ALASKA AIR GROUP, INC.
Form 10-K
February 15, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

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.

Delaware	91-1292054
(State of Incorporation)	(I.R.S. Employer Identification No.)

19300 International Boulevard, Seattle, Washington 98188
Telephone: (206) 392-5040

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, $0.01 Par Value New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of “large accelerated filer”, "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes ¨ No x

As of January 31, 2019, shares of common stock outstanding totaled 123,116,410. The aggregate market value of the shares of common stock of Alaska Air Group, Inc. held by nonaffiliates on June 30, 2018, was approximately $7.4 billion (based on the closing price of $60.39 per share on the New York Stock Exchange on that date).

DOCUMENTS INCORPORATED BY REFERENCE
Portions of Definitive Proxy Statement relating to 2019 Annual Meeting of Shareholders are incorporated by reference in Part III.

ALASKA AIR GROUP, INC.
ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2018

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As used in this Form 10-K, the terms “Air Group,” the "Company," “our,” “we” and "us," refer to Alaska Air Group, Inc. and its subsidiaries, unless the context indicates otherwise. Alaska Airlines, Inc., Virgin America Inc. (through July 20, 2018, at which point it was legally merged into Alaska Airlines, Inc.), and Horizon Air Industries, Inc. are referred to as “Alaska,” "Virgin America" and “Horizon,” respectively, and together as our “airlines.”

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information, this Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward-looking statements as statements containing the words “believe,” “expect,” “will,” “anticipate,” “intend,” “estimate,” "project," "assume" or other similar expressions, although not all forward-looking statements contain these identifying words. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from historical experience or the Company's present expectations.

You should not place undue reliance on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control.

Our forward-looking statements are based on the information currently available to us and speak only as of the date on which this report was filed with the SEC. We expressly disclaim any obligation to issue any updates or revisions to our forward-looking statements, even if subsequent events cause our expectations to change regarding the matters discussed in those statements. Over time, our actual results, performance or achievements will likely differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements, and such differences might be significant and materially adverse to our shareholders. For a discussion of these and other risk factors in this Form 10-K, see "Item 1A: Risk Factors." Please consider our forward-looking statements in light of those risks as you read this report.

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PART I
ITEM 1. OUR BUSINESS

Alaska Air Group is a Delaware corporation incorporated in 1985 that operates two airlines, Alaska and Horizon. Alaska was organized in 1932 and incorporated in 1937 in the state of Alaska. Horizon Air is a Washington corporation that was incorporated and began service in 1981. It was acquired by Air Group in 1986. Virgin America has been a member of Air Group since it was acquired in 2016. In 2018, Virgin America and Alaska combined operating certificates to become a single airline, and legally merged into a single entity. The Company also includes McGee Air Services, an aviation services provider that was established as a wholly-owned subsidiary of Alaska in 2016.

Alaska and Horizon operate as separate airlines, with individual business plans, competitive factors and economic risks. Together with our regional partner airlines, we fly to 115 destinations with over 1,200 daily departures through an expansive network across the United States, Mexico, Canada, and Costa Rica. With global airline partners, we provide our guests with a network of more than 900 destinations worldwide. During 2018, we carried an all-time high 46 million guests and earned consolidated net income under Generally Accepted Accounting Principles (GAAP) of $437 million compared to net income of $960 million in 2017. Our adjusted net income was $554 million, which excludes merger-related costs, special items and mark-to-market fuel hedge adjustments. Refer to "Results of Operations" in Management's Discussion and Analysis for our reconciliation of Non-GAAP measures to the most directly comparable GAAP measure.

We organize the business and review financial operating performance by aggregating our business in three operating segments, which are as follows:

- Mainline - includes scheduled air transportation on Alaska's Boeing or Airbus jet aircraft for passengers and cargo throughout the U.S., and in parts of Canada, Mexico, and Costa Rica.
- Regional - includes Horizon's and other third-party carriers' scheduled air transportation for passengers across a shorter distance network within the U.S. under capacity purchase agreements (CPA). This segment includes the actual revenues and expenses associated with regional flying, as well as an allocation of corporate overhead incurred by Air Group on behalf of the regional operations.
- Horizon - includes the capacity sold to Alaska under CPA. Expenses include those typically borne by regional airlines such as crew costs, ownership costs and maintenance costs.

