

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 March 31, 2000.

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  
incorporation or organization)

(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 / /

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 26,439,190 common shares, par value \$1.00, outstanding  
at March 31, 2000.

PART I. FINANCIAL STATEMENTS

ITEM 1. Financial Statements  
CONSOLIDATED BALANCE SHEET (UNAUDITED)  
Alaska Air Group, Inc.

ASSETS

	December 31, 1999	MARCH 31, 2000
(In Millions)		

CURRENT ASSETS		
Cash and cash equivalents	\$132.5	\$125.6
Marketable securities	196.5	147.4
Receivables - net	74.6	99.4
Inventories and supplies	54.3	57.7
Prepaid expenses and other assets	124.0	166.9
-----		
Total Current Assets	581.9	597.0
-----		
PROPERTY AND EQUIPMENT		
Flight equipment	1,386.6	1,422.3
Other property and equipment	337.2	363.7
Deposits for future flight equipment	217.7	245.7
-----		
	1,941.5	2,031.7
Less accumulated depreciation and amortization	486.7	507.8
-----		
	1,454.8	1,523.9
-----		
Capital Leases:		
Flight and other equipment	44.4	44.4
Less accumulated amortization	31.8	32.3
-----		
	12.6	12.1
-----		
TOTAL PROPERTY AND EQUIPMENT - NET	1,467.4	1,536.0
-----		
Intangible Assets - Subsidiaries	55.5	55.0
-----		
Other Assets	75.3	35.6
-----		
TOTAL ASSETS	\$2,180.1	\$2,223.6
=====		

See accompanying notes to consolidated financial statements.

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

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 1999	MARCH 31, 2000
(In Millions Except Share Amounts)		
-----		
CURRENT LIABILITIES		
Accounts payable	\$104.2	\$112.4
Accrued aircraft rent	81.8	66.5
Accrued wages, vacation and payroll taxes	83.0	64.7
Other accrued liabilities	99.5	133.7
Air traffic liability	183.7	252.7
Current portion of long-term debt and capital lease obligations	66.5	97.0
-----		
TOTAL CURRENT LIABILITIES	618.7	727.0
-----		
Long-Term Debt and Capital Lease Obligations	337.0	300.1
-----		
Other Liabilities and Credits		
Deferred income taxes	144.0	136.8
Deferred income	37.4	36.4
Other liabilities	112.3	99.1
-----		

	293.7	272.3
-----		
SHAREHOLDERS' EQUITY		
Common stock, \$1 par value		
Authorized:	100,000,000 shares	
Issued: 1999 -	29,157,108 shares	
2000 -	29,185,494 shares	29.2
Capital in excess of par value	480.0	480.8
Treasury stock, at cost: 1999 -	2,746,304 shares	
2000 -	2,746,304 shares	(62.7)
Deferred compensation	(0.6)	(0.4)
Retained earnings	484.8	477.3
	-----	-----
	930.7	924.2
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$2,180.1	\$2,223.6
	=====	=====

See accompanying notes to consolidated financial statements.

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

	-----	-----
Three Months Ended March 31		
(In Millions Except Per Share Amounts)	1999	2000
	-----	-----
OPERATING REVENUES		
Passenger	\$419.4	\$450.6
Freight and mail	20.7	20.3
Other - net	21.1	21.6
	-----	-----
TOTAL OPERATING REVENUES	461.2	492.5
	-----	-----
OPERATING EXPENSES		
Wages and benefits	151.9	171.0
Contracted services	15.6	17.7
Aircraft fuel	42.9	90.1
Aircraft maintenance	35.4	40.2
Aircraft rent	51.3	46.4
Food and beverage service	12.4	12.9
Commissions	23.7	16.5
Other selling expenses	24.6	26.2
Depreciation and amortization	19.7	23.0
Loss (gain) on sale of assets	0.1	(0.1)
Landing fees and other rentals	22.2	22.4
Other	32.8	40.0
	-----	-----
TOTAL OPERATING EXPENSES	432.6	506.3
	-----	-----
OPERATING INCOME (LOSS)	28.6	(13.8)
	-----	-----
NONOPERATING INCOME (EXPENSE)		
Interest income	4.7	5.2
Interest expense	(3.8)	(7.9)
Interest capitalized	2.2	3.4
Other - net	1.7	0.5
	-----	-----
	4.8	1.2
	-----	-----
Income (loss) before income tax	33.4	(12.6)
INCOME TAX EXPENSE (CREDIT)	13.2	(5.1)
	-----	-----
NET INCOME (LOSS)	\$20.2	\$(7.5)
	=====	=====
BASIC EARNINGS (LOSS) PER SHARE	\$0.77	\$(0.28)

