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

(Mark One)
(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 1997.
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 X 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 14,746,611 common shares, par value $1.00, outstanding at September 30, 1997.

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 September 30, 1997 and December 31, 1996; (ii) consolidated statements of income for the quarters and nine months ended September 30, 1997 and 1996; (iii) consolidated statement of shareholders' equity for the nine months ended September 30, 1997; and, (iv) consolidated statements of cash flows for the nine months ended September 30, 1997 and 1996. Also attached are the accompanying notes to the Company's consolidated financial statements that have changed significantly during the nine months ended September 30, 1997. 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, 1996, 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

Third Quarter 1997 Compared with Third Quarter 1996

The consolidated net income for the third quarter of 1997 was $42.2 million, or $2.85 per share (primary) and $1.95 per share (fully diluted), compared with net income of $32.8 million, or $2.25 per share (primary) and $1.53 per share (fully diluted) in 1996. Consolidated operating income for the third quarter of 1997 was $76.3 million compared to $63.0 million for 1996. Alaska's operating income increased to $69.3 million from $57.0 million for 1996, while Horizon's operating income increased to $7.0 million from $5.9 million for 1996. Airline financial and statistical data is shown following the Air Group financial statements. A discussion of this data follows.

Alaska Airlines Operating income increased 21.6% to $69.3 million, resulting in a 16.5% operating margin as compared to a 14.9% margin in 1996. Operating revenue per available seat mile (ASM) increased 7.7% to 10.06 cents while operating expenses per ASM increased 5.7% to 8.40 cents.

The increase in revenue per ASM was due to a 9.0% increase in system passenger yield, offset by a modest decrease in passenger load factor. Most markets experienced increases in yields, including the three largest (Southern California, Seattle-Anchorage and Northern California). The higher load factor in 1996 was due to extremely low fares available in certain markets during 1996.

Other-net revenues increased 6.3% primarily due to increased revenues from Alaska's frequent flyer program.

The table below shows the major operating expense elements on a cost per ASM basis for Alaska for the third quarters of 1996 and 1997.

Alaska Airlines Operating Expenses Per ASM (In Cents)

	1996	1997	Change	% Change
Wages and benefits	2.44	2.67	.23	9
Employee profit sharing	.19	.16	(.03)	NM
Contracted services	.22	.26	.04	18
Aircraft fuel	1.38	1.18	(.20)	(14)
Aircraft maintenance	.32	.43	.11	34
Aircraft rent	.88	.90	.02	2
Food and beverage service	.30	.31	.01	3
Commissions	.63	.72	.09	14
Other selling expenses	.46	.49	.03	7
Depreciation and amortization	.35	.35	--	--
Gain on sale of assets	(.09)	(.01)	.08	NM
Landing fees and other rentals	.32	.34	.02	6
Other	.55	.60	.05	9
Alaska Airlines Total	7.95	8.40	.45	6

NM = Not Meaningful

Alaska's higher unit costs were primarily due to increased labor and aircraft maintenance costs. Significant unit cost changes are discussed below.

Employees increased 8.3% (primarily in reservations and customer service positions) to improve on-time performance, which improved from 73% on-time in 1996 to 78% on-time in 1997. Excluding profit sharing, average wages and benefits per employee were up 2.8% primarily due to higher pilot wage rates and higher health insurance costs. The net effect was that wages and benefits expense increased more than the ASM growth, resulting in a 9% increase in cost per ASM.

Effective for 1997, Alaska changed its profit sharing program so that eligible employees will receive their pro rata share of 10% of Alaska's adjusted pre-tax profits. Actual profit sharing is based on full year results and will be calculated and paid in early 1998.

Fuel expense per ASM decreased 14%, due to a 14% decrease in the price of fuel.

Maintenance expense per ASM increased 34% because Alaska performed more repair work that is expensed currently and less major airframe and engine overhaul work which is capitalized.

Commission expense per ASM increased 14%, in line with the 11% increase in passenger revenues.

Other expense per ASM increased 9%. The increase is primarily due to higher costs related to property taxes, flight crew hotels, employee hiring and communications.

Horizon Air Operating income increased 18.6% to $7.0 million, resulting in an 8.2% operating margin as compared to a 7.0% margin in 1996. Operating revenue per ASM increased 3.0% to 22.32 cents while operating expenses per ASM increased 1.6% to 20.47 cents.