Our purpose is "creating an airline people love." The "ing" is to recognize that we are never done; we are continually working to improve. We believe our success depends on our ability to provide safe air transportation, develop relationships with guests by providing exceptional customer service and low fares, and maintain a low cost structure to compete effectively. It is important to us that we achieve our objective as a socially responsible company that values not just performance, but also our people, the communities we serve, and the environment.

In 2018, we focused much of our energy on the integration of Virgin America, completing over 95% of our integration milestones. In January 2018, Alaska and Virgin America received a Single Operating Certificate (SOC) from the Federal Aviation Administration (FAA), which recognizes Alaska and Virgin America as one airline. In April 2018, we transitioned to a single Passenger Service System (PSS), which allows us to provide one reservation system, one website and one inventory of flights to our guests. This transition to a single PSS enables us to unlock many of the revenue synergies expected from the acquisition, and to provide consistent branding to our guests at all airport gates, ticketing, and check-in areas.

The two most important milestones we have yet to complete include combining the maintenance operations of Boeing and Airbus, and reconfiguring our Airbus fleet. In 2018, we painted 33 Airbus aircraft with the Alaska livery and we are in process of reconfiguring all Airbus aircraft to achieve a cabin experience for our guests that is consistent with our Boeing fleet. In early 2019, we will also complete the integration of our crew management systems and aim to reach a collective bargaining agreement with our aircraft technicians, the last remaining labor group that has not yet reached a joint collective bargaining agreement.

With the integration largely behind us, we remain committed to our vision to become the favorite airline for people on the West Coast. The acquisition of Virgin America positioned us as the fifth largest airline in the U.S., with an unparalleled ability to serve West Coast travelers. To do so, we believe we need to meet our guests' evolving needs by offering a relevant network and schedule, upgrading our onboard offerings, and retaining our unique West Coast vibe. Some of the more notable product enhancements underway include adding high-speed satellite connectivity to our entire Boeing and Airbus fleets, updating and expanding our airport lounges, and working with the Port of Seattle to open a state-of-the-art 20-gate North Satellite Concourse at Sea-Tac Airport, including a 15,000 square-foot flagship lounge. We have also introduced new food and beverage menus, which include more fresh, local, and healthy offerings including salads, protein plates, and fresh snacks, as well as new beverage offerings, including craft beers, juices and an updated wine selection.

We are also active in the communities we serve and strive to be an industry leader in environmental and community stewardship. In 2018, Air Group donated $17 million in cash and in-kind travel to over 1,300 charitable organizations, and our employees volunteered more than 44,000 hours of community service, related to youth and education, medical research, and transportation. One of our leadership principles is to "give back" and we are proud of the efforts and voluntarism of our employees. As recognition of our community leadership, financial stability and the fact that our combined fleet is one of the youngest and most fuel-efficient in North America, we ranked higher than any other North American airline for the second year in a row on the Dow Jones Sustainability Index.

We continued to generate profits in 2018, marking our 15th consecutive year with adjusted net income. Our liquidity and capital position remain strong, positioning us among other high-quality industrial companies. Due to our strong financial health and outlook, we are one of only three U.S. airlines with investment grade credit ratings. The cash generated by our continued success enables us to invest in our business to deliver profitable growth, enhance our guests' experience, and improve our financial position.

Looking to the future, our vision is to become the West Coast's favorite airline. To do this, we will focus on the following areas:

Safety

Safety is the most important thing we do. We have an unwavering commitment to run a safe operation, and we will not compromise this commitment in the pursuit of other initiatives. Alaska and Horizon were the first U.S. major airlines to receive FAA validation and acceptance of their Safety Management Systems (SMS) in 2016. In 2018, we continued using SMS to safely and consistently guide our integration with the legacy Virgin America operation. Report It!, a new mobile safety reporting application, made it easier than ever for employees to file safety reports. Once again, in 2018, 100% of our Alaska and Horizon aircraft technicians completed the requirements for the FAA's "Diamond Certificate of Excellence" award. This marks the 17th consecutive year Alaska has received the award, and the 17th time in the last 19 years Horizon has received this award. In 2018 we were also included as one of only two U.S. airlines on the AirlineRatings.com list of the world's Top 20 safest airlines. We also believe that maintaining safe operations, through adherence to well-defined processes, and ensuring every Air Group employee is aware of their individual contribution to our operation, is critical to ensuring on-time performance. The rigor we apply to running a safe operation has resulted in Alaska consistently being one of the top airlines in North America for on-time performance; and Horizon recognized as the leader in on-time performance in 2018 among regional airlines.

