UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2005.

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 1-8957

ALASKA AIR GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	91-1292054 (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) 392-5040

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☑ No ☐

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

The registrant has 27,231,825 common shares, par value $1.00, outstanding at June 30, 2005.

TABLE OF CONTENTS

EXHIBIT 32.2

Cautionary Note regarding Forward-Looking Statements

In addition to historical information, this Quarterly Report on Form 10-Q 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. Some of the things that could cause our actual results to differ from our expectations are: changes in our operating costs including fuel, which can be volatile; the competitive environment and other trends in our industry; our ability to meet our cost reduction goals; labor disputes; economic conditions; our reliance on automated systems; increases in government fees and taxes; actual or threatened terrorist attacks, global instability and potential U.S. military actions or activities; insurance costs; changes in laws and regulations; liability and other claims asserted against us; operational disruptions; compliance with financial covenants; our ability to attract and retain qualified personnel; third-party vendors and partners; continuing operating losses; our significant indebtedness; and downgrades of our credit ratings and availability of financing. For a discussion of these and other risk factors, see Item 7 of the Company’s Annual Report for the year ended December 31, 2004 on Form 10-K under the caption “Risk Factors.” All of the forward-looking statements are qualified in their entirety by reference to the risk factors discussed therein. These risk factors may not be exhaustive. We operate in a continually changing business environment, and new risk factors emerge from time to time. Management cannot predict such new risk factors, nor can it assess the impact, if any, of such new risk factors on our business or events described in any forward-looking statements. We disclaim any obligation to publicly update or revise any forward-looking statements after the date of this report to conform them to actual results. 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.

PART I. FINANCIAL INFORMATION
ITEM 1. Condensed Consolidated Financial Statements
CONSOLIDATED BALANCE SHEETS (unaudited)
Alaska Air Group, Inc.

ASSETS

(In Millions)	June 30, 2005	December 31, 2004
Current Assets		
Cash and cash equivalents	$ 31.2	$ 28.0
Marketable securities	694.9	845.9
Receivables — net	125.8	99.4
Inventories and supplies — net	46.1	42.0
Deferred income taxes	75.5	74.7
Fuel hedge contracts	123.6	65.7
Prepaid expenses and other current assets	102.0	86.6
Total Current Assets	1,199.1	1,242.3
Property and Equipment		
Aircraft and other flight equipment	2,236.7	2,294.3
Other property and equipment	471.6	471.8
Deposits for future flight equipment	203.6	67.1
	2,911.9	2,833.2
Less accumulated depreciation and amortization	979.9	924.9
Total Property and Equipment — Net	1,932.0	1,908.3
Intangible Assets	38.6	38.6
Fuel Hedge Contracts	70.9	30.3
Other Assets	129.9	115.5
Total Assets	$3,370.5	$ 3,335.0

See accompanying notes to condensed consolidated financial statements.

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

LIABILITIES AND SHAREHOLDERS' EQUITY

(In Millions)	June 30, 2005	December 31, 2004
Current Liabilities		
Accounts payable	**$ 132.6**	$ 143.8
Accrued aircraft rent	**58.5**	75.3
Accrued wages, vacation and payroll taxes	**111.3**	133.0
Other accrued liabilities	**350.9**	301.6
Air traffic liability	**375.6**	250.2
Current portion of long-term debt and capital lease obligations	**57.0**	53.4
Total Current Liabilities	**1,085.9**	957.3
Long-Term Debt and Capital Lease Obligations	**979.5**	989.6
Other Liabilities and Credits		
Deferred income taxes	**137.0**	173.6
Deferred revenue	**313.8**	304.7
Other liabilities	**253.2**	245.0
	704.0	723.3
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, $1 par value		
Authorized: 5,000,000 shares, none issued or outstanding	**—**	—
Common stock, $1 par value		
Authorized: 100,000,000 shares		
Issued: 2005 -29,880,002 shares		
2004 - 29,777,388 shares	**29.9**	29.8
Capital in excess of par value	**498.5**	496.5
Treasury stock, at cost: 2005 - 2,648,177 shares		
2004 - 2,651,368 shares	**(60.4)**	(60.5)
Deferred stock-based compensation	**(2.8)**	(3.4)
Accumulated other comprehensive loss	**(85.0)**	(81.6)
Retained earnings	**220.9**	284.0
	601.1	664.8
Total Liabilities and Shareholders' Equity	**$3,370.5**	$ 3,335.0

See accompanying notes to condensed consolidated financial statements.

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
Alaska Air Group, Inc.

Three Months Ended June 30 (In Millions Except Per Share Amounts)	2005	2004
Operating Revenues		
Passenger	**$ 697.5**	$ 637.9
Freight and mail	**24.9**	24.2
Other — net	**34.1**	39.2
Total Operating Revenues	**756.5**	701.3
Operating Expenses		
Wages and benefits	**227.3**	246.4
Contracted services	**34.8**	31.9
Aircraft fuel	**175.2**	128.6
Aircraft maintenance	**58.2**	50.1
Aircraft rent	**47.0**	47.0
Food and beverage service	**12.1**	13.6
Other selling expenses and commissions	**37.8**	35.6
Depreciation and amortization	**35.3**	34.0
Landing fees and other rentals	**51.9**	46.6
Other	**53.1**	50.9
Restructuring charges	**14.7**	—
Impairment of aircraft and related spare parts	**—**	37.2
Total Operating Expenses	**747.4**	721.9
Operating Income (Loss)	**9.1**	(20.6)
Nonoperating Income (Expense)		
Interest income	**7.1**	6.1
Interest expense	**(15.3)**	(12.6)
Interest capitalized	**1.3**	0.3
Fuel hedging gains	**27.5**	25.9
Other — net	**—**	0.2
	20.6	19.9
Income (loss) before income tax	**29.7**	(0.7)
Income tax expense	**12.3**	1.0
Net Income (Loss)	**$ 17.4**	$ (1.7)
Basic Earnings (Loss) Per Share	**$ 0.64**	$ (0.06)
Diluted Earnings (Loss) Per Share	**$ 0.56**	$ (0.06)
Pro Forma Results (assuming change in method of accounting was applied retrospectively):		
Pro forma net income	**NA**	$ 2.2
Pro Forma Basic and Diluted Income Per Share	**NA**	$ 0.08
Shares used for computation:		
Basic	**27.200**	26.818
Diluted	**33.273**	26.818

See accompanying notes to condensed consolidated financial statements.

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
Alaska Air Group, Inc.

Six Months Ended June 30 (In Millions Except Per Share Amounts)	2005	2004
Operating Revenues		
Passenger	$ 1,284.5	$ 1,191.7
Freight and mail	45.2	42.8
Other — net	69.3	64.8
Total Operating Revenues	1,399.0	1,299.3
Operating Expenses		
Wages and benefits	472.0	488.2
Contracted services	65.4	59.4
Aircraft fuel	321.9	236.4
Aircraft maintenance	119.4	100.9
Aircraft rent	93.1	94.8
Food and beverage service	23.6	25.2
Other selling expenses and commissions	75.2	74.0
Depreciation and amortization	69.5	70.1
Landing fees and other rentals	104.1	89.2
Other	104.5	100.6
Restructuring charges	22.1	—
Impairment of aircraft and related spare parts	—	39.6
Total Operating Expenses	1,470.8	1,378.4
Operating Loss	(71.8)	(79.1)
Nonoperating Income (Expense)		
Interest income	13.0	10.7
Interest expense	(29.4)	(25.3)
Interest capitalized	2.1	0.6
Fuel hedging gains	135.7	26.4
Other — net	(2.9)	(0.2)
	118.5	12.2
Income (loss) before income tax and accounting change	46.7	(66.9)
Income tax expense (benefit)	19.4	(22.5)
Income (loss) before accounting change	27.3	(44.4)
Cumulative effect of accounting change, net of tax	(90.4)	—
Net Loss	$ (63.1)	$ (44.4)
Basic Earnings (Loss) Per Share:		
Income (loss) before accounting change	$ 1.01	$ (1.66)
Cumulative effect of accounting change	(3.33)	—
Net Loss Per Share	$ (2.32)	$ (1.66)
Diluted Earnings (Loss) Per Share:		
Income (loss) before accounting change	$ 0.90	$ (1.66)
Cumulative effect of accounting change	(2.72)	—
Net Loss Per Share	$ (1.82)	$ (1.66)
Pro Forma Results (assuming change in method of accounting was applied retrospectively):		
Pro forma net loss	NA	$ (38.3)
Pro Forma Basic and Diluted Loss Per Share	NA	$ (1.43)
Shares used for computation:		
Basic	27.173	26.798
Diluted	33.256	26.798

See accompanying notes to condensed consolidated financial statements.

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

(In Millions)	*Common Shares Outstanding*	Common Stock	Capital in Excess of Par Value	Treasury Stock, at Cost	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balances at December 31, 2004:	*27.126*	$ 29.8	$ 496.5	$ (60.5)	$ (3.4)	$ (81.6)	$ 284.0	$ 664.8
Net loss for the six months ended June 30, 2005							(63.1)	(63.1)
Other comprehensive income (loss):								
Related to marketable securities:								
Change in fair value						(0.5)		
Reclassification to earnings						2.5		
Income tax effect						(0.7)		
						1.3		1.3
Related to fuel hedges:								
Reclassification to earnings						(7.4)		
Income tax effect						2.7		
						(4.7)		(4.7)
Total comprehensive loss								(66.5)
Amortization of deferred stock-based compensation					0.6			0.6
Treasury stock sales	*0.003*	—	—	0.1				0.1
Stock issued for employee stock purchase plan	*0.066*	0.1	1.2	—				1.3
Stock issued under stock plans	*0.037*	—	0.8	—				0.8
Balances at June 30, 2005	*27.232*	**$ 29.9**	**$ 498.5**	**$ (60.4)**	**$ (2.8)**	**$ (85.0)**	**$ 220.9**	**$ 601.1**

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

Six Months Ended June 30 (In Millions)	2005	2004
Cash flows from operating activities:		
Net loss	$ (63.1)	$ (44.4)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Cumulative effect of accounting change, net of tax effect	90.4	—
Restructuring charges	22.1	—
Impairment of aircraft and related spare parts	—	39.6
Depreciation and amortization	69.5	70.1
Amortization of airframe and engine overhauls	—	35.1
Stock-based compensation	0.6	—
Changes in fair values of open fuel hedge contracts	(105.9)	(24.1)
Loss on sale of assets	1.4	1.4
Changes in deferred income taxes	16.9	(13.2)
Increase in receivables — net	(26.4)	(0.4)
Increase in prepaid expenses and other current assets	(20.0)	(24.1)
Increase in air traffic liability	125.4	103.9
Increase (decrease) in other current liabilities	(13.6)	27.4
Increase in deferred revenue and other-net	(7.0)	17.5
Net cash provided by operating activities	90.3	188.8
Cash flows from investing activities:		
Proceeds from disposition of assets	3.4	4.4
Purchases of marketable securities	(598.3)	(440.3)
Sales and maturities of marketable securities	751.3	396.6
Property and equipment additions:		
Aircraft purchase deposits	(152.8)	(5.5)
Capitalized overhauls	—	(24.5)
Aircraft and other flight equipment	(73.3)	(50.3)
Other property and equipment	(21.6)	(22.4)
Aircraft deposits returned	7.5	14.0
Restricted deposits and other	1.0	—
Net cash used in investing activities	(82.8)	(128.0)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt, net	20.0	94.6
Long-term debt and capital lease payments	(26.5)	(144.8)
Proceeds from issuance of common stock	2.2	1.6
Net cash used in financing activities	(4.3)	(48.6)
Net change in cash and cash equivalents	3.2	12.2
Cash and cash equivalents at beginning of period	28.0	158.8
Cash and cash equivalents at end of period	$ 31.2	$ 171.0
Supplemental disclosure of cash paid (refunded) during the period for:		
Interest (net of amount capitalized)	$ 26.0	$ 24.7
Income taxes	1.1	(42.9)
Noncash investing and financing activities:		
Assets acquired under long-term debt and capital leases	—	30.6
Credit received for flight deposits deferred in other liabilities	9.7	—

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Alaska Air Group, Inc.

Note 1. Basis of Presentation and Significant Accounting Policies

Organization and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Alaska Air Group, Inc. (Air Group or the Company) include the accounts of the parent company, Alaska Air Group, Inc., and its principal subsidiaries, Alaska Airlines, Inc. (Alaska) and Horizon Air Industries, Inc. (Horizon), through which the Company conducts substantially all of its operations. These interim condensed consolidated financial statements are unaudited and should be read in conjunction with the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2004. In the opinion of management, all adjustments have been made which are necessary to present fairly the Company's financial position as of June 30, 2005, as well as the results of operations for the three and six months ended June 30, 2004 and 2005. The adjustments made were of a normal recurring nature.

The Company's condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). In preparing these condensed consolidated financial statements, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities, as well as the reported amounts of revenues and expenses. Significant estimates made include assumptions used to record liabilities, expenses and revenues associated with the Company's Mileage Plan, amounts paid to lessors upon aircraft lease terminations, the fair market value of surplus or impaired aircraft, engines and parts, assumptions used in the calculations of pension expense in the Company's defined benefit plans, and the amounts of certain accrued liabilities. Actual results may differ from the Company's estimates.

Reclassifications

Certain reclassifications have been made to conform the prior year's data to the current format.

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.

The following table represents the pro forma net income (loss) before accounting change and pro forma net income (loss) per share (EPS) had compensation cost for the Company's stock options been determined in accordance with Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." In accordance with SFAS No. 123, the fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model and then amortized ratably over the vesting period (in millions, except per share amounts):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2005		2004		**2005**		2004	
Income (loss) before accounting change As reported	**$**	**17.4**	$	(1.7)	**$**	**27.3**	$	(44.4)
Add: Total stock-based compensation expense recognized under the intrinsic value-based method, net of related tax		**0.2**		—		**0.4**		—
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects		**(1.3)**		(1.2)		**(2.3)**		(2.3)
Pro forma income (loss) before accounting change	**$**	**16.3**	$	(2.9)	**$**	**25.4**	$	(46.7)
Net income (loss) as reported	**$**	**17.4**	$	(1.7)	**$**	**(63.1)**	$	(44.4)
Add: Total stock-based compensation expense recognized under the intrinsic value-based method, net of related tax		**0.2**		—		**0.4**		—
Deduct: Total stock-based compensation expense determined under fair value- based methods for all awards, net of related tax		**(1.3)**		(1.2)		**(2.3)**		(2.3)
Pro forma net income (loss)	**$**	**16.3**	$	(2.9)	**$**	**(65.0)**	$	(46.7)
Basic EPS before accounting change:								
As reported	**$**	**0.64**	$	(0.06)	**$**	**1.01**	$	(1.66)
Pro forma	**$**	**0.60**		(0.11)	**$**	**0.93**		(1.74)
Basic EPS:								
As reported	**$**	**0.64**	$	(0.06)	**$**	**(2.32)**	$	(1.66)
Pro forma	**$**	**0.60**		(0.11)	**$**	**(2.39)**		(1.74)
Diluted EPS before accounting change:								
As reported	**$**	**0.56**	$	(0.06)	**$**	**0.90**	$	(1.66)
Pro forma	**$**	**0.53**		(0.11)	**$**	**0.84**	$	(1.74)
Diluted EPS:								
As reported	**$**	**0.56**	$	(0.06)	**$**	**(1.82)**	$	(1.66)
Pro forma	**$**	**0.53**		(0.11)	**$**	**(1.87)**		(1.74)

During the fourth quarter of 2004, the Financial Accounting Standards Board issued SFAS 123R, "Share Based Payment: An Amendment of SFAS Nos. 123 and 95". The new standard requires companies to recognize as expense the fair value of stock options and other equity-based compensation issued to employees as of the grant date. This new standard will apply to both stock options that we grant to employees and our Employee Stock Purchase Plan, which features a look-back provision and allows employees to purchase stock at a 15% discount. Implementation of SFAS 123R will be effective January 1, 2006. Our options are typically granted with ratable vesting provisions, and we intend to amortize compensation cost over the service period using the straight line method. We intend to use the "modified prospective method" upon adoption whereby previously awarded but unvested equity awards are accounted for in accordance with SFAS 123R and prospective amounts are recognized in the income statement instead of simply being disclosed. Once adopted, we expect our stock based compensation expense, as measured under SFAS 123R, will be approximately $6 million to $10 million per year on a pre-tax basis.

Note 2. Change in Accounting Principle

Effective January 1, 2005, the Company changed its method of accounting for major airframe and engine overhauls from the *capitalize and amortize* method to the *direct expense* method. Under the former method, these costs were capitalized and amortized to maintenance expense over the shorter of the life of the overhaul or the remaining lease term. Under the *direct expense* method, overhaul costs are expensed as incurred. The Company believes that the *direct expense* method is preferable because it eliminates the judgment and estimation needed to determine overhaul versus repair allocations in maintenance activities. Additionally, the Company's approved maintenance program for the majority of its airframes now focuses more on shorter, but more frequent, maintenance visits. Management also believes that the *direct expense* method is the predominant method used in the airline industry. Accordingly, effective January 1, 2005, the Company wrote off the net book value of its previously capitalized airframe and engine overhauls for all aircraft in a charge totaling $144.7 million pre-tax ($90.4 million after tax). The Company does not believe disclosing the effect of adopting the *direct expense* method on net income for the period ended June 30, 2005 provides meaningful information because of changes in the Company's maintenance program, including the execution of a "power by the hour" engine maintenance agreement with a third party in late 2004.

Note 3. Restructuring Charges

During the second quarter of 2005, Alaska announced that it was contracting out ramp services at the Seattle-Tacoma International Airport. This event resulted in a reduction of approximately 475 employees in Seattle. Severance and related costs associated with this restructuring are estimated at $16.1 million, which was recorded in the second quarter.

During the third quarter of 2004, Alaska announced a management reorganization and the closure of its Oakland heavy maintenance base, contracting out of the Company's fleet service and ground support equipment and facility maintenance functions, as well as other initiatives.

Restructuring charges totaling $53.4 million were recorded in 2004, with $38.7 million remaining accrued at December 31, 2004.

The following table displays the activity and balance of the severance and related costs components of the Company's restructuring accrual as of and for the six months ended June 30, 2005. The restructuring charge adjustment relates to our change in estimated costs of medical coverage extended to impacted employees and a change in the number of employees affected. We expect to record similar adjustments in future quarters as actual medical costs become known. There were no restructuring charges during the first six months of 2004 ($ in millions):

Accruals for Severance and Related Costs	
Balance at December 31, 2004	$ 38.7
Restructuring charges	16.1
Restructuring charge adjustments	(2.0)
Cash payments	(29.5)
Balance at June 30, 2005	$ 23.3

The Company will make the majority of the remaining cash payments during the third and fourth quarters of 2005. The balance at June 30, 2005 is included in accrued wages, vacation and payroll taxes in the consolidated balance sheets.

During March 2005, the Company notified the Port of Oakland of its decision to terminate the lease for the Oakland hangar as part of its ongoing restructuring efforts. Accordingly, the Company recorded an impairment charge of $7.7 million in the first quarter of 2005 for the leasehold improvements that will be abandoned as a result of the lease termination. Additionally, the Company recorded a charge of $0.3 million for certain costs associated with the lease termination, all of which has been paid as of June 30, 2005.

Note 4. Derivative Financial Instruments

The Company records all derivative instruments, all of which are currently fuel hedge contracts, on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in earnings.

The Company's operations are inherently dependent upon the price and availability of aircraft fuel, which accounted for 20.0% of all of 2004 and 22.2% of year-to-date 2005 operating expenses (excluding impairment and restructuring charges). To manage economic risks associated with fluctuations in aircraft fuel prices, the Company enters into swap agreements and call options for crude oil.

Table of Contents

Because of variations in the spread between the prices of West Texas Intermediate crude oil and jet fuel since the second quarter of 2004, the Company's hedge contracts are not "highly correlated" to changes in prices of aircraft fuel, as defined in SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The impacts on the Company's reported results are as follows:

- All changes in the fair value of fuel hedge contracts that existed as of March 31, 2004 or hedge positions entered into subsequent to March 31, 2004 are reported in other non-operating income (expense).
- Reported fuel expense includes only the effective portion of gains associated with hedge positions that settled during the current period on contracts that existed at March 31, 2004 to the extent that mark-to-market gains were already included in Accumulated Other Comprehensive Loss at March 31, 2004.

The following table summarizes realized fuel hedging gains and changes in fair value of hedging contracts outstanding as of June 30, 2005 and 2004 (in millions):

	Alaska Airlines		Horizon Air	
	Three Months Ended June 30			
	2005	2004	**2005**	2004
Fuel expense before hedge activities ("raw" or "into-plane" fuel cost)	**$ 154.7**	$ 117.0	**$ 24.2**	$ 16.6
Less: gains on settled hedges included in fuel expense	**(3.2)**	(4.4)	**(0.5)**	(0.6)
GAAP fuel expense	**$ 151.5**	$ 112.6	**$ 23.7**	$ 16.0
Less: gains on settled hedges included in nonoperating income (expense)	**(21.3)**	(3.2)	**(3.2)**	(0.4)
Economic fuel expense	**$ 130.2**	$ 109.4	**$ 20.5**	$ 15.6
Mark-to-market hedging gains included in nonoperating income (expense)	**$ 2.6**	$ 19.6	**$ 0.4**	$ 2.7

	Alaska Airlines		Horizon Air	
	Six Months Ended June 30			
	2005	2004	**2005**	2004
Fuel expense before hedge activities ("raw" or "into-plane" fuel cost)	**$ 285.7**	$ 213.7	**$ 43.6**	$ 31.2
Less: gains on settled hedges included in fuel expense	**(6.6)**	(7.5)	**(0.8)**	(1.0)
GAAP fuel expense	**$ 279.1**	$ 206.2	**$ 42.8**	$ 30.2
Less: gains on settled hedges included in nonoperating income (expense)	**(37.0)**	(3.2)	**(5.7)**	(0.4)
Economic fuel expense	**$ 242.1**	$ 203.0	**$ 37.1**	$ 29.8
Mark-to-market hedging gains included in nonoperating income (expense)	**$ 80.3**	$ 20.1	**$ 12.7**	$ 2.7

Fuel hedge positions entered into by Alaska and Horizon are currently as follows:

	Approximate % of Expected Fuel Requirements	Gallons Hedged (in millions)	Approximate Crude Oil Price per Barrel
Third Quarter 2005	50%	55.7	$ 28.81
Fourth Quarter 2005	50%	50.4	$ 31.85
First Quarter 2006	50%	50.8	$ 35.70
Second Quarter 2006	50%	53.5	$ 39.76
Third Quarter 2006	40%	45.9	$ 41.58
Fourth Quarter 2006	30%	31.2	$ 42.70
First Quarter 2007	20%	20.9	$ 43.09
Second Quarter 2007	19%	21.3	$ 45.11
Third Quarter 2007	22%	26.0	$ 45.27
Fourth Quarter 2007	17%	17.8	$ 47.89
First Quarter 2008	11%	12.3	$ 50.44
Second Quarter 2008	6%	7.1	$ 49.26
Third Quarter 2008	6%	6.8	$ 48.97
Fourth Quarter 2008	5%	5.5	$ 48.68

The fair values of the Company's fuel hedge positions for the period ended June 30, 2005 and December 31, 2004 were $194.5 million and $96.0 million, respectively, and are presented as fuel hedge contracts as both current and non-current assets in the consolidated balance sheets.

Table of Contents

Note 5. Other Assets

At June 30, 2005 and December 31, 2004 , other assets consisted of the following (in millions):

	June 30, 2005	December 31, 2004
Restricted deposits (primarily restricted investments)	$ 87.3	$ 84.2
Deferred costs and other	42.6	27.7
Restricted cash for senior convertible notes	—	3.6
	$ 129.9	$ 115.5

Note 6. Mileage Plan

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

	June 30, 2005	December 31, 2004
Current Liabilities:		
Other accrued liabilities	$ 154.6	$ 136.6
Other Liabilities and Credits (non-current):		
Deferred revenue	256.6	252.9
Other liabilities	20.0	19.8
Total	$ 431.2	$ 409.3

Note 7. Employee Benefit Plans

Pension Plans-Qualified Defined Benefit

Net pension expense for the three and six months ended June 30 included the following components (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Service cost	$ 11.8	$ 13.7	$ 25.5	$ 27.4
Interest cost	12.9	12.0	25.8	24.0
Expected return on assets	(12.5)	(10.7)	(25.0)	(21.4)
Amortization of prior service cost	1.2	1.3	2.4	2.6
Actuarial gain	3.6	3.7	7.2	7.4
Net pension expense	$ 17.0	$ 20.0	$ 35.9	$ 40.0

The Company made $19.3 million and $38.6 million in contributions during the three and six months ended June 30, 2005, respectively, and expects to contribute an additional $19.3 million to these plans during the remainder of 2005. The Company made $16.5 million and $32.9 million in contributions to its defined benefit pension plans during the three and six months ended June 30, 2004, respectively.

Pension Plans-Nonqualified Defined Benefit

Net pension expense for the unfunded, noncontributory defined benefit plans for certain elected officers of the Company for the three and six months ended June 30 included the following components (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	**2005**	2004
Service cost	**$ 0.3**	$ 0.3	**$ 0.6**	$ 0.6
Interest cost	**0.4**	0.5	**0.8**	1.0
Actuarial gain	**0.1**	0.2	**0.2**	0.4
Net pension expense	**$ 0.8**	$ 1.0	**$ 1.6**	$ 2.0

Postretirement Medical Benefits

Net periodic benefit cost for the postretirement medical plans for the three and six months ended June 30 included the following components (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	**2005**	2004
Service cost	**$ 1.0**	$ 1.2	**$ 2.0**	$ 2.4
Interest cost	**1.1**	1.3	**2.2**	2.6
Amortization of prior service cost	**(0.1)**	(0.1)	**(0.2)**	(0.2)
Actuarial gain	**0.5**	0.7	**1.0**	1.4
Net periodic benefit cost	**$ 2.5**	$ 3.1	**$ 5.0**	$ 6.2

Note 8. Earnings Per Share

SFAS No. 128, "Earnings per Share" requires that companies use income from continuing operations before extraordinary items and the cumulative effect of an accounting change as the "control number" in determining whether potential common shares are dilutive or antidilutive. As the Company reported income before the accounting change for both the quarter and the six months ended June 30, 2005, the potential common shares from the Company's common stock options and senior convertible notes are included in the calculation for diluted earnings (loss) per share. Therefore, for the three and six months ended June 30, 2005, the dilutive impact of common stock options and 5.8 million common shares that would have been outstanding upon conversion of the senior convertible notes were included in the calculations. Outstanding options to purchase 1.9 million common shares were excluded from the calculation in 2005 as the impact of those options would have been antidilutive. For the three and six months ended June 30, 2004, options to purchase 3.9 million shares and the effect of the senior convertible notes were excluded from the computation of diluted loss per share in 2004 because the impact would have been antidilutive. Income (loss) per share was calculated as follows (in millions except per share amounts).

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Basic Earnings (Loss) Per Share				
Income (loss) before accounting change	**$ 17.4**	$ (1.7)	**$ 27.3**	$ (44.4)
Weighted average shares outstanding	**27.200**	26.818	**27.173**	26.798
Income (loss) per share before accounting change	**$ 0.64**	$ (0.06)	**$ 1.01**	$ (1.66)
Cumulative effect of accounting change, net of tax	**NA**	NA	**$ (90.4)**	NA
Weighted average shares outstanding	**NA**	NA	**27.173**	NA
Per share cumulative effect of accounting change	**NA**	NA	**$ (3.33)**	NA
Net income (loss)	**$ 17.4**	$ (1.7)	**$ (63.1)**	$ (44.4)
Weighted average shares outstanding	**27.200**	26.818	**27.173**	26.798
Net income (loss) per share	**$ 0.64**	$ (0.06)	**$ (2.32)**	$ (1.66)
Diluted Earnings (Loss) Per Share				
Income (loss) before accounting change	**$ 17.4**	$ (1.7)	**$ 27.3**	$ (44.4)
Interest on convertible notes, net of tax	**1.3**	—	**2.5**	—
Diluted income (loss) before accounting change	**$ 18.7**	$ (1.7)	**$ 29.8**	$ (44.4)
Weighted average diluted shares outstanding	**33.273**	26.818	**33.256**	26.798
Income (loss) per share before accounting change	**$ 0.56**	$ (0.06)	**$ 0.90**	$ (1.66)
Cumulative effect of accounting change, net of tax	**NA**	NA	**$ (90.4)**	NA
Weighted average shares outstanding	**NA**	NA	**33.256**	NA
Per share cumulative effect of accounting change	**NA**	NA	**$ (2.72)**	NA
Net income (loss)	**$ 17.4**	$ (1.7)	**$ (63.1)**	$ (44.4)
Interest on convertible notes, net of tax	**1.3**	—	**2.5**	—
Diluted net income (loss)	**$ 18.7**	$ (1.7)	**$ (60.6)**	$ (44.4)
Weighted average shares outstanding	**33.273**	26.818	**33.256**	26.798
Net income (loss) per share	**$ 0.56**	$ (0.06)	**$ (1.82)**	$ (1.66)

Note 9. Operating Segment Information

Operating segment information for Alaska and Horizon for the three and six month periods ended June 30 was as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	**2005**	2004
Operating revenues:				
Alaska	**$ 616.3**	$ 577.6	**$1,139.6**	$1,068.9
Horizon	**140.6**	124.7	**261.8**	235.0
Other*	**0.2**	0.2	**0.5**	0.5
Elimination of intercompany revenues	**(0.6)**	(1.2)	**(2.9)**	(5.1)
Consolidated	**$ 756.5**	$ 701.3	**$1,399.0**	$1,299.3
Income (loss) before income tax and accounting change:				
Alaska	**$ 22.1**	$ (2.8)	**$ 37.5**	$ (56.0)
Horizon	**11.1**	4.7	**15.7**	(5.7)
Other*	**(3.5)**	(2.6)	**(6.5)**	(5.2)
Consolidated	**$ 29.7**	$ (0.7)	**$ 46.7**	$ (66.9)
Total assets at end of period:				
Alaska			**$3,105.8**	$3,144.8
Horizon			**325.9**	290.7
Other*			**774.6**	809.2
Elimination of intercompany accounts			**(835.8)**	(882.7)
Consolidated			**$3,370.5**	$3,362.0

* Includes the parent company, Alaska Air Group, Inc, including its investments in Alaska and Horizon, which are eliminated in consolidation.

Note 10. Long-Term Debt and Capital Lease Obligations

At June 30, 2005 and December 31, 2004, long-term debt and capital lease obligations were as follows (in millions):

	June 30, 2005	December 31, 2004
Fixed rate notes payable due through 2020	**$ 536.4**	$ 361.3
Variable rate notes payable due through 2020	**349.8**	531.2
Senior convertible notes due through 2023	**150.0**	150.0
Long-term debt	**1,036.2**	1,042.5
Capital lease obligations	**0.3**	0.5
Less current portion	**(57.0)**	(53.4)
	$ 979.5	$ 989.6

During the first six months of 2005, Horizon issued $20.0 million of debt secured by flight equipment, having a fixed interest rate of 6.07% and a fifteen-year term.

During 2004, Alaska repaid its $150 million credit facility and, on December 23, 2004, that facility expired. On March 25, 2005, Alaska Airlines, Inc. finalized a $160 million variable rate credit facility with a syndicate of financial institutions that will expire in March 2008. The interest rate on the credit facility varies depending on certain financial ratios specified in the agreement with a minimum interest rate of LIBOR plus 200 basis points. Any borrowings will be secured by either aircraft or cash collateral. This credit facility contains contractual restrictions and requires maintenance of specific levels of net worth, maintenance of certain debt and leases to net worth, leverage and fixed charge coverage ratios, and limits on liens, asset dispositions, dividends, and certain other expenditures. Such provisions restrict Alaska Airlines from distributing any funds to Alaska Air Group in the form of dividends and limit the amount of funds Alaska Airlines can loan to Alaska Air Group. As of June 30, 2005, $300.0 million was available to loan to Alaska Air Group without violating the covenants in the credit facility. As of June 30, 2005, there are no outstanding borrowings on this credit facility.

In the second quarter of 2005, the Company exercised its option under several of its existing variable rate long-term debt arrangements to fix the interest rates through maturity. The fixed rates on these affected debt arrangements range from 5.2% to 6.3%. These changes did not result in any gain or loss in the consolidated statements of operations.

Note 11. Aircraft Commitments

Alaska entered into an aircraft purchase agreement during the second quarter of 2005 to acquire 35 B737-800 aircraft with deliveries beginning in January 2006 and continuing through April 2011. The purchase agreement also includes options to purchase an additional 15 aircraft. Concurrent with the execution of this purchase agreement, Alaska paid $110.9 million in aircraft purchase and option deposits using cash and a credit of $9.7 million received from the manufacturer. The $9.7 million credit has been deferred as other liabilities in the Company's balance sheet and will be applied to the purchase price of future aircraft upon delivery.

As of June 30, 2005, the Company has firm purchase commitments for 44 aircraft requiring aggregate future payments of approximately $1.4 billion. In addition to the 15 options noted above, Horizon has options to purchase 11 Q400's and 19 CRJ 700's. Alaska and Horizon expect to finance the firm orders and, to the extent exercised, the option aircraft with leases, long-term debt or internally generated cash.

Note 12. Contingencies

The Company is a party to routine litigation incidental to its business and with respect to which no material liability is expected. Management believes the ultimate disposition of these matters is not likely to materially affect the Company's financial position or results of operations. However, this belief 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.

In May 2005, the Air Line Pilots Association filed a lawsuit in federal district court in Seattle to overturn the current labor contract covering Alaska's pilots as established by an arbitrator, which was effective May 1, 2005. In the unlikely event that the arbitrator's decision is overturned, Alaska may be required to pay wages retroactively to May 1, 2005 as if the contract that existed prior to the arbitrator's decision were still in effect. On July 21, 2005, the Company filed a motion to dismiss the lawsuit. The motion will be decided on evidence submitted or following oral argument. A decision is expected in the third quarter of 2005. At this time, the Company has no reason to believe that an unfavorable outcome is likely.

In March 2005, the Company filed a claim against the International Association of Machinists (IAM) seeking to compel arbitration of the dispute regarding the subcontracting of the Company's ramp service operation in Seattle. In May 2005, the IAM filed a counter claim against the Company alleging that the Company violated the status quo and engaged in bad faith bargaining. On May 13, 2005, the Company announced that it had subcontracted the ramp service operation in Seattle, resulting in the immediate reduction of approximately 475 employees represented by the IAM. Shortly after this event, the IAM filed a motion for a preliminary injunction seeking to reverse the subcontracting by the Company. That motion was heard and denied by a federal court judge on June 2, 2005. The Company's lawsuit and the IAM's counterclaim are still pending in federal court. A discovery schedule and trial date have not yet been set. At this time, the Company has no reason to believe that an unfavorable outcome is likely.

Table of Contents

Alaska Airlines Financial and Statistical Data (Unaudited)

	Three Months Ended June 30			Six Months Ended June 30		
Financial Data (in millions):	**2005**	2004	% Change	**2005**	2004	% Change
Operating Revenues:						
Passenger	**$ 561.2**	$ 519.9	7.9%	**$1,032.5**	$ 969.2	6.5%
Freight and mail	**23.9**	23.1	3.5%	**43.2**	40.8	5.9%
Other — net	**31.2**	34.6	-9.8%	**63.9**	58.9	8.5%
Total Operating Revenues	**616.3**	577.6	6.7%	**1,139.6**	1,068.9	6.6%
Operating Expenses:						
Wages and benefits	**182.0**	203.7	-10.7%	**381.7**	404.5	-5.6%
Contracted services	**31.6**	29.4	7.5%	**59.4**	52.5	13.1%
Aircraft fuel	**151.5**	112.6	34.5%	**279.1**	206.2	35.4%
Aircraft maintenance	**50.2**	40.7	23.3%	**100.3**	84.2	19.1%
Aircraft rent	**29.3**	27.9	5.0%	**57.7**	57.4	0.5%
Food and beverage service	**11.5**	13.0	-11.5%	**22.4**	24.2	-7.4%
Other selling expenses and commissions	**31.2**	31.3	-0.3%	**63.9**	65.2	-2.0%
Depreciation and amortization	**30.7**	30.4	1.0%	**61.0**	63.2	-3.5%
Landing fees and other rentals	**40.5**	35.3	14.7%	**81.1**	68.5	18.4%
Other	**41.5**	38.1	8.9%	**79.9**	75.8	5.4%
Restructuring charges	**14.7**	—	NM	**22.1**	—	NM
Impairment of aircraft and related spare parts	**—**	36.8	NM	**—**	36.8	NM
Total Operating Expenses	**614.7**	599.2	2.6%	**1,208.6**	1,138.5	6.2%
Operating Income (Loss)	**1.6**	(21.6)	NM	**(69.0)**	(69.6)	NM
Interest income	**7.6**	6.3		**13.9**	11.6	
Interest expense	**(12.4)**	(10.7)		**(23.9)**	(21.5)	
Interest capitalized	**1.2**	0.2		**1.9**	0.3	
Fuel hedging gains	**23.9**	22.8		**117.3**	23.3	
Other — net	**0.2**	0.2		**(2.7)**	(0.1)	
	20.5	18.8		**106.5**	13.6	
Income (Loss) Before Income Tax and Accounting Change	**$ 22.1**	$ (2.8)	NM	**$ 37.5**	$ (56.0)	NM
Operating Statistics:						
Revenue passengers (000)	**4,232**	4,116	2.8%	**8,083**	7,707	4.9%
RPMs (000,000)	**4,317**	4,104	5.2%	**8,214**	7,684	6.9%
ASMs (000,000)	**5,543**	5,635	-1.6%	**10,913**	10,813	0.9%
Passenger load factor	**77.9%**	72.8%	5.1 pts	**75.3%**	71.1%	4.2 pts
Yield per passenger mile	**13.00¢**	12.67¢	2.5%	**12.57¢**	12.61¢	-0.3%
Operating revenue per ASM	**11.12¢**	10.25¢	8.4%	**10.44¢**	9.89¢	5.6%
Operating expenses per ASM (a)	**11.09¢**	10.63¢	4.2%	**11.07¢**	10.53¢	5.2%
Operating expense per ASM excluding fuel, impairment and restructuring charges(a)	**8.09¢**	7.98¢	1.4%	**8.31¢**	8.28¢	0.4%
Raw fuel cost per gallon (a)	**179.5¢**	131.6¢	36.4%	**167.7¢**	124.4¢	34.8%
GAAP fuel cost per gallon (a)	**175.8¢**	126.7¢	38.8%	**163.8¢**	120.0¢	36.5%
Economic fuel cost per gallon (a)	**151.1¢**	123.1¢	22.7%	**142.1¢**	118.2¢	20.2%
Fuel gallons (000,000)	**86.2**	88.9	-3.1%	**170.4**	171.8	-0.8%
Average number of employees	**9,144**	10,255	-10.8%	**9,180**	10,120	-9.3%
Aircraft utilization (blk hrs/day)	**10.7**	11.1	-3.6%	**10.3**	10.7	-3.7%
Operating fleet at period-end	**109**	108	0.9%	**109**	108	0.9%

NM = Not Meaningful

(a) See Note A on Page 23.

