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, 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)

Delaware91-1292054
(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 26,402,917 common shares, par value $1.00, outstanding at September 30, 1999.

PART I. FINANCIAL STATEMENTS
ITEM 1. Financial Statements
CONSOLIDATED BALANCE SHEET (unaudited)
Alaska Air Group, Inc.

ASSETS		
(In Millions)	December 31, 1998	September 30, 1999
Current Assets		
Cash and cash equivalents	$29.4	$76.8
Marketable securities	277.2	170.1
Receivables - net	70.6	90.5
Inventories and supplies	44.1	54.7
Prepaid expenses and other assets	107.5	103.3
Total Current Assets	528.8	495.4
Property and Equipment		
Flight equipment	1,015.4	1,255.4
Other property and equipment	283.2	331.2
Deposits for future flight equipment	164.9	219.5
	1,463.5	1,806.1
Less accumulated depreciation and amortization	417.0	468.5
	1,046.5	1,337.6
Capital leases:		

Flight and other equipment	44.4	44.4
Less accumulated amortization	29.6	31.2
	14.8	13.2
Total Property and Equipment - Net	1,061.3	1,350.8
Intangible Assets - Subsidiaries	57.5	56.0
Other Assets	84.2	75.0
Total Assets	$1,731.8	$1,977.2

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET (unaudited)
Alaska Air Group, Inc.

LIABILITIES AND SHAREHOLDERS' EQUITY

(In Millions)	December 31, 1998	September 30, 1999
Current Liabilities		
Accounts payable	$84.3	$100.4
Accrued aircraft rent	75.5	72.1
Accrued wages, vacation and payroll taxes	79.4	84.6
Other accrued liabilities	80.9	102.3
Air traffic liability	178.6	214.1
Current portion of long-term debt and capital lease obligations	27.2	27.1
Total Current Liabilities	525.9	600.6
Long-Term Debt and Capital Lease Obligations	171.5	153.9
Other Liabilities and Credits		
Deferred income taxes	99.2	153.5
Deferred income	41.5	38.4
Other liabilities	104.2	117.5
	244.9	309.4
Shareholders' Equity		
Common stock, $1 par value		
Authorized: 100,000,000 shares		
Issued: 1998 - 28,974,107 shares		
1999 - 29,149,275 shares	29.0	29.1
Capital in excess of par value	473.9	479.9
Treasury stock, at cost: 1998 - 2,750,102 shares		
1999 - 2,746,358 shares	(62.7)	(62.7)
Deferred compensation	(1.3)	(0.8)
Retained earnings	350.6	467.8
	789.5	913.3
Total Liabilities and Shareholders' Equity	$1,731.8	$1,977.2

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME (unaudited)
Alaska Air Group, Inc.

Three Months Ended September 30 (In Millions except Per share Amounts)	1998	1999
Operating Revenues		
Passenger	$495.6	$545.2
Freight and mail	25.5	24.8
Other - net	18.3	19.1
Total Operating Revenues	539.4	589.1
Operating Expenses		
Wages and benefits	161.0	172.5
Contracted services	14.0	16.6
Aircraft fuel	52.5	72.2
Aircraft maintenance	29.8	37.8
Aircraft rent	52.4	51.0
Food and beverage service	14.2	13.7
Commissions	27.2	29.3
Other selling expenses	25.7	27.5
Depreciation and amortization	19.0	21.3
Loss (gain) on sale of assets	0.3	0.7

Landing fees and other rentals	20.4	23.8
Other	33.4	36.4
Total Operating Expenses	449.9	502.8
Operating Income	89.5	86.3
Nonoperating Income (Expense)		
Interest income	6.3	5.1
Interest expense	(4.3)	(3.6)
Interest capitalized	1.4	2.8
Other - net	(15.5)	0.6
	(12.1)	4.9
Income before income tax	77.4	91.2
Income tax expense	32.0	36.3
Net Income	$45.4	$54.9
Basic Earnings Per Share	$1.73	$2.08
Diluted Earnings Per Share	$1.72	$2.07
Shares used for computation:		
Basic	26.209	26.391
Diluted	26.423	26.527

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME (unaudited)
Alaska Air Group, Inc.

