UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

(Mark One)

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 *[NO FEE REQUIRED]*

For the fiscal year ended December 31, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 *[NO FEE REQUIRED]*

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $1.00 Par Value	New York Stock Exchange

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 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 an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes X No___

As of December 31, 2002, common shares outstanding totaled 26,573,439. The aggregate market value of the common shares of Alaska Air Group, Inc. held by nonaffiliates on December 31, 2002, 26,516,962 shares, was approximately $692 million (based on the closing price of those shares, $26.10, on the New York Stock Exchange on June 28, 2002, the last business day of the registrant's most recently completed second quarter).

DOCUMENTS TO BE INCORPORATED BY REFERENCE

Title of Document	**Part Hereof Into Which Document to be Incorporated**
Definitive Proxy Statement Relating to 2003 Annual Meeting of Shareholders	Part III

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Annual Report on Form 10-K for the year ended December 31, 2002

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Cautionary Note regarding Forward-Looking Statements

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. 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. All statements in this report regarding our future strategy, future operations, projected financial position, estimated future revenues, projected costs, future prospects, and results that might be obtained by pursuing management’s current plans and objectives are forward-looking statements. 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 stockholders. Many important factors that could cause such a difference are described in this Annual Report under the caption “Business Risks,” which you should review carefully. Please consider our forward-looking statements in light of those risks as you read this report.

PART I
ITEM 1. *BUSINESS*
GENERAL INFORMATION

Alaska Air Group, Inc. (Air Group or the Company) is a holding company that was incorporated in Delaware in 1985. Its two principal subsidiaries are Alaska Airlines, Inc. (Alaska) and Horizon Air Industries, Inc. (Horizon). Both subsidiaries operate as airlines, although their business plans, competition, and economic risks differ substantially. Alaska is a major airline, operates an all-jet fleet, and its average passenger trip length is 932 miles. Horizon is a regional airline, operates jet and turboprop aircraft, and its average passenger trip is 314 miles. Individual financial information for Alaska and Horizon is reported in Note 11 to Consolidated Financial Statements. Air Group's executive offices are located at 19300 Pacific Highway South, Seattle, Washington, 98188. Air Group's filings with the Securities and Exchange Commission, including its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are accessible free of charge at WWW.alaskaair.com. As used in this Form 10-K, the terms "Air Group" "our," "we" and the "Company" refer to Alaska Air Group, Inc. and its subsidiaries, unless the conduct indicates otherwise.

Alaska

Alaska Airlines, Inc. is an Alaska corporation that was organized in 1932 and incorporated in 1937. Alaska principally serves 38 cities in six western states (Alaska, Washington, Oregon, California, Nevada, and Arizona) and Canada and six cities in Mexico. Alaska also provides non-stop service between Seattle and four eastern cities (Washington, D.C., Boston, Miami, and Newark), between Seattle and Denver, and between Anchorage and Chicago. In each year since 1973, Alaska has carried more passengers between Alaska and the U.S. mainland than any other airline. In 2002, Alaska carried 14.2 million revenue passengers. Passenger traffic within Alaska and between Alaska and the U.S. mainland accounted for 23% of Alaska's 2002 revenue passenger miles, West Coast traffic (including Canada) accounted for 56%, the Mexico markets 11% and other markets 10%. Based on passenger enplanements, Alaska's leading airports are Seattle, Portland, Los Angeles, and Anchorage. Based on 2002 revenues, its leading nonstop routes are Seattle-Anchorage, Seattle-Los Angeles, and Seattle-San Diego. At December 31, 2002, Alaska's operating fleet consisted of 102 jet aircraft.

Horizon

Horizon Air Industries, Inc., a Washington corporation that first began service in 1981, was incorporated in 1982 and was acquired by Air Group in 1986. It is the largest regional airline in the Pacific Northwest, and serves 40 cities in seven states (Washington, Oregon, Montana, Idaho, California, Colorado and Arizona) and five cities in Canada. In 2002, Horizon carried 4.8 million revenue passengers. Based on passenger enplanements, Horizon's leading airports are Seattle, Portland, Boise, and Spokane. Based on revenues in 2002, its leading nonstop routes are Seattle-Portland, Seattle-Boise, Seattle-Spokane and Seattle-Vancouver. At December 31, 2002, Horizon's operating fleet consisted of 20 jet and 43 turboprop aircraft, with the jets providing 49% of the 2002 capacity. Horizon flights are listed under the Alaska Airlines designator code in airline computer reservation systems.

Alaska and Horizon coordinate their flight schedules to provide service between any two points served by their systems. In 2002, 29% of Horizon's passengers connected to Alaska. Both airlines distinguish themselves from competitors by providing a higher level of customer service. The airlines' excellent service in the form of advance seat assignments, expedited check-in, attention to customer needs, high-quality food and beverage service, well-maintained aircraft, a first-class section aboard Alaska aircraft, and other amenities is regularly recognized by independent studies and surveys of air travelers.

Industry Conditions

On September 11, 2001, the United States was attacked by terrorists using four hijacked jets of two U.S. airlines. These attacks and a weakened U.S. economy during 2002 have resulted in lower demand for air service. Throughout 2002, several major carriers (excluding the Company) have reduced service, grounded aircraft and furloughed employees. United Airlines and US Airways have sought relief from financial obligations in bankruptcy. Other smaller carriers have ceased operations entirely. America West Airlines, US Airways and others have received federal loan guarantees (or conditional approval for guarantees) authorized by federal law and additional airlines may do so in the future. In addition, credit rating agencies continue to downgrade the long-term credit ratings of most U.S. airlines and their related entities, including Alaska Air Group, Inc.

On September 22, 2001, the U.S. Government passed the Air Transportation Safety and System Stabilization Act (the Act) to provide $5 billion of cash compensation and $10 billion of loan guarantees to U.S. airlines. The purpose of the Act was to compensate the airlines for direct and incremental losses for the period September 11 through December 31, 2001 as a result of the September 11 terrorist attacks. As of December 31, 2001, Alaska had recognized $71.6 million and Horizon had recognized $9.8 million of the $5 billion cash compensation. During the third quarter of 2002, the United States Department of Transportation (DOT) completed its review procedures and remitted final compensation payments to Alaska and Horizon of $0.2 million and $0.2 million, respectively.

The current U.S. domestic airline environment continues to be difficult. The Company has reported annual losses since 2000, and current trends in the airline industry make it likely that it will post additional losses before returning to profitability. The revenue environment continues to be weak in light of vigorous competition, excess capacity in the market, reduced corporate travel spending and other issues. In addition, fuel prices have significantly escalated due to supply and demand trends as well as political tensions in several regions of the world.

We believe that our liquidity and access to cash will be sufficient to fund our current operations at least through 2003, although adverse factors outside our control such as further economic recession, additional terrorist attacks, a war affecting the United States, decreased consumer demand or sustained high fuel prices could affect this projection.

See Item 1, "Business — Risk Factors" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview" for further discussion of perceived trends and factors affecting us and our industry.

MARKETING AND COMPETITION

Alliances with Other Airlines

Alaska and Horizon have marketing alliances with other airlines that provide reciprocal frequent flyer mileage accrual and redemption privileges and codesharing on certain flights as set forth below. Alliances enhance Alaska's and Horizon's revenues by offering our customers more travel destinations and better mileage accrual/redemption opportunities, gaining 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 Horizon while earning mileage credit in our partners' programs. Alaska's and Horizon's marketing agreements have various termination dates and at any time, one or more may be in the process of renegotiation. If a significant agreement were terminated, it could adversely impact revenues and increase the costs of the Company's other marketing agreements. Most of the Company's Codeshare relationships are free-sell codeshares, where the marketing carrier sells seats on the operating carrier's flights from the operating carrier's inventory, but takes no inventory risk. The table below identities the Company's marketing alliances with other airlines as of February 28, 2003.

	Frequent Flyer Agreement	Codesharing — Alaska Flight # on Flights Operated by Other Airline	Codesharing — Other Airline Flight # On Flights Operated by Alaska/Horizon
Major U.S. or International Airlines			
American Airlines/American Eagle	Yes	Yes	No
British Airways	Yes	No	No
Cathay Pacific Airways	Yes	No	No
Continental Airlines	Yes	Yes	Yes
Hawaiian Airlines	Yes	Yes	Yes
KLM	Yes	No	Yes
Lan Chile	Yes	No	Yes
Northwest Airlines	Yes	Yes	Yes
Qantas	Yes	No	Yes
Commuter Airlines			
Era Aviation	Yes*	Yes	No
PenAir	Yes*	Yes	No
Big Sky Airlines	Yes*	Yes	No
Helijet International	Yes*	Yes	No

* This airline does not have its own frequent flyer program. However, Alaska's Mileage Plan members can accrue and redeem miles on this airline's route system.

Competition

Competition in the airline industry is intense. The Company believes the principal competitive factors in the industry are fare pricing, customer service, routes served, flight schedules, type of aircraft, safety record and reputation, code-sharing relationships, and frequent flyer programs. Any domestic air carrier deemed fit by the DOT is allowed to operate scheduled passenger service in the United States. Together, Alaska and Horizon carry approximately 2.8% of all U.S. domestic passenger traffic. Alaska and Horizon compete with one or more domestic or foreign airlines on most of their routes. Some of these competitors are substantially larger than Alaska and Horizon, have greater financial resources, and have more extensive route systems. Due to its shorthaul markets, Horizon also competes with ground transportation, including train, bus and automobile transportation.

Most major U.S. carriers have developed, independently or in partnership with others, large computer reservation systems (CRS). Airlines, including Alaska and Horizon, are charged fees to have their flight schedules included in the various CRS displays used by travel agencies and airlines. These systems are currently the predominant means of distributing airline tickets. In order to reduce anti-competitive practices, the DOT regulates the display of all airline schedules and fares in CRS. Air carriers are increasingly distributing their services on the Internet through various airline joint venture or independent websites. The Company currently participates in a number of these distribution channels, but it cannot predict the terms on which it may be able to continue to participate in these or other sites, or their effect on the Company's ability to compete with other airlines.

REGULATION

General

The Airline Deregulation Act of 1978, as amended, eliminated most domestic economic regulation of passenger and freight transportation. However, the DOT and the Federal Aviation Administration (FAA) still exercise regulatory authority over air carriers. In order to provide passenger and cargo air transportation in the U.S., a domestic airline is required to hold a certificate of public convenience and necessity issued by the DOT. Subject to certain individual airport capacity, noise and other restrictions, this certificate permits an air carrier to operate between any two points in the U.S. A certificate is of unlimited duration, but may be revoked for failure to comply with federal aviation statutes, regulations, orders or the terms of the certificate itself. In addition, the DOT maintains jurisdiction over the approval of international codeshare agreements, alliance agreements between domestic major airlines, international route authorities and certain consumer protection matters, such as advertising, denied boarding compensation and baggage liability.

The FAA regulates aircraft operations generally, including establishing personnel, maintenance and flight operation standards. Domestic airlines are required to hold a valid air carrier operating certificate issued by the FAA. Pursuant to these regulations, we have established, and the FAA has approved, a maintenance program for each type of aircraft we operate that provides for the ongoing maintenance of such aircraft, ranging from frequent routine inspections to major overhauls. In addition, the FAA has issued a number of directives that the Company is incorporating into its aircraft. These relate to, among other things, enhanced ground proximity warning systems, cockpit door security enhancements, McDonnell Douglas MD-80 insulation blanket replacement, MD-80 main landing gear piston improvements and Boeing 737 rudder and elevator improvements. Based on its current implementation schedule, the Company is or expects to be in compliance with the applicable requirements within the required time periods.

The Department of Justice (DOJ) has jurisdiction over airline antitrust matters. The U.S. Postal Service has jurisdiction over certain aspects of the transportation of mail and related services. Labor relations in the air transportation industry are regulated under the Railway Labor Act, which vests in the National Mediation Board (NMB) certain functions with respect to disputes between airlines and labor unions relating to union representation and collective bargaining agreements. To the extent the Company continues to pursue alliances with international carriers, the Company may be subject to certain regulations of foreign agencies.

In November 2001, the Aviation and Transportation Security Act (the Security Act) was enacted. The Security Act created a new government agency, the Transportation Security Administration (TSA), which is part of the DOT and is responsible for aviation security. The Security Act mandates that the TSA shall provide for the screening of all passengers and property, including U.S. mail, cargo, carry-on and checked baggage, and other articles that will be carried aboard a passenger aircraft. The TSA assumed most passenger screening functions in February 2002, largely by contracting with private-sector security providers; however, in November 2002, the TSA began performing these functions with its own federal employees. On December 31, 2002, the TSA began explosive detection screening of all checked baggage . The TSA also provides for increased security on flight decks of aircraft and requires federal air marshals to be present on certain flights.

Effective February 1, 2002, the Security Act imposed a $2.50 per enplanement security service fee (maximum $5.00 one-way maximum fee) which is collected by the air carriers and submitted to the government to pay for these enhanced security measures. Additionally, to the extent the TSA determines that such fee is insufficient to pay for the cost of providing the security measures as mentioned in the previous paragraph, in each of the years 2002, 2003 and 2004, air carriers may be required to submit to the government an amount equal to the amount the air carriers paid for screening passengers and property in 2000. After that, this fee may be assessed based on the air carrier's market share. In 2002, the TSA began assessing payments under this feature of the Security Act. The Company paid $9.9 million to the TSA for this security charge in 2002.

In addition, the Security Act requires air carriers to honor tickets, on a standby basis, from other air carriers that are insolvent or bankrupt and suspend service within 18 months of the passage of the Security Act. To be eligible, a passenger must make arrangements with the air carrier within 60 days after the date on which the passenger's air transportation was suspended. Because this provision is so recent, the Company has little history to determine its impact. If a major U.S. air carrier were to declare bankruptcy and cease operations, this feature of the Security Act could have an impact on the Company. To the extent the Company is not fully reimbursed for the costs of honoring such tickets, the impact could be adverse.

The DOT, under its authority to prevent unfair competitive practices in the industry, has considered the issuance of pricing and capacity rules that would limit major air carriers' competitive response to new entrant carriers. Although the DOT as recently as 2001 declined to issue specific competitive guidelines, it reiterated its intent to prevent what it considers to be unfair competitive practices in the industry, and to pursue enforcement actions on a case-by-case basis. To the extent that future DOT enforcement actions either directly or indirectly impose restrictions upon the Company's ability to respond to competitors, the Company's business may be adversely impacted.

Airline Fares

Airlines are permitted to establish their own domestic fares without governmental regulation, and the industry is characterized by substantial price competition. The DOT maintains authority over international fares, rates and charges. International fares and rates are also subject to the jurisdiction of the governments of the foreign countries the Company serves. While air carriers are required to file and adhere to international fare and rate tariffs, substantial commissions, overrides and discounts to travel agents, brokers and wholesalers characterize many international markets.

Legislation (sometimes referred to as the “Passengers’ Bill of Rights”) has been discussed in various legislatures (including the Congress). This legislation could, if enacted: (i) place various limitations on airline fares and/or (ii) affect operating practices such as baggage handling and overbooking. Effective December 15, 1999, the Company, as well as other domestic airlines, implemented a Customer Service Plan to address a number of service goals, including, but not limited to goals relating to: (i) lowest fare availability, (ii) delays, cancellations and diversion events, (iii) baggage delivery and liability, (iv) guaranteed fares, (v) ticket refunds, (vi) accommodation of customers with special needs, (vii) essential customer needs during extraordinary delays, (viii) flight oversales, (ix) frequent flyer program, (x) other travel policies, (xi) service with domestic code share partners, and (xii) handling of customer issues. In February 2001, the DOT Inspector General issued a report on the various air carriers’ performance of their Customer Service Plans. The report included a number of recommendations which could limit the Company’s flexibility with respect to various operational practices. In February 2001, a bill proposing an “Airline Customer Service Improvement Act” was introduced in the U.S. Senate. In addition, other items of legislation have been introduced that would limit hub concentration, reallocate slots at certain airports and impose higher landing fees at certain hours. To the extent legislation is enacted that would inhibit the Company’s flexibility with respect to fares, its revenue management system, its operations or other aspects of its customer service operations, the Company’s financial results could be adversely affected.

Fare discounting by competitors has historically had a negative effect on the Company’s financial results because the Company is generally required to match competitors’ fares to maintain passenger traffic. During recent years, a number of new low-cost airlines have entered the domestic market and several major airlines, including the Company, implemented efforts to lower their cost structures. Further fare reductions, domestic and international, may occur in the future. If fare reductions are not offset by increases in passenger traffic, cost reductions or changes in the mix of traffic that improves yields, the Company’s operating results will be negatively impacted.

Airport Access

Many heavily used airports have restrictions with respect to the number of permitted take-offs and landings, the total permitted annual seat capacity to be operated at an airport, the use or allocation of airport slots, or other restrictions. The Company currently has sufficient slot authorizations to operate its existing flights and has generally been able to obtain slots to expand its operations and change its schedules. However, there is no assurance that the Company will be able to obtain slots for these purposes in the future because, among other factors, domestic slot allocations are subject to changes in government policies.

Environmental Matters

The Company is subject to various laws and government regulations concerning environmental matters and employee safety and health in the U.S. and other countries. U.S. federal laws that have a particular impact on the Company include the Airport Noise and Capacity Act of 1990 (ANCA), the Clean Air Act, the Resource Conservation and Recovery Act, the Clean Water Act, the Safe Drinking Water Act, and the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA or the Superfund Act). The Company is also subject to the oversight of the Occupational Safety and Health Administration (OSHA) concerning employee safety and health matters. The U.S. Environmental Protection Agency (EPA), OSHA, and other federal agencies have been authorized to promulgate regulations that have an impact on the Company's operations. In addition to these federal activities, various states have been delegated certain authorities under the aforementioned federal statutes. Many state and local governments have adopted environmental and employee safety and health laws and regulations, some of which are similar to federal requirements. As a part of its continuing safety, health and environmental program, the Company anticipates that it will comply with such requirements without any material adverse effect on its business.

The ANCA recognizes the rights of airport operators with noise problems to implement local noise abatement programs so long as they do not interfere unreasonably with interstate or foreign commerce or the national air transportation system. Authorities in several cities have promulgated aircraft noise reduction programs, including the imposition of nighttime curfews. The ANCA generally requires FAA approval of local noise restrictions on aircraft. While the Company has had sufficient scheduling flexibility to accommodate local noise restrictions imposed to date, the Company's operations at those airports could be adversely affected if such regulations become more restrictive or widespread.

The Company does not expect these regulatory matters, individually or collectively, to have a material impact on its financial condition, results of operations or cash flows.

EMPLOYEES

The airline business is labor intensive. Alaska and Horizon had 11,039 and 3,904, respectively, active full-time and part-time employees at December 31, 2002. Wages, salaries and benefits represented approximately 37% of the Company's total operating expenses in 2002.

At December 31, 2002, labor unions represented 83% of Alaska's and 46% of Horizon's employees. The Company's relations with such labor organizations are governed by the Railway Labor Act (RLA). Under this act, the collective bargaining agreements among the Company and these organizations do not expire but instead become amendable as of a stated date. If either party wishes to modify the terms of any such agreement, it must notify the other party in the manner described in the agreement. After receipt of such notice, the parties must meet for direct negotiations, and if no agreement is reached, either party may request the NMB to appoint a federal mediator. If no agreement is reached in mediation, the NMB may declare at some time that an impasse exists, at which point the NMB proffers binding arbitration to the parties. Either party may decline to submit to arbitration. If arbitration is rejected by either party, a 30-day "cooling off" period commences. During that period, a Presidential Emergency Board (PEB) may be established, which examines the parties' positions and recommends a solution. The PEB process lasts for 30 days and is followed by a “cooling off” period of 30 days. At the end of a “cooling off” period, unless an agreement is reached or action is taken by Congress, the labor organization may strike and the airline may resort to “self-help”, including the imposition of any or all of its proposed amendments and the hiring of workers to replace strikers.

A number of Alaska’s collective bargaining agreements contain provisions for interest arbitration. Under interest arbitration, if the parties have not negotiated the contract by a predetermined date, then such side may submit a limited number of issues to binding arbitration. The arbitrator’s decision on those open points then becomes part of the collective bargaining agreement, and no strike or company self-help will occur. The union contract with the Alaska Airlines pilots, among others, contains an interest arbitration provision. Alaska is currently in negotiations with the Aircraft Mechanics Fraternal Association and the International Association of Machinists and Aerospace Workers Union, representing its clerical, office and passenger service work group.

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Alaska's union contracts at December 31, 2002 were as follows:

Union	Employee Group	Number of Employees	Contract Status
Air Line Pilots Association International	Pilots	1,476	Amendable 4/30/05*
Association of Flight Attendants (AFA)	Flight attendants	2,079	Amendable 10/19/03
International Association of Machinists and Aerospace Workers	Rampservice and stock clerks Clerical, office and passenger service	1,164 3,094	Amendable 1/10/04 In Negotiations
Aircraft Mechanics Fraternal Association (AMFA)	Mechanics, inspectors and cleaners	1,297	Amendable 12/25/04*
Mexico Workers Association of Air Transport	Mexico airport personnel	78	Amendable 2/28/05
Transport Workers Union of America (TWU)	Dispatchers	28	Amendable 6/30/07*

* Collective bargaining agreement contains interest arbitration provision. The agreement coming out of the current AMFA interest arbitration may not continue to contain an interest arbitration provision.

Horizon's union contracts at December 31, 2002 were as follows:

Union	Employee Group	Number of Employees	Contract Status
International Brotherhood of Teamsters (IBT)	Pilots	608	Amendable 9/13/06
AFA	Flight attendants	444	In Negotiations
AMFA	Mechanics and related classifications	631	Amendable 12/15/02*
TWU	Dispatchers	33	Amendable 9/11/05
National Automobile, Aerospace, Transportation and General Workers	Station personnel in Vancouver and Victoria, BC, Canada	92	Amendable 2/14/04

* Horizon is currently preparing to begin negotiations with AMFA concerning this collective bargaining agreement.

FUEL

The Company's operations are significantly affected by the availability and price of jet fuel. Fuel costs were 13.1% of the Company's total operating expenses in 2002. Fuel prices, which can be volatile and which are outside of the Company's control, can have a significant impact on the Company's operating results. Currently, a one-cent change in the fuel price per gallon affects annual fuel costs by approximately $3.8 million. The Company believes that operating fuel-

efficient aircraft is an effective hedge against high fuel prices. The Company also purchases fuel hedge contracts to reduce its exposure to fluctuations in the price of jet fuel. Due to the competitive nature of the airline industry, in the event of continuing increases in the price of jet fuel, there can be no assurance that the Company will be able to pass on increased fuel prices to its customers by increasing its fares. Likewise, any potential benefit of lower fuel prices may be offset by increased fare competition and lower revenues for all air carriers.

While the Company does not currently anticipate a significant reduction in fuel availability, dependency on foreign imports of crude oil and the possibility of changes in government policy on jet fuel production, transportation and marketing make it impossible to predict the future availability of jet fuel. In the event there was an outbreak of hostilities or other conflicts in oil producing areas, there could be reductions in the production and/or importation of crude oil. If there were major reductions in the availability of jet fuel, the Company's business would be adversely affected. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of the Company's fuel hedging activities.

FREQUENT FLYER PROGRAM

All major airlines have developed frequent flyer programs as a way of increasing passenger loyalty. Alaska's Mileage Plan allows members to earn mileage by flying on Alaska, Horizon and other participating airlines, and by using the services of non-airline partners, which include a credit card partner, telephone companies, hotels, and car rental agencies. Alaska is paid by non-airline partners for the miles it credits to member accounts. With advance notice, Alaska has the ability to change the Mileage Plan terms, conditions, partners, mileage credits, and award levels.

Mileage can be redeemed for free or discounted travel and for other travel industry awards. Upon accumulating the necessary mileage, members notify Alaska of their award selection. Over 75% of the free flight awards on Alaska and Horizon are subject to blackout dates and capacity-controlled seating. Mileage Plan miles do not expire. As of December 31, 2001 and 2002, Alaska estimated that 1,740,000 and 2,067,000, respectively, round-trip flight awards were eligible for redemption by Mileage Plan members who have mileage credits exceeding the 20,000-mile free round-trip domestic ticket award threshold. Of those eligible awards, Alaska estimated that 1,618,000 and 1,931,000, respectively, would ultimately be redeemed. For the years 2000, 2001 and 2002, approximately 281,000, 310,000, and 441,000 round-trip flight awards were redeemed and flown on Alaska and Horizon. Those awards represent approximately 4.8% for 2000, 5.2% for 2001 and 6.8% for 2002 of the total passenger miles flown for each period. For the years 2000, 2001 and 2002, approximately 137,000, 154,000 and 174,000 round-trip flight awards were redeemed and flown on airline partners.

For miles earned by flying on Alaska and travel partners, the estimated incremental cost of providing free travel awards is recognized as a selling expense and accrued as a liability as miles are accumulated. The incremental cost does not include a contribution to overhead, aircraft cost, or profit. Alaska also sells mileage credits to non-airline partners, such as hotels, car rental agencies, and a credit card company. Alaska defers a majority of the sales proceeds, and recognizes these proceeds as revenue when the award transportation is provided. The deferred proceeds are recognized as passenger revenue for awards issued on Alaska and as other revenue-net for awards issued on other airlines. At December 31, 2001 and 2002, the deferred revenue and the total liability for miles outstanding and for estimated payments to partner airlines was $248.3 million and $303.0 million, respectively.

OTHER INFORMATION

Seasonality and Other Factors

The Company's results of operations for any interim period are not necessarily indicative of those for the entire year, since the air transportation business is subject to seasonal fluctuations. The business of the Company is somewhat seasonal. Quarterly operating income tends to peak during the third quarter.

The results of operations in the air transportation business have also significantly fluctuated in the past in response to general economic conditions. In addition, fare initiatives, fluctuations in fuel prices, labor actions and other factors could impact this seasonal pattern.

No material part of the business of the Company and its subsidiaries is dependent upon a single customer or very few customers. Consequently, the loss of the Company's largest few customers would not have a materially adverse effect upon the Company.

Insurance

The Company carries insurance for public liability, passenger liability, property damage and all-risk coverage for damage to its aircraft, in amounts which, in the opinion of management, are adequate.

As a result of the September 11, 2001 events, aviation insurers have significantly reduced the maximum amount of insurance coverage available to commercial air carriers for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events (war-risk coverage). At the same time, they significantly increased the premiums for such coverage as well as for aviation insurance in general.

Pursuant to authority granted in the Act, the Government has offered, and the Company has accepted, war risk insurance to replace commercial insurance for renewable 60-day periods until August 31, 2003. In the event the Government fails to renew war-risk insurance and the Company is unable to replace such insurance in the commercial market, the Company's business, financial condition and results of operations would be adversely impacted.

Other Government Matters

The Company has elected to participate in the Civil Reserve Air Fleet (CRAF) program, whereby it has agreed to make available to the federal government a certain number of aircraft in the event of a military call-up. The government would reimburse the Company for the use of such aircraft.

BUSINESS RISKS

The Company's operations and financial results are subject to various uncertainties, such as global and industry instability, intense competition, volatile fuel prices, a largely unionized labor force, the need to finance large capital expenditures, government regulation, potential aircraft incidents and general economic conditions.

The September 11, 2001 terrorist attacks negatively impacted the Company's business and further threatened or actual terrorist attacks or hostilities involving the U.S. may harm the Company's business in the future.

The terrorist attacks of September 11, 2001 and their aftermath have negatively impacted the Company and the airline industry, generally. Since a substantial portion of airline travel, for both business and leisure, is discretionary, further terrorist activity connected with air travel, or the threat of further terrorist activity, could result in travelers canceling or deferring their plans for air travel and have a material adverse effect on the Company's revenues. In the fourth quarter of 2001, the temporary shutdown of domestic passenger air travel and reduced demand for air travel led Alaska to reduce its flight schedule by approximately 13% and Horizon to reduce its flight schedule by approximately 20%. Because a substantial portion of the Company's costs are fixed in the short term, however, Air Group was unable to offset the reduction in customer demand through cost savings, and the Company's operating results were harmed to a proportionately greater degree. In addition, actual or threatened terrorist activity could:

- result in a grounding of commercial air traffic by the FAA;
- significantly reduce passenger traffic and yields due to a potentially dramatic drop in demand for air travel;
- increase security and insurance costs;
- make it more difficult for Air Group to obtain war risk or other insurance; and
- increase costs from airport shutdowns, flight cancellations and delays resulting from security breaches and perceived safety threats.

Additional terrorist attacks, the fear of such attacks, increased hostilities or U.S. military involvement in Iraq, the Middle East or other regions could have a further negative impact on the airline industry and further enhance the risks described above and may also lead to increased cost and volatility in fuel prices. The occurrance of any of these events could significantly harm the Company's business and results of operations.

Continued weakness in the general economy, and in the airline industry in particular, could have an adverse effect on the Company's business. vp

Air Group believes that airline traffic, including business traffic, is particularly sensitive to changes in economic growth and expectations. In 2002, weak economic growth contributed to the airline industry suffering significant losses, which are expected to continue in 2003. During 2002, both U.S. Airways and United Airlines filed for bankruptcy. Because airlines operating under bankruptcy protection receive increased flexibility to reduce their costs by voiding contracts and renegotiating existing business obligations, current and future airline bankruptcies could have a substantial impact on industry competition. In the event airlines who have received bankruptcy protection choose to apply some or all of the cost savings they obtain toward reduced fares, bankruptcy by airlines who compete with Air Group may cause the Company to reduce its fares and result in a substantial reduction in revenue and operating margin. Continued weakness in the airline industry may also result in additional industry consolidation, greater reliance on industry alliances, such as code-sharing and frequent flyer reciprocity arrangements, and increased price competition among existing carriers, each of which could dramatically alter the competitive environment in the markets the Company serves and harm the Company's operating results. Continued weak economic performance in the airline industry may also result in a further reduction in Air Group's credit rating and make it more difficult for the Company to raise capital on economical terms. Any general reduction in airline passenger traffic as a result of a soft economy would harm the Company's business.

Air Group incurred operating losses in each year since 2000 and may incur substantial operating losses in the future.

For the year ended, December 31, 2002, Air Group incurred an operating loss of $88.9 million. Prior to that, the Company incurred operating losses of $126.3 million and $33.1 million for the years ended December 31, 2001 and December 31, 2000, respectively. The inability to achieve or sustain profitability may hinder the Company's ability to honor its existing obligations as they become due, to obtain future equity or debt financing or to do so on economical terms, and to sustain and expand its business.

The Company's indebtedness could increase the volatility of its earnings and otherwise restrict its activities.

The Company, like many airlines, has and will continue to have for the foreseeable future a significant amount of indebtedness. Due to its high fixed costs, including aircraft lease commitments and debt service, a decrease in revenues results in a disproportionately greater decrease in earnings. As of December 31, 2002, the Company had approximately $905.3 million of indebtedness outstanding, comprised of approximately $893.5 million in debt and approximately $11.8 million of capital lease obligations.

The Company's outstanding indebtedness could have important consequences. For example, it could:

- limit the Company's ability to obtain additional financing to fund its growth strategy, capital expenditures, acquisitions, working capital or other purposes;
- require the Company to dedicate a material portion of its operating cash flow to fund interest payments on indebtedness, thereby reducing funds available for other purposes; and
- limit the Company's ability to withstand competitive pressures and reduce its flexibility in responding to changing business and economic conditions, including reacting to any economic slowdown in the airline industry.

In addition, the Company has an ongoing need to finance new aircraft deliveries, and there is no v

assurance that such financing will be available to the Company in sufficient amounts or on acceptable terms. Alaska Airlines' credit facility also contains financial and other restrictive covenants that limit the Company's ability to engage in activities that may be in its long-term best interests. The Company's failure to comply with those covenants could result in an event of default, which, if not cured or waived, could result in the acceleration of the repayment of all of the Company's debts. See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion of liquidity and capital resources.

If Alaska fails to comply with financial covenants, some of its financing agreements may be terminated.

Alaska is required to comply with specific financial covenants in certain agreements, primarily its $150 million revolving credit facility. The Company cannot ensure that Alaska will be able to comply with these covenants or provisions or that these requirements will not limit the Company's ability to finance its future operations or capital needs. Alaska's inability to comply with the required financial maintenance covenants or provisions could result in default under these financing agreements and would result in a cross default under its other financing agreements. In the event of any such default and Alaska's or the Company's inability to obtain a waiver of the default, all amounts outstanding under the agreements could be declared to be immediately due and payable. If Alaska did not have sufficient available cash to pay all amounts that become due and payable, it would have to seek additional debt or equity financing, which may not be available on acceptable terms, or at all. If such financing were not available, Alaska would have to sell assets in order to obtain the funds required to make accelerated payments or risk its aircraft becoming subject to repossession, which could harm the Company's business.

The Company's quarterly results can fluctuate substantially.

The airline industry is characterized generally by low profit margins and high fixed costs, primarily for personnel, aircraft fuel, debt service and rent. The expenses of an aircraft flight do not vary significantly with the number of passengers carried and, as a result, a relatively small change in the number of passengers or in pricing could have a disproportionate effect on an airline's operating and financial results. Accordingly, a minor shortfall in expected revenue levels could cause a disproportionately negative impact on the Company's operating results. In addition to passenger loads, factors that could cause the Company's quarterly operating results to vary include:

- the timing and success of the Company's growth plans as it increases flights in existing markets and enters new markets;
- changes in fuel, security and insurance costs;
- increases in personnel, marketing, aircraft ownership and other operating expenses to support the Company's anticipated growth; and
- the timing and amount of maintenance expenditures.

In addition, seasonal variations in traffic, various expenditures and weather affect the Company's operating results from quarter to quarter. Air Group tends to experience the highest levels of traffic and revenue during the third quarter of each year. Given the Company's high proportion of fixed costs, seasonality can affect its profitability from quarter to quarter. Many of the Company's areas of operations experience bad weather conditions in the winter, causing increased costs associated with deicing aircraft, canceled flights and accommodating displaced passengers. Due to its geographic area of operations, the Company can be more susceptible to adverse weather conditions than some of its competitors, which may be better able to spread weather-related risks over larger route systems.

Due to the factors described above, quarter-to-quarter comparisons of the Company's operating results may not be good indicators of its future performance. In addition, it is possible that in any future quarter the Company's operating results could be below the expectations of investors and any published reports or analyses regarding Air Group. In that event, the price of Air Group's common stock could decline, perhaps substantially.

Increases in fuel costs would harm Air Group's business.

Fuel costs constitute a significant portion of the Company's total operating expenses, comprising 13.1% of total operating expenses for the year ended December 31, 2002. Significant increases in fuel costs would harm Air Group's financial condition and results of operations. The Company estimates that for the year ended December 31, 2002, a one-cent increase in the price per gallon of fuel expense would have increased its fuel expenses by $3.8 million.

Historically, fuel costs have been subject to wide price fluctuations based on geopolitical issues and supply and demand. Fuel availability is also subject to periods of market surplus and shortage and is affected by demand for both home heating oil and gasoline. Because of the effect of these events on the price and availability of fuel, the cost and future availability of fuel cannot be predicted with any degree of certainty. In the event of a fuel supply shortage, higher fuel prices or the curtailment of scheduled service could result. Some of the Company's competitors may have more leverage in obtaining fuel. The Company may be unable to offset increases in the price of fuel through higher fares. To hedge its exposure to fuel price fluctuations, the Company began purchasing hedging instruments, primarily crude oil swaps during 2000. At December 31, 2002, the Company had swap agreements for crude oil contracts in place to hedge approximately 35% of its 2003 expected jet fuel requirements. The Company cannot be certain, however, that its fuel hedging contracts will be sufficient to adequately protect it against fuel price increases.

Many of the Company's employees are covered by collective bargaining agreements. A failure to negotiate new agreements, or to do so on terms competitive with the labor costs and practices of the Company's competitors, could disrupt the Company's business and increase its costs.

As of December 31, 2002, labor unions represented 83% of Alaska's and 46% of Horizon's employees. Alaska is currently in negotiations with the International Association of Machinists and Aerospace Workers union, representing its clerical, office and passenger service work group. Horizon is currently in negotiations with its flight attendants union. Labor costs generally are a significant component of the Company's total expenses, comprising 37% of its total operating expenses in 2002. Each of the Company's different employee groups may require separate collective bargaining agreements, and may make demands that would increase the Company's operating expenses and adversely affect its profitability. If Air Group were unable to reach agreement on the terms of any collective bargaining agreement with any group of its employees or the Company were to experience widespread employee dissatisfaction, the Company could be subject to work slowdowns or stoppages. The Company could also become subject to protests or picketing by organized labor groups representing its employees. Any of these events would be disruptive to the Company's operations and could harm its business. In the event any agreement the Company reaches with an organized labor group requires it to pay wages or to incur costs that are materially higher than those it currently pays or the Company is unable to fully offset such increased costs through fare increases, its expenses would increase and its operating margin would be harmed.

The airline industry is highly competitive and subject to rapid environmental change. The Company may be unable to compete effectively against other airlines with greater financial resources or lower operating costs, or to adjust rapidly enough in the event the basis of competition in its markets changes.

The airline industry is highly competitive as to fares, flight frequency, frequent flyer benefits, routes and service. The industry is particularly susceptible to price discounting because airlines incur only nominal costs to provide service to passengers occupying otherwise unsold seats. The Company currently competes with one or more other airlines on all of its routes. Many of these airlines are larger and have significantly greater financial resources, name recognition or lower operating costs than Air Group. Some of these competitors have chosen from time to time to add service, reduce their fares or both, in the Company's markets. The Company may be unable to compete effectively against other airlines that introduce service or discounted fares in the markets that it serves.

In recent years, and particularly since its deregulation in 1978, the airline industry has undergone substantial consolidation, and it may undergo additional consolidation in the future. For example, in April 2001, American Airlines acquired the majority of Trans World Airlines' assets. In addition, many airlines, including the Company, have marketing alliances with other airlines. Among other things, they share the use of two-letter flight designator codes to identify their flights and fares in the computerized reservation systems and permit reciprocity in their frequent flyer programs. Any consolidation or significant alliance activity within the airline industry, or the Company's loss of key alliance relationships, could result in the Company's competitors having access to larger route networks and resources than Air Group, which, in turn, could increase the risks of competition described above.

The airline industry also faces competition from ground transportation alternatives, such as the bus, train or automobile. Video teleconferencing and other methods of electronic communication may add a new dimension of competition to the industry as business travelers seek lower-cost substitutes for air travel.

Changes in government regulation imposing additional requirements and restrictions on the Company's operations could increase its operating costs and result in service delays and disruptions.

Airlines are subject to extensive regulatory and legal requirements, both domestically and internationally, that involve significant compliance costs. In the last several years, Congress has passed laws, and the DOT and the FAA have issued regulations relating to the operation of airlines that have required significant expenditures. For example, on November 19, 2001, the President signed into law the Aviation and Transportation Security Act (the Security Act). This law federalizes substantially all aspects of civil aviation security and requires among other things, the implementation of certain security measures by airlines and airports, such as the requirement that all passenger bags be screened for explosives. Funding for airline and airport security under the law is primarily provided by a new $2.50 per enplanement ticket tax, with authority granted to the TSA to impose additional fees on the air carriers if necessary to cover additional federal aviation security costs. Implementation of the requirements of the Security Act will result in increased costs for the Company and its passengers. In addition to increased costs, the security measures required to be implemented under the Security Act as well as additional security measures issued by the FAA have on occasion resulted in a longer check-in process for passengers and caused delays and disruptions in airline service, which has led to customer frustration and may reduce the demand for airline travel. Additional laws, regulations, taxes and airport rates and charges have been proposed from time to time that could significantly increase the cost of airline operations or reduce the demand for air travel. If adopted, these measures could have the effect of raising ticket prices, reducing revenue and increasing costs.

The Company's insurance costs have increased substantially as a result of the September 11, 2001 terrorist attacks, and further increases in insurance costs would harm its business, financial condition and results of operations.

Following the September 11, 2001 terrorist attacks, aviation insurers dramatically increased airline insurance premiums and significantly reduced the maximum amount of insurance coverage available to airlines for liability to persons other than passengers for claims resulting from acts of terrorism, war or similar events to $50 million per event and in the aggregate. In light of this development, under the Air Transportation Safety and System Stabilization Act, the government is currently offering domestic airlines either (i) excess third-party liability war risk coverage above $50 million, or (ii) in lieu of private war risk insurance, full hull and passenger and third-party liability coverage. Either of these coverages can be obtained with limits up to twice the carrier's pre-9/11 limits, up to $3.0 billion. The Company has obtained the latter coverage at twice its prior limit.

Aviation insurers could increase their premiums even further in the event of additional terrorist attacks, hijackings, airline crashes or other events adversely affecting the airline industry. Furthermore, the full hull and passenger and third-party liability coverage provided by the government is available for renewable 60-day periods until August 31, 2003. While the government may extend the deadline for when it will stop providing such coverage, the Company cannot be certain that any extension will occur, or if it does, how long the extension will last. It is expected that should the government stop providing such coverage to the airline industry, the premiums charged by aviation insurers for this coverage will be substantially higher than the premiums currently charged by the government. Significant increases in insurance premiums would adversely impact the Company's business, financial condition and results of operations.

The Company's failure to successfully expand its business could harm its financial condition and results of operations.

A part of the Company's current profitability strategy involves increasing the frequency of flights in markets it currently serves, expanding the number of markets served and increasing flight connection opportunities. The Company believes that growth will allow it to achieve additional economies of scale and to manage unit costs. Increasing the number of markets the Company serves depends on its ability to access suitable airports, facilities and in some cases regulatory approvals. Any condition that would deny, limit or delay access to such airports, facilities or approvals would constrain the Company's ability to grow. In addition, successful growth depends on the Company's ability to maintain yields and load factors at profitable levels. Inadequate revenues in new markets may require the Company to revise its current growth strategy. Air Group cannot be certain that it will be able to successfully expand its existing markets or establish new markets, and the failure to do so could harm the Company's business and results of operations.

The Company's reputation and financial results could be harmed in the event of an airline accident or incident.

An accident or incident involving one of the Company's aircraft, such as the loss of Alaska Flight 261 off the coast of California in January 2000, could involve a significant loss of life and result in a loss of faith in the Company's airlines by the flying public. In addition, Air Group could experience significant potential claims from injured passengers and surviving relatives, as well as costs for the repair or replacement of a damaged aircraft and its consequential temporary or permanent loss from service. Airlines are required by the DOT to carry liability insurance. Although the Company believes it currently maintains liability insurance in amounts and of the type generally consistent with industry practice, the amount of such coverage may not be adequate and Air Group may be forced to bear substantial losses from an accident. Substantial claims resulting from an accident in excess of the Company's related insurance coverage would harm Air Group's business and financial results. Moreover, any aircraft accident or incident, even if fully insured and even if it does not involve one of the Company's airlines, could cause a public perception that Air Group's airlines or the equipment it flies is less safe or reliable than other transportation alternatives, which would harm the Company's business.

The Company's operations are often affected by factors beyond its control, including traffic congestion at airports, weather conditions and increased security measures, any of which could harm its operating results and financial condition and results of operations.

Like other airlines, the Company's operations are subject to delays caused by factors beyond its control, including air traffic congestion at airports, adverse weather conditions and increased security measures. Delays frustrate passengers, reduce aircraft utilization and increase costs, all of which in turn affect profitability. During periods of fog, snow, rain, storms or other adverse weather conditions, flights may be cancelled or significantly delayed. Cancellations or delays due to weather conditions, traffic control problems and breaches in security could harm the Company's financial condition and results of operations.

The Company's business could be harmed if it is unable to attract and retain qualified personnel at reasonable costs.

The Company's business is labor intensive, with labor costs representing 37% of Air Group's operating expenses for the year ended December 31, 2002. The Company expects salaries, wages and benefits to increase on a gross basis and that these costs could increase as a percentage of its overall costs, which could harm its business. The Company competes against the major U.S. airlines for labor in many highly skilled positions. Many of the major U.S. airlines offer wage and benefit packages that exceed the Company's wage and benefit packages. As a result, in the future, the Company may have to significantly increase wages and benefits in order to attract and retain qualified personnel or risk considerable employee turnover. If the Company is unable to hire, train and retain qualified employees at a reasonable cost, it may be unable to grow or sustain its business and its operating results and business prospects could be harmed or if it loses the services of key personnel. The Company may also have difficulty replacing management or other key personnel who leave and, therefore, the loss of any of these individuals could harm its business.