Table of Contents

Horizon Air Financial and Statistical Data (Unaudited)

Financial Data (in millions):	Three Months Ended June 30 **2005**	2004	% Change	Six Months Ended June 30 **2005**	2004	% Change
Operating Revenues:						
Passenger	**$ 136.9**	$ 120.4	13.7%	**$ 254.6**	$ 226.9	12.2%
Freight and mail	**0.9**	1.1	-18.2%	**1.9**	2.0	-5.0%
Other — net	**2.8**	3.2	-12.5%	**5.3**	6.1	-13.1%
Total Operating Revenues	**140.6**	124.7	12.8%	**261.8**	235.0	11.4%
Operating Expenses:						
Wages and benefits	**43.1**	40.9	5.4%	**86.3**	82.4	4.7%
Contracted services	**6.1**	5.2	17.3%	**11.6**	10.4	11.5%
Aircraft fuel	**23.7**	16.0	48.1%	**42.8**	30.2	41.7%
Aircraft maintenance	**8.1**	9.4	-13.8%	**19.2**	16.7	15.0%
Aircraft rent	**17.6**	19.1	-7.9%	**35.3**	37.4	-5.6%
Food and beverage service	**0.6**	0.6	0.0%	**1.2**	1.0	20.0%
Other selling expenses and commissions	**7.3**	6.7	9.0%	**14.0**	13.2	6.1%
Depreciation and amortization	**4.3**	3.3	30.3%	**7.9**	6.3	25.4%
Landing fees and other rentals	**11.7**	10.3	13.6%	**23.5**	20.2	16.3%
Other	**9.6**	10.7	-10.3%	**20.9**	21.8	-4.1%
Impairment of aircraft and spare engines	**—**	0.4	NM	**—**	2.8	NM
Total Operating Expenses	**132.1**	122.6	7.7%	**262.7**	242.4	8.4%
Operating Income (Loss)	**8.5**	2.1	NM	**(0.9)**	(7.4)	NM
Interest income	**0.4**	0.4		**0.7**	0.6	
Interest expense	**(1.5)**	(1.0)		**(2.7)**	(2.3)	
Interest capitalized	**0.1**	0.1		**0.2**	0.3	
Fuel hedging gains	**3.6**	3.1		**18.4**	3.1	
	2.6	2.6		**16.6**	1.7	
Income (Loss) Before Income Tax	**$ 11.1**	$ 4.7	NM	**$ 15.7**	$ (5.7)	NM
Operating Statistics:						
Revenue passengers (000)	**1,638**	1,454	12.7%	**3,113**	2,721	14.4%
RPMs (000,000)	**620**	535	15.9%	**1,160**	985	17.8%
ASMs (000,000)	**849**	792	7.2%	**1,631**	1,484	9.9%
Passenger load factor	**73.0%**	67.5%	5.5 pts	**71.1%**	66.4%	4.7 pts
Yield per passenger mile	**22.08¢**	22.50¢	-1.9%	**21.95¢**	23.04¢	-4.7%
Operating revenue per ASM	**16.57¢**	15.75¢	5.2%	**16.05¢**	15.84¢	1.3%
Operating expenses per ASM (a)	**15.57¢**	15.49¢	0.5%	**16.11¢**	16.34¢	-1.4%
Operating expense per ASM excluding fuel and impairment charges(a)	**12.78¢**	13.43¢	-4.9%	**13.48¢**	14.12¢	-4.5%
Raw fuel cost per gallon (a)	**187.6¢**	136.1¢	37.7%	**175.1¢**	128.4¢	36.4%
GAAP fuel cost per gallon (a)	**183.7¢**	131.1¢	40.2%	**171.9¢**	124.3¢	38.3%
Economic fuel cost per gallon (a)	**158.9¢**	127.1¢	25.0%	**149.0¢**	122.8¢	21.3%
Fuel gallons (000,000)	**12.9**	12.2	5.7%	**24.9**	24.3	2.5%
Average number of employees	**3,414**	3,414	0.0%	**3,389**	3,379	0.3%
Aircraft utilization (blk hrs/day)	**8.5**	8.4	1.4%	**8.9**	8.0	11.3%
Operating fleet at period-end	**65**	64	1.6%	**65**	64	1.6%

NM = Not Meaningful

(a) See Note A on Page 23.

Table of Contents

Note A:

Pursuant to Item 10 of Regulation S-K, we are providing disclosure of the reconciliation of reported non-GAAP financial measures to their most directly comparable financial measures reported on a GAAP basis. The non-GAAP financial measures provide management the ability to measure and monitor performance both with and without the cost of aircraft fuel (including the gains and losses associated with our fuel hedging program where appropriate), restructuring charges, and aircraft impairment charges. Because the cost and availability of aircraft fuel are subject to many economic and political factors beyond our control and we record changes in the fair value of our hedge portfolio in our income statement, it is our view that the measurement and monitoring of performance without fuel is important. In addition, we believe the disclosure of financial performance without impairment and restructuring charges is useful to investors. Finally, these non-GAAP financial measures are also more comparable to financial measures reported to the Department of Transportation by other major network airlines.

The following tables reconcile our non-GAAP financial measures to the most directly comparable GAAP financial measures for both Alaska Airlines, Inc. and Horizon Air Industries, Inc.:

Alaska Airlines, Inc.: ($ in millions)	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Unit cost reconciliations:				
Operating expenses	**$ 614.7**	$ 599.2	**$ 1,208.6**	$ 1,138.5
ASMs (000,000)	**5,543**	5,635	**10,913**	10,813
Operating expenses per ASM	**11.09¢**	10.63¢	**11.07¢**	10.53¢
Operating expenses	**$ 614.7**	$ 599.2	**$ 1,208.6**	$ 1,138.5
Less: aircraft fuel	**(151.5)**	(112.6)	**(279.1)**	(206.2)
Less: restructuring charges	**(14.7)**	—	**(22.1)**	—
Less: impairment of aircraft	**—**	(36.8)	**—**	(36.8)
Operating expense excluding fuel, restructuring charges, and impairment charge	**$ 448.5**	$ 449.8	**$ 907.4**	$ 895.5
ASMs (000,000)	**5,543**	5,635	**10,913**	10,813
Operating expense per ASM excluding fuel, restructuring charges, and impairment charge	**8.09¢**	7.98¢	**8.31¢**	8.28¢
Reconciliation from GAAP pretax income (loss):				
Pretax income (loss) reported GAAP amounts	**$ 22.1**	$ (2.8)	**$ 37.5**	$ (56.0)
Less: mark-to-market hedging gains included in nonoperating income (expense)	**(2.6)**	(19.6)	**(80.3)**	(20.1)
Add: restructuring charges	**14.7**	—	**22.1**	—
Add: impairment of aircraft and related spare parts	**—**	36.8	**—**	36.8
Pretax income (loss) excluding restructuring charges, impairment charge, government comp and mark-to-market hedging gains	**$ 34.2**	$ 14.4	**$ (20.7)**	$ (39.3)

Three Months Ended June 30,	2005 (in millions)	2005 Cost/Gal	2004 (in millions)	2004 Cost/Gal
Fuel expense before hedge activities ("raw" or "into-plane" fuel cost)	**$ 154.7**	**$ 1.80**	$ 117.0	$ 1.32
Less: gains on settled hedges included in fuel expense	**(3.2)**	**(0.04)**	(4.4)	(0.05)
GAAP fuel expense	**$ 151.5**	**$ 1.76**	$ 112.6	$ 1.27
Less: gains on settled hedges included in nonoperating income (expense)	**(21.3)**	**(0.25)**	(3.2)	(0.04)
Economic fuel expense	**$ 130.2**	**$ 1.51**	$ 109.4	$ 1.23
Fuel gallons (000,000)	**86.2**		88.9	
Mark-to-market gains (losses) included in non-operating income related to hedges that settle in future periods	**$ 2.6**		$ 19.6	

Six Months Ended June 30,	2005 (in millions)	2005 Cost/Gal	2004 (in millions)	2004 Cost/Gal
Fuel expense before hedge activities ("raw" or "into-plane" fuel cost)	**$ 285.7**	**$ 1.68**	$ 213.7	$ 1.24
Less: gains on settled hedges included in fuel expense	**(6.6)**	**(0.04)**	(7.5)	(0.04)
GAAP fuel expense	**$ 279.1**	**$ 1.64**	$ 206.2	$ 1.20
Less: gains on settled hedges included in nonoperating income (expense)	**(37.0)**	**(0.22)**	(3.2)	(0.02)
Economic fuel expense	**$ 242.1**	**$ 1.42**	$ 203.0	$ 1.18
Fuel gallons (000,000)	**170.4**		171.8	
Mark-to-market gains (losses) included in non-operating income related to hedges that settle in future periods	**$ 80.3**		$ 20.1	

Horizon Air Industries, Inc. ($ in millions)	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Unit cost reconciliations:				
Operating expenses	**$ 132.1**	$ 122.6	**$ 262.7**	$ 242.4
ASMs (000,000)	**849**	792	**1,631**	1,484
Operating expenses per ASM	**15.57¢**	15.49¢	**16.11¢**	16.34¢
Operating expenses	**$ 132.1**	$122.6	**$ 262.7**	$ 242.4
Less: aircraft fuel	**(23.7)**	(16.0)	**(42.8)**	(30.2)
Less: impairment of aircraft	**—**	(0.4)	**—**	(2.8)
Operating expense excluding fuel and impairment charge	**$ 108.4**	$ 106.2	**$ 219.9**	$ 209.4
ASMs (000,000)	**849**	792	**1,631**	1,484
Operating expense per ASM excluding fuel and impairment charge	**12.78¢**	13.43¢	**13.48¢**	14.12¢
Reconciliation from GAAP pretax income (loss):				
Pretax income (loss) reported GAAP amounts	**$ 11.1**	$ 4.7	**$ 15.7**	$ (5.7)
Less: mark-to-market hedging gains included in nonoperating income (expense)	**(0.4)**	(2.7)	**(12.7)**	(2.7)
Add: impairment of aircraft and related spare parts	**—**	0.4	**—**	2.8
Pretax income (loss) excluding impairment charge and mark-to-market hedging gains	**$ 10.7**	$ 2.4	**$ 3.0**	$ (5.6)

Aircraft fuel reconciliations:

	Three Months Ended June 30, 2005 (in millions)	2005 Cost/Gal	2004 (in millions)	2004 Cost/Gal
Fuel expense before hedge activities (“raw” or “into-plane” fuel cost)	**$ 24.2**	**$ 1.88**	$ 16.6	$ 1.36
Less: gains on settled hedges included in fuel expense	**(0.5)**	**(0.04)**	(0.6)	(0.05)
GAAP fuel expense	**$ 23.7**	**$ 1.84**	$ 16.0	$ 1.31
Less: gains on settled hedges included in nonoperating income (expense)	**(3.2)**	**(0.25)**	(0.4)	(0.03)
Economic fuel expense	**$ 20.5**	**$ 1.59**	$ 15.6	$ 1.28
Fuel gallons (000,000)	**12.9**		12.2	
Mark-to-market gains (losses) included in non-operating income related to hedges that settle in future periods	**$ 0.4**		$ 2.7	

	Six Months Ended June 30, 2005 (in millions)	2005 Cost/Gal	2004 (in millions)	2004 Cost/Gal
Fuel expense before hedge activities (“raw” or “into-plane” fuel cost)	**$ 43.6**	**$ 1.75**	$ 31.2	$ 1.28
Less: gains on settled hedges included in fuel expense	**(0.8)**	**(0.03)**	(1.0)	(0.04)
GAAP fuel expense	**$ 42.8**	**$ 1.72**	$ 30.2	$ 1.24
Less: gains on settled hedges included in nonoperating income (expense)	**(5.7)**	**(0.23)**	(0.4)	(0.01)
Economic fuel expense	**$ 37.1**	**$ 1.49**	$ 29.8	$ 1.23
Fuel gallons (000,000)	**24.9**		24.3	
Mark-to-market gains (losses) included in non-operating income related to hedges that settle in future periods	**$ 12.7**		$ 2.7	

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

The following discussion should be read in conjunction with our condensed consolidated financial statements and the related notes contained elsewhere in this quarterly report on Form 10-Q. All statements in the following discussion that 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.

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. The information contained on our website is not a part of this quarterly report on Form 10-Q. As used in this Form 10-Q, the terms "Air Group," "our," "we" and the "Company" refer to Alaska Air Group, Inc. and its subsidiaries, unless the context indicates otherwise.

Second Quarter in Review and Current Events

In the second quarter of 2005, despite nearly flat capacity, revenues continued to improve due to increases in passenger traffic at both Alaska and Horizon, coupled with a modest improvement in ticket yields at Alaska over prior year. Operating expenses per available seat mile increased 4.2% at Alaska to 11.09 cents and 0.5% at Horizon to 15.57 cents compared to the second quarter of 2004. Fuel is a major component of our operating costs and fuel prices reached record highs once again in the second quarter. At Alaska, our unit costs excluding fuel, impairment, and restructuring charges during the second quarter of 2005 increased slightly compared to the second quarter of 2004. This is due to the reduction in capacity at Alaska from the prior year quarter due to the reduction of our 2005 summer flight schedule. Horizon, however, continued to see improvement in unit costs excluding fuel, impairment, and restructuring charges over the prior period. Our cost per available seat mile excluding fuel, impairment, and restructuring charges increased 1.4% at Alaska to 8.09 cents and declined 4.9% at Horizon to 12.78 cents compared to the second quarter of 2004.

Although revenues and pretax income at Alaska have improved over the prior year, we are facing several operational difficulties due to the combined effects of the recent labor and operational changes across our company. The result has been operational performance that is well below our goal. Our operational performance, measured by on-time arrivals and departures, declined significantly from the second quarter of 2004. In order to improve our operational performance, we reduced our capacity throughout the remainder of 2005 from our original expectations through schedule reductions and the elimination of certain flights. This capacity reduction will impact our revenue in the third and fourth quarters, although the impact is not known at this time.

Labor Costs and Negotiations

Despite ongoing negotiations in late 2003 and much of 2004, we were unable to reach a new agreement with the Air Line Pilots Association (ALPA) and, therefore, pursuant to the terms of the collective bargaining agreement, submitted to binding arbitration during the first quarter of 2005, the decision of which became effective on May 1, 2005. The arbitration resulted in an average pilot wage reduction of approximately 26%, various work rule changes that should result in productivity improvements, and higher employee health care contributions. No changes were made to the pilots' pension plan. Subsequent to the arbitrator's decision, the Company and ALPA reached a tentative agreement that, among other things, provided an across-the-board 20% reduction of pilot's wages rather than the average 26% reduction from the arbitrator's decision and a number of work rule changes. The pilot group rejected this agreement on July 11, 2005 and, therefore, the contract resulting from the arbitrator's decision will stand and will become amendable on May 1, 2007. We have reached a tentative agreement with ALPA to resolve certain aspects of the current contract such as vacation and training pay, health care and profit sharing. ALPA filed a lawsuit in federal district court to vacate the arbitrator's decision. At this time, the Company has no reason to believe that an unfavorable outcome is likely (See Part II: Other Information – Item 1: Legal Proceedings).

During the second quarter of 2005, we presented a contract offer to the International Association of Machinists (IAM, representing our ramp workers) that was rejected by this work group. We subcontracted our Seattle ramp operations to a third party effective May 13, 2005. This resulted in an immediate reduction of approximately 475 employees. We offered a severance package, substantially the same as the severance packages offered to other employees in late 2004, to those affected by the subcontracting that included cash payments based on years of service, one year of medical coverage after the severance date and continued travel benefits for a period of time. The IAM accepted the severance package in June 2005 and, as a result, we recorded a charge of $16.1 million in the second quarter of 2005 related to the restructuring, which was offset by a $1.4 million adjustment related to the remaining restructuring liability from our prior restructuring efforts, resulting in a net restructuring charge of $14.7 million. The IAM has filed a lawsuit in federal court alleging a violation of the status quo and that we engaged in bad faith bargaining. At this time, the Company has no reason to believe that an unfavorable outcome is likely (See Part II: Other Information – Item 1: Legal Proceedings).

A tentative agreement with the Association of Flight Attendants (AFA) was rejected by the majority of Alaska's flight attendants on July 19, 2005. A tentative agreement with the Aircraft Mechanics Fraternal Association (AMFA) was rejected by the majority of Alaska's aircraft technicians on July 27, 2005. The Company will resume talks with the AFA and AMFA soon to determine next steps in these processes.

Although we are disappointed that we have not been able to secure contracts with IAM, AFA, or AMFA thus far, we believe the negotiations to date have been productive. None of the contract negotiations is at an impasse or has reached the 30 day cooling off period required under the Railway Labor Act that would trigger self help. Therefore, we currently believe the risk of a work stoppage or other material service disruption in the near future is very low.

Mark-to-Market Fuel Hedging Gains

Beginning in the second quarter of 2004, we lost the ability to defer, as a component of comprehensive income, recognition of any unrealized gain or loss on our fuel hedge contracts until the hedged fuel is consumed. We lost this ability because the price correlation between crude oil, the commodity we use to hedge, and West Coast jet fuel fell below required thresholds. For more discussion, see Note 4 to our condensed consolidated financial statements.

The implications of this change are twofold: First, our earnings can be more volatile as we mark our entire hedge portfolio to market each quarter-end and report the gain or loss in other non-operating income or expense, even though the actual consumption will take place in a future period. In times of rising fuel prices such as the second quarter of 2005, this will have the effect of increasing our reported net income or decreasing our reported net loss. Our mark-to-market gains recorded in the second quarter of 2005 for contracts that settle in future periods were $3.0 million compared to $22.3 million in the second quarter of 2004. Second, to a large extent, the impact of our fuel hedge program will not be reflected in fuel expense. In the second quarter of 2005, we recorded gains from settled fuel hedges totaling $28.2 million, but only $3.7 million of that gain is reflected as an offset to fuel expense with the balance reported in other non-operating income. In the second quarter of 2004, gains of $5.0 million on settled hedges were recorded as an offset to fuel expense and gains of $3.6 million were recorded in non-operating income related to settled hedges.

We have provided information on mark-to-market gains or losses, as well as calculations of our economic fuel cost per gallon on pages 23 and 24.

We continue to believe that our fuel hedge program is an important part of our strategy to reduce our exposure to volatile fuel prices.

Impairment of 737-200C Aircraft in 2004

In the second quarter of 2004, our Board approved a plan to accelerate the retirement of our Boeing 737-200C fleet and remove those aircraft from service earlier than initially planned. As a result of this decision, we recorded an impairment charge totaling $36.8 million (pretax) to write down the fleet to its estimated fair market value.

Aircraft Commitment

On June 15, 2005, Alaska Airlines, Inc. entered into an aircraft purchase agreement with The Boeing Company to purchase 35 B737-800 aircraft with deliveries beginning in January 2006 and continuing through April 2011. The purchase agreement includes options to purchase an additional 15 aircraft with deliveries between July 2007 and April 2009. The order also includes rights to purchase an additional 50 737-800s under the same terms as the agreement.

Capacity Outlook

For 2005, Alaska and Horizon expect capacity to be flat and up approximately 10%, respectively, compared to 2004 capacity. We recently reduced the estimated capacity forecast for the remainder of the year for Alaska due to schedule reductions that are being made to improve operational reliability. Horizon's expected capacity increase is due largely to the annualization of aircraft additions in the last half of 2004, the addition of one new CRJ-700 in the first quarter of 2005, and higher utilization resulting from the annualization of the contract flying for Frontier. In addition, Horizon has completed the addition of a row of seats to the Q400 fleet increasing capacity from 70 to 74 seats.

We expect to begin service to Dallas/Fort Worth in September 2005. During the second quarter, we announced service from Los Angeles to Mexico City beginning in August 2005.

Results of Operations

Comparison of Three Months Ended June 30, 2005 to Three Months Ended June 30, 2004

Our consolidated net income for the second quarter of 2005 was $17.4 million, or $0.56 per diluted share, versus a net loss of $1.7 million, or $0.06 per diluted share, in the second quarter of 2004.

Our consolidated operating income for the second quarter of 2005 was $9.1 million compared to an operating loss of $20.6 million during the same period of 2004. Our consolidated pre-tax net income for the quarter was $29.7 million compared to a pre-tax loss of $0.7 million for the second quarter of 2004. Both the 2005 and 2004 results include certain significant items that impact the comparability of the quarters. These items are discussed in the "Second Quarter in Review and Current Events" section beginning on page 25. Excluding those items, the quarter over quarter improvement can be characterized by higher revenues, offset by significantly higher fuel costs and relatively flat operating expenses. Wages and benefits declined significantly due to some of the recent initiatives and new pilot contract at Alaska. However, these declines were largely offset by higher operating expenses in other areas.

Financial and statistical data comparisons for Alaska and Horizon are shown on pages 21 and 22, respectively. On pages 23 and 24, we have included a reconciliation of reported non-GAAP financial measures to the most directly comparable GAAP financial measures.

Alaska Airlines Revenues

Operating revenues increased $38.7 million, or 6.7%, during the second quarter of 2005 as compared to the same period in 2004. For the quarter, revenue passenger miles (RPMs or traffic) increased 5.2% over prior year and ticket yields per passenger mile increased approximately 2.5%. The increase in yield per passenger mile was a result of a modest increase in ticket prices industry-wide designed to offset higher fuel prices.

Our operating revenues per available seat mile (ASM) increased by 8.4% compared to the prior year driven primarily by the increase in ticket yields as discussed above and a 1.6% decline in ASMs. The capacity decreases are primarily due to the reduction in our flight schedule that was announced in June 2005 and the retirement of two B737-200s in 2004, offset by the additional seats added to the B737-400 fleet during the fourth quarter of 2004 and the addition of two B737-800s in the first quarter of 2005. The increase in traffic offset by the capacity decrease, resulted in an increase in load factor from 72.8% to 77.9%. We expect that load factors will continue to be strong and that yields and passenger unit revenues will continue to trend slightly higher through the remainder of 2005.

Freight and mail revenues increased $0.8 million, or 3.5%, compared to the same period in 2004 because of a relatively new mail contract we have in the State of Alaska offset by lower freight revenues.

Other-net revenues decreased $3.4 million, or 9.8%, due to the termination of contract maintenance work that we were performing for third parties in the second quarter of 2004 and are no longer performing. This was offset by increases in Mileage Plan revenues, resulting from higher award redemption on our partner airlines and an increase in cash receipts from miles sold.

Alaska Airlines Expenses

For the quarter, total operating expenses increased $15.5 million, or 2.6%, as compared to the same period in 2004 despite a 1.6% decrease in capacity. Operating expenses per ASM increased 4.2% from 10.63 cents in the second quarter of 2004 to 11.09 cents in the second quarter of 2005. The increase in operating expenses is due largely to the significant increases in fuel costs, the restructuring charge related to the subcontracting of the ramp services operation in Seattle, contracted services costs, aircraft maintenance, and landing fees and other rentals, offset by a decline in wages and benefits and food and beverage service. Operating expense per ASM excluding fuel, restructuring and impairment charges increased 1.4% as compared to the same period in 2004. Our estimates of costs per ASM, excluding fuel and restructuring or impairment charges, for the third quarter, fourth quarter and full year of 2005 are 7.4 cents, 7.4 cents, and between 7.8 and 7.9 cents, respectively.

Explanations of significant period-over-period changes in the components of operating expenses are as follows:

- Wages and benefits decreased $21.7 million, or 10.7%, during the second quarter. Wages have been favorably impacted by the restructuring initiatives announced in August and September of 2004 and the reduction in pilot wages resulting from the arbitrator’s decision in May 2005. Additionally, during the second quarter of 2005, we subcontracted our ramp services operation in Seattle. We expect a greater year-over-year decline in wages in the third quarter of 2005 as we see the full effect of some of these changes, with the increase tapering down as we get into the fourth quarter. We estimate that wages and benefits will decline approximately $34 million, or 16%, in the third quarter and $19 million, or 10% in the fourth quarter as compared to the same periods in 2004 as we complete a full year under some of the restructuring changes that were made in the fourth quarter of the prior year. The period over period declines in wages and benefits are partially offset by increases in contracted services and maintenance expense due to the subcontracting of certain operations.

- Contracted services increased $2.2 million, or 7.5%, due largely to the contracting out of the Company’s fleet service and ground service equipment and facility maintenance in the fourth quarter of 2004, and the Seattle ramp operations in the second quarter of 2005. We expect a larger increase from prior year in the third and fourth quarters due to the ramp service operations being subcontracted for the full quarters.

- Aircraft fuel increased $38.9 million, or 34.5%, due to a 38.8% increase in the GAAP fuel cost per gallon, offset by a 3.1% decrease in fuel gallons consumed. The increase in aircraft fuel expense is inclusive of $3.2 million of gains from settled hedges. During the second quarter of 2005, Alaska also realized $21.3 million of gains from settled hedges, which are recorded in other non-operating income. After including all gains on settled hedges recorded during the quarter, our "economic," or net, fuel expense increased $20.8 million, or 19.0%, over the same period in 2004. Our economic fuel cost per gallon increased 22.7% over the second quarter of 2004 from $1.23 to $1.51. At current market prices, we expect that the cost per gallon in the third and fourth quarters will meet or exceed second quarter levels.

  See page 23 for a table summarizing fuel cost per gallon realized by Alaska (the economic cost per gallon), the cost per gallon on a GAAP basis (including hedging gains recorded in aircraft fuel and non-operating income (expense)) and fuel cost per gallon excluding all hedging activities.

- Aircraft maintenance increased $9.5 million, or 23.3%, due largely to our power-by-the-hour maintenance agreement, whereby we expense B737-400 engine maintenance on a flight-hour basis, regardless of whether the work was actually performed during the period. Other factors causing the increase were the contracting out of related heavy maintenance to third parties, which resulted in a shift of costs from wages and benefits into aircraft maintenance, more airframe work and engine overhauls in 2005 compared to 2004, and the change in our accounting policy regarding engine and airframe overhauls (see Note 2 to our condensed consolidated financial statements). We expect that maintenance expense will be higher by $15 million and $6 million in the third and fourth quarters of 2005, respectively, compared to the same periods in 2004 as a result of the factors above and our decision to move the timing of some maintenance activities up from 2006.

- Aircraft rent increased $1.4 million, or 5.0%, due to the additional operating lease on a B737-800 that was delivered in March 2005, offset by lower rates on extended leases.

- Food and beverage service expense decreased $1.5 million, or 11.5%, due primarily to increased focus on cost reduction resulting in a decrease in average food and beverage cost per passenger.

- Landing fees and other rentals increased $5.2 million, or 14.7% despite a decrease in the number of departures. The higher rates reflect increased rental costs, primarily in Seattle, Portland and Los Angeles. We expect landing fees and other rentals to continue to increase by 10% to 15% in the third and fourth quarters compared to 2004 as a result of airport facility expansions and higher costs related to airport security.

- Other expense increased $3.4 million, or 8.9%, primarily reflecting increases in passenger remuneration costs, professional services costs, legal settlement costs and personnel and crew costs.

Horizon Air Revenues

For the second quarter, operating revenues increased $15.9 million, or 12.8% as compared to 2004. This increase is due largely to increased traffic in the native network, partially offset by a 1.9% decline in ticket yields.

For the three months ending June 30, 2005, capacity increased 7.2% and traffic was up 15.9%, compared to the same period in 2004 due primarily to the addition of one CRJ 700, four additional seats on each of our Q400’s and an increase in the average trip length. Passenger yield decreased 1.9% to 22.08 cents per passenger mile due primarily to an increase in average trip lengths across the native network, partially as a result of increased harmonization flying with Alaska. Passenger revenues increased by $16.5 million, or 13.7%, due primarily to the increase in traffic resulting from increased harmonization flying with Alaska and in our native network.

Horizon Air Expenses

Operating expenses increased $9.5 million, or 7.7%, as compared to the same period in 2004. Operating expenses per ASM increased 0.5% as compared to 2004. Operating expenses per ASM excluding fuel and impairment charges decreased 4.9% as compared to the same period in 2004. Operating expenses in 2004 include $0.4 million related to an impairment charge on our held-for-sale F-28 aircraft and spare engines to lower the carrying value of these assets to their estimated fair value. Our estimates of costs per ASM, excluding fuel and special charges, for the third quarter, fourth quarter and full year of 2005 are 12.2 cents, 13.6 cents, and 13.2 cents, respectively.

Explanations of other significant period-over-period changes in the components of operating expenses are as follows:

- Wages and benefits increased $2.2 million, or 5.4%, reflecting a slight increase in the average wage per employee and a new performance-based incentive program for all employees, partially offset by lower workers compensation expense based on favorable claims activity.

- Aircraft fuel increased $7.7 million, or 48.1%, due to a 40.2% increase in the GAAP fuel cost per gallon from $1.31 in 2004 to $1.84 in 2005 and a 5.7% increase in fuel gallons consumed. The increase in aircraft fuel expense is inclusive of $0.5 million of gains from settled hedges. During the quarter, Horizon also realized $3.2 million of gains from settled hedges, which are recorded in other non-operating income (expense). After including all gains on settled hedges recorded during the quarter, our “economic,” or net, fuel expense increased $4.9

million, or 31.4%, over 2004. Our economic fuel cost per gallon increased 25.0% from $1.28 in 2004 to $1.59 in 2005. At current market prices, we expect that the cost per gallon in the third and fourth quarters will meet or exceed second quarter levels.

See page 24 for a table summarizing fuel cost per gallon realized by Horizon (the economic cost per gallon), the cost per gallon on a GAAP basis (including hedging gains recorded in aircraft fuel and non-operating income (expense)) and fuel cost per gallon excluding all hedging activities.

- Aircraft maintenance expense decreased $1.3 million, or 13.8%, primarily due to the timing of our airframe and engine events and the elimination of amortization expense on capitalized airframe and engine overhauls as a result of the accounting change in the first quarter (see Note 2 to our condensed consolidated financial statements).
- Depreciation and amortization increased $1.0 million, or 9.0%, primarily due to the addition of one CRJ-700 at the end of the first quarter of 2005 and a Q400 delivered in the third quarter of 2004.
- Landing fees and other rentals increased $1.4 million, or 13.6%. Higher landing fees are a result of significant rate increases in several of our key airports. We expect landing fees and other rentals to continue to increase as a result of airport facility expansions and increased costs for security.
- Other expenses declined $1.1 million, or 10.3%, due primarily to reductions in aircraft liability insurance and property taxes and a gain on the sale of one of our F-28's during the second quarter of 2005.

Consolidated Nonoperating Income (Expense)

Net nonoperating income was $20.6 million in the second quarter of 2005 compared to $19.9 million during the same period of 2004. Interest income increased $1.0 million due to a larger average marketable securities portfolio in the second quarter of 2005. Interest expense (net of capitalized interest) increased $1.7 million primarily due to interest rate increases on our variable rate debt and the changes to some of our variable rate debt agreements to slightly higher fixed rate agreements.

Fuel hedging gains include $24.5 million in gains from fuel hedging contracts settled in the second quarter of 2005 compared to $3.6 million in 2004. In addition, fuel hedging gains include net mark-to-market gains on unsettled hedge contracts of $3.0 million in 2005 and $22.3 million in 2004.

Comparison of Six Months Ended June 30, 2005 to Six Months Ended June 30, 2004

Our consolidated net loss for the six months ended June 30, 2005 was $63.1 million, or $1.82 per diluted share, versus a net loss of $44.4 million, or $1.66 per diluted share, during the same period of 2004.

Our consolidated operating loss for the six months ended June 30, 2005 was $71.8 million compared to an operating loss of $79.1 million during the same period of 2004. Our consolidated income before income tax and the accounting change for the six months of 2005 was $46.7 million compared to a pre-tax loss of $66.9 million for the first six months of 2004. Both the 2005 and 2004 results include certain significant items that impact the comparability of the six-month periods. Our 2005 consolidated net income includes a $144.7 million pre-tax ($90.4 million after tax) charge resulting from the change in the method of accounting for major airframe and engine overhauls as discussed in Note 2 to the consolidated financial statements. Additionally, we recorded restructuring charges of $22.1 million ($13.8 million, net of tax) in the first six months of 2005 related primarily to the termination of the lease at our Oakland heavy maintenance base and severance and related costs resulting from the subcontracting of the ramp services operation in Seattle. The results also include mark-to-market fuel hedging gains on contracts that settle in future periods of $93.0 million during the first six months of 2005 compared to $22.8 million in the same prior year period. Financial and statistical data comparisons for Alaska and Horizon are shown on pages 21 and 22, respectively. On pages 23 and 24, we have included a reconciliation of reported non-GAAP financial measures to the most directly comparable GAAP financial measures. A discussion of the six-month data follows.

Alaska Airlines Revenues

Operating revenues increased $70.7 million, or 6.6%, during 2005 as compared to 2004.

Yield per passenger mile decreased 0.3%, although the yield trended higher in the second quarter, and passenger load factor increased 4.2 points during the first six months of 2005 as compared to the same period in 2004. The increases in traffic with relatively flat yields drove the 6.5% increase in passenger revenues in 2005.

Freight and mail revenues increased slightly by $2.4 million, or 5.9%, compared to the same period in 2004 because of a relatively new mail contract we have in the State of Alaska, offset by lower freight revenues.

Other-net revenues increased $5.0 million, or 8.5%, due largely to an increase in Mileage Plan revenues, resulting from higher award redemption on our partner airlines and an increase in cash receipts from miles sold, offset by the termination of contract maintenance work that we were performing for third parties in the second quarter of 2004 and are no longer performing.

Alaska Airlines Expenses

For the six months ended June 30, 2005, total operating expenses increased $70.1 million, or 6.2%, as compared to the same period in 2004. Operating expenses per ASM increased 5.2% in 2005 as compared to 2004. The increase in operating expenses is due largely to the significant increases in fuel costs, restructuring charges related to the subcontracting of the ramp services operation in Seattle and the closure of the Oakland hangar, contracted services costs, aircraft maintenance, and landing fees and other rentals, offset by a decline in wages and benefits, food and beverage service, other selling expenses and commissions and depreciation and amortization. Operating expense per ASM excluding fuel, restructuring and impairment charges increased 0.4% as compared to the same period in 2004. As noted above, operating expense per ASM was also negatively impacted by the summer capacity reductions.

Explanations of significant period-over-period changes in the components of operating expenses are as follows:

- Wages and benefits decreased $22.8 million, or 5.6%, during the first six months of 2005 compared to the same period in 2004. Wages have been favorably impacted by the restructuring initiatives announced in August and September of 2004 and the reduction in pilot wages resulting from the arbitrator's decision in May 2005. Additionally, during the second quarter of 2005, we subcontracted our ramp services operation in Seattle. During the first six months of 2005, there were 9,180 full-time equivalents (FTEs), which is down by 940 FTEs from 2004.

- Contracted services increased $6.9 million, or 13.1%, due largely to the contracting out of the Company's fleet service and ground service equipment and facility maintenance in the fourth quarter of 2004, and the Seattle ramp operations in May 2005.

- Aircraft fuel increased $72.9 million, or 35.4%, due to a 36.5% increase in the GAAP fuel cost per gallon, offset by a 0.8% decrease in fuel gallons consumed. The increase in aircraft fuel expense is inclusive of $6.6 million of gains from settled hedges. During the first six months of 2005, Alaska also realized $37.0 million of gains from settled hedges, which are recorded in other non-operating income. After including all gains from settled hedges recorded during the period, our "economic," or net, fuel expense increased $39.1 million, or 19.3%, over the same period in 2004. Our economic fuel cost per gallon increased 20.2% over the first six months of 2004 from $1.42 to $1.18.

  See page 23 for a table summarizing fuel cost per gallon realized by Alaska (the economic cost per gallon), the cost per gallon on a GAAP basis (including hedging gains recorded in aircraft fuel and non-operating income (expense)) and fuel cost per gallon excluding all hedging activities.

- Aircraft maintenance increased $16.1 million, or 19.1%, due largely to our power-by-the-hour maintenance agreement, whereby we expense B737-400 engine maintenance on a flight-hour basis, regardless of whether the work was actually performed during the period. Other factors causing the increase were the contracting out of related heavy maintenance to third parties, which resulted in a shift of costs from wages and benefits into aircraft maintenance, more airframe work and engine overhauls in 2005 compared to 2004, and the change in our accounting policy regarding engine and airframe overhauls (see Note 2 to our condensed consolidated financial statements).

- Food and beverage service expense decreased $1.8 million, or 7.4%, due primarily to increased focus on cost reduction resulting in a decrease in average food and beverage cost per passenger.
- Other selling expenses and commissions decreased $1.3 million, or 2.0% due to a decline in advertising expense, offset by increases in commissions and codeshare fees.
- Depreciation and amortization decreased $2.2 million, or 3.5%. In the second quarter of 2004, we recorded an impairment charge of $36.8 million to reduce the carrying value of the Boeing 737-200C fleet, which results in lower depreciation expense in future periods. This is offset by the increased depreciation on two new owned aircraft delivered during the first six months of 2005.
- Landing fees and other rentals increased $12.6 million, or 18.4%. The higher rates reflect increased rental costs, primarily in Seattle, Portland and Los Angeles.
- Other expenses increased $4.1 million, or 5.4%, primarily reflecting increases in passenger remuneration costs, professional services costs, legal settlement costs and personnel and crew costs.

Horizon Air Revenues

For the first six months of 2005, operating revenues increased $26.8 million, or 11.4% compared to 2004. This increase is due largely to the increased traffic in the native network and the contract flying for Frontier Airlines, which began in January 2004, partially offset by a 4.7% decline in ticket yields.

For the six months ended June 30, 2005, capacity increased 9.9% and traffic was up 17.8%, compared to the same period in 2004, due to an increase in contract flying with Frontier, the addition of one CRJ 700 in March 2005 and four additional seats on each of our Q400’s. Contract flying with Frontier represented approximately 9.5% of passenger revenues and 22.4% of capacity, during the first half of 2005 compared to 8.6% and 19.5%, respectively, in the first six months of 2004. Passenger load factor increased 4.7 percentage points to 71.1%. Passenger yield decreased 4.7% to 21.95 cents, reflecting the inclusion of the Frontier contract flying, the yield for which is significantly lower than native network flying and an increase in average trip lengths across the native network, partially due to an increase in harmonization flying with Alaska. Passenger revenues increased by $27.7 million, or 12.2%, due primarily to the increase in traffic resulting from increased harmonization flying with Alaska and the increase in Frontier contract flying.

Horizon Air Expenses

Operating expenses for the first six months of 2005 increased $20.3 million, or 8.4%, compared to the same period in 2004. Operating expenses per ASM decreased 1.4% as compared to 2004. Operating expenses per ASM excluding fuel and impairment charges decreased 4.5% as compared to the same period in 2004. Operating expenses in 2004 include $2.8 million related to an impairment charge on our held-for-sale F-28 aircraft and spare engines to lower the carrying value of these assets to their estimated fair value.

Explanations of other significant period-over-period changes in the components of operating expenses are as follows:

- Wages and benefits increased $3.9 million, or 4.7%, reflecting a slight increase in the average number of employees, wages per employee, and a new performance-based incentive program for all employees, partially offset by favorable reductions of medical and workers compensation accruals.
- Aircraft fuel increased $12.6 million, or 41.7%, due to a 38.3% increase in the GAAP fuel cost per gallon from $1.24 in 2004 to $1.72 in 2005. The increase in aircraft fuel expense is inclusive of $0.8 million of gains from settled hedges. During the first six months of 2005, Horizon also realized $5.7 million of gains from settled hedges, which are recorded in other non-operating income (expense). After including all gains from settled hedges recorded during the period, our "economic," or net, fuel expense increased $7.3 million, or 24.5%, over 2004. Our economic fuel cost per gallon increased 21.3% from $1.23 in 2004 to $1.49 in 2005.

  See page 24 for a table summarizing fuel cost per gallon realized by Horizon (the economic cost per gallon), the cost per gallon on a GAAP basis (including hedging gains recorded in aircraft fuel and non-operating income (expense)) and fuel cost per gallon excluding all hedging activities.
- Aircraft maintenance expense increased $2.5 million, or 15.0%, primarily due to a higher number of routine maintenance activities and engine overhauls for the Q200 and Q400 fleets and fewer aircraft covered by warranty. These increases are partially offset by the elimination of amortization expense on capitalized airframe and engine overhauls as a result of the accounting change in the first quarter of 2005 (see Note 2 to our condensed consolidated financial statements).
- Depreciation and amortization increased $1.6 million, or 25.4%, primarily due to the addition of one CRJ-700 at the end of the first quarter of 2005 and a Q400 in the third quarter of 2004.
- Landing fees and other rentals increased $3.3 million, or 16.3%. Higher landing fees are a result of significant rate increases in several of our key airports, modest volume growth and an increase in airport fees and increased costs for security.

Consolidated Nonoperating Income (Expense)

Net nonoperating income was $118.5 million for the first six months of 2005 compared to $12.2 million in the same period of 2004. Interest income increased $2.3 million due to a larger average marketable securities portfolio in 2005. Interest expense (net of capitalized interest) increased $2.6 million due to interest rate increases on our variable rate debt and the changes to some of our variable rate debt agreements to slightly higher fixed rate agreements.

Fuel hedging gains include $42.7 million in gains from fuel hedging contracts settled in the first six months of 2005 compared to $3.6 million in 2004. In addition, fuel hedging gains include net mark-to-market gains on unsettled hedge contracts of $93.0 million in 2005 and $22.8 million in 2004.

