

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, 1995.

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 13,402,186 common shares, par value \$1.00, outstanding at  
March 31, 1995.

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,  
1995 and December 31, 1994; (ii) consolidated statements of income for the  
quarters ended March 31, 1995 and 1994; (iii) consolidated statement of  
shareholders' equity for the three months ended March 31, 1995; and, (iv)  
consolidated statements of cash flows for the three months ended March 31, 1995  
and 1994. Also attached are the accompanying notes to the Company's  
consolidated financial statements that have changed significantly during the  
three months ended March 31, 1995. These statements include all adjustments  
which 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 1995 Compared with First Quarter 1994 The consolidated net loss

for the first quarter of 1995 was \$16.3 million, or \$1.22 per share compared with a net loss of \$6.3 million, or \$.47 per share, in 1994. The operating loss for the first quarter of 1995 was \$18.3 million compared to an operating loss of \$2.9 million for 1994. The larger loss reflects lower average fares and load factors at both Alaska Airlines and Horizon Air. A discussion of operating revenues and expenses for the two airlines follows.

Alaska Airlines Operating revenues increased 2.4% to \$232.7 million. Passenger revenues, which accounted for 86% of total operating revenues, increased 1.5% on a 17% rise in passenger traffic. Capacity increased 25%, primarily due to increases in the Pacific Northwest to California markets. The load factor dropped from 60.2% in 1994 to 56.4% in 1995. Passenger yields declined 13% to 11.2 cents in 1995, reflecting increased competition on the West Coast. During the fourth quarter of 1994 and the first quarter of 1995, Alaska experienced yield declines resulting from low fare offerings across its system. Although several fare increases have occurred since early February, the lingering effect of these low fare offerings will have an impact on second quarter results. In addition, for the past several months, capacity increases have exceeded traffic increases resulting in lower load factors.

MarkAir, a significant competitor in the Alaska marketplace since 1992, filed for Chapter 11 bankruptcy for the second time on April 14, 1995. Since then, it has withdrawn from all Alaska markets.

Freight and mail revenues increased 2.5% as higher freight volumes were partially offset by lower mail volumes. The lower mail volumes resulted from Alaska's decision, effective in March 1994, to not bid on certain U.S. mail contracts so that capacity could be made available for higher yielding freight. Other-net revenues rose 17% due to increased revenues from travel partners in Alaska's frequent flyer program.

The table below shows the major operating expense elements on a unit-cost basis, based on available seat miles (ASM), for Alaska in 1995 and 1994.

Alaska Airlines	Operating Expenses Per ASM (In Cents)			
	1995	1994	Change	Change %
Wages and benefits	2.48	2.96	(.48)	(16)
Aircraft fuel	1.04	1.12	(.08)	(7)
Aircraft maintenance	.37	.34	.03	9
Aircraft rent	1.05	1.27	(.22)	(17)
Commissions	.50	.63	(.13)	(21)
Depreciation & amortization	.46	.42	.04	10
Other	1.86	2.21	(.35)	(16)
Alaska Airlines Total	7.76	8.95	(1.19)	(13)

Alaska's lower unit costs were due to continuing cost reduction efforts and better utilization of aircraft. Average daily aircraft utilization increased 7% from 9.7 block hours to 10.4 block hours. Wages and benefits per ASM decreased 16% primarily due to improved productivity. The number of equivalent employees increased 10% while capacity increased 25% and traffic increased 17%. Fuel expense per ASM decreased 7%, in spite of a 1% increase in the price of fuel, due to the continued transition to more fuel-efficient aircraft and an increase in the average number of seats per aircraft.

Aircraft maintenance per ASM increased 9% due to more engine repair work. Aircraft rent per ASM decreased 17% due to an increase in aircraft utilization, and a restructuring of B737-400 aircraft leases that resulted in lower rents.

Commission expense per ASM decreased 21% because passenger revenues, upon which commissions are paid, did not keep pace with ASM growth.

