

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 June 30, 1994.

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  No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS  
DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

The registrant has 13,366,984 common shares, par value \$1.00, outstanding at June 30, 1994.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

Attached are the following Alaska Air Group, Inc. (the Company or Air Group) unaudited financial statements: (i) consolidated balance sheet as of June 30, 1994 and December 31, 1993; (ii) consolidated statements of income for the quarters and six months ended June 30, 1994 and 1993; (iii) consolidated statement of shareholders' equity for the six months ended June 30, 1994; and, (iv) consolidated statements of cash flows for the quarters and six months ended June 30, 1994 and 1993. Also attached are the accompanying notes to Air Group's consolidated financial statements that have changed significantly during the six months ended June 30, 1994. These statements include all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods. The

adjustments made were of a normal, recurring nature.

Air Group is a holding company incorporated in Delaware in 1985. Its principal subsidiaries are Alaska Airlines, Inc. (Alaska) and Horizon Air Industries, Inc. (Horizon).

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

##### Results of Operations

###### Second Quarter 1994 Compared with Second Quarter 1993

The consolidated net income for the second quarter of 1994 was \$9.7 million, or \$.72 per share (primary) and \$.55 per share (fully diluted). This compares with 1993's second quarter loss of \$3.6 million, or \$.33 per share. The operating profit for the second quarter of 1994 was \$24.5 million, compared to \$2.1 million for the second quarter of 1993.

##### Operating Revenues

Operating revenues increased 19% from \$277.5 million to \$330.5 million. Passenger revenues increased 20% on a 41% increase in passenger traffic. Traffic gains were due to a 30% increase in system capacity (including new service to Reno and Las Vegas), lower fares that stimulated traffic throughout most of the system, and improvements in market share. Load factor increased from 57.4% in 1993 to 62.3% in 1994. Passenger yields decreased 15% reflecting fare reductions. Average revenue per passenger mile (yield) decreased 2.7 cents, from 17.5 cents in the second quarter of 1993 to 14.8 cents in the second quarter of 1994. Currently, a 1 cent change in yield affects annual revenues by approximately \$70 million.

Freight and mail revenues increased \$2.2 million (11%) due to a military charter contract in the state of Alaska, and increased freight volumes and rates, offset by lower mail volumes. The lower mail volumes resulted from Alaska's decision to not bid on certain U.S. mail contracts and instead haul higher yielding freight. Other-net revenues were up \$2.8 million (25%) due to increased revenues from Alaska's frequent flyer program, maintenance contracts, and inflight liquor sales.

##### Operating Expenses

Operating expenses increased 11% to \$306.0 million on a capacity increase of 30%. Operating expenses per available seat mile (ASM) declined 14%, from 11.21 cents in the second quarter of 1993 to 9.60 cents for the current quarter. The lower unit costs were due to an intensive cost reduction effort and better utilization of Alaska's fleet. Alaska's daily aircraft utilization increased 33% from 7.6 hours to 10.1 hours. In addition, lower fuel prices reduced operating expenses by \$7.2 million in the second quarter 1994. The table below shows the major operating expenses on a unit cost basis for the quarters ended June 30, 1994 and 1993.

Operating Expenses Per ASM (In Cents)

	1994	1993	Change	% Change
Wages and benefits	3.15	3.71	(.56)	(15)
Aircraft fuel	1.08	1.40	(.32)	(23)
Aircraft maintenance	.56	.62	(.06)	(10)
Aircraft rent	1.29	1.55	(.26)	(17)
Commissions	.74	.82	(.08)	(10)
Depreciation & amortization	.45	.59	(.14)	(24)
Other	2.33	2.52	(.19)	(8)
Total	9.60	11.21	(1.61)	(14)

Wages and benefits per ASM decreased 15% primarily due to improved productivity at Alaska. The number of Alaska employees increased 3% while its capacity increased 31% and traffic increased 42%. During March 1994, Alaska and the Association of Flight Attendants concluded a new five-year contract, which was effective May 1, 1994. The contract is modeled after the one used at Southwest Airlines and provides flight attendants the opportunity to earn increased wages through increased flying. It also provides a lower starting rate of pay, more flexible work rules, and reduced pension expenses.