Nine Months Ended September 30 (In Millions Except Per Share Amounts)	1998	1999
Operating Revenues		
Passenger	$1,313.5	$1,448.2
Freight and mail	72.0	68.9
Other - net	55.2	62.9
Total Operating Revenues	1,440.7	1,580.0
Operating Expenses		
Wages and benefits	447.2	487.1
Contracted services	41.9	47.5
Aircraft fuel	145.5	174.8
Aircraft maintenance	92.4	105.9
Aircraft rent	147.9	152.7
Food and beverage service	38.3	38.9
Commissions	74.5	79.3
Other selling expenses	70.4	78.2
Depreciation and amortization	55.1	61.6
Loss on sale of assets	0.5	0.9
Landing fees and other rentals	56.7	68.1
Other	95.7	104.8
Total Operating Expenses	1,266.1	1,399.8
Operating Income	174.6	180.2
Nonoperating Income (Expense)		
Interest income	15.5	14.9
Interest expense	(17.2)	(11.1)
Interest capitalized	4.8	7.3
Other - net	(14.3)	3.4
	(11.2)	14.5
Income before income tax	163.4	194.7
Income tax expense	66.0	77.5
Net Income	$97.4	$117.2
Basic Earnings Per Share	$4.34	$4.45
Diluted Earnings Per Share	$3.79	$4.43
Shares used for computation:		
Basic	22.436	26.359
Diluted	26.400	26.484

See accompanying notes to consolidated financial statements.

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

(In Millions)	Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Treasury Stock at Cost	Deferred Compen- sation	Retained 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 nine months ended September 30, 1999						117.2	117.2
Stock issued under stock plans	0.179	0.1	6.0				6.1
Employee Stock Ownership Plan shares allocated					0.5		0.5
Balances at September 30, 1999	26.403	$29.1	$479.9	$(62.7)	$(0.8)	$467.8	$913.3

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)
Alaska Air Group, Inc.

Nine Months Ended September 30 (In Millions)	1998	1999
Cash flows from operating activities:		
Net income	$97.4	$117.2
Adjustments to reconcile net income to cash:		
Depreciation and amortization	55.1	61.6
Amortization of airframe and engine overhauls	30.0	37.8
Loss on sale of assets	0.5	0.9
Increase in deferred income taxes	35.1	54.3
Increase in accounts receivable	(18.1)	(19.9)
Decrease (increase) in other current assets	2.3	(6.4)
Increase in air traffic liability	27.4	35.5
Increase in other current liabilities	74.7	39.3
Other-net	(1.5)	3.6
Net cash provided by operating activities	302.9	323.9
Cash flows from investing activities:		
Proceeds from sale of assets	0.6	2.1
Purchases of marketable securities	(158.9)	(98.7)
Sales and maturities of marketable securities	54.1	205.9
Flight equipment deposits returned	22.3	8.3
Additions to flight equipment deposits	(117.4)	(127.5)
Additions to property and equipment	(327.7)	(289.2)
Restricted deposits and other	(1.4)	4.4
Net cash used in investing activities	(528.4)	(294.7)
Cash flows from financing activities:		
Proceeds from sale and leaseback transactions	344.5	29.7
Long-term debt and capital lease payments	(35.4)	(17.6)
Proceeds from issuance of common stock	6.2	6.1
Net cash provided by financing activities	315.3	18.2
Net increase in cash and cash equivalents	89.8	47.4
Cash and cash equivalents at beginning of period	102.6	29.4
Cash and cash equivalents at end of period	$192.4	$76.8
Supplemental disclosure of cash paid during the period for:		
Interest (net of amount capitalized)	$14.3	$4.6
Income taxes	28.1	22.0

Noncash investing and financing activities:
1998 - $186.0 million of convertible debentures were converted into 7.7 million shares of common stock.
1999 - None

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS THAT HAVE CHANGED SIGNIFICANTLY DURING THE NINE MONTHS ENDED SEPTEMBER 30, 1999
Alaska Air Group, Inc.