Consolidated Income Tax Expense (Benefit)

Accounting standards require us to provide for income taxes each quarter based on either our estimate of the effective tax rate for the full year or the actual year-to-date effective tax rate if it is our best estimate of our annual expectation. As the volatility of airfares and fuel prices and the seasonality of our business make it difficult to accurately forecast full-year pretax results, we use the actual year-to-date effective tax rate to provide for income taxes. In addition, a relatively small change in pretax results can cause a significant change in the effective tax rate due to the magnitude of nondeductible expenses, such as employee per diem costs, relative to pretax profit or loss. Our effective income tax rate on pre-tax income before the accounting change for the second quarter and first six months of 2005 is 41.4% and 41.5%, respectively. We applied our estimated 2005 year-to-date composite rate of 37.5% for the cumulative effect of the accounting change. In arriving at these rates, we considered a variety of factors, including year-to-date pretax results, the U.S. federal rate of 35%, estimated year-to-date nondeductible expenses and estimated state income taxes. We evaluate our tax rate each quarter and make adjustments when necessary.

Change in Accounting Policy

Effective January 1, 2005, the Company changed its method of accounting for major airframe and engine overhauls from the *capitalize and amortize* method to the *direct expense* method. Under the former method, these costs were capitalized and amortized to maintenance expense over the shorter of the life of the overhaul or the remaining lease term. Under the *direct expense* method, overhaul costs are expensed as incurred. The Company believes that the *direct expense* method is preferable because it eliminates the judgment and estimation needed to determine overhaul versus repair allocations in maintenance activities. Additionally, the Company's approved maintenance program for the majority of its airframes now focuses more on shorter, but more frequent, maintenance visits. Management also believes that the *direct expense* method is the predominant method used in the airline industry. Accordingly, effective January 1, 2005, the Company wrote off the net book value of its previously capitalized airframe and engine overhauls for all aircraft in a charge totaling $144.7 million pre-tax ($90.4 million after tax). The Company does not believe disclosing the effect of adopting the *direct expense* method on net income for the period ended June 30, 2005 provides meaningful information because of changes in the Company's maintenance program, including the execution of a "power by the hour" engine maintenance agreement with a third party in late 2004.

Critical Accounting Estimates

For information on our critical accounting estimates, see Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2004.

Liquidity and Capital Resources

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

		June 30, 2005		December 31, 2004		Change
			(In millions, except per share and debt-to-capital amounts)			
Cash and marketable securities	**$**	**726.1**	$	873.9	$	(147.8)
Working capital		**113.2**		285.0		(171.8)
Long-term debt and Long-term capital lease obligations		**979.5**		989.6		(10.1)
Shareholders' equity		**601.1**		664.8		(63.7)
Book value per common share	**$**	**22.12**	$	24.51	$	(2.39)
Long-term debt-to-capital		**62%:38%**		60%:40%		NA
Long-term debt-to-capital assuming aircraft operating leases are capitalized at seven times annualized rent		**79%:21%**		78%:22%		NA

During the six months ended June 30, 2005, our cash and marketable securities decreased $147.8 million to $726.1 million at June 30, 2005. This decrease reflects cash used for property and equipment additions, net of aircraft deposit returns and proceeds from asset dispositions of $236.8 million and cash used in financing activities of $4.3 million, partially offset by cash provided by operating activities of $90.3 million.

Cash Provided by Operating Activities

During the first six months of 2005, net cash provided by operating activities was $90.3 million, compared to $188.8 million during the first six months of 2004. The decrease is due largely to the significant increases in the cost of fuel in the current year, cash payments made for severance, and a $42.7 million tax refund in 2004.

Cash Used in Investing Activities

Cash used in investing activities was $82.8 million during the first six months of 2005, compared to $128.0 million during the same period of 2004. We had net sales of marketable securities of $153.0 million and net purchases of $236.8 million for property and equipment additions, net of aircraft deposit returns and proceeds from asset dispositions. During the first six months of 2005, our aircraft related capital expenditures, net of aircraft deposit returns and proceeds from asset dispositions, increased $152.5 million as compared to 2004, primarily reflecting the purchase of two aircraft in the first six months of 2005 and the net payment of $101.2 million related to the aircraft purchase commitment entered into during the second quarter of 2005 to acquire 35 B737-800 aircraft. As of

January 1, 2005, we no longer have capital expenditures related to overhauls as those maintenance activities are expensed as incurred under our maintenance accounting policy adopted on that date. We expect capital expenditures to be approximately $350.0 million for the full year of 2005 and approximately $430 million in 2006 as we begin to take delivery of several aircraft.

Cash Used in Financing Activities

Net cash used in financing activities was $4.3 million during the first six months of 2005 compared to $48.6 million during the same period in 2004. There was one debt issuance during the first half of 2005 of $20.0 million, which is secured by flight equipment. This note has a fixed interest rate of 6.07% and the payment term is 15 years. Debt issuances during the period were offset by normal long-term debt payments of $26.5 million.

We plan to meet our capital and operating commitments through cash flow from operations and from cash and marketable securities on hand at June 30, 2005 of $726.1 million. We also have restricted cash of $8.7 million, which is intended to collateralize interest payments due over the next nine months on our $150.0 million floating rate senior convertible notes due 2023 issued in 2003.

Bank Line of Credit Facility

During 2004, Alaska repaid its $150 million credit facility and, on December 23, 2004, that facility expired. On March 25, 2005, Alaska Airlines, Inc. finalized a $160 million variable rate credit facility with a syndicate of financial institutions that will expire in March 2008. The interest rate on the credit facility varies depending on certain financial ratios specified in the agreement with a minimum interest rate of LIBOR plus 200 basis points. Any borrowings will be secured by either aircraft or cash collateral. This credit facility contains contractual restrictions and requires maintenance of specific levels of net worth, maintenance of certain debt and leases to net worth, leverage and fixed charge coverage ratios, and limits on liens, asset dispositions, dividends, and certain other expenditures. Such provisions restrict Alaska Airlines from distributing any funds to Alaska Air Group in the form of dividends and limit the amount of funds Alaska Airlines can loan to Alaska Air Group. As of June 30, 2005, $300.0 million was available to loan to Alaska Air Group without violating the covenants in the credit facility. As of June 30, 2005, there are no outstanding borrowings on this credit facility and the Company has no immediate plans to borrow using this credit facility.

Supplemental Disclosure of Noncash Investing and Financing Activities

We received a $9.7 million credit toward our purchase deposits related to the recent aircraft purchase agreement entered into during the second quarter of 2005. This credit was recorded as additional purchase deposits and is included in other liabilities in our consolidated balance sheet and will be applied to future aircraft upon delivery.

Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

Aircraft Purchase Commitments

At June 30, 2005, we had firm orders for 44 aircraft requiring aggregate payments of approximately $1.4 billion, as set forth below. In addition, Alaska has options to acquire 15 additional B737's, and

Horizon has options to acquire 11 Q400's and 19 CRJ 700's. Alaska and Horizon expect to finance the firm orders and, to the extent exercised, the option aircraft with leases, long-term debt or internally generated cash. The B737-800 delivered on July 1, 2005 was acquired with cash on hand.

The following table summarizes aircraft commitments and payments by year:

	Delivery Period - Firm Orders						
Aircraft	July 1-December 31, 2005	2006	2007	2008	2009	Beyond 2009	Total
Boeing 737-800	1	10	8	5	3	9	36
Bombardier CRJ700	—	2	2	2	2	—	8
Total	1	12	10	7	5	9	44
Payments (Millions)	$ 68.3	$ 358.7	$ 282.1	$ 221.4	$ 159.7	$ 262.2	$ 1,352.4

Contractual Obligations

The following table provides a summary of our principal payments under current and long-term debt and capital lease obligations, operating lease commitments, aircraft purchase commitments and other obligations as of June 30, 2005. This table excludes contributions to our various pension plans, which we expect to be approximately $55 million to $65 million per year through 2008.

(in millions)	July 1 – December 31, 2005	2006	2007	2008	2009	Beyond 2009	Total
Current and long-term debt and capital lease obligations*	$ 29.3	$ 58.5	$ 61.6	$ 64.9	$ 68.2	$ 754.0	$ 1,036.5
Operating lease commitments	126.2	238.3	211.3	205.8	189.2	947.4	$ 1,918.2
Aircraft purchase commitments	68.3	358.7	282.1	221.4	159.7	262.2	$ 1,352.4
Interest obligations (1)	20.3	52.5	51.5	49.6	47.2	159.8	$ 380.9
Other purchase obligations (2)	13.6	29.1	29.4	29.7	30.0	154.5	$ 286.3
Total	$ 257.7	$ 737.1	$ 635.9	$ 571.4	$ 494.3	$ 2,277.9	$ 4,974.3

* Includes $150 million related to the Company's senior convertible notes due in 2023. Holders of these Notes may require the Company to purchase all or a portion of their Notes, for a purchase price equal to principal plus accrued interest, on the 5th, 10th, and 15th anniversaries of the issuance of the Notes, or upon the occurrence of a change in control or tax event, as defined in the agreement. See Note 11 in the consolidated financial statements.

(1) For variable rate debt, future obligations are shown above using interest rates in effect as of June 30, 2005.

(2) Includes obligations under our long-term power-by-the-hour engine maintenance agreement.

New Accounting Standards

During the fourth quarter of 2004, the Financial Accounting Standards Board (FASB) issued SFAS 123R, "Share Based Payment: An Amendment of SFAS Nos. 123 and 95". The new standard requires companies to recognize as expense the fair value of stock options and other equity based compensation issued to employees as of the grant date. This new standard will apply to both stock options that we grant to employees and our Employee Stock Purchase Plan, which features a look-back provision and allows employees to purchase stock at a 15% discount. Our options are typically granted with ratable vesting provisions, and we intend to amortize compensation cost over the service period using the straight line method. Due to a recent decision by the Securities and Exchange Commission, implementation of SFAS 123R will be effective January 1, 2006. We intend to use the "modified prospective method" upon adoption whereby previously awarded but unvested equity awards are accounted for in accordance with SFAS 123R and prospective amounts are recognized in the income statement instead of simply being disclosed. Once adopted, we expect our stock based compensation expense, as measured under SFAS 123R, will be approximately $6 million to $10 million per year on a pre-tax basis.

In March 2005, the FASB issued Interpretation No. 47 (FIN 47), "Accounting for Conditional Asset Retirement Obligations — an interpretation of FASB Statement No. 143." FIN 47 clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. The FIN also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of our fiscal year ending December 31, 2005. FIN 47 is not expected to have a significant impact on our financial position, results of operations or cash flows.

Effect of Inflation and Price Changes

Inflation and price changes other than for aircraft fuel do not have a significant effect on our operating revenues, operating expenses and operating income.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

There have been no material changes in market risk from the information provided in Item 7A "Quantitative and Qualitative Disclosure About Market Risk" in our 2004 10K except as follows:

Fuel Hedging

We purchase jet fuel at prevailing market prices, and seek to manage the risk of price fluctuations through execution of a documented hedging strategy. We utilize derivative financial instruments as hedges to decrease our exposure to the volatility of jet fuel prices. At June 30, 2005, we had fuel hedge contracts in place to hedge 106.1 million gallons of our expected jet fuel usage during the remainder of 2005, 181.4 million gallons in 2006, 86.0 million gallons in 2007 and 31.7 million gallons in 2008. This represents 50%, 42%, 20% and 7% of our anticipated fuel consumption in 2005, 2006, 2007 and 2008, respectively. Prices of these agreements range from $29 to $50 per crude oil barrel.

We estimate that a 10% increase or decrease in crude oil prices as of June 30, 2005 would impact hedging positions by approximately $39.0 million and $37.7 million, respectively.

As of June 30, 2005 and December 31, 2004, the fair values of our fuel hedge positions were $194.5 million and $96.0 million, respectively. Of these amounts, $123.6 million of the 2005 fair value amounts and $65.7 million of the 2004 fair value amounts were included in current assets in the consolidated balance sheets based on the settlement dates for the underlying contracts. The remaining $70.9 million 2005 fair value and $30.3 million 2004 fair value is reflected as a non-current asset in the consolidated balance sheets.

Please refer to pages 23 and 24, as well as to Note 4 in the condensed consolidated financial statements, for company specific data on the results of our fuel hedging program.

Financial Market Risk

During the first half of 2005, we issued $20.0 million of debt secured by flight equipment, having an interest rate of 6.07% and a payment term of 15 years.

In the second quarter of 2005, the Company exercised its option under several of its existing variable rate long-term debt arrangements to fix the interest rates through maturity. The fixed rates on these recently affected debt arrangements range from 5.2% to 6.3%. These changes did not result in any gain or loss in the consolidated statements of operations.

ITEM 4. Controls and Procedures

As of June 30, 2005, an evaluation was performed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer (collectively, our "certifying officers"), of the effectiveness of the design and operation of our disclosure controls and procedures. These disclosure controls and procedures are designed to ensure that the information required to be disclosed by us in our periodic reports filed with the Securities and Exchange Commission (the SEC) is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and that the information is communicated to our certifying officers on a timely basis.

Our certifying officers concluded, based on their evaluation, that disclosure controls and procedures were effective.

We made no changes in our internal controls over financial reporting during the fiscal quarter ended June 30, 2005, that our certifying officers concluded materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

We intend to regularly review and evaluate the design and effectiveness of our disclosure controls and procedures and internal controls over financial reporting on an ongoing basis and to improve these controls and procedures over time and to correct any deficiencies that we may discover in the future. While we believe the present design of our disclosure controls and procedures and internal controls over financial reporting are effective, future events affecting our business may cause us to modify our these controls and procedures in the future.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

In May 2005, the Air Line Pilots Association filed a lawsuit in federal district court in Seattle to overturn the current labor contract covering Alaska's pilots as established by an arbitrator, which was effective May 1, 2005. If the arbitrator's decision is overturned, Alaska may be required to pay wages retroactively to May 1, 2005 as if the contract that existed prior to the arbitrator's decision were still in effect. On July 21, 2005, the Company filed a motion to dismiss the lawsuit. The motion will be decided on evidence submitted or following oral argument. A decision is expected in the third quarter of 2005. At this time, the Company has no reason to believe that an unfavorable outcome is likely.

In March 2005, the Company filed a claim against the International Association of Machinists (IAM) seeking to compel arbitration of the dispute regarding the subcontracting of the Company's ramp service operation in Seattle. In May 2005, the IAM filed a counter claim against the Company alleging that the Company violated the status quo and engaged in bad faith bargaining. On May 13, 2005, the Company announced that it had subcontracted the ramp service operation in Seattle, resulting in the immediate reduction of approximately 475 employees represented by the IAM. Shortly after this event, the IAM filed a motion for a preliminary injunction seeking to reverse the subcontracting by the Company. That motion was heard and denied by a federal court judge on June 2, 2005. The Company's lawsuit and the IAM's counterclaim are still pending in federal court. A discovery schedule and trial date have not yet been set. At this time, the Company has no reason to believe that an unfavorable outcome is likely.

We are a party to ordinary routine litigation incidental to our business and with respect to which no material liability is expected. Management believes the ultimate disposition of these matters is not likely to materially affect our 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.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

ITEM 3. Default on Senior Securities

None

ITEM 4. Submission of Matters to a Vote of Security Holders

(a) The Company's Annual Meeting of Stockholders was held on May 17, 2005.

(b) At the Annual Meeting, Phyllis J. Campbell, Mark R. Hamilton, Byron I. Mallott and Richard A. Wien were elected directors for three-year terms expiring on the date of the Annual Meeting in 2008. The votes were as follows:

	For	Withheld	Broker Non-Votes
Phyllis J. Campbell	16,016,779	8,224,693	0
Mark R. Hamilton	16,016,635	8,224,837	0
Byron I. Mallott	14,168,494	10,072,978	0
Richard A. Wien	16,014,975	8,226,497	0
Richard D. Foley	5,064	0	0
Steve Nieman	5,253	0	0
Robert C. Osborne	2,097	0	0
Terry K. Dayton	4,910	0	0
John Chevedden	190	0	0
Carl Olson	2,760	0	0

The terms of the following directors continued after the Annual Meeting:

William S. Ayer	R. Marc Langland
Patricia M. Bedient	Dennis F. Madsen
Bruce R. Kennedy	John V. Rindlaub
Jessie J. Knight, Jr.	J. Kenneth Thompson

(c) The results of voting on Proposal 2 through 9 were as follows:

2. A stockholder-sponsored bylaw amendment regarding stockholder rights plans failed to reach the 75% supermajority of votes present required to amend the Bylaws.

	Number of Votes	% of Shares Outstanding	% of Shares Present on this Proposal	% of Votes Cast for or Against
For	15,815,603	58.18	65.24	76.96
Against	4,736,015	17.42	19.54	23.04

	Number of Votes	% of Shares Outstanding	% of Shares Present on this Proposal	% of Votes Cast for or Against
Abstain	569,561	2.10	2.35	
Broker Non-votes	3,120,293	11.48	12.87	

3. A stockholder-sponsored bylaw amendment regarding confidential voting failed to reach the 75% supermajority of votes present required to amend the Bylaws.

	Number of Votes	% of Shares Outstanding	% of Shares Present on this Proposal	% of Votes Cast for or Against
For	4,908,590	18.06	20.25	23.30
Against	16,153,924	59.43	66.64	76.70
Abstain	58,665	0.22	0.24	
Broker Non-votes	3,120,293	11.48	12.87	

4. A stockholder-sponsored bylaw amendment regarding cumulative voting failed to reach the 75% supermajority of votes present required to amend the Bylaws.

	Number of Votes	% of Shares Outstanding	% of Shares Present on this Proposal	% of Votes Cast for or Against
For	11,836,250	43.54	48.83	56.32
Against	9,180,168	33.77	37.87	43.68
Abstain	104,761	0.39	0.43	
Broker Non-votes	3,120,293	11.48	12.87	

5. A stockholder-sponsored bylaw amendment regarding annual election of directors reached the 75% supermajority of votes present required to amend the Bylaws. The board has determined, for the reasons set forth in the proxy statement, that the amendment cannot be effected.

	Number of Votes	% of Shares Outstanding	% of Shares Present on this Proposal	% of Votes Cast for or Against
For	18,427,132	67.79	76.01	87.46
Against	2,641,480	9.72	10.90	12.54
Abstain	52,567	0.19	0.22	
Broker Non-votes	3,120,293	11.48	12.87	

6. A stockholder-sponsored bylaw amendment regarding simple majority voting to amend the Bylaws reached the 75% supermajority of votes present required to

amend the Bylaws. The board has determined, for the reasons set forth in the proxy statement, that the amendment cannot be effected.

	Number of Votes	% of Shares Outstanding	% of Shares Present on this Proposal	% of Votes Cast for or Against
For	18,352,995	67.52	75.71	89.27
Against	2,205,787	8.11	9.10	10.73
Abstain	562,397	2.07	2.32	
Broker Non-votes	3,120,293	11.48	12.87	

7. A stockholder proposal recommending that the Board implement a simple majority voting policy passed, receiving a majority of the shares voted.

	Number of Votes	% of Shares Outstanding	% of Shares Present on this Proposal	% of Votes Cast for or Against
For	14,810,048	54.48	61.09	72.06
Against	5,741,666	21.12	23.69	27.94
Abstain	569,465	2.09	2.35	
Broker Non-votes	3,120,293	11.48	n/a	

8. A stockholder-sponsored bylaw amendment regarding ballot access for stockholder-nominated candidates failed to reach the 75% supermajority of votes present required to amend the Bylaws.

	Number of Votes	% of Shares Outstanding	% of Shares Present on this Proposal	% of Votes Cast for or Against
For	5,253	0.02	0.04	0.04
Against	11,847,143	43.58	99.96	99.96
Abstain	0	0.00	0.00	
Broker Non-votes	0	0.00	0.00	

9. A stockholder-sponsored bylaw amendment requiring the disclosure of each board member's voting record and providing board seats to the proponents of majority stockholder proposals that are not implemented within three months of passage failed to reach the 75% supermajority of votes present required to amend the Bylaws.

	Number of Votes	% of Shares Outstanding	% of Shares Present on this Proposal	% of Votes Cast for or Against
For	5,253	0.02	0.04	0.04
Against	11,847,143	43.58	99.96	99.96
Abstain	0	0.00	0.00	
Broker Non-votes	0	0.00	0.00	

ITEM 5. Other Information

No changes have been made to the procedures by which security holders may recommend nominees to our Board of Directors since the filing of our definitive proxy statement for our 2005 annual meeting of shareholders.

ITEM 6. Exhibits

See Exhibit Index on page 49.

Signatures

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALASKA AIR GROUP, INC.
Registrant

Date: August 5, 2005

By: /s/ Brandon S. Pedersen
Brandon S. Pedersen
Staff Vice President/Finance and Controller

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

EXHIBIT INDEX

Pursuant to Item 601(a)(2) of Regulation S-K, this Exhibit Index immediately precedes the exhibits.

The following exhibits are numbered in accordance with Item 601 of Regulation S-K.

Exhibit No.	Description
10.1(1)	Aircraft General Terms Agreement dated June 15, 2005, between the Boeing Company and Alaska Airlines, Inc.*
10.2(1)	Purchase Agreement No. 2497 dated June 15, 2005, between the Boeing Company and Alaska Airlines, Inc.*
31.1(1)	Section 302 Certification of Chief Executive Officer Pursuant to 15 U.S.C. Section 7241
31.2(1)	Section 302 Certification of Chief Financial Officer Pursuant to 15 U.S.C. Section 7241
32.1(1)	Section 906 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
32.2(1)	Section 906 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

(1) Filed herewith.

* Pursuant to 17 CFR 240.24b-2, confidential information has been omitted and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.

Exhibit 10.1

FOIA CONFIDENTIAL
TREATMENT REQUESTED

AIRCRAFT GENERAL TERMS AGREEMENT

AGTA-ASA

BETWEEN

THE BOEING COMPANY

AND

ALASKA AIRLINES, INC.

AGTA-ASA
BOEING PROPRIETARY

TABLE OF CONTENTS

RESTRICTED LETTER AGREEMENT

AIRCRAFT GENERAL TERMS AGREEMENT NUMBER AGTA-ASA

between

The Boeing Company

and

Alaska Airlines, Inc.

Relating to

BOEING AIRCRAFT

This Aircraft General Terms Agreement Number AGTA-ASA (AGTA) between The Boeing Company, including its wholly-owned subsidiary McDonnell Douglas Corporation, (BOEING) and Alaska Airlines, Inc. (CUSTOMER) will apply to all Boeing aircraft contracted for purchase from Boeing by Customer after the effective date of this AGTA.

Article 1. Subject Matter of Sale.

1.1 Aircraft. Boeing will manufacture and sell to Customer and Customer will purchase from Boeing aircraft under purchase agreements that incorporate the terms and conditions of this AGTA.

1.2 Buyer Furnished Equipment. Exhibit A, Buyer Furnished Equipment Provisions Document to the AGTA, contains the obligations of Customer and Boeing with respect to equipment purchased and provided by Customer, which Boeing will receive, inspect, store, and install in an aircraft before delivery to Customer. This equipment is defined as BUYER FURNISHED EQUIPMENT (BFE).

1.3 Customer Support. Exhibit B, Customer Support Document to the AGTA, contains the obligations of Boeing relating to Materials (as defined in Part 3 thereof), training, services, and other things in support of aircraft.

1.4 Product Assurance. Exhibit C, Product Assurance Document to the AGTA, contains the obligations of Boeing and the suppliers of equipment installed in each aircraft at delivery relating to warranties, patent indemnities, software copyright indemnities, and service life policies.

Article 2. Price, Taxes, and Payment.

2.1 Price.

2.1.1 AIRFRAME PRICE is defined as the price of the airframe for a specific model of aircraft described in a purchase agreement. (For Models 717-200, 737-600, 737-700, 737-800, 737-900, 777-200LR and 777-300ER the Airframe Price includes the engine price at its basic thrust level.)

2.1.2 OPTIONAL FEATURES PRICES are defined as the prices for optional features selected by Customer for a specific model of aircraft described in a purchase agreement.

2.1.3 ENGINE PRICE is defined as the price set by the engine manufacturer for a specific engine to be installed on the model of aircraft described in a purchase agreement (not applicable to Models 717-200, 737-600, 737-700, 737-800, 737-900, 777-200LR and 777-300ER).

2.1.4 AIRCRAFT BASIC PRICE is defined as the sum of the Airframe Price, Optional Features Prices, and the Engine Price, if applicable.

2.1.5 ESCALATION ADJUSTMENT is defined as the price adjustment to the Airframe Price (which includes the basic engine price for Models 717-200, 737-600, 737-700 737-800, 737-900, 777-200LR and 777-300ER) and the Optional Features Prices resulting from the calculation using the economic price formula contained in the Airframe and Optional Features Escalation Adjustment supplemental exhibit to the applicable purchase agreement. The price adjustment to the Engine Price for all other models of aircraft will be calculated using the economic price formula in the Engine Escalation Adjustment supplemental exhibit to the applicable purchase agreement.

2.1.6 ADVANCE PAYMENT BASE PRICE is defined as the estimated price of an aircraft rounded to the nearest thousand U. S. dollars, as of the date of signing a purchase agreement, for the scheduled month of delivery of such aircraft using commercial forecasts of the Escalation Adjustment.

2.1.7 AIRCRAFT PRICE is defined as the total amount Customer is to pay for an aircraft at the time of delivery, which is the sum of the Aircraft Basic Price, the Escalation Adjustment, and other price adjustments made pursuant to the purchase agreement.

2.2 Taxes.

2.2.1 Taxes. TAXES are defined as all taxes, fees, charges, or duties and any interest, penalties, fines, or other additions to tax, including, but not limited to sales, use, value added, gross receipts, stamp, excise, transfer, and similar taxes imposed by any domestic or foreign taxing authority arising out of or in connection with the performance of the applicable purchase agreement or the sale, delivery, transfer, or storage of any aircraft, BFE, or other things furnished under the applicable purchase agreement. Except for U.S. federal or California State income taxes imposed on Boeing or Boeing's assignee, and Washington State business and occupation taxes imposed on Boeing or Boeing's assignee, Customer will be responsible for and pay all Taxes. Customer is responsible for filing all tax returns, reports, declarations and payment of any taxes related to or imposed on BFE.

2.2.2 Reimbursement of Boeing. Customer will promptly reimburse Boeing on demand, net of additional taxes thereon, for any Taxes that are imposed on and paid by Boeing or that Boeing is responsible for collecting.

2.3 Payment.

2.3.1 Advance Payment Schedule. Customer will make advance payments to Boeing for each aircraft in the amounts and on the dates indicated in the schedule set forth in the applicable purchase agreement.

2.3.2 Payment at Delivery. Customer will pay any unpaid balance of the Aircraft Price at the time of delivery of each aircraft.

2.3.3 Form of Payment. Customer will make all payments to Boeing by unconditional wire transfer of immediately available funds in United States Dollars in a bank account in the United States designated by Boeing.

2.3.4 Monetary and Government Regulations. Customer is responsible for complying with all monetary control regulations and for obtaining necessary governmental authorizations related to payments.

Article 3. Regulatory Requirements and Certificates.

3.1 Certificates. Boeing will manufacture each aircraft to conform to the appropriate Type Certificate issued by the United States Federal Aviation Administration (FAA) for the specific model of aircraft and will obtain from the FAA and furnish to Customer at delivery of each aircraft either a Standard Airworthiness Certificate or an Export Certificate of Airworthiness issued pursuant to Part 21 of the Federal Aviation Regulations.

3.2 FAA or Applicable Regulatory Authority Manufacturer Changes.

3.2.1 A MANUFACTURER CHANGE is defined as any change to an aircraft, data relating to an aircraft, or testing of an aircraft required by the FAA to obtain a Standard Airworthiness Certificate, or by the country of import and/or registration to obtain an Export Certificate of Airworthiness.

3.2.2 Boeing will bear the cost of incorporating all Manufacturer Changes into the aircraft:

(i) resulting from requirements issued by the FAA prior to the date of the Type Certificate for the applicable aircraft;

(ii) resulting from requirements issued by the FAA prior to the date of the applicable purchase agreement; and

(iii) for any aircraft delivered during the 18 month period immediately following the date of the applicable purchase agreement (regardless of when the requirement for such change was issued by the FAA).

3.2.3 Customer will pay Boeing's charge for incorporating all other Manufacturer Changes into the aircraft, including all changes for validation of an aircraft required by any governmental agency of the country of import and/or registration.

3.3 FAA Operator Changes.

3.3.1 An OPERATOR CHANGE is defined as a change in equipment that is required by Federal Aviation Regulations which (i) is generally applicable to transport category aircraft to be used in United States certified air carriage and (ii) the required compliance date is on or before the scheduled delivery month of the aircraft.

3.3.2 Boeing will deliver each aircraft with Operator Changes incorporated or, at Boeing's option, with suitable provisions for the incorporation of such Operator Changes, and Customer will pay Boeing's applicable charges.

3.4 Export License. If an export license is required by United States law or regulation for any aircraft or any other things delivered under the purchase agreement, it is Customer's obligation to obtain such license. If requested, Boeing will assist Customer in applying for any such export license. Customer will furnish any required supporting documents.

Article 4. Detail Specification; Changes.

4.1 Configuration Changes. The DETAIL SPECIFICATION is defined as the Boeing document that describes the configuration of each aircraft purchased by Customer. The Detail Specification for each aircraft may be amended (i) by Boeing to reflect the incorporation of Manufacturer Changes and Operator Changes or (ii) by the agreement of the parties. In either case the amendment will describe the particular changes to be made and any effect on design, performance, weight, balance, scheduled delivery month, Aircraft Basic Price, Aircraft Price, and/or Advance Payment Base Price.

4.2 Development Changes. DEVELOPMENT CHANGES are defined as changes to aircraft that do not affect the Aircraft Price or scheduled delivery month, and do not adversely affect guaranteed weight, guaranteed performance, or compliance with the interchangeability or replaceability requirements set forth in the applicable Detail Specification. Boeing may, at its option, incorporate Development Changes into both the Detail Specification and the aircraft prior to delivery to Customer.

4.3 Notices. Boeing will promptly notify Customer of any amendments to a Detail Specification, including providing the associated Detail Specification updates.

Article 5. Representatives, Inspection, Demonstration Flights, Test Data and Performance Guarantee Compliance.

5.1 Office Space. Twelve months before delivery of the first aircraft purchased, and continuing until the delivery of the last aircraft on firm order, Boeing will furnish, free of charge, suitable office space and equipment for the accommodation of up to three representatives of Customer in or conveniently located near the assembly plant.

5.2 Inspection. Customer's representatives may inspect each aircraft at any reasonable time, provided such inspection does not interfere with Boeing's performance.

5.3 Demonstration Flights. Prior to delivery, Boeing will fly each aircraft up to 4 hours to demonstrate to Customer the function of the aircraft and its equipment using Boeing's production flight test procedures. Customer may designate up to five representatives to participate as observers.

5.4 Test Data; Performance Guarantee Compliance. PERFORMANCE GUARANTEES are defined as the written guarantees in a purchase agreement regarding the operational performance of an aircraft. Boeing will furnish to Customer flight test data obtained on an aircraft of the same model to evidence compliance with the Performance Guarantees. Performance Guarantees will be met if reasonable engineering interpretations and calculations based on the flight test data establish that the particular aircraft being delivered under the applicable purchase agreement would, if actually flown, comply with the guarantees.

5.5 Special Aircraft Test Requirements. Boeing may use an aircraft for flight and ground tests prior to delivery, without reduction in the Aircraft Price, if the tests are considered necessary by Boeing (i) to obtain or maintain the Type Certificate or Certificate of Airworthiness for the aircraft or (ii) to evaluate potential improvements that may be offered for production or retrofit incorporation.

Article 6. Delivery.

6.1 Notices of Delivery Dates. Boeing will notify Customer of the approximate delivery date of each aircraft at least 30 days before the scheduled month of delivery and again at least 14 days before the scheduled delivery date.

6.2 Place of Delivery. Each aircraft will be delivered at a facility selected by Boeing in the same state as the primary assembly plant for the aircraft.

6.3 Bill of Sale. At delivery of an aircraft, Boeing will provide Customer a bill of sale conveying good title, free of encumbrances.

6.4 Delay. If Customer delays acceptance of an aircraft beyond the scheduled delivery date, Customer will reimburse Boeing for all costs incurred by Boeing as a result of the delay.

Article 7. Excusable Delay.

7.1 General. Boeing will not be liable for any delay in the scheduled delivery month of an aircraft or other performance under a purchase agreement caused by (i) acts of God; (ii) war or armed hostilities; (iii) government acts or priorities; (iv) fires, floods, or earthquakes; (v) strikes or labor troubles causing cessation, slowdown, or interruption of work; (vi) inability, after due and timely diligence, to procure materials, systems, accessories, equipment or parts; (vii) inability, after due and timely diligence, to obtain type certification; or (viii) any other cause to the extent such cause is beyond Boeing's control and not occasioned by Boeing's fault or negligence. A delay resulting from any such cause is defined as an EXCUSABLE DELAY.

7.2 Notice. Boeing will give written notice to Customer (i) of a delay as soon as Boeing concludes that an aircraft will be delayed beyond the scheduled delivery month due to an Excusable Delay and, when known, (ii) of a revised delivery month based on Boeing's appraisal of the facts.

7.3 Delay in Delivery of Twelve Months or Less. If the revised delivery month is 12 months or less after the scheduled delivery month, Customer will accept such aircraft when tendered for delivery, subject to the following:

7.3.1 The calculation of the Escalation Adjustment will be based on the previously scheduled delivery month.

7.3.2 The advance payment schedule will be adjusted to reflect the revised delivery month.

7.3.3 All other provisions of the applicable purchase ' agreement, including the BFE on-dock dates for the delayed aircraft, are unaffected by an Excusable Delay.

7.4 Delay in Delivery of More Than Twelve Months. If the revised delivery month is more than 12 months after the scheduled delivery month, either party may terminate the applicable purchase agreement with respect to such aircraft within 30 days of the notice. If either party does not terminate the applicable purchase agreement with respect to such aircraft, all terms and conditions of the applicable purchase agreement will remain in effect.

7.5 Aircraft Damaged Beyond Repair. If an aircraft is destroyed or damaged beyond repair for any reason before delivery, Boeing will give written notice to Customer specifying the earliest month possible, consistent with Boeing's other contractual commitments and production capabilities, in which Boeing can deliver a replacement. Customer will have 30 days from receipt of such notice to elect to have Boeing manufacture a replacement aircraft under the same terms and conditions of purchase, except that the calculation of the Escalation Adjustment will be based upon the scheduled delivery month in effect immediately prior to the date of such notice, or, failing such election, the applicable purchase agreement will terminate with respect to such aircraft. Boeing will not be obligated to manufacture a replacement aircraft if reactivation of the production line for the specific model of aircraft would be required.

7.6 Termination. Termination under this Article will discharge all obligations and liabilities of Boeing and Customer with respect to any aircraft and all related undelivered Materials (as defined in Exhibit B, Customer Support Document), training, services, and other things terminated under the applicable purchase agreement, except that Boeing will return to Customer, without interest, an amount equal to all advance payments paid by Customer for the aircraft. If Customer terminates the applicable purchase agreement as to any aircraft, Boeing may elect, by written notice to Customer within 30 days, to purchase from Customer any BFE related to the aircraft at the invoice prices paid, or contracted to be paid, by Customer.

7.7 Exclusive Rights. The termination rights in this Article are in substitution for all other rights of termination or any claim arising by operation of law due to delays in performance covered by this Article.

Article 8. Risk Allocation/Insurance.

8.1 Title and Risk with Boeing.

8.1.1 Boeing's Indemnification of Customer. Until transfer of title to an aircraft to Customer, Boeing will indemnify and hold harmless Customer and Customer's observers from and against all claims and liabilities, including all expenses and attorneys' fees incident thereto or incident to establishing the right to indemnification, for injury to or death of any person(s), including employees of Boeing but not employees of Customer, or for loss of or damage to any property, including an aircraft, arising out of or in any way related to the operation of an aircraft during all demonstration and test flights conducted under the provisions of the applicable purchase agreement, whether or not arising in tort or occasioned by the negligence of Customer or any of Customer's observers.

8.1.2 Definition of Customer. For the purposes of this Article, "Customer" is defined as Alaska Airlines, Inc., its divisions, subsidiaries, affiliates, the assignees of each, and their respective directors, officers, employees, and agents.

8.2 Insurance.

8.2.1 Insurance Requirements. Customer will purchase and maintain insurance acceptable to Boeing and will provide a certificate of such insurance that names Boeing as an additional insured for any and all claims and liabilities for injury to or death of any person or persons, including employees of Customer but not employees of Boeing, or for loss of or damage to any property, including any aircraft, arising out of or in any way relating to Materials, training, services, or other things provided under Exhibit B of the AGTA, which will be incorporated by reference into the applicable purchase agreement, whether or not arising in tort or occasioned by the negligence of Boeing, except with respect to legal liability to persons or parties other than Customer or Customer's assignees arising out of an accident caused solely by a product defect in an aircraft. Customer will provide such certificate of insurance at least thirty (30) days prior to the scheduled delivery of the first aircraft under a purchase agreement. The insurance certificate will reference each aircraft delivered to Customer pursuant to each applicable purchase agreement. Annual renewal certificates will be submitted to Boeing before the expiration of the policy periods. The form of the insurance certificate, attached as Appendix I, states the terms, limits, provisions, and coverages required by this Article 8.2.1. The failure of Boeing to demand compliance with this 8.2.1 in any year will not in any way relieve Customer of its obligations hereunder nor constitute a waiver by Boeing of these obligations.

8.2.2 Noncompliance with Insurance Requirements. If Customer fails to comply with any of the insurance requirements of Article 8.2.1 or if any of the insurers fails to pay a claim covered by the insurance or otherwise fails to meet any of insurer's obligations

required by Appendix I, Customer will provide the same protection to Boeing as that required by Article 8.2.1 above.

8.2.3 Definition of Boeing. For purposes of this article, "Boeing" is defined as The Boeing Company, its divisions, subsidiaries, affiliates, assignees of each, and their respective directors, officers, employees, and agents.

Article 9. Assignment, Resale, or Lease.

9.1 Assignment. This AGTA and each applicable purchase agreement are for the benefit of the parties and their respective successors and assigns. No rights or duties of either party may be assigned or delegated, or contracted to be assigned or delegated, without the prior written consent of the other party, except:

9.1.1 Either party may assign its interest to a corporation that (i) results from any merger, reorganization, or acquisition of such party and (ii) acquires substantially all the assets of such party;

9.1.2 Boeing may assign its rights to receive money; and

9.1.3 Boeing may assign any of its rights and duties to any wholly-owned subsidiary of Boeing.

9.1.4 Boeing may assign any of its rights and duties with respect to Part 1, Articles 1, 2, 4 and 5 of Exhibit B, Customer Support Document to the AGTA, to Alteon Training L.L.C.

9.2 Transfer by Customer at Delivery. Boeing will take any requested action reasonably required for the purpose of causing an aircraft, at time of delivery, to be subject to an equipment trust, conditional sale, lien, or other arrangement for Customer to finance the aircraft. However, no such action will require Boeing to divest itself of title to or possession of the aircraft until delivery of and payment for the aircraft. A sample form of assignment acceptable to Boeing is attached as Appendix II.

9.3 Sale or Lease by Customer After Delivery. If, following delivery of an aircraft, Customer sells or leases the aircraft (including any sale and lease-back to seller for financing purposes), Customer may assign some or all of its rights with respect to the aircraft under the applicable purchase agreement to the purchaser or lessee of such aircraft, and all such rights will inure to the benefit of such purchaser or lessee effective upon Boeing's receipt of the written agreement of the purchaser or lessee, in a form satisfactory to Boeing, to comply with all applicable terms and conditions of the applicable purchase agreement. Sample forms of notice to Boeing of such assignments giving examples of language acceptable to Boeing are attached as Appendices III, IV, VIII, IX and X.

9.4 Notice of Sale or Lease After Delivery. Customer will give notice to Boeing as soon as practicable of the sale or lease of an aircraft, including in the notice the name of the entity or entities with title and/or possession of such aircraft.

9.5 Exculpatory Clause in Post-Delivery Sale or Lease. If, following the delivery of an aircraft, Customer sells or leases such aircraft and obtains from the transferee any form of exculpatory clause protecting Customer from liability for loss of or damage to the aircraft, and/or related incidental or consequential damages, including without limitation loss of use, revenue, or profit, Customer shall obtain for Boeing the purchaser's or lessee's written agreement to be bound by terms and conditions substantially as set forth in Appendix V. This Article 9.5 applies only if purchaser or lessee has not provided to Boeing the written agreement described in Article 9.3 above.

9.6 Appointment of Agent - Warranty Claims. If, following delivery of an aircraft, Customer appoints an agent to act directly with Boeing for the administration of claims relating to the warranties under the applicable purchase agreement, Boeing will deal with the agent for that purpose, effective upon Boeing's receipt of the agent's written agreement, in a form satisfactory to Boeing, to comply with all applicable terms and conditions of the applicable purchase agreement. A sample form of agreement acceptable to Boeing is attached as Appendix VI.