Fuel expense per ASM decreased 23% primarily due to a 17% decrease in the cost of fuel. The average cost per gallon was down 12.0 cents from 69.2 cents in the second quarter of 1993 to 57.2 cents in the current quarter. Currently, a 1 cent change in fuel prices affects annual fuel costs by approximately \$2.3 million.

Maintenance expense per ASM decreased 10% due to the replacement of older aircraft with new aircraft during the past year as well as significant improvements in maintenance programs, techniques and efficiencies. Aircraft rent per ASM decreased 17% primarily due to a substantial increase in Alaska's average fleet utilization, offset by higher rents for new aircraft acquired during the past year.

Depreciation and amortization expense per ASM decreased 24% due to the retirement of essentially all of Alaska's Boeing 727-200 aircraft during 1993, and increased utilization of the remaining fleet. Other expense per ASM decreased 8% due to lower unit costs for food, advertising and personnel expenses.

#### Other Income (Expense)

Nonoperating expense was \$6.9 million in the second quarter of both 1994 and 1993. Interest expense was \$2.6 million higher in 1994 due to higher interest rates on variable debt and higher average debt balances. Other-net was \$3.1 million higher in 1994 due to gains on debt retirements and vendor credits.

#### Six Months 1994 Compared with Six Months 1993

The consolidated net income for the six months ended June 30, 1994 was \$3.4 million, or \$.25 per share. This compares with 1993's first half net loss of \$18.6 million, or \$1.59 per share. Operating revenues for the 1994 period were \$610.9 million, 16% higher than the \$527.7 million posted a year ago. A 28% increase in capacity coupled with a 20% decrease in yields resulted in passenger traffic climbing 45% for the period. The reasons noted for the second quarter passenger revenue variation also apply for the six-month period.

Operating expenses increased 9% to \$589.3 million, compared to \$542.5 million in the first half of last year. Operating expenses per available seat mile (ASM) declined 15%, from 11.56 cents to 9.86 cents. The table below shows the major operating expenses on a unit cost basis for the six months ended June 30, 1994 and 1993.

	Operating Expenses Per ASM (In Cents)			
	1994	1993	Change	% Change
Wages and benefits	3.23	3.83	(.60)	(16)
Aircraft fuel	1.13	1.41	(.28)	(20)
Aircraft maintenance	.58	.73	(.15)	(21)
Aircraft rent	1.35	1.59	(.24)	(15)
Commissions	.73	.83	(.10)	(12)
Depreciation & amortization	.45	.61	(.16)	(26)
Other	2.39	2.56	(.17)	(7)

Total	9.86	11.56	(1.70)	(15)
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The reasons noted for the second quarter expense variations also apply for the six-month period.

#### Liquidity and Capital Resources

The table below shows the major indicators of financial condition and liquidity at June 30, 1994 and December 31, 1993 and the changes during the six months ended June 30, 1994.

	June 30, 1994	December 31, 1993	Change
(In millions, except ratios and per share)			
Cash and marketable securities	\$126.8	\$101.1	\$25.7
Working capital (deficit)	(86.4)	(61.3)	(25.1)
Total assets	1,261.3	1,135.0	126.3
Long-term debt	596.6	525.4	71.2
Shareholders' equity	171.1	166.8	4.3
Book value per common share	\$12.80	\$12.51	\$.29
Debt/equity ratio	78%:22%	76%:24%	N/A

The Company's cash and marketable securities portfolio increased by \$25.7 million during the first half of 1994. Operating activities provided \$100 million of cash in the first half of 1994. Additional cash was provided by \$104 million in new long-term debt. Cash was used for the purchase of four new MD-83 aircraft, one used B737-200C aircraft, and other capital expenditures (\$130 million), repayment of short-term borrowings (\$20 million), debt payments (\$32 million) and restricted deposits (\$5 million).

#### Financing Arrangements

In the first half of 1994, three MD-83 aircraft were financed with \$78 million of interim debt. Later this year, the Company plans to refinance this debt with new ten-year loans at variable interest rates based on LIBOR. In addition, one MD-83 aircraft was financed with a \$26 million ten-year loan at a variable interest rate based on LIBOR.