ITEM 2. *PROPERTIES*

Aircraft

The following table describes the aircraft operated and their average age at December 31, 2002.

Aircraft Type	Passenger Capacity	Owned	Leased	Total	Average Age in Years
Alaska Airlines					
Boeing 737-200C	111	8	1	9	21.9
Boeing 737-400	138	9	31	40	7.7
Boeing 737-700	120	16	—	16	2.6
Boeing 737-900	172	6	—	6	1.3
Boeing MD-80	140	15	16	31	12.0
		54	48	102	9.1
Horizon Air					
Bombardier Dash 8-100/200	37	—	28	28	4.8
Bombardier Dash 8-400	70	—	15	15	1.4
Bombardier CRJ 700	70	—	16	16	1.0
Fokker F-28	70	4	—	4	21.2
		4	59	63	4.1

Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” discusses future orders and options for additional aircraft.

Forty-six of the 54 aircraft owned by Alaska as of December 31, 2002 are subject to liens securing long-term debt. Alaska’s leased 737-200C, 737-400, and MD-80 aircraft have lease expiration dates in 2003, between 2004 and 2016, and between 2003 and 2013, respectively. Horizon’s leased Dash 8 and CRJ 700 aircraft have expiration dates between 2012 and 2018 and between 2018 and 2019, respectively. As part of its fleet modernization plan, Horizon retired the remaining F-28 aircraft on February 14, 2003. Alaska and Horizon have the option to extend most of the leases for additional periods, or the right to purchase the aircraft at the end of the lease term, usually at the then fair market value of the aircraft. For information regarding obligations under capital leases and long-term operating leases, see Note 5 to Consolidated Financial Statements.

At December 31, 2002, all of the Company’s aircraft met the Stage 3 noise requirements under the Airport Noise and Capacity Act of 1990. However, special noise ordinances restrict the timing of flights operated by Alaska and other airlines at Burbank, Orange County, San Diego, San Jose and Palm Springs. In addition, Orange County, Reagan National and Long Beach airports restrict the type of aircraft and number of flights.

Ground Facilities and Services

Alaska and Horizon lease ticket counters, gates, cargo and baggage, office space, and other support areas at the majority of the airports they serve. Alaska also owns terminal buildings at various Alaska cities.

Alaska has centralized operations in several buildings located at or near Seattle-Tacoma International Airport (Sea-Tac) in Seattle, Washington. The owned buildings, including land unless located on leased airport property, include a three-bay hangar facility with maintenance shops, a flight operations and training center, an air cargo facility, a reservations and office facility, several office buildings, its corporate headquarters, and two storage warehouses. Alaska also leases a two-bay hangar/office facility at Sea-Tac. Alaska's other major facilities include a regional headquarters building, an air cargo facility, and a leased hangar/office facility in Anchorage; a Phoenix reservations center; and a leased two-bay maintenance facility in Oakland.

Horizon owns its Seattle corporate headquarters building. It leases an operations, training, and aircraft maintenance facility in Portland, and maintenance facilities in Boise, Pasco and Spokane.

ITEM 3. *LEGAL PROCEEDINGS*

Oakland Maintenance Investigation

In December 1998, the U.S. Attorney for the Northern District of California initiated a grand jury investigation concerning certain 1998 maintenance activities at Alaska's Oakland maintenance base. The investigation was expanded to include the aircraft involved in the loss of Flight 261 in January 2000. The FAA separately proposed a civil penalty in connection with the 1998 maintenance activities, which Alaska and the FAA have settled for an agreed amount. In December 2001, the U.S. Attorney notified Alaska that the evidence it had gathered relative to the 1998 maintenance activities did not warrant the filing of criminal charges, and closed that part of the investigation. The U.S. Attorney also placed the portion of its investigation related to Flight 261 on inactive status, with the possibility of reactivating and reviewing the matter when the NTSB issued its final report on the accident. Accordingly, following the final NTSB hearing on the Flight 261 investigation in December 2002, the U.S. Attorney's Office reactivated the matter in order to review it in light of the final NTSB report.

Flight 261 Litigation

Alaska is a defendant in a number of lawsuits relating to the loss of Flight 261 on January 31, 2000. Representatives of all 88 passengers and crew on board have filed cases against Alaska, the Boeing Company, and others. The suits were originally filed in various state and federal courts in Alaska, California, Washington and Illinois. Since then, they have all been consolidated in the U.S. District Court for the Northern District of California. The suits seek unspecified compensatory and punitive damages. In May 2001, the judge presiding over the majority of the cases ruled that punitive damages are not available against Alaska. Alaska has settled 48 of these cases and continues in its efforts to settle the remaining ones. Trial on the remaining cases is set for July 2003. Consistent with industry standards, the Company maintains insurance against aircraft accidents.

Flight 261 NTSB Proceeding

In January 2003, the NTSB issued its final report on the Flight 261 accident. The report contained the NTSB's findings, conclusions, probable cause of the accident and safety recommendations. NTSB staff's draft report included language that the Board recommend a new FAA inspection of Alaska due to perceived deficiencies in recent maintenance practices. The Board rejected that recommendation.

Management believes the ultimate disposition of the above matters is not likely to materially affect the Company’s financial position or results of operations. This forward-looking statement is based on management’s current understanding of the relevant law and facts; it is subject to various contingencies, including the potential costs and risks associated with litigation and the actions of judges and juries.

The Company is also a party to other ordinary routine litigation incidental to its business and with respect to which no material liability is expected.

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ITEM 4. ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS***
None.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of Alaska Air Group, Inc. (including its subsidiaries Alaska Airlines and Horizon Air Industries), their positions and their respective ages (as of February 27, 2003) are as follows:

Name	Position	Age	Air Group or Subsidiary Officer Since
John F. Kelly	Chairman and Chief Executive Officer of Alaska Air Group, Inc.; Chairman of Horizon Air Industries, Inc.	58	1981
William S. Ayer	President of Alaska Air Group, Inc.; Chairman, President and Chief Executive Officer of Alaska Airlines, Inc.	48	1985
Bradley D. Tilden	Executive Vice President/Finance and Chief Financial Officer of Alaska Air Group, Inc. and Alaska Airlines, Inc.	42	1994
Keith Loveless	Vice President/Legal and Corporate Affairs, General Counsel and Corporate Secretary of Alaska Air Group, Inc. and Alaska Airlines, Inc.	46	1996
George Bagley	Executive Vice President/Operations of Alaska Airlines, Inc.	57	1984
Gregg Saretsky	Executive Vice President/Marketing and Planning Alaska Airlines, Inc.	43	1998
Jeffrey D. Pinneo	President and Chief Executive Officer Horizon Air Industries, Inc.	46	1990

Mr. Kelly began serving as Chairman, President and Chief Executive Officer of Alaska Air Group in 1995. He was Alaska Airlines' CEO from 1995 to January 2002, President from 1995 to 1997, Chief Operating Officer from November 1994 to February 1995 and Vice President/Marketing from 1981 to 1987. He has served as Chairman of Horizon Air Industries since 1991, except the period from November 1994 to February 1995, and was President and CEO from June 1987 to November 1994.

Mr. Ayer first became an officer of Horizon Air Industries in 1985 as Vice President/Strategy and Route Planning. In 1988 he became Vice President/Marketing and Planning of Horizon and then Senior Vice President/Operations in February 1995. In August 1995 Mr. Ayer became Vice President/Marketing and Planning of Alaska Airlines. In January 1997 he took the position of Senior Vice President/Customer Service, Marketing and Planning of Alaska Airlines, and in November 1997 became President of Alaska Airlines. In February 2003, the Company announced that Mr. Ayer will succeed Mr. Kelly as Chairman and Chief Executive Officer of the Company later in 2003. Pursuant to this succession plan, in February 2003, Mr. Ayer became President of Alaska Air Group and Chairman, President and Chief Executive Officer of Alaska Airlines.

Mr. Tilden joined Alaska Airlines in 1991, became controller of Alaska Airlines and Alaska Air Group in 1994 and became CFO in February 2000.

Mr. Loveless became Corporate Secretary and Assistant General Counsel of Alaska Air Group and Alaska Airlines in 1996. In 1999, he became Vice President/Legal and Corporate Affairs, General Counsel and Corporate Secretary of Alaska Air Group and Alaska Airlines.

Mr. Bagley was promoted to President and CEO of Horizon Air Industries in 1995, and in January 2002 became Executive Vice President/Operations of Alaska Airlines.

Mr. Saretsky joined Alaska Airlines in March 1998 as Vice President/Marketing and Planning. In 2000 he became Senior Vice President/Marketing and Planning, and in January 2002 was appointed Executive Vice President/Marketing and Planning.

Mr. Pinneo became Vice President/Passenger Service of Horizon Air Industries in 1990. In January 2002 he was promoted to President and CEO of Horizon Air.

PART II

ITEM 5. *MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS*

As of December 31, 2002, there were 26,573,439 shares of common stock issued and outstanding and 4,243 shareholders of record. The Company also held 2,736,287 treasury shares at a cost of $62.5 million. The Company has not paid dividends on the common stock since 1992. Alaska Air Group Inc.'s common stock is listed on the New York Stock Exchange (symbol: ALK).

The following table shows the trading range of Alaska Air Group, Inc. common stock on the New York Stock Exchange.

	2001		2002	
	High	Low	High	Low
First Quarter	$ 35.25	$24.40	$**33.90**	**$27.95**
Second Quarter	29.50	24.60	**33.23**	**24.75**
Third Quarter	33.66	17.40	**27.23**	**16.24**
Fourth Quarter	31.10	19.26	**23.72**	**13.66**

There were no sales of non-registered securities during 2000, 2001 and 2002.

ITEM 6. *SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA*

	1998	1999	2000	2001	2002
	(Unaudited)				
Consolidated Financial Data:					
Year Ended December 31 (in millions, except per share amounts):					
Operating Revenues	$ 1,912.0	$2,091.5	$2,194.0	$2,152.8	**$ 2,224.1**
Operating Expenses	1,700.1	1,901.7	2,227.1	2,279.1	**2,313.0**
Operating Income (Loss)	211.9	189.8	(33.1)	(126.3)	**(88.9)**
Nonoperating income (expense), net (a)	(6.2)	23.2	6.2	62.8	**(12.9)**
Income (loss) before income tax and accounting change	205.7	213.0	(26.9)	(63.5)	**(101.8)**
Income (loss) before accounting change	125.3	129.4	(20.4)	(43.4)	**(67.2)**
Net Income (Loss)	$ 125.3	$ 129.4	$ (67.2)	$ (43.4)	**$ (118.6)**
Average basic shares outstanding	23.388	26.372	26.440	26.499	**26.546**
Average diluted shares outstanding	26.367	26.507	26.440	26.499	**26.546**
Basic earnings (loss) per share before accounting change	$ 5.36	$ 4.91	$ (0.77)	$ (1.64)	**$ (2.53)**
Basic earnings (loss) per share (b)	5.36	4.91	(2.54)	(1.64)	**(4.47)**
Diluted earnings (loss) per share before accounting change	4.75	4.88	(0.77)	(1.64)	**(2.53)**
Diluted earnings (loss) per share (b)	4.75	4.88	(2.54)	(1.64)	**(4.47)**
At End of Period (in millions, except ratio):					
Total assets	$1,742.6	$2,196.0	$2,528.1	$ 2,950.5	**$2,880.7**
Long-term debt and capital lease obligations	171.5	337.0	509.2	852.2	**856.7**
Shareholders' equity	822.1	959.2	895.1	851.3	**655.7**
Ratio of earnings to fixed charges (c)	2.98	3.07	0.66	0.48	**0.28**
Alaska Airlines Operating Data (Unaudited):					
Revenue passengers (000)	13,056	13,620	13,525	13,668	**14,154**
Revenue passenger miles (RPM) (000,000)	11,283	11,777	11,986	12,249	**13,186**
Available seat miles (ASM) (000,000)	16,807	17,341	17,315	17,919	**19,360**
Revenue passenger load factor	67.1%	67.9%	69.2%	68.4%	**68.1%**
Yield per passenger mile	12.51¢	12.86¢	13.56¢	13.12¢	**12.65¢**
Operating revenues per ASM	9.41¢	9.75¢	10.20¢	9.84¢	**9.47¢**
Operating expenses per ASM	8.25¢	8.81¢	10.35¢	10.24¢	**9.85¢**
Average number of employees	8,704	9,183	9,611	10,115	**10,142**
Horizon Air Operating Data (Unaudited):					
Revenue passengers (000)	4,389	4,984	5,044	4,668	**4,815**
Revenue passenger miles (RPM) (000,000)	1,143	1,379	1,428	1,350	**1,514**
Available seat miles (ASM) (000,000)	1,815	2,194	2,299	2,148	**2,428**
Revenue passenger load factor	63.0%	62.9%	62.1%	62.8%	**62.4%**
Yield per passenger mile	29.02¢	28.77¢	29.82¢	28.15¢	**25.73¢**
Operating revenues per ASM	19.16¢	18.96¢	19.27¢	19.02¢	**17.11¢**
Operating expenses per ASM (d)	18.13¢	17.74¢	19.53¢	21.02¢	**17.65¢**
Average number of employees	3,019	3,603	3,795	3,764	**3,476**

(a) Includes capitalized interest of $7.0 million, $12.6 million, $17.7 million, $10.6 million, and $2.7 million for 1998, 1999, 2000, 2001, and 2002 respectively.

(b) For 2000, basic and diluted earnings per share include $(1.77) per share for the $46.8 million cumulative effect of the accounting change for the sale of frequent flyer miles. For 2002, basic and diluted earnings per share include $(1.94) per share for the $51.4 million cumulative effect of the accounting change in connection with the impairment of goodwill.

(c) For 2000, 2001 and 2002, respectively, earnings are inadequate to cover fixed charges by $39.9 million, $69.1 million and $99.5 million.

(d) For 2001, operating expense per ASM excludes the impact of a $10.2 million special charge related to the impairment of Horizon's F-28 aircraft and related spare parts.

Alaska Airlines Financial and Statistical Data

	Quarter Ended December 31			Year Ended December 31		
	2001	2002	% Change	2001	2002	% Change
	(Unaudited)	(Unaudited)				
Financial Data (in millions):						
Operating Revenues:						
Passenger	$349.6	**$ 392.2**	12.2	$1,607.6	**$ 1,667.8**	3.7
Freight and mail	17.7	**16.6**	(6.2)	78.2	**72.1**	(7.8)
Other-net	18.2	**21.0**	15.4	77.2	**93.2**	20.7
Total Operating Revenues	385.5	**429.8**	11.5	1,763.0	**1,833.1**	4.0
Operating Expenses:						
Wages and benefits	166.4	**179.9**	8.1	642.9	**705.5**	9.7
Contracted services	19.0	**20.4**	7.4	76.0	**80.7**	6.2
Aircraft fuel	49.9	**67.2**	34.7	269.8	**257.3**	(4.6)
Aircraft maintenance	29.7	**41.9**	41.1	129.7	**145.2**	12.0
Aircraft rent	33.6	**32.4**	(3.6)	137.6	**128.2**	(6.8)
Food and beverage service	13.2	**15.6**	18.2	55.5	**63.5**	14.4
Commissions	13.6	**7.6**	(44.1)	64.1	**48.2**	(24.8)
Other selling expenses	23.8	**23.1**	(2.9)	102.7	**101.9**	(0.8)
Depreciation and amortization	30.0	**28.4**	(5.3)	106.1	**114.2**	7.6
Loss on sale of assets	3.2	**1.0**	NM	5.0	**1.7**	NM
Landing fees and other rentals	28.7	**28.3**	(1.4)	99.5	**110.5**	11.1
Other	35.4	**38.0**	7.3	145.7	**150.7**	3.4
Total Operating Expenses	446.5	**483.8**	8.4	1,834.6	**1,907.6**	4.0
Operating Loss	(61.0)	**(54.0)**	(11.5)	(71.6)	**(74.5)**	4.1
Interest income	4.4	**5.7**		26.0	**23.2**	
Interest expense	(12.9)	**(11.5)**		(47.4)	**(46.3)**	
Interest capitalized	0.9	**1.0**		7.5	**2.1**	
U.S. government compensation	52.9	**—**		71.6	**0.3**	
Other-net	(3.1)	**0.2**		(2.5)	**7.9**	
	42.2	**(4.6)**		55.2	**(12.8)**	
Loss Before Income Tax and Accounting Change	$ (18.8)	**$ (58.6)**	211.7	$ (16.4)	**$ (87.3)**	432.3
Operating Statistics (Unaudited):						
Revenue passengers (000)	3,025	**3,367**	11.3	13,668	**14,154**	3.6
RPMs (000,000)	2,736	**3,164**	15.6	12,249	**13,186**	7.6
ASMs (000,000)	4,121	**4,758**	15.5	17,919	**19,360**	8.0
Passenger load factor	66.4%	**66.5%**	0.1pts	68.4%	**68.1%**	(0.3)pts
Breakeven load factor	82.2%	**78.4%**	(3.7)pts	73.5%	**73.1%**	(0.4)pts
Yield per passenger mile	12.78¢	**12.40¢**	(3.0)	13.12¢	**12.65¢**	(3.6)
Operating revenue per ASM	9.35¢	**9.03¢**	(3.4)	9.84¢	**9.47¢**	(3.8)
Operating expenses per ASM	10.84¢	**10.17¢**	(6.2)	10.24¢	**9.85¢**	(3.8)
Expense per ASM excluding fuel	9.62¢	**8.76¢**	(8.9)	8.73¢	**8.52¢**	(2.4)
Fuel cost per gallon	71.9¢	**84.7¢**	17.8	88.3¢	**79.6¢**	(9.9)
Fuel gallons (000,000)	69.6	**79.3**	13.9	305.7	**323.3**	5.8
Average number of employees	9,834	**10,065**	2.3	10,115	**10,142**	0.3
Aircraft utilization (blk hrs/day)	9.2	**10.3**	12.0	10.4	**10.6**	1.9
Operating fleet at period-end	101	**102**	1.0	101	**102**	1.0

NM = Not Meaningful

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Horizon Air Financial and Statistical Data

	Quarter Ended December 31			Year Ended December 31		
	2001	2002	% Change	2001	2002	% Change
Financial Data (in millions):	(Unaudited)	(Unaudited)				
Operating Revenues:						
Passenger	$ 79.0	**$ 97.9**	23.9	$ 380.0	**$ 389.5**	2.5
Freight and mail	1.3	**1.1**	(15.4)	8.1	**5.0**	(38.3)
Other-net	4.7	**4.4**	(6.4)	20.3	**20.7**	2.0
Total Operating Revenues	85.0	**103.4**	21.6	408.4	**415.2**	1.7
Operating Expenses:						
Wages and benefits	40.9	**39.4**	(3.7)	152.6	**152.6**	0.0
Contracted services	3.5	**4.3**	22.9	13.8	**16.6**	20.3
Aircraft fuel	9.3	**12.2**	31.2	54.5	**44.7**	(18.0)
Aircraft maintenance	8.0	**7.0**	(12.5)	51.6	**25.1**	(51.4)
Aircraft rent	13.8	**16.3**	18.1	48.4	**62.2**	28.5
Food and beverage service	0.6	**0.7**	16.7	2.9	**2.7**	(6.9)
Commissions	2.2	**0.7**	(68.2)	11.3	**6.4**	(43.4)
Other selling expenses	4.7	**5.6**	19.1	22.2	**23.0**	3.6
Depreciation and amortization	6.9	**3.2**	(53.6)	26.7	**17.0**	(36.3)
Gain on sale of assets	(0.1)	**(0.1)**	NM	(0.4)	**(1.6)**	NM
Landing fees and other rentals	8.1	**8.4**	3.7	30.2	**31.2**	3.3
Other	10.4	**11.1**	6.7	37.7	**48.7**	29.2
Special charge-asset impairment	10.2	**—**	NM	10.2	**—**	NM
Total Operating Expenses	118.5	**108.8**	(8.2)	461.7	**428.6**	(7.2)
Operating Loss	(33.5)	**(5.4)**	NM	(53.3)	**(13.4)**	NM
Interest income	—	**—**		—	**0.7**	
Interest expense	(0.3)	**(0.5)**		(3.0)	**(2.1)**	
Interest capitalized	0.3	**0.2**		3.0	**0.6**	
U.S. government compensation	(0.6)	**—**		9.8	**0.2**	
Other-net	(0.9)	**(0.1)**		(1.6)	**1.2**	
	(1.5)	**(0.4)**		8.2	**0.6**	
Loss Before Income Tax and Accounting Change	$ (35.0)	**$ (5.8)**	NM	$ (45.1)	**$ (12.8)**	NM
Operating Statistics (Unaudited):						
Revenue passengers (000)	1,034	**1,194**	15.5	4,668	**4,815**	3.1
RPMs (000,000)	300	**386**	28.7	1,350	**1,514**	12.1
ASMs (000,000)	474	**632**	33.3	2,148	**2,428**	13.0
Passenger load factor	63.3%	**61.1%**	(2.2)pts	62.8%	**62.4%**	(0.4)pts
Breakeven load factor	84.4%	**65.0%**	(19.4)pts	70.8%	**65.0%**	(5.8)pts
Yield per passenger mile	26.33¢	**25.35¢**	(3.7)	28.15¢	**25.73¢**	(8.6)
Operating revenue per ASM	17.93¢	**16.36¢**	(8.8)	19.02¢	**17.11¢**	(10.0)
Operating expenses per ASM*	22.85¢	**17.22¢**	(24.6)	21.02¢	**17.65¢**	(16.0)
Expense per ASM excluding fuel*	20.89¢	**15.28¢**	(26.8)	18.48¢	**15.82¢**	(14.4)
Fuel cost per gallon	77.4¢	**87.7¢**	13.3	93.4¢	**82.0¢**	(12.2)
Fuel gallons (000,000)	12.0	**13.9**	15.8	58.3	**54.5**	(6.5)
Average number of employees	3,534	**3,518**	(0.5)	3,764	**3,476**	(7.7)
Aircraft utilization (blk hrs/day)	6.7	**7.5**	11.9	7.6	**7.5**	(1.5)
Operating fleet at period-end	60	**63**	5.0	60	**63**	5.0

* 2001 amounts exclude the impact of a special charge in December 2001.

ITEM 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

The following discussion should be read in conjunction with our financial statements and the related notes contained elsewhere in this Annual Report on Form 10-K. All statements in the following discussion which are not reports of historical information or descriptions of current accounting policy are forward-looking statements. Please consider our forward-looking statements in light of the risks referred to in this report's introductory cautionary note. 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, see Item 1 "Business Risks".

Industry Conditions

The airline industry is cyclical. Generally speaking, economic conditions were strong during 2000, but weakened during 2001 and 2002. Because the industry has high fixed costs in relation to revenues, a small change in load factors or fare levels has a large impact on profits. For most airlines, labor and fuel account for almost half of operating expenses. The relatively strong economy in the late 90s put upward pressure on labor costs. Fuel prices have been volatile in the last three years. Fuel cost per gallon increased 54% in 2000, decreased 14% in 2001 and 10% in 2002.

On September 11, 2001, the United States was attacked by terrorists using hijacked jets of two U.S. airlines. The FAA shut down all commercial airline flight operations for September 11 and 12. Airlines resumed flight operations at reduced levels on September 13. These events, combined with continued slowing economic conditions in 2002, have had a significant negative impact on demand for airline travel. Throughout the industry, airlines continue to cut capacity and have instituted a variety of cost-saving measures. In addition, credit rating agencies have downgraded the long-term credit ratings of most U.S. airlines and their related entities, including Alaska Air Group, Inc. On September 22, 2001, the U.S. Government passed the Air Transportation Safety and System Stabilization Act (the Act) to provide $5 billion of cash compensation and $10 billion of loan guarantees to U.S. airlines. The purpose of the Act was to compensate the airlines for direct and incremental losses for the period September 11 through December 31, 2001 as a result of the September 11 terrorist attacks. As of December 31, 2001, Alaska had recognized $71.6 million and Horizon had recognized $9.8 million of the $5 billion cash compensation. During the third quarter of 2002, the United States Department of Transportation (DOT) completed its review procedures and remitted final compensation payments to Alaska and Horizon of $0.2 million and $0.2 million, respectively.

RESULTS OF OPERATIONS

2002 Compared with 2001

The consolidated loss before accounting change for 2002 was $67.2 million, or $2.53 per share compared with a loss of $43.4 million, or $1.64 per share in 2001. The consolidated operating loss was $88.9 million in 2002 compared with an operating loss of $126.3 million in 2001. Consolidated results in 2001 and 2002 include $81.4 million and $0.5 million, respectively, of government compensation recognized resulting from the Act. Consolidated results for 2002 include a $51.4 million charge in connection with write-off of all of the Company's goodwill (See Note 15 to the Consolidated Financial Statements). Financial and statistical data for Alaska and Horizon is shown in Item 6. A discussion of this data follows.

Alaska Airlines Revenues
Operating revenue increased 3.7% during 2002 as compared to 2001. Available seat miles (ASMs or Capacity) increased during each quarter of 2002 as compared to 2001 due to the addition of service to five cities (Calgary, Boston, Denver, Newark and Miami) and due to the negative impact of the terrorist attacks on 4th quarter 2001 capacity. For the full year 2002, capacity was up 8.0% while revenue passenger miles (RPMs or traffic) increased at a slightly lower rate (7.6%), resulting in a 0.3 point decrease in passenger load factor (RPMs divided by ASMs). In our largest market, Southern California, capacity was slightly higher in 2002 compared to 2001, and traffic was slightly lower, resulting in a decrease in load factor of 1.1 points. Capacity and traffic gains experienced in the last two quarters in this market were offset by decreases in the first two quarters. In our second largest market, Anchorage/Fairbanks to the U.S. mainland, both capacity and traffic increased when compared to 2001; traffic increased at a higher rate than capacity, resulting in a increase in load factor of 1.8 points for the year. The average load factor for our newest five cities was better than the system average.

Yield per passenger mile was down in each quarter of the year: 5.0% in the first quarter, 2.5% in the second quarter, 3.9% in the third quarter and 3.0% in the fourth quarter. The decrease in passenger yield was due to a combination of fewer business passengers, a drop off in demand due to the events of September 11, fare sales offered to stimulate demand, and the sagging economy. For the full year 2002, yields were down 3.6%. The higher traffic combined with the lower yield resulted in a 3.7% increase in passenger revenue.

Freight and mail revenues decreased 7.8%. After September 11, new security measures had a negative impact on our freight and mail volumes, resulting in a negative impact on revenues.

Other-net revenues increased 20.7%, largely due to increased revenue from the sale of miles in Alaska's frequent flyer program, and redemption of miles on partner airlines (Alaska recognizes revenue for the difference between the funds received for the sale of miles to third parties and the cost of the award redemptions on partner airlines).

Alaska Airlines Expenses
Excluding fuel, operating expenses grew by $85.5 million, or 5.5%, as a result of an 8.0% increase in ASMs and a 2.4% decrease in cost per ASM. The cost per ASM excluding fuel increased slightly by 0.2% during the first nine months of 2002 when compared to the same period in 2001 but decreased by 8.9% in the fourth quarter, primarily due to the impact of the terrorist attacks in 2001. Explanations of significant year-over-year changes in the components of operating expenses are as follows:

- Wages and benefits increased 9.7% due to a 9.5% increase in average wages and benefits per employee and a 0.3% increase in the number of employees. The 2002 results include a full year of a pilot wage increase which occurred in June 2001, step increases for union employees, and annual merit raises for management employees. Additionally, benefits expense significantly increased due to increases in defined benefit plan costs and increases in health insurance for all employees.

- Contracted services increased 6.2%, primarily due to higher rates for ground handling services and a slightly higher volume of services due to capacity growth. Increased airport security screening costs subsequent to September 11 also contributed to the increase.

- Aircraft fuel expense decreased 4.6% due to a 9.9% decrease in the cost per gallon of fuel, offset by a 5.8% increase in gallons consumed. Fuel consumption rate per flight hour decreased slightly by 0.1%. The lower fuel prices saved $28.1 million.

- Aircraft maintenance expense increased 12.0% as a result of more airframe checks in 2002. In addition, the 2001 results reflect a reduced flight schedule as a result of the September 11 terrorist attacks which resulted in the deferring of certain C checks and heavy checks into 2002.

- Commission expense decreased 24.8% due to the elimination of travel agent base commissions and the continuing shift to direct sales channels. In June 2002, the Company changed its travel agent commissions program to eliminate base commissions and move to a 100% incentive-based program. In 2002, 55.9% of Air Group ticket sales were made through travel agents, versus 59.9% in 2001. In 2002, 21.0% of the ticket sales were made through Alaska's Internet web site versus 16.3% in 2001.

- Other selling expense consists of credit card commissions, computer reservation systems fees, Mileage Plan award costs for miles earned by flying on Alaska or Horizon, and advertising expenses. The slight decrease in 2002 as compared to the same period in 2001 is primarily due to increases in credit card commissions partially offset by decreases in CRS Fees, advertising expense and Mileage Plan awards.

- Depreciation and amortization increased 7.6% in 2002 as compared to 2001, primarily due to the addition of eight owned aircraft during the first and second quarters of 2001.

- Landing fees and other rentals increased 11.1%, exceeding the 3.1% increase in landings, due to higher landing fee and rental rates at airports throughout the system. The higher rates reflect the airports' increased cost of operations due to new security directives and expansion of their facilities.

- Other expense increased 3.4%, primarily due to higher expenditures for insurance, flight crew hotels and utilities, partly offset by lower property taxes, recruiting, passenger remuneration, uninsured losses and legal costs. Subsequent to the events of September 11, the Company experienced significant increases in hull, liability and war risk insurance rates, and was also subject to surcharges for war risk coverage. As a result of these increases, Alaska incurred $37.4 million in aircraft insurance expense in 2002, compared to $13.1 million in 2001.

Horizon Air Revenues
For the year 2002, capacity was up 13.0% and traffic was up 12.1%, resulting in a 0.4 decrease in passenger load factor. Passenger yields were down 10.4% in the first quarter, down 11.6% in the second quarter, down 7.0% in the third quarter and down 3.7% in the fourth quarter due to a reduction in business passengers and the economic downturn. For the full year 2002, yields were down 8.6%. The increased traffic combined with the lower yield resulted in a 2.5% increase in passenger revenue.

Freight and mail revenues decreased 38.3%. In June 2001, Horizon ceased carrying general freight in order to focus on carrying higher-yield small packages instead. This change, along with the impact of the September 11 terrorist attacks, led to the decline in revenues. Other-net revenues increased 2.0%, primarily due to manufacturer support received as compensation for delays in delivery of CRJ 700 aircraft.

Horizon Air Expenses
Cost per ASM decreased 14.4% as a result of a 13.0% increase in ASMs combined with a $13.1 million, or 3.3% decrease in operating expenses, excluding fuel and special charge. Unit costs in 2001 were adversely impacted by the capacity reductions that resulted from the September 11 terrorist attacks. Additionally, Horizon's expenses in 2001 were adversely impacted by the delay in the delivery of the CRJ 700 aircraft from January 2001 to July 2001. Explanations of significant year-over-year changes in the components of operating expenses are as follows:

- Wages and benefits remained constant due to the combination of an 8.3% increase in average wages and benefits per employee and a 7.7% reduction in the number of employees. The Company recognized a $3.2 million signing bonus in the fourth quarter of 2001 related to a new pilot contract. Excluding that bonus, average wages and benefits were up 10.7%.

- Aircraft fuel expense decreased 18.0% due to a 6.5% decrease in gallons consumed and a 12.2% decrease in the cost per gallon of fuel. The fuel consumption rate per flight hour decreased 5.0% due to the use of more fuel-efficient Dash 8-400 and CRJ 700 aircraft.

- Aircraft maintenance expense decreased 51.4% due to greater use of new aircraft in 2002 (still under warranty), a 1.5% decrease in aircraft block hours and higher expenses in 2001 related to the phasing out of the Fokker F-28 jet aircraft.

- Aircraft rent increased 28.5% due to higher rental rates incurred on new Dash 8-400 and CRJ 700 aircraft rented in 2002 and 2001.

- Depreciation and amortization expense decreased 36.3%, largely due to higher depreciation in 2001 on Fokker F-28 jet aircraft spare parts and airframes which did not recur in 2002.

- Landing fees and other rentals increased 3.3% due to higher landing fee and rental rates at airports throughout the system. The higher rates reflect the airports' increased cost of operations due to new security directives and expansion of their facilities.

- Other expense increased 29.2%, primarily due to higher expenditures for insurance. Subsequent to the events of September 11, the Company experienced significant increases in hull, liability and war risk insurance rates, and was also subject to surcharges for war risk coverage. As a result of those increases, insurance expense for aircraft for Horizon in 2002 was $16.1 million, compared to $6.1 million in 2001.

- The $10.2 million special charge in 2001 recognizes the loss in value of owned Fokker F-28 aircraft and related spare parts. The F-28s, which are being replaced with more fuel-efficient CRJ 700 regional jets, were completely taken out of service on February 14, 2003. The remaining net book value of these aircraft and related spare parts as of December 31, 2002, was $8.1 million.

Consolidated Nonoperating Income (Expense)
Net nonoperating loss was $12.9 million in 2002 compared to nonoperating income of $62.8 million in 2001. The $75.7 million decrease was primarily due to U.S. government compensation of $81.4 million recognized in 2001 compared to $0.5 million in 2002.

In 2001, Alaska and Horizon recognized $71.6 million and $9.8 million, respectively of U.S. government compensation. During the third quarter of 2002, the DOT completed its review procedures and remitted final compensation payments to Alaska and Horizon of $0.2 million and $0.2 million, respectively. Interest expense, net of capitalized interest totaled $36.8 million in 2001 which compares to $43.6 million in 2002.

The Company has fuel hedge contracts that are carried on the balance sheet at fair value. Each period, the contracts are measured and adjusted to fair market value. The change in the value of the fuel hedge contracts that perfectly offsets the change in the value of the aircraft fuel being hedged is recorded as other comprehensive income/loss until the hedged contract is settled and is then recognized in earnings. To the extent the change in the value of the fuel hedge contracts does not perfectly offset the change in the value of the aircraft fuel purchase being hedged, that portion of the hedge is recognized in earnings. In 2001 and 2002, $7.4 million of expense and $6.4 million of income, respectively, was recorded as part of other nonoperating expense to recognize the hedge ineffectiveness on the contracts. As detailed in Note 1 to the Consolidated Financial Statements, at December 31, 2002, the Company has fuel hedge contracts for 140 million gallons of projected jet fuel usage in 2003, which represents approximately 35% of projected usage.

Cumulative Effect of Accounting Change
Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets". Under this Statement, the Company's goodwill will no longer be amortized, but instead will be tested for impairment on a minimum of an annual basis. During the second quarter of 2002, the Company completed the first step of its impairment test related to its $51.4 million of goodwill. The test was performed using Alaska and Horizon as separate reporting units. In the fourth quarter of 2002, the Company completed the

second step of its impairment test and determined that all of the Company's goodwill was impaired. As a result, the Company recorded a one-time, non-cash charge, effective January 1, 2002, of $51.4 million ($12.5 million Alaska and $38.9 million Horizon) to write-off all of its goodwill. This charge is reflected as a cumulative effect of accounting change in the Consolidated Statement of Operations for 2002.

2001 Compared with 2000

The consolidated net loss for 2001 was $43.4 million, or $1.64 per share compared with a loss before accounting change of $20.4 million, or $0.77 per share in 2000. The consolidated operating loss was $126.3 million in 2001 compared with an operating loss of $33.1 million in 2000. The larger operating loss was primarily due to the weakening economy, partially offset by a decrease in fuel costs, and also due to the negative impact of the terrorist attacks, for which the Company has been partially compensated by the U.S. government.

Alaska Airlines Revenues

Capacity increased 6.7% during the first nine months of 2001 due to normal growth, but decreased 5.9% in the fourth quarter due to the impact of the terrorist attacks. Alaska operated approximately 87% of its previously planned schedule in the fourth quarter. For the full year 2001, capacity was up 3.5% but traffic grew by only 2.2%, resulting in a 0.8 point decrease in passenger load factor. In our largest market, Southern California, capacity was slightly lower in 2001 compared to 2000, resulting in flat traffic and a slight increase in load factor (0.2 points). Capacity and traffic gains experienced in the second quarter in this market were offset by decreases in the fourth quarter. In our second largest market, Anchorage/Fairbanks to the U.S. mainland, capacity increased in the upper-single digits, but traffic increases were not as high, resulting in a decrease in load factor of 2.3 points for the year. Our newest market, Seattle to Washington D.C., which operated primarily in the fourth quarter, had an average load factor for the fourth quarter that was better than the system average.

Passenger yields were up 2.8% in the first quarter due to fuel-related fare increases implemented in late 2000. In the second and third quarters, yield was down 2.4% and 5.7%, respectively, due to a decline in business passengers and fare sales. Yields were down 7.0% in the fourth quarter due to a combination of fewer business passengers, a drop off in demand due to the events of September 11, and fares sales offered to stimulate demand. For the full year 2001, yields were down 3.2%. The higher traffic combined with the lower yield resulted in a 1.1% decrease in passenger revenue.

Freight and mail revenues, which were also adversely impacted by the September 11 terrorist attacks, increased 2.4%. Prior to September 11, freight revenues were flat compared to 2000, but mail revenues had increased compared to 2000 due to higher yields. Volumes of mail shipped were lower than in 2000, but the rate increases instituted in early 2001 resulted in higher revenues. After September 11, two security measures impacted our freight and mail business: first, the limitation on carrying mail greater than 16 ounces on flights with 60 or more passengers limited our ability to carry mail from Alaska to the U.S. mainland. Second, we may only carry freight from known shippers, which negatively impacted our freight volumes. The effects of these two measures will have a slightly negative impact on revenues in the future.

Other-net revenues increased 19.9%, largely due to increased revenue from the sale of miles in Alaska's frequent flyer program.

Alaska Airlines Expenses
Excluding fuel, operating expenses grew by $85.7 million, or 5.8%, as a result of a 3.5% increase in ASMs and a 2.3% increase in cost per ASM. The cost per ASM excluding fuel remained constant during the first nine months of 2001 when compared to the same period in 2000 but increased by 10.1% in the fourth quarter, primarily due to the impact of the terrorist attacks and labor costs. Explanations of significant year-over-year changes in the components of operating expenses are as follows:

- Wages and benefits increased 11.4% due to a 5.2% increase in the number of employees combined with a 5.9% increase in average wages and benefits per employee. Employees were added in most areas to support the net addition of six aircraft to the operating fleet. The 2000 results include a $1.8 million charge for a flight attendant early retirement program. The 2001 results include approximately $13.4 million of added expense for a pilot pay increase that was effective June 2001. Excluding these items, average wages and benefits per employee increased 4.0%, which was due to increases for union employees, annual merit raises for management employees, and higher pension and health insurance costs for all employees.

- Contracted services increased 11.3%, primarily due to higher rates for ground handling services and a slightly higher volume of services due to capacity growth. Increased airport security screening costs subsequent to September 11 also contributed to the increase.

- Aircraft fuel expense decreased 13.8% due to a 14.6% decrease in the cost per gallon of fuel, offset by a 0.9% increase in gallons consumed. The fuel consumption rate decreased 2.8% due to the use of more fuel-efficient B737-700 and B737-900 aircraft. The lower fuel prices saved $46.2 million.

- Aircraft maintenance expense decreased .9% as a result of fewer airframe checks in 2001. We also incurred lower outside engine repair costs in 2001 compared to 2000.

- Commission expense decreased 1.5%, consistent with the 1.1% decrease in passenger revenue, and also due to a smaller proportion of sales being made through travel agents. In 2001, 59.9% of Air Group ticket sales were made through travel agents, versus 63.9% in 2000. In 2001, 16.3% of the ticket sales were made through Alaska's Internet web site versus 10.4% in 2000.

- Other selling expense consists of credit card commissions, computer reservation systems fees, Mileage Plan award costs, and advertising expenses. The decrease in 2001 compared to the same period in 2000 is primarily due to the Company recording a charge of $40.2 million in 2000 due to a change in estimate for the cost of travel awards earned by Mileage Plan members flying on travel partners and an increase in the number of awards that will ultimately be redeemed for travel. Higher costs are a result of increasing the estimated costs Alaska incurs to acquire awards on other airlines for its Mileage Plan members, as well as lower assumed forfeiture miles.

- Depreciation and amortization increased 23.7%, primarily due to the addition of eight owned aircraft during 2001.

- Landing fees and other rentals increased 33.7%, exceeding the 2.5% increase in landings, due to higher landing fee and rental rates at airports throughout the system. The higher rates reflect the airports' increased cost of operations due to new security directives, expansion of their facilities, and increased costs for utilities. Due to the events of September 11, airports are experiencing fewer landings and lower receipts from concessionaires. Therefore, the Company anticipates that these revenue shortfalls will be passed through to airlines via increased landing fees and terminal rents. In the fourth quarter of 2001, the Company expensed $5.1 million for estimated shortfalls related to 2001.

- Other expense increased 2.4%, primarily due to higher expenditures for insurance, flight crew hotels and utilities, partly offset by lower recruiting, passenger remuneration, and legal costs. Subsequent to the events of September 11, the Company experienced significant increases in hull, liability and war risk insurance rates, and was also subject to surcharges for war risk coverage.

Horizon Air Revenues

Capacity was essentially flat during the first eight months of 2001, but decreased 26.3% in September and 16.1% in the fourth quarter due to the impact of the terrorist attacks. Horizon operated approximately 80% of its previously planned schedule in the fourth quarter. For the full year 2001, capacity was down 6.6% and traffic was down 5.5%, resulting in a 0.7 point increase in passenger load factor. Passenger yields were down 1.3% in the first quarter, down 4.6% in the second quarter, and down 8.2% in the third quarter due to a reduction in business passengers, and down 9.4% in the fourth quarter due to a combination of fewer business passengers and lower fares. For the full year 2001, yields were down 5.6%. The lower traffic combined with the lower yield resulted in a 10.8% decrease in passenger revenue.

Freight and mail revenues decreased 27.7%. In June 2001, Horizon ceased carrying general freight in order to focus on carrying higher-yield small packages instead. This change, along with the impact of the September 11 terrorist attacks, led to the decline in revenues. Other-net revenues increased $14.2 million, primarily due to manufacturer support received as compensation for delays in delivery of CRJ 700 aircraft.

Horizon Air Expenses

Cost per ASM increased 12.1% as a result of a 6.6% decrease in ASMs and an $18.1 million, or 4.8% increase in operating expenses, excluding fuel and special charge. Unit costs were adversely impacted by the capacity reductions that resulted from the September 11 terrorist attacks. Additionally, Horizon's expenses were adversely impacted by the delay in the delivery of the CRJ 700 aircraft from January 2001 to July 2001. The Company hired and trained pilots, flight attendants and mechanics, and purchased spare parts in anticipation of the new fleet delivery, which was to commence in January. Those preparations increased expenses from the beginning of the year, but the total expected benefits of the new and more efficient aircraft occurred much later in the year due to the delay. Explanations of significant year-over-year changes in the components of operating expenses are as follows:

- Wages and benefits increased 9.9% due to the combination of a 10.8% increase in average wages and benefits per employee and a 0.8% reduction in the number of employees. The Company recognized a $3.2 million signing bonus in the fourth quarter related to a new pilot contract. Excluding that bonus, average wages and benefits were up 8.5%.

- Fuel expense decreased 22.4% due to a 12.3% decrease in gallons consumed and an 11.6% decrease in the cost per gallon of fuel. The fuel consumption rate decreased 2.0% due to the use of more fuel-efficient Dash 8-400 and CRJ 700 aircraft.

- Aircraft maintenance expense decreased 18.5% due to a 9.2% decrease in aircraft block hours, the greater use of new aircraft in 2001, and higher expenses in 2000 related to the phasing out of the Fokker F-28 jet aircraft.

- Aircraft rent increased 13.9% due to higher rental rates incurred on new Dash 8-400 and CRJ 700 aircraft rented in 2001.

- Depreciation and amortization expense increased 29.0%, largely due to added depreciation on Fokker F-28 jet aircraft spare parts and airframes.

- Landing fees and other rentals increased 18.9% due to higher landing fee and rental rates at airports throughout the system. The higher rates reflect the airports' increased cost of operations due to new security directives, expansion of their facilities, and increased costs for utilities. Due to the events of September 11 and the slowing economy, airports are experiencing fewer landings and lower receipts from concessionaires. Therefore, the Company anticipates that those revenue shortfalls will be passed through to airlines via increased landing fees and terminal rents. In the fourth quarter of 2001, the Company expensed $1.5 million for estimated shortfalls related to 2001.