9.7 No Increase in Boeing Liability. No action taken by Customer or Boeing relating to the resale or lease of an aircraft or the assignment of Customer's rights under the applicable purchase agreement will subject Boeing to any liability beyond that in the applicable purchase agreement or modify in any way Boeing's obligations under the applicable purchase agreement.

Article 10. Termination of Purchase Agreements for Certain Events.

10.1 Termination. If either party

(i) ceases doing business as a going concern, or suspends all or substantially all its business operations, or makes an assignment for the benefit of creditors, or generally does not pay its debts as they become due, or admits in writing its inability to pay its debts; or

(ii) petitions for or acquiesces in the appointment of any receiver, trustee or similar officer to liquidate or conserve its business or any substantial part of its assets; commences any legal proceeding such as bankruptcy, reorganization, readjustment of debt, dissolution, or liquidation available for the relief of financially distressed debtors; or becomes the object of any such proceeding, unless the proceeding is dismissed or stayed within a reasonable period, not to exceed 60 days,

the other party may terminate any purchase agreement with respect to any undelivered aircraft, Materials, training, services, and other things by giving written notice of termination.

10.2 Repayment of Advance Payments. If Customer terminates the applicable purchase agreement under this Article, Boeing will repay to Customer, without interest, an amount equal to any advance payments received by Boeing from Customer with respect to undelivered aircraft.

Article 11. Notices.

All notices required by this AGTA or by any applicable purchase agreement will be written in English, will be effective on the date of receipt, and will be delivered or transmitted by any customary means to the appropriate address or number listed below:

Customer	Delivery or Courier:	Alaska Airlines, Inc. 19300 International Blvd. South Seattle, Washington 98188 Attention: Vice President - Finance
	Mail:	Alaska Airlines, Inc. P.O. Box 68900 Seattle, Washington 98168 Attention: Vice President - Finance
	Facsimile: Telephone:	206-392-5007 206-392-5015
Boeing	Delivery or Courier:	Boeing Commercial Airplanes 1901 Oakesdale Avenue S.W. Renton, Washington 98055 U.S.A. Attention: Vice President - Contracts Mail Code 21-34
	Mail:	Boeing Commercial Airplanes P.O. Box 3707 Seattle, Washington 98124-2207 U.S.A. Attention: Vice President - Contracts Mail Code 21-34
	Facsimile: Telephone:	425 237-1706 206 766-2400

Article 12. Miscellaneous.

12.1 Government Approval. Boeing and Customer will assist each other in obtaining any governmental consents or approvals required to effect certification and sale of aircraft under the applicable purchase agreement.

12.2 Headings. Article and paragraph headings used in this AGTA and in any purchase agreement are for convenient reference only and are not intended to affect the interpretation of this AGTA or any purchase agreement.

12.3 GOVERNING LAW. THIS AGTA AND ANY PURCHASE AGREEMENT WILL BE INTERPRETED UNDER AND GOVERNED BY THE LAWS OF THE STATE OF WASHINGTON, U.S.A., EXCEPT THAT WASHINGTON'S CHOICE OF LAW RULES SHALL NOT BE INVOKED FOR THE PURPOSE OF APPLYING THE LAW OF ANOTHER JURISDICTION.

12.4 Waiver/Severability. Failure by either party to enforce any provision of this AGTA or any purchase agreement will not be construed as a waiver. If any provision of this AGTA or any provision of any purchase agreement are held unlawful or otherwise ineffective by a court of competent jurisdiction, the remainder of the AGTA or the applicable purchase agreement will remain in effect.

12.5 Survival of Obligations. The Articles and Exhibits of this AGTA including but not limited to those relating to insurance, DISCLAIMER AND RELEASE and the EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES will survive termination or cancellation of any purchase agreement or part thereof.

12.6 AGTA Changes. The intent of the AGTA is to simplify the standard contracting process for terms and conditions which are related to the sale and purchase of all Boeing aircraft. This AGTA has been mutually agreed to by the parties as of the date indicated below. From time to time the parties may elect, by mutual agreement to update, or modify the existing articles as written and revise this AGTA. If such changes are made, any existing executed Purchase Agreement(s) will be governed by the terms and conditions in effect on the date of the executed Purchase Agreement.

DATED AS OF June 15, 2005

Alaska Airlines, Inc.	THE BOEING COMPANY
By _______________________________	By __________________________
Its ______________________________	Its _________________________

EXHIBIT A

TO

AIRCRAFT GENERAL TERMS AGREEMENT

AGTA-ASA

BETWEEN

THE BOEING COMPANY

AND

ALASKA AIRLINES, INC.

BUYER FURNISHED EQUIPMENT PROVISIONS DOCUMENT

BOEING PROPRIETARY

BUYER FURNISHED EQUIPMENT PROVISIONS DOCUMENT

1. General.

Certain equipment to be installed in the Aircraft is furnished to Boeing by Customer at Customer's expense. This equipment is designated "Buyer Furnished Equipment" (BFE) and is listed in the Detail Specification. Boeing will provide to Customer 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 as described in the applicable Supplemental Exhibit to this Exhibit A in a purchase agreement at the time of aircraft purchase.

2. Supplier Selection.

Customer will:

2.1 Select and notify Boeing of the suppliers of BFE items by those dates appearing in Supplemental Exhibit BFE1 to the applicable purchase agreement at the time of aircraft purchase.

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 requirements for BFE certification.

3. Customer's Obligations.

Customer will:

3.1 comply with and cause the supplier to comply with the provisions of the BFE Document or BFE Report; including, without limitation,

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 and BFE Aircraft Software to Boeing in accordance with the quantities, schedule, and other instructions provided therein; and

3.1.3 assure that all BFE Aircraft Software is delivered in compliance with Boeing's then-current Standards for Loadable Systems;

3.1.4 assure that all BFE parts are delivered to Boeing with appropriate quality assurance documentation;

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 quality assurance requirements, source inspection programs and supplier delegation programs, including availability of adequate facilities for Boeing resident personnel; and

3.3.2 assure that all BFE supplier's quality systems are approved to Boeing's then current standards for such systems;

3.4 obtain from supplier a non-exclusive, perpetual, royalty-free, irrevocable license for Boeing to copy BFE Aircraft Software. The license is needed to enable Boeing to load the software copies in (i) the aircraft's mass storage device (MSD), (ii) media (e.g., diskettes, CD-ROMs, etc.), (iii) the BFE hardware and/or (iv) an intermediate device or other media to facilitate copying of the BFE Aircraft Software into the aircraft's MSD, BFE hardware and/or media, including media as Boeing may deliver to Customer with the aircraft;

3.5 grant Boeing a license, extending the same rights set forth in paragraph 3.4 above, to copy: a) BFE Aircraft Software and data Customer has modified and/or b) other software and data Customer has added to the BFE Aircraft Software;

3.6 provide necessary field service representation at Boeing's facilities to support Boeing on all issues related to the installation and certification of BFE;

3.7 deal directly with all BFE suppliers to obtain overhaul data, provisioning data, related product support documentation and any warranty provisions applicable to the BFE;

3.8 work closely with Boeing and the BFE suppliers to resolve any difficulties, including defective equipment, that arise;

3.9 be responsible for modifying, adjusting and/or calibrating BFE as required for FAA approval and for all related expenses;

3.10 assure that a proprietary information agreement is in place between Boeing and BFE suppliers prior to Boeing providing any documentation to such suppliers;

3.11 warrant that the BFE will comply with all applicable FARs and the U.S. Food and Drug Administration (FDA) sanitation requirements for installation and use in the Aircraft at the time of delivery. Customer will be responsible for supplying any data and adjusting, calibrating, re-testing or updating such BFE and data to the extent necessary to obtain applicable FAA and FDA approval and shall bear the resulting expenses;

3.12 warrant that the BFE will meet the requirements of the Detail Specification; and

3.13 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 Customer.

If Customer'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, Customer 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 Customer without the BFE installed.

6. Return of Equipment.

BFE not installed in the Aircraft will be returned to Customer in accordance with Customer's instructions and at Customer's expense.

7. Title and Risk of Loss.

7.1 With respect to Aircraft manufactured in the State of Washington, title to and risk of loss of BFE provided for such Aircraft will at all times remain with Customer 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.

7.2 With respect to Aircraft manufactured in the State of California, Customer agrees to sell and Boeing agrees to purchase each item of BFE concurrently with its delivery to Boeing. A reasonable shipset price for the BFE shall be established with Customer. Customer and Boeing agree that the Aircraft Price will be increased by the amount of said shipset price and such amount will be included on Boeing's invoice at time of Aircraft delivery. Boeing's payment for the purchase of each shipset of BFE from Customer will be made at the time of delivery of the Aircraft in which the BFE is installed.

8. Interchange of BFE

To properly maintain Boeing's production flow and to preserve Boeing's delivery commitments, Boeing reserves the right, if necessary, due to equipment shortages or failures, to interchange new items of BFE acquired from or for Customer with new items of the same part numbers and modification status acquired from or for other customers of Boeing. Used BFE acquired from Customer or from other customers of Boeing will not be interchanged.

9. Indemnification of Boeing.

Customer 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 Customer 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 by the negligence of Boeing. This indemnity will not apply with respect to any nonconformance or defect caused solely by Boeing's installation of the BFE.

10. Patent Indemnity.

Customer 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.

11. 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.

EXHIBIT B

TO

AIRCRAFT GENERAL TERMS AGREEMENT

AGTA-ASA

BETWEEN

THE BOEING COMPANY

AND

ALASKA AIRLINES, INC.

CUSTOMER SUPPORT DOCUMENT

This document contains:

CUSTOMER SUPPORT DOCUMENT

PART 1: BOEING MAINTENANCE AND FLIGHT TRAINING PROGRAMS; OPERATIONS ENGINEERING SUPPORT

1. Boeing Training Programs.

1.1 Boeing will provide maintenance training and flight training programs to support the introduction of a specific model of aircraft into service. The training programs will consist of general and specialized courses and will be described in a Supplemental Exhibit to the applicable purchase agreement.

1.2 Boeing will conduct all training at Boeing's primary training facility for the model of aircraft purchased unless otherwise agreed.

1.3 All training will be presented in the English language. If translation is required, Customer will provide interpreters.

1.4 Customer will be responsible for all expenses of Customer's personnel. Boeing will transport Customer's personnel between their local lodging and Boeing's training facility.

2. Training Planning Conferences.

Customer and Boeing will conduct planning conferences approximately 12 months before the scheduled delivery month of the first aircraft of a model to define and schedule the maintenance and flight training programs.

3. Operations Engineering Support.

3.1 As long as an aircraft purchased by Customer from Boeing is operated by Customer in scheduled revenue service, Boeing will provide operations engineering support. Such support will include:

3.1.1 assistance with the analysis and preparation of performance data to be used in establishing operating practices and policies for Customer's operation of aircraft;

3.1.2 assistance with interpretation of the minimum equipment list, the definition of the configuration deviation list and the analysis of individual aircraft performance;

3.1.3 assistance with solving operational problems associated with delivery and route-proving flights;

3.1.4 information regarding significant service items relating to aircraft performance or flight operations; and

3.1.5 if requested by Customer, Boeing will provide operations engineering support during an aircraft ferry flight.

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

If requested by Customer, Boeing will conduct the classroom portions of the maintenance and flight training (except for the Performance Engineer training courses) at a mutually acceptable alternate training site, subject to the following conditions:

4.1 Customer will provide acceptable classroom space, simulators (as necessary for flight training) and training equipment required to present the courses;

4.2 Customer will pay Boeing's then-current per diem charge for each Boeing instructor for each day, or fraction thereof, that the instructor is outside King County, Washington, including travel time;

4.3 Customer will reimburse Boeing for the actual costs of round-trip transportation for Boeing's instructors and the shipping costs of training

Materials between the primary training facility and the alternate training site outside King County, Washington;

4.4 Customer will be responsible for all taxes, fees, duties, licenses, permits and similar expenses incurred by Boeing and its employees as a result of Boeing's providing training at the alternate site outside King County, Washington or incurred as a result of Boeing providing revenue service training; and

4.5 Those portions of training that require the use of training devices not available at the alternate site will be conducted at Boeing's facility or at some other alternate site.

5. General Terms and Conditions.

5.1 Boeing flight instructor personnel will not be required to work more than 5 days per week, or more than 8 hours in any one 24-hour period, of which not more than 5 hours per 8-hour workday will be spent in actual flying. These foregoing restrictions will not apply to ferry assistance or revenue service training services, which will be governed by FAA rules and regulations.

5.2 NORMAL LINE MAINTENANCE is defined as line maintenance that Boeing might reasonably be expected to furnish for flight crew training at Boeing's facility, and will include ground support and aircraft storage in the open, but will not include provision of spare parts. Boeing will provide Normal Line Maintenance services for any aircraft while the aircraft is used for flight crew training at Boeing's facility in accordance with the Boeing Maintenance Plan (Boeing document D6-82076) and the Repair Station Operation and Inspection Manual (Boeing document D6-25470). Customer will provide such services if flight crew training is conducted elsewhere. Regardless of the location of such training, Customer will be responsible for providing all maintenance items (other than those included in Normal Line Maintenance) required during the training, including, but not limited to, fuel, oil, landing fees and spare parts.

5.3 If the training is based at Boeing's facility, and the aircraft is damaged during such training, Boeing will make all necessary repairs to the aircraft as promptly as possible. Customer will pay Boeing's reasonable charge, including the price of parts and materials, for making the repairs. If Boeing's estimated labor charge for the repair exceeds $25,000, Boeing and Customer will enter into an agreement for additional services before beginning the repair work.

5.4 If the flight training is based at Boeing's facility, several airports in surrounding states may be used, at Boeing's option. Unless otherwise agreed in the flight training planning conference, it will be Customer's responsibility to make arrangements for the use of such airports.

5.5 If Boeing agrees to make arrangements on behalf of Customer for the use of airports for flight training, Boeing will pay on Customer's behalf any landing fees charged by any airport used in conjunction with the flight training. At least 30 days before flight training, Customer will provide Boeing an open purchase order against which Boeing will invoice Customer for any landing fees Boeing paid on Customer's behalf. The invoice will be submitted to Customer approximately 60 days after flight training is completed, when all landing fee charges have been received and verified. Customer will pay to Boeing within 30 days of the date of the invoice.

5.6 If requested by Boeing, in order to provide the flight training or ferry flight assistance, Customer will make available to Boeing an aircraft after delivery to familiarize Boeing instructor or ferry flight crew personnel with such aircraft. If flight of the aircraft is required for any Boeing instructor or ferry flight crew member to maintain an FAA license for flight proficiency or landing currency, Boeing will be responsible for the costs of fuel, oil, landing fees and spare parts attributable to that portion of the flight.

5.7 If any part of the training described in Article 1.1 of this Exhibit is not used by Customer within 12 months after the delivery of the last aircraft under the relevant purchase agreement, Boeing will not be obligated to provide such training.

CUSTOMER SUPPORT DOCUMENT

PART 2: FIELD AND ENGINEERING SUPPORT SERVICES

1. Field Service Representation.

Boeing will furnish field service representation to advise Customer with respect to the maintenance and operation of an aircraft (FIELD SERVICE REPRESENTATIVES).

1.1 Field Service representation will be available at or near Customer's main maintenance or engineering facility beginning before the scheduled delivery month of the first aircraft and ending 12 months after delivery of the last aircraft covered by a specific purchase agreement.

1.2 Customer will provide, at no charge to Boeing, suitable furnished office space and office equipment at the location where Boeing is providing Field Service Representatives. As required, Customer will assist each Field Service Representative with visas, work permits, customs, mail handling, identification passes and formal introduction to local airport authorities.

1.3 Boeing Field Service Representatives are assigned to various airports around the world. Whenever Customer's aircraft are operating through any such airport, the services of Boeing's Field Service Representatives are available to Customer.

2. Engineering Support Services.

Boeing will, if requested by Customer, provide technical advisory assistance for any aircraft and Boeing Product (as defined in Part I of Exhibit C). Technical advisory assistance, provided from the Seattle area or at a base designated by Customer as appropriate, will include:

2.1 Operational Problem Support. If Customer experiences operational problems with an aircraft, Boeing will analyze the information provided by Customer to determine the probable nature and cause of the problem and to suggest possible solutions.

2.2 Schedule Reliability Support. If Customer is not satisfied with the schedule reliability of a specific model of aircraft, Boeing will analyze information provided by Customer to determine the nature and cause of the problem and to suggest possible solutions.

2.3 Maintenance Cost Reduction Support. If Customer is concerned that actual maintenance costs of a specific model of aircraft are excessive, Boeing will analyze

information provided by Customer to determine the nature and cause of the problem and to suggest possible solutions.

2.4 Aircraft Structural Repair Support. If Customer is designing structural repairs and desires Boeing's support, Boeing will analyze and comment on Customer's engineering releases relating to structural repairs not covered by Boeing's Structural Repair Manual.

2.5 Aircraft Modification Support. If Customer is designing aircraft modifications and requests Boeing's support, Boeing will analyze and comment on Customer's engineering proposals for changes in, or replacement of, systems, parts, accessories or equipment manufactured to Boeing's detailed design. Boeing will not analyze or comment on any major structural change unless Customer's request for such analysis and comment includes complete detailed drawings, substantiating information (including any information required by applicable government agencies), all stress or other appropriate analyses, and a specific statement from Customer of the substance of the review and the response requested.

2.6 Facilities, Ground Equipment and Maintenance Planning Support. Boeing will, at Customer's request, evaluate Customer's technical facilities, tools and equipment for servicing and maintaining aircraft, to recommend changes where necessary and to assist in the formulation of an initial maintenance plan for the introduction of the aircraft into service.

2.7 Post-Delivery Service Support. Boeing will, at Customer's request, perform work on an aircraft after delivery but prior to the initial departure flight or upon the return of the aircraft to Boeing's facility prior to completion of that flight. In that event the following provisions will apply.

2.7.1 Boeing may rely upon the commitment authority of the Customer's personnel requesting the work.

2.7.2 As title and risk of loss has passed to Customer, the insurance provisions of Article 8.2 of the AGTA apply.

2.7.3 The provisions of the Boeing Warranty in Part 2 of Exhibit C of this AGTA apply.

2.7.4 Customer will pay Boeing for requested work not covered by the Boeing Warranty, if any.

2.7.5 The DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES provisions in Article 11 of Part 2 of Exhibit C of this AGTA apply.

2.8 Additional Services. Boeing may, at Customer's request, provide additional services for an aircraft after delivery, which may include, but not be limited to, retrofit kit changes (kits and/or information), training, flight services, maintenance and repair of aircraft. Such additional services will be subject to a mutually acceptable price, schedule, scope of work and other applicable terms and conditions. The DISCLAIMER AND RELEASE and the EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES provisions in Article 11 of Part 2 of Exhibit C of this AGTA and the insurance provisions in Article 8.2 of this AGTA will apply to any such work. Title to and risk of loss of any such aircraft will always remain with Customer.

CUSTOMER SUPPORT DOCUMENT

PART 3: TECHNICAL INFORMATION AND MATERIALS

1. General.

MATERIALS are defined as any and all items that are created by Boeing or a third party, which are provided directly or indirectly from Boeing and serve primarily to contain, convey or embody information. Materials may include either tangible embodiments (for example, documents or drawings), or intangible embodiments (for example, software and other electronic forms) of information but excludes Aircraft Software. AIRCRAFT SOFTWARE is defined as software that is installed on and used in the operation of the aircraft.

Boeing will furnish to Customer certain Materials to support the maintenance and operation of the aircraft at no additional charge to Customer, except as otherwise provided herein. Such Materials will, if applicable, be prepared generally in accordance with Air Transport Association of America (ATA) Specification No. 100, entitled "Specification for Manufacturers' Technical

Data". Materials will be in English and in the units of measure used by Boeing to manufacture an aircraft.

Digitally-produced Materials will, if applicable, be prepared generally in accordance with ATA Specification No. 2100, dated January 1994, "Digital Data Standards for Aircraft Support."

2. Materials Planning Conferences.

Customer and Boeing will conduct planning conferences approximately 12 months before the scheduled delivery month of the first aircraft of a model in order to mutually determine the proper format and quantity of Materials to be furnished to Customer in support of the aircraft.

When available, Customer may select one Boeing digital format as the delivery medium. Should a Boeing digital format not be chosen, Customer may select a reasonable quantity of printed and 16mm microfilm formats, with the exception of the Illustrated Parts Catalog, which will be provided in one selected format only.

3. Information and Materials - Incremental Increase.

Until one year after the month of delivery of the last aircraft covered by a specific purchase agreement, Customer may annually request in writing a reasonable increase in the quantity of Materials with the exception of microfilm master copies, digital formats,

and others for which a specified number of copies are provided. Boeing will provide the additional quantity at no additional charge beginning with the next normal revision cycle. Customer may request a decrease in revision quantities at any time.

4. Advance Representative Copies.

All advance representative copies of Materials will be selected by Boeing from available sources. Such advance copies will be for advance planning purposes only.

5. Customized Materials.

All customized Materials will reflect the configuration of each aircraft as delivered.

6. Revisions.

6.1 Revision Service. Boeing will provide revisions free of charge to certain Materials to be identified in the planning conference conducted for a specific model of aircraft, reflecting changes developed by Boeing, as long as Customer operates an aircraft of that model.

6.2 Revisions Based on Boeing Service Bulletin Incorporation. If Boeing receives written notice that Customer intends to incorporate, or has incorporated, any Boeing service bulletin in an aircraft, Boeing will at no charge issue revisions to Materials with revision service reflecting the effects of such incorporation into such aircraft.

7. Supplier Technical Data.

7.1 For supplier-manufactured programmed airborne avionics components and equipment classified as Seller Furnished Equipment (SFE) or Seller Purchased Equipment (SPE) or Buyer Designated Equipment (BDE) which contain computer software designed and developed in accordance with Radio Technical Commission for Aeronautics Document No. RTCA/DO-178 dated January 1982, No. RTCA/DO-178A dated March 1985, or later as available, Boeing will request that each supplier of the components and equipment make software documentation available to Customer.

7.2 The provisions of this Article will not be applicable to items of BFE.

7.3 Boeing will furnish to Customer a document identifying the terms and conditions of the product support agreements between Boeing and its suppliers requiring the suppliers to fulfill Customer's requirements for information and services in support of the specific model of aircraft.

8. Buyer Furnished Equipment Data.

Boeing will incorporate BFE information into the customized Materials providing Customer makes the information available to Boeing at least nine months prior to the scheduled delivery month of Customer's first aircraft of a specific model. Customer agrees to furnish the information in Boeing standard digital format if Materials are to be delivered in Boeing standard digital format.

9. Materials Shipping Charges.

Boeing will pay the reasonable transportation costs of the Materials. Customer is responsible for any customs clearance charges, duties, and taxes.

10. Customer's Shipping Address.

The Materials furnished to Customer hereunder are to be sent to a single address to be specified. Customer will promptly notify Boeing of any change to the address.

CUSTOMER SUPPORT DOCUMENT

PART 4: ALLEVIATION OR CESSATION OF PERFORMANCE

Boeing will not be required to provide any Materials, services, training or other things at a facility designated by Customer if any of the following conditions exist:

1. a labor stoppage or dispute in progress involving Customer;

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

3. any condition at the facility which, in the opinion of Boeing, is detrimental to the general health, welfare or safety of its personnel or their families;

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

5. the United States Government refuses permission to Boeing to deliver Materials, services, training or other things to the country where the facility is located.

After the location of Boeing personnel at the facility, Boeing further reserves the right, upon the occurrence of any of such events, to immediately and without prior notice to Customer relocate its personnel and their families.

CUSTOMER SUPPORT DOCUMENT

PART 5: PROTECTION OF PROPRIETARY INFORMATION AND PROPRIETARY MATERIALS

1. General.

All Materials provided by Boeing to Customer and not covered by a Boeing CSGTA or other agreement between Boeing and Customer defining Customer's right to use and disclose the Materials and included information will be covered by, and subject to the terms of this AGTA. Title to all Materials containing, conveying or embodying confidential, proprietary or trade secret information (Proprietary Information) belonging to Boeing or a third party (Proprietary Materials), will at all times remain with Boeing or such third party. Customer will treat all Proprietary Materials and all Proprietary Information in confidence and use and disclose the same only as specifically authorized in this AGTA.

2. License Grant.

Boeing grants to Customer a worldwide, non-exclusive, non-transferable license to use and disclose Proprietary Materials in accordance with the terms and conditions of this AGTA. Customer is authorized to make copies of Materials (except for Materials bearing the copyright legend of a third party), and all copies of Proprietary Materials will belong to Boeing and be treated as Proprietary Materials under this AGTA. Customer will preserve all proprietary legends, and all copyright notices on all Materials and insure the inclusion of those legends and notices on all copies.

3. Use of Proprietary Materials and Proprietary Information.

Customer is authorized to use Proprietary Materials and Proprietary Information for the purpose of: (a) operation, maintenance, repair, or modification of Customer's aircraft for which the Proprietary Materials and Proprietary Information have been specified by Boeing and (b) development and manufacture of training devices and maintenance tools for use by Customer.

4. Providing of Proprietary Materials to Contractors.

Customer is authorized to provide Proprietary Materials to Customer's contractors for the sole purpose of maintenance, repair, or modification of Customer's aircraft for which the Proprietary Materials have been specified by Boeing. In addition, Customer may provide Proprietary Materials to Customer's contractors for the sole purpose of developing and manufacturing training devices and maintenance tools for Customer's use.

Before providing Proprietary Materials to its contractor, Customer will first obtain a written agreement from the contractor by which the contractor agrees (a) to use the Proprietary Materials only on behalf of Customer, (b) to be bound by all of the restrictions and limitations of this Part 5, and (c) that Boeing is a third party beneficiary under the written agreement. Customer agrees to provide copies of all such written agreements to Boeing upon request and be liable to Boeing for any breach of those agreements by a contractor. A sample agreement acceptable to Boeing is attached as Appendix VII.

5. Providing of Proprietary Materials and Proprietary Information to Regulatory Agencies.

When and to the extent required by a government regulatory agency having jurisdiction over Customer or an aircraft, Customer is authorized to provide Proprietary Materials and to disclose Proprietary Information to the agency for use in connection with Customer's operation, maintenance, repair, or modification of such aircraft. Customer agrees to take all reasonable steps to prevent the agency from making any distribution, disclosure, or additional use of the Proprietary Materials and Proprietary Information provided or disclosed. Customer further agrees to notify Boeing immediately upon learning of any (a) distribution, disclosure, or additional use by the agency, (b) request to the agency for distribution, disclosure, or additional use, or (c) intention on the part of the agency to distribute, disclose, or make additional use of Proprietary Materials or Proprietary Information.

EXHIBIT C

TO

AIRCRAFT GENERAL TERMS AGREEMENT

AGTA-ASA

BETWEEN

THE BOEING COMPANY

AND

ALASKA AIRLINES, INC.

PRODUCT ASSURANCE DOCUMENT

This document contains:

PRODUCT ASSURANCE DOCUMENT

PART 1: EXHIBIT C DEFINITIONS

APPROVED MAINTENANCE SCHEDULE OR AMS shall mean that aircraft maintenance program document approved by Customer's aviation authority as a condition of granting Customer operating approval in the jurisdiction where the aircraft is registered.

AUTHORIZED AGENT - Agent appointed by Customer to perform corrections and to administer warranties (see Appendix VI to the AGTA for a form acceptable to Boeing).

AVERAGE DIRECT HOURLY LABOR RATE - the average hourly rate (excluding all fringe benefits, premium-time allowances, social charges, business taxes and the like) paid by Customer to its Direct Labor employees.

BOEING PRODUCT - any system, accessory, equipment, part or Aircraft Software that is manufactured by Boeing or manufactured to Boeing's detailed design with Boeing's authorization.

CORRECT(S) - to repair, modify, provide modification kits or replace with a new product.

CORRECTION - a repair, a modification, a modification kit or replacement with a new product.

CORRECTED BOEING PRODUCT - a Boeing Product which is free of defect as a result of a Correction.

DIRECT LABOR - Labor spent by Customer's direct labor employees to access, remove, disassemble, modify, repair, inspect and bench test a defective Boeing Product, and to reassemble, reinstall a Corrected Boeing Product and perform final inspection and testing.

DIRECT MATERIALS - Items such as parts, gaskets, grease, sealant and adhesives, installed or consumed in performing a Correction, excluding allowances for administration, overhead, taxes, customs duties and the like.

ROGUE UNIT - A Boeing Product, on which an unscheduled removal due to breach of warranty occurs three (3) or more times both (i) within the warranty period and (ii) within either twelve (12) consecutive months or one thousand (1,000) consecutive operating hours.

SPECIFICATION CONTROL DRAWING (SCD) - a Boeing document defining specifications for certain Supplier Products.

SUPPLIER - the manufacturer of a Supplier Product.

SUPPLIER PRODUCT - any system, accessory, equipment, part or Aircraft Software that is not manufactured to Boeing's detailed design. This includes but is not limited to parts manufactured to a SCD, all standards, and other parts obtained from non-Boeing sources.

PRODUCT ASSURANCE DOCUMENT

PART 2: BOEING WARRANTY

1. Applicability.

This warranty applies to all Boeing Products. Warranties applicable to Supplier Products are in Part 4. Warranties applicable to engines will be provided by Supplemental Exhibits to individual purchase agreements.

2. Warranty.

2.1 Coverage. Boeing warrants that at the time of delivery:

(i) the aircraft will conform to the Detail Specification except for portions stated to be estimates, approximations or design objectives;

(ii) all Boeing Products will be free from defects in material, process of manufacture and workmanship, including the workmanship utilized to install Supplier Products, engines and BFE, and;

(iii) all Boeing Products will be free from defects in design, including selection of materials and the process of manufacture, in view of the state of the art at the time of design.

2.2 Exceptions. The following conditions do not constitute a defect under this warranty:

(i) conditions resulting from normal wear and tear;

(ii) conditions resulting from acts or omissions of Customer; and

(iii) conditions resulting from failure to properly service and maintain a Boeing Product.

3. Warranty Periods.

3.1 Warranty. The warranty period begins on the date of aircraft or Boeing Product delivery (Delivery) and ends at the applicable time specified in subsections 3.1(i) through 3.1(iii) below:

(i) for Boeing aircraft models 777-200, -300, 737-600, -700, -800, -900, 787 or new aircraft models designed and manufactured with similar, new technology the warranty period ends 48 months after Delivery;

(ii) in addition, for a Boeing Product installed at the time of delivery in a 787 model aircraft but not inspected during the initial 48 month warranty period, the warranty period continues until the date upon which Customer first inspects such Boeing Product pursuant to its Approved Maintenance Schedule but not later than 10 years after Delivery of such 787 aircraft;

(iii) for any other Boeing aircraft model the warranty period ends 36 months after Delivery.

3.2 Warranty on Corrected Boeing Products. The warranty period applicable to a Corrected Boeing Product shall begin on the date of delivery of the Corrected Boeing Product or date of delivery of the kit or kits furnished to Correct the Boeing Product and shall be for the period specified immediately below:

(i) For Corrected Boeing Products which have been Corrected because of a defect in material, the applicable warranty period is the remainder of the initial warranty for the defective Boeing Product.

(ii) For Corrected Boeing Products which have been Corrected because of defect in workmanship, the applicable warranty period is the remainder of the initial warranty or 12 months following the date of delivery of the Corrected Boeing Product, whichever is longer.

(iii) For Corrected Boeing Products which have been Corrected because of a defect in design, the applicable warranty period is 18 months or the remainder of the initial warranty period, whichever is longer.

3.3 Survival of Warranties. All warranty periods are stated above. The Performance Guarantees will not survive delivery of the aircraft.

4. Remedies.

4.1 Correction Options. Customer may, at its option, either perform a Correction of a defective Boeing Product or return the Boeing Product to Boeing for Correction. During the warranty period, Boeing will not charge Customer for tests on Boeing Products returned to Boeing for Correction on which Boeing is unable to confirm the failure claimed, provided:

(i) Boeing's written instructions were followed by the Customer for testing the Boeing Product prior to its return to Boeing, and

(ii) Customer's claim includes all applicable documentation of such tests with the returned Boeing Product, including but not limited to: Central Maintenance Computer (CMC), Flight Maintenance Computer System, (FMCS), Flight Isolation Manual (FIM), Engine Indicating and Crew Alerting System (EICAS) or Built In Test Equipment (BITE) messages.

4.2 Warranty Inspections. In addition to the remedies to Correct defects in Boeing Products described in Article 7.3, below, Boeing will reimburse

Customer for the cost of Direct Labor to perform certain inspections of the aircraft to determine the occurrence of a condition Boeing has identified as a covered defect, provided the inspections are recommended by a service bulletin or service letter issued by Boeing during the warranty period.

Such reimbursement will not apply to any inspections performed after a Correction is available to Customer and Customer has had a reasonable time to incorporate the Correction, given the Customer's fleet size and maintenance schedule.

4.3 Rogue Units.

4.3.1 Upon written request, Boeing will lend Customer at no charge an interchangeable Boeing Product in exchange for a Rogue Unit. Within ten (10) calendar days of its receipt of the loaned Boeing Product, Customer will ship the Rogue Unit to Boeing. Customer will provide with the Rogue Unit verification of the following requirements:

(i) The removed Boeing Product failed three (3) times within twelve (12) consecutive months or one thousand (1000) consecutive operating hours during the warranty period following initial delivery,

(ii) Removals were performed in compliance with flight or maintenance manuals approved by the FAA or the comparable regulatory agency for the country in which the aircraft is registered, and

(iii) Any Corrections or tests to the Boeing Product were performed by Customer according to the latest revision of the Boeing Component Maintenance Manual (CMM), according to written instructions from Boeing, or by Boeing.

4.3.2 Upon receipt of a Rogue Unit and the required verifications, Boeing will, at no-charge to Customer, either replace the Rogue Unit with a new Boeing Product or, if otherwise agreed, allow Customer to retain the loaned, Boeing Product.

5. Discovery and Notice.

5.1 For a claim to be valid:

(i) the defect must be discovered during the warranty period; and

(ii) Boeing Warranty must receive written notice of the discovery no later than 90 days after expiration of the warranty period. The notice must include sufficient information to substantiate the claim.

(iii) For claims pursuant to Article 3.1(ii) of Part 2 of this Exhibit C pertaining to Boeing Products which are first inspected more than 48 months after delivery of the 787 model aircraft in which they are installed, Customer must have provided to Boeing no later than 45 months after delivery of such aircraft Customer's AMS for 787 model aircraft clearly identifying the nomenclature, location on the aircraft and schedule for inspection of all Boeing Products installed on such aircraft and thereafter have provided promptly to Boeing any revisions to such AMS.

5.2 Receipt of Customer's or its Authorized Agent's notice of the discovery of a defect secures Customer's rights to remedies under this Exhibit C, even though a Correction is performed after the expiration of the warranty period.

5.3 Once Customer has given valid notice of the discovery of a defect, a claim will be submitted as soon as practicable after performance of the Correction.

5.4 Boeing may release service bulletins or service letters advising Customer of the availability of certain warranty remedies. When such advice is provided, Customer will be deemed to have fulfilled the requirements for discovery of the defect and submittal of notice under this Exhibit C as of the in-warranty date specified in industry support information in a service bulletin or service letter.

6. Filing a Claim.

6.1 Authority to File. Claims may be filed by Customer or its Authorized Agent. Appointment of an Authorized Agent will only be effective upon Boeing's receipt of the Authorized Agent's express written agreement, in a form satisfactory to Boeing, to be bound by and to comply with all applicable terms and conditions of this Aircraft General Terms Agreement.

6.2 Claim Information.

6.2.1 Claimant is responsible for providing sufficient information to substantiate Customer's rights to remedies under this Exhibit C. Boeing may reject a claim for lack of sufficient information. At a minimum, such information must include:

(i) identity of claimant;

(ii) serial or block number of the aircraft on which the defective Boeing Product was delivered;

(iii) part number and nomenclature of the defective Boeing Product;

(iv) purchase order number and date of delivery of the defective spare part;

(v) description and substantiation of the defect;

(vi) date the defect was discovered;

(vii) date the Correction was completed;

(viii) the total flight hours or cycles accrued, if applicable;

(ix) an itemized account of direct labor hours expended in performing the Correction; and

(x) an itemized account of any direct materials incorporated in the Correction.

(xi) for 787 model aircraft the name and revision level of the AMS that documents the required inspection and the specific reference to the inspection requirement contained therein.

6.2.2 Additional information may be required based on the nature of the defect and the remedies requested.

6.3 Boeing Claim Processing.

6.3.1 Any claim for a Boeing Product returned by Customer or its Authorized Agent to Boeing for Correction must accompany the Boeing Product. Any claim not associated with the return of a Boeing Product must be submitted signed and in writing directly by Customer or its Authorized Agent to Boeing Warranty by any of the methods identified in Article 11, "Notice," of the AGTA or through an internet portal and process specified by Boeing.

6.3.2 Boeing will promptly review the claim and will give notification of claim approval or rejection. If the claim is rejected, Boeing will provide a written explanation.

7. Corrections Performed by Customer or Its Authorized Agent.

7.1 Facilities Requirements. Provided Customer, its Authorized Agent or its third party contractor, as appropriate, are certified by the appropriate Civil Aviation Authority or Federal Aviation Authority, Customer or its Authorized Agent may, at its option, Correct defective Boeing Products at its facilities or may subcontract Corrections to a third party contractor.

7.2 Technical Requirements. All Corrections done by Customer, its Authorized Agent or a third party contractor must be performed in accordance with Boeing's applicable service manuals, bulletins or other written instructions, using parts and materials furnished or approved by Boeing.

7.3 Reimbursement.

7.3.1 Boeing will reimburse Customer's reasonable costs of Direct Materials and Direct Labor by credit memorandum (excluding labor hours expended for overhaul) at Customer's Warranty Labor Rate to Correct a defective Boeing Product. Claims for reimbursement must contain sufficient information to substantiate Direct Labor hours expended and Direct Materials consumed. Customer or its Authorized Agent may be required to produce invoices for materials.

7.3.2 Customer's established Warranty Labor Rate will be the greater of the standard labor rate or 150% of Customer's Average Direct Hourly Labor Rate. The standard labor rate paid by Boeing to its customers is established and published annually. Prior to or concurrently with submittal of Customer's first claim for Direct Labor reimbursement, Customer may notify Boeing of Customer's then-current Average Direct Hourly Labor Rate and thereafter notify Boeing of any material change in such rate. Boeing will require information from Customer to substantiate such rates.

7.3.3 Reimbursement for Direct Labor hours to perform Corrections stated in a service bulletin will be based on the labor estimates in the service bulletin.

7.3.4 Boeing will provide to Customer a single, lump sum credit memorandum for Customer's Direct Labor hours expended to incorporate the Corrections (other than of random anomalies) identified in service bulletins and service letters in all in-warranty aircraft covered by such service bulletins or service letters after Customer's submission of a warranty claim and verification of the incorporation of such Corrections with respect to the first affected in-warranty aircraft. Such credit memoranda will not be provided in response to any other requests for reimbursement including, without limitation, those arising out of program letters or other special offers provided by Boeing.

7.3.5 Boeing will reimburse Customer's freight charges associated with a Correction of a defect on a Boeing Product performed by its Authorized Agent or a third party contractor.

7.3.6 Maximum Reimbursement. Unless previously agreed in writing, the maximum reimbursement for Direct Labor and Direct materials for repair of a defective Boeing Product will not exceed 65% of Boeing's then-current sales price for a new replacement Boeing Product. Inspection, removal, reinstallation labor, final testing, inspection and transportation costs are separate and are not to be included in the cost elements used to determine the 65% limit. By mutual agreement between Customer and Boeing, Boeing may provide a replacement Product to Customer in lieu of credit reimbursement.

7.4 Disposition of Defective Boeing Products Beyond Economical Repair.

7.4.1 A defective Boeing Product found to be beyond economical repair (see Para. 7.3.6) will be retained for a period of 30 days from the date Boeing receives Customer's claim. During the 30 day period, Boeing may request return of such Boeing Products for inspection and confirmation of a defect.