Diluted Earnings (Loss) Per Share	\$0.76	\$ (0.28)
Shares used for computation:		
Basic	26.313	26.426
Diluted	26.504	26.426

See accompanying notes to consolidated financial statements.

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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, 1999	26.411	\$29.2	\$480.0	\$(62.7)	\$(0.6)	\$484.8	\$930.7
Net loss for the three months ended March 31, 2000						(7.5)	(7.5)
Stock issued under stock plans	0.028	0.0	0.8	0.0			0.8
Employee Stock Ownership Plan shares allocated					0.2		0.2
<b>BALANCES AT MARCH 31, 2000</b>	<b>26.439</b>	<b>\$29.2</b>	<b>\$480.8</b>	<b>\$(62.7)</b>	<b>\$(0.4)</b>	<b>\$477.3</b>	<b>\$924.2</b>

See accompanying notes to consolidated financial statements.

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

Three Months Ended March 31 (In Millions)	1999	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$20.2	\$(7.5)
Adjustments to reconcile net income (loss) to cash:		
Depreciation and amortization	19.7	23.0
Amortization of airframe and engine overhauls	11.1	12.5
Loss (gain) on sale of assets	0.1	(0.1)
Deferred income taxes	12.3	(7.2)
Increase in accounts receivable	(20.2)	(24.8)
Increase in other current assets	(10.1)	(8.1)
Increase in air traffic liability	55.3	69.0
Increase (decrease) in other current liabilities	(13.7)	8.8
Other-net	1.6	(15.4)
<b>Net cash provided by operating activities</b>	<b>76.3</b>	<b>50.2</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of marketable securities	(25.7)	(1.5)
Sales and maturities of marketable securities	74.6	50.6
Additions to flight equipment deposits	(24.1)	(41.0)

Additions to property and equipment	(71.2)	(60.8)
Restricted deposits and other	3.1	1.2
-----	-----	-----
Net cash used in investing activities	(43.3)	(51.5)
-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term debt and capital lease payments	(6.3)	(6.4)
Proceeds from issuance of common stock	5.0	0.8
-----	-----	-----
Net cash used in financing activities	(1.3)	(5.6)
-----	-----	-----
Net increase (decrease) in cash and cash equivalents	31.7	(6.9)
Cash and cash equivalents at beginning of period	29.4	132.5
-----	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$61.1	\$125.6
=====	=====	=====
Supplemental disclosure of cash paid during the period for:		
Interest (net of amount capitalized)	\$2.4	\$0.0
Income taxes	4.4	\$1.7
Noncash investing and financing activities	None	NONE

See accompanying notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS THAT HAVE CHANGED SIGNIFICANTLY  
DURING THE THREE MONTHS ENDED MARCH 31, 2000  
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, 1999. 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. PREPAID EXPENSES AND OTHER CURRENT ASSETS

At March 31, 2000, other current assets included \$38.3 million of restricted deposits which will be used to pay certain current liabilities. At December 31, 1999, these deposits were included with other assets. These deposits are yen-denominated investments that are held to repay yen-denominated borrowings that are due in the next 12 months.

NOTE 3. OTHER ACCRUED LIABILITIES

The frequent flyer award liability at December 31, 1999 and March 31, 2000 was \$40.0 million and \$44.5 million, respectively.