The increase in revenue per ASM was due to a 3.0 point improvement in system passenger load factor which was partially offset by 2.2% decrease in passenger yield (believed to be partially due to the presence of the 10% passenger ticket tax in 1997 compared with no tax in July and August 1996).

The table below shows the major operating expense elements on a cost per ASM basis for Horizon for the third quarters of 1996 and 1997.

Horizon Air Operating Expenses Per ASM (In Cents)

	1996	1997	Change	% Change
Wages and benefits	6.12	6.33	.21	3
Employee profit sharing	.18	.16	(.02)	NM
Contracted services	.40	.44	.04	10
Aircraft fuel	2.29	2.08	(.21)	(9)
Aircraft maintenance	2.75	3.23	.48	17
Aircraft rent	2.36	2.35	(.01)	--
Food and beverage service	.14	.12	(.02)	(14)
Commissions	1.34	1.29	(.05)	(4)
Other selling expenses	1.18	1.18	--	--
Depreciation and amortization	.68	.75	.07	10
Loss on sale of assets	.04	.02	(.02)	NM
Landing fees and other rentals	.88	.93	.05	6
Other	1.79	1.59	(.20)	(11)
Horizon Air Total	20.15	20.47	.32	2

Wages and benefits per ASM increased primarily due to higher pilot wages and higher health insurance costs. Maintenance expense per ASM increased due to higher than normal engine repairs and costs associated with transitioning to a simplified fleet. Other expense per ASM decreased due to less flight crew training and personnel costs, lower insurance rates and decreased supplies expense.

Consolidated Other Income (Expense) Non-operating expense decreased $2.6 million to $3.8 million primarily due to smaller average debt balances and lower interest rates on variable interest rate debt.

Nine Months 1997 Compared with Nine Months 1996

The consolidated net income for the nine months ended September 30, 1997 was $57.3 million, or $3.90 per share (primary) and $2.78 per share (fully diluted), compared with net income of $43.6 million, or $3.06 per share (primary) and $2.22 per share (fully diluted) in 1996. Consolidated operating income for the first nine months of 1997 was $111.8 million compared to $97.4 million for 1996. Alaska's operating income increased to $109.9 million from $91.0 million for 1996, while Horizon operating income decreased to $2.6 million from $7.2 million for 1996. A discussion of operating results for the two airlines follows.

Alaska Airlines Operating income increased 20.8% to $109.9 million, resulting in a 10.0% operating margin as compared to a 9.1% margin in 1996. Operating revenue per ASM increased 7.6% to 9.47 cents while operating expenses per ASM increased 6.4% to 8.53 cents.

The increase in revenue per ASM was due to a 2.2 point improvement in system passenger load factor combined with a 5.1% increase in system passenger yield.

Unit costs increased 6.4% due to a 9.0% increase in employees, increased pilot wage rates, $2.1 million more profit sharing expense, higher ground handling and security costs, increased aircraft maintenance expense and costs associated with higher load factors.

Horizon Air Operating revenues decreased 2.4% primarily due to a 2.9% decrease in passenger yield. The yield decline is believed to be largely due to the presence of the 10% passenger ticket tax during March to August 1997 compared with only one month of tax in the 1996 period.

Operating expenses decreased 0.5% on a capacity decrease of 2.4%. Unit costs increased primarily due to higher wage rates and increased aircraft maintenance expense (including costs associated with transitioning to a simplified fleet).

Consolidated Other Income (Expense) Non-operating expense decreased $8.5 million to $12.9 million for the same reasons as noted above in the third quarter comparison.

Income Tax Expense 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. The 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 42.1% tax rate for the first nine months of 1997, the Company considered a variety of factors, including the U.S. federal rate of 35%, estimates of nondeductible expenses and state income taxes, and the 40.9% tax rate used for full year 1996. This rate is evaluated each quarter and adjustments are made if necessary.

New Accounting Standards During March 1997, the Financial Accounting Standards Board issued FAS 128, Earnings Per Share (EPS). The new standard replaces "primary" and "fully diluted" EPS amounts with "basic" and "diluted" EPS amounts, respectively. The purpose of the change is to simplify the EPS calculations and provide consistency with international accounting standards. Had FAS 128 been in effect during 1996, the Company's basic EPS would have been $2.67 (versus $2.65 primary EPS) and diluted EPS would have been $2.05 (the same as fully diluted EPS). FAS 128 is effective for fiscal years ending after December 15, 1997 and requires restatement of prior years' earnings per share. Early adoption is not permitted.