At June 30, 1994, Alaska had \$70 million in lines of credit which were being used as part of the above interim financing of MD-83 aircraft.

#### Commitments

During the first half of 1994, Alaska took delivery of three new B737-400 aircraft under eight-year operating leases. In April 1994, Alaska further restructured its aircraft orders with McDonnell Douglas and replaced an order for ten MD-90s plus options with an order for four MD-83s. Two MD-83s will be delivered in 1996 and two in 1997. The net effect will reduce future capital spending by approximately \$360 million.

#### PART II. OTHER INFORMATION

##### ITEM 1. Legal Proceedings

In December 1992, the U.S. Department of Justice filed suit against most major domestic airlines, including the Company, alleging that they violated the antitrust laws by conspiring to fix prices for domestic airline tickets in violation of Section 1 of the Sherman Act. During March 1994, six of the airlines, including the Company, entered into consent decrees with the U.S. Department of Justice. The agreement requires no refunds or monetary cost to the Company and is expected to be approved by the court in the third quarter of 1994.

ITEM 4. Submission of Matters to a Vote of Security Holders  
 (a) Air Group's annual meeting of stockholders was held on May 17, 1994.  
 (b) Not applicable.  
 (c) Three directors were elected with the following results:

Director	Votes For	Votes Against or Withheld	Broker Non-Votes
M.J. Fate	11,995,547	145,765	0
J.F. Kelly	12,016,625	124,687	0
B.R. Kennedy	12,026,173	115,139	0

ITEM 6. Exhibits and Reports on Form 8-K  
 (a) Exhibit 11 - Statement regarding computation of per-share earnings.  
 (b) No reports on Form 8-K were filed during the second quarter 1994.

**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: August 4, 1994

/S/ Raymond J. Vecci  
 Raymond J. Vecci  
 Chairman, President and Chief Executive Officer

/s/ Kathleen H. Iskra  
 Kathleen H. Iskra  
 Controller (Principal Accounting Officer)

**CONSOLIDATED BALANCE SHEET**  
**Alaska Air Group, Inc.**

**ASSETS**

	June 30, 1994	Dec. 31, 1993
(In Thousands)		
<b>Current Assets</b>		
Cash and cash equivalents	\$48,718	\$27,179
Marketable securities	78,050	73,970
Receivables - net	83,276	75,274
Inventories and supplies	41,313	41,269
Prepaid expenses and other assets	51,767	56,498
 Total Current Assets	 303,124	 274,190
<b>Property and Equipment</b>		
Flight equipment	745,199	614,717
Other property and equipment	210,044	217,967
Deposits for future flight equipment	54,971	79,765
	1,010,214	912,449
Less accumulated depreciation and amortization	256,592	247,145
	753,622	665,304
<b>Capital leases</b>		
Flight and other equipment	44,381	44,381
Less accumulated amortization	20,133	19,079

	24,248	25,302
Total Property and Equipment - Net	777,870	690,606
Intangible Assets - Subsidiaries	66,691	67,711
Other Assets	113,612	102,447
Total Assets	<b>\$1,261,297</b>	<b>\$1,134,954</b>

See accompanying notes to consolidated financial statements.

**CONSOLIDATED BALANCE SHEET**  
Alaska Air Group, Inc.

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	June 30, 1994	Dec. 31, 1993
(In Thousands)		
Current Liabilities		
Accounts payable	\$49,333	\$45,582
Accrued aircraft rent	35,202	39,119
Other accrued liabilities	68,148	46,679
Accrued wages, vacation pay and payroll taxes	42,086	40,192
Short-term borrowings	-	20,000
Air traffic liability	153,245	108,360
Current portion of long-term debt and capital lease obligations	41,464	35,575
Total Current Liabilities	389,478	335,507
Long-Term Debt and Capital Lease Obligations	596,637	525,418
Other Liabilities and Credits		
Deferred income taxes	23,747	20,998
Deferred income	23,939	25,827
Other liabilities	56,426	60,371
	104,112	107,196
Shareholders' Equity		
Common stock, \$1 par value		
Authorized: 30,000,000 shares		
Issued: 1994 - 16,520,575 shares		
1993 - 16,495,210 shares	16,521	16,495
Capital in excess of par value	152,265	152,017
Treasury stock, at cost: 1994 - 3,153,591 shares		
1993 - 3,153,576 shares	(71,807)	(71,807)
Deferred compensation	(5,218)	(5,813)
Retained earnings	79,309	75,941
	171,070	166,833
Total Liabilities and Shareholders' Equity	<b>\$1,261,297</b>	<b>\$1,134,954</b>

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENT OF INCOME**  
Alaska Air Group, Inc.