Delivering Low Costs

We believe that our low-fare model gives us a competitive advantage by providing significant value to our guests. We also know that, in order to provide low fares in our growing network, while generating strong returns for our shareholders, it is imperative for us to maintain a competitive cost structure. In 2018, our unit costs, excluding fuel and special items, increased 3.1% on a consolidated basis. Although our unit costs are expected to rise again in 2019 primarily due to slower capacity growth, a higher mix of Regional flying, and general wage inflation, we have increased our focus on lowering overhead, improving productivity, and managing vendor costs. We are also actively managing fuel costs by flying larger, more fuel-efficient aircraft, which has increased our fuel efficiency as measured by available seat miles flown per gallon by 1.3% over the last five years. As we work to finalize the integration of our Airbus operations, we are committed to achieving our stated cost and revenue synergy goals. We have a long track record of effective cost control, and we remain keenly committed to protecting our unit cost advantage relative to competitors.

Enabling Our Advantage

Paramount to becoming the West Coast favorite airline is enabling and demonstrating Our Advantage. We do so by delivering great service, great value and providing generous rewards.

- Genuine and Caring Service - Providing genuine and caring service to our guests is key to our success, and is demonstrated daily by our employees. As proof, in 2018, Alaska ranked first in the J.D. Power and Associates annual survey of customer satisfaction among traditional network carriers for the 11th year in a row. Alaska was also recognized for excellent service by Condé Nast Traveler and Travel + Leisure magazine, continuing an achievement earned by Virgin America for the preceding ten years.

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- Low Fares and Great Value - We offer the highest guest relevance of any carrier from the West Coast, with a 20% lower cost structure than legacy carriers. Competition in our markets is significant, and we know that we must defend our customer base as we grow our network presence by providing guests with an increased choice of schedule times and fares. In 2018, we introduced our Saver Fare product, which will offer greater choice for our guests, allowing them to purchase and pay for the ticket type and other amenities they value most. This, combined with enhancements to our onboard product, will enable us to continue to deliver significant value to our guests.

We are also focused on providing meaningful utility and routes to our guests. From our West Coast hub cities, we lead all other airlines in non-stop markets, daily flights and seat share. In the past two years, we have significantly expanded our network utility in California, adding 21 new routes and nearly doubling our number of daily flights. We also have focused our new routes announced for 2019 in those areas which connect our guests to high demand markets in the lower 48 states and Hawaii, including 18 daily departures from Paine Field-Snohomish County Airport in Everett, Washington to eight West Coast markets expected to launch in March 2019.

- Generous Mileage Plan - Our award winning Mileage Plan™ is another way we build long-term guest relationships and enable Our Advantage. We maintain a distance-based frequent flier program, which rewards all fliers regardless of the price they paid for their tickets. In 2018, we leveraged our greater network utility to significantly grow our Mileage Plan™ membership and credit card holders, especially in the state of California. We also offered promotions like Buy One Get One Free companion fares and new redemption benefits, including using miles for hotel redemptions (with access to over 400,000 hotels worldwide), redeeming miles on Finnair flights and adding Aer Lingus as a new global partner.

- West Coast Vibe - In 2018, we tailored many of our amenities to highlight our West Coast roots. We relaunched our First Class and Main Cabin food menus featuring fresh and local West Coast items, as well as local craft beers and wines. To keep up to speed with the evolving needs and preferences of our West Coast guests, we continue to expand and enhance our on-board amenities, including seat-back power, free movies, TV content and texting. In 2018, we also began installation of next-generation satellite-based Wi-Fi on all of our Mainline aircraft, which will provide our guests with greatly improved on-board internet speed and connectivity. Finally, we continue to connect with West Coast guests through key sponsorships including Russell Wilson, Kevin Durant, the San Jose Sharks, San Francisco Giants, Seattle Mariners, Portland Timbers and more.

Being One Team

Our success depends on our more than 23,000 employees living our values every day to deliver superior customer service as a single team. We know engaged employees deliver higher productivity, superior execution and better guest experiences, which is why investing in our people is imperative to our future success.