- Other expense increased 6.5%, primarily due to higher expenditures for insurance. Subsequent to the events of September 11, the Company experienced significant increases in hull, liability and war risk insurance rates, and was subject to surcharges for war risk coverage.

- The $10.2 million special charge recognizes the loss in value of owned Fokker F-28 aircraft and related spare parts. The F-28s, which are being replaced with more fuel-efficient CRJ 700 regional jets, were completely taken out of service as of February 14, 2003. The remaining net book value of these aircraft and related spare parts as of December 31, 2001, was $16.2 million.

Consolidated Nonoperating Income (Expense)

Net nonoperating income was $62.8 million in 2001 compared to $6.2 million in 2000. The $56.6 million increase was primarily due to U.S. government compensation, partially offset by interest expense.

In 2001, Alaska and Horizon recognized $71.6 million and $9.8 million, respectively of U.S. government compensation, under the Air Transportation Safety and System Stabilization Act described above under Industry Conditions. During the third quarter of 2002, the DOT completed its review procedures and remitted final compensation payments to Alaska and Horizon of $0.2 million and $0.2 million, respectively. Interest expense, net of capitalized interest, increased $18.5 million due to new debt incurred during the year ended December 31, 2001.

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. The cumulative effect of adoption of SFAS No. 133 was not material to the Company's financial position or results of operations. SFAS No. 133 requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. The Company has fuel hedge contracts that are carried on the balance sheet at fair value. Each period, the contracts are measured and adjusted to fair market value. The change in the value of the fuel hedge contracts that perfectly offsets the change in the value of the aircraft fuel purchase being hedged is recorded as comprehensive income/loss until the hedged contract is settled and is then recognized in earnings. To the extent the change in the value of the fuel hedge contracts does not perfectly offset the change in the value of the aircraft fuel purchase being hedged, that portion of the hedge is recognized in earnings. In 2001, $7.4 million of charges were recorded as part of other nonoperating expense to recognize the hedge ineffectiveness on the fuel contracts.

Critical Accounting Policies

The Company has three critical accounting policies that require a more significant amount of management judgment than other accounting policies the Company employs. They are described below.

Mileage Plan

The Company has a loyalty program that awards miles to passengers who fly on Alaska or Horizon and our travel partners. Additionally, the Company sells miles to third parties, such as our credit card partner, for cash. In either case, the outstanding miles may be redeemed for travel on Alaska, Horizon, or any of our alliance partners. The Company has an obligation to provide this future travel; therefore, for awards to passengers who fly on Alaska, Horizon or our travel partners, the Company recognizes a liability and the corresponding expense for this future obligation. For miles sold to third parties, the sales proceeds related to future travel are recorded as deferred revenue and recognized when the award transportation is provided.

At December 31, 2002, the Company had 72 billion miles outstanding, representing a liability of $303 million. The liability is computed based on several assumptions that require management judgment to estimate and formulate. There are uncertainties inherent in estimates; therefore, an incorrect assumption impacts the amount and/or timing of revenue recognition or Mileage Plan expenses. The most significant assumptions in accounting for the Mileage Plan are described below.

1. *The number of miles that will not be redeemed for travel and the miles used per award (i.e. free ticket):*

   Outstanding miles may not always be redeemed for travel. Members may not reach the threshold necessary for a free ticket and outstanding miles may not always be redeemed for travel. Therefore, based on the number of Mileage Plan accounts and the miles in the accounts, the Company estimates how many miles will never be used, and does not record a liability for those miles. We also estimate how many miles will be used per award. If actual miles used are more or less than estimated, we may need to adjust the liability and corresponding expense.

2. *The costs which will be incurred to carry the passenger:*
   When the frequent flyer travels on his or her award ticket, incremental costs such as food, fuel and insurance, are incurred by the Company to carry that passenger. The Company estimates what these costs will be and accrues a liability. If the passenger travels on another airline, the Company often must pay the other airline for carrying the passenger. The other airline costs are based on negotiated agreements and are often higher than the costs incurred by the Company to carry that passenger. The Company estimates how much it will pay to other airlines for future travel awards and accrues this expense. When the award is flown, if the costs actually incurred by the Company or paid to other airlines are higher or lower than the costs that were estimated and accrued, the liability may be under or overstated.

3. *Redemption on Alaska or Horizon versus other airlines:*
   The cost for Alaska or Horizon to carry an award passenger is typically lower than the cost the Company will pay to other airlines. The Company estimates the number of awards which will be redeemed on Alaska or Horizon versus other airlines and accrues the costs based on this estimate. If the number of awards redeemed on other airlines is higher or lower than estimated, the liability may be under or overstated.

The Company reviews all Mileage Plan estimates each quarter, and changes certain assumptions based on historical trends. In 2000, the Company recorded a charge of $40.2 million primarily due to a change in estimate for the cost of travel awards earned by mileage plan members flying on travel partners and an increase in the number of awards that will ultimately be redeemed for travel.

Pension Plans
The Company accounts for the defined benefit pension plans using Statement of Financial Accounting Standards No. 87, Employer's Accounting for Pensions (SFAS 87). Under SFAS 87, pension expense is recognized on an accrual basis over employees' approximate service periods. Pension expense calculated under SFAS 87 is generally independent of funding decisions or requirements. The Company recognized expense for its defined benefit pension plans of $13.5 million, $20.0 million and $40.0 million in 2000, 2001 and 2002, respectively.

The calculation of pension expense and the corresponding liability requires the use of a number of critical assumptions, including the expected long-term rate of return on plan assets and the assumed discount rate. Changes in these assumptions can result in different expense and liability amounts, and future actual experience can differ from these assumptions. At December 31, 2002, the fair value of the Company's pension plan assets totaled $418.1 million. Lower investment returns, benefit payments and declining discount rates have resulted in a charge in the fourth quarter of $87.2 million (net of tax of $52.5 million) as of December 31, 2002. The Company anticipates making a cash contribution of approximately $38.0 million during 2003.

Pension expense increases as the expected rate of return on pension plan assets decreases. At December 31, 2002, the Company estimates that the pension plan assets will generate a long-term rate of return of 8.0%. This rate is lower than the assumed rate of 10.0% used at both December 31, 2000 and 2001 and was developed by evaluating input from consultants and economists as well as long-term inflation assumptions. The Company regularly reviews the actual asset allocation and periodically rebalances investments as considered appropriate. This expected long-term rate of return on plan assets at December 31, 2002 is based on an allocation of U.S. equities and U.S. fixed income securities. Decreasing the expected long-term rate of return by 0.5% (from 8.0% to 7.5%) would increase the Company's estimated 2003 pension expense by approximately $2.2 million.

Pension liability and future pension expense increase as the discount rate is reduced. The Company discounted future pension obligations using a rate of 7.50%, 7.25% and 6.75% at December 31, 2000, 2001 and 2002, respectively. The discount rate is determined based on the current rates earned on high quality long-term bonds. Decreasing the discount rate by 0.5% (from 6.75% to 6.25%) would increase the Company's accumulated benefit obligation at December 31, 2002 by approximately $35.2 million and increase the estimated 2003 pension expense by approximately $6.4 million.

Future changes in plan asset returns, assumed discount rates and various other factors related to the participants in our pension plans will impact the Company's future pension expense and liabilities. The Company cannot predict with certainty what these factors will be in the future.

Long-lived Assets

In accounting for long-lived assets, the Company must make estimates about the expected useful lives of the assets, the expected residual values of the assets, and the potential for impairment based on the fair value of the assets and the cash flows they generate. Factors indicating potential impairment include, but are not limited to, significant decreases in the market value of the long-lived assets, a significant change in the long-lived assets condition, and operating cash flow losses associated with the use of the long-lived asset. Due to the events of September 11 and the impact on the airline industry, in 2001 the Company evaluated whether the book value of its aircraft was impaired in accordance with Statement of Financial Accounting Standards No. 121 (SFAS No. 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". The Company performed an impairment test, as required by SFAS No. 121, which was based on the estimated future undiscounted cash flows to be generated by the Company's aircraft. Based on this test, the Company determined that the Horizon Fokker F-28 fleet was impaired, and a write-down of $10.2 million was taken against the book value of those aircraft and related spare parts.

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In 2002, due to the sagging economy and its impact on the airline industry, the Company evaluated whether the book value of its aircraft was impaired in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (This statement supercedes SFAS No. 121). No impairment was necessary based on the results of the evaluation.

There is inherent risk in estimating the future cash flows used in the impairment test. If cash flows do not materialize as estimated, there is a risk the impairment charges recognized to date may be inaccurate, or further impairment charges may be necessary in the future.

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

	December 31, 2001	December 31, 2002	Change
(In millions, except debt-to-capital and per-share amounts)			
Cash and marketable securities	$ 660.6	**$ 635.8**	$ (24.8)
Working capital	167.0	**198.4**	31.4
Unused credit facility	0.0	**0.0**	(0.0)
Long-term debt and capital lease obligations*	852.2	**856.7**	4.5
Shareholders' equity	851.3	**655.7**	(195.6)
Book value per common share	$ 32.09	**$ 24.68**	$ (7.41)
Debt-to-capital*	50%:50%	**57%:43%**	NA
Debt-to-capital assuming aircraft operating leases are capitalized at seven times annualized rent*	72%:28%	**77%:23%**	NA

* Excludes current portion of long-term debt and capital lease obligations.

The Company has various options available to meet its capital and operating commitments in 2003, including cash on hand at December 31, 2002 of $635.8 million and internally generated funds from operations. In addition, to supplement cash requirements, the Company periodically considers various borrowing or leasing options. The Company believes current cash resources will enable the Company to fund operations through 2003.

2002 Financial Changes
Net cash provided by operating activities was $124.5 million in 2002, compared to $286.5 million in 2001. The decrease in 2002 is partially due to $79.9 million of U. S. government cash compensation received in 2001. Additional cash in 2002 was provided by the issuance of $58.0 million of new debt. The Company used cash generated from operations and the Alaska Airlines' issuance of the $58.0 million of debt to purchase $154.4 million of capital equipment, including one new Boeing 737 aircraft, spare parts and airframe and engine overhauls. Cash was also used to repay $43.8 million of debt.

Shareholders' equity decreased $195.6 million due principally to the loss before accounting change of $67.2 million, the cumulative effect of an accounting change related to goodwill of $51.4 million (see Note 15 in the Notes to the Consolidated Financial Statements), and a non-cash charge to equity of $87.2 million, net of tax, in connection with the defined benefit plans that the

Company sponsors for eligible employees (See Note 7 in the Notes to the Consolidated Financial Statements).

2001 Financial Changes
The Company's cash and marketable securities portfolio increased by $201 million during 2001. Operating activities provided $286 million of cash in 2001. Additional cash was provided by the issuance of new debt ($388.8 million). Cash was used for $390 million of capital expenditures, including the purchase of eight new and one used Boeing 737 aircraft, spare parts and engine overhauls, and for $69 million of debt repayment.

2000 Financial Changes
The Company's cash and marketable securities portfolio increased by $131 million during 2000. Operating activities provided $273 million of cash in 2000. Additional cash was provided by the issuance of new debt ($238 million) and insurance proceeds from an aircraft accident ($37 million). Cash was used for $354 million of capital expenditures, including the purchase of seven new Boeing 737 aircraft, flight equipment deposits and airframe and engine overhauls, and for $66 million of debt repayment.

Financing Activities - During 2002, Alaska issued $58 million of debt secured by flight equipment. This debt was issued with varying interest rates based on LIBOR and payment terms of 12 years.

Additionally, during 2002, Horizon added three Dash 8-400 and seven CRJ 700 aircraft to its operating fleet. The aircraft were financed with a combination of U.S. leveraged leases and single investor leases with terms of ten to 16 years. The aggregate future minimum lease payments under these ten new operating leases will be $235.4 million.

Commitments - At December 31, 2002, Alaska and Horizon had firm orders for 28 aircraft requiring aggregate payments of approximately $601 million. 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 expects to finance its new aircraft with leases, long-term debt, or internally generated cash. Horizon expects to finance its new aircraft with operating leases. As previously mentioned, as a result of the events of September 11, credit rating agencies downgraded the long-term credit ratings of most U.S. airlines and their related entities. The events of September 11 combined with the sagging economy and its affect on the airline industry have had a negative impact on the availability of credit to the Company. We anticipate that it will be more difficult to obtain credit in the future, and it will be at higher rates with more collateral requirements than in the past.

	Delivery Period - Firm Orders			
Aircraft	**2003**	**2004**	**2005**	**Total**
Boeing 737-700	6	—	—	6
Boeing 737-900	5	3	—	8
Bombardier CRJ 700	2	6	6	14
Total	13	9	6	28
Payments (Millions)	$264	$230	$107	$601

Alaska is party to a purchase agreement with an aircraft manufacturer. Under the agreement, upon commitment to purchase the aircraft, Alaska must make deposits to the manufacturer for a portion of the purchase price of the aircraft, with the remainder of the purchase price due at delivery. Concurrent with this agreement, the manufacturer has an agreement with a Trust wherein the Trust makes deposits to the manufacturer of additional pre-delivery deposits for the aircraft. Under certain specified events, including default by the Trust, Alaska may be required to pay the manufacturer the amounts paid by the Trust in order to retain the right to purchase the aircraft. Alaska makes monthly payments to the Trust related to the advances made by the Trust to the manufacturer, which payments are capitalized as part of the aircraft cost. The Trust is reimbursed for its advances on or before the delivery of the applicable aircraft.

New Accounting Standards - In August 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations", which requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The statement also requires that the associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. This statement is effective for financial statements issued for fiscal years beginning after January 1, 2003. The adoption of this statement is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("Statement 145"). This Statement requires that only certain debt extinguishment transactions be classified as an extraordinary item. Additionally, under this Statement, capital leases that are modified so that the resulting agreement is an operating lease, shall be accounted for under the sale-leaseback provisions of SFAS No. 98. Statement 145 also includes minor modifications to existing U.S. Generally Accepted Accounting Principles literature. Statement 145 is generally effective for financial statements issued for fiscal years beginning after May 15, 2002. The adoption of this statement did not have a material impact on the Company's financial position, results of operations or cash flows.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. The Statement is effective for the Company on January 1, 2003 and is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees. Additionally, this Interpretation clarifies the requirements for recognizing a liability at the inception of the guarantee equal to the fair value of the obligation undertaken in issuing the guarantee and incorporates the guidance in FASB Interpretation No. 34, Disclosure of Indirect Guarantees of Indebtedness of Others. Disclosures under Interpretation No. 45 are effective for financial statements issued after December 15, 2002. While the Company has various guarantees included in contracts in the normal course of business, primarily in the form of indemnities, these guarantees would only result in immaterial increases in future costs, but do not represent significant commitments or contingent liabilities of the indebtedness of others.

In January 2003, the FASB issued Interpretation No. 46, “Consolidation of Variable Interest Entities” which requires the consolidation of variable interest entities, as defined. This Interpretation is effective for the Company on January 1, 2003 and is not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

In December 2002, the FASB issued SFAS No. 148, “Accounting for Stock-Based Compensation-Transition and Disclosure”. SFAS No. 148 amends the transition and disclosure provisions in SFAS 123, “Accounting for Stock-Based Compensation”. The Company is currently evaluating SFAS No. 148 to determine if it will adopt SFAS No. 123 to account for employee stock options using the fair value method and, if so, when to transition to that method.

Effect of Inflation - Inflation and specific price changes do not have a significant effect on the Company’s operating revenues, operating expenses and operating income.

ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK*

The Company does not purchase or hold any derivative financial instruments for trading purposes. The Company has significant commodity price risk exposure to jet fuel price increases. Currently, a one-cent change in the fuel price per gallon affects annual fuel costs by approximately $3.8 million. To help manage this exposure, the Company began purchasing hedge instruments, primarily crude oil swap agreements during 2000. Ineffectiveness of contracts resulted in nonoperating expense of $7.4 million for 2001 and nonoperating income of $6.4 million for 2002. At December 31, 2002, the Company had swap agreements for crude oil contracts in place to hedge approximately 35% of its 2003 expected jet fuel requirements. In 2002, these contracts had unrealized gains, net of tax of $10.1 million. A hypothetical 10% increase in jet fuel prices would increase 2003 fuel expense by approximately $26.1 million. A hypothetical 10% decrease in jet fuel prices would decrease 2003 fuel expense by approximately $26.2 million. This analysis includes the effect of the fuel hedging contracts in place at December 31, 2002. A hypothetical 10% change in the average interest rates incurred on variable rate debt during 2002 would correspondingly change the Company’s net earnings and cash flows associated with these items by approximately $2.8 million.

ITEM 8. *CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

See Item 15.

Selected Unaudited Quarterly Consolidated Financial Information (in millions, except per share amounts):

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2001	2002	2001	2002	2001	2002	2001	2002
	(in millions, except per share)							
Operating revenues	$516.4	**$500.1**	$582.8	**$575.7**	$587.5	**$620.6**	$466.1	**$527.7**
Operating income (loss)	(54.0)	**(49.6)**	9.0	**(5.0)**	13.7	**25.5**	(95.0)	**(59.8)**
Income (loss) before accounting change	(35.7)	**(33.7)**	3.5	**(2.9)**	26.2	**12.5**	(37.4)	**(43.1)**
Net income (loss)	(35.7)	**(85.1)**	3.5	**(2.9)**	26.2	**12.5**	(37.4)	**(43.1)**
Basic earnings (loss) per share:								
Income (loss) before accounting change	(1.35)	**(1.27)**	0.13	**(0.11)**	0.99	**0.47**	(1.41)	**(1.62)**
Net income (loss)	(1.35)	**(3.21)**	0.13	**(0.11)**	0.99	**0.47**	(1.41)	**(1.62)**
Diluted earnings (loss) per share:								
Income (loss) before accounting change	(1.35)	**(1.27)**	0.13	**(0.11)**	0.99	**0.47**	(1.41)	**(1.62)**
Net income (loss)	(1.35)	**(3.21)**	0.13	**(0.11)**	0.99	**0.47**	(1.41)	**(1.62)**

ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE*

None.

PART III

ITEM 10. *DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT*

See “Election of Directors,” incorporated herein by reference from the definitive Proxy Statement for Air Group’s Annual Meeting of Shareholders to be held on May 20, 2003. See “Executive Officers of the Registrant” in Part I following Item 4 for information relating to executive officers.

ITEM 11. *EXECUTIVE COMPENSATION*

See “Executive Compensation,” incorporated herein by reference from the definitive Proxy Statement for Air Group’s Annual Meeting of Shareholders to be held on May 20, 2003.

ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT*

See “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” incorporated herein by reference from the definitive Proxy Statement for Air Group’s Annual Meeting of Shareholders to be held on May 20, 2003.

ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS*

See “Certain Relationships and Related Transactions” incorporated herein by reference from the definitive Proxy Statement for Air Group’s Annual Meeting of Shareholders to be held on May 20, 2003.

ITEM 14. *CONTROLS AND PROCEDURES*

In the 90-day period before the filing of this report, the chief executive officer and chief financial officer of the Company (collectively, the certifying officers) have evaluated the effectiveness of the

Company's disclosure controls and procedures. These disclosure controls and procedures are designed to ensure that the information required to be disclosed by the Company in its periodic reports filed with the Securities and Exchange Commission (the Commission) is recorded, processed, summarized and reported, within the time periods specified by the Commission's rules and forms, and that the information is communicated to the certifying officers on a timely basis.

The certifying officers concluded, based on their evaluation, that the Company's disclosure controls and procedures are effective for the Company, taking into consideration the size and nature of the Company's business and operations.

No significant changes in the Company's internal controls or in other factors were detected that could significantly affect the Company's internal controls subsequent to the date when the internal controls were evaluated.

PART IV
ITEM 15. *EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K*

See Exhibit Index on page 73.

(b) During the fourth quarter of 2002, the Company filed the following reports on Form 8-K:

October 4, 2002 - Item 9. "Regulation FD Disclosure". No financial statements were filed with the report, which included monthly performance and projected data for 2002.

November 19, 2002 - Item 9. "Regulation FD Disclosure". No financial statements were filed with the report, which included monthly performance and projected data for 2002.

December 17, 2002 - Item 9. "Regulation FD Disclosure". No financial statements were filed with the report, which included monthly performance and projected data for 2002.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange 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.

By: /s/ John F. Kelly — Date: March 10, 2003

John F. Kelly, *Chairman, Chief Executive Officer and President*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on March 10, 2003 on behalf of the registrant and in the capacities indicated.

/s/ John F. Kelly John F. Kelly	Chairman, Chief Executive Officer and Director
/s/ Bradley D. Tilden Bradley D. Tilden	Executive Vice President/Finance and Chief Financial Officer (Principal Financial Officer)
/s/ Terri K. Maupin Terri K. Maupin	Staff Vice President/Finance and Controller (Principal Accounting Officer)
/s/ William S. Ayer William S. Ayer	President and Director
/s/ Phyllis J. Campbell Phyllis J. Campbell	Director
/s/ Ronald F. Cosgrave Ronald F. Cosgrave	Director
/s/ Mary Jane Fate Mary Jane Fate	Director
/s/ Mark R. Hamilton Mark R. Hamilton	Director
/s/ Bruce R. Kennedy Bruce R. Kennedy	Director
/s/ Jessie J. Knight, Jr. Jessie J. Knight, Jr.	Director
/s/ R. Marc Langland R. Marc Langland	Director
/s/ Byron I. Mallott Byron I. Mallott	Director
/s/ John V. Rindlaub John V. Rindlaub	Director

/s/ J. Kenneth Thompson	Director
J. Kenneth Thompson	
/s/ Richard A. Wien	Director
Richard A. Wien	

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CONSOLIDATED BALANCE SHEETS
Alaska Air Group, Inc.

ASSETS

As of December 31 (In Millions)	2001	2002
Current Assets		
Cash and cash equivalents	$ 490.8	$ 269.0
Marketable securities	169.8	366.8
Receivables – less allowance for doubtful accounts (2001 - $1.8; 2002 - $2.3)	83.8	125.4
Inventories and supplies – net	70.2	71.9
Deferred income taxes	51.2	61.2
Prepaid expenses and other current assets	53.2	82.0
Total Current Assets	919.0	976.3
Property and Equipment		
Flight equipment	2,003.6	2,066.4
Other property and equipment	403.8	430.9
Deposits for future flight equipment	112.4	93.5
	2,519.8	2,590.8
Less accumulated depreciation and amortization	698.3	811.4
Total Property and Equipment – Net	1,821.5	1,779.4
Intangible Assets	51.4	50.9
Other Assets	158.6	74.1
Total Assets	$2,950.5	$2,880.7

See accompanying notes to consolidated financial statements.

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CONSOLIDATED BALANCE SHEETS
Alaska Air Group, Inc.

LIABILITIES AND SHAREHOLDERS' EQUITY

As of December 31 (In Millions)	2001	2002
Current Liabilities		
Accounts payable	$ 124.6	$ 132.1
Accrued aircraft rent	80.3	76.0
Accrued wages, vacation and payroll taxes	77.8	87.4
Other accrued liabilities	209.0	222.2
Air traffic liability	217.1	211.6
Current portion of long-term debt and capital lease obligations	43.2	48.6
Total Current Liabilities	752.0	777.9
Long-Term Debt and Capital Lease Obligations	852.2	856.7
Other Liabilities and Credits		
Deferred income taxes	173.4	157.2
Deferred revenue	204.3	232.0
Other liabilities	117.3	201.2
	495.0	590.4
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, $1 par value		
Authorized: 5,000,000 shares	—	—
Common stock, $1 par value		
Authorized: 100,000,000 shares		
Issued: 2001 - 29,268,869 shares		
2002 - 29,309,726 shares	29.3	29.3
Capital in excess of par value	482.6	483.3
Treasury stock, at cost: 2001 - 2,740,501 shares		
2002 - 2,736,287 shares	(62.5)	(62.5)
Accumulated other comprehensive income (loss)	(2.5)	(80.2)
Retained earnings	404.4	285.8
	851.3	655.7
Total Liabilities and Shareholders' Equity	$2,950.5	$2,880.7

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
Alaska Air Group, Inc.

Year Ended December 31 (In Millions Except Per Share Amounts)	2000	2001	2002
Operating Revenues			
Passenger	$2,039.4	$1,972.4	**$2,037.7**
Freight and mail	87.6	86.3	**77.1**
Other – net	67.0	94.1	**109.3**
Total Operating Revenues	2,194.0	2,152.8	**2,224.1**
Operating Expenses			
Wages and benefits	715.9	795.5	**858.1**
Contracted services	79.8	86.7	**93.0**
Aircraft fuel	383.3	324.3	**302.0**
Aircraft maintenance	194.2	181.3	**170.2**
Aircraft rent	186.8	186.0	**190.4**
Food and beverage service	54.2	58.3	**66.2**
Commissions	67.1	60.2	**35.0**
Other selling expenses	161.4	124.9	**124.9**
Depreciation and amortization	107.5	134.1	**132.5**
Loss on sale of assets	—	4.7	**0.1**
Landing fees and other rentals	98.7	128.2	**140.3**
Other	178.2	184.7	**200.3**
Special charge	—	10.2	**—**
Total Operating Expenses	2,227.1	2,279.1	**2,313.0**
Operating Loss	(33.1)	(126.3)	**(88.9)**
Nonoperating Income (Expense)			
Interest income	24.0	22.2	**21.2**
Interest expense	(36.0)	(47.4)	**(46.3)**
Interest capitalized	17.7	10.6	**2.7**
U.S. government compensation	—	81.4	**0.5**
Other – net	0.5	(4.0)	**9.0**
	6.2	62.8	**(12.9)**
Loss before income tax and accounting change	(26.9)	(63.5)	**(101.8)**
Income tax benefit	(6.5)	(20.1)	**(34.6)**
Loss before accounting change	(20.4)	(43.4)	**(67.2)**
Cumulative effect of accounting change, net of income taxes of $29.5 million in 2000 and $0 in 2002	(46.8)	—	**(51.4)**
Net Loss	$ (67.2)	$ (43.4)	**$ (118.6)**
Basic and Diluted Loss Per Share:			
Loss before accounting change	$ (0.77)	$ (1.64)	**$ (2.53)**
Cumulative effect of accounting change	(1.77)	—	**(1.94)**
Net Loss Per Share	$ (2.54)	$ (1.64)	**$ (4.47)**
Shares used for computation:			
Basic and Diluted	26.440	26.499	**26.546**

See accompanying notes to consolidated financial statements.

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

(In Millions)	Common Shares Outstanding	Common Stock	Capital in Excess of Par Value	Treasury Stock, at Cost	Deferred Compen-sation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balances at December 31, 1999	*26.411*	$ 29.2	$ 480.0	$ (62.7)	$ (0.6)	$ (1.7)	$ 515.0	$ 959.2
2000 net loss							(67.2)	(67.2)
Other comprehensive income (loss):								
Officers supplemental retirement plan net of $.3 tax benefit						(0.5)		(0.5)
Related to marketable securities:								
Change in fair value						3.1		
Reclassification to earnings						(0.3)		
Income tax effect						(1.1)		
						1.7		1.7
Total comprehensive loss								(66.0)
Stock issued under stock plans	*0.043*		1.2					1.2
Treasury stock sales	*0.003*			0.1				0.1
Employee Stock Ownership Plan shares allocated					0.6			0.6
Balances at December 31, 2000	*26.457*	29.2	481.2	(62.6)	0.0	(0.5)	447.8	895.1
2001 net loss							(43.4)	(43.4)
Other comprehensive income (loss):								
Officers supplemental retirement plan net of $.4 tax benefit						(0.7)		(0.7)
Related to marketable securities:								
Change in fair value						3.4		
Reclassification to earnings						(3.5)		
Income tax effect						0.0		
						(0.1)		(0.1)
Related to fuel hedges:								
Change in fair value						(2.1)		
Income tax effect						0.9		
						(1.2)		(1.2)
Total comprehensive loss								(45.4)
Treasury stock sales	*0.003*			0.1				0.1
Stock issued under stock plans	*0.068*	0.1	1.4					1.5
Balances at December 31, 2001	*26.528*	29.3	482.6	(62.5)	0.0	(2.5)	404.4	851.3
2002 net loss							(118.6)	(118.6)
Other comprehensive income (loss):								
Officers supplemental retirement plan net of $0.4 tax benefit						(0.7)		(0.7)
Related to marketable securities:								
Change in fair value						(0.4)		
Reclassification to earnings						0.6		
Income tax effect						(0.1)		
						0.1		0.1

Related to fuel hedges:								
Change in fair value						28.2		
Reclassification to earnings						(12.1)		
Income tax effect						(6.0)		
						10.1		10.1
Minimum pension liability adjustment net of $52.5 tax benefit						(87.2)		(87.2)
Total comprehensive loss								(196.3)
Treasury stock sales	*0.005*							
Stock issued for employee stock purchase plan	*0.024*		0.3					0.3
Stock issued under stock plans	*0.016*		0.4					0.4
Balances at December 31, 2002	***26.573***	**$ 29.3**	**$483.3**	**$(62.5)**	**$ 0.0**	**$ (80.2)**	**$285.8**	**$ 655.7**

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
Alaska Air Group, Inc.

Year Ended December 31 (In Millions)	2000	2001	2002
Cash flows from operating activities:			
Net loss	$ (67.2)	$ (43.4)	**$ (118.6)**
Adjustments to reconcile net loss to net cash provided by operating activities:			
Cumulative effect of accounting change	46.8	—	**51.4**
Special charge	—	10.2	**—**
Depreciation and amortization	107.5	134.1	**132.5**
Amortization of airframe and engine overhauls	65.8	73.7	**62.2**
Changes in derivative fair values	—	7.4	**(6.0)**
Loss on sale of assets	—	4.7	**0.1**
Increase in deferred income tax liabilities	37.8	21.1	**30.7**
(Increase) decrease in accounts receivable – net	(6.0)	3.1	**(44.4)**
Increase in other current assets	(43.6)	(16.4)	**(26.0)**
Increase (decrease) in air traffic liability	19.5	7.5	**(5.6)**
Increase (decrease) in other current liabilities	(37.7)	53.1	**(7.5)**
Increase in deferred revenue and other-net	150.2	31.4	**55.7**
Net cash provided by operating activities	273.1	286.5	**124.5**
Cash flows from investing activities:			
Proceeds from disposition of assets	36.5	2.5	**3.6**
Purchases of marketable securities	(459.7)	(258.5)	**(630.8)**
Sales and maturities of marketable securities	300.0	446.4	**433.9**
Property and equipment additions:			
Aircraft purchase deposits	(161.3)	(47.5)	**(36.1)**
Capitalized overhauls	(88.4)	(49.2)	**(65.3)**
Aircraft	(126.3)	(261.5)	**(40.6)**
Other flight equipment	(28.5)	(52.2)	**(16.4)**
Other property	(53.7)	(43.4)	**(42.5)**
Aircraft deposits returned	104.0	63.5	**46.5**
Restricted deposits and other	(0.4)	(18.3)	**(13.7)**
Net cash used in investing activities	(477.8)	(218.2)	**(361.4)**
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	238.2	388.8	**58.0**
Long-term debt and capital lease payments	(65.8)	(69.2)	**(43.8)**
Proceeds from issuance of common stock	1.2	1.5	**0.9**
Net cash provided by financing activities	173.6	321.1	**15.1**
Net change in cash and cash equivalents	(31.1)	389.4	**(221.8)**
Cash and cash equivalents at beginning of year	132.5	101.4	**490.8**
Cash and cash equivalents at end of year	$ 101.4	$ 490.8	**$ 269.0**
Supplemental disclosure of cash paid (refunded) during the year for:			
Interest (net of amount capitalized)	$ 28.5	$ 49.9	**$ 44.7**
Income taxes	3.6	(18.4)	**(22.8)**
Noncash investing and financing activities	None	None	**None**

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Alaska Air Group, Inc.
December 31, 2002

Note 1. Summary of Significant Accounting Policies

Organization and Basis of Presentation
The consolidated financial statements include the accounts of Alaska Air Group, Inc. (Company or Air Group) and its subsidiaries, the principal subsidiaries being Alaska Airlines, Inc. (Alaska) and Horizon Air Industries, Inc. (Horizon). All significant intercompany balances and transactions have been eliminated. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and their preparation requires the use of management's estimates. Actual results could differ from these estimates. Certain reclassifications have been made in prior years' financial statements to conform to the 2002 presentation.

Nature of Operations
Alaska and Horizon operate as airlines. However, their business plans, competition, and economic risks differ substantially. Alaska is a major airline serving primarily Alaska; Vancouver, Canada; the U.S. West Coast; and Mexico. It operates an all jet fleet and its average passenger trip is 932 miles. Horizon is a regional airline serving primarily the Pacific Northwest, Northern California, and Western Canada. It operates both jet and turboprop aircraft, and its average passenger trip is 314 miles. Substantially all of Alaska's and Horizon's sales occur in the United States. See Note 11 for operating segment information.

Cash and Cash Equivalents
Cash equivalents consist of highly liquid investments with original maturities of three months or less. They are carried at cost, which approximates market. The Company reduces its cash balance when checks are disbursed. Due to the time delay in checks clearing the banks, the Company normally maintains a negative cash balance, which is reported as a current liability. The amount of the negative cash balance was $19.8 million and $27.5 million at December 31, 2001 and 2002, respectively.

Inventories and Supplies – net
Expendable and repairable aircraft parts, as well as other materials and supplies, are stated at average cost. An allowance for obsolescence of flight equipment expendable and repairable parts is accrued based on estimated disposal dates and salvage values. Surplus inventories are carried at their net realizable value. At December 31, 2001 and 2002, the allowance for all inventories was $39.6 million and $44.5 million, respectively.

Property, Equipment and Depreciation
Property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives, which are as follows:

Aircraft and related flight equipment:	
Boeing 737-200C	10-14 years
Boeing 737-400/700/900	20 years
Boeing MD-80	20 years
Bombardier Dash 8 (Rotable spares only)	10 years
Bombardier CRJ 700 (Rotable spares only)	10 years
Fokker F-28	2/14/03*
Buildings	10-30 years
Capitalized leases and leasehold improvements	Term of lease
Other equipment	3-15 years

* Final aircraft retirement date

Routine maintenance and repairs are expensed when incurred. The costs of major airframe and engine overhauls are capitalized and amortized to maintenance expense over the shorter of the life of the overhaul or the remaining lease term. Major modifications that extend the life or improve the usefulness of aircraft are capitalized and depreciated over their estimated period of use. Assets and related obligations for items financed under capital leases are initially recorded at an amount equal to the present value of the future minimum lease payments. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the total amount of an asset may not be recoverable. An impairment loss is recognized when estimated future undiscounted cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. If the asset is not considered recoverable, an amount equal to the excess of the carrying amount over the fair value will be charged against the asset with a corresponding expense to the consolidated statement of operations.

Internally Developed Software
The Company capitalizes certain internal development software costs. Amortization commences when the software is ready for its intended use and the amortization period is the estimated useful life of the software. Capitalized costs primarily include contract labor and the salaries and wages of individuals dedicated to the development of internal use software. The Company capitalized software development costs of $6.1 million, $9.2 million and $6.9 million during the years ended December 31, 2000, 2001, and 2002, respectively.

Deferred Revenue
Deferred revenue results primarily from the sale of mileage credits, the sale and leaseback of aircraft, and the receipt of manufacturer or vendor credits. This revenue is recognized when award transportation is provided or over the term of the applicable agreements.

Leased Aircraft Return Costs
Cash payments associated with returning leased aircraft are accrued when probable and estimable. As leased aircraft are returned, any payments are charged against the established reserve. The reserve is part of other current and long-term liabilities, and at December 31, 2001 and 2002 was $11.6 million and $14.2 million, respectively.

Revenue Recognition
Passenger revenue is recognized when the passenger travels. Tickets sold but not yet used are reported as air traffic liability. Freight and mail revenues are recognized when service is provided. Other-net revenues are primarily related to the Mileage Plan and they are recognized as described in the "Frequent Flyer Awards" paragraph below.

Frequent Flyer Awards
Alaska operates a frequent flyer program ("Mileage Plan") that provides travel awards to members based on accumulated mileage. For miles earned by flying on Alaska and travel partners, the estimated incremental cost of providing free travel awards is recognized as a selling expense and accrued as a liability as miles are accumulated. Alaska also sells mileage credits to non-airline partners, such as hotels, car rental agencies, and a credit card company. The Company defers a majority of the sales proceeds and recognizes them as revenue when the award transportation is provided. The deferred proceeds are recognized as passenger revenue for awards issued on Alaska, and as other-net revenue for awards issued on other airlines.

Alaska's Mileage Plan liabilities are included under the following balance sheet captions at December 31 (in millions):

	2001	2002
Current Liabilities:		
Other accrued liabilities	$ 65.7	**$ 87.0**
Other Liabilities and Credits:		
Deferred revenue	150.7	**183.9**
Other liabilities	31.9	**32.1**
Total	$248.3	**$303.0**

Contracted Services
Contracted services includes expenses for ground handling, security, navigation fees, temporary employees, data processing fees, and other similar services.

Other Selling Expenses
Other selling expenses includes credit card commissions, computerized reservations systems (CRS) charges, Mileage Plan free travel awards, advertising, and promotional costs. Advertising production costs are expensed the first time the advertising takes place. Advertising expense was $19.7 million, $17.1 million, and $17.0 million, respectively, in 2000, 2001, and 2002.

Capitalized Interest
Interest is capitalized on flight equipment purchase deposits and ground facility progress payments as a cost of the related asset. The interest cost is based on the Company's weighted average borrowing rate and is depreciated over the estimated useful life of the asset. The Company ceases capitalization of interest on aircraft when delivery dates are deferred. Capitalization continues when the deferral period is over.

Income Taxes
The Company uses the asset and liability approach for accounting and reporting income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

Stock Options
The Company applies the intrinsic value method in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations in accounting for stock options. See Note 6 for more information.

Had compensation cost for the Company's stock options been determined in accordance with Statement of Financial Accounting Standards No. 123, loss before accounting change and applicable loss per share (EPS) would have been reduced to the pro forma amounts indicated below. See Note 6 for the assumptions used to compute the pro forma amounts.

	2000	2001	2002
Loss before accounting change (in millions):			
As reported	$(20.4)	$(43.4)	**$(67.2)**
Pro forma	(25.1)	(49.3)	**(73.0)**
Basic EPS:			
As reported	$(0.77)	$(1.64)	**$(2.53)**
Pro forma	(0.95)	(1.86)	**(2.75)**
Diluted EPS:			
As reported	$(0.77)	$(1.64)	**$(2.53)**
Pro forma	(0.95)	(1.86)	**(2.75)**

Derivative Financial Instruments
Effective January 1, 2001, the Company adopted Statement on Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended.

SFAS No. 133 requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. The Company's operating results can be significantly impacted by changes in the price of aircraft fuel. To manage the risks associated with changes in aircraft fuel prices, the Company uses swap agreements and call options for crude oil and other commodities. These contracts, referred to as "fuel hedge contracts," have a high correlation to changes in aircraft fuel prices, and therefore qualify as cash flow hedges under SFAS No. 133. Each period, the contracts are adjusted to fair market value. The change in the value of the fuel hedge contracts that perfectly offsets the change in the value of the aircraft fuel being hedged is recorded as other comprehensive income or loss until the hedged contract is settled and is then recognized in earnings as part of fuel expense. To the extent the change in the value of the fuel hedge contracts does not perfectly offset the change in the value of the aircraft fuel purchase being hedged, the change is recognized in earnings as part of nonoperating income (expense). At December 31, 2002, the Company has fuel hedge contracts for 140 million gallons of jet fuel usage in 2003.

For the years ended December 31, 2001 and 2002, the Company recognized $7.4 million in nonoperating expense and $6.4 million in nonoperating income, respectively, related to the ineffectiveness on the fuel hedge contracts. In 2001 and 2002, the Company recorded unrealized losses of $1.2 million and unrealized gains of $10.1 million, respectively, net of income taxes which are reflected in other comprehensive income. During 2000 and 2002, the Company recognized gains of $4.7 million and $12.1 million, respectively, from the cash settlement of hedging activities. In 2001, hedging gains resulting from cash settlements of hedging activities were de minimis. These gains are reflected in aircraft fuel in the consolidated statements of operations.

The Company enters into foreign exchange forward contracts, generally with maturities of less than one month, to manage the risk associated with net foreign currency transactions. Resulting gains and losses are recognized currently in other operating expense. The Company periodically enters into interest rate swap agreements to hedge interest rate risk. At December 31, 2002, there were no foreign currency contracts or interest rate swap agreements outstanding.

New Accounting Standards

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees. Additionally, this Interpretation clarifies the requirements for recognizing a liability at the inception of the guarantee equal to the fair value of the obligation undertaken in issuing the guarantee and incorporates the guidance in FASB Interpretation No. 34, Disclosure of Indirect Guarantees of Indebtedness of Others. Disclosures under Interpretation No. 45 are effective for financial statements issued after December 15, 2002. While the Company has various guarantees included in contracts in the normal course of business, primarily in the form of indemnities, these guarantees would only result in immaterial increases in future costs, but do not represent significant commitments or contingent liabilities of the indebtedness of others.

Note 2. Marketable Securities

At December 31, 2001 and 2002 all of the Company's marketable securities are classified as available-for-sale. The securities are carried at fair value, with the unrealized gains and losses reported in stockholders' equity under the caption "Accumulated Other Comprehensive Income (Loss)". Realized gains and losses are included in other nonoperating income (expense) in the consolidated statements of operations. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income in the consolidated statements of operations.

Marketable securities consisted of the following at December 31 (in millions):

	2001	2002
Cost:		
U.S. government securities	$ 59.2	**$ 156.1**
Asset backed obligations	72.5	**118.1**
Other corporate obligations	36.2	**91.0**
	$167.9	**$ 365.2**
Fair value:		
U.S. government securities	$ 59.3	**$ 158.2**
Asset backed obligations	72.9	**118.1**
Other corporate obligations	37.6	**90.5**
	$169.8	**$ 366.8**

Of the marketable securities on hand at December 31, 2002, 29% are expected to mature in 2003, 40% in 2004, and 31% thereafter.

	2000	2001	2002
Proceeds from sales and maturities	$300.0	$446.4	**$ 433.9**
Gross realized gains	0.3	4.0	**1.3**
Gross realized losses	0.6	0.4	**1.7**

Realized gains and losses are reported as a component of other nonoperating income/expense.

Note 3. Other Assets

Other assets consisted of the following at December 31 (in millions):

	2001	2002
Prepaid pension cost	$ 98.4	**$ —**
Restricted deposits	44.5	**58.2**
Deferred costs and other	15.7	**15.9**
	$158.6	**$ 74.1**

At December 31, 2001, Alaska owned approximately 81,000 depository certificates convertible, subject to certain restrictions, into the common stock of Equant N.V., a telecommunication network company. During 2001, France Telecom purchased Equant N.V. At December 31, 2001, Alaska's carrying value in the certificates was de minimis and had an estimated fair value of $1.4 million. In April 2002 the Company sold the certificates for net sales proceeds of approximately $.9 million.

Note 4. Long-term Debt and Capital Lease Obligations

At December 31, 2001 and 2002, long-term debt and capital lease obligations were as follows (in millions):

	2001	2002
Fixed rate notes payable due through 2015*	$ 420.7	**$ 439.9**

Variable rate notes payable due through 2018*	455.5	**453.6**
Long-term debt	876.2	**893.5**
Capital lease obligations	14.9	**11.8**
Other	4.3	**—**
Less current portion	(43.2)	**(48.6)**
	$ 852.2	**$ 856.7**

* The weighted average fixed interest rate was 7.4% during 2001 and 2002. The weighted average variable interest rate was 4.6% and 2.5% during 2001 and 2002, respectively.

At December 31, 2002, borrowings of $893.5 million were secured by flight equipment and real property. During 2002, Alaska issued $58.0 million of debt secured by flight equipment, having interest rates that vary with LIBOR and payment terms of 12 years. In September 2001, Alaska borrowed $150 million under its credit facility at an interest

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rate that varies with LIBOR and is payable on or before December 31, 2004.

At December 31, 2002, long-term debt principal payments for the next five years were (in millions):

2003	$ 45.3
2004	$205.5
2005	$ 38.8
2006	$ 41.6
2007	$ 44.5

Certain Alaska loan agreements contain provisions that require maintenance of specific levels of net worth, leverage and fixed charge coverage, and limit investments, lease obligations, sales of assets, and additional indebtedness. At December 31, 2002, the Company was in compliance with all loan provisions.