Quarter Ended June 30 (In Thousands)	1994	1993
Operating Revenues		
Passenger	\$294,245	\$246,301
Freight and mail	22,359	20,115
Other - net	13,871	11,067
Total Operating Revenues	330,475	277,483
Operating Expenses		
Wages and benefits	100,334	91,299

Aircraft fuel	34,415	34,310
Aircraft maintenance	17,869	15,350
Aircraft rent	41,104	37,997
Commissions	23,654	20,177
Depreciation and amortization	14,276	14,437
Other	74,332	61,831
Total Operating Expenses	305,984	275,401
Operating Income	24,491	2,082
Other Income (Expense)		
Interest income	1,711	1,963
Interest expense	(11,810)	(9,253)
Interest capitalized	95	221
Loss on sale of assets	(327)	(179)
Other - net	3,442	381
	(6,889)	(6,867)
Income (loss) before income tax	17,602	(4,785)
Income tax expense (credit)	7,921	(1,196)
Net Income (Loss)	\$ 9,681	\$ (3,589)
Earnings (Loss) Per Common Share:		
Primary -		
Net income (loss)	\$ 9,681	\$ (3,589)
Preferred stock dividends	-	(880)
Net income (loss) applicable to common shares	\$ 9,681	\$ (4,469)
Average shares outstanding (000)	13,366	13,341
Earnings (loss) per common share	\$ 0.72	\$ (0.33)
Fully Diluted -		
Income applicable to common shares	\$ 12,077	
Average shares outstanding (000)	22,055	Anti-
Earnings per common share	\$ 0.55	Dilutive

See accompanying notes to consolidated financial statements.

#### CONSOLIDATED STATEMENT OF INCOME Alaska Air Group, Inc.

Six Months Ended June 30 (In Thousands)	1994	1993
Operating Revenues		
Passenger	\$ 542,466	\$ 471,058
Freight and mail	42,595	36,683
Other - net	25,796	19,984
Total Operating Revenues	610,857	527,725
Operating Expenses		
Wages and benefits	193,129	179,998
Aircraft fuel	67,342	66,041
Aircraft maintenance	34,670	34,376
Aircraft rent	80,512	74,688
Commissions	43,651	38,892
Depreciation and amortization	27,203	28,857
Other	142,787	119,637
Total Operating Expenses	589,294	542,489
Operating Income (Loss)	21,563	(14,764)
Other Income (Expense)		
Interest income	3,135	3,739
Interest expense	(21,687)	(19,116)
Interest capitalized	198	221
Loss on sale of assets	(502)	(1)
Other - net	3,883	1,273
	(14,973)	(13,884)
Income (loss) before income tax	6,590	(28,648)
Income tax expense (credit)	3,222	(10,026)
Net Income (Loss)	\$ 3,368	\$ (18,622)

**Earnings (Loss) Per Common Share:**

Primary -

Net income (loss)	\$3,368	\$ (18,622)
Preferred stock dividends	-	(2,525)
Income (loss) applicable to common shares	\$3,368	\$ (21,147)
Average shares outstanding (000)	13,364	13,337
Earnings (loss) per common share	\$0.25	\$ (1.59)

The dilutive effect of the Company's common stock equivalents and convertible securities was anti-dilutive for 1994 and 1993.

See accompanying notes to consolidated financial statements.

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

(In Thousands)	Common Stock \$1 Par Value	Capital in Excess of Par Value	Treasury Stock at Cost	Deferred Compen- sation	Retained Earnings
Balances at December 31, 1993	\$16,495	\$152,017	(\$71,807)	(\$5,813)	\$75,941
Net income for the six months ended June 30, 1994				3,368	
Stock issued under stock plans	26	248			
Employee Stock Ownership Plans shares allocated				595	
Balances at June 30, 1994	\$16,521	\$152,265	(\$71,807)	(\$5,218)	\$79,309

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

Alaska Air Group, Inc.