Depreciation and amortization expense per ASM increased 10% primarily due to the purchase of four MD-83 aircraft in the second quarter of 1994, and the reduction in estimated salvage value from 20% to 5% (effective January 1, 1995) for all MD80 aircraft. Other expense per ASM decreased 16% due to lower unit costs for advertising, building rentals, food, landing fees and outside services expenses.

Horizon Air Operating revenues increased 17% to \$62.8 million. Passenger revenues, which accounted for 95% of total operating revenues, increased 16% on a 30% rise in passenger traffic. Capacity increased 34% due to the addition of larger capacity Fokker F-28 jet and Dornier 328 turboprop aircraft. The load factor dropped from 59.4% in 1994 to 57.7% in 1995. Passenger yields declined 11% to 31.9 cents in 1995, reflecting increased competition and longer passenger

trips.

Freight, mail and other revenues increased 33% due to increased freight and mail volumes as well as increased revenues from providing services to other airlines.

The table below shows the major operating expense elements on a unit-cost basis, based on available seat miles, for Horizon for 1995 and 1994.

Horizon Air	Operating Expenses Per ASM (In Cents)			
	1995	1994	Change	Change %
Wages and benefits	6.42	7.18	(.76)	(11)
Aircraft fuel	1.88	1.84	.04	2
Aircraft maintenance	2.71	3.32	(.61)	(18)
Aircraft rent	2.61	2.85	(.24)	(8)
Commissions	1.40	1.58	(.18)	(11)
Depreciation & amortization	.68	.91	(.23)	(25)
Other	4.90	5.22	(.32)	(6)
Horizon Air Total	20.60	22.90	(2.30)	(10)

Horizon's cost per ASM declined 10% to 20.60 cents due to the acquisition of higher capacity aircraft and cost reduction efforts.

Other Income (Expense) Other Income (Expense) increased \$3.6 million to \$11.6 million expense primarily due to higher interest rates on variable debt and higher average debt balances.

Income Tax Credit Accounting standards require the Company to provide for income taxes each quarter based on its estimate of the effective tax rate for the full year. Volatility of air fares and the seasonality of the Company's business make it very difficult to estimate full-year pretax results. In addition, a relatively small change in pretax results can cause a significant change in the effective tax rate due to the magnitude of nondeductible expenses, such as goodwill amortization and employee per diem costs. In estimating the 45.4% tax rate for the first quarter of 1995, the Company considered a variety of factors, including the 45.0% tax rate used for full year 1994. This rate is evaluated each quarter and adjustments are made if necessary.

#### Liquidity and Capital Resources

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

	March 31, 1995	December 31, 1994	Change
(In millions, except debt-to-equity and per share amounts)			
Cash and marketable securities	\$ 65.5	\$ 104.9	\$ (39.4)
Working capital (deficit)	(188.1)	(147.1)	(41.0)
Long-term debt	579.2	589.9	(10.7)
Shareholders' equity	175.3	191.3	(16.0)
Book value per common share	\$13.08	\$ 14.27	\$ (1.19)
Debt-to-equity	77%:23%	76%:24%	NA

The Company's cash and marketable securities portfolio decreased by \$39 million during the first three months of 1995. Operating activities provided \$16 million of cash during this period. Cash was used for airframe and engine overhauls and other capital expenditures (\$21 million), the repayment of debt (\$13 million), and the net repayment of short-term borrowings (\$21 million).

The working capital deficit increased by \$41 million due to the net loss, payments for capital expenditures and debt repayments.

#### PART II. OTHER INFORMATION

##### ITEM 5. Other Information

In May 1995, Alaska's clerical, office and passenger service employees approved an amended four-year contract between the International Association of Machinists (IAM) and Alaska.

In April 1995, Horizon's mechanics and related classifications of the Transport Workers Union of America ratified a new three-year contract.

##### ITEM 6. Exhibits and Reports on Form 8-K

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

Exhibit 27 - Financial data schedule.  
(b)No reports on Form 8-K were filed during the first quarter of 1995.

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: May 11, 1995

/s/ John F. Kelly  
John F. Kelly  
Chairman, President and Chief Executive Officer

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

CONSOLIDATED BALANCE SHEET  
Alaska Air Group, Inc.