NOTE 4. EARNINGS PER SHARE (SEE NOTE 9 TO CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 1999)

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

	1999	2000
-----	-----	-----
Net income (loss)	\$20.2	\$(7.5)
Avg. shares outstanding	26.313	26.426
-----	-----	-----
Basic earnings (loss) per share	\$0.77	\$(0.28)
=====	=====	=====

Avg. shares outstanding	26.313	26.426
Assumed exercise of stock options	0.191	--
-----		
Diluted EPS shares	26.504	26.426
-----		
Diluted earnings (loss) per share	\$0.76	\$(0.28)
=====		

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NOTE 5. OPERATING SEGMENT INFORMATION (SEE NOTE 11 TO CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 1999)

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):

	1999	2000
-----		
Operating revenues:		
Alaska	\$371.9	\$394.3
Horizon	93.0	101.5
Elimination of intercompany revenues	(3.7)	(3.3)
-----		
Consolidated	461.2	492.5
=====		
Pretax income (loss):		
Alaska	30.8	(10.9)
Horizon	3.0	(1.4)
Air Group	(0.4)	(0.3)
-----		
Consolidated	33.4	(12.6)
=====		
Total assets at end of period:		
Alaska	1,626.3	2,037.2
Horizon	202.7	242.2
Air Group	814.9	939.0
Elimination of intercompany accounts	(835.2)	(994.8)
-----		
Consolidated	1,808.7	2,223.6
=====		

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ALASKA AIRLINES FINANCIAL AND STATISTICAL DATA

	Three Months Ended March 31		
	-----		
FINANCIAL DATA (IN MILLIONS):	1999	2000	% Change
	-----	-----	-----
Operating Revenues:			
Passenger	\$335.0	\$355.6	6.1
Freight and mail	18.0	17.8	(1.1)

Other - net	18.9	20.9	10.6
Total Operating Revenues	371.9	394.3	6.0
Operating Expenses:			
Wages and benefits	119.8	138.6	15.7
Employee profit sharing	3.0	0.0	(100.0)
Contracted services	13.5	15.2	12.6
Aircraft fuel	35.4	73.8	108.5
Aircraft maintenance	23.0	28.4	23.5
Aircraft rent	40.5	35.8	(11.6)
Food and beverage service	11.8	12.1	2.5
Commissions	22.1	15.6	(29.4)
Other selling expenses	19.4	20.4	5.2
Depreciation and amortization	15.9	18.6	17.0
Loss on sale of assets	0.1	0.0	NM
Landing fees and other rentals	16.7	17.0	1.8
Other	24.6	31.0	26.0
Total Operating Expenses	345.8	406.5	17.6
Operating Income (Loss)	26.1	(12.2)	
Interest income	5.2	6.1	
Interest expense	(3.8)	(7.9)	
Interest capitalized	1.7	2.6	
Other - net	1.6	0.5	
	4.7	1.3	
Income (Loss) Before Income Tax	\$30.8	\$ (10.9)	

OPERATING STATISTICS:			
Revenue passengers (000)	3,072	3,168	3.1
RPMs (000,000)	2,701	2,814	4.2
ASMs (000,000)	4,117	4,231	2.8
Passenger load factor	65.6%	66.5%	0.9 pts
Breakeven load factor	59.9%	70.1%	10.2 pts
Yield per passenger mile	12.40CENTS	12.64CENTS	1.9
Operating revenue per ASM	9.03CENTS	9.32CENTS	3.2
Operating expenses per ASM	8.40CENTS	9.61CENTS	14.4
Fuel cost per gallon	48.5CENTS	99.1CENTS	104.6
Fuel gallons (000,000)	73.1	74.5	1.9
Average number of employees	8,885	9,279	4.4
Aircraft utilization (block hours/day)	11.1	10.9	(1.8)
Operating fleet at period-end	86	89	3.5
NM = Not Meaningful			

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HORIZON AIR FINANCIAL AND STATISTICAL DATA

	Three Months Ended March 31		
			%
FINANCIAL DATA (IN MILLIONS):	1999	2000	Change
	-----	-----	-----
Operating Revenues:			
Passenger	\$87.3	\$97.5	11.7
Freight and mail	2.7	2.5	(7.4)
Other - net	3.0	1.5	(50.0)
Total Operating Revenues	93.0	101.5	9.1