Note 5. Commitments

Lease Commitments

At December 31, 2002, the Company has lease contracts for 109 aircraft that have remaining noncancelable lease terms of one to 16 years. The majority of airport and terminal facilities are also leased, with terms ranging from one to 87 years. Total rent expense was $242.0 million, $254.0 million and $274.1 million, in 2000, 2001, and 2002, respectively.

Future minimum lease payments with noncancelable terms in excess of one year as of December 31, 2002 are shown below (in millions):

	Operating Leases		Capital
	Aircraft	Facilities	Leases
2003	$ 201.6	$ 35.2	$ 4.1
2004	185.6	26.2	8.4
2005	180.7	18.7	0.2
2006	177.7	12.0	0.2
2007	161.0	9.3	0.1
Thereafter	1,094.5	119.4	—
Total lease payments	$2,001.1	$220.8	$13.0
Less amount representing interest			(1.2)
Present value of capital lease payments			$11.8

Aircraft Commitments

The Company has firm orders for nine Boeing 737 series aircraft to be delivered between 2003 and 2004, and 14 Bombardier CRJ 700 jets between 2003 and 2005. The firm orders require payments of approximately $601 million between 2003 and 2005. As of December 31, 2002, deposits of $83.9 million related to the firm orders had been made. In addition to the ordered aircraft, the Company holds purchase options on 26 Boeing 737s, 15 Dash 8-400s, and 25 CRJ 700s.

Alaska is party to a purchase agreement with an aircraft manufacturer. Under the agreement, upon commitment to purchase the aircraft, Alaska must make deposits to the manufacturer of a portion of the purchase price of the aircraft, with the remainder of the purchase price due at delivery. Concurrent with this agreement, the manufacturer has an agreement with a Trust wherein the Trust makes deposits to the manufacturer of additional pre-delivery deposits for the aircraft. Under certain specified events, including default by the Trust, Alaska may be required to pay the manufacturer the amounts paid by the Trust in order to retain the right to purchase the aircraft. Alaska makes monthly payments to the Trust related to the advances made by the Trust to the manufacturer, which payments are capitalized as part of the aircraft cost. The Trust is reimbursed for its advances on or before the delivery of the applicable aircraft.

Note 6. Stock Plans

Air Group has three stock option plans that provide for the purchase of Air Group common stock at stipulated prices on the dates of the grant by certain officers and key employees of Air Group and its subsidiaries. Under the 1996, 1997, and 1999 Plans, options for 3,583,100 shares have been granted and, at December 31, 2002, 981,650 shares were

available for grant. Under all plans, the stock options granted have terms of up to ten years. Substantially all grantees are 25% vested after one year, 50% after two years, 75% after three years, and 100% after four years.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants in 2000, 2001, and 2002, respectively: dividend yield of 0% for all years; volatility of 44%, 44%, and 49%; risk-free interest rates of 6.62%, 4.26%, and 3.82%; and expected lives of 5 years for all years. Using these assumptions, the weighted average fair value of options granted was $14.58, $12.71, and $13.43 in 2000, 2001, and 2002, respectively.

Air Group follows APB Opinion No. 25 and related Interpretations in accounting for stock options. Accordingly, no compensation cost has been recognized for these plans as the exercise price of options equals the fair market value on date of grant.

Changes in the number of shares subject to option, with their weighted average exercise prices, are summarized below:

	Shares	Price
Outstanding, Jan. 1, 2000	1,338,812	$ 38.51
Granted	609,900	30.27
Exercised	(21,725)	16.66
Canceled	(106,050)	38.11
Outstanding, Dec. 31, 2000	1,820,937	34.10
Granted	1,252,900	28.52
Exercised	(67,950)	18.87
Canceled	(104,275)	36.37
Outstanding, Dec. 31, 2001	2,901,612	31.96
Granted	388,300	28.52
Exercised	(16,700)	20.20
Canceled	(20,900)	27.67
Outstanding, Dec. 31, 2002	3,252,312	$ 31.64
Exercisable at year-end		
December 31, 2000	736,462	$ 32.52
December 31, 2001	1,022,962	34.67
December 31, 2002	1,615,887	33.95

The following table summarizes stock options outstanding and exercisable at December 31, 2002 with their weighted average exercise prices and remaining contractual lives:

Range of Exercise prices	Remaining Life (years)	Shares	Price
Outstanding:			
$15 to $29	7.9	1,191,250	$ 25.21
$30 to $40	7.1	1,792,737	33.54
$41 to $58	5.2	268,325	47.52
$15 to $58	7.2	3,252,312	$ 31.64
Exercisable:			
$15 to $29		406,125	$ 23.15
$30 to $40		941,437	34.74
$41 to $58		268,325	47.52
$15 to $58		1,615,887	$ 33.95

In August 2002, the Company adopted an Employee Stock Purchase Plan (the ESPP Plan) which is intended to qualify under Section 423 of the Internal Revenue Code. Under the terms of the ESPP Plan, employees can purchase Company common stock at 85% of the lower of the fair market value on the first or the last day of each quarterly offering period. Proceeds received from the issuance of shares are credited to stockholders' equity in the fiscal year the shares are issued. Through December 31, 2002, 24,157 shares have been purchased by Company employees under the ESPP Plan.

Note 7. Employee Benefit Plans

Pension Plans

Four defined benefit and five defined contribution retirement plans cover various employee groups of Alaska and Horizon. The defined benefit plans provide benefits based on an employee's term of service and average compensation for a specified period of time before retirement. Pension plans are funded as required by the Employee Retirement Income Security Act of 1974 (ERISA). The defined benefit plan assets consist primarily of marketable equity and fixed income securities. The following table sets forth the status of the plans for 2001 and 2002 (in millions):

	2001	2002
Projected benefit obligation		
Beginning of year	$430.2	**$ 507.2**
Service cost	29.0	**37.2**
Interest cost	32.3	**38.6**
Amendments	5.2	**3.8**
Change in assumptions	16.4	**41.3**
Actuarial loss	6.2	**25.7**
Benefits paid	(12.1)	**(13.1)**
End of year	$507.2	**$ 640.7**
Plan assets at fair value		
Beginning of year	$438.7	**$ 454.5**
Actual return on plan assets	(17.1)	**(42.6)**
Employer contributions	45.0	**19.3**
Benefits paid	(12.1)	**(13.1)**
End of year	$454.5	**$ 418.1**
Funded status	$ (52.7)	$ **(222.6)**
Unrecognized loss	99.6	**250.1**
Unrecognized transition asset	(0.1)	**-**
Unrecognized prior service cost	51.6	**50.2**
Net amount recognized	$ 98.4	**$ 77.7**
Amounts recognized in the consolidated balance sheet:		
Prepaid benefit cost	98.4	—
Intangible asset	—	**50.2**
Accrued benefit liability-current	—	**(38.0)**
Accrued benefit liability-long term	—	**(74.2)**
Accumulated other comprehensive income	—	**139.7**
Net amount recognized	$ 98.4	**$ 77.7**
Weighted average assumptions as of December 31		
Discount rate	7.25%	6.75**%**
Expected return on plan assets	10.0%	8.0**%**
Rate of compensation increase	5.4%	5.4**%**

Net pension expense for the defined benefit plans included the following components for 2000, 2001, and 2002 (in millions):

	2000	2001	2002
Service cost	$ 24.0	$ 29.0	**$ 37.2**
Interest cost	28.5	32.3	**38.6**
Expected return on assets	(43.4)	(46.0)	**(46.4)**
Amortization of prior service cost	4.5	4.6	**5.2**
Recognized actuarial loss (gain)	(0.1)	0.1	**5.4**
Net pension expense	$ 13.5	$ 20.0	**$ 40.0**

In the fourth quarter of 2002, the Company recorded an $87.2 million (net of taxes of $52.5 million) non-cash charge to equity in connection with the defined benefit plans that the Company sponsors for eligible employees. This charge is a result of an unfunded accrued benefit obligation resulting from lower than expected returns on plan assets and a reduction in discount rate.

Alaska and Horizon also maintain unfunded, noncontributory defined benefit plans for certain elected officers. The following table sets forth the status of the plans for 2001 and 2002 (in millions):

	2001	2002
Projected benefit obligation		
Beginning of year	$ 24.8	**$ 28.3**
Service cost	0.8	**0.6**
Interest cost	1.8	**2.0**
Amendments	—	**0.5**
Actuarial gain	1.0	**1.0**
Benefits paid	(1.4)	**(1.5)**
End of year	$ 27.0	**$ 30.9**
Plan assets at fair value		
Beginning of year	$ —	**$ —**
Actual return on plan assets	—	—
Employer contributions	1.4	**1.5**
Benefits paid	(1.4)	**(1.5)**
End of year	$ 0.0	**$ 0.0**
Funded status	(27.0)	**(30.9)**
Unrecognized loss	3.3	**5.8**
Unrecognized prior service cost	0.4	**0.7**
Net amount recognized	$ (23.3)	**$ (24.4)**

	2001	2002
Amounts recognized in the consolidated balance sheet:		
Intangible assets	$ 0.3	**$ 0.7**
Accrued benefit liability-current	(1.5)	**(1.5)**
Accrued benefit liability-long term	(25.5)	**(28.2)**
Accumulated other comprehensive income	3.4	**4.6**
Net amount recognized	$(23.3)	**$ (24.4)**

Net pension expense for the noncontributory defined benefit plan included the following components for 2000, 2001 and 2002 (in millions):

	2000	2001	2002
Service cost	$0.7	$0.8	**$0.6**
Interest cost	1.7	1.8	**2.0**
Expected return on assets	—	—	**—**
Amortization of prior service cost	0.1	—	**0.1**
Amortization of transition asset	0.1	—	**—**
Net pension expense	$2.6	$2.6	**$2.7**

The defined contribution plans are deferred compensation plans under section 401(k) of the Internal Revenue Code. All of these plans require Company contributions. Total expense for the defined contribution plans was $16.4 million, $19.0 million, and $20.6 million, respectively, in 2000, 2001, and 2002.

Profit Sharing Plans
Alaska and Horizon have employee profit sharing plans. There was no expense during 2000, 2001 and 2002.

Other Postretirement Benefits
The Company allows retirees to continue their medical, dental, and vision benefits by paying all or a portion of the active employee plan premium until eligible for Medicare, currently age 65. This results in a subsidy to retirees, because the premiums received by the Company are less than the actual cost of the retirees' claims. The accumulated postretirement benefit obligation (APBO) for this subsidy is unfunded, and at December 31, 2001 and 2002 was $32.6 million and $52.7 million, respectively. The accrued liability related to the subsidy is included with other liabilities on the Consolidated Balance Sheet, and totaled $29.4 million and $31.3 million at December 31, 2001 and 2002, respectively. Annual expense related to this subsidy was approximately $4.6 million in 2000 and 2001, and $4.4 million in 2002.

Net periodic benefit cost for the postretirement medical plans included the following components for 2000, 2001, and 2002 (in millions):

	2000	2001	2002
Service cost	$1.3	$1.5	**$ 2.3**
Interest cost	1.9	2.1	**3.2**
Expected return on assets	—	—	**—**
Amortization of prior service cost	0.2	0.1	**(0.2)**
Recognized actuarial loss (gain)	1.2	0.9	**(0.9)**
Net periodic benefit cost	$4.6	$4.6	**$ 4.4**

Effect of 1% higher or lower trend rates for the postretirement medical plans on the following components for 2000, 2001, and 2002 (in millions):

	2000	2001	2002
Change in service and interest cost			
1% higher trend rate	$ 0.5	$ 0.6	**$ 1.0**
1% lower trend rate	(0.5)	(0.5)	**(0.6)**
Change in year-end postretirement benefit obligation			

1% higher trend rate	$ 4.2	$5.0	**$ 7.0**
1% lower trend rate	(3.6)	(4.2)	**(6.0)**

Note 8. Income Taxes

Deferred income taxes reflect the impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and such amounts for tax purposes. Deferred tax (assets) and liabilities comprise the following at December 31 (in millions):

	2001	2002
Excess of tax over book depreciation	$ 285.1	**$ 350.4**
Fuel hedges	—	**5.2**
Other – net	1.8	**16.2**
Gross deferred tax liabilities	286.9	**371.8**
Frequent flyer program	(88.0)	**(112.4)**
Alternative minimum tax	(21.7)	**(56.1)**
Leased aircraft return provisions	(4.6)	**(5.7)**
Inventory obsolescence	(14.5)	**(11.4)**
Deferred revenue	(13.4)	**(16.6)**
Asset impairment	(3.6)	**(3.2)**
Fuel hedges	(3.4)	**—**
Employee benefits	(1.8)	**(53.4)**
Other – net	(13.7)	**(17.0)**
Gross deferred tax assets	(164.7)	**(275.8)**
Net deferred tax liabilities	$ 122.2	**$ 96.0**
Current deferred tax asset	$ (51.2)	**$ (61.2)**
Noncurrent deferred tax liability	173.4	**157.2**
Net deferred tax liability	$ 122.2	**$ 96.0**

The components of income tax expense (credit) were as follows (in millions):

	2000	2001	2002
Current tax expense (credit):			
Federal	$1.8	$(25.6)	**$(53.0)**
State	(0.1)	(1.2)	**(2.3)**
Total current	1.7	(26.8)	**(55.3)**
Deferred tax expense (credit):			
Federal	(7.8)	7.2	**19.8**
State	(0.4)	(0.5)	**0.9**
Total deferred	(8.2)	6.7	**20.7**
Total before acctg. change	(6.5)	(20.1)	**(34.6)**
Deferred tax credit, cumulative effect of acctg. change	(29.5)	—	**—**
Total tax benefit	$(36.0)	$ (20.1)	**$ (34.6)**

Income tax benefit reconciles to the amount computed by applying the U.S. federal rate of 35% to loss before income tax and accounting change as follows (in millions):

	2000	2001	2002
Loss before income tax and			

accounting change	$(26.9)	$(63.5)	**$(101.8)**
Expected tax benefit	$ (9.6)	$(22.1)	**$ (35.6)**
Nondeductible expenses	3.4	3.3	**2.4**
State income tax benefit	(0.3)	(1.2)	**(1.9)**
Other – net	—	(0.1)	**0.5**
Actual tax benefit	$ (6.5)	$(20.1)	**$ (34.6)**
Effective tax rate	24.2%	31.7%	**34.0%**

Note 9. Financial Instruments

The estimated fair values of the Company's financial instruments were as follows (in millions):

	December 31, 2001	
	Carrying Amount	Fair Value
Assets:		
Cash and cash equivalents	$490.8	$490.8
Marketable securities	169.8	169.8
Fuel hedge contracts	1.2	1.2
Restricted deposits and depository certificates	44.5	45.9
Liabilities:		
Long-term debt	876.2	889.3

	December 31, 2002	
	Carrying Amount	Fair Value
Assets:		
Cash and cash equivalents	$269.0	$269.0
Marketable securities	366.8	366.8
Restricted deposits	58.2	58.2
Fuel hedge contracts	17.4	17.4
Liabilities:		
Long-term debt	893.5	926.7

The fair value of cash equivalents approximates carrying value due to the short maturity of these instruments. The fair value of marketable securities is based on quoted market prices. The fair value of fuel hedge contracts is based on commodity exchange prices. The fair value of restricted deposit approximates the carrying amount. At December 31, 2001, the fair value of restricted deposits include depository certificates convertible into the common stock of Equant N.V., which were valued at $1.4 million based on the market value of France Telecom stock. In April 2002, the Company sold the certificates for net sales proceeds of approximately $.9 million. The fair value of long-term debt is based on a discounted cash flow analysis using the Company's current borrowing rate.

Note 10. Loss per Share (EPS)

Basic EPS is calculated by dividing net income by the average number of common shares outstanding. Diluted EPS is calculated by dividing net income by the average common shares outstanding plus additional common shares that would have been outstanding assuming the exercise of in-the-money stock options. Stock options excluded from the calculation of diluted EPS because they are antidilutive, represented 1.8 million, 2.9 million, and 3.3 million shares, respectively, in 2000, 2001, and 2002. EPS calculations were as follows (in millions except per share amounts):

	2000	2001	2002
Basic and Diluted			
Loss before accounting change	$ (20.4)	$ (43.4)	**$ (67.2)**
Avg. shares outstanding	26.440	26.499	**26.546**
EPS before acctg. change	$ (0.77)	$ (1.64)	**$ (2.53)**

Note 11. Operating Segment Information

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", as amended (SFAS 131), requires that a public company report annual and interim financial and descriptive information about its reportable operating segments. Operating segments, as defined, are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company has two primary operating and reporting segments, consisting of Alaska and Horizon. These segments are more fully described in Note 1 under Nature of Operations.

Financial information for Alaska and Horizon follows (in millions):

	2000	2001	2002
Operating revenues:			
Alaska	$1,766.2	$1,763.0	**$1,833.1**
Horizon	443.1	408.4	**415.2**
Other	1.1	1.5	**1.4**
Elimination of inter-company revenues	(16.4)	(20.1)	**(25.6)**
Consolidated	2,194.0	2,152.8	**2,224.1**
Depreciation and amortization expense:			
Alaska	85.8	106.1	**114.2**
Horizon	20.7	26.7	**17.0**
Other	1.0	1.3	**1.3**
Consolidated	107.5	134.1	**132.5**
Interest income:			
Alaska	27.7	26.0	**23.2**
Horizon	—	—	**0.7**
Elimination of inter-company accounts	(3.7)	(3.8)	**(2.7)**
Consolidated	24.0	22.2	**21.2**
Interest expense:			
Alaska	36.0	47.4	**46.3**
Horizon	3.1	3.0	**2.1**
Other	0.6	0.8	**0.7**
Elimination of inter-company accounts	(3.7)	(3.8)	**(2.8)**
Consolidated	36.0	47.4	**46.3**
Loss before income tax and accounting change:			

Alaska	(20.1)	(16.4)	**(87.3)**
Horizon	(6.0)	(45.1)	**(12.8)**
Other	(.8)	(2.0)	**(1.7)**
Consolidated	(26.9)	(63.5)	**(101.8)**
Capital expenditures*:			
Alaska	279.3	400.9	**146.2**
Horizon	71.2	(10.7)	**8.5**
Other	3.7	0.1	**(0.3)**
Consolidated	354.2	390.3	**154.4**
Total assets at end of period:			
Alaska	2,303.3	2,756.0	**2,751.1**
Horizon	259.0	241.4	**213.5**
Other	909.5	878.9	**734.8**
Elimination of inter-company accounts	(943.7)	(925.8)	**(818.7)**
Consolidated	$2,528.1	2,950.5	**$2,880.7**

* Capital expenditures include aircraft deposits and deposits returned.

Note 12. Special Charge

In December 2001,Horizon recorded a $10.2 million special charge to recognize the loss in value of its owned Fokker F-28 aircraft engines and related spare parts, which had a net book value of $16.2 million, net of the impairment charge, at December 31, 2001, and $8.1 million at December 31, 2002. The F-28s, which are being replaced with more fuel-efficient CRJ 700 regional jets, were phased completely out of service on February 14, 2003.

Note 13. U.S. Government Compensation

In September, 2001, the U.S. Government passed the Air Transportation Safety and System Stabilization Act to provide $5 billion of cash compensation and $10 billion of loan guarantees to U.S. airlines. The purpose of the Act was to compensate the airlines for direct and incremental losses for the period September 11 through December 31, 2001 as a result of the September 11 terrorist attacks.

Through December 31, 2001, Alaska and Horizon recorded government compensation of $71.6 million and $9.8 million, respectively. These amounts are reflected in nonoperating income (expense) in the consolidated statements of operations. During the third quarter of 2002, the Department of Transportation completed its review procedures and remitted final compensation payments to Alaska and Horizon of $0.2 million and $0.2 million, respectively.

Note 14. Contingencies

Oakland Maintenance Investigation

In December 1998, the U.S. attorney for the Northern District of California initiated a grand jury investigation concerning certain 1998 maintenance activities at Alaska's Oakland maintenance base. The investigation was expanded to include the aircraft involved in the loss of Flight 261 in January 2000. The FAA separately proposed a civil penalty in connection with the 1998 maintenance activities, which Alaska and the FAA have settled for an agreed amount. In December 2001, the U.S. Attorney notified Alaska that the evidence it had gathered relative to the 1998 maintenance activities did not warrant the filing of criminal charges, and closed that part of the investigation. The U.S. Attorney also placed the portion of its investigation related to Flight 261 on inactive status, with the possibility of reactivating and reviewing the matter when the NTSB issued its final report on the accident. Accordingly, following the final NTSB hearing on the Flight 261 investigation in December 2002, the U.S. attorney's office reactivated the matter in order to review it in light of the final NTSB report.

Flight 261 Litigation

Alaska is a defendant in a number of lawsuits relating to the loss of Flight 261 on January 31, 2000. Representatives of all 88 passengers and crew on board have filed cases against Alaska, the Boeing Company, and others. The suits were originally filed in various state and Federal Courts in Alaska, California, Washington and Illinois. Since then, they have all been consolidated in the U.S. District Court for the Northern District of California. The suits seek unspecified compensatory and punitive damages. In May 2001, the judge presiding over the majority of the cases ruled that punitive damages are not available against Alaska. Alaska has settled 48 of these cases and continues in its efforts to settle the remaining ones. Trial on the remaining cases is set for July 2003. Consistent with industry standards, the Company maintains insurance against aircraft accidents.

Flight 261 NTSB Proceeding

In January 2003, the NTSB issued its final report on the Flight 261 accident. The report contained the NTSB's findings, conclusions, probable cause of the accident and safety recommendations. NTSB staff's draft report included language that the Board recommend a new FAA inspection of Alaska due to perceived deficiencies in recent maintenance practices. The Board rejected that recommendation.

Management believes the ultimate disposition of the above matters is not likely to materially affect the Company's financial position or results of operations. This forward-looking statement is based on management's current understanding of the relevant law and facts; it is subject to various contingencies, including the potential costs and risks associated with litigation and the actions of judges and juries.

The Company is also a party to other ordinary routine litigation incidental to its business and with respect to which no material liability is expected.

Note 15. Change in Accounting Principles
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, and in 2000 Alaska changed its method of accounting for the sale of miles in its Mileage Plan. Under the new method, a majority of the sales proceeds is deferred, then recognized ratably over the estimated period of time that the award transportation is provided. The deferred proceeds are recognized as passenger revenue for awards issued on Alaska, and as other revenue-net for awards issued on other airlines. In connection with the change, Alaska recognized a $46.8 million cumulative effect charge, net of income taxes of $29.5 million, effective January 1, 2000.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." Under this statement, goodwill is considered to have an indefinite life and will no longer be amortized but instead will be subject to periodic impairment testing. Effective January 1, 2002, the Company adopted SFAS No. 142. Assuming the Company had adopted this standard as of January 1, 2000, the Company's net loss for the years ended December 31, 2000 and 2001 would be reduced by approximately $2.0 million ($.08 per share) for the impact of goodwill amortization.

During the second quarter of 2002, the Company completed the first step of its impairment test related to its $51.4 million of goodwill and determined that the net book value exceeded its fair value. In the fourth quarter of 2002, the Company completed the second step of its impairment test and determined that all of the Company's goodwill was impaired. As a result, the Company recorded a one-time, non-cash charge, effective January 1, 2002 of $51.4 million ($12.5 million Alaska and $38.9 million Horizon) to write-off all of its goodwill. This charge is reflected as a cumulative effect of accounting change in the consolidated statement of operations.

The impact of this statement was also to increase annual results of operations by $2.0 million resulting from no longer amortizing goodwill.

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
Alaska Air Group, Inc.
Seattle, Washington

We have audited the accompanying consolidated balance sheets of Alaska Air Group, Inc. (a Delaware corporation) and subsidiaries (the Company) as of December 31, 2002 and 2001 and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2002 and 2001 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

The Company changed its method of accounting for goodwill upon adoption of SFAS No. 142 "Goodwill and Other Intangible Assets" for the year ended December 31, 2002 and for the deferral of revenue on miles sold under the mileage plan for the year ended December 31, 2000, both discussed in Note 15 to the consolidated financial statements.

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP
Seattle, Washington

March 10, 2003

VALUATION AND QUALIFYING ACCOUNTS

Alaska Air Group, Inc.

Schedule II

(In Millions)	Beginning Balance	Additions Charged to Expense	(A) Deductions	Ending Balance
Year Ended December 31, 2000				
(a) Reserve deducted from asset to which it applies:				
Allowance for doubtful accounts	$ 1.0	$ 2.0	$ (1.3)	$ 1.7
Obsolescence allowance for flight equipment spare parts	$ 23.6	$ 4.7	$ (0.2)	$28.1
(b) Reserve recorded as other long-term liabilities:				
Leased aircraft return provision	$ 4.0	$ 4.0	$ 0.0	$ 8.0
Year Ended December 31, 2001				
(a) Reserve deducted from asset to which it applies:				
Allowance for doubtful accounts	$ 1.7	$ 2.5	$ (2.4)	$ 1.8
Obsolescence allowance for flight equipment spare parts	$ 28.1	$ 12.2	$ (0.7)	$39.6
(b) Reserve recorded as other long-term liabilities:				
Leased aircraft return provision	$ 8.0	$ 4.0	$ (0.4)	$ 11.6
Year Ended December 31, 2002				
(a) Reserve deducted from asset to which it applies:				
Allowance for doubtful accounts	$ 1.8	$ 1.9	$ (1.4)	$ 2.3
Obsolescence allowance for flight equipment spare parts	$ 39.6	$ 5.9	$ (1.0)	$44.5
(b) Reserve recorded as other long-term liabilities:				
Leased aircraft return provision	$ 11.6	$ 2.8	$ (0.2)	$14.2

(A) Deduction from reserve for purpose for which reserve was created.

CERTIFICATIONS

I, John F. Kelly, certify that:

1. I have reviewed this Annual report on Form 10-K of Alaska Air Group, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 10, 2003

By /s/John F. Kelly
John F. Kelly
Chief Executive Officer

I, Bradley D. Tilden, certify that:

1. I have reviewed this annual report on Form 10-K of Alaska Air Group, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

March 10, 2003 By /s/Bradley D. Tilden
Bradley D. Tilden
Chief Financial Officer

EXHIBIT INDEX

Certain of the following exhibits have heretofore been filed with the Commission and are incorporated herein by reference from the document described in parenthesis. Certain others are filed herewith.

3.(i)	Restated Certificate of Incorporation of Alaska Air Group, Inc. as amended through May 21, 1999 (Exhibit 3.1 to Second Quarter 2002 10-Q)
#3.(ii)	Bylaws of Alaska Air Group, Inc., as amended through February 12, 2003
*10.1	2002 Management Incentive Plan
10.2	Loan Agreement dated as of December 1, 1984, between Alaska Airlines, Inc. and the Industrial Development Corporation of the Port of Seattle (Exhibit 10-38 to 1984 10-K)
10.3	Alaska Air Group, Inc. 1988 Stock Option Plan, as amended through May 19, 1992 (Registration Statement No. 33-52242)
#10.4	Lease Agreement dated January 22, 1990 between International Lease Finance Corporation and Alaska Airlines, Inc. for the lease of a B737-400 aircraft, summaries of 19 substantially identical lease agreements and Letter Agreement #1 dated January 22, 1990 (Exhibit 10-14 to 1990 10-K)
#10.5(a)	Agreement dated September 18, 1996 between Alaska Airlines, Inc. and Boeing for the purchase of 12 Boeing 737-400 aircraft (Exhibit 10.1 to Third Quarter 1996 10-Q)
*#10.5(b)	Supplemental Agreement 6 to Agreement dated September 18, 1996 between Alaska Airlines, Inc. and Boeing for the purchase of 12 Boeing 737-400 aircraft
*10.7	Supplemental retirement plan arrangement between Horizon Air Industries, Inc. and Jeffrey D. Pinneo
10.8	Alaska Air Group, Inc. 1996 Long-Term Incentive Equity Plan (Registration Statement 333-09547)
10.9	Alaska Air Group, Inc. Non Employee Director Stock Plan (Registration Statement 333-33727)

10.11	Alaska Air Group, Inc. 1997 Non Officer Long-Term Incentive Equity Plan (Registration Statement 333-39899)
10.12	Alaska Air Group, Inc. 1981 Supplementary Retirement Plan for Elected Officers (Exhibit 10.15 to 1997 10-K)F
10.13	Alaska Air Group, Inc. 1995 Elected Officers Supplementary Retirement Plan (Exhibit 10.16 to 1997 10-K)
#10.14	Agreement dated December 21, 1998 between Horizon Air Industries, Inc. and Bombardier for the purchase of 25 Canadair regional jets series 700 aircraft (Exhibit 10.16 to 1998 Form 10-K)
10.15	Alaska Air Group, Inc. 1999 Long-Term Incentive Equity Plan (Registration Statement 333-87563)
10.16	Alaska Air Group, Inc. Change of Control Agreement dated October 27, 1999 (Exhibit 10.18 to 1999 Form 10-K)
*12	Calculation of Ratio of Earnings to Fixed Charges
21	Subsidiaries of the Registrant (Exhibit 22-01 to 1987 10-K)
*23	Consent of Deloitte & Touche LLP
*99.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*99.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith.

\# Confidential treatment was requested as to a portion of this document.

Exhibit 3(ii)

BYLAWS
OF
ALASKA AIR GROUP, INC.

As Amended and in Effect February 12, 2003
(Date of Previous Amendment: January 26, 2000)

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 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 of 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.

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 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.

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.

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. 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 2. 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.

Section 3. 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 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 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.

ARTICLE VI

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.

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, fines, 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.

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 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.

EXHIBIT 10.1

ALASKA AIR GROUP, INC. MANAGEMENT INCENTIVE PLAN

Alaska Air Group's Management Incentive Plan ("MIP") in effect for 2002 places at risk a significant portion of each executive's potential cash compensation, linking it to annual profitability and operational goals.

For awards to be paid, the Company must achieve profit and/or operating goals established annually by the Compensation Committee. In 2002, the goals were based on measures relating to unit revenues, unit costs, pretax profit, safety, customer satisfaction and on-time performance.

Awards increase proportionately based on the degree to which threshold, target and maximum goals are met. In 2002 the CEO could earn up to 130% of base pay, depending on the extent to which the goals are reached. The other named executives could earn up to 90% of base salary, depending on the extent to which the goals are met and the executive's position. Award levels can be adjusted by the Committee for individual performance.

Exhibit 10.5(b)

REDACTED VERSION
CONFIDENTIAL INFORMATION MARKED

*** CONFIDENTIAL TREATMENT HAS BEEN REQUESTED AS TO CERTAIN PORTIONS OF THIS AGREEMENT. SUCH OMITTED CONFIDENTIAL INFORMATION HAS BEEN DESIGNATED BY AN ASTERISK AND HAS BEEN FILED SEPARATELY IN ACCORDANCE WITH THE SECURITIES AND EXCHANGE ACT OF 1934, AS AMENDED, AND THE COMMISSION'S RULES AND REGULATIONS PROMULGATED UNDER THE FREEDOM OF INFORMATION ACT, PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT***

Supplemental Agreement No. 6

to

Purchase Agreement No. 1954

between

The Boeing Company

and

ALASKA AIRLINES, INC.

Relating to Boeing Model 737 Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of, 1998, by and between THE BOEING COMPANY, a Delaware corporation with its principal offices in Seattle, Washington, (Boeing) and Alaska Airlines, Inc., an Alaska corporation with its principal offices in Seattle, Washington (Buyer);

WHEREAS, the parties hereto entered into Purchase Agreement No. 1954 dated September 18, 1996, as amended, relating to Boeing Model 737 aircraft (the Agreement) and;

WHEREAS, Buyer has agreed to purchase ten (10) Model 737-900 Aircraft with options to acquire ten (10) additional Model 737-900 aircraft;

NOW THEREFORE, in consideration of the mutual covenants herein contained, the parties agree to amend the Agreement as follows:

1. The Table of Contents of the Agreement is deleted in its entirety and a new Table of Contents (attached) is substituted in lieu thereof.

2. Article 1, entitled "Subject Matter of Sale," paragraph 1.1 entitled "The Aircraft," is deleted in its entirety and replaced by a new paragraph 1.1 revised to add subparagraph 1.1.2.2 relating to Model 737-900. Such new page 1-1 is attached hereto and incorporated by this reference.

3. Article 3, entitled "Price of Aircraft," paragraph 3.1.2.1 is revised to add reference to Exhibit A-2. Paragraph 3.2 entitled "Aircraft Basic Price," is revised to add the Model 737-900 price. Paragraph 3.3 entitled "Aircraft Price," and Paragraph 3.4 entitled "Advance Payment Base Price," are revised to add reference to Table 3. Such new pages 3-1 through 3-3 are attached hereto and incorporated by this reference.

4. Table 3 to the Agreement is added to reflect Model 737-900 Aircraft deliveries and prices. Such new Table 3 is attached hereto and incorporated into

the Agreement by this reference.

5. Exhibit A and Exhibit C are revised on the first page to refer to Model 737-490 Aircraft. Exhibit A-1 and Exhibit C-1 are revised on the first page to refer to Model 737-790 Aircraft. Such revised first pages are attached hereto and incorporated into the Agreement by this reference.

6. A new exhibit, Exhibit A-2 entitled "Aircraft Configuration - Model 737-990" is attached hereto and incorporated into the Agreement by this reference.

7. A new exhibit, Exhibit C-2 entitled "Customer Support Document, Relating to Boeing Model 737-990 Aircraft" is attached hereto and, as modified by paragraphs 1.17 and 1.18 in Letter Agreement No. 1954-7R1 dated February, 1998, is incorporated into the Agreement by this reference.

8. Exhibit E entitled "Buyer Furnished Equipment Provisions Document," paragraph 1 entitled "General," is revised to include the Model 737-900 Aircraft. Paragraph 2 entitled "Supplier Selection," is revised to include the Model 737-900 Aircraft. Attachment A to Exhibit E is revised to add the Model 737-900 Aircraft. Such revised Exhibit E is attached hereto and subject to paragraph 22 below, is incorporated into the Agreement by this reference.

9. Exhibit F entitled "Defined Terms Document," is revised to add reference to Paragraph 3.1.2.1 in the definition of the term Special Features. Such revised Exhibit F is attached hereto and is incorporated into the Agreement by this reference.

10. Letter Agreement No. 1954-2R1 entitled "Seller Purchased Equipment," is revised to add reference to the Model 737-900 detail specification in the seventh paragraph and in paragraph 1 entitled "Price." Such revised Letter

Agreement No. 1954-2R2 is attached hereto and subject to paragraph 22 below, is incorporated into the Agreement by this reference.

11. Letter Agreement No. 1954-3R3 entitled "Option Aircraft," is revised to add ten (10) Model 737-900 Option Aircraft and to increase the quantity of Conditional Option Aircraft to twenty-nine (29) in the third paragraph. Paragraph 1 entitled "Delivery," is revised to identify existing Option Aircraft as "Block A" and to add "Block B" Model 737-900 Option Aircraft. Paragraph 2 entitled "Price," is revised to add "Block B" price information. Paragraph 4 entitled "Option Exercise" is revised to add "Block B" Option exercise dates. Paragraph 6 entitled "Conditional Option Aircraft," is revised to reflect twenty-nine (29) Model 737-700 Conditional Option Aircraft. Attachment A, paragraph 1 entitled "Option and Conditional Option Aircraft Description and Changes," is revised add the Model 737-900 description, paragraph 2 entitled "Price Description," is revised to change the SPE values for the Model 737-700 Aircraft delivering in 2001 and 2002 and to add the delivery schedule and prices for the Model 737-900. Such revised Letter Agreement No. 1954-3R4 is attached hereto and subject to paragraph 22 below, is incorporated into the Agreement by this reference.

12. Letter Agreement No. 1954-4R1 entitled "Spares Initial Provisioning,", paragraph 2 entitled "Initial Provisioning Meeting," is revised to indicate that the Spares Provisioning Implementation Manual includes the Model 737-900. Paragraph 3 entitled "Initial Provisioning Documentation," is revised to include the Model 737-900 Aircraft. Paragraph 4 entitled "Purchase from Boeing of Spare Parts as Initial Provisioning for the Aircraft," is revised to refer to Model 737-900 Aircraft. Such revised Letter Agreement No. 1954-4R2 is attached hereto and incorporated into the Agreement by this reference.

13. Letter Agreement No. 1954-7 entitled "Additional Purchase Agreement Provisions," paragraph 1.8 is added and all subsequent paragraphs renumbered, paragraphs 1.18 and 1.19 are revised to add reference to Exhibit C-1 and Exhibit C-2. Such revised Letter Agreement No. 1954-7R1 is attached hereto and

incorporated into the Agreement by this reference.

14. Letter Agreement No. 6-1162-DSF-005R1, Schedule of Confidential Documents, is revised to include five new Letter Agreements, 6-1162-DSF-348, 6-1162-DSF-349, 6-1162-DSF-352, 6-1162-

DSF-353 and 6-1162-DSF-354. Such revised Letter Agreement No. 6-1162-DSF-005R2 is attached hereto and incorporated into the Agreement by this reference.

15. Letter Agreement No. 6-1162-DSF-008R4, entitled "Special Matters,", paragraph 1 entitled "Basic Credit Memorandum," is revised to add ten (10) Firm Model 737-900 Aircraft and ten (10) Option Model 737-900 aircraft. Subparagraph 1.2 entitled "Conditional Option Aircraft," is revised to reflect a quantity of twenty-nine Conditional Option Aircraft. A new subparagraph 1.3 entitle "Launch Credit Memoranda," is added. Attachment C, paragraph 2 entitled "Price Description," is revised to change the price for Model 737-900. A new paragraph 11 entitled "Model 737-900 Certification Issues," is added. Such revised Letter Agreement No. 6-1162-DSF-008R5 is attached hereto and incorporated into the Agreement by this reference.

16. Letter Agreement No. 6-1162-DSF-009R1 entitled "Special Purchase Agreement Provisions," is revised in paragraphs 1.12, 1.13, 1.14, 1.15, 1.16, 1.17 and 1.18 to add reference to Exhibit C-2. Such revised Letter Agreement No. 6-1162-DSF-009R2 is attached hereto and incorporated into the Agreement by this reference.

17. A new Letter Agreement No. 6-1162-DSF-348 entitled "Model 737-900 Aircraft Performance Guarantees," is attached hereto and incorporated into the Agreement by this reference.

18. A new Letter Agreement No. 6-1162-DSF-349 entitled "Remedy for Deviation from Fuel Burn Objective for Model 737-900 Aircraft," is attached hereto and incorporated into the Agreement by this reference.

19. A new Letter Agreement No. 6-1162-DSF-352 entitled "Maintenance Cost Protection Program - Letter of Intent Model 737-900," is attached hereto and incorporated into the Agreement by this reference.

20. A new Letter Agreement No. 6-1162-DSF-353 entitled "Certification Flight Test Aircraft," is attached hereto and incorporated into the Agreement by this reference.

21. A new Letter Agreement No. 6-1162-DSF-354 entitled "Open Configuration Matters - Model 737-900 Aircraft," is attached hereto and incorporated into the Agreement by this reference.

22. Letter Agreements No. 1954-7 and 6-1162-DSF-009, dated September 18, 1996, modified certain provisions of Purchase Agreement No. 1954 and its accompanying exhibits and letter agreements. It is the intent of the parties that the provisions contained in Letter Agreements 1954-7 and 6-1162-DSF-009 shall apply, as applicable, to the Purchase Agreement No. 1954, including its exhibits and accompanying letter agreements, as amended and supplemented pursuant to the terms of this Agreement.

23. Any references to Letter Agreements unless otherwise indicated always refer to the latest revision of each such Letter Agreement.

24. Concurrent with execution of this Supplemental Agreement, Buyer will pay to Boeing Seven Million Five Hundred Twenty-Two Thousand One Hundred Dollars ($7,522,100). Such payment amount was calculated as follows:

-Advance Payments due on the 10 new Firm Model 737-900 Aircraft	$5,522,100
-Less Deposits for 10 Model 737-900 Aircraft	-$ 750,000
-Deposits due for 10 Model 737-900 Option Aircraft	$2,000,000
-Deposit due for 10 additional Conditional Option Aircraft	$ 750,000
Total	$7,522,100

The Agreement will be deemed to be supplemented to the extent herein provided and as so supplemented will continue in full force and effect.

EXECUTED IN DUPLICATE as of the day and year first above written.

THE BOEING COMPANY   ALASKA AIRLINES, INC.

By: ________________________   By: ______________________

Its: Attorney-In-Fact   Its: _____________________

PURCHASE AGREEMENT

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Relating to Boeing Model 737 Aircraft

Purchase Agreement Number 1954

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LETTER AGREEMENTS

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RESTRICTED LETTER AGREEMENTS

* Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 11, 2003.

* Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 11, 2003.

ARTICLE 1. Subject Matter of Sale.

1.1 The Aircraft. Boeing will manufacture and deliver to Buyer and Buyer will purchase and accept delivery from Boeing of the Model 737 aircraft (the Aircraft) as described below in the quantities and of the model types shown in Tables 1 and 2 to this Agreement entitled "Aircraft Deliveries and

Descriptions for Model 737 Aircraft," and manufactured in accordance with the detail specifications identified below (Detail Specification).

1.1.1 Current Generation Aircraft.

Model 737-490 Aircraft (Current Generation Aircraft) which will be manufactured in accordance with Boeing detail specification D6-38900-4-1C dated August 29, 1996, as described in Exhibit A, as modified from time to time in accordance with this Agreement.

1.1.2 New Generation Aircraft.

1.1.2.1 Model 737-790 Aircraft (New Generation Aircraft) which will be manufactured in accordance with Boeing detail specification D019A001ASA37P-2 to be dated when issued (with the date of issue), as described in Exhibit A-1, as modified from time to time in accordance with this Agreement.

1.1.2.2 Model 737-990 Aircraft (New Generation Aircraft) which will be manufactured in accordance with Boeing detail specification D019A001ASA39P-1 to be dated when issued (with the date of issue), as described in Exhibit A-2, as modified from time to time in accordance with this Agreement.

1.2 Additional Goods and Services. In connection with the sale of the Aircraft, Boeing will also provide to Buyer certain other things under this Agreement, including data, documents, training and services, all as described in this Agreement.

1.3 Performance Guarantees. Any performance guarantees applicable to the Aircraft will be expressly included in this Agreement. Where performance guarantees

are included in this Agreement other than within the Detail Specification, such guarantees will be treated as being incorporated in the Detail Specification by this reference.

1.4 Defined Terms. For ease of use, certain terms are treated as defined terms in this Agreement. Such terms are identified with a capital letter and set forth and/or defined in Exhibit F.

ARTICLE 3. Price of Aircraft.

3.1 Definitions.

3.1.1 Current Generation Aircraft.

3.1.1.1 Special Features are the features incorporated in Exhibit A which have been selected by Buyer.

3.1.1.2 Base Airframe Price is the Aircraft Basic Price excluding the price of Special Features and Engines.

3.1.1.3 Engine Price is the price established by the Engine manufacturer for the Engines installed on the Aircraft including all accessories, equipment and parts set forth in Exhibit D.

3.1.1.4 Aircraft Basic Price is comprised of the Base Airframe Price, the Engine Price and the price of the Special Features.

3.1.1.5 Economic Price Adjustment is the adjustment to the

Aircraft Basic Price (Base Airframe, Engine and Special Features) as calculated pursuant to Exhibit D.

3.1.1.6 Aircraft Price is the total amount Buyer is to pay for the Aircraft at the time of delivery.

3.1.2 New Generation Aircraft.

3.1.2.1 Special Features selected by Buyer for Model 737-790 are listed in Exhibit A-1 and Special Features selected by Buyer for Model 737-990 are listed in Exhibit A-2.

3.1.2.2 Base Airplane Price is the Aircraft Basic Price excluding the price of Special Features, but including Engines.

3.1.2.3 Aircraft Basic Price is comprised of the Base Airplane Price and the price of the Special Features.

3.1.2.4 Economic Price Adjustment is the adjustment to the Aircraft Basic Price (Base Airplane and Special Features) as calculated pursuant to Exhibit D-1.