Note 1.Basis of Presentation
The accompanying unaudited financial statements of Alaska Air Group, Inc. (the Company or Air Group) include the accounts of its principal subsidiaries, Alaska Airlines, Inc. (Alaska) and Horizon Air Industries, Inc. (Horizon). These statements 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. They 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.

Note 2.Earnings per Share (See Note 9 to Consolidated Financial Statements at December 31, 1998
Earnings per share (EPS) calculations were as follows (in millions except per share amounts):

	Three Months Ended Sep. 30 1998	1999	Nine Months Ended Sep. 30 1998	1999
Basic				
Net income	$45.4	$54.9	$97.4	$117.2
Avg. shares outstanding	26.209	26.391	22.436	26.359
Basic earnings per share	$1.73	$2.08	$4.34	$4.45
Diluted				
Net income	$45.4	$54.9	$97.4	$117.2
After-tax interest on:				
6-1/2% debentures	--	--	2.2	--
6-7/8% debentures	--	--	0.4	--
Diluted EPS income	$45.4	$54.9	$100.0	$117.2
Avg. shares outstanding	26.209	26.391	22.436	26.359
Assumed conversion of:				
6-1/2% debentures	--	--	3.399	--
6-7/8% debentures	--	--	.342	--
Assumed exercise of stock options	.214	.136	.223	.125
Diluted EPS shares	26.423	26.527	26.400	26.484
Diluted earnings per share	$1.72	$2.07	$3.79	$4.43

Note 3.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) was as follows (in millions):

	Three Months Ended Sep. 30 1998	1999	Nine Months Ended Sep. 30 1998	1999
Operating revenues:				
Alaska	$446.5	$476.1	$1,193.6	$1,276.6
Horizon	97.7	117.1	258.7	315.1
Elimination of intercompany revenues	(4.8)	(4.1)	(11.6)	(11.7)
Consolidated	539.4	589.1	1,440.7	1,580.0
Pretax income (loss):				
Alaska	66.9	80.3	151.7	171.5
Horizon	10.4	10.8	16.5	24.0
Parent company	0.1	0.1	(4.8)	(0.8)
Consolidated	77.4	91.2	97.4	194.7
Total assets at end of period:				
Alaska	1,596.2	1,769.8	1,596.2	1,769.8
Horizon	178.5	214.1	178.5	214.1
Parent company	763.1	913.5	763.1	913.5
Elimination of intercompany accounts	(771.9)	(920.2)	(771.9)	(920.2)
Consolidated	1,765.9	1,977.2	1,765.9	1,977.2

Alaska Airlines Financial and Statistical Data

	Quarter Ended September 30			Nine Months Ended September 30		
Financial Data (in millions):	1998	1999	% Change	1998	1999	% Change
Operating Revenues:						
Passenger	$406.2	$435.6	7.2	$1,076.9	$1,157.1	7.4
Freight and mail	22.7	21.9	(3.5)	63.9	60.6	(5.2)
Other - net	17.6	18.6	5.7	52.8	58.9	11.6
Total Operating Revenues	446.5	476.1	6.6	1,193.6	1,276.6	7.0
Operating Expenses:						
Wages and benefits	123.3	130.0	5.4	351.1	374.4	6.6
Employee profit sharing	8.0	7.5	(6.3)	16.0	16.1	0.6
Contracted services	12.1	14.1	16.5	36.9	40.7	10.3
Aircraft fuel	44.4	59.5	34.0	123.2	144.2	17.0
Aircraft maintenance	19.6	23.7	20.9	60.3	69.1	14.6
Aircraft rent	42.1	40.1	(4.8)	117.7	120.5	2.4
Food and beverage service	13.5	13.1	(3.0)	36.6	37.0	1.1