7.4.2 After the 30 day period, a defective Boeing Product with a value of U.S. $4,000 or less may be scrapped without notification to Boeing. Boeing will reimburse Customer or its Authorized Agent for the charge for any item determined to be defective under this Aircraft General Terms Agreement. If such Boeing Product has a value greater than U.S, $4,000, Customer must obtain confirmation of unrepairability by Boeing's on-site Customer Services Representative prior to scrapping. Confirmation may be in the form of the Representative's signature on Customer's claim or through direct communication between the Representative and Boeing Warranty.

8. Corrections Performed by Boeing.

8.1 Freight Charges. Customer or its Authorized Agent will pre-pay freight charges to return a Boeing Product to Boeing. If during the period of the applicable warranty Boeing determines the Boeing Product to be defective, Boeing will pre-pay shipping charges to return the Corrected Boeing Product. Boeing will reimburse Customer or its Authorized Agent for freight charges for Boeing Products returned to Boeing for Correction and determined to be defective.

8.2 Customer Instructions. The documentation shipped with the returned defective Boeing Product may include specific technical instructions for additional work to be performed on the Boeing Product. The absence of such instructions will evidence Customer's authorization for Boeing to perform all necessary Corrections and work required to return the Boeing Product to a serviceable condition.

8.3 Correction Time Objectives.

8.3.1 Boeing's objective for making Corrections is 10 working days for avionics and electronic Boeing Products, 30 working days for Corrections of other Boeing Products performed at Boeing's facilities and 40 working days for Corrections of other Boeing Products performed at a Boeing subcontractor's facilities. The objectives are measured from the date Boeing receives the defective Boeing Product and a valid claim to the date Boeing ships the Corrected Boeing Product.

8.3.2 If Customer has a critical parts shortage because Boeing has exceeded a Correction time objective and Customer has procured spare Boeing Products for the defective Boeing Product in quantities shown in Boeing's Recommended Spare Parts List or, for 717 model aircraft only, in quantities shown in Boeing's Spares Planning and Requirements Evaluation Model, then Boeing will either expedite the Correction or provide an interchangeable Boeing Product, on a no charge loan basis, until the Corrected Boeing Product is returned.

8.4 Title Transfer and Risk of Loss.

8.4.1 Title to and risk of loss of any Boeing Product returned to Boeing will at all times remain with Customer or any other title holder of such Boeing Product. While Boeing has possession of the returned Boeing Product, Boeing will have only such liabilities as a bailee for mutual benefit would have but will not be liable for loss of use.

8.4.2 If a Correction requires shipment of a new Boeing Product, then at the time Boeing ships the new Boeing Product, title to and risk of loss for the returned Boeing Product will pass to Boeing, and title to and risk of loss for the new Boeing Product will pass to Customer.

9. Returning an Aircraft.

9.1 Conditions. An aircraft may be returned to Boeing's facilities for Correction only if:

(i) Boeing and Customer agree a covered defect exists;

(ii) Customer lacks access to adequate facilities, equipment or qualified personnel to perform the Correction; and

(iii) it is not practical, in Boeing's estimation, to dispatch Boeing personnel to perform the Correction at a remote site.

9.2 Correction Costs. Boeing will perform the Correction at no charge to Customer. Subject to the conditions of Article 9.1, Boeing will reimburse Customer for the costs of fuel, oil, other required fluids and landing fees incurred in ferrying the aircraft to Boeing and back to Customer's facilities. Customer will minimize the length of both flights.

9.3 Separate Agreement. Prior to the return of an aircraft to Boeing, Boeing and Customer will enter into a separate agreement covering return of the aircraft and performance of the Correction. Authorization by Customer for Boeing to perform additional work that is not part of the Correction must be received within 24 hours of Boeing's request. If such authorization is not received within 24 hours, Customer will be invoiced for work performed by Boeing that is not part of the Correction.

10. Insurance.

The provisions of Article 8.2 "Insurance", of this AGTA, will apply to any work performed by Boeing in accordance with Customer's specific technical instructions to the extent any legal liability of Boeing is based upon the content of such instructions.

11. Disclaimer and Release; Exclusion of Liabilities.

11.1 DISCLAIMER AND RELEASE. THE WARRANTIES, OBLIGATIONS AND LIABILITIES OF BOEING AND THE REMEDIES OF CUSTOMER IN THIS EXHIBIT C ARE EXCLUSIVE AND IN SUBSTITUTION FOR, AND CUSTOMER HEREBY WAIVES, RELEASES AND RENOUNCES, ALL OTHER WARRANTIES, OBLIGATIONS AND LIABILITIES OF BOEING AND ALL OTHER RIGHTS, CLAIMS AND REMEDIES OF CUSTOMER AGAINST BOEING, EXPRESS OR IMPLIED, ARISING BY LAW OR OTHERWISE, WITH RESPECT TO ANY NONCONFORMANCE OR DEFECT IN ANY AIRCRAFT, MATERIALS, TRAINING, SERVICES OR OTHER THING PROVIDED UNDER THIS AGTA AND THE APPLICABLE PURCHASE AGREEMENT, INCLUDING, BUT NOT LIMITED TO:

(A) ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS;

(B) ANY IMPLIED WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE;

(C) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY IN TORT, WHETHER OR NOT ARISING FROM THE NEGLIGENCE OF BOEING; AND

(D) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY FOR LOSS OF OR DAMAGE TO ANY AIRCRAFT.

11.2 EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES. BOEING WILL HAVE NO OBLIGATION OR LIABILITY, WHETHER ARISING IN CONTRACT (INCLUDING WARRANTY), TORT, WHETHER OR NOT ARISING FROM THE NEGLIGENCE OF BOEING, OR OTHERWISE, FOR LOSS OF USE, REVENUE OR PROFIT, OR FOR ANY OTHER INCIDENTAL OR CONSEQUENTIAL DAMAGES WITH RESPECT TO ANY NONCONFORMANCE OR DEFECT IN ANY AIRCRAFT, MATERIALS, TRAINING, SERVICES OR OTHER THING PROVIDED UNDER THIS AGTA AND THE APPLICABLE PURCHASE AGREEMENT.

11.3 Definitions. For the purpose of this Article, "BOEING" or "Boeing" is defined as The Boeing Company, its divisions, subsidiaries, affiliates, the assignees of each, and their respective directors, officers, employees and agents.

PRODUCT ASSURANCE DOCUMENT

PART 3: BOEING SERVICE LIFE POLICY

1. Definitions.

SERVICE LIFE POLICY (SLP) COMPONENT - any of the primary structural elements (excluding industry standard parts), such as landing gear, wing, fuselage, vertical or horizontal stabilizer, listed in the applicable purchase agreement for a specific model of aircraft, either installed in the aircraft at time of delivery or purchased from Boeing by Customer as a spare part. The detailed SLP Component listing will be in Supplemental Exhibit SLP1 to each Purchase Agreement.

2. Service Life Policy.

2.1 SLP Commitment. If a failure is discovered in a SLP Component within the time periods specified in Article 2.2 below, Boeing will provide Customer a replacement SLP Component at the price calculated pursuant to Article 3.1, below. If requested by Customer as an alternative remedy, Boeing will reimburse Customer in accordance with the provisions of Exhibit C, Part 2, Article 7.3, for Direct Labor and Direct Material for repair of a failed SLP Component an amount not to exceed the difference between Boeing's then current spare parts price for such SLP Component and the price determined pursuant to Article 3, below.

2.2 SLP Policy Periods.

2.2.1 The policy period for SLP Components initially installed on an aircraft is 12 years after the date of delivery of the aircraft except that for SLP Components initially installed on a 787 aircraft the policy period is 15 years after the date of delivery of the aircraft.

2.2.2 The policy period for SLP Components purchased from Boeing by Customer as spare parts is 12 years from delivery of such SLP Component or 12 years from the date of delivery of the last aircraft produced by Boeing of a specific model, whichever first expires, except that for the 787 aircraft such policy period is 15 years from delivery of such SLP Component or 15 years from the date of delivery of the last 787 aircraft produced by Boeing, whichever first expires.

3. Price.

The price Customer will pay for replacement of a failed SLP Component will be calculated pursuant to the following formulas:

(i) For 787 aircraft only:

$$P = \frac{C(T-48)}{132}$$

where:

P = price to Customer for the replacement part

C = SLP Component sales price at time of replacement

T = total age in months of the failed SLP Component from the date of delivery to Customer to the date of discovery of such condition and is greater than 48 months.

(ii) For all other aircraft models:

$$P = \frac{CT}{144}$$

where:

P = price to Customer for the replacement part

C = SLP Component sales price at time of replacement

T = total age in months of the failed SLP Component from the date of delivery to Customer to the date of discovery of such condition.

4. Conditions.

Boeing's obligations under this Part 3 of Exhibit C, "Boeing Service Life Policy," (Policy) are conditioned upon the following:

4.1 Customer must notify Boeing in writing of the failure within three months after it is discovered.

4.2 Customer must provide reasonable evidence that the claimed failure is covered by this Policy and if requested by Boeing, that such failure was not the result of:

(i) a defect or failure in a component not covered by this Policy,

(ii) an extrinsic force,

(iii) an act or omission of Customer, or

(iv) operation or maintenance contrary to applicable governmental regulations or Boeing's instructions.

4.3 If return of a failed SLP Component is practicable and requested by Boeing, Customer will return such SLP Component to Boeing at Boeing's expense.

4.4 Customer's rights and remedies under this Policy are limited to the receipt of a Correction pursuant to Article 2 above.

5. Disclaimer and Release; Exclusion of Liabilities.

This Part 3 and the rights and remedies of Customer and the obligations of Boeing are subject to the DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES provisions of Article 11 of Part 2 of this Exhibit C.

PRODUCT ASSURANCE DOCUMENT

PART 4: SUPPLIER WARRANTY COMMITMENT

1. Supplier Warranties and Supplier Patent and Copyright Indemnities.

Boeing will use diligent efforts to obtain warranties and indemnities against patent and copyright infringement enforceable by Customer from Suppliers of Supplier Products (except for BFE and engines) installed on the aircraft at the time of delivery that were selected and purchased by Boeing, but not manufactured to Boeing's detailed design. Boeing will furnish copies of the warranties and patent and copyright indemnities to Customer contained in Supplier Product Support and Assurance Agreements, prior to the scheduled delivery month of the first aircraft under the initial purchase agreement to the

AGTA.

2. Boeing Assistance in Administration of Supplier Warranties.

Customer will be responsible for submitting warranty claims directly to Suppliers; however, if Customer experiences problems enforcing any Supplier warranty obtained by Boeing for Customer, Boeing will conduct an investigation of the problem and assist Customer in the resolution of those claims.

3. Boeing Support in Event of Supplier Default.

3.1 If the Supplier defaults in the performance of a material obligation under its warranty, and Customer provides evidence to Boeing that a default has occurred, then Boeing will furnish the equivalent warranty terms as provided by the defaulting Supplier.

3.2 At Boeing's request, Customer will assign to Boeing, and Boeing will be subrogated to, its rights against the Supplier provided by the Supplier warranty.

PRODUCT ASSURANCE DOCUMENT

PART 5: BOEING INTERFACE COMMITMENT

1. Interface Problems.

An Interface Problem is defined as a technical problem in the operation of an aircraft or its systems experienced by Customer, the cause of which is not readily identifiable by Customer but which Customer believes to be attributable to either the design characteristics of the aircraft or its systems or the workmanship used in the installation of Supplier Products. In the event Customer experiences an Interface Problem, Boeing will, without additional charge to Customer, promptly conduct an investigation and analysis to determine the cause or causes of the Interface Problem. Boeing will promptly advise Customer at the conclusion of its investigation of Boeing's opinion as to the causes of the Interface Problem and Boeing's recommendation as to corrective action.

2. Boeing Responsibility.

If Boeing determines that the Interface Problem is primarily attributable to the design or installation of any Boeing Product, Boeing will Correct the design or workmanship to the extent of any then-existing obligations of Boeing under the provisions of the applicable Boeing Warranty.

3. Supplier Responsibility.

If Boeing determines that the Interface Problem is primarily attributable to the design or installation of a Supplier Product, Boeing will assist Customer in processing a warranty claim against the Supplier.

4. Joint Responsibility.

If Boeing determines that the Interface Problem is partially attributable to the design or installation of a Boeing Product and partially to the design or installation of a Supplier Product, Boeing will seek a solution to the Interface Problem through the cooperative efforts of Boeing and the Supplier and will promptly advise Customer of the resulting corrective actions and recommendations.

5. General.

Customer will, if requested by Boeing, assign to Boeing any of its rights against any supplier as Boeing may require to fulfill its obligations hereunder.

6. Disclaimer and Release; Exclusion of Liabilities.

This Part 5 and the rights and remedies of Customer and the obligations of Boeing herein are subject to the DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES provisions of Article 11 of Part 2 of this Exhibit C.

PRODUCT ASSURANCE DOCUMENT

PART 6: BOEING INDEMNITIES AGAINST PATENT AND COPYRIGHT INFRINGEMENT

1. Indemnity Against Patent Infringement.

Boeing will defend and indemnify Customer with respect to all claims, suits and liabilities arising out of any actual or alleged patent infringement through Customer's use, lease or resale of any aircraft or any Boeing Product installed on an aircraft at delivery.

2. Indemnity Against Copyright Infringement.

Boeing will defend and indemnify Customer with respect to all claims, suits and liabilities arising out of any actual or alleged copyright infringement through Customer's use, lease or resale of any Boeing created Materials and Aircraft Software installed on an aircraft at delivery.

3. Exceptions, Limitations and Conditions.

3.1 Boeing's obligation to indemnify Customer for patent infringement will extend only to infringements in countries which, at the time of the infringement, were party to and fully bound by either (a) Article 27 of the Chicago Convention on International Civil Aviation of December 7, 1944, or (b) the International Convention for the Protection of Industrial Property (Paris Convention).

3.2 Boeing's obligation to indemnify Customer for copyright infringement is limited to infringements in countries which, at the time of the infringement, are members of The Berne Union and recognize computer software as a "work" under The Berne Convention.

3.3 The indemnities provided under this Part 6 will not apply to any BFE engines, Supplier Product, Boeing Product used other than for its intended purpose, or Aircraft Software not created by Boeing.

3.4 Customer must deliver written notice to Boeing (i) within 10 days after Customer first receives notice of any suit or other formal action against Customer and (ii) within 20 days after Customer first receives any other allegation or written claim of infringement covered by this Part 6.

3.5 At any time, Boeing will have the right at its option and expense to: (i) negotiate with any party claiming infringement, (ii) assume or control the defense of any infringement allegation, claim, suit or formal action, (iii) intervene in any infringement suit or formal action, and/or (iv) attempt to resolve any claim of infringement by replacing an allegedly infringing Boeing Product or Aircraft Software with a noninfringing equivalent.

3.6 Customer will promptly furnish to Boeing all information, records and assistance within Customer's possession or control which Boeing considers relevant or material to any alleged infringement covered by this Part 6.

3.7 Except as required by a final judgment entered against Customer by a court of competent jurisdiction from which no appeals can be or have been filed, Customer will obtain Boeing's written approval prior to paying, committing to pay, assuming any obligation or making any material concession relative to any infringement covered by these indemnities.

3.8 BOEING WILL HAVE NO OBLIGATION OR LIABILITY UNDER THIS PART 6 FOR LOSS OF USE, REVENUE OR PROFIT, OR FOR ANY OTHER INCIDENTAL OR CONSEQUENTIAL DAMAGES. THE OBLIGATIONS OF BOEING AND REMEDIES OF CUSTOMER IN THIS PART 6 ARE EXCLUSIVE AND IN SUBSTITUTION FOR, AND CUSTOMER HEREBY WAIVES, RELEASES AND RENOUNCES ALL OTHER INDEMNITIES, OBLIGATIONS AND LIABILITIES OF BOEING AND ALL OTHER RIGHTS, CLAIMS AND REMEDIES OF CUSTOMER AGAINST BOEING, EXPRESS OR IMPLIED, ARISING BY LAW OR OTHERWISE, WITH RESPECT TO ANY ACTUAL OR ALLEGED PATENT, COPYRIGHT OR OTHER INTELLECTUAL PROPERTY INFRINGEMENT OR THE LIKE BY ANY AIRCRAFT, AIRCRAFT SOFTWARE, MATERIALS, TRAINING, SERVICES OR OTHER THING PROVIDED UNDER THIS AGTA AND THE APPLICABLE PURCHASE AGREEMENT.

3.9 For the purposes of this Part 6, "BOEING or Boeing" is defined as The Boeing Company, its divisions, subsidiaries, affiliates, the assignees of each and their respective directors, officers, employees and agents.

SAMPLE
INSURANCE CERTIFICATE

BROKER'S LETTERHEAD

[date]

Certificate of Insurance

ISSUED TO: The Boeing Company
Post Office Box 3707
Mail Stop 13-57
Seattle, Washington 98124
Attn: Manager - Aviation Insurance for
Vice President - Employee Benefits,
Insurance and Taxes

CC: Boeing Commercial Airplanes
P.O. Box 3707
Mail Stop 21-34
Seattle, Washington 98124-2207
U.S.A.
Attn: Vice President - Contracts

NAMED INSURED: ALASKA AIRLINES, INC.

We hereby certify that in our capacity as Brokers to the Named Insured, the following described insurance is in force on this date:

INSURER	POLICY NO.	PARTICIPATION

POLICY PERIOD: From [date and time of inception of the Policy(ies)] to [date and time of expiration].

GEOGRAPHICAL LIMITS: Worldwide (however, as respects "Aircraft Hull War and Allied Perils" Insurance, as agreed by Boeing).

SAMPLE
INSURANCE CERTIFICATE

AIRCRAFT INSURED: All Boeing manufactured aircraft owned or operated by the Named Insured which are the subject of the following purchase agreement(s), entered into between The Boeing Company and ________________ (hereinafter "Aircraft"):

Purchase Agreement No. ____ dated ______
Purchase Agreement No. ____ dated ______

COVERAGES:

1. AIRCRAFT "ALL RISKS" HULL (GROUND AND FLIGHT)

2. AIRCRAFT HULL WAR AND ALLIED PERILS (AS PER LSW 555, OR ITS SUCCESSOR WORDING)

3. AIRLINE LIABILITY

Including, but not limited to, Bodily Injury, Property Damage, Aircraft Liability, Liability War Risks, Passenger Legal Liability, Premises/Operations Liability, Completed Operations/Products Liability, Baggage Legal Liability (checked and unchecked), Cargo Legal Liability, Contractual Liability and Personal Injury.

The above-referenced Airline Liability insurance coverage is subject to War and Other Perils Exclusion Clause (AV48B) but all sections, other than section (b) are reinstated as per AV52C, or their successor endorsements.

LIMITS OF LIABILITY:

To the fullest extent of the Policy limits that the Named Insured carries from the time of delivery of the first Aircraft under the first Purchase Agreement listed under "Aircraft Insured" and thereafter at the inception of each policy period, but in any event no less than the following:

Combined Single Limit Bodily Injury and Property Damage: U.S.$ any one occurrence each Aircraft (with aggregates as applicable).

(717-200)	US$300,000,000
(737-500/600)	US$350,000,000
(737-300/700)	US$400,000,000
(737-400)	US$450,000,000
(737-800)	US$500,000,000
(737-900)	US$500,000,000
(757-200)	US$525,000,000
(757-300)	US$550,000,000
(767-200)	US$550,000,000
(767-300)	US$700,000,000
(767-400ERX)	US$750,000,000

(7E7)	US$700,000,000
(777-200LR)	US$800,000,000
(MD-11)	US$800,000,000
(777-200/300)	US$800,000,000

(777-300ER)	US$800,000,000
(747-400)	US$900,000,000

(In regard to all other models and/or derivatives, to be specified by Boeing).

(In regard to Personal Injury coverage, limits are US$25,000,000 any one offense/aggregate.)

DEDUCTIBLES / SELF-INSURANCE

Any deductible and/or self-insurance amount (other than standard market deductibles) are to be disclosed and agreed by Boeing.

SPECIAL PROVISIONS APPLICABLE TO BOEING:

It is certified that Insurers are aware of the terms and conditions of AGTA-ASA and the following purchase agreements:

PA ______ dated _______
PA ______ dated _______
PA ______ dated _______

Each Aircraft manufactured by Boeing which is delivered to the Insured pursuant to the applicable purchase agreement during the period of effectivity of the policies represented by this Certificate will be covered to the extent specified herein.

Insurers have agreed to the following:

A. In regard to Aircraft "all risks" Hull Insurance and Aircraft Hull War and Allied Perils Insurance, Insurers agree to waive all rights of subrogation or recourse against Boeing in accordance with AGTA-ASA which was incorporated by reference into the applicable purchase agreement.

B. In regard to Airline Liability Insurance, Insurers agree:

(1) To include Boeing as an additional insured in accordance with Customer's undertaking in Article 8.2.1 of AGTA-ASA which was incorporated by reference into the applicable purchase agreement.

(2) To provide that such insurance will be primary and not contributory nor excess with respect to any other insurance available for the protection of Boeing;

(3) To provide that with respect to the interests of Boeing, such insurance shall not be invalidated or minimized by any action or inaction, omission or misrepresentation by the Insured or any other person or party (other than Boeing) regardless of any breach or violation of any warranty, declaration or condition contained in such policies;

(4) To provide that all provisions of the insurance coverages referenced above, 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 to each.

C. In regard to all of the above referenced policies:

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

(2) If a policy is canceled for any reason whatsoever, or any substantial change is made in the coverage which affects the interests of Boeing or if a policy is allowed to lapse for nonpayment of premium, such cancellation, change or lapse shall not be effective as to Boeing for thirty (30) days (in the

case of war risk and allied perils coverage seven (7) days after sending, or such other period as may from time to time be customarily obtainable in the industry) after receipt by Boeing of written notice from the Insurers or the authorized representatives or Broker of such cancellation, change or lapse; and

(3) For the purposes of the Certificate, "Boeing" is defined as The Boeing Company, its divisions, subsidiaries, affiliates, the assignees of each and their respective directors, officers, employees and agents.

SUBJECT TO THE TERMS, CONDITIONS, LIMITATIONS AND EXCLUSIONS OF THE RELATIVE POLICIES.

(signature)

(typed name)

(title)

SAMPLE
PURCHASE AGREEMENT ASSIGNMENT
(WHERE CUSTOMER REMAINS OPERATOR OF THE AIRCRAFT)

THIS PURCHASE AGREEMENT ASSIGNMENT (Assignment) dated as of ________ 20__ between Alaska Airlines, Inc., a company organized under the laws of ________________ (Assignor) and ________________________, a company organized under the laws of ________________ (Assignee). Capitalized terms used herein without definition will have the same meaning as in the Boeing Purchase Agreement.

Assignor and The Boeing Company, a Delaware corporation (Boeing), are parties to the Boeing Purchase Agreement, providing, among other things, for the sale by Boeing to Assignor of certain aircraft, engines and related equipment, including the Aircraft.

Assignee wishes to acquire the Aircraft and certain rights and interests under the Boeing Purchase Agreement and Assignor, on the following terms and conditions, is willing to assign to Assignee certain of Assignor's rights and interests under the Boeing Purchase Agreement. Assignee is willing to accept such assignment.

It is agreed as follows:

1. For all purposes of this Assignment, the following terms will have the following meanings:

Aircraft -- one Boeing Model ______ aircraft, bearing manufacturer's serial number _______, together with all engines and parts installed on such aircraft on the Delivery Date.

Boeing -- Boeing shall include any wholly-owned subsidiary of Boeing, and its successors and assigns.

Boeing Purchase Agreement -- Purchase Agreement No. ________ dated as of ____________ between Boeing and Assignor, as amended, but excluding ______________, providing, among other things, for the sale by Boeing to Assignor of the Aircraft, as said agreement may be further amended to the extent permitted by its terms. The Purchase Agreement incorporated by reference Aircraft General Terms Agreement AGTA/____ (AGTA).

Delivery Date -- the date on which the Aircraft is delivered by Boeing to Assignee pursuant to and subject to the terms and conditions of the Boeing Purchase Agreement and this Assignment.

2. Assignor does hereby assign to Assignee all of its rights and interests in and to the Boeing Purchase Agreement, as and to the extent that the same relate to the Aircraft and the purchase and operation thereof, except as and to the extent expressly reserved below, including, without limitation, in such assignment: [TO BE COMPLETED BY THE PARTIES.]

SAMPLE
PURCHASE AGREEMENT ASSIGNMENT
(WHERE CUSTOMER REMAINS OPERATOR OF THE AIRCRAFT)

{EXAMPLES

(a) the right upon valid tender to purchase the Aircraft pursuant to the Boeing Purchase Agreement subject to the terms and conditions thereof and the right to take title to the Aircraft and to be named the "Buyer" in the bill of sale for the Aircraft;

(b) the right to accept delivery of the Aircraft;

(c) all claims for damages arising as a result of any default under the Boeing Purchase Agreement in respect of the Aircraft;

(d) all warranty and indemnity provisions contained in the Boeing Purchase Agreement, and all claims arising thereunder, in respect of the Aircraft; and

(e) any and all rights of Assignor to compel performance of the terms of the Boeing Purchase Agreement in respect of the Aircraft.}

Reserving exclusively to Assignor, however:

{EXAMPLES

(i) all Assignor's rights and interests in and to the Boeing Purchase Agreement as and to the extent the same relates to aircraft other than the Aircraft, or to any other matters not directly pertaining to the Aircraft;

(ii) all Assignor's rights and interests in or arising out of any advance or other payments or deposits made by Assignor in respect of the Aircraft under the Boeing Purchase Agreement and any amounts credited or to be credited or paid or to be paid by Boeing in respect of the Aircraft;

(iii) the right to obtain services, training, information and demonstration and test flights pursuant to the Boeing Purchase Agreement; and

(iv) the right to maintain plant representatives at Boeing's plant pursuant to the Boeing Purchase Agreement.}

Assignee hereby accepts such assignment.

3. Notwithstanding the foregoing, so long as no event of default or termination under [specify document] has occurred and is continuing, Assignee hereby authorizes Assignor, to the

exclusion of Assignee, to exercise in Assignor's name all rights and powers of Customer under the Boeing Purchase Agreement in respect of the Aircraft.

4. For all purposes of this Assignment, Boeing will not be deemed to have knowledge of or need recognize the occurrence, continuance or the discontinuance of any event of default or termination under [specify document] unless and until Boeing receives from Assignee written notice thereof, addressed to its Vice President - Contracts, Boeing Commercial Airplanes at P.O. Box 3707, Seattle, Washington 98124, if by mail, or to 32-9430 Answerback BOEINGREN RNTN, if by telex. Until such notice has been given, Boeing will be entitled to deal solely and exclusively with Assignor. Thereafter, until Assignee has provided Boeing

written notice that any such events no longer continue, Boeing will be entitled to deal solely and exclusively with Assignee. Boeing may act with acquittance and conclusively rely on any such notice.

5. It is expressly agreed that, anything herein contained to the contrary notwithstanding: (a) prior to the Delivery Date Assignor will perform its obligations with respect to the Aircraft to be performed by it on or before such delivery, (b) Assignor will at all times remain liable to Boeing under the Boeing Purchase Agreement to perform all obligations of Customer thereunder to the same extent as if this Assignment had not been executed, and (c) the exercise by Assignee of any of the assigned rights will not release Assignor from any of its obligations to Boeing under the Boeing Purchase Agreement, except to the extent that such exercise constitutes performance of such obligations.

6. Notwithstanding anything contained in this Assignment to the contrary (but without in any way releasing Assignor from any of its obligations under the Boeing Purchase Agreement), Assignee confirms for the benefit of Boeing that, insofar as the provisions of the Boeing Purchase Agreement relate to the Aircraft, in exercising any rights under the Boeing Purchase Agreement, or in making any claim with respect to the Aircraft or other things (including, without limitation, Material, training and services) delivered or to be delivered, the terms and conditions of the Boeing Purchase Agreement, including, without limitation, the DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES in Article 11 of Part 2 of Exhibit C to the Aircraft General Terms Agreement which was incorporated by reference into the Boeing Purchase Agreement and the insurance provisions in Article 8.2 of the Aircraft General Terms Agreement which was incorporated by reference into the Boeing Purchase Agreement therein, will apply to and be binding on Assignee to the same extent as if Assignee had been the original "Customer" thereunder. Assignee further agrees, expressly for the benefit of Boeing, upon the written request of Boeing, Assignee will promptly execute and deliver such further assurances and documents and take such further action as Boeing may reasonably request in order to obtain the full benefits of Assignee's agreements in this paragraph.

7. Nothing contained herein will subject Boeing to any liability to which it would not otherwise be subject under the Boeing Purchase Agreement or modify in any respect the contract rights of Boeing thereunder, or require Boeing to divest itself of title to or possession of the Aircraft or other things until delivery thereof and payment therefor as provided therein.

8. Notwithstanding anything in this Assignment to the contrary, after receipt of notice of any event of default or termination under [specify document], Boeing will continue to owe to Assignor moneys in payment of claims made or obligations arising before such notice, which moneys may be subject to rights of set-off available to Boeing under applicable law. Similarly, after receipt of notice that such event of default or termination no longer continues, Boeing will continue to owe to Assignee moneys in payment of claims made or obligations arising before such notice, which moneys may be subject to rights of set-off available to Boeing under applicable law.

9. Effective at any time after an event of default has occurred, and for so long as such event of default is continuing, Assignor does hereby constitute Assignee, Assignor's true and lawful attorney, irrevocably, with full power (in the name of Assignor or otherwise) to ask, require, demand, receive, and give acquittance for any and all moneys and claims for moneys due and to become due under or arising out of the Boeing Purchase Agreement in respect of the Aircraft, to the extent assigned by this Assignment.

10. Assignee agrees, expressly for the benefit of Boeing and Assignor that it will not disclose, directly or indirectly, any terms of the Boeing Purchase Agreement; provided, that Assignee may disclose any such information (a) to its special counsel and public accountants, (b) as required by applicable law to be disclosed or to the extent that Assignee may have received a subpoena or other written demand under color of legal right for such information, but it will first, as soon as practicable upon receipt of such requirement or demand,

furnish an explanation of the basis thereof to Boeing, and will afford Boeing reasonable opportunity, to obtain a protective order or other reasonably satisfactory assurance of confidential treatment for the information required to be disclosed, and (c) to any bona fide potential purchaser or lessee of the Aircraft. Any disclosure pursuant to (a) and (c) above will be subject to execution of a confidentiality agreement substantially similar to this paragraph 10.

11. This Assignment may be executed by the parties in separate counterparts, each of which when so executed and delivered will be an original, but all such counterparts will together constitute but one and the same instrument.

12. This Assignment will be governed by, and construed in accordance with, the laws of [______________________].

___________________________	___________________________
as Assignor	as Assignee
By _______________________	By _______________________
Name:	Name:
Title:	Title:

[If the Assignment is further assigned by Assignee in connection with a financing, the following language needs to be included.]

Attest:

The undersigned, as [Indenture Trustee/Agent for the benefit of the Loan Participants/Mortgagee] and as assignee of, and holder of a security interest in, the estate, right, and interest of the Assignee in and to the foregoing Purchase Agreement Assignment and the Purchase Agreement pursuant to the terms of a certain [Trust Indenture/Mortgage] dated as of _____________, agrees to the terms of the foregoing Purchase Agreement Assignment and agrees that its rights and remedies under such [Trust Indenture/Mortgage] shall be subject to the terms and conditions of the foregoing Purchase Agreement Assignment, including, without limitation, paragraph 6.

[Name of Entity],
as Indenture Trustee/Agent

By: ____________________________

Name:

Title:

CONSENT AND AGREEMENT OF
THE BOEING COMPANY

THE BOEING COMPANY, a Delaware corporation (Boeing), hereby acknowledges notice of and consents to the foregoing Purchase Agreement Assignment (Assignment) as it relates to Boeing in respect of the Aircraft. Boeing confirms to Assignee that: all representations, warranties, indemnities and agreements of Boeing under the Boeing Purchase Agreement with respect to the Aircraft will, subject to the terms and conditions thereof and of the Assignment, inure to the benefit of Assignee to the same extent as if Assignee were originally named "Customer" therein.

This Consent and Agreement will be governed by, and construed in accordance with, the law of the State of Washington, excluding the conflict of laws principles thereof.

Dated as of ___________________, 20___.

THE BOEING COMPANY

By _______________________
Name:
Title: Attorney-in-Fact

Aircraft Manufacturer's Serial Number(s) ___________

SAMPLE
POST-DELIVERY SALE NOTICE

Boeing Commercial Airplanes
P.O. Box 3707
Seattle, Washington 98124-2207
U.S.A.

By Courier
1901 Oakesdale Ave. SW
Renton, WA 98055
U.S.A.

Attention: Vice President - Contracts
Mail Code 21-34

Ladies and Gentlemen:

In connection with the sale by Alaska Airlines, Inc. (Seller) to ________________ (Purchaser) of the aircraft identified below, reference is made to Purchase Agreement No. _____ dated as of ___________, 20__, between The Boeing Company (Boeing) and Seller (the Purchase Agreement) under which Seller purchased certain Boeing Model ________ aircraft, including the aircraft bearing Manufacturer's Serial No.(s) ______________________ (the Aircraft). The Purchase Agreement incorporated by reference Aircraft General Terms Agreement AGTA-ASA (AGTA).

Capitalized terms used herein without definition will have the same meaning as in the Purchase Agreement.

Seller has sold the Aircraft, including in that sale the assignment to Purchaser of all remaining rights related to the Aircraft under the Purchase Agreement. To accomplish this transfer of rights, as authorized by the provisions of the Purchase Agreement:

(1) Purchaser acknowledges it has reviewed those provisions of the Purchase Agreement related to those rights assigned and agrees to be bound by and comply with all applicable terms and conditions of the Purchase Agreement, including, without limitation, the DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES in Article 11 of Part 2 of Exhibit C to the AGTA and the insurance provisions in Article 8.2 of the AGTA. Purchaser further agrees upon the written request of Boeing, to promptly execute and deliver such further assurances and documents and take such further action as Boeing may reasonably request in order to obtain the full benefits of Purchaser's agreements in this paragraph; and

(2) Seller will remain responsible for any payments due Boeing as a result of obligations relating to the Aircraft incurred by Seller to Boeing prior to the effective date of this letter.

SAMPLE
POST-DELIVERY SALE NOTICE

We request that Boeing acknowledge receipt of this letter and confirm the transfer of rights set forth above by signing the acknowledgment and forwarding one copy of this letter to each of the undersigned.

Very truly yours,

Alaska Airlines, Inc.	Purchaser
By _________________________	By _________________________
Its ________________________	Its ________________________
Dated ______________________	Dated ______________________

Receipt of the above letter is acknowledged and the assignment of rights under the Purchase Agreement with respect to the Aircraft described above is confirmed, effective as of this date.

THE BOEING COMPANY

By __________________________

Its Attorney-in-Fact

Dated _______________________

Aircraft Manufacturer's Serial Number ____________

SAMPLE
POST-DELIVERY LEASE NOTICE

Boeing Commercial Airplanes
P.O. Box 3707
Seattle, Washington 98124-2207
U.S.A.

By Courier
1901 Oakesdale Ave. SW
Renton, WA 98055
U.S.A.

Attention: Vice President - Contracts
Mail Code 21-34

Ladies and Gentlemen:

In connection with the lease by Alaska Airlines, Inc. (Lessor) to ___________ (Lessee) of the aircraft identified below, reference is made to Purchase Agreement No. ____ dated as of ________, 20__, between The Boeing Company (Boeing) and Lessor (the Purchase Agreement) under which Lessor purchased certain Boeing Model _______ aircraft, including the aircraft bearing Manufacturer's Serial No.(s) ___________________ (the Aircraft). The Purchase Agreement incorporated by reference Aircraft General Terms Agreement AGTA-ASA (AGTA).

Capitalized terms used herein without definition will have the same meaning as in the Purchase Agreement.

Lessor has leased the Aircraft, including in that lease the transfer to Lessee of all remaining rights related to the Aircraft under the Purchase Agreement. To accomplish this transfer of rights, as authorized by the provisions of the Purchase Agreement:

(1) Lessor authorizes Lessee to exercise, to the exclusion of Lessor, all rights

and powers of Lessor with respect to the remaining rights related to the Aircraft under the Purchase Agreement. This authorization will continue until Boeing receives written notice from Lessor to the contrary, addressed to Vice President - Contracts, Mail Code 21-34, Boeing Commercial Airplanes, P.O. Box 3707, Seattle, Washington 98124-2207. Until Boeing receives such notice, Boeing is entitled to deal exclusively with Lessee with respect to the Aircraft under the Purchase Agreement. With respect to the rights and obligations of Lessor under the Purchase Agreement, all actions taken or agreements entered into by Lessee during the period prior to Boeing's receipt of this notice are final and binding on Lessor. Further, any payments made by Boeing as a result of claims made by Lessee prior to receipt of such notice will be made to the credit of Lessee and after such notice will be made to Lessor.

SAMPLE
POST-DELIVERY LEASE NOTICE

(2) Lessee accepts the authorization above, acknowledges it has reviewed those provisions of the Purchase Agreement related to the authority granted and agrees to be bound by and comply with all applicable terms and conditions of the Purchase Agreement including, without limitation, the DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES in Article 11 of Part 2 of Exhibit C AGTA and the insurance provisions in Article 8.2 of the AGTA. Lessee further agrees, upon the written request of Boeing, to promptly execute and deliver such further assurances and documents and take such further action as Boeing may reasonably request in order to obtain the full benefits of Lessee's agreements in this paragraph.

(3) Lessor will remain responsible for any payments due Boeing as a result of obligations relating to the Aircraft incurred by Lessor to Boeing prior to the effective date of this letter.

We request that Boeing acknowledges receipt of this letter and confirm the transfer of rights set forth above by signing the acknowledgment and forwarding one copy of this letter to each of the undersigned.

Very truly yours,

Alaska Airlines, Inc.	Lessee
By _______________________	By _______________________
Its ______________________	Its ______________________
Dated ____________________	Dated ____________________

Receipt of the above letter is acknowledged and transfer of rights under the Purchase Agreement with respect to the Aircraft described above is confirmed, effective as of this date.

THE BOEING COMPANY

By _______________________

Its ______________________

Dated ____________________

SAMPLE
POST-DELIVERY LEASE NOTICE

Aircraft Manufacturer's Serial Number ____________

Boeing Commercial Airplanes
P. O. Box 3707
Seattle, Washington 98124-2207
U.S.A.

By Courier
1901 Oakesdale Ave. SW
Renton, WA 98055
U.S.A.

Attention Vice President - Contracts
Mail Code 21-34

Ladies and Gentlemen:

In connection with the sale/lease by Alaska Airlines, Inc. (Seller/Lessor) to ______________________ (Purchaser/Lessee) of the aircraft identified below, reference is made to the following documents:

(i) Purchase Agreement No. _____ dated as of ___________, 20__, between The Boeing Company (Boeing) and Seller/Lessor (the Purchase Agreement) under which Seller/Lessor purchased certain Boeing Model ________ aircraft, including the aircraft bearing Manufacturer's Serial No.(s) ______________________ (the Aircraft); and

(ii) Aircraft Sale/Lease Agreement dated as of ___________, 20__, between Seller/Lessor and Purchaser/Lessee (the Aircraft Agreement) under which Seller/Lessor is selling/leasing the Aircraft.

Capitalized terms used herein without definition will have the same meaning as in the Purchase Agreement.

1. Seller/Lessor has sold/leased the Aircraft under the Aircraft Agreement, including therein a form of exculpatory clause protecting Seller/Lessor from liability for loss of or damage to the aircraft, and/or related incidental or consequential damages, including without limitation loss of use, revenue or profit.

2. Disclaimer and Release; Exclusion of Consequential and Other Damages

2.1 In accordance with Seller/Lessor's obligation under Article 9.5 of AGTA-ASA which was incorporated by reference into the Purchase Agreement, Purchaser/Lessee hereby agrees that:

2.2 DISCLAIMER AND RELEASE. IN CONSIDERATION OF THE SALE/LEASE OF THE AIRCRAFT, PURCHASER/LESSEE HEREBY WAIVES, RELEASES AND RENOUNCES ALL WARRANTIES, OBLIGATIONS AND LIABILITIES OF BOEING AND ALL OTHER RIGHTS, CLAIMS AND REMEDIES OF PURCHASER/LESSEE AGAINST BOEING, EXPRESS OR IMPLIED, ARISING BY LAW OR OTHERWISE, WITH RESPECT TO ANY NONCONFORMANCE OR DEFECT IN ANY AIRCRAFT, BOEING PRODUCT, MATERIALS, TRAINING, SERVICES OR OTHER THING PROVIDED UNDER THE AIRCRAFT AGREEMENT, INCLUDING, BUT NOT LIMITED TO:

(A) ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS;

(B) ANY IMPLIED WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE;

(C) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY IN TORT, WHETHER OR NOT ARISING FROM THE NEGLIGENCE OF BOEING; AND

(D) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY FOR LOSS OF OR DAMAGE TO ANY AIRCRAFT.