3.2 Aircraft Basic Price.

3.2.1 Current Generation Aircraft.

The Model 737-490 Aircraft Basic Price, expressed in July 1995 dollars, is set forth below:

Base Airframe Price:	$ ***
Special Features	$
Engine Price	$
Aircraft Basic Price	$

3.2.2 New Generation Aircraft.

The Model 737-790 Aircraft Basic Price, expressed in July 1995 dollars is set forth below:

Base Airplane Price:	$ ***
Special Features:	$
Aircraft Basic Price:	$

The Model 737-990 Aircraft Basic Price, expressed in July 1995 dollars is set forth below:

Base Airplane Price:	$ ***
Special Features:	$
Aircraft Basic Price:	$

3.3 Aircraft Price. The Aircraft Price will be established at the time of delivery of such Aircraft to Buyer and will be the sum of:

3.3.1 the Aircraft Basic Price, set forth in Tables 1, 2 or 3, as applicable; plus

3.3.2 the Economic Price Adjustments for the Aircraft Basic Price, as calculated pursuant to the formula set forth in Exhibits D or D-l, as applicable, (Price Adjustments Due to Economic Fluctuations); plus

*** Confidential treatment has been requested pursuant to Section 1II.C of the request for confidential treatment dated March 11,2003.

3.3.3 other price adjustments made pursuant to this Agreement or other written agreements executed by Boeing and Buyer.

3.4 Advance Payment Base Price.

3.4.1 Advance Payment Base Price. For advance payment purposes, the following estimated delivery prices of the Aircraft have been established, using currently available forecasts of the escalation factors used by Boeing as of the date of signing this Agreement. The Advance Payment Base Price of each Aircraft is set forth in Tables 1, 2 or 3, as applicable.

Table 3 to

Purchase Agreement

Aircraft Deliveries and Descriptions

Model 737-990 Aircraft

Detail Specification No. and Date - D6-39127 Dated July 25, 1997
Exhibit Number - A-2

Month/Year of Delivery	Quantity of Aircraft	Base Airplane Price	Special Features Price	Article 3.2 Aircraft Basic Price	Estimated Escalation on Article 3.2 Aircraft Basic Price	Estimated Price BFE to SPE	***	Article 3.4 Advance Payment Base Price
April 2001	Two (2)	***	***	***	***	***	***	***
May 2001	One (1)	***	***	***	***	***	***	***
June 2001	One (1)	***	***	***	***	***	***	***
August 2001	One (1)	***	***	***	***	***	***	***
February 2002	One (1)	***	***	***	***	***	***	***
March 2002	One (1)	***	***	***	***	***	***	***
April 2002	Two (2)	***	***	***	***	***	***	***
May 2002	One (1)	***	***	***	***	***	***	***

*** Confidential treatment has been requested pursuant to Section III.C. of the request for confidential treatment dated March 11, 2003.

AIRCRAFT CONFIGURATION

between

THE BOEING COMPANY

and

ALASKA AIRLINES

Exhibit A-2 to Purchase Agreement Number 1954

relating to

BOEING MODEL 737-990 AIRCRAFT

A-2

AIRCRAFT CONFIGURATION

Dated TBD

relating to

BOEING MODEL 737-990 AIRCRAFT

The Detail Specification is Detail Specification D019A001ASA39P-1 to be dated when issued (with the date of issue). Such Detail Specification will be comprised of Detail Specification D019A001 to be dated when issued (with the date of issue) (such specification D019A001 is the Define and Control Airplane Configuration version of Detail Specification D6-39127, Revision Original Release dated July 25, 1997) as amended to incorporate the applicable specification language to reflect the effect of the changes set forth in the Change Requests, (which will be listed in a supplement hereto once the configuration is finalized), including the effects of such changes on Manufacturer's Empty Weight (MEW) and Operating Empty Weight (OEW). Such Change Requests will be set forth in Boeing Document D019ACR1ASA39P-1. As soon as practicable, Boeing will furnish to Buyer copies of the Detail Specification, which copies will reflect the effect of such changes. The Aircraft Basic Price reflects and includes all effects of such changes of price, except such Aircraft Basic Price does not include the price effects of Change Requests changing Buyer Furnished Equipment to Seller Purchased Equipment.

CUSTOMER SUPPORT DOCUMENT

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Exhibit C to Purchase Agreement Number 1954

Relating to

BOEING MODEL 737-490 AIRCRAFT

C

CUSTOMER SUPPORT DOCUMENT NO. 1954

Dated

Relating to

BOEING MODEL 737-490 AIRCRAFT

This Customer Support Document is Exhibit C to and forms a part of Purchase Agreement No. 1954 between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Buyer) relating to the purchase of Boeing Model 737-490 aircraft. This Customer Support Document consists of the following parts:

PART A	Boeing Maintenance Training Program
PART B	Boeing Customer Support Services
PART C	Boeing Flight Training Program
PART D	Technical Data and Documents
PART E	Buyer's Indemnification of Boeing and Insurance
PART F	Alleviation or Cessation of Performance

C-I

PART A

BOEING MAINTENANCE TRAINING PROGRAM

1. General.

This Part describes the maintenance training to be provided by Boeing (Maintenance Training) at Boeing's training facility at or near Seattle. The Maintenance Training will be provided at no additional charge to Buyer, except as otherwise provided herein.

All instruction, examinations and materials shall be prepared and presented in the English language and in the units of measure used by Boeing.

Buyer will be responsible for the living expenses of Buyer's personnel during Maintenance Training. For Maintenance Training provided at or near Seattle, Boeing will transport Buyer's personnel between their local lodging and the training facility.

2. Maintenance Training Program.

In conjunction with earlier sales to Buyer of the same model type aircraft as the Aircraft, Boeing has provided to Buyer comprehensive maintenance training and/or materials for such aircraft. If requested by Buyer at least 12 months prior to delivery of the first Aircraft, Boeing agrees to provide 1 Maintenance Training course consisting of classroom training to acquaint up to 15 of Buyer's personnel with any operational, structural or systems differences between the first Aircraft scheduled for delivery pursuant to this Agreement and the last aircraft of the same model type for which maintenance training and/or materials were delivered by Boeing to Buyer that are significant to the maintenance of the Aircraft. Such course will be scheduled by mutual agreement of Boeing's and Buyer's maintenance training organizations.

3. Training Materials.

Boeing will provide Buyer with a narrative description defining the expected time to teach the various differences between the first Aircraft scheduled for delivery pursuant to this agreement and the last aircraft of

the same model type for which maintenance training and/or materials were delivered by Boeing to Buyer.

If Buyer chooses to have Boeing provide a differences Maintenance Training course, Boeing will provide at the beginning of the course, 1 copy of a training manual for the differences training course to each student attending such course. Boeing will also provide to the Buyer 1 set of visual aid projection transparencies and 1 set of black and white reproducible masters of the training manual graphics and text utilized in the Maintenance Training class. No revision service will be provided for such training manuals and materials.

If Buyer chooses not to have Boeing provide a differences Maintenance Training course, Boeing will provide to Buyer at Buyer's direction, 1 set of visual aid projection transparencies and 1 set of black and white reproducible masters of the training manual graphics and text that would have been utilized in a differences Maintenance Training class. Delivery of requested materials will satisfy difference training entitlements as defined herein. No revision service will be provided for such training manuals and materials.

4. Training at a Facility Other Than Boeing's.

If seasonably requested, Boeing will conduct the classroom training described above at a mutually acceptable alternate training site, subject to the following conditions:

4.1 Buyer will be responsible for providing acceptable classroom space and training equipment required to present the Boeing courseware.

4.2 Buyer will pay Boeing's then-current per diem charge for each Boeing instructor for each day, or fraction thereof, such instructor is away from Seattle, including travel time.

4.3 Buyer will reimburse Boeing for round-trip transportation for Boeing's instructors and training materials between Seattle and such alternate training site.

4.4 Buyer will pay, or reimburse Boeing for, all taxes, fees, duties, licenses, permits and similar expenses incurred by Boeing and its employees as a result of Boeing's providing the training at such alternate site.

4.5 Those portions of training that require the use of Boeing's training devices, if any, will be conducted at Boeing-designated facilities.

PART B

BOEING CUSTOMER SUPPORT SERVICES

1. General.

This Part describes the support services to be provided by Boeing at no additional charge to Buyer, unless otherwise specified herein. Except with respect to Field Services, the services described in this Part will be provided by Boeing during a period commencing with delivery of the first Aircraft and continuing so long as one Aircraft is regularly operated by Buyer in commercial air transport service.

2. Field Service Engineering.

Boeing will furnish field service representation to advise Buyer on maintenance and operation of the Aircraft (Field Services) as follows:

2.1 Field Services will be available to Buyer at or near Buyer's main maintenance or engineering facility beginning prior to delivery of each Aircraft and terminating 12 months after delivery of each such Aircraft (Field Service Period(s)). If such Field Service Periods overlap, the Field Services will be provided concurrently.

2.2 Buyer will furnish at no charge to Boeing suitable office space and equipment that will include desks, chairs, file cabinets and an electrical power source in, or convenient to, Buyer's facility where each/any Boeing representative is providing Field Services. As required, Buyer will assist each representative providing Field Services with visas, work permits, customs, mail handling, identification passes, and local airport authorities.

2.3 In addition to the Field Services referred to above, the services of any Boeing field service representative will also be available to Buyer anywhere Buyer may land the Aircraft.

2.4 Boeing may, from time to time, provide additional support services in the form of Boeing personnel visiting Buyer's facilities to work with Buyer's personnel in an advisory capacity.

3. Additional Engineering Support Services.

Boeing will, if requested by Buyer in writing, provide technical advisory assistance with respect to the Aircraft and accessories, equipment and parts manufactured to Boeing's detailed design and installed in the Aircraft at the time of delivery. Such technical advisory assistance, which will be provided from Seattle, will include:

3.1 analysis of and comment on any Aircraft service or operational problem experienced by Buyer in order to determine the nature of the problem and its cause and to suggest possible solutions;

3.2 analysis of and comment on Buyer's engineering releases relating to structural repairs of the Aircraft not covered by Boeing's Structural Repair Manual; and

3.3 analysis of and comment on Buyer's engineering proposals for changes in, or replacement of, parts, accessories or equipment manufactured to Boeing's detailed design (excluding computer software embedded or included therein); provided that Boeing will not analyze or comment on any such change or replacement which constitutes a major structural change, nor on any engineering release related thereto, unless Buyer's request for such analysis and comment is accompanied by complete detailed drawings, substantiating data (including data, if any, required by applicable government agencies), all stress or other appropriate analysis, and a specific statement from Buyer of the kind of review and response desired by Buyer.

4. Special Services.

4.1 Facilities, Ground Equipment and Maintenance Planning Assistance.

Boeing will, at Buyer's request, send qualified Boeing engineering representatives to Buyer's main base to evaluate Buyer's technical facilities, tools and equipment for servicing and maintaining the Aircraft, to recommend changes where necessary and to assist in the formulation of Buyer's overall maintenance plan.

4.2 Additional Services.

Boeing may, at Buyer's request, provide additional special services with respect to the Aircraft after delivery, which may include such items as Master Changes (Kits and/or Data), training and maintenance and repair of the Aircraft. Providing such additional services will be subject to (i) mutually acceptable price, schedule and scope of work and (ii) Boeing's then-current standard contract therefor including disclaimer and release, exclusion of consequential and other damages and indemnification and insurance requirements.

4.3 Post-Delivery Aircraft Services.

If Boeing performs unanticipated work on an Aircraft after delivery of such Aircraft, but prior to its initial departure flight, or upon its return to Boeing's facilities prior to completion of such flight, the following provisions will apply:

4.3.1 Title to and risk of loss of any such Aircraft will at all times remain with Buyer.

4.3.2 The provisions of the Boeing Warranty set forth in Exhibit B of this Agreement will apply to such work.

4.3.3 Buyer will reimburse Boeing for such work to the extent not covered by the Boeing Warranty applicable to the Aircraft.

4.3.4 The Disclaimer and Release and Exclusion of Consequential and Other Damages provisions set forth in Article 12 of this Agreement and the indemnification and insurance provisions set forth in this Exhibit C will apply to such Boeing work.

4.3.5 In performing such work, Boeing may rely upon the commitment authority of Buyer's personnel requesting such work.

5. Additional Informational Services.

Boeing may, from time to time, provide Buyer with additional services in the form of information about the Aircraft or other aircraft of the same type, including information concerning design, manufacture, operation, maintenance, modification, repair and in-service experience.

PART C

BOEING FLIGHT TRAINING PROGRAM

1. General.

This Part describes the flight training to be provided by Boeing (Flight Training) at or near Seattle, or at some other location to be determined pursuant to this Part. The Flight Training will be provided at no additional charge to Buyer, except as otherwise provided herein.

All instruction, examinations and materials will be prepared and presented in the English language and in the units of measure used by Boeing.

Buyer will be responsible for the living expenses of Buyer's personnel during the Flight Training Program. For Flight Training provided at or near Seattle, Boeing will transport Buyer's personnel between their local lodging and the training facility.

2. Flight Training Program.

In conjunction with earlier sales to Buyer of aircraft of the same model type as the Aircraft, Boeing has provided to Buyer comprehensive flight training for such aircraft. If requested by Buyer at least 12 months prior to delivery of the first Aircraft, Boeing agrees to provide, if required, 1 classroom training class to acquaint up to 15 of Buyer's personnel with any operational, systems and performance differences significant to the operation of the Aircraft, between the first Aircraft scheduled for delivery pursuant to this Agreement and the last aircraft of the same model type as the aircraft previously delivered by Boeing to Buyer. Such course will be scheduled by mutual agreement of Boeing's and Buyer's flight training organizations.

3. Training Materials. Any training materials, if required, that are used in Flight Training shall be provided to Buyer at the conclusion of such class. No revision service shall be provided for such training materials.

4. Training at a Facility Other Than Boeing's.

If seasonably requested, Boeing will conduct the Flight Training at a mutually acceptable alternate training site, subject to the following conditions:

4.1 Buyer will be responsible for providing classroom space acceptable to Boeing, a flight simulator and training equipment required to present the Boeing courseware.

4.2 Buyer will pay Boeing's then-current per diem charge for each Boeing instructor for each day, or fraction thereof, such instructor is away from Seattle, including travel time.

4.3 Buyer will reimburse Boeing for round-trip transportation for Boeing's flight training instructors and materials between Seattle and such alternate site.

4.4 Buyer will pay, or reimburse Boeing for, all taxes, fees, duties, licenses, permits and similar expenses incurred by Boeing and its employees as a result of Boeing's providing the training at such alternate site.

4.5 Those portions of the training that require the use of Boeing's training devices, if any, will be conducted at Boeing-designated facilities.

PART D

TECHNICAL DATA AND DOCUMENTS

1. General.

Boeing will furnish to Buyer the data and documents set forth herein at no additional charge to Buyer, unless otherwise specified herein. Such data and documents will, where applicable, be prepared essentially in accordance with the provisions of Revision 29 excluding FRM/FIM/ to Air Transport Association of America Specification No. 100, dated June 1, 1956, entitled "Specification for Manufacturers' Technical Data," with the following specific exceptions: The Illustrated Parts Catalog, will be prepared essentially in accordance with the provisions of Revision 28. The Overhaul and Component Maintenance Manuals will be written to the ATA Revision level established for the airplane model the component was originally used on. Such data and documents are only intended to provide Buyer with pertinent information on components, equipment and installations designed by Boeing for aircraft of the same model type as the Aircraft. Such data and documents will be in English and in the units of measure used by Boeing, except as otherwise specified herein or as may be required to reflect Aircraft instrumentation.

Digitally-produced data and documents will, where applicable, be prepared essentially in accordance with the provisions of Revision 0 of Air Transport Association of America (ATA) Specification 2100, dated January 1994, entitled "Digital Data Standards for Aircraft Support."

2. Treatment of Data and Documents.

2.1 The data and documents provided by Boeing under this Agreement ("Documents") are licensed to Buyer. They contain confidential, proprietary and/or trade secret information belonging to Boeing; and Buyer will treat them in confidence and use and disclose them only for Buyer's own internal purposes as specifically authorized herein. If Buyer makes copies of any Documents, the copies will also belong to Boeing and be treated as Documents under this Agreement. Buyer will preserve all restrictive legends and proprietary notices on all Documents and copies.

2.2 All Documents will only be used: (a) for the purpose of maintenance, repair, or modification of an Aircraft or spare part as permitted in the Spare Parts GTA or Customer Services GTA between Buyer and Boeing, and then only in connection with an Aircraft or spare part for which the Document in question is tabulated or identified by Boeing serial number, and (b) for the purpose of Buyer's own development and manufacture of training devices for use by Buyer, in connection with the Aircraft.

2.3 Any Document may be provided to Buyer's contractors for maintenance, repair, or modification of the Aircraft; and Airplane Flight Manuals, Operations Manuals, Aircraft Maintenance Manuals, Wiring Diagram Manuals, System Schematics Manuals, Component Maintenance/Overhaul Manuals and assembly and installation drawings may be provided to Buyer's contractors for development and manufacture of training devices for use by Buyer, but in both cases, only if Buyer's contractor is, at the time of transfer of Documents, bound by a Boeing Customer Services GTA, or other appropriate proprietary information protection agreement with Boeing, applicable to the Documents.

3. Document Formats and Quantities.

The Attachment is provided to record the quantities and formats of Documents provided to Buyer which are applicable to aircraft previously delivered by Boeing of the same model type as the Aircraft. Revisions to such Documents will be provided as necessary to reflect the configuration, at time of delivery, of the Aircraft to which this Part applies. Space is provided in the Attachment for Buyer and Boeing to indicate changes, mutually agreed upon concurrently with signing this Agreement, in the quantities and formats of such Documents to be hereinafter provided.

In the event Boeing determines that revisions would not be appropriate for any of the Documents described in the Attachment, Boeing reserves the right to furnish to Buyer, in lieu of such revisions, a separate publication of such Document for the Aircraft in the same format and quantity as indicated in the Attachment. Revision service for such publication shall be the same as for the Document it replaces.

4. Revision Service.

Further revisions to any such Documents will be provided as set forth in the purchase agreement, purchase agreement supplement, or as may have been amended by the parties, for such aircraft.

5. Supplier Technical Data.

Boeing will continue to maintain the supplier data program referred to in the purchase agreement or purchase agreement supplement under which data and documents for Buyer's aircraft of the same model type as the Aircraft were originally provided to Buyer. As indicated in such prior purchase agreement or supplement, the provisions of such supplier data program are not applicable to items of Buyer Furnished Equipment.

6. Additional Data and Documents.

If Boeing provides data or documents other than Documents which are not covered by a Boeing Customer Services GTA or other proprietary information protection agreement between Boeing and Buyer, all such data and documents will be considered things delivered under this Agreement and treated as Documents.

7. Buyer's Shipping Address.

Boeing will ship the Documents furnished hereunder to Buyer's shipping address for data and documents previously provided to Boeing. Buyer shall promptly notify Boeing of any change to such address.

Attachment to
Part D
Page 1

WORKSHEET

ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
A.	FLIGHT OPERATIONS:			
1.	Airplane Flight Manual	22	51	Printed 1 Side
	NOTE: An additional copy is placed aboard each airplane at delivery as required by FAR's.			
2.	Operations Manual and Quick	5		Printed 2 Sides
	Reference Handbook	1		Diskette
3.	Weight and Balance Control and Loading Manual	2		Reproduced
4.	Dispatch Deviation	6		Printed 2 Sides
	Procedures Guide			
5.	Flight Crew Training Manual	12		Printed 2 Sides
6.	Performance Engineer's Manual	2		Printed 2 Sides
7.	Jet Transport Performance	0		Printed 2 Sides

	Methods (total quantity - all models)	--------	--------	
8.	FMC Supplemental Data Document	0	--------	Printed 2 Sides
9.	Operational Performance Software (OPS)			
	a. Inflight and Report Software	0	--------	Digital Magnetic Tape
		0	--------	Diskette, IBM Compatible 3.5 Inch (720KB or 1.44MB)
		0	--------	Diskette, Macintosh 3.5 Inch (800KB or 1.4MB)
	b. Airplane Performance Monitoring (APM/HISTRY) Software	0	--------	Digital Magnetic Tape
				Diskette, IBM Compatible:
		0	--------	3.5 Inch (720KB or 1.44MB)
		0	--------	5.25 Inch (360KB or 1.2MB) (737,747,757,767)
		0	--------	Diskette, Macintosh 3.5 Inch (800KB or 1.4MB)

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ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
	c. Takeoff Analysis Software	0	--------	Digital Magnetic Tape
				Diskette, IBM Compatible:
		0	--------	3.5 Inch (720KB or 1.44MB)
		0	--------	5.25 Inch (360KB or 1.2MB) (737,747,757,767)
		0	--------	Diskette, Macintosh 3.5 Inch (800KB or 1.4MB)
	d. Landing Analysis Software	0	--------	Digital Magnetic Tape
				Diskette, IBM Compatible:
		0	--------	3.5 Inch (720KB or 1.44MB)
		0	--------	5.25 Inch (360KB or 1.2MB) (737,747,757,767)
		0	--------	Diskette, Macintosh 3.5 Inch (800KB or 1.4MB)
10.	ETOPS Guide Vol. III (Operational Guidelines and Methods)/	2	--------	Printed 2 Sides
B.	MAINTENANCE			

1.	Aircraft Maintenance Manual	1		Printed 2 Sides
		0		Printed 1 Side
		40		Microfilm, 16mm Duplicate
		0		Microfilm, 16mm Master
		0		Digital Format
2.	Wiring Diagram Manual	1		35mm Aperture Cards of all Wiring Diagrams and Charts
		0		Standard Printed Copies of Entire Manual
		12		Standard Printed Copies of all

WORKSHEET

ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
		0		sections except EDP portion EDP portion in Microfilm, 16mm, Duplicate
		0		EDP portion in Microfilm, 16mm, Master
		14		Entire Manual, Microfilm, 16mm, Duplicate
		0		Entire Manual, Microfilm, 16mm, Master
		0		Digital Format
3.	System Schematics Manual	20		Printed 2 Sides
		0		35mm Aperture Cards
		10		Microfilm, 16mm, Duplicate
		0		Microfilm, 16mm, Master (737,747,757,767)
		0		Digital Format
4.	Connector Part Number Options Document	2		Printed 2 Sides
5.	Structural Repair Manual	5	30	Printed 2 Sides
		0		Printed 1 Side
		12		Microfilm, 16mm, Duplicate
		0		Microfilm, 16mm, Master

		--------	--------	
		0	--------	Magnetic Tape
				Text (Print File Format) Illustrations (CGM Format)
6.	Component Maintenance/ Overhaul Manuals	4	--------	Printed 2 Sides

WORKSHEET

ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
		6	--------	Microfilm, 16mm, Duplicate
		0	--------	Microfilm, 16mm, Master
		0	--------	Magnetic Tape
				Text (Print File Format) Illustrations (CGM Format)
7.	Chapter 20 Standard	0	--------	Printed 2 Sides
	Overhaul Practices Manual (total quantity - all models)	0	--------	Printed 1 Side
		12	--------	Microfilm, 16mm, Duplicate
		0	--------	Microfilm, 16mm, Master
8.	Chapter 20 Standard Wiring	5	--------	Printed 2 Sides
	Practices Manual (total quantity - all models)	25	--------	Microfilm, 16mm, Duplicate
		0	--------	Microfilm, 16mm, Master
9.	Nondestructive Test	0	--------	Printed 2 Sides
	Manual	0	--------	Printed 1 Side
		2	--------	Microfilm, 16mm, Duplicate
		0	--------	Microfilm, 16mm, Master

WORKSHEET

ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
		0		Magnetic Tape
				Text (Print File Format) Illustrations (CGM Format)
10.	Service Bulletins	2		Printed 2 Sides
11.	Service Bulletins Index	1		Printed 2 Sides
12.	Corrosion Prevention Manual	5		Printed 2 Sides
		0		Printed 1 Side
		0		Microfilm, 16mm, Duplicate
		0		Microfilm, 16mm, Master
		0		Magnetic Tape
				Text (Print File Format) Illustrations (CGM Format)

ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
13.	Fuel Measuring Stick Calibration Document	3/ A/C		Printed 1 Side
	Check One:			
	U. S. Gallons	X		
	Imperial Gallons			
	Pounds			
	Kilograms			
	Liters			

ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
14.	Power Plant Buildup Manual	10		Printed 2 Sides
		0		Printed 1 Side
		0		Microfilm (16mm) Duplicate
		0		Microfilm (16mm) Master

15.	FMS BITE Manual	25	--------	Printed 2 Sides
		0	--------	Microfilm, 16mm, Duplicate
		0	--------	Microfilm, 16mm, Master/

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ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
16.	In-Service Activity Report	2	--------	Printed 2 sides
17.	All Operator Letter	2	--------	Printed 1 or 2 sides
18.	Service Letters	3	--------	Printed 1 or 2 sides
19.	Structural Item Interim Advisory	2	--------	Printed 1 or 2 sides
20.	Maintenance Tips	2	--------	Printed 1 or 2 sides
21.	Combined Index	1	--------	Printed 2 sides
		1	--------	Digital Format
C.	MAINTENANCE PLANNING			
1.	Maintenance Planning Data Documents	3	--------	Printed 2 sides
		0	--------	Microfilm (16mm) Duplicate
		0	--------	Microfilm (16mm) Master
		0	--------	Digital Format
2.	Maintenance Task Cards	1	--------	Printed 1 Side
		0	--------	Microfilm (16mm) Duplicate
		0	--------	Microfilm (16mm) Master
		1	--------	Digital Format

WORKSHEET

ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
3.	Maintenance Task Card Index	1		Printed 2 sides
		0		Digital Format (777)
4.	Maintenance Inspection Intervals Report (total quantity - all models)	2		Printed 2 sides
D.	SPARES			
1.	Illustrated Parts Catalog (select one format only)	0		Printed 2 Sides
		0		Printed 1 Side
		35		Microfilm (16mm) Duplicate
		0		Microfilm (16mm) Master
2.	Standards Books			
	a. Index	0		Printed 2 Sides
		2		Microfilm (16mm) Duplicate
	b. Parts Standards	0		Printed 2 Sides
		2		Microfilm (16mm) Duplicate
	c. Parts Specifications	0		Printed 2 Sides
		2		Microfilm (16mm) Duplicate
	d. Standards for Repair	0		Printed 2 Sides
		1		Microfilm (16mm) Duplicate
	e. Obsolete Standards	0		Printed 2 Sides
		1		Microfilm (16mm) Duplicate

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ORIGINAL REVISED

ITEM	NAME	QUANTITY	QUANTITY	FORMAT
f.	Commercial Markers	0		Printed 2 Sides
		1		Microfilm (16mm) Duplicate
g.	Commercial Markers 737	0		Printed 2 Sides
		1		Microfilm (16mm) Duplicate
h.	Passenger Cabin Symbology (Commercial Placards)	0		Printed 2 Sides
		1		Microfilm (16mm) Duplicate
i.	Process Standards	0		Printed 2 Sides
		4		Microfilm (16mm) Duplicate
j.	Material Standards	0		Printed 2 Sides
		1		Microfilm (16mm) Duplicate
k.	Drafting Standards Practices	0		Printed 2 Sides
		1		Microfilm (16mm) Duplicate
l.	Specification Support Standards	0		Printed 2 Sides
		0		Microfilm (16mm) Duplicate
E.	FACILITIES AND EQUIPMENT PLANNING			
1.	Facilities and Equipment Planning Document	4		Printed 2 Sides
		0		Microfilm (16mm) Master (777)
2.	Special Tool and Ground Handling Equipment Drawings	1		Microfilm, (35mm) Duplicate in Aperture Card Format
3.	Special Tool and Ground Handling Equipment Drawings Index	2		Printed 2 Sides
4.	Supplementary Tooling Documentation (total quantity - all models)	1		Printed 2 Sides

WORKSHEET

ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
5.	System Test Equipment Document	2		Printed 1 Side
6.	Illustrated Tool and Equipment List/Manual	2		Printed 2 Sides
		0		Printed 1 Side
		1		Microfilm, 16mm, Duplicate

		0		Microfilm, 16mm, Master
7.	Aircraft Recovery Document	6		Printed 2 Sides
8.	Airplane Characteristics for Airport Planning	2		Printed 2 sides
9.	Airplane Rescue and Fire Fighting Document (total quantity - all models)	2		Printed 2 Sides
10.	Engine Handling Document	2		Printed 2 Sides
F.	Configuration, Maintenance and Procedures for Extended Range Operations Document/	2		Printed 2 Sides
G.	ETOPS Guide Vol. I (Configuration, Maintenance and Procedures Supplement)/	2		Printed 2 Sides
H.	ETOPS Guide Vol. II (Maintenance Programs Guidelines) (total quantity - all models)/	2		Printed 2 Sides
I.	Computer Software Index (total quantity - all models)	2		Printed 2 Sides

WORKSHEET

ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
J.	Supplier Technical Data			
	1. Service Bulletins	2		Printed
	2. Ground Support Equipment Data	4		Printed
	3. Provisioning Information	2		Printed
	4. Component Maintenance/ Overhaul Manuals	3		Printed
	5. Component Maintenance/ Overhaul Manuals Index (total quantity - all models)	5		Printed
	6. Publications Index	3		Printed
	7. Product Support Supplier Directory (total quantity -	1		Printed

all models)

PART E

BUYER'S INDEMNIFICATION OF BOEING AND INSURANCE

1. Buyer's Indemnification Of Boeing.

Buyer hereby indemnifies and holds harmless Boeing from and against all claims and liabilities, including costs and expenses (including attorneys' fees) incident thereto or incident to successfully establishing the right to indemnification, for injury to or death of any person or persons, including employees of Buyer but not employees of Boeing, or for loss of or damage to any property, including Aircraft, arising out of or in any way related to the performance by Boeing of training, services or other obligations pursuant to this Exhibit C, whether or not arising in tort or occasioned in whole or in part by the negligence of Boeing, whether active, passive or imputed.

1.1 With regard to training, services and obligations other than Revenue Service Training, the foregoing indemnification will not apply to the legal liability to persons or parties other than Buyer or Buyer's assignees arising out of an accident caused solely by a product defect in an Aircraft.

1.2 With regard to Revenue Service Training, the foregoing indemnification will apply to the legal liability to persons or parties other than Buyer or Buyer's assignees, even if arising out of an accident caused solely by a product defect in an Aircraft.

2. Buyer's Insurance.

Evidence of insurance will be required 30 days prior to the scheduled delivery of the first Aircraft. Accordingly, Buyer will provide certificates of insurance specifically referencing the Agreement and paragraph 1 of this Part E. In addition to showing policy number, limits of liability, and effective dates of coverage, such certificates will contain but not be limited to the following provisions:

2.1 Hull All Risk; Hull War & Allied Perils Insurance.

Insurers and/or reinsurers will hold harmless and waive all rights of subrogation against Boeing for any damages or claims arising out of these Exhibit C services.

2.2 Aircraft Liability Insurance.

(a) To name Boeing as an additional insured in connection with the performance by Boeing of training, services, or other obligations provided under this Exhibit C.

(b) To provide that the insurance arranged herein will be primary and without right of contribution with respect to any other insurance which may be available for the protection of Boeing.

(c) To provide that all provisions of the insurance, except the limits of liability, will operate to give each insured or additional insured the same protection as if there were a separate policy issued covering each insured or additional insured.

(d) To provide that no act, omission, breach of any warranty or condition, or misrepresentation on the part of the Insured or any other person or party (other than by Boeing) will void, exclude, minimize, or adversely change this coverage as it applies to Boeing.

2.3 For Coverages Specified in 2.1 and 2.2.

(a) Acknowledgment that the insurers and/or reinsurers are aware of and have seen a copy of the Agreement and accept and insure the risks and indemnity herein to the extent of the coverage and endorsements as described in this certificate.

(b) To give 30 day written notice of cancellation, termination or adverse material alteration of the policies (7 day written notice in the event of War Risk or such lesser period as may be in effect with prior notice).

(c) That Boeing will not be responsible for payment, set off, or assessment of any kind of any premiums in connection with the policies, endorsements or coverages described herein.

(d) For the purpose of this Part E, "Boeing" is defined as The Boeing Company, its divisions, subsidiaries, affiliates, the assignees of each and their respective directors, officers, employees and agents.

If more than one Aircraft is to be delivered under the Purchase Agreement, the insurance certificates must reference all Aircraft when delivered or separate certificates must be supplied for each Aircraft. The certificates of insurance will be kept current and valid.

PART F

Alleviation or Cessation of Performance

Boeing will not be required to provide any services, training, data or goods at a facility while:

1. a labor stoppage or dispute in progress involving Buyer exists;

2. wars or warlike operations, riots or insurrections in the country where such facility is located exist;

3. conditions at such facility which, in the opinion of Boeing, are detrimental to the general health, welfare or safety of its personnel and/or their families exist;

4. the United States Government refuses permission to any Boeing personnel or their families to enter the country where such facility is located, or recommends that any Boeing personnel or their families leave such country; or

5. the United States Government refuses Boeing permission to deliver goods or services to the country where such facility is located.

Boeing further reserves the right, upon the occurrence of any of such events, subsequent to the location of Boeing personnel at Buyer's facility, to immediately and without prior notice relocate its personnel and their families to a place of Boeing's choosing. Any delay resulting therefrom will be deemed a delay by mutual agreement.

CUSTOMER SUPPORT DOCUMENT

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Exhibit C-1 to Purchase Agreement Number 1954

Relating to

BOEING MODEL 737-790 AIRCRAFT

C-1

CUSTOMER SUPPORT DOCUMENT NO. TBD

Dated

Relating to

BOEING MODEL 737-790 AIRCRAFT

This Customer Support Document is Exhibit C-1 to and forms a part of Purchase Agreement No. 1954 between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Buyer) relating to the purchase of Boeing Model 737-790 aircraft. For purposes of this Exhibit C-1, Aircraft is defined as the Model 737-790 Aircraft. This Customer Support Document consists of the following parts:

PART A Boeing Maintenance Training Program

PART B Boeing Customer Support Services

PART C Boeing Flight Training Program

PART D Technical Data and Documents

PART E Buyer's Indemnification of Boeing and Insurance

PART F Alleviation or Cessation of Performance

C-1-I

PART A

BOEING MAINTENANCE TRAINING PROGRAM

1. General.

This Part describes the maintenance training to be provided by Boeing (Maintenance Training) at Boeing's training facility at or near Seattle. The Maintenance Training will be provided at no additional charge to Buyer, except as otherwise provided herein. If any part of the Maintenance Training is not used by Buyer prior to delivery of the first Aircraft, Boeing will not be obligated to provide such Maintenance Training at a later date, unless the parties have otherwise agreed in writing.

All instruction, examinations and materials shall be prepared and presented in the English language and in the units of measure used by Boeing.

Buyer will be responsible for the living expenses of Buyer's personnel during Maintenance Training. For Maintenance Training provided at or near Seattle, Boeing will transport Buyer's personnel between their local lodging and the training facility.

2. Maintenance Training Planning Conference.

No later than 12 months prior to delivery of Buyer's first Aircraft, Boeing and Buyer will conduct a planning conference in order to schedule and discuss the Maintenance Training.

3. Maintenance Training Program.

The Maintenance Training Program will (i) consist of classroom presentations supported by training materials and aids and (ii) if practicable, include an escorted tour of aircraft production areas and/or flight lines. The Maintenance Training will include the following courses:

3.1 Mechanical/Power Plant Systems Course.

This course provides mechanical instruction on the maintenance of the Aircraft and its systems, including engine systems. Electrical instruction, where necessary, will be provided in order to clarify mechanical system operation.

One class; up to 15 students.

3.2 Electrical Systems Course.

This course provides electrical instruction on the maintenance of the Aircraft and its systems, including engine systems. Mechanical instruction, where necessary, will be provided in order to clarify electrical system operation.

One class; up to 15 students.

3.3 Avionics Systems Course.

This course provides instruction on the maintenance of the Aircraft automatic flight control systems, communications and navigation systems. It is oriented to those personnel who specialize in trouble analysis and line maintenance on avionics systems.

One class; up to 15 students.

3.4 Aircraft Rigging Course.

This course provides instruction on aircraft rigging so as to provide Buyer's specialist personnel with the necessary information to rig all flight control surfaces, landing gear components, aircraft doors and engines. The conditions set forth in paragraph 4 below will be applicable with respect to Boeing's providing such course.

One class; up to 6 students at a mutually acceptable alternate facility.

3.5 Advanced Composite Repair Course.

This course provides instruction for Buyer's structural repair personnel and promotes understanding of the design philosophy, inspection and repair of advanced composite components.

One class; up to 8 students.

4. Training at a Facility Other Than Boeing's.

If requested prior to the conclusion of the Maintenance Training Planning Conference, Boeing will conduct the classroom training described above (except for the Advanced Composite Repair Course) at a mutually acceptable alternate training site, subject to the following conditions:

4.1 Buyer will be responsible for providing acceptable classroom space and training equipment required to present the Boeing courseware.

4.2 Buyer will pay Boeing's then-current per diem charge for each Boeing instructor for each day, or fraction thereof, such instructor is away from Seattle, including travel time.

4.3 Buyer will reimburse Boeing for round-trip transportation for Boeing's instructors and training materials between Seattle and such alternate training site.

4.4 Buyer will pay, or reimburse Boeing for, all taxes, fees, duties, licenses, permits and similar expenses incurred by Boeing and its employees as a result of Boeing's providing the training at such alternate site.

4.5 Those portions of training that require the use of Boeing's training devices shall be conducted at Boeing-designated facilities.

5. Supplier Training.

The Maintenance Training includes sufficient information on the location, operation and servicing of Aircraft equipment, accessories and parts provided by suppliers to support line maintenance functions.

If Buyer requires additional maintenance training with respect to any supplier-provided equipment, accessories or parts, Buyer will schedule such training directly with the supplier. If Buyer experiences difficulty in scheduling such training, Boeing will, if requested, assist Buyer in coordinating and scheduling such training.

6. Student Training Material.

No revision service will be provided for the material provided hereunder.

6.1 Manuals.

Boeing will provide at the beginning of each Maintenance Training course 1 copy of a training manual or equivalent for each student attending such course.

6.2 Panel Description/Component Locator Guide/Field Trip Checklist Manual.

Boeing will provide 1 copy of a Panel Description/Component Locator Guide/Field Trip Checklist Manual for each student in each applicable Maintenance Training course.

7. Other Training Material.

At the conclusion of the Maintenance Training Program, Boeing will provide to Buyer 1 set of the following training materials, as used in the full Aircraft systems courses. Revision service will not be provided for these materials.

7.1 Visual Aids.

7.1.1 Blackline 8-1/2 x 11-inch projection transparencies.

7.1.2 Full-scale instrument panel wall charts in the form of black and white copies and mylar reproducible copies.

7.1.3 Training slides.

7.2 Reproducible Masters.

8-1/2 x 11-inch prints suitable for black and white reproduction of all graphics and applicable text.

7.3 Video Programs.

Video programs on 3/4-inch U-matic or 1/2-inch VHS cassette formats in NTSC, PAL or SECAM standards, as selected by Buyer.

7.4 Computer-Based Training (CBT) Courseware.

CBT courseware, and instructions for courseware installation and operation.

7.5 Shipment of Materials.

The training materials described above will be shipped to Buyer 30 days after completion of the first class of each applicable Maintenance Training course.

7.6 Training Material - Aircraft Configuration.

The visual aids and reproducible masters (except training slides and CBT) described above will, at the conclusion of the shipments thereof, reflect the configuration of the first Aircraft as delivered to Buyer. CBT Courseware will reflect the major configuration of the first Aircraft delivered to Buyer.

8. Course Completion Records.

At the completion of the Maintenance Training, Boeing will provide Buyer with course completion records consisting of the following:

8.1 Master copies of all examinations given.

8.2 Attendance and examination records for each student.

8.3 Certificate of completion for each course each student successfully completes.

PART B

BOEING CUSTOMER SUPPORT SERVICES

1. General.

This Part describes the support services to be provided by Boeing at no additional charge to Buyer, unless otherwise specified herein. Except with respect to Field Services, the services described in this Part will be provided by Boeing during a period commencing with delivery of the first Aircraft and continuing so long as one Aircraft is regularly operated by Buyer in commercial air transport service.

2. Field Service Engineering.

Boeing will furnish field service representation to advise Buyer on maintenance and operation of the Aircraft (Field Services) as follows:

2.1 Field Services will be available to Buyer at or near Buyer's main maintenance or engineering facility for a period beginning prior to delivery of each Aircraft and terminating 12 months after delivery of each such Aircraft (Field Service Periods). If such Field Service Periods overlap, the Field Services will be provided concurrently.

2.2 Buyer will furnish at no charge to Boeing suitable office space and equipment that will include desks, chairs, file cabinets and an electrical power source in, or convenient to, Buyer's facility where each/any Boeing representative is providing Field Services. As required, Buyer will assist each representative providing Field Services with visas, work permits, customs, mail handling, identification passes, and local airport authorities.

2.3 In addition to the Field Services referred to above, the services of any Boeing field service representative will also be available to Buyer anywhere Buyer may land the Aircraft.

2.4 Boeing may, from time to time, provide additional support services in the form of Boeing personnel visiting Buyer's facilities to work with Buyer's personnel in an advisory capacity.

3. Additional Engineering Support Services.

Boeing will, if requested by Buyer in writing, provide technical advisory assistance with respect to the Aircraft and accessories, equipment and parts manufactured to Boeing's detailed design and installed in the Aircraft at the time of delivery. Such technical advisory assistance, which will be provided from Seattle, will include:

3.1 analysis of and comment on any Aircraft service or operational problem experienced by Buyer in order to determine the nature of the problem and its cause and to suggest possible solutions;

3.2 analysis of and comment on Buyer's engineering releases relating to structural repairs of the Aircraft not covered by Boeing's Structural Repair Manual; and

3.3 analysis of and comment on Buyer's engineering proposals for changes in, or replacement of, parts, accessories or equipment manufactured to Boeing's detailed design (excluding computer software embedded or included therein); provided that Boeing will not analyze or comment on any such change or replacement which constitutes a major structural change, nor on any engineering release related thereto, unless Buyer's request for such analysis and comment is accompanied by complete detailed drawings, substantiating data (including data, if any, required by applicable government agencies), all stress or other appropriate analysis, and a specific statement from Buyer of the kind of review and response desired by Buyer.

4. Special Services.

4.1 Facilities, Ground Equipment and Maintenance Planning Assistance.

Boeing will, at Buyer's request, send qualified Boeing engineering representatives to Buyer's main base to evaluate Buyer's technical facilities, tools and equipment for servicing and maintaining the Aircraft, to recommend changes where necessary and to assist in the formulation of Buyer's overall maintenance plan.

4.2 Additional Services.

Boeing may, at Buyer's request, provide additional special services with respect to the Aircraft after delivery, which services may include such items as Master Changes (Kits and/or Data), training, and maintenance and repair of the Aircraft. The provision of such additional services will be subject to (i) a mutually acceptable price, schedule and scope of work and (ii) Boeing's then-current standard contract therefor, including disclaimer and release, exclusion of consequential and other damages, and indemnification and insurance requirements.

4.3 Post-Delivery Aircraft Services.

If Boeing performs unanticipated work on an Aircraft after delivery of such Aircraft, but prior to its initial departure flight, or upon its return to Boeing's facilities prior to completion of such flight, the following provisions will apply:

4.3.1 Title to and risk of loss of any such Aircraft will at all times remain with Buyer.

4.3.2 The provisions of the Boeing Warranty set forth in Exhibit B of this Agreement will apply to such work.

4.3.3 Buyer will reimburse Boeing for such work to the extent not covered by the Boeing Warranty applicable to the Aircraft.

4.3.4 The disclaimer and release and Exclusion of Consequential and Other Damages provisions set forth in Article 12 of this Agreement and the indemnification and insurance provisions set forth in this Exhibit C will apply to such Boeing work.

4.3.5 In performing such work, Boeing may rely upon the commitment authority of Buyer's personnel requesting such work.

5. Additional Informational Services.

Boeing may, from time to time, provide Buyer with additional services in the form of information about the Aircraft or other aircraft of the same type, including information concerning design, manufacture, operation, maintenance, modification, repair and in-service experience.

PART C

BOEING FLIGHT TRAINING PROGRAM

1. General.

This Part describes the flight training to be provided by Boeing (Flight Training) at or near Seattle, or at some other location to be determined pursuant to this Part. The Flight Training will be provided at no additional charge to Buyer, except as otherwise provided herein.

All instruction, examinations and materials will be prepared and presented in the English language and in the units of measure used by Boeing.

Buyer will be responsible for the living expenses of Buyer's personnel during the Flight Training Program. For Flight Training provided at or near Seattle, Boeing will transport Buyer's personnel between their local lodging and the training facility.