Commissions	26.5	26.7	0.8	71.9	73.2	1.8
Other selling expenses	20.4	21.7	6.4	56.3	61.7	9.6
Depreciation and amortization	15.6	16.9	8.3	46.0	49.3	7.2
Loss on sale of assets	0.1	0.2	NM	0.3	0.4	NM
Landing fees and other rentals	15.9	18.3	15.1	44.6	51.7	15.9
Other	25.7	28.6	11.3	73.3	80.8	10.2
Total Operating Expenses	367.2	400.4	9.0	1,034.2	1,119.1	8.2
Operating Income	79.3	75.7	(4.5)	159.4	157.5	(1.2)
Interest income	6.5	5.5		16.4	16.3	
Interest expense	(4.3)	(3.6)		(13.5)	(11.1)	
Interest capitalized	1.0	2.2		3.6	5.8	
Other - net	(15.6)	0.5		(14.2)	3.0	
	(12.4)	4.6		(7.7)	14.0	
Income Before Income Tax	$66.9	$80.3	20.0	$151.7	$171.5	13.1
Operating Statistics:						
Revenue passengers (000)	3,661	3,813	4.2	9,845	10,324	4.9
RPMs (000,000)	3,200	3,265	2.0	8,535	8,943	4.8
ASMs (000,000)	4,639	4,641	0.0	12,603	13,025	3.3
Passenger load factor	69.0%	70.3%	1.3 pts	67.7%	68.7%	1.0 pts
Breakeven load factor	57.3%	56.7%	(0.6)pts	58.0%	58.2%	0.2 pts
Yield per passenger mile	12.69c	13.34c	5.1	12.62c	12.94c	2.5
Operating revenue per ASM	9.62c	10.26c	6.6	9.47c	9.80c	3.5
Operating expenses per ASM	7.92c	8.63c	9.0	8.21c	8.59c	4.7
Fuel cost per gallon	54.2c	72.8c	34.3	55.2c	62.7c	13.4
Fuel gallons (000,000)	81.9	81.8	(0.1)	223.1	230.1	3.1
Average number of employees	9,015	9,419	4.5	8,669	9,183	5.9
Aircraft utilization (block hours)	11.8	11.7	(0.8)	11.6	11.3	(2.6)
Operating fleet at period-end	85	88	3.5	85	88	3.5

NM = Not Meaningful
c = cents

Horizon Air Financial and Statistical Data

	Quarter Ended September 30			Nine Months Ended September 30		
Financial Data (in millions):	1998	1999	% Change	1998	1999	% Change
Operating Revenues:						
Passenger	$93.5	$112.6	20.4	$246.8	$300.4	21.7
Freight and mail	2.8	2.9	3.6	8.1	8.2	1.2
Other - net	1.4	1.6	14.3	3.8	6.5	71.1
Total Operating Revenues	97.7	117.1	19.9	258.7	315.1	21.8
Operating Expenses:						
Wages and benefits	27.6	32.4	17.4	77.0	91.7	19.1
Employee profit sharing	2.1	2.5	19.0	3.1	4.9	58.1
Contracted services	2.5	3.2	28.0	6.5	8.7	33.8
Aircraft fuel	8.1	12.7	56.8	22.3	30.7	37.7
Aircraft maintenance	10.2	14.1	38.2	32.1	36.8	14.6
Aircraft rent	10.1	10.9	7.9	30.3	32.3	6.6
Food and beverage service	0.6	0.7	16.7	1.7	1.9	11.8
Commissions	4.8	5.7	18.8	12.9	15.4	19.4
Other selling expenses	5.3	5.7	7.5	14.2	16.5	16.2
Depreciation and amortization	3.4	4.3	26.5	8.9	12.2	37.1
Loss on sale of assets	0.2	0.4	NM	0.1	0.5	NM
Landing fees and other rentals	4.7	5.9	25.5	12.4	16.7	34.7
Other	7.9	8.0	1.3	21.1	23.3	10.4
Total Operating Expenses	87.5	106.5	21.7	242.6	291.6	20.2
Operating Income	10.2	10.6	3.9	16.1	23.5	46.0
Interest expense	(0.2)	(0.4)		(1.0)	(1.3)	
Interest capitalized	0.4	0.6		1.2	1.6	
Other - net	0.0	0.0		0.2	0.2	
	0.2	0.2		0.4	0.5	
Income Before Income Tax	$10.4	$10.8	3.8	$16.5	$24.0	45.5
Operating Statistics:						
Revenue passengers (000)	1,221	1,358	11.2	3,203	3,741	16.8
RPMs (000,000)	329	388	18.0	832	1,029	23.7
ASMs (000,000)	496	583	17.6	1,329	1,633	22.9
Passenger load factor	66.3%	66.6%	0.3 pts	62.6%	63.0%	0.4 pts
Breakeven load factor	58.1%	59.4%	1.3 pts	58.0%	57.5%	(0.5)pts

