make it effective.

SECTION 4. REMOVALS.

Any officer elected by the Board of Directors may be removed, with or without cause, by the Board of Directors. Any officer appointed by the Chairman of the Board may be removed, with or without cause, by the Chairman of the Board.

SECTION 5. VACANCIES.

Any vacancy occurring in any office of the corporation shall be filled for the unexpired portion of the term in the same manner as prescribed in these Bylaws for regular election or appointment to such office.

SECTION 6. COMPENSATION OF OFFICERS

The salaries of all officers elected by the Board of Directors shall be approved or authorized by the Board of Directors or by the Chairman of the Board when so authorized by the Board of Directors.

SECTION 7. CHAIRMAN OF THE BOARD.

The Chairman of the Board shall be the Chief Executive Officer of the corporation and shall have the general and active management of the business of the corporation and general and active supervision and direction over the other officers, agents and employees and shall see that their duties are properly performed. He shall, if present, preside at each meeting of the stockholders and of the Board. He shall perform all duties incident to the office of Chairman of the Board

and such other duties as may from time to time be assigned to him by the Board. The Chairman of the Board shall have the power to vote shares stock of other corporations held by the corporation, except as may be otherwise determined by

the Board.

#### SECTION 8. PRESIDENT.

The President shall have general and active supervision and direction over the business and affairs of the corporation and over its several officers, subject, however, to the direction of the Chairman of the Board. He shall perform all duties incident to the office of President and such other duties as may be assigned to him by the Board, the Chairman of the Board or these Bylaws.

#### SECTION 9. SECRETARY.

The Secretary or one or more Assistant Secretaries shall attend all meetings of the Board and all meetings of the stockholders and act as secretary thereof, and shall record all votes and the minutes of all proceedings in a book to be kept for that purpose, and shall perform like duties for any committee of the Board when required. The Secretary shall be given other duties as pertain to his office. The Secretary shall keep in safe custody the seal of the corporation and when authorized by the Board of Directors, affix it, when required, to any instrument. An Assistant Secretary shall perform the duties of the Secretary in the event of his absence or disability and shall perform such other duties as may be imposed upon him by the Board of Directors.

#### SECTION 10. ABSENCE OR DISABILITY OF OFFICERS.

In the absence or disability of the Chairman of the Board or the President, the Board of Directors may designate, by resolution, individuals to perform their duties. The Board of Directors may also delegate this power to a committee.

### ARTICLE VI

#### STOCK CERTIFICATES AND TRANSFER THEREOF

##### SECTION 1. STOCK CERTIFICATES.

Except as otherwise permitted by statute, the Certificate of Incorporation or resolution or resolutions of the Board of Directors, every holder of stock in the corporation shall be entitled to have a certificate, signed by, or in the name of, the corporation by the Chairman of the Board and Chief Executive Officer, the President, or a Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the corporation, certifying the number of shares, and the class and series thereof, owned by him in the corporation. Any and all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

##### SECTION 2. LOST, DESTROYED OR MUTILATED CERTIFICATES.

In the case of loss or destruction of a certificate of stock, no new certificate shall be issued in lieu thereof except upon satisfactory proof to the Secretary of such loss or destruction; and upon the giving of satisfactory security, by bond or otherwise, against loss to the corporation, if such is deemed to be required.

##### SECTION 3. RECORD DATE.

In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than thirty days before the date of such meeting, nor more than sixty days prior to any other action. A

determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned

meeting.

## ARTICLE VII

### DIVIDENDS

Except as otherwise provided by statute or the Certificate of Incorporation, the Board of Directors may declare dividends upon the shares of its capital stock whenever, and in such amounts as, in its opinion, the condition of the affairs of the corporation shall render it advisable. Dividends may be paid in cash, in property, or in shares of capital stock of the corporation.

## ARTICLE VIII

### INDEMNIFICATION

#### SECTION 1. RIGHT TO INDEMNIFICATION.

Each person who was or is made a party or is threatened to be made a party to or is otherwise involved (including, without limitation, as a witness) in any actual or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she is or was a Director or officer of the corporation or that, being or having been such a Director or officer or employee of the corporation, he or she is or was serving at the request of the corporation as a Director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (hereinafter an "indemnatee"), whether the basis of such proceeding is alleged action in an official capacity as a Director, officer, employee or agent or in any other capacity while serving as a Director, officer, employee or agent, shall be indemnified and held harmless by the corporation to the full extent permitted by the Delaware General Corporation Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than permitted prior thereto) or by other applicable law as then in effect, against all expense, liability and loss (including attorneys' fees, judgments, finds, ERISA excise taxes or penalties and amounts to be paid in settlement) actually and reasonably incurred or suffered by such indemnatee in connection therewith and such indemnification shall continue as to an indemnatee who has ceased to be a Director, officer, employee, or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that except as provided in Section 2 with respect to proceedings seeking to enforce rights to indemnification, the corporation shall indemnify any such indemnatee seeking indemnification in connection with a proceeding (or part thereof) initiated by such indemnatee only if such proceeding (or part thereof) was authorized by the Board of Directors of the corporation. The right to indemnification conferred in this Section shall be a contract right and shall include the right to be paid by the corporation the expenses incurred in defending any such proceeding in advance of its final disposition (hereinafter an "advancement of expenses"); provided, however, that if the Delaware General Corporations Law requires, an advancement of expenses incurred by an indemnatee in his or her capacity as a Director or officer (and not in any other capacity in which service was or is rendered by such indemnatee including, without limitation, service to an employee benefit plan) shall be made only upon delivery to the corporation of an undertaking (hereinafter an "undertaking"), by or on behalf of such indemnatee to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such indemnatee is not entitled to be indemnified for such expenses under this Section 1 or otherwise.