-----			
Operating Expenses:			
Wages and benefits	28.6	32.4	13.3
Employee profit sharing	0.5	0.0	(100.0)
Contracted services	2.6	3.1	19.2
Aircraft fuel	7.5	16.3	117.3
Aircraft maintenance	12.5	11.8	(5.6)
Aircraft rent	10.8	10.6	(1.9)
Food and beverage service	0.6	0.8	33.3
Commissions	4.5	3.4	(24.4)
Other selling expenses	5.3	5.8	9.4
Depreciation and amortization	3.8	4.3	13.2
Loss (gain) on sale of assets	0.0	(0.1)	NM
Landing fees and other rentals	5.5	5.7	3.6
Other	7.9	8.9	12.7
-----			
Total Operating Expenses	90.1	103.0	14.3
-----			
Operating Income	2.9	(1.5)	
-----			
Interest expense	(0.5)	(0.8)	
Interest capitalized	0.5	0.8	
Other - net	0.1	0.1	
-----			
	0.1	0.1	
-----			
Income Before Income Tax	\$3.0	\$(1.4)	
=====			

OPERATING STATISTICS:

Revenue passengers (000)	1,146	1,190	3.9
RPMs (000,000)	301	329	9.5
ASMs (000,000)	501	551	10.0
Passenger load factor	60.0%	59.7%	(0.3)pts
Breakeven load factor	57.8%	60.7%	2.9 pts
Yield per passenger mile	29.04CENTS	29.62CENTS	2.0
Operating revenue per ASM	18.54CENTS	18.41CENTS	(0.7)
Operating expenses per ASM	17.97CENTS	18.68CENTS	4.0
Fuel cost per gallon	51.0CENTS	101.6CENTS	99.4
Fuel gallons (000,000)	14.8	16.0	8.1
Average number of employees	3,305	3,617	9.5
Aircraft utilization (block hours/day)	7.8	8.1	3.8
Operating fleet at period-end	61	62	1.6

NM = Not Meaningful

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FORWARD-LOOKING INFORMATION

This report may contain forward-looking statements that are based on the best information currently available to management. These forward-looking statements are intended to be subject to the safe harbor protection provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are indicated by phrases such as "will", "should", "the Company believes", "we expect" or any other language indicating a prediction of future events. There can be no assurance that actual developments will be those anticipated by the Company. Actual results could differ materially from those projected as a result of a number of factors, some of which the Company cannot predict or control. For a discussion of these factors, please see Item 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 1999.

RESULTS OF OPERATIONS

FIRST QUARTER 2000 COMPARED WITH FIRST QUARTER 1999

The consolidated net loss for the first quarter of 2000 was \$7.5 million, or \$0.28 per share (diluted), compared with a net income of \$20.2 million, or \$0.76 per share, in 1999. The consolidated operating loss for the first quarter of 2000 was \$13.8 million compared to an operating income of \$28.6 million for 1999. The \$42.4 million reduction in operating income was essentially all due to higher fuel prices. Financial and statistical data for Alaska and Horizon is

shown on pages 9 and 10. A discussion of this data follows.

#### ALASKA AIRLINES

##### REVENUES

Capacity increased by 2.8% primarily due to additional flights in the Southern California, Mexico and Arizona markets. Traffic grew by 4.2%, resulting in a 0.9 point increase in passenger load factor. The Canada and Northern California markets experienced the largest increases in load factor. Passenger yields were up 1.9%, primarily due to fuel-related fare increases. Yields were up in all major markets, with Canada showing the largest increase. The higher load factor combined with the higher yield resulted in a 3.2% increase in revenue per available seat mile (ASM). The combined result of the 2.8% capacity increase and the 3.2% revenue per ASM increase was a 6.1% increase in passenger revenue.

Freight and mail revenues decreased 1.1%, primarily due to lower mail volumes. Other-net revenues increased 10.6%, due to increased revenue from travel partners in Alaska's frequent flyer program.

##### EXPENSES

Operating expenses grew by 17.6 % as a result of a 14.4% increase in cost per ASM. The increase in cost per ASM was primarily due to higher fuel prices. Without the higher fuel prices, cost per ASM would have increased 5.3%. Explanations of significant year-over-year changes in the components of operating expenses are as follows:

- Wages and benefits increased 15.7% due to a 4.4% increase in the number of employees combined with a 10.8% increase in average wages and benefits per employee. Employees were added in all areas to service the 3.1% increase in passengers carried. New labor contracts, step increases for pilots, and annual merit raises for management employees all contributed to the higher wage rates.
  