In 2018, we focused on our culture to ensure every employee feels valued, informed and engaged. It is a top priority to ensure our employees know where we are, where we are going and how we will get there. To this end, we have implemented new and enhanced communication vehicles, including weekly Leader Look Ahead and periodic live-streamed webcasts, to provide employees better information and a stronger connection to organizational priorities. Additionally, we launched Flight Path - a program that brings employees together through leader-led sessions to inform, engage and set the course for our business and culture. Our efforts were recognized by Forbes Magazine in 2018, who recognized Alaska as one of America's Best Employers for the fourth year in a row.

Aligning our employees' goals with Air Group's goals has been an important contributor to our strong track record of accomplishments and financial performance. The majority of Alaska and Horizon employees participate in our Performance-Based Pay (PBP) and Operational Performance Rewards (OPR) programs, which encourage employees to work together to achieve metrics related to the Company's strategy, including safety, profitability, on-time performance, low costs, customer loyalty, and customer satisfaction. Over the last five years, our incentive programs have paid out on average more than one month's pay for most employees. In 2018, we rewarded our employees with $147 million under these incentive programs.

AIR GROUP

Our airlines operate different aircraft and missions. Alaska operates a fleet of narrowbody passenger jets on primarily longer-haul capacity. Alaska contracts with Horizon, SkyWest Airlines, Inc. (SkyWest) and Peninsula Aviation Services, Inc. (PenAir), a subsidiary of RAVN Air Group, Inc., for shorter-haul capacity, such that Alaska receives all passenger revenue from those flights. Horizon operates Embraer 175 (E175) regional jet aircraft and Bombardier Q400 turboprop aircraft and sells all of its capacity to Alaska pursuant to a CPA. The majority of our revenues are generated by transporting passengers. The percentage of revenues by category is as follows:

	2018	2017	2016[(a)]	2015	2014
Passenger revenue	93 %	93 %	91 %	85 %	85 %
Mileage Plan other revenue	5 %	5 %	6 %	(b)	(b)
Cargo and other	2 %	2 %	3 %	(b)	(b)
Other revenue	(b)	(b)	(b)	13 %	13 %
Freight and Mail revenue	(b)	(b)	(b)	2 %	2 %
Total	100 %	100 %	100 %	100 %	100 %

(a) Includes information for Virgin America for the period December 14, 2016 through December 31, 2016.

(b) As a result of the new revenue recognition standards, certain financial statement line items were modified to address new requirements. We did not apply this change to fiscal years 2015 and 2014, and have left the captioning above as it was presented in those respective fiscal years.

We deploy aircraft into the network in ways that we believe will best optimize our revenues and profitability and reduce the impacts of seasonality.

The percentage of our capacity by region is as follows:

	2018	2017	2016[(a)]	2015	2014
West Coast[(b)]	27 %	28 %	34 %	36 %	36 %
Transcon/midcon	44 %	43 %	29 %	24 %	22 %
Hawaii and Costa Rica	14 %	13 %	17 %	18 %	18 %
Alaska	10 %	10 %	14 %	15 %	15 %
Mexico	4 %	5 %	5 %	6 %	6 %
Canada	1 %	1 %	1 %	1 %	3 %
Total	100 %	100 %	100 %	100 %	100 %

(a) Includes information for Virgin America for the period December 14, 2016 through December 31, 2016.

(b) Category represents flying within the West Coast. Departures from the West Coast to other regions are captured in other categories.

MAINLINE

Our Mainline operations include Boeing 737 (B737) and Airbus family (A319, A320, and A321neo) jet service offered by Alaska. We offer extensive passenger service from the western U.S. throughout the contiguous United States, Alaska, Hawaii, Canada, Mexico, and Costa Rica. Our largest concentrations of departures are in Seattle, Portland, and the Bay Area. We also offer cargo service throughout our network and have dedicated cargo aircraft that operate primarily to and within the state of Alaska.

In 2018, we carried 36 million revenue passengers in our Mainline operations. At December 31, 2018, our Mainline operating fleet consisted of 162 Boeing 737 jet aircraft and 71 Airbus A320 family jet aircraft compared to 154 B737 aircraft and 67 Airbus aircraft as of December 31, 2017.