#### SECTION 2. RIGHT OF INDEMNITEE TO BRING SUIT.

If a claim under Section 1 is not paid in full by the corporation within sixty days after a written claim has been received by the corporation, except in the case of a claim for advancement of expenses, in which case the applicable period shall be twenty days, the indemnatee may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, the indemnatee shall be entitled to be paid also the expense of prosecuting such suit. The indemnatee shall be presumed to be entitled to indemnification under this Article

upon submission of a written claim (and, in an action brought to enforce a claim for advancement of expenses, where the required undertaking, if any is required, has been tendered to the corporation), and thereafter the corporation shall have the burden of proof to overcome the presumption that the indemnitee is not so entitled. Neither the failure of the corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances nor an actual determination by the corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the indemnitee is not entitled to indemnification shall be a defense to the suit or create a presumption that the indemnitee is not so entitled.

### SECTION 3. NONEXCLUSIVITY OF RIGHTS.

The right to indemnification and to the advancement of expenses conferred in this Article shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, Bylaw, agreement, vote of stockholders or disinterested directors or otherwise. Notwithstanding any amendment to or repeal of this Article, any indemnitee shall be entitled to indemnification in accordance with the provisions hereof and thereof with respect to any acts or omissions of such indemnitee occurring prior to such amendment or repeal.

### SECTION 4. INSURANCE, CONTRACTS AND FUNDING.

The corporation may maintain insurance, at its expense, to protect itself and any Director, officer, employee or agent of the corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the Delaware General Corporation Law. The corporation may without further stockholder approval, enter into contracts with any indemnitee in furtherance of the provisions of this Article and may create a trust fund, grant a security interest or use other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification as provided in this Article.

### SECTION 5. PERSONS SERVING OTHER ENTITIES.

Any person who is or was a Director, officer or employee of the corporation who is or was serving as a Director or officer of another corporation of which a majority of the shares entitled to vote in the election of its directors is held by the corporation shall be deemed to be so serving at the request of the corporation and entitled to indemnification and advancement of expenses under Section 1.

### SECTION 6. INDEMNIFICATION OF EMPLOYEES AND AGENTS OF THE CORPORATION.

The corporation may, by action of its Board of Directors, grant rights to indemnification and advancement of expenses to any employee or agent, or any group or groups of employees or agents, of the corporation with the same scope and effect as the provisions of this Article with respect to the indemnification and advancement of expenses of directors and officers of the corporation.

## ARTICLE IX

### CHECKS, DRAFTS, BANK ACCOUNTS, ETC.

#### SECTION 1. CHECKS, DRAFTS, ETC.; LOANS.

All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the corporation shall be signed by such officer or officers, agent or agents of the corporation and in such manner as shall, from time to time, be determined by resolution of the Board of Directors. Such authority may be general or confined to specific circumstances.

#### SECTION 2. DEPOSITS.

All funds of the corporation shall be deposited, from time to time, to

the credit of the corporation in such banks, trust companies or other depositories as the Board of Directors may select, or as may be selected by any officer or officers, agent or agents of the corporation to whom such power may, from time to time, be delegated by the Board of Directors; and for the purpose of such deposit, any officer or agent to whom such power may be delegated by the Board of Directors, may endorse, assign and deliver checks, drafts and other orders for the payment of money which are payable to the order of the corporation.

ARTICLE X

AMENDMENTS

These Bylaws may be altered or repealed and new Bylaws may be made by the affirmative vote of a majority of the Board of Directors, subject to the right of the stockholders to amend or repeal Bylaws made or amended by the Board of Directors or to adopt new Bylaws, by the affirmative vote of a majority of the outstanding stock of the corporation entitled to vote thereon and the holders of three-fourths of the stock present in person or represented by proxy at the meeting, provided that notice of the proposed action be included in the notice of such meeting.

Terms of the masculine gender used for convenience in these Bylaws should be understood in the feminine gender where appropriate.

\* \* \* \* \*

I, SHANNON K. ALBERTS, being the duly appointed Assistant Corporate Secretary of Alaska Air Group, Inc., do hereby certify that the foregoing is a true and correct copy of the Bylaws of Alaska Air Group, Inc., in effect on this 12th day of April, 1999.

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Shannon K. Alberts  
Director, Corporate Affairs and  
Assistant Corporate Secretary

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM ALASKA AIR GROUP, INC. FIRST QUARTER 1999 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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