Quarter Ended June 30 (In Thousands)	1994	1993
Cash and cash equivalents at beginning of quarter	\$27,555	\$8,701
Cash flows from operating activities:		
Net income (loss)	9,681	(3,589)
Adjustments to reconcile net income (loss) to cash:		
Depreciation and amortization	14,276	14,437
Amortization of airframe and engine overhauls	5,292	7,448
Gain on disposition of assets and debt retirement	(1,218)	(81)
Deferred income taxes	7,921	(1,280)
Decrease (increase) in accounts receivable	(5,939)	12,190
Increase in other current assets	(11,585)	(8,108)
Increase in air traffic liability	18,814	29,815
Increase in other current liabilities	28,693	6,396
Interest on zero coupon notes	2,567	2,487
Leased aircraft return payments and other-net	(4,415)	(1,017)
Net cash provided by operating activities	64,087	58,698
Cash flows from investing activities:		
Proceeds from disposition of assets	1,774	530
Purchases of marketable securities	(139,000)	(180,775)
Sales and maturities of marketable securities	130,556	155,743
Restricted deposits	(2,580)	1,702
Future flight equipment deposits returned	2,505	-
Additions to future flight equipment deposits	(154)	(379)
Additions to property and equipment	(39,935)	(9,413)
Net cash used in investing activities	(46,834)	(32,592)
Cash flows from financing activities:		
Proceeds from sale and leaseback transactions	-	17,500
Proceeds from issuance of long-term debt	26,000	-
Long-term debt and capital lease payments	(23,768)	(3,980)
Proceeds from issuance of common stock	133	60
Repurchase of preferred stock	-	(33,375)
Cash dividends	-	(856)

Gain on debt retirement	1,545	260
Net cash provided by (used in) financing activities	3,910	(20,391)
Net increase in cash and cash equivalents	21,163	5,715
Cash and cash equivalents at end of quarter	\$48,718	\$14,416
Supplemental disclosure of cash paid during the quarter for:		
Interest (net of amount capitalized)	\$13,774	\$7,092
Income taxes (refunds)	-	(18,554)
Noncash investing and financing activities:		
1994 - None		
1993 - The preferred stock was repurchased in exchange for a \$27 million note payable and a \$33.4 million cash payment.		

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**Alaska Air Group, Inc.**

Six Months Ended June 30 (In Thousands)	1994	1993
Cash and cash equivalents at beginning of period	\$27,179	\$6,880
Cash flows from operating activities:		
Net income (loss)	3,368	(18,622)
Adjustments to reconcile net income (loss) to cash:		
Depreciation and amortization	27,203	28,857
Amortization of airframe and engine overhauls	10,268	14,725
Gain on disposition of assets and debt retirement	(1,043)	(585)
Deferred income taxes	2,749	(12,442)
Decrease (increase) in accounts receivable	(8,002)	7,165
Decrease (increase) in other current assets	4,687	(73)
Increase in air traffic liability	44,885	41,312
Increase in other current liabilities	23,197	2,155
Interest on zero coupon notes	5,089	4,837
Leased aircraft return payments and other-net	(12,319)	(3,974)
Net cash provided by operating activities	100,082	63,355
Cash flows from investing activities:		
Proceeds from disposition of assets	3,501	762
Purchases of marketable securities	(271,500)	(258,725)
Sales and maturities of marketable securities	267,420	252,815
Restricted deposits	(5,254)	(2,295)
Future flight equipment deposits returned	3,115	-
Additions to future flight equipment deposits	(826)	(379)
Additions to property and equipment	(128,837)	(18,337)
Net cash used in investing activities	(132,381)	(26,159)
Cash flows from financing activities:		
Repayment of short-term borrowings	(20,000)	-
Proceeds from sale and leaseback transactions	-	17,500
Proceeds from issuance of long-term debt	104,000	-
Long-term debt and capital lease payments	(31,981)	(12,126)
Proceeds from issuance of common stock	274	184
Repurchase of preferred stock	-	(33,375)
Cash dividends	-	(2,429)
Gain on debt retirement	1,545	586
Net cash provided by (used in) financing activities	53,838	(29,660)
Net increase in cash and cash equivalents	21,539	7,536
Cash and cash equivalents at end of period	\$48,718	\$14,416
Supplemental disclosure of cash paid during the period for:		
Interest (net of amount capitalized)	\$20,896	\$16,057
Income taxes (refunds)	(6,715)	(18,554)
Noncash investing and financing activities:		
1994 - None		
1993 - The preferred stock was repurchased in exchange for a \$27 million note payable and a \$33.4 million cash payment.		