Yield per passenger mile	28.41c	29.01c	2.1	29.66c	29.18c	(1.6)
Operating revenue per ASM	19.68c	20.09c	2.1	19.47c	19.29c	(0.9)
Operating expenses per ASM	17.62c	18.27c	3.7	18.26c	17.85c	(2.2)
Fuel cost per gallon	56.8c	75.2c	32.4	58.4c	64.7c	10.8
Fuel gallons (000,000)	14.3	16.8	17.5	38.1	47.4	24.4
Average number of employees	3,132	3,737	19.3	2,940	3,522	19.8
Aircraft utilization (block hours)	8.3	8.3	0.0	7.9	8.1	2.5
Operating fleet at period-end	58	62	6.9	58	62	6.9

NM = Not Meaningful
c = cents

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

Results of Operations
Third Quarter 1999 Compared with Third Quarter 1998
The consolidated net income for the third quarter of 1999 was $54.9 million, or $2.07 per share (diluted), compared with a net income of $45.4 million, or $1.72 per share, in 1998. The 1998 third quarter included an after-tax charge of $10.1 million ($0.38 per diluted share) for a litigation settlement. Consolidated operating income for the third quarter of 1999 was $86.3 million compared to $89.5 million for 1998. Financial and statistical data for Alaska and Horizon is shown on pages 10 and 11. A discussion of this data follows.

Alaska Airlines
Revenues
Capacity remained constant as additional flights in the Arizona and Nevada markets were offset by no service to Russia in 1999 and some reductions in flights in the Alaska markets. Traffic grew by 2.0%, resulting in a 1.3 point increase in passenger load factor. The Canada and Nevada markets experienced the largest increases in load factor. Passenger yields were up 5.1%, with virtually all markets showing an increase over last year. New marketing alliances with other airlines, improved yield management techniques and small fare increases have helped improve yields. The higher load factor combined with the higher yield resulted in a 6.6% increase in revenue per available seat mile (ASM). Consequently, passenger revenues increased 7.2%.

Freight and mail revenues decreased 3.5%, due to lower average freight and mail rates. Other-net revenues increased 5.7%, due to increased revenue from travel partners in Alaska's frequent flyer program.

Expenses
Operating expenses grew by 9.0 % as a result of a 9.0% increase in cost per ASM. The increase in cost per ASM was partly due to higher fuel prices in 1999. Without the higher fuel prices, cost per ASM would have increased 5.9%. Explanations of significant year-over-year changes in the components of operating expenses are as follows:

Wages and benefits increased 5.4% due to a 4.5% increase in the number of employees. Employees were added in all areas to service the 4.2% increase in passengers carried.

Contracted services increased 16% due to greater use of temporary employees (particularly in computer systems development), higher facility repair costs incurred, higher rates for ground handling services and increased navigation fees in Canada and Mexico.

Fuel expense increased 34%, due to a 34% increase in the price of fuel.

Maintenance expense increased 21%, exceeding the 2% increase in block hours, due to increased airframe and engine overhaul expense.

Commission expense increased 1% on a 7% increase in passenger revenue. As a percentage of passenger revenue, commission expense decreased 5%, from 5.9% to 5.6%. In 1999, 67% of ticket sales were made through travel agents, versus 70% in 1998.

Other selling expenses increased 6%, in line with the 7% increase in passenger revenues.