- Contracted services increased 13% due to higher security costs, higher rates for ground handling services and increased navigation fees in Canada and Mexico.
  
- Fuel expense increased 109%, primarily due to a 105% increase in the price of fuel. The fuel consumption rate decreased 3.0% due to the use of more fuel efficient B737-700 aircraft.
  
- Maintenance expense increased 24%, exceeding the 4% increase in block hours, due to increased airframe component and engine overhaul expense, and higher costs for landing gear repairs.
  
- Aircraft rent expense decreased 12%, due to leasing four fewer MD-80 aircraft and two fewer B737-400 aircraft.
  
- Commission expense decreased 29% on a 6% increase in passenger revenue. In 2000, 66% of ticket sales were made through travel agents, versus 69% in 1999. In 2000, 9% of ticket sales were made through Alaska's Internet web site versus 4% in 1999. In addition, the commission rate paid to travel agents decreased from 8% to 5%.
  
- Depreciation increased 17%, primarily due to owning 10 more aircraft in 2000.
  
- Other expense increased 26%, primarily due to higher expenditures for operating supplies, insurance, flight crew hotels, legal fees, passenger remuneration and recruiting.

#### HORIZON AIR

##### REVENUES

Capacity grew by 10.0%, primarily due to added flights in the Canada, and California markets. Traffic grew by 9.5%, resulting in a 0.3 point decrease in passenger load factor. Passenger yields were up 2.0%, largely due to "fuel surcharge" fare increases. Passenger revenues increased 11.7%, slightly more than the 10.0% increase in capacity.

Other-net revenues decreased 50%, or \$1.5 million, primarily due to recording revenues related to aircraft manufacturer's support during the first quarter of

1999.

#### EXPENSES

Operating expenses grew by 14.3% as a result of a 10.0% increase in capacity and a 4.0% 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 13.3% due to a 9.5% increase in the number of employees combined with a 3.5% increase in average wages and benefits per employee. Employees were added in all areas to provide 7.8% more block hours of flying and to service the 3.9% increase in passengers carried.
- Contracted services increased 19%, higher than the 10% increase in capacity, due to higher ground handling charges, increased navigation fees in Canada, and higher security charges.

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- Fuel expense increased 117%, due to an 8% increase in fuel consumption combined with a 99% increase in the price of fuel.
- Maintenance expense included a \$1.5 million leased aircraft return credit for 2000. Absent this credit, maintenance expense would have increased 6%.
- Commission expense decreased 24% on a 12% increase in passenger revenue, because a smaller percentage of sales were made through travel agents and commission rates dropped from 8% to 5%.
- Depreciation and amortization expense increased 13%, primarily due to added depreciation on aircraft spare parts and station equipment.

CONSOLIDATED NONOPERATING INCOME (EXPENSE) Net nonoperating income decreased \$3.6 million, primarily due to higher interest expense resulting from new debt incurred in late 1999.

#### LIQUIDITY AND CAPITAL RESOURCES

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

	December 31, 1999	MARCH 31, 2000	Change
(In millions, except debt-to-equity and per share amounts)			
Cash and marketable securities	\$329.0	\$273.0	\$(56.0)
Working capital (deficit)	(36.8)	(130.0)	(93.2)
Long-term debt and capital lease obligations	337.0	300.1	(36.9)
Shareholders' equity	930.7	924.2	(6.5)
Book value per common share	\$35.24	\$34.96	\$(0.28)
Debt-to-capital	27%:73%	25%:75%	NA
Debt-to-capital assuming aircraft operating leases are capitalized at seven times annualized rent	64%:36%	63%:37%	NA

The Company's cash and marketable securities portfolio decreased by \$56 million during the first three months of 2000. Operating activities provided \$50 million of cash during this period. Cash was used for \$102 million of capital expenditures, including the purchase of one new Boeing 737 aircraft, flight equipment deposits and airframe and engine overhauls, and for \$6 million of debt repayment.

Shareholders' equity decreased \$6.5 million due to the net loss of \$7.5 million.