ASSETS

(In Thousands)	March 31, 1995	Dec 31, 1994
Current Assets		
Cash and cash equivalents	\$4,191	\$11,605
Marketable securities	61,299	93,337
Receivables - net	77,381	70,055
Inventories and supplies	41,106	40,250
Prepaid expenses and other assets	54,094	57,396
Total Current Assets	238,071	272,643
Property and Equipment		
Flight equipment	789,384	776,551
Other property and equipment	213,849	208,502
Deposits for future flight equipment	52,885	52,885
	1,056,118	1,037,938
Less accum. depreciation and amort.	273,489	260,001
	782,629	777,937
Capital leases		
Flight and other equipment	103,076	103,076
Less accumulated amortization	22,789	21,676
	80,287	81,400
Total Property and Equipment - Net	862,916	859,337
Intangible Assets - Subsidiaries	65,161	65,671
Other Assets	121,685	118,120
Total Assets	\$1,287,833	\$1,315,771

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET  
Alaska Air Group, Inc.

LIABILITIES AND SHAREHOLDERS' EQUITY

(In Thousands)	March 31, 1995	Dec 31, 1994
Current Liabilities		
Accounts payable	\$55,878	\$48,592

Accrued aircraft rent	37,869	43,762
Other accrued liabilities	66,690	59,591
Accrued wages and related	41,989	47,364
Short-term borrowings	4,000	25,000
Air traffic liability	147,699	123,433
Current portion of long-term debt and capital lease obligations	72,080	72,005
Total Current Liabilities	426,205	419,747
Long-Term Debt and Capital Lease Obligations	579,236	589,904
Other Liabilities and Credits		
Deferred income taxes	16,957	28,585
Deferred income	23,021	23,018
Other liabilities	67,101	63,239
	107,079	114,842
Shareholders' Equity		
Common stock, \$1 par value		
Authorized: 30,000,000 shares		
Issued: 1995 - 16,555,779 shares		
1994 - 16,553,679 shares	16,556	16,554
Capital in excess of par value	152,785	152,756
Treasury stock, at cost:		
1995-3,153,593 sh; 1994-3,153,589 sh	(71,807)	(71,807)
Deferred compensation	(4,353)	(4,697)
Retained earnings	82,132	98,472
	175,313	191,278
Total Liabilities and Shareholders' Equity	\$1,287,833	\$1,315,771

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME  
Alaska Air Group, Inc.

Three Months Ended March 31 (In Thousands except Per share Amounts)	1995	1994
Operating Revenues		
Passenger	\$259,382	\$248,221
Freight and mail	21,098	20,236
Other - net	14,093	11,925
Total Operating Revenues	294,573	280,382
Operating Expenses		
Wages and benefits	99,811	92,795
Aircraft fuel	39,218	32,927
Aircraft maintenance	20,639	16,801
Aircraft rent	41,696	39,408
Commissions	20,287	19,997
Depreciation and amortization	16,938	12,927
Other	74,285	68,455
Total Operating Expenses	312,874	283,310
Operating Loss	(18,301)	(2,928)
Other Income (Expense)		
Interest income	1,361	1,424
Interest expense	(13,329)	(9,877)
Interest capitalized	-	103
Loss on sale of assets	(13)	(175)
Other - net	345	441
	(11,636)	(8,084)
Loss before income tax credit	(29,937)	(11,012)
Income tax credit	(13,597)	(4,699)
Net Loss	\$ (16,340)	\$ (6,313)
Loss Per Share	\$ (1.22)	\$ (0.47)
Shares used for computation	13,400	13,349

See accompanying notes to consolidated financial statements.

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

(In Thousands)	\$1 Par Value	Common Stock Capital in Excess of Par Value	Treasury Stock at Cost	Deferred Compensation	Retained Earnings	Total
Balances at December 31, 1994	\$16,554	\$152,756	\$ (71,807)	\$ (4,697)	\$98,472	\$191,278
Net loss for the three months ended March 31, 1995					(16,340)	(16,340)
Stock issued under stock plans	2	29				31
Employee Stock Ownership Plan shares allocated				344		344
Balances at March 31, 1995	\$16,556	\$152,785	\$ (71,807)	\$ (4,353)	\$82,132	\$175,313

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS  
Alaska Air Group, Inc.