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

(In millions, except debt-to-equity and per share amounts)	Dec 31, 1996	Sept 30, 1997	Change
Cash and marketable securities	$101.8	$192.0	$90.2
Working capital (deficit)	(185.6)	(118.9)	66.7
Long-term debt and capital lease obligations	404.1	411.6	7.5
Shareholders' equity	272.5	336.1	63.6
Book value per common share	$18.83	$22.79	$3.96
Debt-to-equity	60%:40%	55%:45%	NA

The Company's cash and marketable securities portfolio increased by $90 million during the first nine months of 1997. Operating activities provided $227 million of cash during this period. Additional cash was provided by the sale and leaseback of four B737-400 aircraft and eight Dash 8-200 aircraft ($199 million) and issuance of long-term debt ($28 million). Cash was used for $317 million of capital expenditures including the purchase of two new MD-83 aircraft, three new B737-400 aircraft, a previously leased B737-200C aircraft, eight new Dash 8-200 aircraft, flight equipment deposits and airframe and engine overhauls, net repayment of short-term borrowings ($47 million) and the repayment of debt ($16 million).

In June 1997, Standard & Poors revised its outlook on Air Group and Alaska to positive from stable, citing a stabilized competitive position and improving financial profile.

PART II. OTHER INFORMATION
ITEM 1. Legal Proceedings
In October 1991, Alaska gave notice of termination of its code sharing and frequent flyer relationship with MarkAir, an airline based in the state of Alaska. Both companies have filed suit against one another in connection with that termination alleging breach of contract and other causes of action under state law. In June 1992, MarkAir filed for protection under Chapter 11 of the U.S. Bankruptcy Code and ceased operations in 1995. In June 1997 MarkAir claimed damages of $57 million (later revised to $70 million) in connection with Alaska's actions. If MarkAir were to prevail, the after-tax effect would be to reduce shareholders' equity by approximately $41 million or 12%. However, the Company believes that it

has adequate defenses and is vigorously defending itself against the lawsuit.

ITEM 5. Other Information

The U.S. 10% passenger ticket tax, the 6.25% cargo waybill tax and the $6 per passenger international departure tax expired on December 31, 1996, and were all reinstated for the period March 7, 1997 through September 30, 1997. As part of the Taxpayer Relief Act, the cargo waybill tax was extended in its current form and the other taxes in revised forms through September 30, 2007. The passenger ticket tax was replaced with a new system that combines a percentage tax with a per passenger segment fee. For sales and travel beginning October 1, 1997, the ticket tax is 9% plus $1 per segment. The percentage tax is scheduled to decrease over time and the segment fee is scheduled to increase. The $6 international departure tax has increased to $12 and a new $12 international arrival tax has been added. However, the Act retains the $6 rate for travel between Alaska and the U.S. mainland. This tax and the international taxes will be indexed to the CPI beginning January 1, 1999.

The Taxpayer Relief Act also included these items that will affect the Company and the airline industry: (a) a new tax of 7.5% on payments to air carriers for the sale of miles in frequent flyer programs; (b) a phased-in increase from 50% to 80% for the deductible percentage of per diems paid to flight crews; and (c) faster cost recovery for alternative minimum tax purposes of aircraft purchased in 1999 and later years.

In September 1997, the union contract governing approximately 1,800 Mechanic, Rampservice and related classifications at Alaska Airlines became amendable. The union and Alaska have begun negotiating a new contract. During October 1997, the Airline Pilots Association and Alaska agreed on a new 5 and 1/2 year contract (amendable in May 2002) covering Alaska's 1,075 pilots.

During the third quarter of 1997, Horizon's pilots voted to be represented by the Teamsters union. The Association of Flight Attendants and Horizon are continuing mediated negotiations for a new contract to cover approximately 320 flight attendants. Horizon's 29 dispatchers have ratified a new contract that is amendable in May 2002.

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 third quarter of 1997.

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: October 27, 1997

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

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

CONSOLIDATED BALANCE SHEET
Alaska Air Group, Inc.