2.3 EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES. BOEING WILL HAVE NO OBLIGATION OR LIABILITY, WHETHER ARISING IN CONTRACT (INCLUDING WARRANTY), TORT, WHETHER OR NOT ARISING FROM THE NEGLIGENCE OF BOEING, OR OTHERWISE, FOR LOSS OF USE, REVENUE OR PROFIT, OR FOR ANY OTHER INCIDENTAL OR CONSEQUENTIAL DAMAGES WITH RESPECT TO ANY NONCONFORMANCE OR DEFECT IN ANY AIRCRAFT, MATERIALS, TRAINING, SERVICES OR OTHER THING PROVIDED UNDER THE AIRCRAFT AGREEMENT.

2.4 Definitions. For the purpose of this paragraph 2, "BOEING" or "Boeing" is defined as The Boeing Company, its divisions, subsidiaries, affiliates, the assignees of each, and their respective directors, officers, employees and agents.

Alaska Airlines, Inc. (Seller/Lessor)   Purchaser/Lessee

SAMPLE
PURCHASER'S/LESSEE'S AGREEMENT

By _________________________   By _________________________

Its ________________________   Its ________________________

Dated ______________________   Dated ______________________

SAMPLE
POST-DELIVERY OWNER APPOINTMENT OF AGENT - WARRANTIES

Boeing Commercial Airplanes
P.O. Box 3707
Seattle, Washington 98124-2207
U.S.A.

By Courier
1901 Oakesdale Ave. SW
Renton, WA 98055
U.S.A.

Attention: Vice President - Contracts
Mail Code 21-34

Ladies and Gentlemen:

1. Reference is made to Purchase Agreement No. ____ dated as of __________, 20__, between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Customer) (the Purchase Agreement), under which Customer purchased certain Boeing Model ________ aircraft including the aircraft bearing Manufacturer's Serial No.(s) _____________ (the Aircraft). The Purchase Agreement incorporated by reference Aircraft General Terms Agreement AGTA-ASA (AGTA).

Capitalized terms used herein without definition will have the same meaning as in the Purchase Agreement.

To accomplish the appointment of an agent, Customer confirms:

A. Customer has appointed ____________________ as agent (Agent) to act directly with Boeing with respect to the remaining warranties under the Purchase Agreement and requests Boeing to treat Agent as Customer for the administration of claims with respect to such warranties; provided however, Customer remains liable to Boeing to perform the obligations of Customer under the Purchase Agreement.

B. Boeing may continue to deal exclusively with Agent concerning the matters described herein unless and until Boeing receives written notice from Customer to the contrary, addressed to Vice President - Contracts, Mail Code 21-34, Boeing Commercial Airplanes, P.O. Box 3707, Seattle, Washington 98124-2207, U.S.A. With respect to the rights and obligations of Customer under the Purchase

Agreement, all actions taken by Agent or agreements entered into by Agent during the period prior to Boeing's receipt of such notice are final and binding on Customer. Further, any payments made by Boeing as a result of claims made by Agent will be made to the credit of Agent unless otherwise specified when each claim is submitted.

SAMPLE
POST-DELIVERY OWNER APPOINTMENT OF AGENT - WARRANTIES

C. Customer will remain responsible for any payments due Boeing as a result of obligations relating to the Aircraft incurred by Customer to Boeing prior to the effective date of this letter.

We request that Boeing acknowledge receipt of this letter and confirm the appointment of Agent as stated above by signing the acknowledgment and forwarding one copy of this letter to each of the undersigned.

Very truly yours,

Alaska Airlines, Inc.

By ____________________________

SAMPLE
POST-DELIVERY OWNER APPOINTMENT OF AGENT - WARRANTIES

AGENT'S AGREEMENT

Agent accepts the appointment as stated above, acknowledges it has reviewed the those portions of the Purchase Agreement related to the authority granted it under the Purchase Agreement and agrees that, in exercising any rights or making any claims thereunder, Agent will be bound by and comply with all applicable terms and conditions of the Purchase Agreement including, without limitation, the DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES in Article 11 of Part 2 of Exhibit C to the AGTA. Agent further agrees, upon the written request of Boeing, to promptly execute and deliver such further assurances and documents and take such further action as Boeing may reasonably request in order to obtain the full benefits of the warranties under the Purchase Agreement.

Very truly yours,

Agent

By ____________________________

Its ___________________________

Dated _________________________

Receipt of the above letter is acknowledged and the appointment of Agent with respect to the above-described rights under the Purchase Agreement is confirmed, effective as of this date.

THE BOEING COMPANY

By ____________________________

Its ___________________________

Dated _________________________

Aircraft Manufacturer's Serial Number __________

SAMPLE
CONTRACTOR CONFIDENTIALITY AGREEMENT

Boeing Commercial Airplanes
P.O. Box 3707
Seattle, Washington 98124-2207

Attention: Vice President - Contracts
Mail Stop 21-34

Ladies and Gentlemen:

This Agreement is entered into between ____________________ (Contractor) and Alaska Airlines, Inc. (Customer) and will be effective as of the date stated below.

In connection with Customer's provision to Contractor of certain Materials, Proprietary Materials and Proprietary Information, reference is made to Purchase Agreement No. _____ dated as of _______, 20___ between The Boeing Company (Boeing) and Customer.

Capitalized terms used herein without definition will have the same meaning as in the Purchase Agreement.

Boeing has agreed to permit Customer to make certain Materials, Proprietary Materials and Proprietary Information relating to Customer's Boeing Model ________ aircraft, Manufacturer's Serial Number ______, Registration No. ________ (the Aircraft) available to Contractor in connection with Customer's contract with Contractor (the Contract) to maintain/repair/modify the Aircraft. As a condition of receiving the Proprietary Materials and Proprietary Information, Contractor agrees as follows:

1. For purposes of this Agreement:

"AIRCRAFT SOFTWARE" means software that is installed and used in the operation of an Aircraft.

"MATERIALS" are defined as any and all items that are created by Boeing or a third party, which are provided directly or indirectly from Boeing and serve primarily to contain, convey or embody information. Materials may include either tangible embodiments (for example, documents or drawings), or intangible embodiments (for example, software and other electronic forms) of information but excludes Aircraft Software.

"PROPRIETARY INFORMATION" means any and all proprietary, confidential and/or trade secret information owned by Boeing or a Third Party which is contained, conveyed or embodied in Proprietary Materials.

"PROPRIETARY MATERIALS" means Materials that contain, convey, or embody Proprietary Information.

"THIRD PARTY" means anyone other than Boeing, Customer and Contractor.

2. Boeing has authorized Customer to grant to Contractor a worldwide, non-exclusive, personal and nontransferable license to use Proprietary Materials and Proprietary Information, owned by Boeing, internally in connection with performance of the Contract or as may otherwise be authorized by Boeing in writing. Contractor will keep confidential and protect from disclosure to any person, entity or government agency, including any person or entity affiliated with Contractor, all Proprietary Materials and Proprietary Information.

Individual copies of all Materials are provided to Contractor subject to copyrights therein, and all such copyrights are retained by Boeing or, in some cases, by Third Parties. Contractor is authorized to make copies of Materials (except for Materials bearing the copyright legend of a Third Party) provided, however, Contractor preserves the restrictive legends and proprietary notices on all copies. All copies of Proprietary Materials will belong to Boeing and be treated as Proprietary Materials under this Agreement.

3. Contractor specifically agrees not to use Proprietary Materials or Proprietary Information in connection with the manufacture or sale of any part or design. Unless otherwise agreed with Boeing in writing, Proprietary Materials and Proprietary Information may be used by Contractor only for work on the Aircraft for which such Proprietary Materials have been specified by Boeing. Customer and Contractor recognize and agree that they are responsible for ascertaining and ensuring that all Materials are appropriate for the use to which they are put.

4. Contractor will not attempt to gain access to information by reverse engineering, decompiling, or disassembling any portion of any software provided to Contractor pursuant to this Agreement.

5. Upon Boeing's request at any time, Contractor will promptly return to Boeing (or, at Boeing's option, destroy) all Proprietary Materials, together with all copies thereof and will certify to Boeing that all such Proprietary Materials and copies have been so returned or destroyed.

6. To the extent required by a government regulatory agency having jurisdiction over Contractor, Customer or the Aircraft, Contractor is authorized to provide Proprietary Materials and disclose Proprietary Information to the agency for the agency's use in connection with Contractor's, authorized use of such Proprietary Materials and/or Proprietary Information in connection with Contractor's maintenance, repair, or modification of the Aircraft. Contractor agrees to take reasonable steps to prevent such agency from making any distribution or disclosure, or additional use of the Proprietary Materials and Proprietary Information so provided or disclosed. Contractor further agrees to promptly notify Boeing upon learning of any (i) distribution, disclosure, or additional use by such agency, (ii) request to such agency for

distribution, disclosure, or additional use, or (iii) intention on the part of such agency to distribute, disclose, or make additional use of the Proprietary Materials or Proprietary Information.

7. Boeing is a third-party beneficiary under this Agreement, and Boeing may enforce any and all of the provisions of the Agreement directly against Contractor. Contractor hereby submits to the jurisdiction of the Washington state courts and the United States District Court for the Western District of Washington with regard to any claims Boeing may make under this Agreement. It is agreed that Washington law (excluding Washington's conflict-of-law principles) governs this Agreement.

8. No disclosure or physical transfer by Boeing or Customer to Contractor, of any Proprietary Materials or Proprietary Information covered by this Agreement will be construed as granting a license, other than as expressly set forth in this Agreement or any ownership right in any patent, patent application, copyright or proprietary information.

9. The provisions of this Agreement will apply notwithstanding any markings or legends, or the absence thereof, on any Proprietary Materials.

10. This Agreement is the entire agreement of the parties regarding the ownership and treatment of Proprietary Materials and Proprietary Information, and no modification of this Agreement will be effective as against Boeing unless in writing signed by authorized representatives of Contractor, Customer and Boeing.

11. Failure by either party to enforce any of the provisions of this Agreement will not be construed as a waiver of such provisions. If any of the provision of this Agreement is held unlawful or otherwise ineffective by a court of competent jurisdiction, the remainder of the Agreement will remain in full force.

ACCEPTED AND AGREED TO this

Date: ____________________, 20___

Alaska Airlines, Inc.	Contractor
By __________________________	By _________________________
Its _________________________	Its ________________________

SAMPLE

POST-DELIVERY SALE WITH LEASE TO SELLER

[Notice from Owner/Seller and subsequent Buyer regarding post-delivery sale and lease back of an aircraft and transfer of all remaining Purchase Agreement rights.]

, 200_

Boeing Commercial Airplanes
P.O. Box 3707
Seattle, Washington 98124-2207

By Courier
1901 Oakesdale Ave. SW
Renton, WA _____

Attention: Vice President - Contracts
Mail Code 21-34

Ladies and Gentlemen:

In connection with ________________'s (Seller's) sale to and lease back from ________________ (Buyer) of the aircraft identified below, reference is made to the following documents:

1. Purchase Agreement No. _______ dated as of _________________, between The Boeing Company (Boeing) and Seller (the Agreement) under which Seller purchased certain Boeing Model _____________ aircraft, including the aircraft bearing Manufacturer's Serial No.(s) _________(the Aircraft). The Agreement incorporates by reference the terms of AGTA-___ dated __________ ___, _____, between Seller and Boeing.

2. Aircraft Sale Agreement dated as of ___________________, between Seller and ___________________________________ (Buyer).

3. Aircraft Lease Agreement dated as of ___________________, between Buyer and Seller.

Capitalized terms used herein without definition will have the same meaning as in the Agreement.

Seller confirms for the benefit of Boeing it owns and controls the rights it purports to assign herein.

Seller has sold the Aircraft, including in that sale the transfer to Buyer of all remaining rights related to the Aircraft under the Agreement. To accomplish this transfer of rights, as authorized by the provisions of the Agreement:

(1) Buyer acknowledges it has reviewed the Agreement and agrees that in exercising any rights under the Agreement or asserting any claims with respect

to the Aircraft or other things (including without limitation, Materials, training and services) delivered or to be delivered, it is bound by and will comply with all applicable terms, conditions, and limitations of the Agreement

including but not limited to those related to any exclusion or limitation of liabilities or warranties, indemnity and insurance; and

(2) Buyer authorizes Seller to exercise, to the exclusion of Buyer all rights and powers of "Customer" with respect to the remaining rights related to the Aircraft under the Agreement. This authorization will continue until Boeing receives written notice from Buyer to the contrary, addressed to Vice President - Contracts, Mail Code 21-34, Boeing Commercial Airplanes, P.O. Box 3707, Seattle, Washington 98124-2207 (if by mail) or (425)237-1706 (if by facsimile). Until Boeing receives this notice, Boeing is entitled to deal exclusively with Seller as "Customer" with respect to the Aircraft under the Agreement. With respect to the rights, powers, duties and obligations of "Customer" under the Agreement, all actions taken by Seller or agreements entered into by Seller during the period prior to Boeing's receipt of that notice are final and binding on Buyer. Further, any payments made by Boeing as a result of claims made by Seller prior to receipt of such notice are to be made to the credit of Seller.

(3) Seller accepts the authorization set forth in paragraph (2) above, acknowledges it has reviewed the Agreement and agrees that in exercising any rights under the Agreement or asserting any claims with respect to the Aircraft or other things (including without limitation, Materials, training and services) delivered or to be delivered, it is bound by and will comply with all applicable terms, conditions, and limitations of the Agreement including but not limited to those relating to any exclusion or limitation of liabilities or warranties, indemnity and insurance.

(4) Seller agrees to remain responsible for any payments due Boeing as a result of obligations relating to the Aircraft incurred by Seller to Boeing prior to the effective date of this letter.

We request that Boeing acknowledge receipt of this letter and confirm the transfer of rights set forth above by signing the acknowledgment and forwarding one copy of this letter to each of the undersigned.

Very truly yours,

Seller	Buyer
By ___________________	By ___________________
Its __________________	Its ________________
Dated ________________	Dated _________________

Receipt of the above letter is acknowledged and the transfers of rights under the Agreement with respect to the Aircraft described above are confirmed, effective as of the date indicated below.

The Boeing Company

By ____________________

Its ____________________

Dated _________________

SALE WITH LEASE

[NOTICE FROM 1ST TIER OWNER/SELLER AND SUBSEQUENT BUYER REGARDING POST-DELIVERY SALE AND LEASE OF AN AIRCRAFT. REMAINING PA RIGHTS HAVE BEEN ASSIGNED TO THE NEW OWNER; THE NEW OWNER AUTHORIZES A LESSEE TO EXERCISE SUCH RIGHTS DURING THE TERM OF A LEASE.]

[Date]

Boeing Commercial Airplanes
P.O. Box 3707
Seattle, Washington 98124-2207

Attention: Vice President - Contracts
Mail Code 21-34

Ladies and Gentlemen:

In connection with the sale by ____________________ (Seller) to ___________________ (Purchaser) and subsequent lease of the aircraft identified below, reference is made to the following documents:

1. Purchase Agreement No. ______ dated as of __________, _____, between The Boeing Company (Boeing) and __________________ (Seller)(the Agreement) under which Seller purchased certain Boeing Model _________ aircraft, including the aircraft bearing Manufacturer's Serial No(s). ____________ (the Aircraft).

2. Aircraft sale agreement dated as of __________, ________, between Seller and _____________(Purchaser).

3. Aircraft lease agreement dated as of __________, _____, between __Purchaser and _________ (Lessee)(Lease).

Capitalized terms used herein without definition will have the same meaning as in the Agreement.

Seller has sold the Aircraft, including in that sale the assignment to Purchaser of all remaining rights related to the Aircraft under the Agreement. To accomplish this transfer of rights, as authorized by the provisions of the Agreement:

(1) Seller confirms for the benefit of the Manufacturer it owns and controls the rights it purports to have assigned.

(2) Purchaser agrees that in exercising any rights under the Agreement or asserting any claims with respect to the Aircraft or other things (including without limitation, [data and documents/Materials], training and services) delivered or to be delivered, it is bound by and will comply with all applicable terms, conditions, and limitations of the Agreement including but not limited to those related to any exclusion or limitation of liabilities or warranties, indemnity and insurance; and

(2) Seller will remain responsible for any payment due Boeing as a result of obligations relating to the Aircraft incurred by Seller to Boeing prior to the effective date of this letter.

(3) Purchaser authorizes Lessee during the term of the Lease to exercise, to the exclusion of Purchaser all rights and powers of ["Buyer"/ "Customer"] with respect to the remaining rights related to the Aircraft under the Agreement . This authorization will continue until Boeing receives written notice from Purchaser to the contrary, addressed to Vice President - Contracts, Mail Code 21-34, Boeing Commercial Airplanes, P.O. Box 3707, Seattle, Washington 98124-2207 (if by mail) or (425)237-1706 (if by facsimile). Until Boeing receives this notice, Boeing is entitled to deal exclusively with Lessee as ["Buyer"/ "Customer"] with respect to the Aircraft under the Agreement. With respect to the rights, powers, duties and obligations of ["Buyer"/"Customer"] under the Agreement, all actions taken by Lessee or agreements entered into by Lessee during the period prior to Boeing's receipt of that notice are final and binding on Purchaser. Further, any payments made by Boeing as a result of claims made by Lessee prior to receipt of this notice are to be made to the credit of Lessee.

(4) Lessee accepts the authorization set forth in paragraph (3) above, acknowledges it has reviewed the Agreement and agrees that in exercising any rights under the Agreement or asserting any claims with respect to the Aircraft or other things (including without limitation, [data and documents/Materials], training and services) delivered or to be delivered, it is bound by and will comply with all applicable terms, conditions, and limitations of the Agreement including but not limited to those related to any exclusion or limitation of liabilities or warranties, indemnity and insurance.

We request that Boeing acknowledge receipt of this letter and confirm the transfer of rights set forth above by signing the acknowledgment and forwarding one copy of this letter to each of the undersigned.

Very truly yours,

_______________ (Seller)	_______________________ (Purchaser)
By ___________________	By ___________________
Its ___________________	Its ________________
Dated ________________	Dated _________________

_____________________ (Lessee)
By ___________________

Its ___________________

Dated ________________

Receipt of the above letter is acknowledged and the transfers of rights under the Agreement with respect to the Aircraft described above are confirmed, effective as of the date indicated below.

The Boeing Company

By ____________________

Its Attorney-in-Fact

Date ___________________

MSN ______________

SAMPLE

Post-Delivery Security

, 200_

Boeing Commercial Airplanes
P.O. Box 3707
Seattle, Washington 98124-2207
U.S.A.

By Courier
1901 Oakesdale Ave. SW
Renton, WA 98055
U.S.A.

Attention: Vice President-Contracts
Mail Code 21-34

Ladies and Gentlemen:

Reference is made to Purchase Agreement No. ________ dated as of _______________, (the "Agreement") between The Boeing Company ("Boeing") and _________________________ ("Borrower") pursuant to which Borrower purchased from Boeing one (1) Boeing model _______ aircraft bearing Manufacturer's Serial Number _______(the "Aircraft"). The Agreement incorporates by reference the terms of Aircraft General Terms Agreement AGTA - ___ , dated ________ __, ____, between Borrower and Boeing.

Capitalized terms used herein without definition will have the same meanings as in the Agreement.

Borrower confirms for the benefit of Boeing it owns and controls the rights it purports to assign herein.

In connection with Borrower's financing of the Aircraft, Borrower is entering into a [trust indenture/ mortgage], dated as of ___________, 2003, between Borrower and [Indenture Trustee/Mortgagee] [(the Trust Indenture/Mortgage)], which grants a security interest in [the warranty rights/ all of its rights] contained in the Agreement related to the Aircraft (Assigned Rights). Borrower is authorized to exercise the Assigned Rights until such time as the [Indenture Trustee/ Mortgagee] notifies Boeing as provided below that an Event of Default under the [Trust Indenture/ Mortgage] has occurred and is continuing. In connection with this assignment for security purposes, as authorized by the provisions of the Agreement:

1. [Indenture Trustee/Mortgagee], as assignee of, and holder of a security interest in, the estate, right, and interest of the Borrower in and to the Agreement pursuant to the terms of a certain [Trust Indenture/Mortgage], acknowledges that it has received copies of the applicable provisions of the Agreement and agrees that in exercising any rights under the Agreement or asserting any claims with respect to the Aircraft or other things (including without limitation, Materials, training and services) delivered or to be delivered, its rights and remedies under the [Trust Indenture/Mortgage] shall be subject to the terms and conditions of the Agreement including but not limited to those related to any exclusion or limitation of liabilities or warranties, indemnity and insurance.

2. Borrower is authorized to exercise, to the exclusion of [Indenture Trustee/Mortgagee] all rights and powers of "Customer" under the Agreement, unless and until Boeing receives a written notice from [Indenture Trustee/Mortgagee], addressed to its Vice President - Contracts, Boeing Commercial Airplanes at P.O. Box 3707, Seattle, Washington 98124, Mail Code 21-34 (if by mail), or (425)237-1706 (if by facsimile) that an event of default under the [Trust Indenture/Mortgage] has occurred and is continuing. Until such notice has been given, Boeing will be entitled to deal solely and exclusively with Borrower. Thereafter, until [Indenture Trustee/Mortgagee] has provided Boeing written notice that any such event no longer continues, Boeing will be entitled to deal solely and exclusively with [Indenture Trustee/Mortgagee]. Boeing may act with acquittance and conclusively rely on any such notice.

Borrower will remain responsible to Boeing for any amounts due Boeing with respect to the Aircraft under the Agreement prior to Boeing's receipt of such notice. We request that Boeing acknowledge receipt of this letter and confirm the transfer of rights set forth above by signing its acknowledgment and forwarding one copy of this letter to each of the undersigned.

Very truly yours,

____________________________	______________________________
	Indenture Trustee / Mortgagee
By:_________________________________	By:_____________________________
Its:	Its:

Receipt of the above letter is acknowledged and the transfer of rights under the Agreement with respect to the Aircraft described above is confirmed, effective as of the date indicated below.

THE BOEING COMPANY

By:_________________________________

Its: _________________________________

AGTA-ASA App. X
2

Date: _______________________________
MSN _______________

AGTA-ASA App. X
3

6-1162-MSA-591

Alaska Airlines, Inc.
19300 International Blvd.
Seattle, Washington 98188

Subject: Aircraft General Terms Agreement Terms Revisions

Reference: Aircraft General Terms Agreement No. AGTA-ASA (the AGTA) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Customer)

This letter agreement (Letter Agreement) amends and supplements the AGTA. All terms used but not defined in this Letter Agreement have the same meaning as in the AGTA.

This Letter Agreement modifies certain terms and conditions of the AGTA.

1.0 Basic Articles to the AGTA.

[***]

1.2 Article 3 Regulatory Requirements and Certificates is deleted in its entirety and replaced by the following:

Article 3. Regulatory Requirements and Certificates.

3.1 Certificates. Boeing will manufacture each aircraft to conform to the appropriate Type Certificate issued by the United States Federal Aviation Administration (FAA) for the specific model of aircraft and will obtain from the FAA and furnish to Customer at delivery of each aircraft either a Standard Airworthiness Certificate or an Export Certificate of Airworthiness issued pursuant to Part 21 of the Federal Aviation Regulations, as designated by Customer. Boeing will provide a Certificate of Sanitary Construction at the time of delivery of each Aircraft.

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted protions.

3.2 FAA or Applicable Regulatory Authority Manufacturer Changes.

3.2.1 A MANUFACTURER CHANGE is defined as any change to an aircraft, data relating to an aircraft, or testing of an aircraft required by the FAA to obtain a Standard Airworthiness Certificate, or by the country of import and/or registration to obtain an Export Certificate of Airworthiness.

3.2.2 Boeing will bear the cost of incorporating all Manufacturer Changes into the aircraft:

(i) resulting from requirements issued by the FAA prior to the date of the Type Certificate for the applicable aircraft;

(ii) resulting from requirements issued by the FAA prior to the date of the applicable purchase agreement; and

(iii) for any aircraft delivered during the 18 month period immediately following the date of the applicable purchase agreement (regardless of when the requirement for such change was issued by the FAA). For the avoidance of doubt, "the date of the applicable purchase agreement means the date of execution of a purchase agreement for the initial firm aircraft, and the date of execution of a supplement to such purchase agreement that adds additional aircraft for the aircraft orders added by such supplement.

3.2.3 Customer will pay Boeing's charge for incorporating all other Manufacturer Changes into the aircraft, including all changes for validation of an aircraft required by any governmental agency of the country of import and/or registration. [***]

3.3 FAA Operator Changes.

3.3.1 An OPERATOR CHANGE is defined as a change in equipment that is required by Federal Aviation Regulations which (i) is generally applicable to transport category aircraft to be used in United States certified air carriage and (ii) the required compliance date is on or before the scheduled delivery month of the aircraft.

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted protions.

3.3.2 Boeing will deliver each aircraft with Operator Changes incorporated or, at Boeing's option, with suitable provisions for the incorporation of such Operator Changes, and Customer will pay Boeing's applicable charges[***].

3.4 Export License. If an export license is required by United States law or regulation for any aircraft or any other things delivered under the purchase agreement, it is Customer's obligation to obtain such license. If requested, Boeing will assist Customer in applying for any such export license. Customer will furnish any required supporting documents.

1.3 Article 5.3 Demonstration Flights is deleted in its entirety and replaced by the following:

5.3 Demonstration Flights. Prior to delivery, Boeing will fly each aircraft up to 4 hours to demonstrate to Customer the function of the aircraft and its equipment using Boeing's production flight test procedures. Customer may designate up to five representatives to participate as observers. Boeing will continue its practice of permitting Customer's licensed and qualified pilot observer to participate in flying the Aircraft provided that the flights shall always be under the command of Boeing's pilot.

1.4 Article 5.4 Test Data; Performance Guarantee Compliance is deleted in its entirety and replaced by the following:

5.4 Test Data; Performance Guarantee Compliance. PERFORMANCE GUARANTEES are defined as the written guarantees in a purchase agreement regarding the operational performance of an aircraft. Boeing will furnish to Customer certified correct, by Boeing as applicable, flight test data obtained on an aircraft of the same model to evidence compliance with the Performance Guarantees. Performance Guarantees will be met if reasonable engineering interpretations and calculations based on the flight test data establish that the particular aircraft being delivered under the applicable purchase agreement would, if actually flown, comply with the guarantees.

1.5 Article 5.5 Special Aircraft Test Requirements is deleted in its entirety and replaced by the following:

5.5 Special Aircraft Test Requirements. Boeing may use an aircraft for flight and ground tests prior to delivery, without reduction in the Aircraft Price, if the tests are considered necessary by Boeing (i) to obtain or maintain the Type Certificate or Certificate of Airworthiness for the aircraft or (ii) to evaluate potential improvements that may be offered for production or retrofit incorporation (provided Customer has given written consent for (ii) items).

1.6 Article 6.3 Bill of Sale is deleted in its entirety and replaced by the following:

6.3 Bill of Sale. At delivery of an aircraft, Boeing will provide Customer a bill of sale conveying good title, free of any and all encumbrances, and such other documents of title as Customer may reasonably request.

1.7 Article 7.3.1 is deleted in its entirety and replaced by the following:

7.3.1 The calculation of the Escalation Adjustment will be based on the originally scheduled delivery month (or the last scheduled delivery month prior to the commencement of the delay, if the original schedule had been modified by mutual agreement).

1.8 Article 7.6 Termination is deleted in its entirety and replaced by the following:

7.6 Termination. Termination under this Article will discharge all obligations and liabilities of Boeing and Customer with respect to any aircraft and all related undelivered Materials (as defined in Exhibit B, Customer Support Document), training, services, and other things terminated under the applicable purchase agreement, except that Boeing will return to Customer, without interest, an amount equal to all advance payments paid by Customer for the aircraft. If Customer terminates the applicable purchase agreement as to any aircraft, Boeing may elect, by written notice to Customer within 30 days, to purchase from Customer any BFE related to the aircraft at the invoice prices paid, [***], or contracted to be paid, by Customer.

[***]

1.11 Article 10.1 Termination is deleted in its entirety and replaced by the following:

10.1 Termination. If either party

(i) ceases doing business as a going concern, or suspends all or substantially all its business operations, or makes an assignment for the benefit of creditors, or generally does not pay its debts as they become due, or admits in writing its inability to pay its debts; or

(ii) petitions for or acquiesces in the appointment of any receiver, trustee or similar officer to liquidate or conserve its business or any substantial part of its assets; commences any legal proceeding such as bankruptcy, reorganization, readjustment of debt, dissolution, or liquidation available for the relief of financially distressed debtors; or becomes the object of any such proceeding, unless the proceeding is dismissed or stayed within a reasonable period, not to exceed 60 days,

the other party may terminate any purchase agreement with respect to any undelivered aircraft, Materials, training, services, and other things by giving written notice of termination. Notwithstanding Article 10.1. (i) and (ii) above, if a party has performed all of its obligations under the applicable purchase agreement and provides adequate assurance that it will perform its future obligations under such purchase agreement, the other party shall not have the right to terminate such purchase agreement under Article 10.1 (i) or (ii).

1.12 Article 12.7 Government Agency Reference is added:

12.7 Government Agency Reference. The reference to the FAA or other government agencies includes the successor to such agency of the U. S. Government.

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted protions.

2.0 Exhibit A BUYER FURNISHED EQUIPMENT PROVISIONS DOCUMENT to the AGTA.

2.1. Articles 3.4 and 3.5 are deleted in its entirety and replaced by the following.

3.4 obtain from supplier a non-exclusive, perpetual, royalty-free, irrevocable license for Boeing to copy BFE Aircraft Software solely for the benefit of Customer. The license is needed to enable Boeing to load the software copies in (i) the aircraft's mass storage device (MSD), (ii) media (e.g., diskettes, CD-ROMs, etc.), (iii) the BFE hardware and/or (iv) an intermediate device or other media to facilitate copying of the BFE Aircraft Software into the aircraft's MSD, BFE hardware and/or media, including media as Boeing may deliver to Customer with the aircraft (it is understood that Boeing's rights are limited to supporting Customer and Boeing acquires no right under this Agreement to use the software for itself or for any other customer);

3.5 grant Boeing a license, extending the same rights set forth in paragraph 3.4 above (and subject to the same limitations), to copy: a) BFE Aircraft Software and data Customer has modified and/or b) other software and data Customer has added to the BFE Aircraft Software;

2.2. Article 5 Nonperformance by Customer is deleted in its entirety and replaced by the following.

5. Nonperformance by Customer.

If Customer'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, Customer 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 Customer without the BFE installed.

Notwithstanding Article 5.1, in the event of Customer's nonperformance of its obligations under this Exhibit A, Boeing will not substitute alternative equipment for late BFE equipment without Buyer's approval. In addition to those expenses previously outlined in this Article 5, Buyer agrees to reimburse Boeing for any expenses which result from any delay caused by Buyer's failure to promptly approve the substitution.

3.0 Exhibit B CUSTOMER SUPPORT DOCUMENT to the AGTA.

3.1. Part 5 Article 4 Providing of Proprietary Materials to Contractors is deleted in its entirety and replaced by the following.

4. Providing of Proprietary Materials to Contractors.

Customer is authorized to provide Proprietary Materials to Customer's contractors for the sole purpose of maintenance, repair, or modification of Customer's aircraft for which the Proprietary Materials have been specified by Boeing. In addition, Customer may provide Proprietary Materials to Customer's contractors for the sole purpose of developing and manufacturing training devices and maintenance tools for Customer's use. Before providing Proprietary Materials to its contractor, either (i) Customer's contractor is, at the time of transfer of the Proprietary Materials, bound by a Boeing Customer Services GTA or other appropriate applicable agreement satisfactory to Boeing protecting Boeing's Proprietary Materials, or (ii) Customer will first obtain a written agreement from the contractor by which the contractor agrees (a) to use the Proprietary Materials only on behalf of Customer, (b) to be bound by all of the restrictions and limitations of this Part 5, and (c) that Boeing is a third party beneficiary under the written agreement. Customer agrees to provide copies of all such written agreements to Boeing upon request and be liable to Boeing for any breach of those agreements by a contractor. A sample agreement acceptable to Boeing is attached as Appendix VII.

[***]

4.0 Exhibit C PRODUCT ASSURANCE DOCUMENT to the AGTA.

4.1. Part 1 term Correct(s) is deleted in its entirety and replaced by the following.

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted protions.

CORRECT(S) - to repair, modify, provide modification kits or replace with a new product having the same part number or being an improved part that is compatible and has the same functionality.

4.2. Part 1 term CORRECTION is deleted in its entirety and replaced by the following.

CORRECTION - a repair, a modification, a modification kit or replacement with a new product that has the same or improved functionality, compatibility and interchangeability.

4.3. Part 2 Article 2.1 Coverage item (ii) is deleted in its entirety and replaced by the following.

(ii) all Boeing Products will be free from defects in material, process of manufacture and workmanship, including the workmanship utilized to install Supplier Products, engines and BFE (including conforming to the installation instructions of the manufacturer so as to not invalidate any applicable warranty from such manufacturer), and;

[***]

4.5. Part 2 Article 7.3.4 is deleted in its entirety and replaced by the following.

7.3.4 Boeing will provide to Customer a single, lump sum credit memorandum for Customer's Direct Labor hours expended to incorporate the Corrections (other than of random anomalies) identified in service bulletins and service letters in all in-warranty aircraft covered by such service bulletins or service letters after Customer's submission of a warranty claim and verification of the incorporation of such Corrections with respect to the first affected in-warranty aircraft. Other than a request for reimbursement for incorporating the Corrections into aircraft delivered to Customer by Boeing after the reimbursement request was made, such credit memoranda will not be provided in response to any other requests for reimbursement including, without limitation, those arising out of program letters or other special offers provided by Boeing.

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted protions.

4.5. Part 2 Article 8.3.2 is deleted in its entirety and replaced by the following.

8.3.2 If Customer has a critical parts shortage because Boeing has exceeded a Correction time objective and Customer has procured spare Boeing Products for the defective Boeing Product in quantities shown in Boeing's Recommended Spare Parts List or, for 717 model aircraft only, in quantities shown in Boeing's Spares Planning and Requirements Evaluation Model, then Boeing will either expedite the Correction or provide an interchangeable Boeing Product, on a no charge loan basis, until the Corrected Boeing Product is returned. "Recommended Spare Parts List" is defined as that spare parts list produced by the Boeing Spares Organization using operating parameters and ground rules supplied by Customer that is acceptable to Customer.

[***]

6.0 Confidential Treatment.

Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential. Customer 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.

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted protions.

Sincerely,

THE BOEING COMPANY

By___________________________

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: June 15, 2005

ALASKA AIRLINES, INC.

By____________________________

Its Vice President Finance & Treasurer

Attachment

SAMPLE
INSURANCE CERTIFICATE

BROKER'S LETTERHEAD

[date]

Certificate of Insurance

ISSUED TO: The Boeing Company
Post Office Box 3707
Mail Stop 13-57
Seattle, Washington 98124
Attn: Manager - Aviation Insurance for
Vice President - Employee Benefits,
Insurance and Taxes

CC:	Boeing Commercial Airplanes P.O. Box 3707 Mail Stop 21-34 Seattle, Washington 98124-2207 U.S.A. Attn: Vice President - Contracts
NAMED INSURED:	ALASKA AIRLINES, INC.

We hereby certify that in our capacity as Brokers to the Named Insured, the following described insurance is in force on this date:

INSURER	POLICY NO.	PARTICIPATION

POLICY PERIOD: From [date and time of inception of the Policy(ies)] to [date and time of expiration].

GEOGRAPHICAL LIMITS: Worldwide (however, as respects "Aircraft Hull War and Allied Perils" Insurance, as carried by the Named Insured).

SAMPLE
INSURANCE CERTIFICATE

AIRCRAFT INSURED: All Boeing manufactured aircraft owned or operated by the Named Insured which are the subject of the following purchase agreement(s), entered into between The Boeing Company and _________________ (hereinafter "Aircraft"):

Purchase Agreement No. ____ dated ______
Purchase Agreement No. ____ dated ______

COVERAGES:

1. AIRCRAFT "ALL RISKS" HULL (GROUND AND FLIGHT)

2. AIRCRAFT HULL WAR AND ALLIED PERILS (AS PER LSW 555, OR ITS SUCCESSOR WORDING AND WHICH MAY BE PROVIDED BY THE FAA AND NOT THE INSURANCE MARKET)

3. AIRLINE LIABILITY

Including, but not limited to, Bodily Injury, Property Damage, Aircraft Liability, Liability War Risks, Passenger Legal Liability, Premises/Operations Liability, Completed Operations/Products Liability, Baggage Legal Liability (checked and unchecked), Cargo Legal Liability, Contractual Liability and Personal Injury.

The above-referenced Airline Liability insurance coverage is subject to War and Other Perils Exclusion Clause (AVN48B) but all sections, other than section (b) are reinstated as per AVN52D, or their successor endorsements.

LIMITS OF LIABILITY:

To the fullest extent of the Policy limits that the Named Insured carries from the time of delivery of the first Aircraft under the first Purchase Agreement listed under "Aircraft Insured" and thereafter at the inception of each policy period, but in any event no less than the following:

Combined Single Limit Bodily Injury and Property Damage: U.S.$ any one occurrence each Aircraft (with aggregates as applicable).

(717-200)	US$300,000,000
(737-500/600)	US$350,000,000
(737-300/700)	US$400,000,000
(737-400)	US$450,000,000

SAMPLE
INSURANCE CERTIFICATE

(737-800)	US$500,000,000
(737-900)	US$500,000,000
(757-200)	US$525,000,000
(757-300)	US$550,000,000
(767-200)	US$550,000,000
(767-300)	US$700,000,000
(767-400ERX)	US$750,000,000
(7E7)	US$700,000,000
(777-200LR)	US$800,000,000
(MD-11)	US$800,000,000
(777-200/300)	US$800,000,000
(777-300ER)	US$800,000,000
(747-400)	US$900,000,000

(In regard to all other models and/or derivatives, to be specified by Boeing).

(In regard to Personal Injury coverage, limits are US$25,000,000 any one offense/aggregate.)

DEDUCTIBLES / SELF-INSURANCE

Any deductible and/or self-insurance amount (other than standard market deductibles) are to be disclosed to Boeing.

SPECIAL PROVISIONS APPLICABLE TO BOEING:

It is certified that Insurers are aware of the terms and conditions of AGTA-ASA and the following purchase agreements:

PA ______ dated _______
PA ______ dated _______
PA ______ dated _______

Each Aircraft manufactured by Boeing which is delivered to the Insured pursuant to the applicable purchase agreement during the period of effectivity of the policies represented by this Certificate will be covered to the extent specified herein.

SAMPLE
INSURANCE CERTIFICATE

Insurers have agreed to the following:

A. In regard to Aircraft "all risks" Hull Insurance and Aircraft Hull War and Allied Perils Insurance, Insurers agree to waive all rights of subrogation or recourse against Boeing in accordance with AGTA-ASA which was incorporated by reference into the applicable purchase agreement.

B. In regard to Airline Liability Insurance, Insurers agree:

(1) To include Boeing as an additional insured to the extent of Customer's undertaking in Article 8.2.1 of AGTA-ASA which was incorporated by reference into the applicable purchase agreement.

(2) To provide that such insurance will be primary and not contributory nor excess with respect to any other insurance available for the protection of Boeing to the extent of Customer's undertaking in Article 8.2.1 of AGTA-ASA;

(3) To provide that with respect to the interests of Boeing, such insurance shall not be invalidated or minimized by any action or inaction, omission or misrepresentation by the Insured or any other person or party (other than Boeing) regardless of any breach or violation of any warranty, declaration or condition contained in such policies;

(4) To provide that all provisions of the insurance coverages referenced above, 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 to each.

C. In regard to all of the above referenced policies:

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

(2) If a policy is canceled for any reason whatsoever, or any substantial change is made in the coverage which affects the interests of Boeing or if a policy is allowed to lapse for nonpayment of premium, such cancellation, change or lapse shall not be effective as to Boeing for thirty (30) days (in the case of war risk and allied perils coverage seven (7) days after sending, or such other period as may from time to time be customarily obtainable in the industry) after

SAMPLE
INSURANCE CERTIFICATE

receipt by Boeing of written notice from the Insurers or the authorized representatives or Broker of such cancellation, change or lapse; and

(3) For the purposes of the Certificate, "Boeing" is defined as The Boeing Company, its divisions, subsidiaries, affiliates, the assignees of each and their respective directors, officers, employees and agents.