The percentage of Mainline passenger capacity by region and average stage length is presented below:

	2018		2017		2016[a]		2015		2014	
West Coast[b]	23	%	24	%	30	%	31	%	31	%
Transcon/midcon	46	%	45	%	30	%	27	%	25	%
Hawaii and Costa Rica	15	%	15	%	19	%	20	%	20	%
Alaska	11	%	11	%	15	%	16	%	16	%
Mexico	5	%	5	%	6	%	6	%	7	%
Canada	—	%	—	%	—	%	—	%	1	%
Total	100	%	100	%	100	%	100	%	100	%
Average Stage Length (miles)	1,298		1,301		1,225		1,195		1,182	

(a) Includes information for Virgin America for the period December 14, 2016 through December 31, 2016.

(b) Category represents flying within the West Coast. Departures from the West Coast to other regions are captured in other categories.

REGIONAL

Our Regional operations consist of flights operated by Horizon, SkyWest and PenAir. In 2018, our Regional operations carried approximately 10 million revenue passengers, primarily in the states of Washington, Oregon, Idaho and California. Horizon is the largest regional airline in the Pacific Northwest and carries approximately 71% of Air Group's regional revenue passengers.

Based on 2018 Horizon passenger enplanements on regional aircraft, our most significant concentration of regional activity was in Seattle and Portland. At December 31, 2018, Horizon’s operating fleet consisted of 26 E175 jet aircraft and 39 Bombardier Q400 turboprop aircraft. The regional fleet operated by SkyWest consisted of 32 E175 aircraft.

The percentage of regional passenger capacity by region and average stage length is presented below:

	2018		2017		2016		2015		2014	
West Coast	53	%	59	%	60	%	62	%	66	%
Pacific Northwest	11	%	13	%	16	%	19	%	19	%
Canada	3	%	4	%	5	%	7	%	8	%
Alaska	2	%	3	%	4	%	5	%	4	%
Midcon	30	%	21	%	15	%	6	%	2	%
Mexico	1	%	—	%	—	%	1	%	1	%
Total	100	%	100	%	100	%	100	%	100	%
Average Stage Length (miles)	468		422		381		348		339	

FREQUENT FLYER PROGRAM

Alaska Airlines Mileage Plan™ provides a comprehensive suite of frequent flyer benefits. Miles can be earned by flying on our airlines or on one of our 17 airline partners, by using an Alaska Airlines credit card, or through other non-airline partners. Alaska's extensive list of airline partners includes carriers associated with each of the three major global alliances, making it easier for our members to earn miles and reach elite status in our frequent flyer program. Through Alaska and our global partners, Mileage Plan™ members have access to a large network of over 900 worldwide travel destinations. Further, members can receive up to 40,000 bonus miles upon signing up for the Alaska Airlines Visa Signature card and meeting a minimum spend threshold, and earn triple miles on Alaska Airlines purchases. Alaska Airlines Visa Signature cardholders and small business cardholders in the U.S., and Platinum and World Elite Mastercard cardholders in Canada, also receive an annual companion ticket that allows members to purchase an additional ticket for $99 plus taxes, with no restrictions or black-out dates, and a free first checked bag for up to six people traveling on the same itinerary. Earned miles can be redeemed for flights on our airlines, or our partner airlines, for hotel stays via mileageplanhotels.com, or for upgrades to First Class on Alaska Airlines. We believe all of these benefits give our Mileage Plan™ members more value for their travel.

Mileage Plan™ revenues, including those in the Passenger revenue income statement line item, represented approximately 13% of Air Group's total revenues in 2018. Mileage Plan™ helps drive revenue growth by attracting new customers and building customer loyalty through the benefits that we provide.

AGREEMENTS WITH OTHER AIRLINES

Our agreements fall into three different categories: Frequent Flyer, Codeshare and Interline agreements. Frequent Flyer agreements enable our Mileage Plan™ members to earn mileage credits and make redemptions on one of our 17 domestic and international partner airlines.

Codeshare agreements allow one or more marketing carriers to sell seats on a single operating carrier that services passengers under multiple flight numbers. The sale of codeshare seats can vary depending on the sale arrangement. For example, in a free-sale arrangement, the marketing carrier sells the operating carrier's inventory without any restriction; whereas in a block space arrangement, a fixed amount of seats are sold to the marketing carrier by the operating carrier. The interchangeability of the flight code between carriers provides a greater selection of flights for customers, along with increased flexibility for mileage accrual and redemption.