ASSETS

(In Millions)	Dec. 31, 1996	Sept. 30, 1997
Current Assets		
Cash and cash equivalents	$49.4	$98.7
Marketable securities	52.4	93.3
Receivables - net	69.7	88.1

Inventories and supplies	47.8	46.0
Prepaid expenses and other assets	80.9	62.8
Total Current Assets	300.2	388.9
Property and Equipment		
Flight equipment	815.9	871.3
Other property and equipment	270.4	295.5
Deposits for future flight equipment	84.5	90.9
	1,170.8	1,257.7
Less accumulated depreciation and amortization	326.3	360.4
	844.5	897.3
Capital leases		
Flight and other equipment	44.4	44.4
Less accumulated amortization	25.5	27.0
	18.9	17.4
Total Property and Equipment - Net	863.4	914.7
Intangible Assets - Subsidiaries	61.6	60.1
Other Assets	86.2	87.0
Total Assets	$1,311.4	$1,450.7

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET
Alaska Air Group, Inc.

LIABILITIES AND SHAREHOLDERS' EQUITY

(In Millions)	Dec. 31, 1996	Sept. 30, 1997
Current Liabilities		
Accounts payable	$65.4	$83.0
Accrued aircraft rent	52.8	57.0
Accrued wages, vacation and payroll taxes	51.5	61.3
Other accrued liabilities	82.0	93.8
Short-term borrowings		
(Interest rate: 1996 - 5.6%)	47.0	-
Air traffic liability	163.0	183.9
Current portion of long-term debt and capital lease obligations	24.1	28.8
Total Current Liabilities	485.8	507.8
Long-Term Debt and Capital Lease Obligations	404.1	411.6
Other Liabilities and Credits		
Deferred income taxes	49.5	84.1
Deferred income	18.1	20.2
Other liabilities	81.4	90.9
	149.0	195.2
Shareholders' Equity		
Common stock, $1 par value		
Authorized: 50,000,000 shares		
Issued: 1996 - 17,223,281 shares		
1997 - 17,494,631 shares	17.2	17.5
Capital in excess of par value	166.8	172.2
Treasury stock, at cost: 1996 - 2,748,550 shares		
1997 - 2,748,020 shares	(62.6)	(62.6)
Deferred compensation	(2.7)	(2.1)
Retained earnings	153.8	211.1
	272.5	336.1
Total Liabilities and Shareholders' Equity	$1,311.4	$1,450.7

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
Alaska Air Group, Inc.

Three Months Ended September 30 (In Millions except Per share Amounts)	1996	1997

Operating Revenues		
Passenger	$423.0	$457.2
Freight and mail	25.4	26.0
Other - net	16.5	18.0
Total Operating Revenues	464.9	501.2
Operating Expenses		
Wages and benefits	132.4	143.1
Contracted services	10.6	12.7
Aircraft fuel	65.5	57.3
Aircraft maintenance	23.6	30.1
Aircraft rent	45.3	46.6
Food and beverage service	12.8	13.2
Commissions	29.0	30.7
Other selling expenses	23.4	24.8
Depreciation and amortization	17.0	17.3
Gain on sale of assets	(3.6)	(0.4)
Landing fees and other rentals	16.1	17.6
Other	29.8	31.9
Total Operating Expenses	401.9	424.9
Operating Income	63.0	76.3
Other Income (Expense)		
Interest income	2.6	3.0
Interest expense	(9.3)	(8.6)
Interest capitalized	0.2	1.3
Other - net	0.1	0.5
	(6.4)	(3.8)
Income before income tax	56.6	72.5
Income tax expense	23.8	30.3
Net Income	$32.8	$42.2
Primary Earnings Per Share	$2.25	$2.85
Fully Diluted Earnings Per Share	$1.53	$1.95
Shares used for computation:		
Primary	14.6	14.8
Fully diluted	22.7	22.6

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
Alaska Air Group, Inc.

Nine Months Ended September 30 (In Millions except Per share Amounts)	1996	1997
Operating Revenues		
Passenger	$1,109.8	$1,191.9
Freight and mail	71.7	70.7
Other - net	51.5	54.0
Total Operating Revenues	1,233.0	1,316.6
Operating Expenses		
Wages and benefits	364.2	398.5
Contracted services	30.9	35.5
Aircraft fuel	173.3	174.8
Aircraft maintenance	71.7	82.1
Aircraft rent	134.7	136.2
Food and beverage service	35.4	36.2
Commissions	78.9	82.6
Other selling expenses	63.0	65.1
Depreciation and amortization	51.0	50.7
Gain on sale of assets	(2.8)	(0.9)
Landing fees and other rentals	46.8	50.3
Other	88.5	93.7
Total Operating Expenses	1,135.6	1,204.8
Operating Income	97.4	111.8
Other Income (Expense)		
Interest income	8.1	7.0
Interest expense	(30.2)	(25.6)
Interest capitalized	0.2	3.6
Other - net	0.5	2.1
	(21.4)	(12.9)
Income before income tax	76.0	98.9
Income tax expense	32.4	41.6
Net Income	$43.6	$57.3