AIRCRAFT ACCIDENT On January 31, 2000, Alaska Airlines flight 261 from Puerto Vallarta en route to San Francisco, went down in the water off the coast of California near Point Mugu. The flight carried 83 passengers and five crew

members. There were no survivors. Consistent with industry standards, the Company maintains insurance against aircraft accidents. The Company expects substantially all accident response and civil litigation costs to be covered by insurance. However, any aircraft accident, even if fully insured, could cause a negative public perception of the Company with adverse financial consequences. Principally as a result of added maintenance inspections Alaska carried out

after the accident, Alaska estimates that it canceled 6% of its flights in February and 3% of its flights in March.

SAFETY ACTIVITIES In March 2000, to enhance existing lines of communication, Alaska established a "safety hotline" for employees to contact the chairman's office directly regarding any safety concern. In April 2000, an independent team of outside safety experts began a full audit of the maintenance, flight operations, hazardous materials handling and security areas of Alaska. The audit is expected to take two months. In addition, Alaska is in the process of hiring a vice president of safety, who will report directly to the chairman.

COMMITMENTS As of April 2000, the Company had firm orders for 65 aircraft requiring aggregate payments of approximately \$1.5 billion, as set forth below. In addition, Alaska has options to acquire 26 more B737s and Horizon has options to acquire 15 Dash 8-400s and 25 CRJ 700s. Alaska and Horizon expect to finance the new planes with either leases, long-term debt or internally generated cash.

AIRCRAFT	DELIVERY PERIOD - FIRM ORDERS						
	2000	2001	2002	2003	2004	2005	TOTAL
Boeing 737-700	6	3	--	--	--	--	9
Boeing 737-900	--	6	5	--	--	--	11
de Havilland Dash 8-400	3	12	--	--	--	--	15
Canadair RJ 700	--	--	8	6	14	2	30
Total	9	21	13	6	14	2	65
Payments (Millions)	\$311	\$416	\$298	\$168	\$262	\$34	\$1,489

RECENT ACCOUNTING DEVELOPMENTS In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin 101 (SAB 101), Revenue Recognition in Financial Statements. SAB 101 gives specific guidance on the conditions that must be met before revenue may be recognized. In March 2000, the SEC issued SAB 101A that permits the Company to implement SAB 101 in the second quarter of 2000. Four major U.S. airlines have adopted SAB 101 in the first quarter of 2000 and changed their method of accounting for the sale of frequent flyer miles. Alaska believes that SAB 101 also applies to its sale of frequent flyer miles. As a result, Alaska expects to implement SAB 101 during the second quarter of 2000 and change its method of revenue recognition for the sale of mileage credits. The portion of the proceeds from sales of miles that represents Alaska's obligation to provide future travel on Alaska will be deferred and recognized as a component of passenger revenue when the service is rendered. The portion of the proceeds from sales of miles that represents Alaska's obligation to provide future travel on other airline partners will be recorded as a liability to those partners. The remaining portion of the sales proceeds will continue to be recognized immediately as part of other operating revenues. During the second quarter of 2000, Alaska plans to recognize the cumulative effect of adopting SAB 101 as a change in accounting principle as of January 1, 2000.

PART II. OTHER INFORMATION  
ITEM 1. LEGAL PROCEEDINGS

In December 1998, search warrants and a grand jury subpoena (for the U.S. District Court for the Northern District of California) were served on Alaska, initiating an investigation into the Company's Oakland maintenance base by the U.S. Attorney for the Northern District of California.

In addition, the Federal Aviation Administration (FAA) issued a letter of investigation to Alaska relating to maintenance performed on an MD-80 aircraft. In April 1999, the FAA issued a notice of proposed civil penalty for \$44,000. In July 1999, Alaska responded informally to the notice, disputing that any violation occurred, and to date the FAA has not taken any further action. In November 1999, the grand jury issued a second subpoena on Alaska. The Company understands that information developed by the National Transportation Safety Board in connection with the crash of flight 261 on January 31, 2000 is being shared with the U.S. Attorney and that the U.S. Attorney will use this information to evaluate whether any crimes were committed in connection with flight 261. On May 9, 2000 the U.S. Attorney issued a subpoena for records relating to the aircraft involved in the flight 261 accident. To the Company's knowledge, no charges have been filed as a result of the grand jury investigation.