2. Flight Training Differences Program.

In conjunction with earlier sales to Buyer of aircraft of the same model type as the Aircraft, Boeing has provided to Buyer comprehensive flight training for such aircraft. If requested by Buyer at least 12 months prior to delivery of the first Aircraft, Boeing agrees to provide, if required, 1 classroom training class to acquaint up to 4 cockpit crews of Buyer's personnel with any operational, systems and performance differences significant to the operation of the Aircraft, between the first Aircraft scheduled for delivery pursuant to this Agreement and the last aircraft of the same model type as the aircraft previously delivered by Boeing to Buyer. Such course will be scheduled by mutual agreement of Boeing's and Buyer's flight training organizations.

3. Student Training Material.

Student training material, in Boeing's then-standard format, will be provided to Buyer's personnel (1 set per student) as listed below. No revision service will be provided for the material provided hereunder.

Operations Manual
Quick Reference Handbook

4. Other Training Material.

At the conclusion of the Differences Flight Training, Boeing will provide 1 set of the following materials, as used in the Flight Training Program. Revision service will not be provided for these materials.

4.1 Computer Based Training (CBT).

Boeing will provide a copy of Boeing developed CBT materials used in the Flight Training Program. The CBT Courseware will reflect the major configuration of Buyer's first Aircraft. Buyer will require certain equipment and materials in order to use the CBT Program. Equipment and materials required to run the CBT Program will be procured by Buyer at Buyer's expense. The CBT materials provided include the following:

4.1.1 1 copy of lesson files supplied on CD-ROM disc.

4.1.2 1 paper copy of loading and operation instructions for installing the lessons on an MS-DOS compatible Personal Computer or File Server.

4.1.3 1 copy of the runtime software required to run the CBT lessons.

4.2 Full-Scale Color Instrument Panel Wall Charts.

5. Training at a Facility Other Than Boeing's.

If seasonably requested, Boeing will conduct the Flight Training at a mutually acceptable alternate training site, subject to the following conditions:

5.1 Buyer will be responsible for providing classroom space acceptable to Boeing, a flight simulator and

training equipment required to present the Boeing courseware.

5.2 Buyer will pay Boeing's then-current per diem charge for each Boeing instructor for each day, or fraction thereof, such instructor is away from Seattle, including travel time.

5.3 Buyer will reimburse Boeing for round-trip transportation for Boeing's flight training instructors and materials between Seattle and such alternate site.

5.4 Buyer will pay, or reimburse Boeing for, all taxes, fees, duties, licenses, permits and similar expenses incurred by Boeing and its employees as a result of Boeing's providing the training at such alternate site.

5.5 Those portions of the training that require the use of Boeing's training devices, if any, will be conducted at Boeing-designated facilities.

PART D

TECHNICAL DATA AND DOCUMENTS

1. General.

Boeing will furnish to Buyer the data and documents set forth herein at no additional charge to Buyer, unless otherwise specified herein. Such data and documents will, where applicable, be prepared essentially in accordance with the provisions of Revision 33 to Air Transport Association of America (ATA) Specification No. 100, dated June 1, 1956, entitled "Specification for Manufacturers' Technical Data," with the following specific exceptions: The Illustrated Parts Catalog will be prepared essentially in accordance with the provisions of Revision 28; the Overhaul and Component Maintenance Manuals will be written to the ATA Revision level established for the airplane model the component was originally used on. Such data and documents are only intended to provide Buyer with pertinent information on components, equipment and installations designed by Boeing for aircraft of the same model type as the Aircraft. Such data and documents will be in English and in the units of measure used by Boeing, except as otherwise specified herein or as may be required to reflect Aircraft instrumentation.

Digitally-produced data and documents will, where applicable, be prepared essentially in accordance with the provisions of Revision 0 of Air Transport Association of America (ATA) Specification 2100, dated January 1994, entitled "Digital Data Standards for Aircraft Support."

2. Treatment of Data and Documents.

2.1 The data and documents provided by Boeing under this Agreement ("Documents") are licensed to Buyer. They contain confidential, proprietary and/or trade secret information belonging to Boeing; and Buyer will treat them in confidence and use and disclose them only for Buyer's own internal purposes as specifically authorized herein. If Buyer makes copies of any Documents, the copies will also belong to Boeing and be treated as Documents under this Agreement. Buyer will preserve all restrictive legends and proprietary notices on all Documents and copies.

2.2 All Documents will only be used: (a) for the purpose of maintenance, repair, or modification of an Aircraft or spare part as permitted in the Spare Parts GTA or Customer Services GTA between Buyer and Boeing, and then only in connection with an Aircraft or spare part for which the Document in question is tabulated or identified by Boeing serial number, and (b) for the purpose of Buyer's own development and manufacture of training devices for use by Buyer, in connection with the Aircraft.

2.3 Any Document may be provided to Buyer's contractors for maintenance, repair, or modification of the Aircraft; and Airplane Flight Manuals, Operations Manuals, Aircraft Maintenance Manuals, Wiring Diagram Manuals, System Schematics Manuals, Component Maintenance/Overhaul Manuals and assembly and installation drawings may be provided to Buyer's contractors for development and manufacture of training devices for use by Buyer, but in both cases, only if Buyer's contractor is, at the time of transfer of Documents, bound by a Boeing Customer Services GTA, or other appropriate proprietary information protection agreement with Boeing, applicable to the Documents.

3. Document Formats and Quantities.

The Attachment is provided to record the quantities and formats of Documents provided to Buyer which are applicable to aircraft previously delivered by Boeing of the same model type as the Aircraft. Revisions to such Documents will be provided as necessary to reflect the configuration, at time of delivery, of the Aircraft to which this Part D applies. Space is provided in the Attachment for Buyer and Boeing to indicate changes, mutually agreed upon concurrently with signing this Agreement, in the quantities and formats of such Documents to be hereinafter provided.

In the event Boeing determines that revisions would not be appropriate for any of the Documents described in the Attachment, Boeing reserves the right to furnish to Buyer, in lieu of such revisions, a separate publication of such Document for the Aircraft in the same format and quantity as indicated in the Attachment. Revision service for such publication will be the same as for the document it replaces.

4. Revision Service.

Further revisions to any such documents will be provided as set forth in the original purchase agreement, purchase agreement supplement, or as may have been amended by the parties, for such aircraft.

5. Supplier Technical Data.

Boeing will continue to maintain the supplier data program referred to in the purchase agreement or purchase agreement supplement under which data and documents for Buyer's aircraft of the same model type as the Aircraft were originally provided to Buyer. As indicated in such prior purchase agreement or supplement, the provisions of such supplier data program are not applicable to items of Buyer Furnished Equipment.

6. Additional Data and Documents.

If Boeing provides data or documents other than Documents which are not covered by a Boeing Customer Services GTA or other proprietary information protection agreement between Boeing and Buyer, all such data and documents will be considered things delivered under this Agreement and treated as Documents.

7. Buyer's Shipping Address.

Boeing will ship the Documents furnished hereunder to Buyer's shipping address for data and documents previously provided to Boeing. Buyer shall promptly notify Boeing of any change to such address.

8. Data and Document Quantities.

Buyer and Boeing will jointly determine the quantities for the materials listed below no later than one year prior to the scheduled delivery of the first Model 737-790 Aircraft.

WORKSHEET

ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT

A.	FLIGHT OPERATIONS:			
1.	Airplane Flight Manual NOTE: An additional copy is placed aboard each airplane at delivery as required by FAR's.	--------	--------	Printed 1 Side
2.	Operations Manual and Quick Reference Handbook	--------	--------	Printed 2 Sides
3.	Weight and Balance Control and Loading Manual	--------	--------	Reproduced
4.	Dispatch Deviation Procedures Guide	--------	--------	Printed 2 Sides
5.	Flight Crew Training Manual	--------	--------	Printed 2 Sides
6.	Performance Engineer's Manual	--------	--------	Printed 2 Sides
7.	Fault Reporting Manual	--------	--------	Printed 2 Sides
B.	MAINTENANCE			
1.	Aircraft Maintenance Manual	--------	--------	Printed 2 Sides
		--------	--------	Printed 1 Side
		--------	--------	Microfilm, 16mm, Duplicate
		--------	--------	Microfilm, 16mm, Master
		--------	--------	Digital Format

WORKSHEET

ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
2.	Wiring Diagram Manual	--------	--------	Full-Size Mylar Reproducible of any Wiring Diagram or Chart on specific request therefor
		-------	-------	One set of 35mm Aperture Cards of all Wiring Diagrams and Charts
		--------	--------	Standard Printed Copies of Entire Manual
		--------	--------	Standard Printed Copies of all sections except EDP portion
				EDP portion in

		--------	--------	Microfilm, 16mm, Duplicate
		--------	--------	EDP portion in Microfilm, 16mm, Master
		--------	--------	Entire Manual, Microfilm, 16mm, Duplicate
		--------	--------	Entire Manual, Microfilm, 16mm, Master
		--------	--------	Digital Format

WORKSHEET

ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
3.	System Schematics Manual	--------	--------	Printed 2 Sides
		--------	--------	Full-Size Mylar Reproducibles of any page, upon specific request therefor
		--------	--------	35mm Aperture Cards
		--------	--------	Schematics, Microfilm, 16mm, Duplicate
		--------	--------	Microfilm, 16mm, Master
		--------	--------	Digital Format
4.	Electrical Connectors Options Document	--------	--------	Printed
5.	Fault Isolation Manual (if separate)	--------	--------	Printed 2 Sides or
		--------	--------	Microfilm, 16mm, Duplicate
		--------	--------	Microfilm, 16mm, Master
		--------	--------	Digital Format
6.	Structural Repair Manual	--------	--------	Printed 2 Sides
		--------	--------	Printed 1 Side
		--------	--------	Microfilm, 16mm, Duplicate
				Microfilm, 16mm,

--------	--------	Master
--------	--------	Digital Format

WORKSHEET

ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
7.	Component Maintenance/ Overhaul Manuals	--------	--------	Printed 2 Sides
		--------	--------	Microfilm, 16mm, Duplicate
		--------	--------	Microfilm, 16mm, Master
8.	Chapter 20 Standard Overhaul Practices Manual (total quantity - all models)	--------	--------	Printed 2 Sides
		--------	--------	Printed 1 Side
		--------	--------	Microfilm, 16mm, Duplicate
		--------	--------	Microfilm, 16mm, Master
9.	Chapter 20 Standard Wiring Practices Manual (total quantity - all models)	--------	--------	Printed 2 Sides
		--------	--------	Microfilm, 16mm, Duplicate
		--------	--------	Microfilm, 16mm, Master
		--------	--------	Digital Format
10.	Nondestructive Test Manual	--------	--------	Printed 2 Sides
		--------	--------	Printed 1 Side
		--------	--------	Microfilm, 16mm, Duplicate
		--------	--------	Microfilm, 16mm, Master
11.	Service Bulletins	--------	--------	Printed 2 Sides
12.	Service Bulletin Index	--------	--------	Printed 2 Sides

WORKSHEET

ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
13.	Corrosion Prevention Manual	--------	--------	Printed 2 Sides
		--------	--------	Printed 1 Side
		--------	--------	Microfilm, 16mm, Duplicate
		--------	--------	Microfilm, 16mm, Master
14.	Fuel Measuring Stick Calibration Document	--------	--------	Reproduced
15.	Power Plant Buildup Manual	--------	--------	Printed 2 Sides
		--------	--------	Printed 1 Side
		--------	--------	Microfilm, 16mm, Duplicate
		--------	--------	Microfilm, 16mm, Master
		--------	--------	Digital Format
16.	In-Service Activity Report	--------	--------	Printed
17.	Significant Service Item Summary	--------	--------	Printed
18.	All Operators Letters	--------	--------	Printed
19.	Service Letters	--------	--------	Printed
20.	Maintenance Tips	--------	--------	Printed
21.	FMS BITE Manual	--------	--------	Printed 2 Sides
		--------	--------	Microfilm, 16mm, Duplicate
		--------	--------	Microfilm, 16mm, Master
22.	Production Management Data Base (PMDB)	--------	--------	Digital Format
23.	Combined Index	--------	--------	Printed 2 Sides
		--------	--------	Digital Format

WORKSHEET

ITEM	NAME		ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
C.	MAINTENANCE PLANNING				
1.	Maintenance Planning Data Documents		--------	--------	Printed
2.	Maintenance Task Cards		--------	--------	Printed 1 Side
3.	Maintenance Inspection Intervals Report (total quantity - all models)		--------	--------	Printed
D.	SPARES				
1.	Illustrated Parts Catalog (select one format only)		--------	--------	Printed 2 Sides
			--------	--------	Printed 1 Side
			--------	--------	Microfilm (16mm)
			--------	--------	Microfilm (Silver Halide)
2.	Standards Books				
	a.	Index	--------	--------	Printed 2 Sides
			--------	--------	Microfilm
	b.	Parts Standards	--------	--------	Printed 2 Sides
			--------	--------	Microfilm
	c.	Parts Specifications	--------	--------	Printed 2 Sides
			--------	--------	Microfilm
	d.	Standards for Repair	--------	--------	Printed 2 Sides
			--------	--------	Microfilm
	e.	Obsolete Standards	--------	--------	Printed 2 Sides
			--------	--------	Microfilm
	f.	Commercial Markers	--------	--------	Printed 2 Sides
			--------	--------	Microfilm

WORKSHEET

ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
g.	Commercial Markers 737-790	--------	--------	Printed 2 Sides
		--------	--------	Microfilm
h.	Passenger Cabin Symbology (Commercial Placards)	--------	--------	Printed 2 Sides
		--------	--------	Microfilm
i.	Process Standards	--------	--------	Printed 2 Sides
		--------	--------	Microfilm
j.	Material Standards	--------	--------	Printed 2 Sides
		--------	--------	Microfilm
k.	Drafting Standards Practices	--------	--------	Printed 2 Sides
		--------	--------	Microfilm
l.	Specification Support Standards	--------	--------	Printed 2 Sides
		--------	--------	Microfilm
E.	FACILITIES AND EQUIPMENT PLANNING			
1.	Facilities and Equipment Planning Document	--------	--------	Printed 2 Sides
2.	Special Tool and Ground Handling Equipment Drawings Cards	--------	--------	Sets Aperture
		--------	--------	Sets Reproducible
		--------	--------	Sets Black & White Copies
3.	Special Tool and Ground Handling Equipment Drawings Index	--------	--------	Printed 2 Sides
4.	Supplementary Tooling Documentation (Total quantity - all models)	--------	--------	Printed 2 Sides
5.	System Test Equipment Document	--------	--------	Printed 1 Side

WORKSHEET

ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
6.	Illustrated Tool and Equipment Manual	--------	--------	Printed 2 Sides
		--------	--------	Printed 1 Side
		--------	--------	Microfilm, 16mm, Duplicate
		--------	--------	Microfilm, 16mm, Master
7.	Airplane Recovery Document	--------	--------	Printed 2 Sides
8.	Aircraft Rescue and Firefighting Document	--------	--------	Printed
9.	Engine Handling Document	--------	--------	Printed 2 Sides
F.	EROPS			
	Configuration, Maintenance and Procedures for Extended Range Operations Document	--------	--------	Printed 2 Sides
G.	COMPUTER SOFTWARE DOCUMENTATION FOR AIRBORNE COMPONENTS			
	Computer Software Index	--------	--------	Printed 2 Sides
H.	Supplier Technical Data Product Support Supplier Directory (total quantity - all models)	--------	--------	Printed

PART E

BUYER'S INDEMNIFICATION OF BOEING AND INSURANCE

1. Buyer's Indemnification Of Boeing.

Buyer hereby indemnifies and holds harmless Boeing from and against all claims and liabilities, including costs and expenses (including attorneys' fees) incident thereto or incident to successfully establishing the right to indemnification, for injury to or death of any person or persons, including employees of Buyer but not employees of Boeing, or for loss of or damage to any property, including Aircraft, arising out of or in any way related to the performance by Boeing of training, services or other obligations pursuant to this Exhibit C, whether or not arising in tort or occasioned in whole or in part by the negligence of Boeing, whether active, passive or imputed.

1.1 With regard to training, services and obligations other than Revenue Service Training, the foregoing indemnification will not apply to the legal liability to persons or parties other than Buyer or Buyer's assignees arising out of an accident caused solely by a product defect in an Aircraft.

1.2 With regard to Revenue Service Training, the foregoing indemnification will apply to the legal liability to persons or parties other than Buyer or Buyer's assignees, even if arising out of an accident caused solely by a product defect in an Aircraft.

2. Buyer's Insurance.

Evidence of insurance will be required 30 days prior to the scheduled delivery of the first Aircraft. Accordingly, Buyer will provide certificates of insurance specifically referencing the Agreement and paragraph 1 of this Part E. In addition to showing policy number, limits of liability, and effective dates of coverage, such certificates will contain but not be limited to the following provisions:

2.1 Hull All Risk; Hull War & Allied Perils Insurance.

Insurers and/or reinsurers will hold harmless and waive all rights of subrogation against Boeing for any damages or claims arising out of these Exhibit C services.

2.2 Aircraft Liability Insurance.

(a) To name Boeing as an additional insured in connection with the performance by Boeing of training, services, or other obligations provided under this Exhibit C.

(b) To provide that the insurance arranged herein will be primary and without right of contribution with respect to any other insurance which may be available for the protection of Boeing.

(c) To provide that all provisions of the insurance, except the limits of liability, will operate to give each insured or additional insured the same protection as if there were a separate policy issued covering each insured or additional insured.

(d) To provide that no act, omission, breach of any warranty or condition, or misrepresentation on the part of the Insured or any other person or party (other than by Boeing) will void, exclude, minimize, or adversely change this coverage as it applies to Boeing.

2.3 For Coverages Specified in 2.1 and 2.2.

(a) Acknowledgment that the insurers and/or reinsurers are aware of and have seen a copy of the Agreement and accept and insure the risks and indemnity herein to the extent of the coverage and endorsements as described in this certificate.

(b) To give 30 day written notice of cancellation, termination or adverse material alteration of the policies (7 day written notice in the event of War Risk or such lesser period as may be in effect with prior notice).

(c) That Boeing will not be responsible for payment, set off, or assessment of any kind of any premiums in connection with the policies, endorsements or coverages described herein.

(d) For the purpose of this Part E, "Boeing" is defined as The Boeing Company, its divisions, subsidiaries, affiliates, the assignees of each and their respective directors, officers, employees and agents.

If more than one Aircraft is to be delivered under the Purchase Agreement, the insurance certificates must reference all Aircraft when delivered or separate certificates must be supplied for each Aircraft. The certificates of insurance will be kept current and valid.

PART F

Alleviation or Cessation of Performance

Boeing will not be required to provide any services, training, data or goods at a facility while:

1. a labor stoppage or dispute in progress involving Buyer exists;

2. wars or warlike operations, riots or insurrections in the country where such facility is located exist;

3. conditions at such facility which, in the opinion of Boeing, are detrimental to the general health, welfare or safety of its personnel and/or their families exist;

4. the United States Government refuses permission to any Boeing personnel or their families to enter the country where such facility is located, or recommends that any Boeing personnel or their families leave such country; or

5. the United States Government refuses Boeing permission to deliver goods or services to the country where such facility is located.

Boeing further reserves the right, upon the occurrence of any of such events, subsequent to the location of Boeing personnel at Buyer's facility, to immediately and without prior notice relocate its personnel and their families to a place of Boeing's choosing. Any delay resulting therefrom will be deemed a delay by mutual agreement.

CUSTOMER SUPPORT DOCUMENT

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Exhibit C-2 to Purchase Agreement Number 1954

Relating to

BOEING MODEL 737-990 AIRCRAFT

C-2

CUSTOMER SUPPORT DOCUMENT NO. 1954-2

Dated ____________________

Relating to

BOEING MODEL 737-990 AIRCRAFT

____

This Customer Support Document is Exhibit C-2 to and forms a part of Purchase Agreement No. 1954 between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Buyer) relating to the purchase of Boeing Model 737-990 aircraft. For purposes of this Exhibit C-2, Aircraft is defined as the Model 737-990 Aircraft. This Customer Support Document consists of the following parts:

PART A	Boeing Maintenance Training Program
PART B	Boeing Customer Support Services
PART C	Boeing Flight Training Program
PART D	Technical Data and Documents
PART E	Buyer's Indemnification of Boeing and Insurance
PART F	Alleviation or Cessation of Performance

C-2-I

PART A

BOEING MAINTENANCE TRAINING PROGRAM

1. General.

This Part describes the maintenance training to be provided by Boeing (Maintenance Training) at Boeing's training facility at or near Seattle. The Maintenance Training will be provided at no additional charge to Buyer, except as otherwise provided herein. If any part of the Maintenance Training is not used by Buyer prior to delivery of the first Aircraft, Boeing will not be obligated to provide such Maintenance Training at a later date, unless the parties have otherwise agreed in writing.

All instruction, examinations and materials shall be prepared and presented in the English language and in the units of measure used by Boeing.

Buyer will be responsible for the living expenses of Buyer's personnel during Maintenance Training. For Maintenance Training provided at or near Seattle, Boeing will transport Buyer's personnel between their local lodging and the training facility.

2. Maintenance Training Planning Conference.

No later than 12 months prior to delivery of Buyer's first Aircraft, Boeing and Buyer will conduct a planning conference in order to schedule and discuss the Maintenance Training.

3. Maintenance Training Program.

The Maintenance Training Program will (i) consist of classroom presentations supported by training materials and aids and (ii) if practicable, include an escorted tour of aircraft production areas and/or flight lines. The Maintenance Training will include the following courses:

3.1 Mechanical/Power Plant Systems Course.

This course provides mechanical instruction on the maintenance of the Aircraft and its systems, including engine systems. Electrical instruction, where necessary, will be provided in order to clarify mechanical system operation.

One class; up to 15 students.

3.2 Electrical Systems Course.

This course provides electrical instruction on the maintenance of the Aircraft and its systems, including engine systems. Mechanical instruction, where necessary, will be provided in order to clarify electrical system operation.

One class; up to 15 students.

3.3 Avionics Systems Course.

This course provides instruction on the maintenance of the Aircraft automatic flight control systems, communications and navigation systems. It is oriented to those personnel who specialize in trouble analysis and line maintenance on avionics systems.

One class; up to 15 students.

3.4 Aircraft Rigging Course.

This course provides instruction on aircraft rigging so as to provide Buyer's specialist personnel with the necessary information to rig all flight control surfaces, landing gear components, aircraft doors and engines. The conditions set forth in paragraph 4 below will be applicable with respect to Boeing's providing such course.

One class; up to 6 students at a mutually acceptable alternate facility.

3.5 Advanced Composite Repair Course.

This course provides instruction for Buyer's structural repair personnel and promotes understanding of the design philosophy, inspection and repair of advanced composite components.

One class; up to 8 students.

4. Training at a Facility Other Than Boeing's.

If requested prior to the conclusion of the Maintenance Training Planning Conference, Boeing will conduct the classroom training described above (except for the Advanced Composite Repair Course) at a mutually acceptable alternate training site, subject to the following conditions:

4.1 Buyer will be responsible for providing acceptable classroom space and training equipment required to present the Boeing courseware.

4.2 Buyer will pay Boeing's then-current per diem charge for each Boeing instructor for each day, or fraction thereof, such instructor is away from Seattle, including travel time.

4.3 Buyer will reimburse Boeing for round-trip transportation for Boeing's instructors and training materials between Seattle and such alternate training site.

4.4 Buyer will pay, or reimburse Boeing for, all taxes, fees, duties, licenses, permits and similar expenses incurred by Boeing and its employees as a result of Boeing's providing the training at such alternate site.

4.5 Those portions of training that require the use of Boeing's training devices shall be conducted at Boeing-designated facilities.

5. Supplier Training.

The Maintenance Training includes sufficient information on the location, operation and servicing of Aircraft equipment, accessories and parts provided by suppliers to support line maintenance functions.

If Buyer requires additional maintenance training with respect to any supplier-provided equipment, accessories or parts, Buyer will schedule such training directly with the supplier. If Buyer experiences difficulty in scheduling such training, Boeing will, if requested, assist Buyer in coordinating and scheduling such training.

6. Student Training Material.

No revision service will be provided for the material provided hereunder.

6.1 Manuals.

Boeing will provide at the beginning of each Maintenance Training course 1 copy of a training manual or equivalent for each student attending such course.

6.2 Panel Description/Component Locator Guide/ Field Trip Checklist Manual.

Boeing will provide 1 copy of a Panel Description/Component Locator Guide/Field Trip Checklist Manual for each student in each applicable Maintenance Training course.

7. Other Training Material.

At the conclusion of the Maintenance Training Program, Boeing will provide to Buyer 1 set of the following training materials, as used in the full Aircraft systems courses. Revision service will not be provided for these materials.

7.1 Visual Aids.

7.1.1 Blackline 8-1/2 x 11-inch projection transparencies.

7.1.2 Full-scale instrument panel wall charts in the form of black and white copies and mylar reproducible copies.

7.1.3 Training slides.

7.2 Reproducible Masters.

8-1/2 x 11-inch prints suitable for black and white reproduction of all graphics and applicable text.

7.3 Video Programs.

Video programs on 3/4-inch U-matic or 1/2-inch VHS cassette formats in NTSC, PAL or SECAM standards, as selected by Buyer.

7.4 Computer-Based Training (CBT) Courseware.

CBT courseware, and instructions for courseware installation and operation.

7.5 Shipment of Materials.

The training materials described above will be shipped to Buyer 30 days after completion of the first class of each applicable Maintenance Training course.

7.6 Training Material - Aircraft Configuration.

The visual aids and reproducible masters (except training slides and CBT) described above will, at the conclusion of the shipments thereof, reflect the configuration of the first Aircraft as delivered to Buyer. CBT Courseware will reflect the major configuration of the first Aircraft delivered to Buyer.

8. Course Completion Records.

At the completion of the Maintenance Training, Boeing will provide Buyer with course completion records consisting of the following:

8.1 Master copies of all examinations given.

8.2 Attendance and examination records for each student.

8.3 Certificate of completion for each course each student successfully completes.

PART B

BOEING CUSTOMER SUPPORT SERVICES

1. General.

This Part describes the support services to be provided by Boeing at no additional charge to Buyer, unless otherwise specified herein. Except with respect to Field Services, the services described in this Part will be provided by Boeing during a period commencing with delivery of the first Aircraft and continuing so long as one Aircraft is regularly operated by Buyer in commercial air transport service.

2. Field Service Engineering.

Boeing will furnish field service representation to advise Buyer on maintenance and operation of the Aircraft (Field Services) as follows:

2.1 Field Services will be available to Buyer at or near Buyer's main maintenance or engineering facility for a period beginning prior to delivery of each Aircraft and terminating 12 months after delivery of each such Aircraft (Field Service Periods). If such Field Service Periods overlap, the Field Services will be provided concurrently.

2.2 Buyer will furnish at no charge to Boeing suitable office space and equipment that will include desks, chairs, file cabinets and an electrical power source in, or convenient to, Buyer's facility where each/any Boeing representative is providing Field Services. As required, Buyer will assist each representative providing Field Services with visas, work permits, customs, mail handling, identification passes, and local airport authorities.

2.3 In addition to the Field Services referred to above, the services of any Boeing field service representative will also be available to Buyer anywhere Buyer may land the Aircraft.

2.4 Boeing may, from time to time, provide additional support services in the form of Boeing personnel visiting Buyer's facilities to work with Buyer's personnel in an advisory capacity.

3. Additional Engineering Support Services.

Boeing will, if requested by Buyer in writing, provide technical advisory assistance with respect to the Aircraft and accessories, equipment and parts manufactured to Boeing's detailed design and installed in the Aircraft at the time of delivery. Such technical advisory assistance, which will be provided from Seattle, will include:

3.1 analysis of and comment on any Aircraft service or operational problem experienced by Buyer in order to determine the nature of the problem and its cause and to suggest possible solutions;

3.2 analysis of and comment on Buyer's engineering releases relating to structural repairs of the Aircraft not covered by Boeing's Structural Repair Manual; and

3.3 analysis of and comment on Buyer's engineering proposals for changes in, or replacement of, parts, accessories or equipment manufactured to Boeing's detailed design (excluding computer software embedded or included therein); provided that Boeing will not analyze or comment on any such change or replacement which constitutes a major structural change, nor on any engineering release related thereto, unless Buyer's request for such analysis and comment is accompanied by complete detailed drawings, substantiating data (including data, if any, required by applicable government agencies), all stress or other appropriate analysis, and a specific statement from Buyer of the kind of review and response desired by Buyer.

4. Special Services.

4.1 Facilities, Ground Equipment and Maintenance Planning Assistance.

Boeing will, at Buyer's request, send qualified Boeing engineering representatives to Buyer's main base to evaluate Buyer's technical facilities, tools and equipment for servicing and maintaining the Aircraft, to recommend changes where necessary and to assist in the formulation of Buyer's overall maintenance plan.

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4.2 Additional Services.

Boeing may, at Buyer's request, provide additional special services with respect to the Aircraft after delivery, which services may include such items as Master Changes (Kits and/or Data), training, and maintenance and repair of the Aircraft. The provision of such additional services will be subject to (i) a mutually acceptable price, schedule and scope of work and (ii) Boeing's then-current standard contract therefor, including disclaimer and release, exclusion of consequential and other damages, and indemnification and insurance requirements.

4.3 Post-Delivery Aircraft Services.

If Boeing performs unanticipated work on an Aircraft after delivery of such Aircraft, but prior to its initial departure flight, or upon its return to Boeing's facilities prior to completion of such flight, the following provisions will apply:

4.3.1 Title to and risk of loss of any such Aircraft will at all times remain with Buyer.

4.3.2 The provisions of the Boeing Warranty set forth in Exhibit B of this Agreement will apply to such work.

4.3.3 Buyer will reimburse Boeing for such work to the extent not covered by the Boeing Warranty applicable to the Aircraft.

4.3.4 The disclaimer and release and Exclusion of Consequential and Other Damages provisions set forth in Article 12 of this Agreement and the indemnification and insurance provisions set forth in this Exhibit C will apply to such Boeing work.

4.3.5 In performing such work, Boeing may rely upon the commitment authority of Buyer's personnel requesting such work.

5. Additional Informational Services.

Boeing may, from time to time, provide Buyer with additional services in the form of information about the Aircraft or other aircraft of the same type, including information concerning design, manufacture, operation, maintenance, modification, repair and in-service experience.

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PART C

BOEING FLIGHT TRAINING PROGRAM

1. General.

This Part describes the flight training to be provided by Boeing (Flight Training) at or near Seattle, or at some other location to be determined pursuant to this Part. The Flight Training will be provided at no additional charge to Buyer, except as otherwise provided herein.

All instruction, examinations and materials will be prepared and presented in the English language and in the units of measure used by Boeing.

Buyer will be responsible for the living expenses of Buyer's personnel during the Flight Training Program. For Flight Training provided at or near Seattle, Boeing will transport Buyer's personnel between their local lodging and the training facility.

2. Flight Training Differences Program.

In conjunction with earlier sales to Buyer of aircraft of the same model type as the Aircraft, Boeing has provided to Buyer comprehensive flight training for such aircraft. If requested by Buyer at least 12 months prior to delivery of the first Aircraft, Boeing agrees to provide, if required, 1 classroom training class to acquaint up to 4 cockpit crews of Buyer's personnel with any operational, systems and performance differences significant to the operation of the Aircraft, between the first Aircraft scheduled for delivery pursuant to this Agreement and the last aircraft of the same model type as the aircraft previously delivered by Boeing to Buyer. Such course will be scheduled by mutual agreement of Boeing's and Buyer's flight training organizations.

3. Student Training Material.

Student training material, in Boeing's then-standard format, will be provided to Buyer's personnel (1 set per student) as listed below. No revision service will be provided for the material provided hereunder.

Operations Manual
Quick Reference Handbook

4. Other Training Material.

At the conclusion of the Differences Flight Training, Boeing will provide 1 set of the following materials, as used in the Flight Training Program. Revision service will not be provided for these materials.

4.1 Computer Based Training (CBT).

Boeing will provide a copy of Boeing developed CBT materials used in the Flight Training Program. The CBT Courseware will reflect the major configuration of Buyer's first Aircraft. Buyer will require certain equipment and materials in order to use the CBT Program. Equipment and materials required to run the CBT Program will be procured by Buyer at Buyer's expense. The CBT materials provided include the following:

4.1.1 1 copy of lesson files supplied on CD-ROM disc.

4.1.2 1 paper copy of loading and operation instructions for installing the lessons on an MS-DOS compatible Personal Computer or File Server.

4.1.3 1 copy of the runtime software required to run the CBT lessons.

4.2 Full-Scale Color Instrument Panel Wall Charts.

5. Training at a Facility Other Than Boeing's.

If seasonably requested, Boeing will conduct the Flight Training at a mutually acceptable alternate training site, subject to the following conditions:

5.1 Buyer will be responsible for providing classroom space acceptable to Boeing, a flight simulator and

training equipment required to present the Boeing courseware.

5.2 Buyer will pay Boeing's then-current per diem charge for each Boeing instructor for each day, or fraction thereof, such instructor is away from Seattle, including travel time.

5.3 Buyer will reimburse Boeing for round-trip transportation for Boeing's flight training instructors and materials between Seattle and such alternate site.

5.4 Buyer will pay, or reimburse Boeing for, all taxes, fees, duties, licenses, permits and similar expenses incurred by Boeing and its employees as a result of Boeing's providing the training at such alternate site.

5.5 Those portions of the training that require the use of Boeing's training devices, if any, will be conducted at Boeing-designated facilities.

PART D

TECHNICAL DATA AND DOCUMENTS

1. General.

Boeing will furnish to Buyer the data and documents set forth herein at no additional charge to Buyer, unless otherwise specified herein. Such data and documents will, where applicable, be prepared essentially in accordance with the provisions of Revision 33 to Air Transport Association of America (ATA) Specification No. 100, dated June 1, 1956, entitled "Specification for Manufacturers' Technical Data," with the following specific exceptions: The Illustrated Parts Catalog will be prepared essentially in accordance with the provisions of Revision 28; the Overhaul and Component Maintenance Manuals will be written to the ATA Revision level established for the airplane model the component was originally used on. Such data and documents are only intended to provide Buyer with pertinent information on components, equipment and installations designed by Boeing for aircraft of the same model type as the Aircraft. Such data and documents will be in English and in the units of measure used by Boeing, except as otherwise specified herein or as may be required to reflect Aircraft instrumentation.

Digitally-produced data and documents will, where applicable, be prepared essentially in accordance with the provisions of Revision 0 of Air Transport Association of America (ATA) Specification 2100, dated January 1994, entitled "Digital Data Standards for Aircraft Support."

2. Treatment of Data and Documents.

2.1 The data and documents provided by Boeing under this Agreement ("Documents") are licensed to Buyer. They contain confidential, proprietary and/or trade secret information belonging to Boeing; and Buyer will treat them in confidence and use and disclose them only for Buyer's own internal purposes as specifically authorized herein. If Buyer makes copies of any Documents, the copies will also belong to Boeing and be treated as Documents under this Agreement. Buyer will preserve all restrictive legends and proprietary notices on all Documents and copies.

2.2 All Documents will only be used: (a) for the purpose of maintenance, repair, or modification of an Aircraft or spare part as permitted in the Spare Parts GTA or Customer Services GTA between Buyer and Boeing, and then only in connection with an Aircraft or spare part for which the Document in question is tabulated or identified by Boeing serial number, and (b) for the purpose of Buyer's own development and manufacture of training devices for use by Buyer, in connection with the Aircraft.

2.3 Any Document may be provided to Buyer's contractors for maintenance, repair, or modification of the Aircraft; and Airplane Flight

Manuals, Operations Manuals, Aircraft Maintenance Manuals, Wiring Diagram Manuals, System Schematics Manuals, Component Maintenance/Overhaul Manuals and assembly and installation drawings may be provided to Buyer's contractors for development and manufacture of training devices for use by Buyer, but in both cases, only if Buyer's contractor is, at the time of transfer of Documents, bound by a Boeing Customer Services GTA, or other appropriate proprietary information protection agreement with Boeing, applicable to the Documents.

3. Document Formats and Quantities.

The Attachment is provided to record the quantities and formats of Documents provided to Buyer which are applicable to aircraft previously delivered by Boeing of the same model type as the Aircraft. Revisions to such Documents will be provided as necessary to reflect the configuration, at time of delivery, of the Aircraft to which this Part D applies. Space is provided in the Attachment for Buyer and Boeing to indicate changes, mutually agreed upon concurrently with signing this Agreement, in the quantities and formats of such Documents to be hereinafter provided.

In the event Boeing determines that revisions would not be appropriate for any of the Documents described in the Attachment, Boeing reserves the right to furnish to Buyer, in lieu of such revisions, a separate publication of such Document for the Aircraft in the same format and quantity as indicated in the Attachment. Revision service for such publication will be the same as for the document it replaces.

4. Revision Service.

Further revisions to any such documents will be provided as set forth in the original purchase agreement, purchase agreement supplement, or as may have been amended by the parties, for such aircraft.

5. Supplier Technical Data.

Boeing will continue to maintain the supplier data program referred to in the purchase agreement or purchase agreement supplement under which data and documents for Buyer's aircraft of the same model type as the Aircraft were originally provided to Buyer. As indicated in such prior purchase agreement or supplement, the provisions of such supplier data program are not applicable to items of Buyer Furnished Equipment

6. Additional Data and Documents.

If Boeing provides data or documents other than Documents which are not covered by a Boeing Customer Services GTA or other proprietary information protection agreement between Boeing and Buyer, all such data and documents will be considered things delivered under this Agreement and treated as Documents.

7. Buyer's Shipping Address.

Boeing will ship the Documents furnished hereunder to Buyer's shipping address for data and documents previously provided to Boeing. Buyer shall promptly notify Boeing of any change to such address.

8. Data and Document Quantities.

Buyer and Boeing will jointly determine the quantities for the materials listed below no later than one year prior to the scheduled delivery of the first Model 737-990 Aircraft.

Attachment to
Part D

WORKSHEET

ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
A.	FLIGHT OPERATIONS:			
1.	Airplane Flight Manual	________	________	Printed 1 Side
	NOTE: An additional copy is placed aboard each airplane at delivery as required by FAR's.			
2.	Operations Manual and Quick Reference Handbook	________	________	Printed 2 Sides
3.	Weight and Balance Control and Loading Manual	________	________	
4.	Dispatch Deviation Procedures Guide	________	________	Printed 2 Sides
5.	Flight Crew Training Manual	________	________	Printed 2 Sides
6.	Performance Engineer's Manual	________	________	Printed 2 Sides
7.	Fault Reporting Manual	________	________	Printed 2 Sides
B.	MAINTENANCE			
1.	Aircraft Maintenance Manual	________	________	Printed 2 Sides
		________	________	Printed 1 Side
		________	________	Microfilm, 16mm, Duplicate
		________	________	Microfilm, 16mm, Master
		________	________	Digital Format

WORKSHEET

ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
2.	Wiring Diagram Manual	________	________	Full-Size Mylar Reproducible of any
				Wiring Diagram or Chart on specific request therefor
		________	________	One set of 35mm Aperture Cards of all Wiring Diagrams and Charts
		________	________	Standard Printed Copies of Entire Manual
		________	________	Standard Printed Copies of all sections

				except EDP portion
		________	________	EDP portion in Microfilm, 16mm, Duplicate
		________	________	EDP portion in Microfilm, 16mm, Master
		________	________	Entire Manual, Microfilm, 16mm, Duplicate
		________	________	Entire Manual, Microfilm, 16mm, Master
		________	________	Digital Format

WORKSHEET

ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
3.	System Schematics Manual	________	________	Printed 2 Sides
		________	________	Full-Size Mylar Reproducibles of any page, upon specific request therefor
		________	________	35mm Aperture Cards
		________	________	Schematics, Microfilm, 16mm, Duplicate
		________	________	Microfilm, 16mm, Master
		________	________	Digital Format
4.	Electrical Connectors Options Document	________	________	Printed
5.	Fault Isolation Manual	________	________	Printed 2 Sides or (if separate)
		________	________	Microfilm, 16mm, Duplicate
		________	________	Microfilm, 16mm, Master
		________	________	Digital Format
6.	Structural Repair Manual	________	________	Printed 2 Sides
		________	________	Printed 1 Side
		________	________	Microfilm, 16mm, Duplicate
		________	________	Microfilm, 16mm, Master
		________	________	Digital Format

WORKSHEET

ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
7.	Component Maintenance/ Overhaul Manuals	________	________	Printed 2 Sides
		________	________	Microfilm, 16mm, Duplicate
		________	________	Microfilm, 16mm, Master
8.	Chapter 20 Standard Overhaul Practices Manual (total quantity - all models)	________	________	Printed 2 Sides
		________	________	Printed 1 Side
		________	________	Microfilm, 16mm, Duplicate
		________	________	Microfilm, 16mm, Master
9.	Chapter 20 Standard Wiring Practices Manual (total quantity - all models)	________	________	Printed 2 Sides
		________	________	Microfilm, 16mm, Duplicate
		________	________	Microfilm, 16mm, Master
		________	________	Digital Format
10.	Nondestructive Test Manual	________	________	Printed 2 Sides
		________	________	Printed 1 Side
		________	________	Microfilm, 16mm, Duplicate
		________	________	Microfilm, 16mm, Master
11.	Service Bulletins	________	________	Printed 2 Sides
12.	Service Bulletin Index	________	________	Printed 2 Sides

WORKSHEET

ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
13.	Corrosion Prevention Manual	________	________	Printed 2 Sides
		________	________	Printed 1 Side
		________	________	Microfilm, 16mm, Duplicate
		________	________	Microfilm, 16mm, Master
14.	Fuel Measuring Stick Calibration Document	________	________	Reproduced
15.	Power Plant Buildup Manual	________	________	Printed 2 Sides
		________	________	Printed 1 Side
		________	________	Microfilm, 16mm, Duplicate
		________	________	Microfilm, 16mm, Master
				Digital Format

16.	In-Service Activity Report	________	________	Printed
17.	Significant Service Item Summary	________	________	Printed
18.	All Operators Letters	________	________	Printed
19.	Service Letters	________	________	Printed
20.	Maintenance Tips	________	________	Printed
21.	FMS BITE Manual	________	________	Printed 2 Sides
		________	________	Microfilm, 16mm, Duplicate
		________	________	Microfilm, 16mm, Master
22.	Production Management Data Base (PMDB)	________	________	Digital Format
23.	Combined Index	________	________	Printed 2 Sides
		________	________	Digital Format

WORKSHEET

ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
C.	MAINTENANCE PLANNING			
1.	Maintenance Planning Data Documents	________	________	Printed
2.	Maintenance Task Cards	________	________	Printed 1 Side
3.	Maintenance Inspection Intervals Report (total quantity - all models)	________	________	Printed
D.	SPARES			
1.	Illustrated Parts Catalog (select one format only)	________	________	Printed 2 Sides
		________	________	Printed 1 Side
		________	________	Microfilm (16mm)
		________	________	Microfilm (Silver Halide)
2.	Standards Books			
	a. Index	________	________	Printed 2 Sides
		________	________	Microfilm
	b. Parts Standards	________	________	Printed 2 Sides
		________	________	Microfilm
	c. Parts Specifications	________	________	Printed 2 Sides
		________	________	Microfilm
	d. Standards for Repair	________	________	Printed 2 Sides
		________	________	Microfilm
	e. Obsolete Standards			Printed 2 Sides

		________	________	
		________	________	Microfilm
f.	Commercial Markers	________	________	Printed 2 Sides
		________	________	Microfilm

WORKSHEET

ITEM	NAME		ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
	g.	Commercial Markers 737-990	________	________	Printed 2 Sides
			________	________	Microfilm
	h.	Passenger Cabin Symbology (Commercial Placards)	________	________	Printed 2 Sides
			________	________	Microfilm
	i.	Process Standards	________	________	Printed 2 Sides
			________	________	Microfilm
	j.	Material Standards	________	________	Printed 2 Sides
			________	________	Microfilm
	k.	Drafting Standards Practices	________	________	Printed 2 Sides
			________	________	Microfilm
	l.	Specification Support Standards	________	________	Printed 2 Sides
			________	________	Microfilm
E.	FACILITIES AND EQUIPMENT PLANNING				
1.	Facilities and Equipment Planning Document		________	________	Printed 2 Sides
2.	Special Tool and Ground Handling Equipment Drawings		________	________	Sets Aperture Cards
			________	________	Sets Reproducible
			________	________	Sets Black & White
			________	________	Copies
3.	Special Tool and Ground Handling Equipment Drawings Index		________	________	Printed 2 Sides
4.	Supplementary Tooling Documentation (Total quantity - all models)		________	________	Printed 2 Sides
5.	System Test Equipment Document		________	________	Printed 1 Side

WORKSHEET

ITEM	NAME	ORIGINAL QUANTITY	REVISED QUANTITY	FORMAT
6.	Illustrated Tool and Equipment Manual	________	________	Printed 2 Sides
		________	________	Printed 1 Side
		________	________	Microfilm, 16mm, Duplicate
		________	________	Microfilm, 16mm, Master
7.	Airplane Recovery Document	________	________	Printed 2 Sides
8.	Aircraft Rescue and Firefighting Document	________	________	Printed
9.	Engine Handling Document	________	________	Printed 2 Sides
F.	EROPS			
	Configuration, Maintenance and Procedures for Extended Range Operations Document	________	________	Printed 2 Sides
G.	COMPUTER SOFTWARE DOCUMENTATION FOR AIRBORNE COMPONENTS			
	Computer Software Index	________	________	Printed 2 Sides
H.	Supplier Technical Data			
	Product Support Supplier Directory (total quantity - all models)	________	________	Printed

PART E

BUYER'S INDEMNIFICATION OF BOEING AND INSURANCE

1. Buyer's Indemnification Of Boeing.

Buyer hereby indemnifies and holds harmless Boeing from and against all claims and liabilities, including costs and expenses (including attorneys' fees) incident thereto or incident to successfully establishing the right to indemnification, for injury to or death of any person or persons, including employees of Buyer but not employees of Boeing, or for loss of or damage to any property, including Aircraft, arising out of or in any way related to the performance by Boeing of training, services or other obligations pursuant to this Exhibit C, whether or not arising in tort or occasioned in whole or in part by the negligence of Boeing, whether active, passive or imputed.