Primary Earnings Per Share	$3.06	$3.90
Fully Diluted Earnings Per Share	$2.22	$2.78
Shares used for computation:		
Primary	14.3	14.7
Fully diluted	22.4	22.6

See accompanying notes to consolidated financial statements.

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

(In Millions)	Common Stock	Capital in Excess of Par Value	Treasury Stock at Cost	Deferred Compen- sation	Retained Earnings	Total
Balances at December 31, 1996	$17.2	$166.8	$(62.6)	$(2.7)	$153.8	$272.5
Net income for the nine months ended September 30, 1997					57.3	57.3
Stock issued under stock plans	0.3	5.4				5.7
Treasury stock activity:						
Purchase (2,084 shares)			(0.1)			(0.1)
Sale (2,614 shares)			0.1			0.1
Employee Stock Ownership Plan shares allocated				0.6		0.6
Balances at September 30, 1997	$17.5	$172.2	$(62.6)	$(2.1)	$211.1	$336.1

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Alaska Air Group, Inc.

Nine Months Ended September 30 (In Millions)	1996	1997
Cash flows from operating activities:		
Net income	$43.6	$57.3
Adjustments to reconcile net income to cash:		
Depreciation and amortization	51.0	50.7
Amortization of airframe and engine overhauls	24.9	26.3
Gain on disposition of assets and debt retirement	(2.8)	(0.9)
Increase in deferred income taxes	23.4	34.6
Decrease (increase) in accounts receivable	10.7	(18.4)
Increase (decrease) in other current assets	(1.0)	20.0
Increase in air traffic liability	43.5	21.0
Increase in other current liabilities	27.6	43.4
Other-net	1.0	(6.8)
Net cash provided by operating activities	221.9	227.2
Cash flows from investing activities:		
Proceeds from disposition of assets	23.6	2.5
Purchases of marketable securities	(45.6)	(236.2)
Sales and maturities of marketable securities	75.4	195.2
Flight equipment deposits returned	1.1	7.9
Additions to flight equipment deposits	(50.9)	(47.0)
Additions to property and equipment	(160.8)	(269.8)
Restricted deposits and other	1.2	(0.7)
Net cash used in investing activities	(156.0)	(348.1)
Cash flows from financing activities:		
Proceeds from short-term borrowings	-	56.4
Repayment of short-term borrowings	(65.9)	(103.4)
Proceeds from sale and leaseback transactions	85.6	199.4
Proceeds from issuance of long-term debt	-	28.0
Long-term debt and capital lease payments	(80.5)	(15.9)
Proceeds from issuance of common stock	10.1	5.7
Proceeds from sale of treasury stock	10.9	-
Net cash used in financing activities	(39.8)	170.2
Net increase in cash and cash equivalents	26.1	49.3
Cash and cash equivalents at beginning of period	25.8	49.4
Cash and cash equivalents at end of period	$51.9	$98.7
Supplemental disclosure of cash paid during the period for:		
Interest (net of amount capitalized)	$33.1	$19.7
Income taxes	6.6	1.5
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 NINE MONTHS ENDED SEPTEMBER 30, 1997

Alaska Air Group, Inc.

Note 1. Summary of Significant Policies (See Note 1 to Consolidated Financial Statements at December 31, 1996)

Basis of presentation

Effective with the second quarter 1997, three new line items have been added to the statement of income to provide more details of operating expenses. Contracted services includes the expenses for aircraft ground handling, security, temporary employees and similar outside services. Other selling expenses includes computerized reservations systems (CRS) charges, credit card commissions, advertising and promotional costs.

Property, Equipment and Depreciation

Effective January 1, 1997, the estimated salvage value of B737-400 flight equipment was changed to 10% from 20%. The new estimate was adopted to recognize the lower expected salvage values for this aircraft type. The annual effect of the change will be to increase depreciation expense $0.5 million and decrease net income $0.3 million ($.02 per share).