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS THAT HAVE CHANGED  
SIGNIFICANTLY DURING THE SIX MONTHS ENDED JUNE 30, 1994  
Alaska Air Group, Inc.

Note 1. Long-Term Debt (See Note 3 to Consolidated Financial Statements at December 31, 1993)

In the first half of 1994, three MD-83 aircraft were financed with \$78 million of interim debt with a term of up to ten years and variable interest rate based on LIBOR. During the second half of 1994, the Company plans to refinance this debt with new ten-year loans at variable interest rates based on LIBOR. In addition, in May 1994, one MD-83 aircraft was financed with a \$26 million ten-year loan at a variable interest rate based on LIBOR.

At June 30, 1994, Alaska had \$70 million in lines of credit which were being used as part of the above interim financing of three MD-83 aircraft.

At June 30, 1994, under the most restrictive loan provisions, Alaska had \$21.2 million of excess net worth.

Note 2. Commitments (See Note 5 to Consolidated Financial Statements at December 31, 1993)

During the first half of 1994, Alaska took delivery of three new B737-400 aircraft under eight-year operating leases. In April 1994, Alaska further restructured its aircraft orders with McDonnell Douglas and replaced an order for ten MD-90s plus options with an order for four MD-83s. Two MD-83s will be delivered in 1996 and two in 1997. The net effect will reduce future capital spending by approximately \$360 million.

Note 3. Fuel Hedge Agreement (See Note 11 to Consolidated Financial Statements at December 31, 1993)

The Company enters into hedge agreements to reduce its exposure to fluctuations in the price of jet fuel. The agreements establish a ceiling and floor fuel price. The Company records income or loss if the average cost of fuel, as determined by an index, exceeds the ceiling fuel price or falls below the floor price, respectively.

The fuel hedges had no material effect on the first half of 1994 operating results. At June 30, 1994, the Company had a fuel hedge agreement in place with a ceiling price of 65 cents covering approximately 22% of the expected fuel usage through December 1994, and a floor price of 44 cents covering approximately 44% of the expected fuel usage through December 1994.

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

EXHIBIT 11

	Three Months Ended June 30,		Six Months Ended June 30,	
	1994	1993	1994	1993
Primary -				
Net income	\$ 9,681	(\$3,589)	\$ 3,368	(\$18,622)
Deduct dividends on preferred shares	-	(856)	-	(2,453)
Deduct preferred stock accretion	-	(24)	-	(72)
Income applicable to common shares	\$ 9,681	(\$4,469)	\$ 3,368	(\$21,147)
	=====	=====	=====	=====
Average number of shares outstanding	13,359	13,341	13,354	13,337
Assumed exercise of stock options	7	-	10	-
Average shares as adjusted	13,366	13,341	13,364	13,337
Earnings per common share	\$ 0.72	(\$0.33)	\$ 0.25	(\$1.59)
	=====	=====	=====	=====
Fully Diluted -				
Net income	\$ 9,681	(\$3,589)	\$ 3,368	(\$18,622)
After tax interest on convertible securities	2,396	2,918	4,744	4,994
Income applicable to common shares	\$12,077	(\$671)	\$ 8,112	(\$13,628)
	=====	=====	=====	=====
Average number of shares outstanding	13,359	13,341	13,354	13,337
Common stock equivalents	8	17	10	21
Common stock reserved for conversion	8,688	9,007	8,794	9,049
Average shares as adjusted	22,055	22,365	22,158	22,407
Earnings per Common Share	\$ 0.55	(\$0.03)	\$ 0.37	(\$0.61)
	=====	=====	=====	=====
		*	*	*

\* Anti-dilutive