Three Months Ended March 31 (In Thousands)	1995	1994
Cash and cash equivalents at beginning of period	\$11,605	\$27,179
Cash flows from operating activities:		
Net loss	(16,340)	(6,313)
Adjustments to reconcile net loss to cash:		
Depreciation and amortization	16,938	12,927
Amortization of airframe and engine ovhls	5,538	4,976
Loss on disposition of assets	13	175
Deferred income taxes	(11,628)	(5,172)
Increase in accounts receivable	(7,326)	(2,063)
Decrease in other current assets	2,446	16,272
Increase in air traffic liability	24,266	26,071
Increase (decrease) in other current liab.	3,117	(5,496)
Interest on zero coupon notes	2,233	2,522
Leased aircraft return payments and other-net	(2,865)	(7,904)
Net cash provided by operating activities	16,392	35,995
Cash flows from investing activities:		
Proceeds from disposition of assets	99	1,727
Purchases of marketable securities	(841)	(18,568)
Sales and maturities of mkt. securities	32,879	22,932
Restricted deposits	(737)	(2,674)
Flight equipment deposits returned	-	610
Additions to flight equipment deposits	-	(672)
Additions to property and equipment	(21,411)	(88,902)
Net cash provided by (used in) investing activities	9,989	(85,547)
Cash flows from financing activities:		
Proceeds from short-term borrowings	4,000	-
Repayment of short-term borrowings	(25,000)	(20,000)
Proceeds from issuance of long-term debt	-	78,000
Long-term debt and capital lease payments	(12,826)	(8,213)
Proceeds from issuance of common stock	31	141
Net cash provided by (used in) financing activities	(33,795)	49,928
Net increase (decrease) in cash and cash equivalents	(7,414)	376
Cash and cash equivalents at end of period	\$4,191	\$27,555
Supplemental disclosure of cash paid (received) during the period for:		
Interest (net of amount capitalized)	\$10,659	\$7,122
Income taxes (refunds)	(1,969)	(6,715)
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, 1995  
Alaska Air Group, Inc.

Note 1. Summary of Significant Accounting Policies (See Note 1 to Consolidated Financial Statements at December 31, 1994)

Property, Equipment and Depreciation

Effective January 1, 1995, the estimated salvage value of MD-80 flight equipment was changed to 5% from 20%. The new estimate was adopted to recognize the lower expected salvage values for this aircraft type. The effect of the change on the three months ending March 31, 1995 was to increase depreciation expense \$1.2 million and decrease net income \$757,000 (\$.06 per share).

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

EXHIBIT 11

	Three Months Ended March 31,	
	1995	1994
Primary -		
Net income	(\$16,340)	(\$6,313)
	=====	=====
Average number of shares outstanding	13,400	13,349
Assumed exercise of stock options reduced by the number of shares purchased with the proceeds from exercise of such options	-	-
	-----	-----
Average shares as adjusted	13,400	13,349
	=====	=====
Earnings per common share	(\$1.22)	(\$0.47)
	=====	=====
Fully Diluted -		
Net income	(\$16,340)	(\$6,313)
After tax interest on convertible securities	2,111	2,428
	-----	-----
Income applicable to common shares	(\$14,229)	(\$3,885)
	=====	=====
Average number of shares outstanding	13,400	13,349
Assumed exercise of stock options	4	18
Assumed conversion of 7.75% debentures	508	518
Assumed conversion of 6.875% debentures	1,608	1,791
Assumed conversion of 7.25% zero coupon notes	3,565	4,277
Assumed conversion of preferred shares	0	0
	-----	-----
Average shares as adjusted	19,085	19,953
	=====	=====
Earnings per Common Share	(\$0.75)	(\$0.19)
	=====	=====
	*	*

\* Anti-dilutive

<ARTICLE> 5

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM ALASKA AIR GROUP INC FIRST QUARTER 1995 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRRTY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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