Depreciation increased 7%, primarily due to owning six more aircraft in 1999.

Landing fees and other rentals increased 15%, higher than the 1% increase in landings, due to rate increases at Seattle, Portland and several other airports.

Other expense increased 11%, primarily due to higher expenditures for employee uniforms, recruiting, computer software, operating supplies, utilities and building repairs.

Horizon Air

Revenues

Capacity grew by 17.6%, primarily due to added flights in the Canada, Montana and California markets. Traffic grew by 18.0%, resulting in a 0.3 point increase in passenger load factor. Passenger yields were up 2.1%, with virtually all major markets showing an increase over last year. The higher yield combined with an essentially constant load factor resulted in a 2.1% increase in revenue per available seat mile (ASM). Consequently, passenger revenues increased 20.4%.

Expenses

Operating expenses grew by 21.7% as a result of an 17.6% increase in capacity and a 3.7% increase in cost per ASM. Explanations of significant year-over-year changes in the components of operating expenses are as follows:

Wages and benefits increased 17.4% due to a 19.3% increase in the number of employees. Employees were added in all areas to service the 11% increase in passengers carried.

Contracted services increased 28%, higher than the 18% 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 57%, due to an 18% increase in fuel consumption combined with a 32% increase in the price of fuel.

Maintenance expense increased 38%, greater than the 14% increase in block hours flown, primarily due to higher engine repair costs.

Commission expense increased 19% in line with the 20% increase in passenger revenue.

Depreciation and amortization expense increased 27%, primarily due to purchase of F-28s in late 1998 and added depreciation on aircraft spare parts and station equipment.

Landing fees and other rentals increased 26%, higher than the 18% increase in capacity, primarily due to rent on the new Portland operations center and rate increases at Seattle and Portland airports.

Consolidated Nonoperating Income (Expense) The 1998 third quarter included a $16.5 million pretax charge for a litigation settlement. Excluding this charge, net nonoperating items were essentially the same in both periods.

Nine Months 1999 Compared with Nine Months 1998

The consolidated net income for the nine months ended September 30, 1999 was $117.2 million, or $4.43 per share (diluted), compared with net income of $97.4 million, or $3.79 per share in 1998. The 1998 results included an after-tax charge of $10.1 million ($0.38 per diluted share) for a litigation settlement. Consolidated operating income for the first nine months of 1999 was $180.2 million compared to $174.6 million for 1998. A discussion of operating results for the two airlines follows.

Alaska Airlines Operating income decreased 1.2% to $157.5 million, resulting in a 12.3% operating margin as compared to a 13.4% margin in 1998. Operating revenue per ASM increased 3.5% to 9.80 cents while operating expenses per ASM increased 4.7% to 8.59 cents. The increase in revenue per ASM was due to a 2.5% increase in system passenger yield combined with a 1.0 point increase in load factor.

Unit costs increased 4.7% due to higher fuel prices, increased maintenance costs, lower aircraft utilization and higher wages and benefits.

Horizon Air Operating income increased 46.0% to $23.5 million, resulting in a 7.5% operating margin as compared to a 6.2% margin in 1998. Operating revenue per ASM decreased 0.9% to 19.29 cents, while operating expenses per ASM decreased 2.2% to 17.85 cents. The decrease in revenue per ASM was due to a 1.6% decrease in system passenger yield combined with a 0.4 point increase in load factor. The impact of higher fuel prices was more than offset by lower unit costs for aircraft rent, maintenance and wages, resulting in a 2.2% decrease in overall unit costs.

Consolidated Nonoperating Income (Expense) Net nonoperating items improved $25.7 million over 1998 due to a $16.5 million litigation settlement charge during 1998 and lower interest expense in 1999.