(4) If war risk and allied perils coverage has been obtained by Customer from the FAA and not the commercial market, Broker will so advise Boeing.

SUBJECT TO THE TERMS, CONDITIONS, LIMITATIONS AND EXCLUSIONS OF THE RELATIVE POLICIES.

(signature)

(typed name)

(title)

Exhibit 10.2

FOIA CONFIDENTIAL
TREATMENT REQUESTED

PURCHASE AGREEMENT NUMBER 2497

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Relating to Boeing Model 737-890 Aircraft

BOEING PROPRIETARY

P.A. No. 2497

TABLE OF CONTENTS

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Purchase Agreement No. 2497

between

The Boeing Company

and

Alaska Airlines, Inc.

This Purchase Agreement No. 2497 dated as of June 15, 2005 between The Boeing Company (BOEING) and Alaska Airlines, Inc. (CUSTOMER) relating to the purchase and sale of Model 737-890 aircraft together with all tables, exhibits, supplemental exhibits, letter agreements and other attachments thereto, if any, (PURCHASE AGREEMENT) incorporates the terms and conditions of the Aircraft General Terms Agreement dated as of June 15, 2005 between the parties, identified as AGTA-ASA (AGTA).

Article 1. Quantity, Model and Description.

The aircraft to be delivered to Customer will be designated as Model 737-890 aircraft (the AIRCRAFT). Boeing will manufacture and sell to Customer Aircraft conforming to the configuration described in Exhibit A in the quantities listed in Table 1 to the Purchase Agreement.

Article 2. Delivery Schedule.

The scheduled months of delivery of the Aircraft are listed in the attached Table 1. Exhibit B describes certain responsibilities for both Customer and Boeing in order to accomplish the delivery of the Aircraft.

Article 3. Price.

3.1 Aircraft Basic Price. The Aircraft Basic Price is listed in Table 1 in subject to escalation dollars.

3.2 Advance Payment Base Prices. The Advance Payment Base Prices listed in Table 1 were calculated utilizing the latest escalation factors available to Boeing on the date of this Purchase Agreement projected to the month of scheduled delivery.

Article 4. Payment.

4.1 Boeing acknowledges receipt of a deposit in the amount shown in Table 1 for each Aircraft (DEPOSIT).

4.2 The standard advance payment schedule for the Model 737-890 aircraft requires Customer to make certain advance payments, expressed in a percentage of the Advance Payment Base Price of each Aircraft beginning with a payment of 1%, less the Deposit, on the effective date of the Purchase Agreement for the Aircraft. Additional advance payments for each Aircraft are due as specified in and on the first business day of the months listed in the attached Table 1.

4.3 For any Aircraft whose scheduled month of delivery is less than 24 months from the date of this Purchase Agreement, the total amount of advance payments due for payment upon signing of this Purchase Agreement will include all advance payments which are past due in accordance with the standard advance payment schedule set forth in paragraph 4.2 above.

4.4 Customer will pay the balance of the Aircraft Price of each Aircraft at delivery.

Article 5. Additional Terms.

5.1 Aircraft Information Table. Table 1 consolidates information contained in Articles 1, 2, 3 and 4 with respect to (i) quantity of Aircraft, (ii) applicable Detail Specification, (iii) month and year of scheduled deliveries, (iv) Aircraft Basic Price, (v) applicable escalation factors and (vi) Advance Payment Base Prices and advance payments and their schedules.

5.2 Escalation Adjustment/Airframe and Optional Features. Supplemental Exhibit AE1 contains the applicable airframe and optional features escalation formula.

5.3 Buyer Furnished Equipment Variables. Supplemental Exhibit BFE1 contains vendor selection dates and other variables applicable to the Aircraft.

5.4 Customer Support Variables. Information, training, services and other things furnished by Boeing in support of introduction of the Aircraft into Customer's fleet are described in Supplemental Exhibit CS1. As Customer has taken delivery of 737-800 type aircraft, the level of support to be provided under Supplemental Exhibit CS1 (the Entitlements) is as applicable for an operator already operating such aircraft.

5.5 Engine Variables. Supplemental Exhibit EE1 contains the engine warranty and the engine patent indemnity for the Aircraft.

5.6 Service Life Policy Component Variables. Supplemental Exhibit SLP1 lists the airframe and landing gear components covered by the Service Life Policy for the Aircraft (COVERED COMPONENTS).

5.7 Public Announcement. Boeing reserves the right to make a public announcement regarding Customer's purchase of the Aircraft upon approval of Boeing's press release by Customer's public relations department or other authorized representative.

5.8 Negotiated Agreement; Entire Agreement. This Purchase Agreement, including the provisions of Article 8.2 of the AGTA relating to insurance, and Article 11 of Part 2 of Exhibit C of the AGTA relating to DISCLAIMER AND RELEASE and EXCLUSION OF CONSEQUENTIAL AND OTHER DAMAGES, has been the subject of discussion and negotiation and is understood by the parties; the Aircraft Price and other agreements of the parties stated in this Purchase Agreement were arrived at in consideration of such provisions. This Purchase Agreement, including the AGTA, contains the entire agreement between the parties and supersedes all previous proposals, understandings, commitments or representations whatsoever, oral or written, and may be changed only in writing signed by authorized representatives of the parties.

DATED June 15, 2005

Alaska Airlines, Inc.	THE BOEING COMPANY
By_________________________________	By___________________________
Its Vice President Finance & Treasurer	Its Attorney-In-Fact

Table 1 to Purchase Agreement 2497
737-800 Aircraft Delivery, Description, Price and Advance Payments
ECI-MFG/CPI Formula

[***]

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

AIRCRAFT CONFIGURATION

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Exhibit A to Purchase Agreement Number 2497

Exhibit A to

AIRCRAFT CONFIGURATION

Dated: January 31, 2005

relating to

BOEING MODEL 737-890 AIRCRAFT

The Detail Specification is Detail Specification D019A001ASA38P-1 dated as of January 31, 2005. The Aircraft Basic Price reflects and includes all effects of such Options, except such Aircraft Basic Price does not include the price effects of Buyer Furnished Equipment or Seller Purchased Equipment.

[***]

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

AIRCRAFT DELIVERY REQUIREMENTS AND RESPONSIBILITIES

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Exhibit B to Purchase Agreement Number 2497

AIRCRAFT DELIVERY REQUIREMENTS AND RESPONSIBILITIES

relating to

BOEING MODEL 737-890 AIRCRAFT

Both Boeing and Customer have certain documentation and approval responsibilities at various times during the construction cycle of Customer's Aircraft that are critical to making the delivery of each Aircraft a positive experience for both parties. This Exhibit B documents those responsibilities and indicates recommended completion deadlines for the actions to be accomplished.

1. GOVERNMENT DOCUMENTATION REQUIREMENTS.

Certain actions are required to be taken by Customer in advance of the scheduled delivery month of each Aircraft with respect to obtaining certain government issued documentation.

1.1 Airworthiness and Registration Documents.

Not later than 6 MONTHS PRIOR TO DELIVERY of each Aircraft, Customer will notify Boeing of the registration number to be painted on the side of the Aircraft. In addition, and not later than 3 MONTHS PRIOR TO DELIVERY of each Aircraft, Customer will, by letter to the regulatory authority having jurisdiction, authorize the temporary use of such registration numbers by Boeing during the pre-delivery testing of the Aircraft.

Customer is responsible for furnishing any Temporary or Permanent Registration Certificates required by any governmental authority having jurisdiction to be displayed aboard the Aircraft after delivery.

1.2 Certificate of Sanitary Construction.

1.2.1 U.S. Registered Aircraft. Boeing will obtain from the United States Public Health Service, a United States Certificate of Sanitary Construction to be displayed aboard each Aircraft after delivery to Customer.

1.2.2 Non-U.S. Registered Aircraft. If Customer requires a United States Certificate of Sanitary Construction at the time of delivery of the Aircraft, Customer will give written notice thereof to Boeing at least 3 MONTHS PRIOR TO DELIVERY. Boeing will then use its reasonable best efforts to obtain the Certificate from

the United States Public Health Service and present it to Customer at the time of Aircraft delivery.

1.3 Customs Documentation.

1.3.1 Import Documentation. If the Aircraft is intended to be exported from the United States, Customer must notify Boeing not later than 3 MONTHS PRIOR TO DELIVERY of each Aircraft of any documentation required by the customs authorities or by any other agency of the country of import.

1.3.2 General Declaration - U.S. If the Aircraft is intended to be exported from the United States, Boeing will prepare Customs Form 7507, General Declaration, for execution by U.S. Customs immediately prior to the ferry flight of the Aircraft. For this purpose, Customer will furnish to Boeing not later than 20 DAYS PRIOR TO DELIVERY all information required by U.S. Customs or U.S. Immigration and Naturalization Service, including without limitation (i) a complete crew and passenger list identifying the names, birth dates, passport numbers and passport expiration dates of all crew and passengers and (ii) a complete ferry flight itinerary, including point of exit from the United States for the Aircraft.

If Customer intends, during the ferry flight of an Aircraft, to land at a U.S. airport after clearing Customs at delivery, Customer must notify Boeing not later than 20 DAYS PRIOR TO DELIVERY of such intention. If Boeing receives such notification, Boeing will provide to Customer the documents constituting a Customs permit to proceed, allowing such Aircraft to depart after any such landing. Sufficient copies of completed Form 7507, along with passenger manifest, will be furnished to Customer to cover U.S. stops scheduled for the ferry flight.

1.3.3 Export Declaration - U.S. If the Aircraft is intended to be exported from the United States, Boeing will prepare Form 7525V and, IMMEDIATELY PRIOR TO THE FERRY FLIGHT, will submit such Form to U.S. Customs in Seattle in order to obtain clearance for the departure of the Aircraft, including any cargo, from the United States. U.S. Customs will deliver the Export Declaration to the U.S. Department of Commerce after export.

2. INSURANCE CERTIFICATES.

Unless provided earlier, Customer will provide to Boeing not later than 30 DAYS PRIOR TO DELIVERY of the first Aircraft, a copy of the requisite annual insurance certificate in accordance with the requirements of

Article 8 of the AGTA.

3. NOTICE OF FLYAWAY CONFIGURATION.

Not later than 20 DAYS PRIOR TO DELIVERY of the Aircraft, Customer will provide to Boeing a configuration letter stating the requested "flyaway configuration" of the Aircraft for its ferry flight. This configuration letter should include:

(i) the name of the company which is to furnish fuel for the ferry flight and any scheduled post-delivery flight training, the method of payment for such fuel, and fuel load for the ferry flight;

(ii) the cargo to be loaded and where it is to be stowed on board the Aircraft, the address where cargo is to be shipped after flyaway and notification of any hazardous materials requiring special handling;

(iii) any BFE equipment to be removed prior to flyaway and returned to Boeing BFE stores for installation on Customer's subsequent Aircraft;

(iv) a complete list of names and citizenship of each crew member and non-revenue passenger who will be aboard the ferry flight; and

(v) a complete ferry flight itinerary.

4. DELIVERY ACTIONS BY BOEING.

4.1 Schedule of Inspections. All FAA, Boeing, Customer and, if required, U.S. Customs Bureau inspections will be scheduled by Boeing for completion prior to delivery or departure of the Aircraft. Customer will be informed of such schedules.

4.2 Schedule of Demonstration Flights. All FAA and Customer demonstration flights will be scheduled by Boeing for completion prior to delivery of the Aircraft.

4.3 Schedule for Customer's Flight Crew. Boeing will inform Customer of the date that a flight crew is required for acceptance routines associated with delivery of the Aircraft.

4.4 Fuel Provided by Boeing. Boeing will provide to Customer, without charge, the amount of fuel shown in U.S. gallons in the table below for the model of Aircraft being delivered and full capacity of engine oil at the time of delivery or prior to the ferry flight of the Aircraft.

Aircraft Model	Fuel Provided
737	1,000

4.5 Flight Crew and Passenger Consumables. Boeing will provide reasonable quantities of food, beverages, coat hangers, towels, toilet tissue, drinking cups and soap for the first segment of the ferry flight for the Aircraft.

4.6 Delivery Papers, Documents and Data. Boeing will have available at the time of delivery of the Aircraft certain delivery papers, documents and data for execution and delivery. If title for the Aircraft will be transferred to Customer through a Boeing sales subsidiary and if the Aircraft will be registered with the FAA, Boeing will pre-position in Oklahoma City, Oklahoma, for filing with the FAA at the time of delivery of the Aircraft an executed original Form 8050-2, Aircraft Bill of Sale, indicating transfer of title to the Aircraft from Boeing's sales subsidiary to Customer.

4.7 Delegation of Authority. Boeing will present a certified copy of a Resolution of Boeing's Board of Directors, designating and authorizing certain persons to act on its behalf in connection with delivery of the Aircraft.

5. DELIVERY ACTIONS BY CUSTOMER.

5.1 Aircraft Radio Station License. At delivery Customer will provide its Aircraft Radio Station License to be placed on board the Aircraft following delivery.

5.2. Aircraft Flight Log. At delivery Customer will provide the Aircraft Flight Log for the Aircraft.

5.3 Delegation of Authority. Customer will present to Boeing at delivery of the Aircraft an original or certified copy of Customer's Delegation of Authority designating and authorizing certain persons to act on its behalf in connection with delivery of the specified Aircraft.

ESCALATION ADJUSTMENT

AIRFRAME AND OPTIONAL FEATURES

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Supplemental Exhibit AE1 to Purchase Agreement Number 2497

BOEING PROPRIETARY

1. Alternate Escalation Formula

Airframe and Optional Features price adjustments (Airframe Price Adjustment) are used to allow prices to be stated in current year dollars at the signing of this Purchase Agreement and to adjust the amount to be paid by Customer at delivery for the effects of economic fluctuation. The Airframe Price Adjustment will be determined at the time of Aircraft delivery in accordance with the following formula:

$P(a) = (P)(L + M) - P$

Where:

$P(a)$ = Airframe Price Adjustment.
(for the 737-800 Aircraft the Airframe Price includes the Engine Price at its basic thrust level)

$$L = .65 \times \left(\frac{ECI}{ECI(b)}\right)$$ where ECI(b) is the base year index (as set forth in Table 1 of this Purchase Agreement)

$$M = .35 \times \left(\frac{CPI}{CPI(b)}\right)$$ where CPI(b) is the base year index (as set forth in Table 1 of this Purchase Agreement)

P = Airframe Price plus Optional Features Price (as set forth in Table 1 of this Purchase Agreement).

ECI is a value determined using the U.S. Department of Labor, Bureau of Labor Statistics Employment Cost Index Manufacturing - Total Compensation (BLS Series ID ECU12402I), calculated by establishing a three-month arithmetic average value (expressed as a decimal and rounded to the nearest tenth) using the values for the 11th, 12th and 13th months prior to the month of scheduled delivery of the applicable Aircraft. As the Employment Cost Index values are only released on a quarterly basis, the value released for the month of March will be used for the months of January and February; the value for June used for April and May; the value for September used for July and August; and the value for December used for October and November.

CPI is a value determined using the U.S. Department of Labor, Bureau of Labor Statistics Consumer Price Index (BLS Series ID

CUUR0000SA0), calculated as a 3-month arithmetic average of the released monthly values (expressed as a decimal and rounded to the nearest tenth) using the values for the 11th, 12th and 13th months prior to the month of scheduled delivery of the applicable Aircraft.

As an example, for an Aircraft scheduled to be delivered in the month of July, the months June, July and August of the preceding year will be utilized in determining the value of ECI and CPI.

Note: i. In determining the values of L and M, all calculations and resulting values will be expressed as a decimal rounded to the nearest ten-thousandth.

ii. .65 is the numeric ratio attributed to labor in the Airframe Price Adjustment formula.

iii. .35 is the numeric ratio attributed to materials in the Airframe Price Adjustment formula.

iv. The denominators (base year indices) are the actual average values reported by the U.S. Department of Labor, Bureau of Labor Statistics. The actual average values are calculated as a 3-month arithmetic average of the released monthly values (expressed as a decimal and rounded to the nearest tenth) using the values for the 11th, 12th and 13th months prior to the airframe base year. The applicable base year and corresponding denominator is provided by Boeing in Table 1 of this Purchase Agreement.

v. The final value of P(a) will be rounded to the nearest dollar.

vi. The Airframe Price Adjustment will not be made if it will result in a decrease in the Aircraft Basic Price.

2. Values to be Utilized in the Event of Unavailability.

2.1 If the Bureau of Labor Statistics substantially revises the methodology used for the determination of the values to be used to determine the

ECI and CPI values (in contrast to benchmark adjustments or other corrections of previously released values), or for any reason has not released values needed to determine the applicable Airframe Price Adjustment, the parties will, prior to the delivery of any such Aircraft, select a substitute from other Bureau of Labor Statistics data or similar data reported by non-governmental organizations. Such substitute will result in the same adjustment, insofar as possible, as would have been calculated utilizing the original values adjusted for fluctuation during the applicable time period. However, if within 24 months after delivery of the Aircraft, the Bureau of Labor Statistics should resume releasing values for the months needed to determine the Airframe Price Adjustment; such values will be used to determine any increase or decrease in the Airframe Price Adjustment for the Aircraft from that determined at the time of delivery of the Aircraft.

2.2 Notwithstanding Article 2.1 above, if prior to the scheduled delivery month of an Aircraft the Bureau of Labor Statistics changes the base year for determination of the ECI and CPI values as defined above, such re-based values will be incorporated in the Airframe Price Adjustment calculation.

2.3 In the event escalation provisions are made non-enforceable or otherwise rendered void by any agency of the United States Government, the parties agree, to the extent they may lawfully do so, to equitably adjust the Aircraft Price of any affected Aircraft to reflect an allowance for increases or decreases consistent with the applicable provisions of paragraph 1 of this Supplemental Exhibit AE1 in labor compensation and material costs occurring since August of the year prior to the price base year shown in the Purchase Agreement.

2.4 If within 12 months of Aircraft delivery, the published index values are revised due to an acknowledged error by the Bureau of Labor Statistics, the Airframe Price Adjustment will be re-calculated using the revised index values (this does not include those values noted as preliminary by the Bureau of Labor Statistics). A credit memorandum or supplemental invoice will be issued for the Airframe Price Adjustment difference that results from the revised index values for the delivered Aircraft. Customer may elect that the credit or supplemental invoice be applied against the applicable delivered Aircraft, the next Aircraft to deliver, or to goods and services. The adjustment though added to the invoice of the next Aircraft to deliver will continue to relate to the delivered Aircraft. Interest charges will not apply for the period of original invoice to issuance of credit memorandum or supplemental invoice.

Note: i. The values released by the Bureau of Labor Statistics and available to Boeing 30 days prior to the first day of the scheduled delivery month of an Aircraft will be used to determine the ECI and CPI values for the applicable months (including those noted as preliminary by the Bureau of Labor Statistics) to calculate the Airframe Price Adjustment for the Aircraft invoice at the time of delivery. The values will be considered final and no Airframe Price Adjustments will be made after Aircraft delivery for any subsequent changes in published Index values, subject always to paragraph 2.4 above.

ii. The maximum number of digits to the right of the decimal after rounding utilized in any part of the Airframe Price Adjustment equation will be 4, where rounding of the fourth digit will be increased to the next highest digit when the 5th digit is equal to 5 or greater.

BUYER FURNISHED EQUIPMENT VARIABLES

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Supplemental Exhibit BFE1 to Purchase Agreement Number 2497

BUYER FURNISHED EQUIPMENT VARIABLES

relating to

BOEING MODEL AIRCRAFT

This Supplemental Exhibit BFE1 contains vendor selection dates, on-dock dates and other variables applicable to the Aircraft.

1. Supplier Selection.

Customer will:

1.1 Select and notify Boeing of the suppliers and part numbers of the following BFE items by the following dates:

Galley System	Same as July 2005 737-800 aircraft under Purchase Agreement 1954.
Galley Inserts	Same as July 2005 737-800 aircraft under Purchase Agreement 1954.
Seats (passenger)	Same as July 2005 737-800 aircraft under Purchase Agreement 1954.
Overhead & Audio System	Same as July 2005 737-800 aircraft under Purchase Agreement 1954.
In-Seat Video System	Not applicable
Miscellaneous Emergency Equipment	Same as July 2005 737-800 aircraft under Purchase Agreement 1954.
Cargo Handling Systemsasa	Same as July 2005 737-800 aircraft under Purchase Agreement 1954.

2. On-dock Dates

On or before July 1, 2005, Boeing will provide to Customer 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.

3. Additional Delivery Requirements

Customer will insure that Customer's BFE suppliers provide sufficient information to enable Boeing, when acting as Importer of Record for Customer's BFE, to comply with all applicable provisions of the U.S. Customs Service.

CUSTOMER SUPPORT VARIABLES

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Supplemental Exhibit CS1 to Purchase Agreement Number 2497

CUSTOMER SUPPORT VARIABLES

relating to

BOEING MODEL 737-890 AIRCRAFT

Customer currently operates an aircraft of the same model as the Aircraft. Upon Customer's request, Boeing will develop and schedule a customized Customer Support Program to be furnished in support of the Aircraft. The customized program will be based upon and equivalent to the entitlements summarized below.

1. Maintenance Training.

1.1 Maintenance Training Minor Model Differences Course, if required, covering operational, structural or systems differences between Customer's newly-purchased Aircraft and an aircraft of the same model currently operated by Customer; 1 class of 15 students;

1.2 Training materials, if applicable, will be provided to each student. In addition, one set of training materials as used in Boeing's training program, including visual aids, text and graphics will be provided for use in Customer's own training program.

2. Flight Training.

Boeing will provide, if required, one classroom course to acquaint up to 15 students with operational, systems and performance differences between Customer's newly-purchased Aircraft and an aircraft of the same model currently operated by Customer.

Any training materials used in Flight Training, if required, will be provided for use in Customer's own training program.

3. Planning Assistance.

3.1 Maintenance and Ground Operations.

Upon request, Boeing will provide planning assistance regarding Minor Model Differences requirements for facilities, tools and equipment.

3.2 Spares.

Boeing will revise, as applicable, the customized Recommended Spares Parts List (RSPL) and Illustrated Parts Catalog (IPC).

4. Technical Data and Documents.

Boeing will revise, as applicable, technical data and documents provided with previously delivered aircraft.

ENGINE ESCALATION,
ENGINE WARRANTY AND PATENT INDEMNITY

between

THE BOEING COMPANY

and

ALASKA AIRLINES, INC.

Supplemental Exhibit EE1 to Purchase Agreement Number 2497

ENGINE ESCALATION,
ENGINE WARRANTY AND PATENT INDEMNITY

relating to

BOEING MODEL 737-890 AIRCRAFT

1. ENGINE ESCALATION. No separate engine escalation methodology is defined for the 737-600, -700, -800 or -900 Aircraft. Pursuant to the AGTA, the engine prices for these Aircraft are included in and will be escalated in the same manner as the Airframe.

2. ENGINE WARRANTY AND PRODUCT SUPPORT PLAN. Boeing has obtained from CFM International, Inc. (or CFM International, S.A., as the case may be) (CFM) the right to extend to Customer the provisions of CFM's warranty as set forth below (herein referred to as the "Warranty"); subject, however, to Customer's acceptance of the conditions set forth herein. Accordingly, Boeing hereby extends to Customer and Customer hereby accepts the provisions of CFM's Warranty as hereinafter set forth, and such Warranty shall apply to all CFM56-7 type Engines (including all Modules and Parts thereof) installed in the Aircraft at the time of delivery or purchased from Boeing by Customer for support of the Aircraft except that, if Customer and CFM have executed, or hereafter execute, a General Terms Agreement, then the terms of that Agreement shall be substituted for and supersede the provisions of Paragraphs 2.1 through 2.10 below and Paragraphs 2.1 through 2.10 below shall be of no force or effect and neither Boeing nor CFM shall have any obligation arising therefrom. In consideration for Boeing's extension of the CFM Warranty to Customer, Customer hereby releases and discharges Boeing from any and all claims, obligations and liabilities whatsoever arising out of the purchase or use of such CFM56-7 type Engines and Customer hereby waives, releases and renounces all its rights in all such claims, obligations and liabilities. In addition, Customer hereby releases and discharges CFM from any and all claims, obligations and liabilities whatsoever arising out of the purchase or use of such CFM56-7 type Engines except as otherwise expressly assumed by CFM in such CFM Warranty or General Terms Agreement between Customer and CFM and Customer hereby waives, releases and renounces all its rights in all such claims, obligations and liabilities.

2.1. Title. CFM warrants that at the date of delivery, CFM has legal title to and good and lawful right to sell its CFM56-7 type Engine and Products and furthermore warrants that such title is free and clear of all claims, liens and encumbrances of any nature whatsoever.

2.2. Patents.

2.2.1 CFM shall handle all claims and defend any suit or proceeding brought against Customer insofar as based on a claim that any product or part furnished under this Agreement constitutes an infringement of any patent of the United States, and shall pay all damages and costs awarded therein against Customer. This paragraph shall not apply to any product or any part manufactured to Customer's design or to the aircraft manufacturer's design. As to such product or part, CFM assumes no liability for patent infringement.

2.2.2 CFM's liability hereunder is conditioned upon Customer promptly notifying CFM in writing and giving CFM authority, information and assistance (at CFM's expense) for the defense of any suit. In case said equipment or part is held in such suit to constitute infringement and the use of said equipment or part is enjoined, CFM shall expeditiously, at its own expense and at its option, either (i) procure for Customer the rights to continue using said product or part; (ii) replace the same with a satisfactory and noninfringing product or part; or (iii) modify the same so it becomes satisfactory and noninfringing. The foregoing shall constitute the sole remedy of Customer and the sole liability of CFM for patent infringement.

2.2.3 The above provisions also apply to products which are the same as those covered by this Agreement and are delivered to Customer as part of the installed equipment on CFM56-7 powered Aircraft.

2.3. Initial Warranty. CFM warrants that CFM56-7 Engine products will conform to CFM's applicable specifications and will be free from defects in material and workmanship prior to Customer's initial use of such products.

2.4. Warranty Pass-On.

2.4.1 If requested by Customer and agreed to by CFM in writing, CFM will extend warranty support for Engines sold by Customer to commercial airline operators, or to other aircraft operators. Such warranty support will be limited to the New Engine Warranty, New Parts Warranty, Ultimate Life Warranty and Campaign Change Warranty and will require such operator(s) to agree in writing to be bound by and comply with all the terms and conditions, including the limitations, applicable to such warranties.

2.4.2 Any warranties set forth herein shall not be transferable to a third party, merging company or an acquiring entity of Customer.

2.4.3 In the event Customer is merged with, or acquired by, another aircraft operator which has a general terms agreement with CFM, the Warranties as set forth herein shall apply to the Engines, Modules, and Parts.

2.5. New Engine Warranty.

2.5.1. CFM warrants each new Engine and Module against Failure for the initial 3000 Flight Hours as follows:

(i) Parts Credit Allowance will be granted for any Failed Parts.

(ii) Labor Allowance for disassembly, reassembly, test and Parts repair of any new Engine Part will be granted for replacement of Failed Parts.

(iii) Such Parts Credit Allowance, test and Labor Allowance will be: 100% from new to 2500 Flight Hours and decreasing pro rata from 100% at 2500 Flight Hours to zero percent at 3000 Flight Hours.

2.5.2 As an alternative to the above allowances, CFM shall, upon request of Customer:

(i) Arrange to have the failed Engines and Modules repaired, as appropriate, at a facility designated by CFM at no charge to Customer for the first 2500 Flight Hours and at a charge to Customer increasing pro rata from zero percent of CFM's repair cost at 2500 Flight Hours to 100% of such CFM repair costs at 3000 Flight Hours.

(ii) Transportation to and from the designated facility shall be at Customer's expense.

2.6. New Parts Warranty. In addition to the warranty granted for new Engines and new Modules, CFM warrants Engine and Module Parts as follows:

2.6.1. During the first 1000 Flight Hours for such Parts and

Expendable Parts, CFM will grant 100% Parts Credit Allowance or Labor Allowance for repair labor for failed Parts.

2.6.2. CFM will grant a pro rata Parts Credit Allowance for Scrapped Parts decreasing from 100% at 1000 Flight Hours Part Time to zero percent at the applicable hours designated in Table 1.

2.7. Ultimate Life Warranty.

2.7.1. CFM warrants Ultimate Life limits on the following Parts:

(i) Fan and Compressor Disks/Drums

(ii) Fan and Compressor Shafts

(iii) Compressor Discharge Pressure Seal (CDP)

(iv) Turbine Disks

(v) HPT Forward and Stub Shaft (vi) LPT Driving Cone

(vii) LPT Shaft and Stub Shaft

2.7.2. CFM will grant a pro rata Parts Credit Allowance decreasing from 100% when new to zero percent at 25,000 Flight Hours or 15,000 Flight Cycles, whichever comes earlier. Credit will be granted only when such Parts are permanently removed from service by a CFM or a U.S. and/or French Government imposed Ultimate Life limitation of less than 25,000 Flight Hours or 15,000 Flight Cycles.

2.8. Campaign Change Warranty.

2.8.1. A campaign change will be declared by CFM when a new Part design introduction, Part modification, Part Inspection, or premature replacement of an Engine or Module is required by a mandatory time compliance CFM Service Bulletin or FAA Airworthiness Directive. Campaign change may also be declared for CFM Service Bulletins requesting new Part introduction no later than the next Engine or Module shop visit. CFM will grant following Parts Credit Allowances:

Engines and Modules

(i) 100% for Parts in inventory or removed from service when new or with 2500 Flight Hours or less total Part Time.

(ii) 50% for Parts in inventory or removed from service with over 2500 Flight Hours since new, regardless of warranty status.

2.8.2. Labor Allowance - CFM will grant 100% Labor Allowance for disassembly, reassembly, modification, testing, or Inspection of CFM supplied Engines, Modules, or Parts therefor when such action is required to comply with a mandatory time compliance CFM Service Bulletin or FAA Airworthiness Directive. A Labor Allowance will be granted by CFM for other CFM issued Service Bulletins if so specified in such Service Bulletins.

2.8.3. Life Controlled Rotating Parts retired by Ultimate Life limits including FAA and/or DGAC Airworthiness Directive, are excluded from Campaign Change Warranty.

2.9. LIMITATIONS. THE PROVISIONS SET FORTH HEREIN ARE EXCLUSIVE AND ARE IN LIEU OF ALL OTHER WARRANTIES WHETHER WRITTEN, ORAL OR IMPLIED. THERE ARE NO IMPLIED WARRANTIES OF FITNESS OR MERCHANTABILITY. SAID PROVISIONS SET

FORTH THE MAXIMUM LIABILITY OF CFM WITH RESPECT TO CLAIMS OF ANY KIND, INCLUDING NEGLIGENCE, ARISING OUT OF MANUFACTURE, SALE, POSSESSION, USE OR HANDLING OF THE PRODUCTS OR PARTS THEREOF OR THEREFOR, AND IN NO EVENT SHALL CFM'S LIABILITY TO CUSTOMER EXCEED THE PURCHASE PRICE OF THE PRODUCT GIVING RISE TO CUSTOMER'S CLAIM OR INCLUDE INCIDENTAL OR CONSEQUENTIAL DAMAGES.

2.10.Indemnity and Contribution.

2.10.1. IN THE EVENT CUSTOMER ASSERTS A CLAIM AGAINST A THIRD PARTY FOR DAMAGES OF THE TYPE LIMITED OR EXCLUDED IN LIMITATIONS, PARAGRAPH 2.9. ABOVE, CUSTOMER SHALL INDEMNIFY AND HOLD CFM HARMLESS FROM AND AGAINST ANY CLAIM BY OR LIABILITY TO SUCH THIRD PARTY FOR CONTRIBUTION OR INDEMNITY, INCLUDING COSTS AND EXPENSES (INCLUDING ATTORNEYS' FEES) INCIDENT THERETO OR INCIDENT TO ESTABLISHING SUCCESSFULLY THE RIGHT TO INDEMNIFICATION UNDER THIS PROVISION. THIS INDEMNITY SHALL APPLY WHETHER OR NOT SUCH DAMAGES WERE OCCASIONED IN WHOLE OR IN PART BY THE FAULT OR NEGLIGENCE OF CFM, WHETHER ACTIVE, PASSIVE OR IMPUTED.

2.10.2. CUSTOMER SHALL INDEMNIFY AND HOLD CFM HARMLESS FROM ANY DAMAGE, LOSS, CLAIM, AND

LIABILITY OF ANY KIND (INCLUDING EXPENSES OF LITIGATION AND ATTORNEYS' FEES) FOR PHYSICAL INJURY TO OR DEATH OF ANY PERSON, OR FOR PROPERTY DAMAGE OF ANY TYPE, ARISING OUT OF THE ALLEGED DEFECTIVE NATURE OF ANY PRODUCT OR SERVICE FURNISHED UNDER THIS AGREEMENT, TO THE EXTENT THAT THE PAYMENTS MADE OR REQUIRED TO BE MADE BY CFM EXCEED ITS ALLOCATED SHARE OF THE TOTAL FAULT OR LEGAL RESPONSIBILITY OF ALL PERSONS ALLEGED TO HAVE CAUSED SUCH DAMAGE, LOSS, CLAIM, OR LIABILITY BECAUSE OF A LIMITATION OF LIABILITY ASSERTED BY CUSTOMER OR BECAUSE CUSTOMER DID NOT APPEAR IN AN ACTION BROUGHT AGAINST CFM. CUSTOMER'S OBLIGATION TO INDEMNIFY CFM HEREUNDER SHALL BE APPLICABLE AT SUCH TIME AS CFM IS REQUIRED TO MAKE PAYMENT PURSUANT TO A FINAL JUDGEMENT IN AN ACTION OR PROCEEDING IN WHICH CFM WAS A PARTY, PERSONALLY APPEARED, AND HAD THE OPPORTUNITY TO DEFEND ITSELF. THIS INDEMNITY SHALL APPLY WHETHER OR NOT CUSTOMER'S LIABILITY IS OTHERWISE LIMITED.

TABLE 1
737X
CFM56 WARRANTY PARTS LIST
FLIGHT HOURS

	Flight Hours					
	2000	3000	4000	6000	8000	12000
Fan Rotor/Booster						
Blades		X				
Disk, Drum						X
Spinner		X				
Fan Frame						
Casing					X	
Hub & Struts			X			
Fairings			X			
Splitter (Mid Ring)			X			
Vanes		X				
Engine Mount			X			
No. 1 & No. 2 Bearing Support						

Bearings		X		
Shaft				X
Support (Case)		X		
Inlet Gearbox & No. 3 Bearing				
Bearings		X		
Gear		X		
Case		X		
Compressor Rotor				
Blades	X			
Disk & Drums				X
Shaft				X
Compressor Stator				
Casing			X	
Shrouds	X			
Vanes	X			
Variable Stator Actuating Rings	X			
Combustor Diffuser Nozzle (CDN)				
Casings	X			
Combustor Liners	X			
Fuel Atomizer	X			
HPT Nozzle	X			
HPT Nozzle Support		X		
HPT Shroud	X			

TABLE 1
737X
CFM56 WARRANTY PARTS LIST
(continued)

	Flight Hours					
	2000	3000	4000	6000	8000	12000
HPT Rotor						
Blades			X			
Disks						X
Shafts						X
Retaining Ring		X				
LP Turbine						
Casing				X		
Vane Assemblies		X				
Interstage Seals		X				
Shrouds		X				
Disks					X	
Shaft						X
Bearings			X			
Blades		X				
Turbine Frame						
Casing & Struts				X		
Hub			X			
Sump			X			
Accessory & Transfer Gearboxes						
Case			X			
Shafts			X			
Gears			X			
Bearings			X			
Air-Oil Seals		X				
Controls & Accessories						
Engine	X					

Condition Monitoring Equipment X

SERVICE LIFE POLICY COMPONENTS

between

THE BOEING COMPANY

and

Alaska Airlines, Inc.

Supplemental Exhibit SLP1 to Purchase Agreement Number 2497

SERVICE LIFE POLICY COMPONENTS

relating to

BOEING MODEL 737 AIRCRAFT

This is the listing of SLP Components for the Aircraft which relate to Part 3, Boeing Service Life Policy of Exhibit C, Product Assurance Document to the AGTA and is a part of Purchase Agreement No. 2497.

1. Wing.

(a) Upper and lower skins and stiffeners between the forward and rear wing spars.

(b) Wing spar webs, chords and stiffeners.

(c) Inspar wing ribs.

(d) Inspar splice plates and fittings.

(e) Main landing gear support structure.

(f) Wing center section floor beams, lower beams and spanwise beams, but not the seat tracks attached to floor beams.

(g) Engine strut support fittings attached directly to wing primary structure.

(h) Wing-to-body structural attachments.

(i) Support structure in the wing for spoilers and spoiler actuators; for aileron hinges and reaction links; and for leading edge devices and trailing edge flaps.

(j) Trailing edge flap tracks and carriages.

(k) Aileron leading edge device and trailing edge flap internal, fixed attachment and actuator support structure.

2. Body.

(a) External surface skins and doublers, longitudinal stiffeners, longerons and circumferential rings and frames between the forward pressure bulkhead and the vertical stabilizer rear spar bulkhead and structural support and enclosure for the APU but excluding all system components and related installation and connecting devices, insulation, lining, and decorative panels and related installation and connecting devices.

(b) Window and windshield structure but excluding the windows and windshields.

(c) Fixed attachment structure of the passenger doors, cargo doors and emergency exits, excluding door mechanisms and movable hinge components. Sills and frames around the body openings for the passenger doors, cargo doors and emergency exits, excluding scuff plates and pressure seals.

(d) Nose wheel well structure, including the wheel well walls, pressure deck, bulkheads, and gear support structure.

(e) Main gear wheel well structure including pressure deck and landing gear beam support structure.

(f) Floor beams and support posts in the control cab and passenger cabin area, but excluding seat tracks.

(g) Forward and aft pressure bulkheads.

(h) Keel structure between the wing front spar bulkhead and the main gear wheel well aft bulkhead including splices.

(i) Wing front and rear spar support bulkheads, and vertical and horizontal stabilizer front and rear spar support bulkheads including terminal fittings but excluding all system components and related installation and connecting devices, insulation, lining, decorative panels and related installation and connecting devices.

(j) Support structure in the body for the stabilizer pivot and stabilizer screw.

3. Vertical Stabilizer.

(a) External skins between front and rear spars.

(b) Front, rear and auxiliary spar chords, webs and stiffeners and attachment fittings.

(c) Inspar ribs.

(d) Rudder hinges and supporting ribs, excluding bearings.

(e) Support structure in the vertical stabilizer for rudder hinges, reaction links and actuators.

(f) Rudder internal, fixed attachment and actuator support structure.

4. Horizontal Stabilizer.

(a) External skins between front and rear spars.

(b) Front and rear spar chords, webs and stiffeners.

(c) Inspar ribs.

(d) Stabilizer center section including hinge and screw support structure.

(e) Support structure in the horizontal stabilizer for the elevator hinges, reaction links and actuators.

(f) Elevator internal, fixed attachment and actuator support structure.

5. Engine Strut.

(a) Strut external surface skin and doublers and stiffeners.

(b) Internal strut chords, frames and bulkheads.

(c) Strut to wing fittings and diagonal brace.

(d) Engine mount support fittings attached directly to strut structure and including the engine-mounted support fittings.

6. Main Landing Gear.

(a) Outer cylinder.

(b) Inner cylinder, including axles.

(c) Upper and lower side struts, including spindles, universals and reaction links.

(d) Drag strut.

(e) Bell crank.

(f) Orifice support tube.

(g) Trunnion link.

(h) Downlock links including spindles and universals.

(i) Torsion links.

(j) Actuator beam, support link and beam arm.

7. Nose Landing Gear.

(a) Outer cylinder.

(b) Inner cylinder, including axles.

(c) Orifice support tube.

(d) Upper and lower drag strut, including lock links.

(e) Steering plates and steering collars.

(f) Torsion links.

NOTE: The Service Life Policy does not cover any bearings, bolts, bushings, clamps, brackets, actuating mechanisms or latching mechanisms used in or on the Covered Components.

2497-1

Alaska Airlines, Inc.
19300 International Blvd.
Seattle, Washington 98188

Subject: Option Aircraft

Reference: Purchase Agreement 2497 (the Purchase Agreement) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Customer) relating to Model 737-890 aircraft (the Aircraft)

This Letter Agreement amends the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase

Agreement.