Alaska is currently a defendant in several lawsuits relating to flight 261. The Company is unable to predict the amount of claims that may ultimately be made against it or how those claims might be resolved. Consistent with industry standards, the Company maintains insurance against aircraft accidents. In April 2000, the FAA began an audit of Alaska's maintenance and flight operations departments to ensure adherence to mandated procedures. The FAA has completed the on-site portion of its inspection. During the audit, the FAA requested that Alaska take several actions, which Alaska has done or is currently implementing. The Company has not been informed what further actions, if any, the FAA intends to take as a result of its inspection.

The Company cannot predict the outcome of any of the pending civil or potential criminal proceedings described above. As a result, the Company can give no assurance that these proceedings, if determined adversely to Alaska, would not have a material adverse effect on the financial position or results of operations of the Company.

#### ITEM 5. OTHER INFORMATION

##### ALLIANCES WITH OTHER AIRLINES

During February, 2000, Canadian Airlines gave notice to Alaska that it is canceling its marketing alliance with Alaska effective in August 2000 due to its merger with Air Canada.

##### EMPLOYEES

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 second quarter of 2000.

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibit 3.(ii) - Bylaws of Alaska Air Group, Inc., as amended through January 26, 2000 Exhibit 27 - Financial data schedule.
- (b) On February 9, 2000 a report on Form 8-K was filed discussing the crash of Alaska flight 261.

#### 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: May 9, 2000

/s/ John F. Kelly

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John F. Kelly  
Chairman, President and Chief Executive Officer

/s/ Bradley D. Tilden  
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Bradley D. Tilden  
Vice President/Finance and Chief Financial Officer

BYLAWS  
OF  
ALASKA AIR GROUP, INC.

As Amended and in Effect January 26, 2000  
(Date of Previous Amendment: January 26, 1999)

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, notice of each meeting of the stockholders shall be given not less than thirty and not more than sixty days before the

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date of the meeting to each stockholder entitled to vote at such meeting (i) in writing or (ii) by United State mail, addressed to the stockholder at the address of such stockholder appearing on the books of the corporation or given by the stockholder to the corporation for the purpose of notice. If mailed, notice will be given when deposited in the United States mail, postage prepaid, directed to such stockholder at his or her address as it appears in the stock ledger of the corporation. Any other written notice shall be deemed to have been given at the time it is personally delivered to the recipient, delivered to a common carrier for transmission or actually transmitted by the person giving the notice by electronic means to the recipient.

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.

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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

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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.

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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.

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#### 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.

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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

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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

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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.

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.

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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 "indemnitee"), 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 indemnitee in connection therewith and such indemnification shall continue as to an indemnitee 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 indemnitee seeking indemnification in connection with a proceeding (or part thereof) initiated by such indemnitee 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 indemnitee 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 indemnitee 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 indemnitee 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 indemnitee 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 indemnitee 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 indemnitee shall be entitled to be paid also the expense of prosecuting such suit. The indemnitee 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.

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#### 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

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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 30th day of March, 2000.

/s/ Shannon K. Alberts

-----  
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 2000 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

<PERIOD-TYPE>	3-MOS	
<FISCAL-YEAR-END>		DEC-31-2000
<PERIOD-END>		MAR-31-2000
<CASH>		125,600
<SECURITIES>		147,400
<RECEIVABLES>		99,400
<ALLOWANCES>		0
<INVENTORY>		57,700
<CURRENT-ASSETS>		166,900
<PP&E>		2,076,100
<DEPRECIATION>		540,100
<TOTAL-ASSETS>		2,223,600
<CURRENT-LIABILITIES>		727,000
<BONDS>		300,100
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		29,200
<OTHER-SE>		895,000
<TOTAL-LIABILITY-AND-EQUITY>		2,223,600
<SALES>		492,500
<TOTAL-REVENUES>		492,500
<CGS>		506,300
<TOTAL-COSTS>		506,300
<OTHER-EXPENSES>		0
<LOSS-PROVISION>		0
<INTEREST-EXPENSE>		7,900
<INCOME-PRETAX>		(12,600)
<INCOME-TAX>		(5,100)
<INCOME-CONTINUING>		(7,500)
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		(7,500)
<EPS-BASIC>		(.28)
<EPS-DILUTED>		(.28)