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, 1998	Sep. 30, 1999	Change
Cash and marketable securities	$306.6	$246.9	$(59.7)
Working capital (deficit)	2.9	(105.2)	(108.1)
Long-term debt and capital lease obligations	171.5	153.9	(17.6)
Shareholders' equity	789.5	913.3	123.8
Book value per common share	$30.11	$34.59	$4.48
Debt-to-equity	18%:82%	14%:86%	NA
Debt-to-equity assuming aircraft operating leases are capitalized at seven times annualized rent	67%:33%	63%:37%	NA

The Company's cash and marketable securities portfolio decreased by $60 million during the first nine months of 1999. Operating activities provided $324 million of cash during this period. Additional cash was provided by the sale and leaseback of three Dash 8-200 aircraft ($30 million), flight equipment deposits returned ($8 million) and the exercise of stock options ($6 million). Cash was used for $417 million of capital expenditures, including the purchase of five new Boeing 737 aircraft, two formerly leased Boeing 737s, three new Dash 8-200 aircraft, flight equipment deposits and airframe and engine overhauls, and for $18 million of debt repayment.

Shareholders' equity increased $124 million due to net income of $117 million and issuance of $6 million of common stock under stock plans.

Commitments At September 30, 1999, the Company had firm orders for 65 aircraft requiring aggregate payments of approximately $1.4 billion, as set forth below.

	Delivery Period - Firm Orders					
Aircraft	1999	2000	2001	2002	2003-05	Total
Boeing 737-700	4	7	4	--	--	15
Boeing 737-900	--	--	5	5	--	10
de Havilland Dash 8-400	--	5	10	--	--	15
Canadair RJ 700	--	--	--	4	21	25
Total	4	12	19	9	21	65
Payments (Millions)	$85	$321	$363	$203	$439	$1,411

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. Inventory and assessment phases were completed for all systems by first quarter 1999. As of September 30, 1999 the Company has completed every phase, through implementation, of 98% of its mission-critical systems, which is consistent with the industry as a whole as reported by the Air Transport Association (ATA). Remediation, testing and implementation of any remaining systems is scheduled to take place during the fourth quarter of 1999. 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 has received favorable Y2K readiness responses from all of its mission-critical and 95% of its other high-priority vendors and suppliers, and continues to follow up to ensure readiness predictions are being met. 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 ATA and the International Air 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. 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, facilities equipment, finance, 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 is building its year 2000 contingency planning on these existing plans. The Company is also 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 financial stability, (c) quantifying the risk of failure of each, and (d) based on the foregoing, developing a discrete contingency plan for each potential failure. Where applicable, the Company will communicate its plans to airports to maximize coordination with their own contingency planning. The Company has completed steps (a) to (c) and expects to complete its contingency planning during the fourth quarter 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 mileage accrual/redemption opportunities, and (b) gaining access to more connecting traffic from other airlines. The following table shows which of these relationships were existing as of December 31, 1998 and which are new in 1999.

	Frequent Flyer Agreement	Codesharing-- Alaska Flight # on Flights Operated by Other Airlines	Codesharing-- Other Airline Flight # On Flights Operated by Alaska/Horizon
Major U.S. or International Airlines			
American Airlines	New	New	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			
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

In June 1999, a new 42-month contract covering approximately 1,100 aircraft maintenance technicians, technician helpers, janitors and fleet service employees was ratified. The contract establishes enhanced rates of pay, retirement, health and 401(k) benefits. It also provides for a union shop and, in the event the parties cannot reach agreement on a new contract, requires binding arbitration of certain issues including rates of pay. The contract is amendable December 25, 2002.

In October 1999, a new four-year contract covering approximately 2,000 flight attendants was ratified. The contract calls for increases in wage rates, improvements in benefits, work rule changes and scheduling flexibility provisions. The contract is amendable in October, 2003.

In October 1999, a new three-year contract covering approximately 3,300 clerical, office and passenger service employees was ratified. The contract calls for increases in wage rates and improvements in benefits, including a matching component to the 401(k) plan. The contract is amendable October 29, 2002.

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.

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. Negotiations have taken place since then and further negotiations are planned for the fourth quarter of 1999.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibit 27 - Financial data schedule.

(b) No reports on Form 8-K were filed during the third 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.

Registrant

Date: November 2, 1999

/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)

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