1.1 With regard to training, services and obligations other than Revenue Service Training, the foregoing indemnification will not apply to the legal liability to persons or parties other than Buyer or Buyer's assignees arising out of an accident caused solely by a product defect in an Aircraft.

1.2 With regard to Revenue Service Training, the foregoing indemnification will apply to the legal liability to persons or parties other than Buyer or Buyer's assignees, even if arising out of an accident caused solely by a product defect in an Aircraft.

2. Buyer's Insurance.

Evidence of insurance will be required 30 days prior to the scheduled delivery of the first Aircraft. Accordingly, Buyer will provide certificates of insurance specifically referencing the Agreement and paragraph 1 of this Part E. In addition to showing policy number, limits of liability, and effective dates of coverage, such certificates will contain but not be limited to the following provisions:

2.1 Hull All Risk; Hull War & Allied Perils Insurance.

Insurers and/or reinsurers will hold harmless and waive all rights of subrogation against Boeing for any damages or claims arising out of these Exhibit C services.

2.2 Aircraft Liability Insurance.

(a) To name Boeing as an additional insured in connection with the performance by Boeing of training, services, or other obligations provided under this Exhibit C.

(b) To provide that the insurance arranged herein will be primary and without right of contribution with respect to any other insurance which may be available for the protection of Boeing.

(c) To provide that all provisions of the insurance, except the limits of liability, will operate to give each insured or additional insured the same protection as if there were a separate policy issued covering each insured or additional insured.

(d) To provide that no act, omission, breach of any warranty or condition, or misrepresentation on the part of the Insured or any other person or party (other than by Boeing) will void, exclude, minimize, or adversely change this coverage as it applies to Boeing.

2.3 For Coverages Specified in 2.1 and 2.2.

(a) Acknowledgment that the insurers and/or reinsurers are aware of and have seen a copy of the Agreement and accept and insure the risks and indemnity herein to the extent of the coverage and endorsements as described in this certificate.

(b) To give 30 day written notice of cancellation, termination or adverse material alteration of the policies (7 day written notice in the event of War Risk or such lesser period as may be in effect with prior notice).

(c) That Boeing will not be responsible for payment, set off, or assessment of any kind of any premiums in connection with the policies, endorsements or coverages described herein.

(d) For the purpose of this Part E, "Boeing" is defined as The Boeing Company, its divisions, subsidiaries, affiliates, the assignees of each and their respective directors, officers, employees and agents.

If more than one Aircraft is to be delivered under the Purchase Agreement, the insurance certificates must reference all Aircraft when delivered or separate certificates must be supplied for each Aircraft. The certificates of insurance will be kept current and valid.

PART F

Alleviation or Cessation of Performance

Boeing will not be required to provide any services, training, data or goods at a facility while:

1. a labor stoppage or dispute in progress involving Buyer exists;

2. wars or warlike operations, riots or insurrections in the country where such facility is located exist;

3. conditions at such facility which, in the opinion of Boeing, are detrimental to the general health, welfare or safety of its personnel and/or their families exist;

4. the United States Government refuses permission to any Boeing personnel or their families to enter the country where such facility is located, or recommends that any Boeing personnel or their families leave such country; or

5. the United States Government refuses Boeing permission to deliver goods or services to the country where such facility is located.

Boeing further reserves the right, upon the occurrence of any of such events, subsequent to the location of Boeing personnel at Buyer's facility, to immediately and without prior notice relocate its personnel and their families to a place of Boeing's choosing. Any delay resulting therefrom will be deemed a delay by mutual agreement.

BUYER FURNISHED EQUIPMENT PROVISIONS DOCUMENT

between

THE BOEING COMPANY

and

ALASKA AIRLINES

Exhibit E to Purchase Agreement Number 1954

BUYER FURNISHED EQUIPMENT PROVISIONS DOCUMENT

Dated ____________________________

Relating to

BOEING MODEL 737 AIRCRAFT

____

This Buyer Furnished Equipment Provisions Document is Exhibit E to and forms a part of Purchase Agreement No. 1954, between The Boeing Company (Boeing) and as Alaska Airlines, (Buyer) relating to the purchase of Boeing Model 737 aircraft.

(I)

BUYER FURNISHED EQUIPMENT PROVISIONS DOCUMENT

1. General.

Certain equipment to be installed in the Aircraft is furnished to Boeing by Buyer at Buyer's expense. This equipment is designated "Buyer Furnished Equipment" (BFE) and is listed in the Detail Specification.

1.1 New Generation Aircraft.

On or before October 1, 1998 for the Model 737-790 Aircraft and on or before September 30, 1999 for the Model 737-990 Aircraft, Boeing will provide to Buyer a BFE Requirements On-Dock/Inventory Document (BFE Document) or an electronically transmitted BFE Report which may be periodically revised, setting forth the items, quantities. On-dock dates and shipping instructions relating to the in sequence installation of BFE.

1.2 Current Generation Aircraft.

On or before October 1, 1996 for the Model 737-490 Aircraft, Boeing will provide to Buyer a BFE Requirements On-Dock/Inventory Document (BFE Document) or an electronically transmitted BFE Report which may be periodically revised, setting forth the items, quantities, on-dock dates and shipping instructions relating to the in sequence installation of BFE.

For planning purposes, a preliminary BFE on-dock schedule is set forth in the attachment to this Exhibit.

2. Supplier Selection.

Buyer will:

2.1 Select and notify Boeing of the suppliers of the following BFE items by the following dates:

Current Generation Aircraft:

Galley System	September 30, 1996

Seats (passenger)	September 30, 1996
New Generation Aircraft:	
Model 737-790	
Galley System	July 2, 1998
Seats (passenger)	February 6, 1998
Overhead and Audio System	February 6, 1998
Model 737-990	
Galley System	March 1, 1999
Seats (passenger)	October 1, 1998

Overhead and Audio
System October 1, 1998

2.2 Meet with Boeing and such selected BFE suppliers promptly after such selection to:

2.2.1 complete BFE configuration design requirements for such BFE; and

2.2.2 confirm technical data submittal dates for BFE certification.

3. Buyer's Obligations.

Buyer will:

3.1 comply with and cause the supplier to comply with the provisions of the BFE Document or BFE Report;

3.1.1 deliver technical data (in English) to Boeing as required to support installation and FAA certification in accordance with the schedule provided by Boeing or as mutually agreed upon during the BFE meeting referred to above;

3.1.2 deliver BFE including production and/or flight training spares to Boeing in accordance with the quantities and schedule provided therein; and

3.1.3 deliver appropriate quality assurance documentation to Boeing as required with each BFE part (D6-56586, "BFE Product Acceptance Requirements");

3.2 authorize Boeing to discuss all details of the BFE directly with the BFE suppliers;

3.3 authorize Boeing to conduct or delegate to the supplier quality source inspection and supplier hardware acceptance of BFE at the supplier location;

3.3.1 require supplier's contractual compliance to Boeing defined source inspection and supplier delegation programs, including availability of adequate facilities for Boeing resident personnel; and

3.3.2 assure that Boeing identified supplier's quality systems be approved to Boeing document D1-9000;

3.4 provide necessary field service representation at Boeing's facilities to support Boeing on all issues related to the installation and certification of BFE;

3.5 deal directly with all BFE suppliers to obtain overhaul data, provisioning data, related product support documentation and any warranty provisions applicable to the BFE;

3.6 work closely with Boeing and the BFE suppliers to resolve any difficulties, including defective equipment, that arise;

3.7 be responsible for modifying, adjusting and/or calibrating BFE as required for FAA approval and for all related expenses;

3.8 warrant that the BFE will meet the requirements of the Detail

Specification; and

3.9 be responsible for providing equipment which is FAA certifiable at time of Aircraft delivery, or for obtaining waivers from the applicable regulatory agency for non-FAA certifiable equipment.

4. Boeing's Obligations.

Other than as set forth below, Boeing will provide for the installation of and install the BFE and obtain certification of the Aircraft with the BFE installed.

5. Nonperformance by Buyer.

If Buyer's nonperformance of obligations in this Exhibit or in the BFE Document causes a delay in the delivery of the Aircraft or causes Boeing to perform out-of-sequence or additional work, Buyer will reimburse Boeing for all resulting expenses and be deemed to have agreed to any such delay in Aircraft delivery. In addition Boeing will have the right to:

5.1 provide and install specified equipment or suitable alternate equipment and increase the price of the Aircraft accordingly; and/or

5.2 deliver the Aircraft to Buyer without the BFE installed.

6. Return of Equipment.

BFE not installed in the Aircraft will be returned to Buyer in accordance with Buyer's instructions and at Buyer's expense.

7. Title and Risk of Loss.

Title to and risk of loss of BFE will at all times remain with Buyer or other owner. Boeing will have only such liability for BFE as a bailee for mutual benefit would have, but will not be liable for loss of use.

8. Indemnification of Boeing.

Buyer hereby indemnifies and holds harmless Boeing from and against all claims and liabilities, including costs and expenses (including attorneys' fees) incident thereto or incident to successfully establishing the right to indemnification, for injury to or death of any person or persons, including employees of Buyer but not employees of Boeing, or for loss of or damage to any property, including any Aircraft, arising out of or in any way connected with any nonconformance or defect in any BFE and whether or not arising in tort or occasioned in whole or in part by the active, passive or imputed negligence of Boeing. This indemnity will not apply with respect to any nonconformance or defect caused solely by Boeing's installation of the BFE.

9. Patent Indemnity.

Buyer hereby indemnifies and holds harmless Boeing from and against all claims, suits, actions, liabilities, damages and costs arising out of any actual or alleged infringement of any patent or other intellectual property rights by BFE or arising out of the installation, sale or use of BFE by Boeing.

10. Definitions.

For the purposes of the above indemnities, the term "Boeing" includes The Boeing Company, its divisions, subsidiaries and affiliates, the assignees of each, and their directors, officers, employees and agents.

Attachment A to
Exhibit E

BOEING MODEL 737-400 AIRCRAFT

Item	Preliminary On-Dock Dates	
	June, 1997 Aircraft	July, 1997 Aircraft
Seats	4/11/97	5/13/97
Galleys	4/8/97	5/8/97
Electronics	4/2/97	5/2/97
Furnishings	4/4/97	5/6/97
	July, 1997 Aircraft	January, 1998 Aircraft
Seats	5/15/97	11/3/97
Galleys	5/12/97	10/29/97
Electronics	5/6/97	10/24/97
Furnishings	5/8/97	10/23/97
	February, 1998 Aircraft	March, 1998 Aircraft
Seats	12/5/97	1/15/98
Galleys	12/2/97	1/12/98
Electronics	11/25/97	1/7/98
Furnishings	12/2/97	1/12/98

Attachment A to
Exhibit E

BOEING MODEL 737-400 AIRCRAFT

Item Preliminary On-Dock Dates

	April, 1998 Aircraft	May, 1998 Aircraft
Seats	2/12/98	3/31/98
Galleys	2/9/98	3/24/98
Electronics	2/4/98	2/12/98
Furnishings	2/9/98	2/16/98

	May, 1998 Aircraft	June, 1998 Aircraft
Seats	4/6/98	4/8/98
Galleys	3/30/98	4/1/98
Electronics	2/18/98	2/20/98
Furnishings	2/20/98	2/24/98

	June, 1998 Aircraft	July, 1998 Aircraft
Seats	4/16/98	5/8//98
Galleys	4/9/98	5/1/98
Electronics	3/2/98	3/26/98
Furnishings	3/4/98	3/30/98

Item	Preliminary On-Dock Dates	
	March, 1999 Aircraft	May 1999 Aircraft
Seats	1/8/99	3/5/99
Galleys	1/5/99	3/2/99
Electronics	12/21/98	2/24/99
Furnishings	1/4/99	3/1/99

	July, 1999 Aircraft	August 1999 Aircraft
Seats	5/7/99	6/7/99
Galleys	5/3/99	6/1/99
Electronics	3/12/99	4/14/99
Furnishings	4/30/99	5/28/99

	October, 1999 Aircraft
Seats	8/6/99
Galleys	8/2/99
Electronics	6/11/99
Furnishings	7/20/99

Attachment A to
Exhibit E

Item Preliminary On-Dock Dates

BOEING MODEL 737-900 AIRCRAFT

	April 2001 Aircraft	May 2001 Aircraft
Seats	2/1/2001	3/1/2001
Galleys	1/1/2001	2/1/2001
Electronics	12/1/2000	1/1/2001
Furnishings	2/1/2001	3/1/2001

	June 2001 Aircraft	August 2001 Aircraft
Seats	4/1/2001	4/1/2000
Galleys	3/1/2001	3/1/2000
Electronics	2/1/2001	2/1/2000
Furnishings	4/1/2001	4/1/2000

	February 2002 Aircraft	March 2002 Aircraft
Seats	12/1/2001	1/1/2002
Galleys	11/1/2001	12/1/2001
Electronics	10/1/2001	11/1/2001
Furnishings	12/1/2001	1/1/2002

Item	Preliminary On-Dock Dates	
	April 2002 Aircraft	May 2002 Aircraft
Seats	2/1/2002	3/1/2002
Galleys	1/1/2002	2/1/2002
Electronics	12/1/2001	1/1/2002
Furnishings	2/1/2002	3/1/2002

DEFINED TERMS DOCUMENT

between

THE BOEING COMPANY

and

ALASKA AIRLINES

Exhibit F to Purchase Agreement Number 1954

F

DEFINED TERMS DOCUMENT

Dated _______________________

Relating to

BOEING MODEL 737 AIRCRAFT

____

This Document is Exhibit F to and forms a part of Purchase Agreement No. 1954 (Agreement) between The Boeing Company (Boeing) and Alaska Airlines (Buyer) relating to the purchase of Boeing Model 737 aircraft.

The following is a list of those terms and their definitions as used and not otherwise defined in this Agreement. Such terms are identified in the Agreement by the use of an initial capital letter.

(I)

DEFINED TERMS DOCUMENT

EXHIBIT F TO AGREEMENT NO. 1954

TERM	DEFINITION	FIRST REFERENCE
Advance Payment Base Price	Boeing's estimate of the Aircraft Price is set forth in Article 3.	Article 3, Paragraph 3,4
Agreement	Purchase Agreement No. 1954, including all Exhibits, the Detail Specification, attachments, letter agreements and other written modifications and amendments thereto.	Opening paragraph of the Agreement
Aircraft (includes "the", "all", "first", "last" "such", etc.)	The aircraft described in Article 1, Para. 1.1.	Article 1, Para. 1.1
Aircraft Basic Price	The amount set forth in Article 3, Para. 3.1.1.4.	Article 3, Para. 3.1.1.4
Aircraft Price	The total amount Buyer is to pay for an Aircraft which is described in Article 3, Para. 3.1.1.6.	Article 3, Para. 3.1.1.6
Aircraft Software	The computer software included with the Aircraft when the Aircraft is delivered by Boeing, described in Exhibit B, Part D-1, Para. 1.	Exhibit B, Part D-1, Para 1
Airframe Component	A component described in Exhibit B, Part C, Para. 1.1	Exhibit B Part C Para. 1.1
Article	An Article of the Agreement.	Article 6, Para. 6.4
Base Airframe Price	The airframe price described in Article 3, Para. 3.1.1.2.	Article 3, Para. 3.1.1.2

TERM	DEFINITION	FIRST REFERENCE
Base Airplane Price	The airplane price described in Article 3, Para. 3.1.2.2	Article 3, Para. 3.1.2.2
Boeing	The Seller of the Aircraft identified in Opening paragraph of the Agreement the opening paragraph of the Agreement.	
Boeing Warranty	Part A of Exhibit B to the Agreement.	Exhibit B, Part A, Para. 1
Buyer	The purchaser of the Aircraft identified in the opening paragraph of the Agreement.	Opening paragraph of the Agreement
Buyer Furnished Equipment or BFE	Equipment provided by Buyer pursuant to Exhibit E for installation by Boeing on the Aircraft.	Article 4.2

Buyer Furnished Equipment Document	Document provided by Boeing to Buyer defining requirements for BFE. Exhibit E, Para. 1.	Article 13, Para. 13.1
Certificate of Airworthiness	The certificate issued by the FAA pursuant to Part 21 of the Federal Aviation Regulations for each of the Aircraft purchased under this Agreement as described in Article 8.	Article 8, Para. 8.1.1.2 (referred to therein as Standard Airworthiness Certificate)
Change Order	A change to the Detail Specification, as described in Article 7, Para. 7.2.	Article 7, Para. 7.2
Covered Component	An Airframe Component as described in Exhibit B, Part C, Para. 1.4.	Exhibit B Part C Para. 1.4
Current Generation Aircraft	Model 737-300, 737-400 or 737-500 aircraft	Article 1, Para. 1.1.1

TERM	DEFINITION	FIRST REFERENCE
Customer Services General Terms Agreement	Customer Services General Terms Agreement No. 90-2 between Boeing and Buyer	Letter Agreement No. 1954-4R1, Para. 4.6
Customer Support Document	Exhibit C and Exhibit C-1 to the Agreement.	Article 12, Para. 12.5
Customer Support Services	The Boeing services, training and other obligations described in Exhibit C and Exhibit C-1 to the Agreement.	Article 12, Para. 12.5
Deposit	The money paid by Buyer to Boeing as part of the acceptance of the Aircraft proposal.	Article 5, Para. 5.1
Detail Specification	The Boeing document that describes the specifications of the Aircraft modified from time to time to include developmental and Buyer requested changes.	Article 1, Para. 1.1
Development Change(s)	Changes to the basic specification that do not affect price, delivery, guaranteed weight, performance or interchangeability as described in Article 7, Para. 7.1.	Article 7, Para. 7.1
Disclaimer and Release	The Disclaimer and Release set forth in Article 12, Para. 12.2.	Article 12, Para. 12.2
Documents	The data and documents provided by Boeing under the Agreement.	Exhibit C, Part D Para. 2

TERM	DEFINITION	FIRST REFERENCE
Economic Price Adjustment	The adjustment to the Aircraft Basic Price as described in Article 3, Para. 3.1.1.5. and 3.1.2.4	Article 3, Para. 3.1.1.5
Engine(s)	The engines installed on the Aircraft as described in the Detail Specification.	Article 3, Para. 3.1.1.3
Engine Price	The price of the Engines installed on the Aircraft set forth in Exhibit D, including all accessories, equipment and parts therefor provided by the Engine manufacturer.	Article 3, Para. 3.1.1.3
Engine Price Adjustment	The adjustment to the Engine Price as required by Article 3, Para. 3.1.2, and as calculated pursuant to Exhibit D.	Exhibit D
Excusable Delay	A delay resulting from any of the causes described in Article 6, Para. 6.1.	Article 6, Para. 6.1

DEFINED TERMS DOCUMENT

EXHIBIT F TO AGREEMENT NO. 1954

TERM	DEFINITION	FIRST REFERENCE
FAA	The Federal Aviation Administration of the Department of Transportation of the United States, including the Administrator of the Federal Aviation Administration, the National Transportation Safety Board and any other authority or agency of the Federal Government of the United States having like jurisdiction.	Article 8, Para. 8.1.1
Failed Component	A component as described in Exhibit B, Part C, Para. 1.6.	Exhibit B Part C Para. 1.6
Failure	Any breakage or defect as described in Exhibit B, Part C, Para. 5.	Exhibit B Part C Para. 1.5
Federal Aviation Regulations	The United States Federal Aviation Regulations and, if they are redesignated or discontinued, any comparable regulations or parts thereof issued by the FAA.	Article 8, Para. 8.1.1.1
Field Service(s)	Boeing-provided services as described in Exhibit C and Exhibit C-1.	Exhibit C, Part B, Para. 2
Field Service Period	The length of time Boeing provides Field Service to Buyer as described in Exhibit C and Exhibit C-1.	Exhibit C, Part B, Para. 2.1
Flight Training Program	The program of flight training described in Exhibit C and Exhibit C-1.	Exhibit C, Part C, Para. 2

DEFINED TERMS DOCUMENT

EXHIBIT F TO AGREEMENT NO. 1954

TERM	DEFINITION	FIRST REFERENCE
Interface Problem	A technical problem attributed to the design characteristics of the Aircraft or its systems, as described in Exhibit B, Part G, Para. 1.	Exhibit B, Part G, Para. 1
Landing Gear Component	A component as described in Exhibit B, Part C, Para. 1.2.	Exhibit B Part C Para. 1.2
Maintenance Training Program	The program of training described in Exhibit C and Exhibit C-1.	Exhibit C, Part A, Para. 2
Manufacturer Change(s)	A change to the Aircraft or performance required of Boeing as described in Article 8, Para. 8.2.1.	Article 8, Para. 8.2.1
New Generation Aircraft	Model 737-600, 737-700, 737-800 or 737-900 Aircraft	Article 1, Para. 1.1.2
Operator Change(s)	A change to the Aircraft described in Article 8, Para. 8.3.1.	Article 8, Para. 8.3.1
Performance Guarantees	The written guarantees regarding the operational performance of the Aircraft set forth in the Agreement or the Detail Specification.	Article 1, Para. 1.3
Policy (Boeing Service Life Policy)	Exhibit B, Part C, Para. 2.	Exhibit B, Part C, Para. 2

DEFINED TERMS DOCUMENT

EXHIBIT F TO AGREEMENT NO. 1954

TERM	DEFINITION	FIRST REFERENCE
Product Assurance Document	Exhibit B of the Agreement.	Article 12, Para. 12.1
Revenue Service Training	Flight Training conducted on the Aircraft during revenue service with cargo and/or passengers on board.	Exhibit C, Part E, Para. 1.1
Spare Component	A component as described in Exhibit B, Part C, Para. 1.3.	Exhibit B Part C Para. 1.3
Special Features	Article 3, Para. 3.1.1.1, Para. 3.1.2.1	Article 3, Para. 3.1.1.1
Standard Airworthiness Certificate	A certificate issued by the FAA, pursuant to Part 21 of the Federal Aviation Regulations as described in Article 8, Para. 8.1.1.2.	Article 8, Para. 8.1.1.2
Target Delivery Date	A non binding estimated delivery date provided for Buyer's planning purposes, described in Article 2.	Article 2, Para. 2.2
Taxes	The term "Taxes" defined in Article 4, Para. 4.1.	Article 2, Para. 2.3
Type Certificate	A certificate issued by the FAA pursuant to Part 21 of the Federal Aviation Regulations described in Article 8, Para. 8.1.1.1.	Article 8, Para. 8.1.1.1

TERM	DEFINITION	FIRST REFERENCE
Warranty Labor Rate	The hourly labor rate defined in Exhibit B, Part B, Para. 5.3.	Exhibit B, Part B, Para. 5.3

1954-2R2

Alaska Airlines, Inc.
19300 Pacific Highway South
Seattle, Washington 98188

Subject: Letter Agreement No. 1954-2R2 to
Purchase Agreement No. 1954 -
Seller Purchased Equipment

This Letter Agreement amends Purchase Agreement No. 1954 dated as of even date herewith (the Agreement) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Buyer) relating to Model 737 aircraft (the Aircraft).

For purposes of this Letter Agreement the following definitions apply:

Seller Purchased Equipment (SPE) is Buyer Furnished Equipment (BFE) that Boeing purchases for Buyer.

Developmental Buyer Furnished Equipment (DBFE) is all BFE not previously certified for installation on the same model aircraft.

Developmental Seller Purchased Equipment (DSPE) is DBFE which is converted to SPE.

This Letter Agreement does not include developmental avionics. Developmental avionics are avionics that have not been previously certified for installation on the same model aircraft.

Boeing and Buyer acknowledge that there are no items of DBFE or DSPE in Buyer's detail specification D6-38900-1C dated August 29, 1996, nor will there be any such items in either Buyer's detail specification D019A001ASA37P-1, or in Buyer's detail specification D019A001ASA39P-1, each to be dated when issued (with the date of issue).

All other terms used herein and in the Agreement, and not defined above, will have the same meaning as in the Agreement.

Buyer has requested that Boeing purchase as SPE the BFE which has been changed to SPE as reflected in the Detail Specification. Accordingly, Boeing and Buyer agree as follows:

1. Price.

Advance Payments. An estimated SPE price will be included in the Aircraft Advance Payment Base Price for the purpose of establishing the advance payments for each Aircraft. The estimated price of the SPE for each Current Generation Aircraft as identified in the Detail Specification as of the date hereof, is *** The estimated price of the SPE for each Model 737-790 Aircraft as identified in the Detail Specification as of the date hereof, *** The estimated price of the SPE for each Model 737-990 Aircraft as identified in the Detail Specification as of the date hereof, ***

Aircraft Price. The Aircraft Price will be adjusted to reflect (i) the actual costs charged Boeing by the SPE suppliers, (ii) a handling fee of *** and (iii) transportation charges. If at some future date, Buyer's configuration is revised to include any DBFE and all DBFE, except for developmental avionics, is converted to SPE, Boeing will waive the handling fee for all SPE.

2. Responsibilities.

2.1 If Buyer elects to convert additional BFE to SPE, Buyer is responsible for:

(i) selecting the supplier on or before:

Current Generation Aircraft:

Not Applicable	for galleys
Not Applicable	for seats;

*** Confidential treatment has been requested pursuant to Section III.C of the request for confidential treatment dated March 11, 2003.

New Generation Aircraft:

Not Applicable for galleys
Not Applicable for seats;

(ii) selecting a FAA certifiable part; and

(iii) providing to Boeing the SPE part specification/Buyer requirements.

2.2. Boeing is responsible for:

(i) placing and managing the purchase order with the supplier;

(ii) coordinating with the suppliers on technical issues;

(iii) ensuring that the delivered SPE complies with the part specification;

(iv) obtaining certification of the Aircraft with the SPE installed; and

(v) obtaining for Buyer the supplier's standard warranty for the SPE. SPE is deemed to be BFE for purposes of Exhibit B, the Product Assurance Document, of the Agreement.

3. Changes.

After this Letter Agreement is signed, changes to SPE may only be made by and between Boeing and the suppliers. Buyer's contacts with SPE suppliers relating to design (including selection of materials and colors), weights, prices or schedules are for informational purposes only. If Buyer wants changes made to any of the above, requests must be made directly to Boeing for negotiating with the supplier.

4. Proprietary Rights.

Boeing's obligation to purchase SPE will not impose upon Boeing any obligation to compensate Buyer or any supplier for any proprietary rights Buyer may have in the design of the SPE.

5. Remedies.

If Buyer does not comply with the obligations above, Boeing may:

(i) delay delivery of the Aircraft;

(ii) deliver the Aircraft without installing the SPE;

(iii) substitute a comparable part and invoice Buyer for the cost;

(iv) increase the Aircraft Price by the amount of Boeing's additional costs attributable to such noncompliance.

6. Buyer's Indemnification of Boeing.

Buyer will indemnify and hold harmless Boeing from and against all claims and liabilities, including costs and expenses (including attorneys' fees) incident thereto or incident to successfully establishing the right to indemnification, for injury to or death of any person or persons, including employees of Buyer but not employees of Boeing, or for loss of or damage to any property, including Aircraft, arising out of or in any way connected with any nonconformance or defect in any SPE and whether or not arising in tort or occasioned in whole or in part by the negligence of Boeing, whether active, passive or imputed. This indemnity will not

apply with respect to any nonconformance or defect caused solely by Boeing's installation of the SPE. Very truly yours,

THE BOEING COMPANY

By

Its Attorney-In-Fact

ACCEPTED AND AGREED TO as of this

Date: , 1998

By

Its

Alaska Airlines, Inc.
19300 Pacific Highway South
Seattle, Washington 98188

Subject: Letter Agreement No. 1954-2R4 to
Purchase Agreement No. 1954 -
Option Aircraft

This Letter Agreement amends Purchase Agreement No. 1954 dated as of even date herewith (the Agreement) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Buyer) relating to Model 737 aircraft (Aircraft).

All terms not defined herein will have the same meaning as in the Agreement.

***

If the foregoing accurately reflects your understanding of the matters treated herein, please so indicate by signature below.

Very truly yours,

THE BOEING COMPANY

By

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: , 1998

By

Its

Attachments

*** Confidential treatment has been requested pursuant to Sections III.C. and III.D. of the request for confidential treatment dated March 11, 2003.

***

*** Confidential treatment has been requested pursuant to Sections III.C. and III.D. of the request for confidential treatment dated March 11, 2003.

***

*** Confidential treatment has been requested pursuant to Sections III.C. and III.D. of the request for confidential treatment dated March 11, 2003.

***

*** Confidential treatment has been requested pursuant to Sections III.C. and III.D. of the request for confidential treatment dated March 11, 2003.

***

*** Confidential treatment has been requested pursuant to Sections III.C.

and III.D. of the request for confidential treatment dated March 11, 2003.

Attachment A to
1954-2R4
Page 6

***

*** Confidential treatment has been requested pursuant to Sections III.C. and III.D. of the request for confidential treatment dated March 11, 2003.

Attachment A to
1954-3R4
Page 7

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*** Confidential treatment has been requested pursuant to Sections III.C. and III.D. of the request for confidential treatment dated March 11, 2003.

Attachment A to
1954-2R4
Page 8

***

*** Confidential treatment has been requested pursuant to Sections III.C. and III.D. of the request for confidential treatment dated March 11, 2003.

1954-4R2

Alaska Airlines, Inc.
19300 Pacific Highway South
Seattle, Washington 98188

Subject: Letter Agreement No. 1954-4R2 to
Purchase Agreement No. 1954 -
Spares Initial Provisioning

This Letter Agreement amends Purchase Agreement No. 1954 dated as of even date herewith (the Agreement) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Buyer) relating to Model 737 aircraft (the Aircraft).

All terms used herein and in the Purchase Agreement, and not defined herein, will have the same meaning as in the Agreement.

1. Applicability.

This letter will apply to initial provisioning for the Model 737 Aircraft covered by the Agreement.

2. Initial Provisioning Meeting.

Boeing will conduct an initial provisioning meeting (Initial Provisioning Meeting) with Buyer to establish mutually agreeable procedures to accomplish Buyer's initial provisioning of spare parts for the Aircraft. The parties will agree, during the Initial Provisioning Meeting on the operational data to be provided by Buyer for Boeing's use in preparing its quantity recommendations for initial provisioning of spare parts for the Aircraft, exclusive of special tools, ground support equipment, engines and engine parts (Provisioning Items). Such operational data to be provided by Buyer will be the data described in Section E of Boeing Manual

D6-49090, entitled "Initial Provisioning Implementation Manual, Boeing Model 757, 767, 777, 747-400 and 737-300, -400, -500 -700 and -900" (Boeing Initial Provisioning Implementation Manual) which will be furnished to Buyer prior to the Initial Provisioning Meeting. The parties will also agree on the provisioning documentation to be provided by Boeing. Such data will be essentially in accordance with the provisions of Chapter 1 of ATA International Specification 2000, Revision 1, dated April 20, 1989, as described in Boeing Initial Provisioning Implementation Manual D6-49090 (such data will be hereinafter referred to collectively as the "Provisioning Data"). Boeing will provide instruction in the use of the initial provisioning documentation. This instruction will be provided in conjunction with the Initial Provisioning Meeting. In addition, the parties will discuss spares ordering procedures and other matters related to the provisioning for the Aircraft. The time and location for such Initial Provisioning Meeting will be mutually agreed upon between the parties.

3. Initial Provisioning Documentation.

3.1 Provisioning Data. Boeing will furnish Provisioning Data to Buyer on or about September 20, 1996 for Current Generation Aircraft, on or about August 1, 1998 for Model 737-700 Aircraft and on or about June 20, 2000 for Model 737-900 Aircraft. The Provisioning Data will be as complete as possible and will cover Provisioning Items selected by Boeing for review by Buyer for initial provisioning for the Aircraft. The Provisioning Data will set forth the prices for Provisioning Items which are Boeing Spare Parts and such prices will be firm and remain in effect until the date or dates set forth in Paragraph 4.1, Boeing Spare Parts, by which orders must be placed with Boeing. Boeing will, from time to time, until a date approximately 90 days following delivery of the last Aircraft or until the delivery configuration of each of the Aircraft is reflected in the Provisioning Data,

whichever is later, furnish to Buyer revisions to the Provisioning Data.

3.2 Provisioning IPC. Boeing will, on or about September 20, 1996 for Current Generation Aircraft, on or about August 1, 1998 for Model 737-700 Aircraft and on or about June 20, 2000 for Model 737-900 Aircraft, furnish to Buyer a Boeing Illustrated Parts Catalog (IPC), hereinafter referred to as the "Provisioning IPC" for the applicable model aircraft. The Provisioning IPC will be as complete as possible and will cover Provisioning Items selected by Boeing for review by Buyer for initial provisioning for the applicable Aircraft. Boeing will, from time to time, until a date approximately 90 days following delivery of the last Aircraft, or until the delivery configuration of each of the Aircraft is reflected in the Provisioning IPC, whichever is later, furnish to Buyer revisions to the Provisioning IPC.

3.3 Buyer Furnished Equipment (BFE) Provisioning Data.

3.3.1 Boeing's Responsibility. Boeing will include BFE end items in the Provisioning Data and Provisioning IPC for BFE installed on Buyer's Aircraft provided such equipment has been installed on other Aircraft by Boeing and Boeing has data on the BFE.

3.3.2 Buyer's Responsibility. Buyer will be responsible for ensuring BFE data is provided to Boeing by the BFE supplier in a format acceptable to Boeing for BFE not covered by 3.3.1 above. If the data is not provided to Boeing in a timely manner and in a format acceptable to Boeing, such BFE equipment will not be included in Boeing's Provisioning Data or IPC.

3.4 Other Data. Boeing will submit to Buyer listings of Raw Materials, Standard Parts and Bulk Materials to be used by Buyer in the maintenance and repair of the Aircraft.

4. Purchase from Boeing of Spare Parts as Initial Provisioning for the Aircraft.

4.1 Boeing Spare Parts. Buyer will place orders for Provisioning Items by October 20, 1996 for Current Generation Aircraft, by October 1, 1998 for Model 737-700 Aircraft and by August 1, 2000 for Model

737-900 Aircraft; provided, however, that in those instances where Boeing submits any revision to the Provisioning Data or when Buyer does not receive the IPC when specified in paragraph 3.2 above, Buyer will place orders for Boeing Spare Parts covered by such revision (or IPC) within 60 days following the date of such submittal (or receipt). At Buyer's request, Boeing will process "controlled shipments" by shipping full or partial quantities of an order on a schedule specified by Buyer, provided the final shipment is made no later than 24 months after receipt of the order.

4.2 Vendor Provisioning Items. Buyer may place orders with Boeing for Provisioning Items which are manufactured by vendors or to their detailed design and are covered by the Provisioning Data as initial provisioning for the Aircraft. *** If Buyer elects to purchase such vendor Provisioning Items from Boeing, Buyer will place its orders therefor in accordance with the provisions of Paragraph 4.1, Boeing Spare Parts.

4.3 Ground Support Equipment and Special Tools. Buyer may place orders with Boeing for ground support equipment (GSE) and special tools manufactured by vendors which Buyer determines it will initially require for maintenance, overhaul and servicing of the Aircraft and/or engines. *** If Buyer elects to purchase such GSE and special tools from Boeing, Buyer will place its orders therefor by the date set forth in Paragraph 4.1, Boeing Spare Parts or such later date as the parties may mutually agree.

4.4 Spare Engines and Engine Spare Parts. Buyer may place orders with Boeing for spare engines and/or engine spare parts which Buyer determines it will initially require for support of the Aircraft or for maintenance and overhaul of the engines. *** If Buyer elects to purchase such spare engines or engine spare parts through Boeing, Buyer

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 11, 2003.

will place its orders on a date to be mutually agreed upon during the Initial Provisioning Meeting.

4.5 QEC Kits. Boeing will, on or about September 20, 1996 for Current Generation Aircraft, on or about June 1, 1998 for Model 737-700 Aircraft and on or about April 20, 2000 for Model 737-900 Aircraft, furnish to Buyer a listing of all components which could be included in the Quick Engine Change (QEC) kits which may be purchased by Buyer from Boeing. Buyer agrees to review such listing and indicate by marking on one copy of such listing those components that Buyer desires included in its QEC kits. Buyer will return such marked copy to Boeing within 30 days after Buyer's receipt of such listing.

Within 30 days after Boeing's receipt of such marked copy, Boeing will republish such listing to reflect only those components selected by Buyer and will provide copies of such republished listing to Buyer. Boeing will from time to time furnish revisions to such republished listing until a date approximately 90 days after delivery of the last QEC kit ordered by Buyer for the Aircraft. Boeing will furnish to Buyer as soon as practicable a statement setting forth a firm price for the QEC kit configuration selected by Buyer. Buyer agrees to place orders with Boeing for the QEC kits by October 20, 1996 for the Model 737-400 Aircraft, by August 1, 1998 for Model 737-700 Aircraft and by June 20, 2000 for Model 737-900 Aircraft.

4.6 Payment for Provisioning Items. The payment provisions of the Customer Services General Terms Agreement between Boeing and Buyer will be applicable to Provisioning Items ordered by Buyer from Boeing for the Aircraft.

5. Delivery.

Boeing will, insofar as reasonably possible, deliver to Buyer the Spare Parts ordered by Buyer in accordance with the provisions of this letter on dates reasonably calculated to conform to Buyer's anticipated needs in view of the scheduled deliveries of the Aircraft. Buyer and Boeing will agree upon the dates to begin delivery of Provisioning Spare Parts ordered in accordance with this letter. Where appropriate, Boeing will arrange for shipment of such Spare Parts, which are manufactured by vendors, directly to Buyer from the applicable vendor's facility. The routing and

method of shipment for initial deliveries and all subsequent deliveries of such Spare Parts will be as mutually agreed between Boeing and Buyer.

6. Substitution for Obsolete Spare Parts.

6.1 Obligation to Substitute. In the event that, prior to delivery of the first Aircraft of a particular model type (a 737-400, a 737-700, etc.) pursuant to the Agreement, any Spare Part purchased by Buyer from Boeing in accordance with this letter is rendered obsolete or unusable due to the redesign of the Aircraft of such model type, or of any accessory, equipment or part therefor, (other than a redesign at Buyer's request), Boeing will deliver to Buyer new and usable Spare Parts in substitution for such obsolete or unusable Spare Parts and Buyer will return the obsolete or unusable Spare Parts to Boeing. Boeing will credit Buyer's account with Boeing with the price paid by Buyer for any such obsolete or unusable Spare Part and will invoice Buyer for the purchase price of any such substitute Spare Part delivered to Buyer.

***

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 11, 2003.

***

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 11, 2003.

***

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 11, 2003.

***

9. Supplier Support.

Boeing has entered, or anticipates entering, into product support agreements with suppliers (Boeing Suppliers) of major system components manufactured by such Suppliers to be installed on the Aircraft (Supplier Components). Such product support agreements commit, or are expected to commit, the Boeing Suppliers to provide to Boeing's Buyers and/or the Buyer's designees support services with respect to the Supplier Components which can be reasonably expected to be required during the course of normal operation. This support includes but is not limited to shelf-stock of certain spare parts, emergency spare parts, timely delivery of spare parts, and technical data related to the Supplier Components. Copies of such product support agreements will be provided to Buyer on or about September 20, 1996 in Boeing Document D6-56115, Volumes 1 and 2 for Model 737-490 Aircraft and on or about September 1, 1998 in Boeing Document D6-56115 for Model 737-790 Aircraft and on or about July 1, 2000 for Model 737-990 Aircraft. In the event Buyer has used due diligence in attempting to resolve any difficulty arising in normal business transactions between Buyer and a Boeing Supplier with respect to product support for a Supplier Component manufactured by such Supplier and if such difficulty remains unresolved, Boeing will, if requested by Buyer, assist Buyer in resolving such difficulty. Assistance will be provided by the Spares Supplier Support and Data Management Organization within the Boeing Buyer Services Division.

***

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 11, 2003.

***

Very truly yours,

THE BOEING COMPANY

By

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: ___________________, 1998

ALASKA AIRLINES

By

Its

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 11, 2003.

Alaska Airlines, Inc.
19300 Pacific Highway South
Seattle, Washington 98188

Subject: Letter Agreement No. 1954-7R1
Purchase Agreement No. 1954 -
Additional Purchase Agreement Provisions

Gentlemen:

This Letter Agreement amends Purchase Agreement No. 1954 dated as of even date herewith (the Agreement) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Buyer) relating to Model 737-400 aircraft (the Aircraft).

All terms not defined herein have the same meaning as in the Agreement.

***

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 11, 2003.

***

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 11, 2003.

***

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 11, 2003.

***

If the foregoing accurately reflects your understanding of the matters treated herein, please so indicate by signature below.

Very truly yours,

THE BOEING COMPANY

By ____________________________

Its Attorney-In-Fact
____

ACCEPTED AND AGREED TO this

Date: ___________________, 1998

ALASKA AIRLINES, INC.

By ______________________________

Its ______________________________

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 11, 2003.

Alaska Airlines, Inc.
19300 Pacific Highway South
Seattle, Washington 98188

Subject: Letter Agreement No. 6-1162-DSF-348 to Purchase Agreement No. 1954 - Model 737-900 ***

This Letter Agreement amends Purchase Agreement No. 1954 (the Agreement) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Buyer) relating to the Model 737 aircraft (the Aircraft).

All terms used herein and in the Agreement, and not defined herein will have the same meaning as in the Agreement.

***

2. Confidential Treatment. Buyer understands that certain commercial and financial information contained in this Letter Agreement including any attachments hereto is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 11, 2003.

contained herein to any other person or entity except as provided in Letter Agreement 6-1162-DSF-005.

Very truly yours,

THE BOEING COMPANY

By ______________________________

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: ____________________, 1998

ALASKA AIRLINES, INC.

By ____________________________

Its ____________________________

***

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 11, 2003.

***

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 11, 2003.

Alaska Airlines, Inc.
19300 Pacific Highway South
Seattle, Washington 98188

Subject: Letter Agreement No. 6-1162-DSF-349
Purchase Agreement No. 1954
*** for Model 737-900 Aircraft

Reference is made to Purchase Agreement No. 1954 dated as of even date herewith (the Agreement) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Buyer) relating to the sale by Boeing and the purchase by Buyer of ten (10) Model 737-900 Aircraft.

This letter, when accepted by Buyer contemporaneously with the execution of the Agreement, will become part of the Agreement and will evidence our further agreement with respect to the matters set forth below.

All terms used herein and in the Agreement, and not defined herein, shall have the same meaning as the Agreement.

***

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 11, 2003.

***

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 11, 2003.

***

***

4. Confidential Treatment.

Buyer understands that certain commercial and financial information contained in this Letter Agreement, and any attachments hereto, is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity except as provided in Letter Agreement No. 6-1162-DSF-005.