Note 2. Commitments (See Note 5 to Consolidated Financial Statements at December 31, 1996)

During the first nine months of 1997, Alaska's lease commitments increased approximately $200 million due to the sale and leaseback of four B737-400 aircraft under 18-year operating leases.

During the first nine months of 1997, Horizon's lease commitments increased approximately $100 million due to the sale and leaseback of eight Dash 8-200 aircraft under 15-year operating leases.

Alaska Airlines Financial and Statistical Data

	Quarter Ended September 30			Nine Months Ended Sept. 30		
Financial Data (in millions):	1996	1997	% Change	1996	1997	% Change
Operating Revenues:						
Passenger	$344.3	$380.5	10.5	$892.1	$984.0	10.3
Freight and mail	22.6	22.9	1.3	63.4	62.3	(1.7)
Other - net	15.9	16.9	6.3	49.3	51.6	4.7
Total Operating Revenues	382.8	420.3	9.8	1,004.8	1,097.9	9.3
Operating Expenses:						
Wages and benefits	100.4	111.8	11.4	286.7	317.7	10.8
Employee profit sharing	7.6	6.7	NM	7.6	9.7	NM
Contracted services	9.1	11.0	20.9	26.7	30.9	15.7
Aircraft fuel	56.7	49.4	(12.9)	148.9	150.4	1.0
Aircraft maintenance	12.9	17.8	38.0	40.8	48.8	19.6
Aircraft rent	36.2	37.7	4.1	108.4	110.2	1.7
Food and beverage service	12.2	12.7	4.1	33.6	34.9	3.9
Commissions	25.6	30.1	17.6	69.0	77.9	12.9
Other selling expenses	18.9	20.3	7.4	49.8	52.2	4.8
Depreciation and amortization	14.3	14.4	0.7	42.4	42.1	(0.7)
Gain on sale of assets	(3.8)	(0.4)	NM	(3.6)	(0.3)	NM
Landing fees and other rentals	13.0	14.1	8.5	37.5	40.4	7.7
Other	22.7	25.4	11.9	66.0	73.1	10.8
Total Operating Expenses	325.8	351.0	7.7	913.8	988.0	8.1
Operating Income	57.0	69.3	21.6	91.0	109.9	20.8
Interest income	2.7	3.3		8.4	8.4	
Interest expense	(7.1)	(6.4)		(23.6)	(19.1)	
Interest capitalized	0.1	0.8		0.1	2.4	
Other - net	0.2	0.6		0.7	2.1	
	(4.1)	(1.7)		(14.4)	(6.2)	
Income Before Income Tax	$52.9	$67.6		$76.6	$103.7	
Operating Statistics:						
Revenue passengers (000)	3,420	3,441	0.6	9,001	9,325	3.6
RPMs (000,000)	2,893	2,933	1.4	7,524	7,896	4.9
ASMs (000,000)	4,100	4,179	1.9	11,409	11,589	1.6
Passenger load factor	70.6%	70.2%	(0.4)pts	65.9%	68.1%	2.2 pts
Breakeven load factor	59.7%	56.6%	(3.1)pts	60.4%	60.5%	0.1 pts
Yield per passenger mile	11.90c	12.97c	9.0	11.86c	12.46c	5.1
Operating revenue per ASM	9.34c	10.06c	7.7	8.81c	9.47c	7.6
Operating expenses per ASM	7.95c	8.40c	5.7	8.01c	8.53c	6.4
Fuel cost per gallon	77.6c	66.9c	(13.8)	73.5c	72.8c	(0.9)
Fuel gallons (000,000)	73.1	73.9	1.1	202.7	206.4	1.8
Average number of employees	7,877	8,534	8.3	7,562	8,240	9.0
Aircraft utilization (block hours)	11.9	11.9	0.0	11.4	11.5	0.9
Operating fleet at period-end	75	78	4.0	75	78	4.0

NM = Not Meaningful
c=cents

Horizon Air Financial and Statistical Data

	Quarter Ended September 30			Nine Months Ended Sept. 30		
Financial Data (in millions):	1996	1997	% Change	1996	1997	% Change