Interline agreements allow airlines to jointly offer a competitive, single-fare itinerary to customers traveling via multiple carriers to a final destination. An interline itinerary offered by one airline may not necessarily be offered by the other, and the fares collected from passengers are prorated and distributed to interline partners according to preexisting agreements between the carriers. Frequent flyer, codeshare and interline agreements help increase our traffic and revenue by providing more route choices to our guests.

Alaska has marketing alliances with a number of airlines that provide frequent flyer and codesharing opportunities. Alliances are an important part of our strategy and enhance our revenues by:

- offering our guests more travel destinations and better mileage credit/redemption opportunities, including elite qualifying miles on U.S. and international airline partners;
- giving our Mileage Plan™ program a competitive advantage because of our partnership with both unaffiliated international carriers and carriers from all three major worldwide alliances;
- giving us access to more connecting traffic from other airlines; and
- providing members of our alliance partners’ frequent flyer programs an opportunity to travel on Alaska and our regional partners while earning mileage credit in our partners’ programs.

Most of our codeshare relationships are free-sale codeshares, where the marketing carrier sells seats on the operating carrier’s flights from the operating carrier’s inventory, but takes no inventory risk. Our marketing agreements have various termination dates, and one or more may be in the process of renegotiation at any time. Our codeshare and interline agreements generated 5%, 6%, and 8% of our total marketed revenues as of December 31, 2018, 2017 and 2016, respectively.

The comprehensive summary of Alaska's alliances with other airlines is as follows:

	Frequent Flyer Agreement	Codeshare: Alaska Flight # on Flights Operated by Other Airline	Codeshare: Other Airline Flight # on Flights Operated by Air Group
Major U.S. or International Airlines			
Aer Lingus	Yes	No	No
American Airlines	Yes	Yes	Yes
British Airways	Yes	No	Yes
Cathay Pacific Airways	Yes	No	Yes
Condor Airlines[(a)]	Yes	No	No
Emirates	Yes	No	Yes
Fiji Airways[(a)]	Yes	No	Yes
Finnair	Yes	No	Yes
Hainan Airlines	Yes	No	No
Icelandair	Yes	No	Yes
Japan Airlines	Yes	No	Yes
Korean Air	Yes	No	Yes
LATAM	Yes	No	Yes
Qantas	Yes	No	Yes
Singapore Airlines	Yes	No	No
Regional Airlines			
Ravn Alaska	Yes	Yes	No
PenAir[(a)]	Yes	Yes	No

(a) These airlines do not have their own frequent flyer program. However, Alaska's Mileage Plan™ members can earn and redeem miles on these airlines' route systems.

CARGO AND OTHER REVENUE

The Company provides freight and mail services (cargo). The majority of cargo services are provided to commercial businesses and the United States Postal Service. The Company satisfies cargo service performance obligations and recognizes revenue when the shipment arrives at its final destination, or is transferred to a third-party carrier for delivery.

The Company also earns other revenue for lounge memberships, hotel and car commissions, and certain other immaterial items not intrinsically tied to providing air travel to passengers. Revenue is recognized when these services are rendered and recorded as Cargo and other revenue.

GENERAL

The airline industry is highly competitive and subject to various uncertainties, including economic conditions, volatile fuel prices, a largely unionized work force, the need to finance large capital expenditures and the related availability of capital, government regulation—including taxes and fees, and potential aircraft incidents. Airlines have high fixed costs, primarily for wages, aircraft fuel, aircraft ownership and facilities rents. Because expenses of a flight do not vary significantly based on the number of passengers carried, a relatively small change in the number of passengers or in pricing has a disproportionate effect on an airline's operating and financial results. In other words, a minor shortfall in expected revenue levels could cause a disproportionately negative impact to our operating and financial results. Passenger demand and ticket prices are, in large measure, influenced by the general state of the economy, current global economic and political events, and total available airline seat capacity.

In 2018, the airline industry's profits declined when compared to 2017, primarily due to rising fuel prices, higher labor costs, and increased competitive fare actions reducing ticket prices. Despite some of these headwinds, the industry reported profits in 2018. In the current industry environment, airlines are making significant investments in airports, more fuel-efficient planes and new services to differentiate their customer service offering. Thus, the level of competition is expected to continue to increase.

FUEL