If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated above, please indicate your acceptance and approval below.

Very truly yours,

THE BOEING COMPANY

By

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: , 1998

ALASKA AIRLINES, INC.

By

Its

***

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 11, 2003.

Attachment to
Letter Agreement No.
6-1162-DSF-349 Page 2

***

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 11, 2003.

Attachment to
Letter Agreement No.
6-1162-DSF-349 Page 3

***

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 11, 2003.

Attachment to
Letter Agreement No.
6-1162-DSF-349 Page 4

6-1162-DSF-352

Alaska Airlines
19300 Pacific Highway South
Seattle, Washington 98188

Subject: Letter Agreement No. 6-1162-DSF-352 to Purchase Agreement No. 1954 - *** - Letter of Intent - Model 737-900

This Letter Agreement amends Purchase Agreement No. 1954 (the Agreement) between The Boeing Company and Alaska Airlines, Inc. (Buyer) relating to the Model 737 aircraft (the Aircraft).

All terms herein and in the Agreement and not defined herein will have the same meaning as in the Agreement.

Boeing and Buyer do hereby agree to enter into negotiation to come to agreement on the *** at such time that Boeing and Buyer have data available to back up the agreement on the Model 737-900 Aircraft subject to the following terms:

1) Intent - ***

*** Confidential treatment has been requested pursuant to Section III.D of the request for confidential treatment dated March 11, 2003.

Alaska Airlines, Inc.
6-1162-DSF-352
Page 2

***

*** Confidential treatment has been requested pursuant to Section III.D of the request for confidential treatment dated March 11, 2003.

Alaska Airlines, Inc.
6-1162-DSF-352
Page 3

***

If the foregoing accurately reflects your understanding of the matters treated herein, please so indicate by signature below.

Very truly yours,

THE BOEING COMPANY

By

Its   Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: , 1998

ALASKA AIRLINES, INC.

By

Its

*** Confidential treatment has been requested pursuant to Section III.D of the request for confidential treatment dated March 11, 2003.

Attachment B to
Letter Agreement No. 6-1162-DSF-362
(16 Pages)

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Subject: Maintenance Cost Protection

Reference: Purchase Agreement @ (the Purchase Agreement) between The Boeing Company (Boeing) and # (Buyer) relating to Model * aircraft (the Aircraft)

This Letter Agreement amends the Purchase Agreement and Exhibit C of the AGTA. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement and AGTA.

1.   Intent.

The Airframe Maintenance Cost Protection Program described in this Letter Agreement (the Program) is intended to address Buyer's concerns regarding airframe maintenance costs. The Program is based on a projection by Boeing of target costs for airframe maintenance. These target costs are developed at the time of Aircraft purchase using Buyer's forecast of its operation of the Aircraft. Target costs will be adjusted during the Program to reflect Buyer's actual operation of the Aircraft. Buyer's actual costs will be compared against these adjusted target costs and Boeing will take corrective action if the Program targets are not met.

2. Definitions.

COVERED AIRCRAFT: Each of the Aircraft operated by Buyer on Buyer's routes during the Program Term.

PROGRAM TERM: The five (5) consecutive years commencing on the first day of the calendar quarter in which the first Covered Aircraft is delivered by Boeing to Buyer.

COVERED MAINTENANCE: Labor performed and materials used in the maintenance of the airframe and component elements of the Covered Aircraft (excluding Engines and Engine parts provided by the Engine manufacturer and the Engine manufacturer's suppliers) where the maintenance is performance as part of a maintenance program approved by Buyer's regulatory authority. These airframe and component elements are defined in the Air Transport Association of America (ATA), Specification No. 100, ("Specification for Manufacturer's Technical Data," dated 1984) as aircraft systems 5, 7 through 11, relevant sections of 12 and 20, 21 through 57, 71, and 73 through 80. All labor and materials must be properly charged to the following work descriptions:

SCHEDULED MAINTENANCE: All routine and required non-routine or corrective maintenance performed by Buyer during scheduled checks and line maintenance.

NON-SCHEDULED MAINTENANCE: All non-scheduled required maintenance.

REPAIR AND OVERHAUL: Any required repair or overhaul of rotable or repairable systems, accessories, equipment or parts.

MODIFICATIONS: Modifications required to make changes recommended by Boeing or Boeing Suppliers pursuant to paragraphs 4.3 and 5.1 herein.

ACTUAL MAINTENANCE COST: The total cost incurred by Buyer related to performing Covered Maintenance, and is the sum of three components; (i) the Direct Airframe Material Cost Component, (ii) the Direct Airframe Labor Cost Component, and (iii) the Subcontracted Airframe Cost Component.

DIRECT AIRFRAME MATERIAL COST COMPONENT (DIRECT MATERIAL): The net actual cost paid by Buyer for materials required to perform the Covered Maintenance, exclusive of those cost and/or other charges as set forth in paragraph 5.5 which may be added to the manufacturer's standard price.

DIRECT AIRFRAME LABOR COST COMPONENT (DIRECT LABOR): The product of:

(i) LABOR HOURS. The hours actually expended by Buyer in performing the Covered Maintenance, exclusive of time consumed by employees while waiting for work, traveling to or from work, training, vacation, sick leave, or in any other similar absences from the actual maintenance work,

and

(ii) LABOR RATE. The average direct hourly labor rate (excluding all fringe benefits, premium time allowances, social charges, business taxes and the like), paid to Buyer's employees who actually perform the Covered Maintenance.

SUBCONTRACTED AIRFRAME MAINTENANCE COST COMPONENT (SUBCONTRACTED Maintenance): The maintenance charges to Buyer for labor and materials where the maintenance is performed for Buyer by others, adjusted to Buyer's equivalent direct labor and material costs, and such adjusted amount is distributed to the material cost component and to the labor cost component

CUMULATIVE AVERAGE ACTUAL MAINTENANCE COST: The aggregate Actual Maintenance Cost for all then-completed Reporting Periods divided by the Fleet Hours for all such completed Reporting Periods.

REPORTING PERIOD: A twelve-month period beginning on either the date the Program Term commences or on an annual anniversary thereof.

FLEET HOURS: The total airborne time (aircraft takeoff-to-touchdown) accumulated by the Fleet during a Reporting Period.

FLEET: The number of Covered Aircraft operated by Buyer during a Reporting Period.

CUMULATIVE AVERAGE TARGET MAINTENANCE COST: For any Reporting Period, the sum of the products of the Target Maintenance Cost multiplied by the comparable Fleet Hours divided by the total Fleet Hours for all completed Reporting Periods.

TARGET MAINTENANCE COST: A dollar value per flight hour, which will be the sum of the Target Material Cost and Target Labor Cost for a Reporting Period.

3. Methodology.

3.1 General.

Because maintenance costs are influenced by a number of operational, economic, and financial factors, Boeing at this time can only project the Target Maintenance Costs. During the Program Term, Boeing will calculate Target Maintenance Costs using actual data on these factors when the data becomes available.

This Letter Agreement describes projected Target Maintenance Costs for each Reporting Period. These Target Maintenance Costs have been calculated using certain assumptions about Buyer's operation and maintenance of the Aircraft. Upon receipt of Buyer's actual data for these assumptions and information regarding Buyer's actual operation, Boeing will report Target Maintenance Costs for each Reporting Period to Buyer.

Boeing will also calculate and report to Buyer the Cumulative Average Target Maintenance Cost, which is the benchmark for Program compliance. If the Cumulative Average Actual Maintenance Cost exceeds 110% of the Cumulative Average Target Maintenance Cost, Boeing will take corrective action as defined in paragraph 4.3.

Buyer will report costs in Buyer's currency. All other costs related to the Program will be expressed in U.S. dollars.

3.2 Projected Target Maintenance Costs.

The Projected Target Maintenance Costs are estimates of the anticipated costs of maintaining the Covered Aircraft for a specified period of time, taking into account assumptions regarding projected average flight time, projected average yearly utilization, a projected labor rate and a projected proportion of airframe maintenance to be performed by subcontractors (Projected Target Maintenance Costs). Projected Target Maintenance Costs are established for each Reporting Period in year + dollars.

The Projected Target Maintenance Cost is the sum of a projected target material cost and a projected target labor cost. These values are based on a projected average time per flight for the Fleet of + hours (Projected Average Flight Time), and a projected Labor Rate of $ per man hour.

The calculation of Projected Target Maintenance Cost, expressed as a dollar value per flight hour, is based on the assumption that Subcontracted Maintenance will amount to no more than 10% of Covered Maintenance. Subcontracted Maintenance cost is allocated + % to the projected target labor cost and + % to the projected material cost.

Accordingly, Projected Target Maintenance Costs for each Reporting Period are as follows:

Reporting Period	Projected Target Labor Cost ($ per flt hr)	+	Projected Target Material Cost ($ per flt hr)	=	Projected Target Maint. Cost ($ per flt hr)
One	$	+	$	=	$
Two	$	+	$	=	$
Three	$	+	$	=	$
Four	$	+	$	=	$
Five	$	+	$	=	$

3.3 Target Maintenance Costs.

For each Reporting Period, Boeing will calculate Target Maintenance Costs by adjusting (as described in Attachment A) the Projected Target Maintenance Cost to reflect actual data for the following parameters:

(a) Buyer's labor rate,
(b) Percentage of Covered Maintenance which is subcontracted,
(c) Average flight time,
(d) Number of Covered Aircraft,
(e) Utilization of the Covered Aircraft,
(f) Delivery schedule of the Covered Aircraft,
(g) Material price inflation,
(h) Currency exchange rate.

Buyer will report data to Boeing for parameters (a) through (e), and Boeing will acquire data for parameters (f) through (h). For each Reporting Period, Boeing will calculate the Target Maintenance Costs and the Cumulative Average Target Maintenance Cost.

3.4 Actual Maintenance Costs.

For each Reporting Period, Buyer will report Actual Maintenance Costs incurred in performing Covered Maintenance for the Covered Aircraft. Actual Maintenance Costs will be reported for each of the four activities listed in paragraph 2.2, in three components (Direct Material, Direct Labor, and Subcontracted Maintenance):

(a) The component of airframe material cost incurred directly by Buyer (Direct Material);
(b) The component of airframe labor cost incurred directly by Buyer (Direct Labor); and
(c) The component airframe maintenance cost performed by others (Subcontracted Maintenance).

Boeing will adjust (as described in Attachment A) the Subcontracted Maintenance cost to equivalent direct Buyer labor and material cost levels. Such adjusted subcontracted maintenance will then be allocated to the Direct Labor And Direct Material components. The Actual Maintenance Costs will be the sum of such revised Direct Labor and Direct Maintenance cost components, and will be used along with Fleet Hours to calculate the Cumulative Average Actual Maintenance Cost as a dollar value per flight hour.

3.5 Program Compliance.

Compliance with the Program will be achieved if the Cumulative Average Actual Maintenance Cost does not exceed 110% of the Cumulative Average Target Maintenance Cost. If compliance is not achieved, Boeing will take corrective action as defined in paragraph 4.3.

4. Obligations.

4.1 Buyer's Obligation under the Program.

4.1.1 Buyer will report to Boeing within 90 days after the last day of each Reporting Period, the following data for that Reporting Period:

(a) Direct Labor costs,
(b) Direct Material costs,
(c) Subcontracted Maintenance costs,
(d) Buyer's direct Labor Rate per man-hour,
(e) The actual Average Flight Time per flight for the Fleet,
(f) The number of Covered Aircraft included in the Fleet,
(g) The Fleet Hours.

For Buyer's convenience, a form for reporting the above information is included as Exhibit A to this Letter Agreement.

Failure to provide these reports to Boeing within the 90 day period will constitute an acknowledgment by Buyer that the Program is in compliance. However, if the Program should subsequently become non-compliant, Buyer will, within 90 days after the last day of the applicable Reporting Period, report to Boeing the data identified above for all then-completed Reporting Periods of the Program Term.

4.1.2 If the Program is determined to be non-compliant, Buyer will, upon request, submit to Boeing sufficient information to allow Boeing:

(a) To verify cost elements of the Actual Maintenance Cost as defined in paragraph 3.4,

(b) To verify the Fleet, Fleet Hours, and the Actual Average Flight Time per flight,

(c) To analyze the problems causing such non-compliance,

(d) To develop, when required, appropriate remedial action.

4.1.3 All reports submitted to Boeing will be addressed to the attention of:

Director - Product Assurance Contracts
Boeing Commercial Airplane Group
P.O. Box 3707 Mail Stop 76-02
Fax: 206-237-1706
Seattle, Washington 98124-2207

4.2 Boeing's Obligation under the Program.

4.2.1 Boeing will report to Buyer within 30 days after receiving Buyer's report for each Reporting Period, the following data for that Reporting Period (see Exhibit B):

(a) Target Maintenance Cost,
(b) Cumulative Average Target Maintenance Cost,
(c) Actual Maintenance Cost (as adjusted for the amount of Subcontracted Maintenance),
(d) Cumulative Average Actual Maintenance Cost,
(e) Material price inflation factor,
(f) Currency exchange rate factor.

4.2.2 At Buyer's request, Boeing will provide Buyer sufficient information to verify the data described in paragraph 4.2.1 and the calculations used to produce that data.

4.2.3 All reports submitted to Buyer will be addressed to the attention of:

#
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~2
~3
~4

4.3 Corrective Action.

If the Program is non-compliant as defined in paragraph 3.5 and Buyer provides its reports to Boeing pursuant to paragraph 4.1, then Boeing will:

4.3.1.a. Investigate the circumstances and possible causes of the non-compliance, and

4.3.1.b. Provide technical assistance to Buyer in the form of analysis and recommendations of a kind and nature which Boeing determines to be best suited for reducing Actual Maintenance Cost.

4.3.2.a. If necessary, initiate a design review of the systems, accessories, equipment or parts determined by Boeing to be the primary cause of the non-compliance and, when in Boeing's judgment a redesign is indicated as a technically and economically practicable means of attaining Program compliance, Boeing will redesign or cause the redesign of such items, and

4.3.2.b. If such redesign results in retrofit kits being offered by Boeing or Boeing's suppliers, Boeing will provide such kits or cause such kits to be provided at no charge to Buyer. Boeing will also reimburse, at Boeing's then existing Warranty labor rate, Buyer's reasonable direct labor costs for incorporation of any such kit manufactured to Boeing's, or Boeing's supplier's, detailed design. Such reimbursement will be provided pursuant to Exhibit C, Product Assurance Document, of the AGTA.

5. Conditions and Limitations.

5.1 If, with the intent of reducing Covered Maintenance Costs, Boeing or any supplier issues service bulletins, service letters or other written instructions or offers no-charge retrofit kits, Buyer will comply with such instructions or install such kits within a period of 240 days after issuance of such instructions or receipt of such kits at Buyer's facility, or such longer period as may be mutually agreed by the parties. If Buyer does not comply with the time requirements of this paragraph, all airframe maintenance costs which Boeing determines would have been eliminated if such instructions or kits had been incorporated, will be subtracted from the Actual Maintenance Costs reported after expiration of such time requirements.

5.2 Buyer will promptly notify Boeing in writing of any variations in its maintenance cost accounting system or procedures which would affect the proper reporting of Actual Maintenance Costs. Boeing will have the right to make adjustments to the Cumulative Average Target Maintenance Cost to reflect the effect of any such variations.

5.3 Upon reasonable notice to Buyer, Boeing will have the right to audit all Actual Maintenance Costs reported by Buyer, as well as the maintenance practices and procedures related thereto during the Program Term. Boeing will also have the right to disapprove costs it deems improperly reported. Boeing will provide Buyer written notification of its disapproval of any such costs, and if Buyer does not provide proof that such costs are properly chargeable within 60 days after such notification, Boeing's disapproval will be deemed final and conclusive and Boeing may deduct such costs from the computation of Actual Maintenance Costs.

5.4 Upon reasonable notice to Buyer, Boeing may inspect Buyer's maintenance facilities, programs and procedures. If Boeing recommends in writing reasonable changes to Buyer's maintenance programs and procedures which would reduce Actual Maintenance Costs and Buyer does not implement such changes or Buyer delays implementing such changes beyond the period set forth in paragraph 5.1, Boeing will have the right to adjust the Actual Maintenance Costs that have been reported to deduct the increased maintenance costs which Boeing estimates resulted from Buyer's failure or delay in implementing such changes.

5.5 The Actual Maintenance Cost will not include the following:

(a) Costs arising from loss of, or damage to, any Covered Aircraft, or any system, accessory, equipment or part thereof.

(b) Any taxes, duties, tariffs, surcharges, transportation, insurance interest or overhead.

(c) The cost of initial or sustaining spare parts or the depreciation of such spare parts; costs resulting from any modification to the Covered Aircraft or any system, equipment, accessory or part thereof other than modifications described under paragraphs 4.3.2b and 5.1 herein.

(d) Costs resulting from the negligent acts or omissions of Buyer.

(e) Costs resulting from the failure to comply with Boeing's or Boeing's suppliers' applicable written instructions for the operation, service, maintenance or overhaul of any Covered Aircraft, or any system, accessory, equipment or part thereof.

(f) Costs attributable to loss of use, revenue or profit.

(g) Costs of consumable fluids, including fuel.

(h) Costs due to acts of God, war, armed hostilities, riots, fires, floods, earthquakes or serious accidents, Governmental acts or failure to act affecting materials, facilities or Aircraft needed for the maintenance of Covered Aircraft.

(i) Costs due to strikes or labor troubles causing cessation, slowdown or interruption of work related to the maintenance of Covered Aircraft.

(j) Costs resulting from failure of or delay in transportation or inability, after due and timely diligence, to procure materials, systems, accessories, equipment or parts needed for the maintenance of Covered Aircraft.

(k) Amounts for any part provided by Boeing or Boeing's suppliers to Buyer at no charge.

(l) Amounts equal to the difference between the reported price for any part and the reduced price for such part as provided by Boeing or Boeing's suppliers to Buyer.

(m) Amounts related to any warranty, maintenance cost guarantee, or similar agreement, for which there is a credit memorandum or other payment scheme, established in Buyer's favor, and issued by Boeing or Boeing's suppliers to Buyer.

5.6 The program will be suspended if during any Reporting Period the average utilization for the Covered Aircraft is less than the flight hour amounts shown in the table below:

AIRCRAFT MODEL	FLIGHT HOURS
737	2,000
747	3,000
757	2,000
767	2,500
777	2,800

The Program will resume on the first day of any subsequent Reporting Period during which the average utilization for the Covered Aircraft exceeds that set forth above. The Cumulative Average Reporting Cost as of any Reporting Period during the Program Term will exclude all Actual Maintenance Cost and Fleet Hours accumulated during any Reporting Period in which the program was suspended as provided above. The program will not be extended to reflect any period wherein it was suspended.

5.7 At Boeing's request, Buyer will assign to Boeing, any of Buyer's rights against the manufacturer of any equipment, accessory or part installed in the Covered Aircraft as Boeing may reasonably require to fulfill its obligations with respect to any corrective action provided by Boeing hereunder.

5.8 THIS LETTER AGREEMENT AND THE RIGHTS AND REMEDIES OF BUYER AND OBLIGATIONS OF BOEING HEREIN ARE SUBJECT TO THE DISCLAIMER AND RELEASE, AND EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES PROVISIONS OF EXHIBIT C, PRODUCT ASSURANCE DOCUMENT, OF THE AGTA.

6. Confidential Treatment.

Buyer understands that certain commercial and financial information contained in this Letter Agreement are considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity.

If the foregoing correctly sets forth your understanding of our agreement with respect to the matters treated above, please indicate your acceptance and approval below.

Very truly yours,

THE BOEING COMPANY

By

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: , 199+

#

By

Its

Attachment A - Adjustments

For each reporting period, Boeing will calculate Target Maintenance Costs by revising the Projected Target Maintenance Cost to reflect actual data for the following parameters:

Material Price Inflation

Material prices will be adjusted using Producer Price Indexes as defined below. The Target Material Cost for a Reporting Period will be calculated by multiplying the projected target material cost by the ratio of the average index for the Reporting Period to the index related to the projected target material cost.

The measure of material price inflation will be the Producer Price Index for "Aircraft Parts and Auxiliary Equipment, n.e.c." (Standard Industrial Classification Code 3728). This index will be obtained from the publication "Producer Prices and Price Indexes" published by the U.S. Department of Labor, Bureau of Labor Statistics or any comparable successor publication published by the U.S. Department of Labor, Bureau of Labor Statistics or any comparable successor agency.

Labor Cost

The projected target labor cost will be adjusted to reflect Buyer's actual Labor Cost. The Target Labor Cost will be calculated by multiplying the Projected Target Labor Cost by the ratio of Buyer's then-current Labor Rate to the Labor Rate used to calculate the projected target labor cost for that Reporting Period.

Airframe Maintenance Performed by Others (Subcontracted Maintenance)

The Projected Target Material Cost and Projected Target Labor Cost assume that Subcontracted Maintenance, will be no more than 10% of the Cumulative Average Reported Cost as of any reporting period. If Subcontracted Maintenance amounts to more than 10% of the Cumulative Average Actual Maintenance Cost as of any reporting period, Boeing reserves the right to revise the Target Material Cost and Target Labor Cost for that Reporting Period accordingly.

To adjust Subcontracted Maintenance to Buyer's equivalent direct labor and direct material costs, Subcontracted Maintenance will be reduced by _____ percent before it is distributed to Direct Labor and Direct Material.

Covered Aircraft

The Projected Target Maintenance Costs are based on the number of Covered Aircraft. If the number of Covered Aircraft changes during any Reporting Period, Boeing reserves the right to incorporate such change when calculating the Target Maintenance Costs for that Reporting Period.

Delivery Schedule

The Projected Target Maintenance Costs are based on the delivery schedule of Covered Aircraft as described in Article 2 of the Purchase Agreement. If the delivery schedule for the Covered Aircraft changes during any Reporting Period, Boeing reserves the right to incorporate such change when calculating the Target Maintenance Costs for that Reporting Period.

Average Flight Time

If the Actual Average Flight Time (AAFT) for any Reporting Period differs from the Projected Average Flight Time (PAFT) of ___ hours, the Target Material Cost (TMC) and Target Labor Cost (TLC) for that reporting period will be adjusted as follows:

TMC for AAFT = TMC for PAFT X

.65 +

AAFT .35

.65 +

PAFT .35

TLC for AAFT = TLC for PAFT X

.54 +

AAFT .46

.54 +

PAFT .46

Note: The adjustment formula set forth above is obtained from the publication "Airframe Maintenance Analysis of IATA PPM (Production Performance Measurements) Maintenance Cost Data".

Utilization

The Projected Target Maintenance Costs assume a Projected Average Yearly Utilization for the Covered Aircraft during any reporting period of _____ flight hours per aircraft. If the Average Yearly Utilization for the Covered Aircraft for any Reporting Period exceeds _____ flight hours or is less than _____ flight hours , Boeing reserves the right to incorporate such change when calculating the Target Maintenance Costs for that Reporting Period.

Currency Exchange Rate

The Actual Maintenance Costs and average Labor Rates reported by Buyer for any Reporting Period will be converted by Boeing from __________ to U.S. Dollars using the average of the four quarterly "rf" (period average) factors applicable to such Reporting Period ("Exchange Rate") as set forth in the publication "International Financial Statistics" published by the International Monetary Fund.

Target Maintenance Costs for any Reporting Period will be adjusted to reflect any differences between the Exchange Rate for such Reporting Period and the ________ to U.S. Dollar rate of __________, which was used to calculate the Projected Target Maintenance Costs (Projected Exchange Rate).

(Additional information regarding the publication "International Financial Statistics" may be obtained from: Publications Unit, International Monetary

Fund, Washington, D.C. 20431, U.S.A. or by calling U.S.A. Area Code (202) 623-7430.)

Covered Aircraft Configuration

The Target Maintenance Cost set forth in this Program is based on the configuration for the Covered Aircraft as set forth in Exhibit A to the Purchase Agreement. Such Target Maintenance Cost may be adjusted by Boeing to appropriately reflect any changes to the actual configuration of the Covered Aircraft at the time of delivery thereof to Buyer. Adjustments to such Target Maintenance Cost may also be made at any time during the Program Term to reflect any additional changes in the configuration of the Covered Aircraft.

To: Director - Product Assurance Contracts
Boeing Commercial Airplane Group
P.O. Box 3707 Mail Stop 76-02
Fax: 206-237-1706
Seattle, Washington 98124-2207

Subject: Letter Agreement No. ! to Purchase Agreement No. @
Airframe Maintenance Cost Protection Program

Reported herein are certain data required under paragraph 4.1.1 of the reference Letter Agreement.

Reporting Period No. _____
Beginning date _________ ending date _________

Currency of the costs shown below: _________

Actual Maintenance Costs	Direct Labor (total cost)	Direct Material (total cost)	Subcontracted Maintenance (total cost)
Scheduled Maintenance			
Non-Scheduled Maintenance			
Repair & Overhaul			
Modifications (ref. para. 4.3 & 5.1)			
Total			

The above labor costs are exclusive of time consumed by employees while waiting for work, traveling to or from work, training, vacation, sick leave, or in any other similar absences from the actual maintenance work. The above material costs exclude all costs described in paragraph 5 of the reference letter agreement.

Average per manhour Labor Rate	Average per flight Flight Time	Average number of Covered Aircraft	Total per aircraft Flight Hours

The above labor rate excludes all fringe benefits, premium time allowances, social charges, business taxes and the like.

#

By ---------------------------------- Date ----------------------------

Its ---------------------------------

To: #

Subject: Letter Agreement No. ! to Purchase Agreement No. @
Airframe Maintenance Cost Protection Program

Reported herein are certain data required under paragraph 4.2.1 of the reference Letter Agreement.

Reporting Period No. _____
Beginning date _________ ending date _________

Costs as reported by Buyer /in foreign currency/:

Actual Maintenance Costs	Direct Labor	Direct Material	Subcontracted Maintenance
Scheduled Maintenance			
Non-Scheduled Maintenance			
Repair & Overhaul Modifications			

Buyer's costs with adjusted Subcontracted Maintenance (per Attachment A of the reference Letter Agreement) /in U.S. dollars/.

Actual Maintenance Costs	Direct Labor	Direct Material	Subcontracted Labor	Subcontracted Material
Scheduled Maintenance				
Non-Scheduled Maintenance				
Repair & Overhaul				
Modifications Total				

Actual Costs and Target Costs (per Attachment A of the reference Letter Agreement) /in U.S. dollars/.

	Reporting Period 1	Reporting Period 2	Reporting Period 3	Reporting Period 4	Reporting Period 5
Year dollars					
Actual Labor					
Actual Material					
Actual Maintenance Cost					
Fleet Hours					
Cumulative Actual Maintenance Cost					
Number of Covered Aircraft					
Currency Exchange factor					
Per man-hour Labor Rate					
Material Inflation factor					
Average Flight Time					
Target Labor Cost					
Target Material Cost					
Target Maintenance Cost					
Cumulative Target Maintenance Cost					

As of this Reporting Period, the Program is in compliance:

Yes [ ] No [ ]

Very truly yours,

THE BOEING COMPANY

Reported by ___________________________________

Its ___________________________

Date ___________________________

Attachment A to
6-1162-DSF-352

*   *   *

*** CONFIDENTIAL TREATMENT HAS BEEN REQUESTED PURSUANT TO SECTION III.C OF THE REQUEST FOR CONFIDENTIAL TREATMENT DATED MARCH 11, 2003

6-1162-DSF-353

Alaska Airlines, Inc.
19300 Pacific Highway South
Seattle, Washington 98188

Subject: Letter Agreement No. 6-1162-DSF-353 to
Purchase Agreement No. 1954 - ***
Aircraft - Model 737-900

This Letter Agreement amends Purchase Agreement No. 1954 (the Agreement) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Buyer) relating to Model

737 Aircraft.

All terms used herein and in the Agreement and not defined herein will have the same meaning as in the Agreement.

***

*** Confidential treatment has been requested pursuant to Section___ of the request for confidential treatment dated March 11, 2003.

***

*** Confidential treatment has been requested pursuant to Section___ of the request for confidential treatment dated March 11, 2003.

***

*** Confidential treatment has been requested pursuant to Section___ of the request for confidential treatment dated March 11, 2003.

***

11. Confidential Treatment.

Buyer agrees not to disclose this Letter Agreement or any other information related to this Letter Agreement without prior written consent by Boeing.

Very truly yours,

THE BOEING COMPANY

By

Its

ACCEPTED AND AGREED TO as of this

date: _______________, 1998

ALASKA AIRLINES, INC.

By

Its

*** Confidential treatment has been requested pursuant to Section___ of the request for confidential treatment dated March 11, 2003.

Attachment to 6-1162-DSF-353

***

*** Confidential treatment has been requested pursuant to Section___ of the request for confidential treatment dated March 11, 2003.

6-1162-DSF-354

Alaska Airlines, Inc.
19300 Pacific Highway South
Seattle, Washington 98188

Subject: Letter Agreement No. 6-1162-DSF-354 to Purchase Agreement No. 1954 - Open Configuration Matters - Model 737-900 Aircraft

This Letter Agreement amends Purchase Agreement No. 1954 dated as of even date herewith (the Agreement) between The Boeing Company and Alaska Airlines, Inc. (Buyer) relating to Model 737 aircraft (the Aircraft).

All terms used herein and in the Agreement, and not defined herein, will have the same meaning as in the Agreement.

1. Aircraft Configuration.

1.1 Initial Configuration. The initial configuration of Buyer's Model 737-990 Aircraft has been defined by Boeing Model 737-900 Airplane Configuration Specification D019A001ASA39P-1 as described in Article 1 and Exhibit A-2 of the Purchase Agreement (the Aircraft Configuration). Given the long period of time between the Purchase Agreement signing and delivery of the first Aircraft, Customer may have the desire to incorporate certain configuration changes (Options) into the Aircraft Configuration.

1.2 Final Configuration Schedule. No later than October 1, 1998 , Boeing and Customer will discuss potential Options. By mid-January, 1999, Boeing will provide Customer with Option proposals for those configuration changes that can be incorporated in Aircraft production. By mid-February, 1999, Customer will accept or reject these Options.

2. Effect on Purchase Agreement.

2.1 Basic Specification. Changes applicable

to the basic Model 737-900 aircraft which are developed by Boeing between the date of signing of the Purchase Agreement and completion of the final configuration review described in paragraph 1.2 above will be incorporated into the Aircraft Configuration by written amendment.

2.2 Exhibit A-2. The effects of all Options which are mutually agreed upon between Boeing and Customer for incorporation into the Aircraft Configuration will be incorporated into Exhibit A-2 of the Purchase Agreement by written amendment.

***

2.4 Price Adjustments. The Aircraft Basic Price and Advance Payment Base Price of each Aircraft included the amount of United States Two Million, Four Hundred Eight Thousand Dollars ($2,408,000) (95$) as an estimate of the value of the Options which may be accepted and included in the final Aircraft Configuration. The Aircraft Basic Price and the Advance Payment Base Price of each Aircraft will be increased or decreased as required to reflect the difference between such estimate and the actual prices plus any required Seller Purchased Equipment, of the Options accepted by Customer.

3. Purchase Agreement Amendment.

Within 30 days after reaching agreement as to the final Aircraft Configuration, Boeing will provide Customer an amendment to the Purchase Agreement reflecting the effects of the configuration changes

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 11, 2003.

agreed to by the parties.

Very truly yours,

THE BOEING COMPANY

By

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: ____________________, 1998

ALASKA AIRLINES, INC.

By

Its

6-1162-DSF-005R2

Alaska Airlines, Inc.
19300 Pacific Highway South
Seattle, Washington 98188

Subject: Letter Agreement No. 6-1162-DSF-005R2 to
Purchase Agreement No. 1954 -
Disclosure of Confidential Information

This Letter Agreement amends Purchase Agreement No. 1954 dated as of even date herewith (the Agreement) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Buyer) relating to Model 737 aircraft (the Aircraft).

All terms used herein and in the Agreement, and not defined herein, will have the same meaning as in the Agreement.

1. Buyer understands that certain commercial and financial information contained in the documents listed below (Confidential Documents) is considered by Boeing as confidential.

2. Buyer agrees that it will treat the Confidential Documents and the information contained therein as confidential and will not, without the prior written consent of Boeing, disclose such Confidential Documents or any information contained therein to any other person or entity except as may be required by (i) applicable law or governmental regulations, or (ii) for financing the Aircraft in accordance with the provisions of Article 10 of the Agreement.

3. In connection with any such disclosure or filing of the Confidential Documents, or the information contained therein pursuant to any such applicable law or governmental regulation, Buyer will request and use its best reasonable efforts to obtain confidential treatment of such Confidential Documents and the information contained therein. Boeing agrees to cooperate with Buyer in making and supporting its request for confidential treatment.

Schedule of Confidential Documents

NOTE: This schedule shall include all revised versions of each of the listed Letter Agreements.

1. Letter Agreement No. 6-1162-DSF-003.
2. Letter Agreement No. 6-1162-DSF-004.
3. Letter Agreement No. 6-1162-DSF-005.
4. Letter Agreement No. 6-1162-DSF-006.
5. Letter Agreement No. 6-1162-DSF-008.
6. Letter Agreement No. 6-1162-DSF-009.
7. Letter Agreement No. 6-1162-DSF-012.

8. Letter Agreement No. 6-1162-DSF-016.
9. Letter Agreement No. 6-1162-DSF-287.
10. Letter Agreement No. 6-1162-DSF-304.
11. Letter Agreement No. 6-1162-DSF-305.
12. Letter Agreement No. 6-1162-DSF-306.
13. Letter Agreement No. 6-1162-DSF-348.
14. Letter Agreement No. 6-1162-DSF-349.
15. Letter Agreement No. 6-1162-DSF-352.
16. Letter Agreement No. 6-1162-DSF-353.
17. Letter Agreement No. 6-1162-DSF-354.

Very truly yours,

THE BOEING COMPANY

By

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: ___________________, 1998

ALASKA AIRLINES

By

Its

6-1162-DSF-008R5

Alaska Airlines
19300 Pacific Highway South
Seattle, Washington 98188

Subject: Letter Agreement No. 6-1162-DSF-008R5 to
Purchase Agreement No. 1954 -
***

Gentlemen:

This Letter Agreement amends Purchase Agreement No. 1954 dated as of even date herewith (the Agreement) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Buyer) relating to Model 737 aircraft (the Aircraft).

All terms used herein and in the Agreement, and not defined herein, will have the same meaning as in the Agreement.

***

*** Confidential treatment has been requested pursuant to Sections III.C. and

III.D. of the request for confidential treatment dated March 11, 2003.

***

*** Confidential treatment has been requested pursuant to Sections III.C. and III.D. of the request for confidential treatment dated March 11, 2003.

***

*** Confidential treatment has been requested pursuant to Sections III.C. and III.D. of the request for confidential treatment dated March 11, 2003.

***

*** Confidential treatment has been requested pursuant to Sections III.C. and III.D. of the request for confidential treatment dated March 11, 2003.

***

*** Confidential treatment has been requested pursuant to Sections III.C. and III.D. of the request for confidential treatment dated March 11, 2003.

***

*** Confidential treatment has been requested pursuant to Sections III.C. and III.D. of the request for confidential treatment dated March 11, 2003.

***

*** Confidential treatment has been requested pursuant to Sections III.C. and III.D. of the request for confidential treatment dated March 11, 2003.

***

***

12. Confidential Treatment. Buyer understands that certain commercial and financial information contained in this Letter Agreement including any attachments hereto is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity except as provided in Letter Agreement 6-1162-DSF-005.

If the foregoing accurately reflects your understanding of

the matters treated herein, please so indicate by signature below.

Very truly yours,

THE BOEING COMPANY

By

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: _______________, 1998

ALASKA AIRLINES

By

Its

Attachment C to
6-1162-DSF-008R5
Page 11

* * *

*** Confidential treatment has been requested pursuant to Sections III.C. and III.D. of the request for confidential treatment dated March 11, 2003.

* * *

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 11, 2003.

6-1162-DSF-009R2

Alaska Airlines
19300 Pacific Highway South
Seattle, Washington 98188

Subject: Letter Agreement No. 6-1162-DSF-009R2 to
Purchase Agreement No. 1954 -
*** Purchase Agreement Provisions

This Letter Agreement amends Purchase Agreement No. 1954 dated as of even date herewith (the Agreement) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Buyer) relating to Model 737 aircraft (the Aircraft).

All terms used herein and in the Agreement, and not defined herein, will have the same meaning as in the Agreement.

1. Boeing and Buyer agree that the following provisions shall apply in lieu of the provisions currently contained in the subject Agreement:

   ***

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 7, 2003.

   ***

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 7, 2003.

***

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 7, 2003.

***

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 7, 2003.

***

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 7, 2003.

***

2. Confidential Treatment. Buyer understands that certain commercial and financial information contained in this Letter Agreement including any attachments hereto is considered by Boeing as confidential. Buyer agrees that it will treat this Letter Agreement and the information contained herein as confidential and will not, without the prior written consent of Boeing, disclose this Letter Agreement or any information contained herein to any other person or entity except as provided in Letter Agreement 6-1162-DSF-005.

*** Confidential treatment has been requested pursuant to Section III.D. of the request for confidential treatment dated March 7, 2003.

If the foregoing accurately reflects your understanding of the matters treated herein, please so indicate by signature below.

Very truly yours,

THE BOEING COMPANY

By

Its   Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: _______________, 1998

ALASKA AIRLINES

By

Its

EXHIBIT 10.7

December 9, 2002

Jeffrey D. Pinneo
President and Chief Executive Officer
Horizon Air Industries, Inc.

Dear Jeff:

This letter will document the agreement between Horizon Air Industries, Inc. and you regarding certain retirement benefits at the time of your election to the position of President and Chief Executive Officer of Horizon Air Industries, Inc. ("Horizon").

ALASKA AIRLINES SALARIED RETIREMENT PLAN BENEFITS
As you know, you ceased to accrue additional benefits under the Alaska Airlines Salaried Retirement Plan ("DB Plan") when you transferred to Horizon. This is because Horizon does not offer the DB Plan or any other similar plan. ERISA laws preclude continued benefit accruals by a participant who transfers to a company that does not offer the DB Plan to its employees.

SPECIAL SUPPLEMENTAL RETIREMENT BENEFIT
In connection with your election to the position of President and Chief Executive Officer, Horizon agrees to supplement the retirement benefits you will receive under the DB Plan with the benefits described in this letter. The supplemental retirement benefit will equal the difference between (a) the retirement benefits you actually receive under the DB Plan, and (b) the retirement benefits you would have received under the DB Plan if your compensation and service earned while you are the President and CEO of Horizon were treated as compensation and service with Alaska Airlines. This supplemental benefit will be determined on the earlier of your retirement, severance of employment from Alaska Air Group and all of its subsidiaries, or disability (as defined in the DB Plan), and will be paid at the same time and in the same payment form as the benefit paid from the DB Plan. In the event of your death before benefit payments under the DB Plan begin, this supplemental benefit will be paid to your beneficiary who receives benefits under the DB Plan, at the same time and in the same payment form as that beneficiary receives your DB Plan benefit.

This letter agreement represents the entire agreement between you and Horizon as to the matters described herein and supersedes any prior oral agreement. The sole method of changing this agreement is by written amendment signed by you and Horizon.

Although the calculation of this benefit is based upon the DB Plan, the special supplemental retirement benefit would not be paid out of the DB Plan. Under this agreement, your rights to these supplemental benefits are as a general, unsecured creditor of Horizon. The supplemental benefits will be paid only to you, or to your beneficiary in the event of death, and the benefits cannot be assigned or alienated.

The ERISA claims procedures in Section 8.8 of the Alaska Air Group, Inc. 1995 Elected Officers Supplementary Retirement Plan, as amended, are incorporated into this letter by reference and apply to the supplemental retirement benefit described in this agreement.

ALASKA AIR GROUP, INC. 1995 ELECTED OFFICERS SUPPLEMENTARY RETIREMENT PLAN You became a participant in the Alaska Air Group, Inc. 1995 Elected Officers Supplementary Retirement Plan ("1995 OSRP") when you were elected to be the President and Chief Executive Officer of Horizon. Under the 1995 OSRP, you will earn retirement benefits based upon your years of service as the President and CEO of Horizon or as an Elected Officer of Alaska Air Group, Inc. or Alaska Airlines, Inc. Attached is a copy of the 1995 OSRP dated August 8, 1995 for your reference. It details the benefits provided under the 1995 OSRP. Under the 1995 OSRP as amended by the Board of Directors on January 30, 2002, the OSRP benefit otherwise payable to plan participants is reduced by any benefits under the DB Plan that are earned while serving as an elected officer. Your 1995 OSRP benefit will be similarly reduced by the special supplemental retirement benefits described in this agreement, and the 1995 OSRP will be amended accordingly.

HORIZON SAVINGS INVESTMENT 401(k) PLAN
You continue to be eligible to make contributions and receive employer-matching contributions under the Horizon Air Industries, Inc. Savings Investment Plan ("401(k) Plan"). As you know, employees of Horizon are not eligible to make contributions to the Alaskasaver 401(k) Plan, and your eligibility for contributions under that plan ceased when you transferred to Horizon.

HORIZON AIR SUPPLEMENTAL SAVINGS PLAN
Because of the additional benefit described in this agreement, you cease to be eligible to make additional contributions or receive additional employer contributions under the Horizon Air Industries, Inc. Supplemental Savings Plan while you are President and CEO of Horizon.

Please sign this letter and one of the other two originals confirming your agreement with the terms outlined above, retain one of the three originals for your files and return the other two signed originals to Keith Loveless.

____
John F. Kelly
Chairman, Horizon Air Industries, Inc.
Chairman, President and Chief Executive Officer, Alaska Air Group, Inc.

I agree to the terms outlined above:

Signed: _____________________________________ Date: _________________
Jeffrey D. Pinneo
President and Chief Executive Officer
Horizon Air Industries, Inc.

Enclosures: Two copies of this letter
1995 OSRP document

EXHIBIT 12

ALASKA AIR GROUP, INC.

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(IN THOUSANDS, EXCEPT RATIOS)

	2002	2001	2000	1999	1998
Earnings:					
Income before income tax expense	$(101,800)	$ (63,515)	$ (26,905)	$ 213,003	$ 205,716
Less: Capitalized interest	(2,646)	(10,612)	(17,684)	(12,632)	(7,040)
Add:					
Interest on indebtedness	46,261	47,429	36,046	16,339	21,184
Amortization of debt expense	815	703	330	440	682
Amortization of capitalized interest	4,993	5,013	4,736	4,663	4,593
Portion of rent under long-term operating leases representative of an interest factor	91,356	84,161	80,313	82,505	80,547
Earnings Available for Fixed Charges	$ 38,979	$ 63,179	$ 76,836	$ 304,318	$ 305,682
Fixed Charges:					
Interest	46,261	47,429	36,046	16,339	21,184
Amortization of debt expense	815	703	330	440	682
Portion of rent under long-term operating leases representative of an interest factor	91,356	84,161	80,313	82,505	80,547
Total Fixed Charges	$ 138,432	$ 132,293	$ 116,689	$ 99,284	$ 102,413
Ratio of Earnings to Fixed Charges	0.28	0.48	0.66	3.07	2.98
Coverage deficiency	$ 99,453	$ 69,114	$ 39,853	-	-

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-52265, 333-04835 and 333-64998 on Form S-3 and Registration Statement Nos. 333-09547, 333-33727, 333-39899, 333-87563 and 333-92252 on Form S-8 of Alaska Air Group, Inc. and subsidiaries (the Company) of our report dated March 10, 2003 (which report expresses an unqualified opinion and includes an explanatory paragraph regarding the change in the methods of accounting for goodwill and for the deferral of revenue on miles sold under the mileage plan, both discussed in Note 15 to the consolidated financial statements), appearing in this Annual Report on Form 10-K of Alaska Air Group, Inc. and subsidiaries for the year ended December 31, 2002.

/s/ DELOITTE & TOUCHE LLP

Seattle, Washington

March 10, 2003

EXHIBIT 99.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Alaska Air Group, Inc. (the "Company") on Form 10-K for the three years ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John F. Kelly, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ John F. Kelly

John F. Kelly
Chief Executive Officer
March 10, 2003

EXHIBIT 99.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Alaska Air Group, Inc. (the "Company") on Form 10-K for the three years ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bradley D. Tilden, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Bradley D. Tilden

Bradley D. Tilden
Chief Financial Officer
March 10, 2003