Operating Revenues:						
Passenger	$80.5	$81.0	0.6	$222.5	$216.8	(2.6)
Freight and mail	2.8	3.0	7.1	8.4	8.5	1.2
Other - net	0.6	0.9	50.0	2.1	2.0	(4.8)
Total Operating Revenues	83.9	84.9	1.2	233.0	227.3	(2.4)
Operating Expenses:						
Wages and benefits	23.7	24.1	1.7	69.2	70.5	1.9
Employee profit sharing	0.7	0.6	NM	0.7	0.6	NM
Contracted services	1.5	1.7	13.3	4.2	4.6	9.5
Aircraft fuel	8.9	7.9	(11.2)	24.4	24.4	0.0
Aircraft maintenance	10.7	12.3	15.0	30.9	33.3	7.8
Aircraft rent	9.1	8.9	(2.2)	26.3	26.0	(1.1)
Food and beverage service	0.5	0.5	0.0	1.8	1.4	(22.2)
Commissions	5.2	4.9	(5.8)	14.8	13.7	(7.4)
Other selling expenses	4.6	4.5	(2.2)	13.2	12.9	(2.3)
Depreciation and amortization	2.6	2.9	11.5	8.5	8.5	0.0
Loss (gain) on sale of assets	0.2	0.1	NM	0.8	(0.6)	NM
Landing fees and other rentals	3.4	3.5	2.9	9.7	10.0	3.1
Other	6.9	6.0	(13.0)	21.3	19.4	(8.9)
Total Operating Expenses	78.0	77.9	(0.1)	225.8	224.7	(0.5)
Operating Income	5.9	7.0	18.6	7.2	2.6	(63.9)
Interest income	0.0	0.1		0.1	0.1	
Interest expense	(0.2)	(0.4)		(0.6)	(1.5)	
Interest capitalized	0.1	0.4		0.1	1.2	
Other - net	0.3	0.1		0.2	0.3	
	0.2	0.2		(0.2)	0.1	
Income Before Income Tax	$6.1	$7.2		$7.0	$2.7	
Operating Statistics:						
Revenue passengers (000)	1,022	1,010	(1.1)	2,849	2,747	(3.6)
RPMs (000,000)	239	246	2.9	656	658	0.3
ASMs (000,000)	387	380	(1.7)	1,097	1,070	(2.4)
Passenger load factor	61.7%	64.7%	3.0 pts	59.8%	61.5%	1.7 pts
Breakeven load factor	56.5%	58.3%	1.8 pts	57.5%	60.9%	3.4 pts
Yield per passenger mile	33.69c	32.96c	(2.2)	33.92c	32.94c	(2.9)
Operating revenue per ASM	21.68c	22.32c	3.0	21.25c	21.24c	(0.0)
Operating expenses per ASM	20.15c	20.47c	1.6	20.59c	21.00c	2.0
Fuel cost per gallon	79.6c	71.8c	(9.9)	77.0c	78.0c	1.3
Fuel gallons (000,000)	11.1	11.0	(0.9)	31.7	31.3	(1.3)
Average number of employees	2,947	2,735	(7.2)	2,873	2,750	(4.3)
Aircraft utilization (block hours)	8.0	7.5	(6.3)	7.8	7.1	(9.0)
Operating fleet at period-end	62	57	(8.1)	62	57	(8.1)

NM = Not Meaningful

c=cents

Alaska Air Group, Inc. EXHIBIT 11

Computation of Earnings Per Common Share

(In thousands, except per share)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
PRIMARY -				
Net income	$42,200	$32,816	$57,300	$43,611
Average number of shares outstanding	14,671	14,467	14,580	14,165
Assumed exercise of stock options reduced by the number of shares purchased with the proceeds from exercise of such options	128	121	123	110
Average shares as adjusted	14,799	14,588	14,703	14,275
Primary earnings per common share	$2.85	$2.25	$3.90	$3.06
FULLY DILUTED -				
Net income	$42,200	$32,816	$57,300	$43,611
After tax interest on convertible debt	1,910	2,038	5,667	6,070
Income applicable to common shares	$44,110	$34,854	$62,967	$49,681
Average number of shares outstanding	14,671	14,467	14,580	14,165
Assumed exercise of stock options	217	121	302	110
Assumed conversion of 6.5% debentures	6,151	6,151	6,151	6,151
Assumed conversion of 7.75% debentures	0	381	0	381
Assumed conversion of 6.875% debentures	1,608	1,608	1,608	1,608
Average shares as adjusted	22,647	22,728	22,641	22,415
Fully diluted earnings per common share	$1.95	$1.53	$2.78	$2.22

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM ALASKA AIR
GROUP INC THIRD QUARTER 1997 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS
ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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