Boeing agrees to manufacture and sell to Customer additional Model 737-890 aircraft as THE OPTION AIRCRAFT. The delivery months, number of aircraft, Advance Payment Base Price per aircraft and advance payment schedule are listed in the Attachments to this Letter Agreement. The Airframe Price shown includes the Engine Price.

1. Aircraft Description and Changes

1.1 Aircraft Description: The Option Aircraft are described by the Detail Specification listed in the Attachments.

1.2 Changes: The Detail Specification will be revised to include:

(i) Changes applicable to the basic Model 737 aircraft which are developed by Boeing between the date of the Detail Specification and the signing of the definitive agreement to purchase the Option Aircraft;

(ii) Changes required to obtain required regulatory certificates; and

(iii) Changes mutually agreed upon.

2. Price

2.1 The pricing elements of the Option Aircraft are listed in the Attachments.

2.2 Price Adjustments.

2.2.1 Optional Features. The price for Optional Features selected for the Option Aircraft will be adjusted to Boeing's current prices as of the date of execution of the definitive agreement for the Option Aircraft.

2.2.2 Escalation Adjustments. The Airframe Price and the price of Optional Features for Option Aircraft will be escalated using 1) Boeing's standard escalation provisions (ECI-W formula) or alternate escalation provisions (ECI-MFG/CPI formula) to be selected by Customer at the date of execution of the definitive agreement for the Option Aircraft, or 2) a different Boeing then current escalation provisions should such exist at the date of execution of the definitive agreement for the Option Aircraft.

2.2.3 Base Price Adjustments. The Airframe Price of the Option Aircraft will be adjusted to Boeing's current price as of the date of execution of the definitive agreement for the Option Aircraft.

3. Payment.

3.1 Customer will pay a deposit to Boeing in the amount shown in the Attachment for each Option Aircraft (Deposit), on the date of this Letter Agreement. If Customer exercises an option, the Deposit will be credited against the first advance payment due. If Customer does not exercise an option, Boeing will retain the Deposit for that Option Aircraft.

3.2 Following option exercise, advance payments in the amounts and at the times listed in the Attachment will be payable for the Option Aircraft. The remainder of the Aircraft Price for the Option Aircraft will be paid at the time of delivery.

4. Option Exercise.

4.1 Customer may exercise an option by giving written notice to Boeing on or before the date 18 months prior to the delivery dates listed in the

Attachments (Option Exercise Date).

4.2 If Boeing must make production decisions which are dependent on Customer's exercising an option earlier than the Option Exercise Date, Boeing may accelerate the Option Exercise Date subject to Customer's agreement. If Boeing and Customer fail to agree to a revised Option Exercise Date, either party may terminate the option and Boeing will refund to Customer, without interest, any Deposit and advance payments received by Boeing with respect to the terminated Option Aircraft.

5. Contract Terms.

Boeing and Customer will use their best efforts to reach a definitive agreement for the purchase of an Option Aircraft, including the terms and conditions contained in this Letter Agreement, in the Purchase Agreement, and other terms and conditions as may be agreed upon. In the event the parties have not entered into a definitive agreement within 30 days following option exercise, other than as a result of Boeing's failure to timely provide an agreement to Customer for review and execution, either party may terminate the purchase of such Option Aircraft by giving written notice to the other within 5 days. If Customer and Boeing fail to enter into a definitive agreement containing terms consistent with Purchase Agreement No. 2497 that was delivered to Customer within 20 days following Option exercise, Boeing will retain the Deposit for that Option Aircraft.

Sincerely,

THE BOEING COMPANY

By_________________________

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: June 15, 2005

Alaska Airlines, Inc.

By_________________________

Its Vice President Finance & Treasurer

Attachment

Attachment
Option Aircraft Letter Agreement 2497-1
737-800 Aircraft Delivery, Description, Price and Advance Payments
ECI-W Formula

[***]

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Alaska Airlines, Inc.
19300 International Blvd.
Seattle, Washington 98188

Subject: Aircraft Model Substitution

Reference: Purchase Agreement No. 2497 (the Purchase Agreement) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Customer) relating to Model 737-890 aircraft (the Aircraft)

This letter agreement (Letter Agreement) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Customer may substitute the purchase of Boeing Model 737-900X aircraft (737-900X SUBSTITUTE AIRCRAFT) in place of any of the Aircraft, subject to the following terms and conditions:

1. 737-900X Offering.

Boeing's offer of the 737-900X Substitution Aircraft proposed herein is subject to Boeing's decision to launch the 737-900X Aircraft. Based on Boeing's launching the 737-900X Aircraft, Boeing may use up to two (2) of the 737-900X Substitution Aircraft prior to delivery for flight and ground testing relating to the development and certification. The parties shall mutually agree upon any special terms related to use of any Substitution Aircraft for flight and ground testing.

2. Customer's Written Notice.

Customer will provide written notice of its intention to substitute the purchase of an Aircraft with the purchase of a Substitute Aircraft,

(a) no later than the first day of the month that is fifteen (15) months prior to the scheduled month of delivery of the Aircraft for which it will be substituted, provided that a 737-900X Substitute Aircraft has been previously certified and delivered to Customer, or;

(b) no later than the first day of the month that is twenty-four (24) months prior to the scheduled month of delivery of the Aircraft for which it will be substituted, if a 737-900X Substitute Aircraft has been made offerable but has not been previously certified and delivered to Customer.

2. Boeing's Production Capability.

Customer's substitution right is conditioned upon Boeing's having production capability for the 737-900X Substitute Aircraft in the scheduled delivery month of the Aircraft for which it will be substituted.

If offerable, Boeing will tentatively quote delivery positions for 737-900X Substitute Aircraft to allow Customer to secure quotes from Buyer Furnished Equipment vendors, and Boeing to secure quotes from Seller Furnished Equipment vendors which supports the required on-dock dates. If Boeing is unable to manufacture the 737-900X Substitute Aircraft in the scheduled delivery month of the Aircraft for which it will be substituted, then Boeing shall promptly make a written offer of an alternate delivery month for Customer's consideration and written acceptance within thirty (30) days of such offer.

3. Definitive Agreement.

Customer's substitution right and Boeing's obligation in this Letter Agreement are further conditioned upon Customer's and Boeing's executing a definitive agreement for the purchase of the 737-900X Substitute Aircraft within thirty (30) days of Customer's substitution notice to Boeing or of Customer's acceptance of an alternate delivery month in accordance with paragraph 2. above.

4. Price, Escalation Adjustments and Advance Payments.

The Airframe Price and the price of Optional Features will be adjusted to Boeing's then-current prices for such elements as of the date of execution of the definitive purchase agreement for the 737-900X Substitute Aircraft. The Airframe Price and the price of Optional Features for 737-900X Substitute Aircraft will be escalated using 1) Boeing's standard escalation provisions (ECI-W formula) or alternate escalation provisions (ECI-MFG/CPI formula) to be selected by Customer at the date of execution of the definitive agreement for the 737-900X Substitution Aircraft, or 2) a different Boeing then current escalation provisions should such exist at the date of execution of the definitive agreement for the 737-900X Substitution Aircraft. The representative escalation indices and methodology will be used to estimate the Advance Payment Base Prices for 737-900X Substitution Aircraft.

If the Advance Payment Base Price for any 737-900X Substitute Aircraft is higher than that of the Aircraft, Customer will pay to Boeing the amount of the difference

as of the date of execution of the definitive agreement for the 737-900X Substitute Aircraft. If the Advance Payment Base Price of the 737-900X Substitute Aircraft is lower than that of the Aircraft, Boeing will retain any excess amounts previously paid by Customer until the next payment is due from Customer, at which point Customer may reduce the amount of such payment by the amount of the excess. In no case will Boeing refund or pay interest on any excess amounts created by virtue of Customer's exercise of the rights of substitution described in this agreement.

5. Confidential Treatment.

Customer understands that certain commercial and financial information contained in this Letter Agreement are considered by Boeing as confidential. Customer 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.

Sincerely,

THE BOEING COMPANY

By______________________________

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: June 15, 2005

ALASKA AIRLINES, INC.

By______________________________

Its Vice President Finance & Treasurer

Alaska Airlines, Inc.
19300 International Blvd.
Seattle, Washington 98188

Subject: Seller Purchased Equipment

Reference: Purchase Agreement No. 2497 (the Purchase Agreement) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Customer) relating to Model 737-890 aircraft (the Aircraft)

This Letter Agreement amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Definition of Terms:

SELLER PURCHASED EQUIPMENT (SPE): Buyer Furnished Equipment (BFE) that Boeing purchases for Customer.

DEVELOPMENTAL BUYER FURNISHED EQUIPMENT (DBFE): BFE not previously certified for installation on the same model aircraft.

DEVELOPMENTAL SELLER PURCHASED EQUIPMENT (DSPE): 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.

1. Price.

Advance Payments. An estimated SPE price is included in the Advance Payment Base Prices shown in Table 1 for the purpose of establishing the advance payments for the Aircraft.

Aircraft Price. The Aircraft Price will be adjusted to reflect the actual costs charged to Boeing by the SPE suppliers and transportation charges.

2. Responsibilities.

2.1 Customer is responsible for:

(i) selecting and notifying Boeing of the supplier for all items identified in paragraph 1.1 of Supplemental Exhibit BFE1 of the Purchase Agreement,

(ii) selecting a FAA certifiable part; and

(iii) providing to Boeing the SPE part specification/Customer 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 Customer the supplier's standard warranty for the SPE. SPE is deemed to be BFE for purposes of Part 2 and Part 4 of Exhibit C, the Product Assurance Document.

3. Changes.

After this Letter Agreement is signed, changes to SPE may only be made by and between Boeing and the suppliers. Customer's contacts with SPE suppliers relating to design (including selection of materials and colors), weights, prices or schedules are for informational purposes only. If Customer wants any changes made, requests must be made directly to Boeing for coordination with the supplier.

4. Proprietary Rights.

Boeing's obligation to purchase SPE will not impose upon Boeing any obligation to compensate Customer or any supplier for any proprietary rights Customer may have in the design of the SPE.

5. Remedies.

If Customer does not comply with the obligations above, Boeing may:

(i) delay delivery of the Aircraft;

(ii) deliver the Aircraft without installing the SPE;

(iii) with Customer's prior written consent, substitute a comparable part and invoice Customer for the cost;

(iv) increase the Aircraft Price by the amount of Boeing's additional costs attributable to such noncompliance.

6. Customer's Indemnification of Boeing.

Customer 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 Customer but not employees of Boeing, or for loss of or damage to any property, including Aircraft, arising out of 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. This indemnity will not apply with respect

to any nonconformance or defect caused solely by Boeing's installation of the SPE.

Sincerely,

THE BOEING COMPANY

By_____________________________

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: June 15, 2005

Alaska Airlines, Inc.

By_____________________________

Its Vice President Finance & Treasurer

2497-4

Alaska Airlines, Inc.
19300 International Blvd.
Seattle, Washington 98188

Subject: Demonstration Flight Waiver

Reference: Purchase Agreement No. 2497 (the Purchase Agreement) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Customer) relating to Model 737-890 aircraft (the Aircraft)

This letter agreement (Letter Agreement) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

Definition of Terms:

CORRECTION COSTS: Customer's direct labor costs and the cost of any material required to correct a Flight Discrepancy where direct labor costs are equal to the warranty labor rate in effect between the parties at the time such labor is expended.

FLIGHT DISCREPANCY: A failure or malfunction of an Aircraft, or the accessories, equipment or parts installed on the Aircraft which results from a defect in the Aircraft, Boeing Product, engine or Supplier Product or a nonconformance to the Detail Specification for the Aircraft.

The AGTA provides that each aircraft will be test flown prior to delivery for the purpose of demonstrating the functioning of such Aircraft and its equipment to Customer; however, Customer may elect to waive this test flight. For each test flight waived, Boeing agrees to provide Customer an amount of jet fuel at delivery that, including the standard fuel entitlement, totals the following amount of fuel:

AIRCRAFT MODEL	TOTAL FUEL ENTITLEMENT (U.S. GALLONS)
737	Full tanks (approx. 5,300 to 6,800, depending on model)

Further, Boeing agrees to reimburse Customer for any Correction Costs incurred as a result of the discovery of a Flight Discrepancy during the first flight of the aircraft by Customer following delivery to the extent such Correction Costs are

not covered under a warranty provided by Boeing, the engine manufacturer or any of Boeing's suppliers.

Should a Flight Discrepancy be detected by Customer which requires the return of the Aircraft to Boeing's facilities at Seattle, Washington, so that Boeing may correct such Flight Discrepancy, Boeing and Customer agree that title to and risk of loss of such Aircraft will remain with Customer. In addition, it is agreed that Boeing will have responsibility for the Aircraft while it is on the ground at Boeing's facilities in Seattle, Washington, as is chargeable by law to a bailee for mutual benefit, but Boeing shall not be chargeable for loss of use.

To be reimbursed for Correction Costs, Customer shall submit a written itemized statement describing any flight discrepancies and indicating the Correction Cost incurred by Customer for each discrepancy. This request must be submitted to Boeing's Contracts Regional Director at Renton, Washington, within ninety (90) days after the first flight by Customer.

Sincerely,

THE BOEING COMPANY

By_____________________________

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: June 15, 2005

ALASKA AIRLINES, INC.

By________________________________

Its Vice President Finance & Treasurer

2497-5

Alaska Airlines, Inc.
19300 International Blvd.
Seattle, Washington 98188

Subject: Loading of Software Owned by or Licensed to Customer

Reference: Purchase Agreement No. 2497 (the Purchase Agreement) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Customer) relating to Model 737-890 aircraft (the Aircraft)

This Letter Agreement amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Prior to delivery of an Aircraft to Customer, Customer may request Boeing to install software owned by or licensed to Customer (Software) in the following systems in the Aircraft: i) aircraft communications addressing and reporting system (ACARS), ii) digital flight data acquisition unit (DFDAU), iii) flight management system (FMS), iv) cabin management system (CMS), v) satellite communications system (SATCOM), vi) engine indication and crew alerting system (EICAS) and vii) airplane information management system (AIMS). The Software is not part of the configuration of the Aircraft certified by the FAA. If requested by Customer, Boeing will install the Software after the FAA has issued the standard airworthiness certificate or the export certificate of airworthiness, whichever is applicable, but before delivery of the Aircraft on the following conditions:

1. Customer and Boeing agree that the Software is deemed to be BFE for the purposes of Articles 3.1.3, 3.2, 3.4, 3.5, 3.10, 9, 10 and 11 of Exhibit A, Buyer Furnished Equipment Provisions Document, to the AGTA and such articles apply to the installation of the Software.

Customer and Boeing further agree that the installation of the Software is deemed to be a service under Exhibit B, Customer Support Document, to the AGTA. Boeing makes no warranty as to the performance of such installation and Article 11 of Part 2 of Exhibit C of the AGTA, Disclaimer and Release; Exclusion of Liabilities and Article 8.2, Insurance, of the AGTA apply to the installation of the Software.

Sincerely,

THE BOEING COMPANY

By______________________________

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: June 15, 2005

ALASKA AIRLINES, INC.

By______________________________

Its Vice President Finance & Treasurer

2497-6

Alaska Airlines, Inc.
19300 International Blvd.
Seattle, Washington 98188

Subject: Promotion Support

Reference: Purchase Agreement No. 2497 (the Purchase Agreement) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Customer) relating to Model 737-890 aircraft (the Aircraft)

This letter agreement (Letter Agreement) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement shall have the same meaning as in the Purchase Agreement.

Boeing agrees to make available to Customer [***] for Customer's marketing and promotion programs associated with the introduction of the first Aircraft into service, and [***] for each subsequent Aircraft which delivers through December 31, 2007. These programs may include marketing research; tourism development; corporate identity; direct marketing; video tape, or still photography; planning, design and production of collateral materials; management of promotion programs and advertising campaigns.

Boeing's obligation to provide the support will commence at the time the purchase of the Aircraft becomes firm (not subject to cancellation by either party) and will terminate January 1, 2008. There will be no cash payments or other support in lieu thereof.

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* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Alaska Airlines, Inc.
2497-6 Page 3

Following the execution of this Letter Agreement, a Boeing Airline Promotion representative will meet with Customer's designated representative to discuss the extent, selection, scheduling, and funds disbursement process for the program.

Sincerely,

THE BOEING COMPANY

By______________________________________

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: June 15, 2005

Alaska Airlines, Inc.

By______________________________________

Its Vice President Finance & Treasurer

6-1162-MSA-588

Alaska Airlines, Inc.
19300 International Blvd.
Seattle, Washington 98188

Subject: Aircraft Performance Guarantees

Reference: Purchase Agreement No. 2497 (the Purchase Agreement) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Customer) relating to Model 737-890 aircraft (the Aircraft)

This letter agreement (Letter Agreement) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

1. Aircraft Performance Guarantees.

Boeing agrees to provide Customer with the performance guarantees in the Attachment. These guarantees are exclusive and expire upon delivery of the Aircraft to Customer.

2. Confidential Treatment.

Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential. Customer 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.

Sincerely,

THE BOEING COMPANY

By__________________________________

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: June 15, 2005

ALASKA AIRLINES, INC.

By__________________________________

Its Vice President Finance & Treasurer

Attachment

MODEL 737-890 WITH WINGLETS PERFORMANCE GUARANTEES

FOR ALASKA AIRLINES, INC.

SECTION CONTENTS

1 AIRCRAFT MODEL APPLICABILITY

The guarantees contained in this Attachment (the "Performance Guarantees") are applicable to the 737-890 Aircraft with a maximum takeoff weight of [***] pounds, a maximum landing weight of [***] pounds, and a maximum zero fuel weight of [***] pounds, and equipped with winglets and with Boeing furnished CFM56-7B26 engines.

2 FLIGHT PERFORMANCE

2.1 TAKEOFF

The FAA approved takeoff field length at a gross weight at the start of the ground roll of [***] pounds, at a temperature of [***](degrees)C, at a sea level altitude, and using maximum takeoff thrust, shall not be more than the following guarantee value:

GUARANTEE: [***] Feet

2.2 LANDING

The FAA approved landing field length at a gross weight of [***] pounds and at a sea level altitude, shall not be more than the following guarantee value:

GUARANTEE: [***] Feet

2.3 MISSION

2.3.1 MISSION BLOCK FUEL

The block fuel for a stage length of [***] statute miles in still air with a [***] pound payload using the conditions and operating rules defined below, shall not be more than the following guarantee value:

NOMINAL:	[***] Pounds
TOLERANCE:	[***] Pounds
GUARANTEE:	[***] Pounds

Conditions and operating rules:

Stage Length: The stage length is defined as the sum of the distances for the climbout maneuver, climb, cruise, and descent.

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Block Fuel: The block fuel is defined as the sum of the fuel used for taxi-out, takeoff and climbout maneuver, climb, cruise, descent, approach and landing maneuver, and taxi-in.

Takeoff: The takeoff gross weight is not limited by the airport conditions.

Maximum takeoff thrust is used for the takeoff.

The takeoff gross weight shall conform to FAA Regulations.

Climbout Maneuver: Following the takeoff to [***] feet, the Aircraft accelerates to [***] KCAS while climbing to [***] feet above the departure airport altitude and retracting flaps and landing gear.

Climb: The Aircraft climbs from [***] feet above the departure airport altitude to [***] feet altitude at [***] KCAS.

The Aircraft then accelerates at a rate of climb of [***] feet per minute to a climb speed of [***] KCAS.

The climb continues at [***] KCAS until 0.78 Mach number is reached.

The climb continues at 0.78 Mach number to the initial cruise altitude.

The temperature is standard day during climb.

Maximum climb thrust is used during climb.

Cruise: The Aircraft cruises at 0.79 Mach number.

The initial cruise altitude is 39,000 feet.

A step climb or multiple step climbs of 4,000 feet altitude may be used when beneficial to minimize fuel burn.

The temperature is standard day during cruise.

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

The cruise thrust is not to exceed maximum cruise thrust except during a step climb when maximum climb thrust may be used.

Descent: The Aircraft descends from the final cruise altitude at 0.78 Mach number until 250 KCAS is reached.

The descent continues at 250 KCAS to an altitude of 1,500 feet above the destination airport altitude.

Throughout the descent, the cabin pressure is controlled to a maximum rate of descent equivalent to 300 feet per minute at sea level.

The temperature is standard day during descent.

Approach and Landing Maneuver: The Aircraft decelerates to the final approach speed while extending landing gear and flaps, then descends and lands.

The destination airport altitude is a sea level airport.

Fixed Allowances: For the purpose of this guarantee and for the purpose of establishing compliance with this guarantee, the following shall be used as fixed quantities and allowances:

Operational Empty Weight, OEW (Paragraph 2.3.3): 93,582 Pounds

Taxi-Out:

Fuel	200 Pounds

Takeoff and Climbout Maneuver:

Fuel	500 Pounds
Distance	3.5 Nautical Miles

Approach and Landing Maneuver:

Fuel 229 Pounds

Taxi-In (shall be consumed from the reserve fuel):

Fuel 200 Pounds

Usable reserve fuel remaining upon completion of the approach and landing maneuver: 7,396 Pounds

For information purposes, the reserve fuel is based on a standard day temperature and a) a 200 pound general purpose fuel, b) a missed approach and flight to a 200 nautical mile alternate, c) an approach and landing maneuver at the alternate airport, and d) a 45 minute hold at 1,500 feet above a sea level alternate airport.

2.3.2 OPERATIONAL EMPTY WEIGHT BASIS

The Operational Empty Weight (OEW) derived in Paragraph 2.3.3 is the basis for the mission guarantee of Paragraph 2.3.1.

2.3.3 737-890 WEIGHT SUMMARY ALASKA AIRLINES

	Pounds
STANDARD MODEL SPECIFICATION MEW	[***]
Configuration Specification D019A001, Rev. F dated August 29, 2003	
175 Tourist Class Passengers	
CFM56-7 Engines	
156,000 Pounds (70,760 kg.) Maximum Taxi Weight	
6,875 U.S. Gallons (26,024 l.) Fuel Capacity	
Changes for Alaska Airlines	
Interior Change to 160 (16FC/144YC) Passengers* (Ref: LOPS-378-1455)	[***]
174,700 lb (79,242 kg) Maximum Taxi Weight	[***]
60 Minute Standby Power Capability	[***]
Cargo Compartment Changes	[***]
HUD Options	[***]
Winglets	[***]
Additional Customer Options (Based on 737-800 CSOS ASA38W0002)	[***]
ALASKA AIRLINES MANUFACTURER'S EMPTY WEIGHT (MEW)	[***]
Standard and Operational Items Allowance (Paragraph 2.3.4)	[***]
ALASKA AIRLINES OPERATIONAL EMPTY WEIGHT (OEW)	[***]

	Quantity	Pounds	Pounds
* Seat Weight Included:			4,854
First Class Doubles	8	1,056	
Economy Class Triple	46	3,611	
Economy Class Triple w/3 In-Arm Food Trays	2	187	

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

2.3.4 STANDARD AND OPERATIONAL ITEMS ALLOWANCE

	Qty	Pounds	Pounds	Pounds
STANDARD ITEMS ALLOWANCE				[***]
Unusable Fuel			[***]	
Oil			[***]	
Oxygen Equipment			[***]	
Passenger Portable	7	[***]		
Portable Oxygen Masks	17	[***]		
Crew Masks and Goggles	4	[***]		
Miscellaneous Equipment			[***]	
Crash Axe	1	[***]		
Megaphones	2	[***]		
Flashlights	6	[***]		
Smoke Hoods	5	[***]		
Galley Structure & Fixed Inserts			[***]	
OPERATIONAL ITEMS ALLOWANCE				[***]
Crew and Crew Baggage			[***]	
Flight Crew	2	[***]		
Cabin Crew	6	[***]		
Baggage	8	[***]		
Briefcases	1	[***]		
Catering Allowance			[***]	
Passenger Service Equipment	160		[***]	
Potable Water - 60 USG			[***]	
Waste Tank Disinfectant			[***]	
Emergency Equipment			[***]	
Escape Slides - Forward	2	[***]		
Escape Slides - Aft	2	[***]		
Life Vests - Crew	10	[***]		
TOTAL STANDARD AND OPERATIONAL ITEMS ALLOWANCE				[***]

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

3 MANUFACTURER'S EMPTY WEIGHT

The Manufacturer's Empty Weight (MEW) is guaranteed not to exceed the value in Section 03-60-00 of Detail Specification D019A001ASA38P-1 plus three-quarters of one percent.

4 SOUND LEVELS

4.1 COMMUNITY SOUND LEVELS

The Aircraft shall be certified in accordance with Stage 3 requirements of FAR Part 36, essentially equivalent to ICAO Annex 16, Volume 1, Chapter 3.

4.2 JOHN WAYNE AIRPORT (SNA) SINGLE EVENT NOISE EXPOSURE LEVELS

4.2.1 The brake release gross weight for a Single Event Noise Exposure Level (SENEL) at the Class E limits of 93.5 dB SENEL at microphone location M1 and 93.0 dB SENEL at microphone location M2, whichever is limiting for the microphone locations defined below, shall not be less than the following guarantee value:

NOMINAL:	134,900 Pounds
TOLERANCE:	-3,100 Pounds
GUARANTEE:	131,800 Pounds

4.2.2 The guarantee of Paragraph 4.2.1 is based on the following conditions, procedures and microphone locations:

Takeoff Conditions:

The airport pressure altitude is 54 feet.

The airport temperature is 77(degrees) F.

Airport relative humidity is 70 percent.

4.0 knot head-wind factored in accordance with FAR 25.105(d)(1).

Flap position is 5.

An Aircraft center of gravity located at the forward limit.

Takeoff Procedure: With brakes set, stabilize power at 70 percent N1, then simultaneously release brakes and advance power to maximum rated takeoff thrust. Rotate at a speed such that acceleration results in a climb-out speed of V2+20 KCAS. Upon reaching 800 feet geopotential altitude above the runway, briskly reduce thrust on both engines to the thrust required to provide a 1.2 percent one-engine-inoperative climb gradient. Maintain Flaps 5 speed and power setting until reaching at least six nautical miles from brake release.

Microphone Locations: Microphones M1 and M2 are located according to John Wayne Airport Noise Abatement Program Quarterly Report for the period January 1, 2004 through March 31, 2004.

Microphone Equipment: Microphones M1 and M2 are defined to be the noise detection and analysis hardware or software operating at John Wayne Airport for the period January 1, 2004 through March 31, 2004.

5 AIRCRAFT CONFIGURATION

5.1 The guarantees contained in this Attachment are based on the Aircraft configuration as defined in the original release of Detail Specification D019A001ASA38P-1 (hereinafter referred to as the Detail Specification). Appropriate adjustment shall be made for changes in such Detail Specification approved by the Customer and Boeing or otherwise allowed by the Purchase Agreement which cause changes to the flight performance, sound levels, and/or weight and balance of the Aircraft. Such adjustment shall be accounted for by Boeing in its evidence of compliance with the guarantees.

5.2 The Manufacturer's Empty Weight guarantee of Section 3 will be adjusted by Boeing for the following in its evidence of compliance with the guarantees:

(1) Changes to the Detail Specification or any other changes mutually agreed upon between the Customer and Boeing or otherwise allowed by the Purchase Agreement.

(2) The difference between the component weight allowances given in Appendix IV of the Detail Specification and the actual weights.

6 GUARANTEE CONDITIONS

6.1 All guaranteed performance data are based on the International Standard Atmosphere (ISA) and specified variations therefrom; altitudes are pressure altitudes.

6.2 The FAA Regulations (FAR) referred to in this Attachment are, unless otherwise specified, the 737-800 Certification Basis regulations specified in the Type Certificate Data Sheet A16WE, Revision 33, dated March 8, 2002.

6.3 In the event a change is made to any law, governmental regulation or requirement, or in the interpretation of any such law, governmental regulation or requirement that affects the certification basis for the Aircraft as described in Paragraphs 4.1 or 6.2, and as a result thereof, a change is made to the configuration and/or the performance of the Aircraft in order to obtain certification, the guarantees set forth in this Attachment shall be appropriately modified to reflect any such change.

6.4 The takeoff and landing guarantees, and the takeoff portion of the mission guarantee are based on hard surface, level and dry runways with no wind or obstacles, no clearway or stopway, 225 mph tires, with Category C brakes and anti-skid operative, and with the Aircraft center of gravity at the most forward limit unless otherwise specified. The takeoff performance is based on no engine bleed for air conditioning or thermal anti-icing and the Auxiliary Power Unit (APU) turned off unless otherwise specified. Unbalanced field length calculations and the improved climb performance procedure will be used for takeoff as required. The landing performance is based on the use of automatic spoilers.

6.5 The climb, cruise, and descent portions of the mission guarantee include allowances for normal power extraction and engine bleed for normal operation of the air conditioning system. Normal electrical power extraction shall be defined as not less than a 50 kilowatts total electrical load. Normal operation of the air conditioning system shall be defined as pack switches in the "Auto" position, the temperature control switches in the "Auto" position that results in a nominal cabin temperature of 75(degrees)F, and all air conditioning systems operating normally. This operation allows a maximum cabin pressure differential of 8.35 pounds per square inch at higher altitudes, with a nominal Aircraft cabin ventilation rate of 3,300 cubic feet per minute including passenger cabin recirculation (nominal recirculation is 47 percent). The APU is turned off unless otherwise specified.

6.6 The climb, cruise and descent portions of the mission guarantee are based on an Aircraft center of gravity location of 26.2 percent of the mean aerodynamic chord.

6.7 Performance, where applicable, is based on a fuel Lower Heating Value (LHV) of 18,580 BTU per pound and a fuel density of 6.7 pounds per U.S. gallon.

7 GUARANTEE COMPLIANCE

7.1 Compliance with the guarantees of Sections 2, 3 and 4 shall be based on the conditions specified in those sections, the Aircraft configuration of Section 5 and the guarantee conditions of Section 6.

7.2 Compliance with the takeoff and landing guarantees, the takeoff portion of the mission guarantee, and the community sound level guarantees shall be based on the FAA approved Airplane Flight Manual for the Model 737-800.

7.3 Compliance with the climb, cruise, and descent portions of the mission guarantee shall be established by calculations based on flight test data obtained from an aircraft in a configuration similar to that defined by the Detail Specification.

7.4 The OEW used for compliance with the mission guarantee shall be the actual MEW plus the Standard and Operational Items Allowance in Paragraph 03-60-00 of the Detail Specification.

7.5 Compliance with the Manufacturer's Empty Weight guarantee shall be based on information in the "Weight and Balance Control and Loading Manual - Aircraft Report."

7.6 The data derived from tests shall be adjusted as required by conventional methods of correction, interpolation or extrapolation in accordance with established engineering practices to show compliance with these guarantees.

7.7 Compliance with the single event noise exposure level guarantee of Paragraphs 4.2.1 will be by calculations made by Boeing using standard engineering practices with noise information measured by Boeing using the Model 737-700 with CFM56-7B (SAC) engines. The noise calculation process will be as follows:

7.7.1 Noise (dBA) time histories for a range of brake release gross weights (BRGW) for the model 737-800W with CFM56-7B26 (SAC) engines will be calculated by combining full power takeoff and cutback dBA time histories from noise data measured at the noise certification test of May 1997. Adjustments will be appropriate to simulate the takeoff procedure described in Paragraph 4.2.2. These dBA time histories will then be integrated as described in CALIFORNIA NOISE STANDARDS (California Administrative Code, Title 21, Chapter 2.5, Sub-Chapter 6, effective January 1, 1986, Division of Aeronautics (Department of Transportation)), except that the threshold noise level will be 65 dBA as used at SNA for noise monitors M1 and M2 to calculate SENEL at each BRGW.

7.7.2 Curve fits of SENEL vs. BRGW will then be developed for noise monitors M1 and M2, using the data derived in Paragraph 7.7.1.

7.7.3 The SENEL versus BRGW curve fit of Paragraph 7.7.2 will then be entered at the noise limits of 93.5 dB SENEL for microphone location M1 and 93.0 dB SENEL for microphone location M2, respectively, to determine weights that correspond to the expected quarterly average weight capability of the Aircraft. These weights will be compared to the guarantee weight of Paragraph 4.2.1 to determine compliance with that guarantee.

7.7.4 A document will be prepared by Boeing to show compliance with the single event noise exposure level guarantees of Paragraph 4.2.

7.7.5 The following compliance conditions apply to Paragraphs 4.2.1:

If the guarantee weight is not met, Boeing and the Customer will work together to improve the weight capability (no financial penalty will be levied).

7.8 Compliance shall be based on the performance of the airframe and engines in combination, and shall not be contingent on the engine meeting its manufacturer's performance specification.

8 EXCLUSIVE GUARANTEES

The only performance guarantees applicable to the Aircraft are those set forth in this Attachment.

6-1162-MSA-589

Alaska Airlines, Inc.
19300 International Blvd.
Seattle, Washington 98188

[***]

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

[***]

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

[***]

Sincerely,

THE BOEING COMPANY

By____________________________

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: June 15, 2005

Alaska Airlines, Inc.

By____________________________

Its Vice President Finance & Treasurer

Attachment

[***]

[***]

6-1162-MSA-590

Alaska Airlines, Inc.
19300 International Blvd.
Seattle, Washington 98188

Subject: Purchase Right Aircraft

Reference: Purchase Agreement 2497 (the Purchase Agreement) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Customer) relating to Model 737-890 aircraft (the Aircraft)

This Letter Agreement amends the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Boeing and Customer wish to define (1) the conditions under which Customer may add to the Purchase Agreement additional 737-890 aircraft for which Customer has been granted purchase rights pursuant to this Letter Agreement, and (2) the contract terms which will be applicable to such additional aircraft in the event Customer exercises such rights.

1.0 Purchase Rights.

Boeing grants to Customer the right to purchase (Purchase Right) up to fifty (50) additional 737-890 aircraft on the terms and conditions described in this Letter Agreement (the Purchase Right Aircraft).

1.1 The Purchase Right Aircraft may be exercised to either 737-890 firm aircraft (Firm Aircraft) or 737-890 Option Aircraft. Delivery positions are subject to availability, and must be scheduled for delivery no later than December 31, 2015. No deposits are required for these Purchase Right Aircraft at execution of this Letter Agreement.

1.2 If Customer desires to exercise a Purchase Right, Customer shall notify Boeing in writing requesting a delivery position for such Purchase Right Aircraft and identify whether the exercise will be for a Firm Aircraft or an Option Aircraft.

1.3 Within five (5) days of its receipt of Customer's request, Boeing shall offer a 737-890 aircraft (either Aircraft or Option Aircraft per Customer's request) in the closest delivery position to the requested delivery position, which is not then the subject of a commitment with another customer of Boeing, and either (1) for an Aircraft that permits the manufacture of the Aircraft within the standard

manufacturing lead time, or (2) in the case of an Option Aircraft is at least eighteen (18) months prior to delivery.

1.4 In addition, within 5 days of its receipt of Customer's request Boeing will provide Customer pricing information for the Purchase Right Aircraft. The Airframe Price and the price of Optional Features will be adjusted to Boeing's then-current prices for such elements as of the date of execution of the definitive purchase agreement for the Purchase Right Aircraft. The Airframe Price and the price of Optional Features for the Purchase Right Aircraft will be escalated using 1) Boeing's standard escalation provisions (ECI-W formula) or alternate escalation provisions (ECI-MFG/CPI formula) to be selected by Customer at the date of execution of the definitive agreement for the Purchase Right Aircraft exercised, or 2) a different Boeing then current escalation provisions should such exist at the date of execution of the definitive agreement for the Purchase Right Aircraft exercised. The representative escalation indices and methodology will be used to estimate the Advance Payment Base Prices for exercised the Purchase Right Aircraft.

1.5 The configuration of the Purchase Right Aircraft will be the configuration described in Customer's Detail Specification DO19A00ASA38P-1 as of the date of exercise of the Purchase Right as revised to include:.

(i) Changes applicable to the basic Model 737 aircraft which are developed by Boeing between the date of the Detail Specification and the signing of the definitive agreement to purchase the Option Aircraft;

(ii) Changes required to obtain required regulatory certificates; and

(iii) Changes mutually agreed upon.

1.6 Should Customer exercise a Purchase Right Aircraft for an Aircraft, Advance Payments will be payable for the Purchase Right Aircraft in accordance with that for the Aircraft as defined in the Purchase Agreement.

1.7 Should Customer exercise a Purchase Right Aircraft for an Option Aircraft, a Deposit will be payable for the Purchase Right Aircraft in accordance with that for the Option Aircraft as defined in Option Aircraft

Letter Agreement 2497-1.

1.8 Boeing and Customer will use their best efforts to reach a definitive agreement for the purchase of a Purchase Right Aircraft, including the terms and conditions contained in this Letter Agreement, in the Purchase Agreement, and any other terms and conditions as may be agreed upon with in thirty (30) days after Boeing has identified the applicable delivery position and provided the requisite price information pursuant to Article 1.3 herein.

2. Confidential Treatment.

Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential. Customer 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.

Sincerely,

THE BOEING COMPANY

By________________________________

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: June 15, 2005

Alaska Airlines, Inc.

By________________________________

Its Vice President Finance & Treasurer

6-1162-MSA-592

Alaska Airlines, Inc.
19300 International Blvd.
Seattle, Washington 98188

Subject: Special Purchase Agreement Provisions

Reference: Purchase Agreement No. 2497 (the Purchase Agreement) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Customer) relating to Model 737-890 aircraft (Aircraft)

This letter agreement (Letter Agreement) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

This Letter Agreement modifies certain terms and conditions of the Purchase Agreement with respect to the Aircraft.

[***]

2. Confidential Treatment.

Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential.

Customer 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.

BOEING PROPRIETARY

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Sincerely,

THE BOEING COMPANY

By ___________________________________

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: June 15, 2005

ALASKA AIRLINES, INC.

By ___________________________________

Its Vice President Finance & Treasurer

BOEING PROPRIETARY

6-1162-MSA-597

Alaska Airlines, Inc.
19300 International Blvd.
Seattle, Washington 98188

Subject: Special Matters

Reference: Purchase Agreement No. 2497 (the Purchase Agreement) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Customer) relating to Model 737-890 aircraft (the Aircraft)

This letter agreement (Letter Agreement) amends and supplements the Purchase Agreement. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

1. Basic Credit Memorandum.

Concurrent with the delivery of each Aircraft, Boeing will provide a credit memorandum equal to [***] of the escalated Airframe Price. Customer may apply such credit memorandum to the balance of the Purchase Price due at the time of delivery for such Aircraft, or in payment for Boeing goods and services, but not for advance payment on the Aircraft.

2. Special Credit Memorandum.

Concurrent with the delivery of each Aircraft, Boeing will provide a credit memorandum equal to [***] of the escalated Airframe Price. Customer may apply such credit memorandum to the balance of the Purchase Price due at the time of delivery for such Aircraft, or in payment for Boeing goods and services, but not for advance payment on the Aircraft.

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

3. [***] Credit Memorandum.

Concurrent with the delivery of each of the first [***] Aircraft, Boeing will provide a credit memorandum equal to [***] of the escalated Airframe Price. Customer may apply such credit memorandum to the balance of the Purchase Price due at the time of delivery for such Aircraft, or in payment for Boeing goods and services, but not for advance payment on the Aircraft. For subsequent Aircraft [***], this [***] Credit Memorandum shall [***], to be applied as described above.

Boeing provides this [***] Credit Memorandum, in addition to the other Credit Memoranda of this Letter Agreement, as a financial accommodation to Customer in consideration of Customer becoming the operator of the Aircraft.

[***]

4. [***] Escalation Factors.

4.1 Table 1 to the Purchase Agreement identifies the delivery positions and the estimated escalation for the Aircraft. The parties agree that escalation factors are [***] for the Aircraft deliveries prior to July 1, 2008 and will be the factors ([***] Factors) used to determine the escalation adjustment component of the Aircraft Price for each such Aircraft notwithstanding any other provisions of the Purchase Agreement to the contrary, including without limitation the provisions of Supplemental Exhibit AE1 to the Purchase Agreement. The Fixed Factors for the applicable twenty (20) Aircraft delivering prior to July 1, 2008 are as listed in Attachment 1.

4.2 The Aircraft Price, Basic Credit Memorandum, Special Credit Memorandum and [***] Credit Memorandum for the applicable twenty (20) Aircraft delivering prior to July 1, 2008 are as listed in Attachment 1, and are subject to adjustment per Article 4.3 below. To confirm, the [***] Factors are not applicable to Buyer Furnished Equipment and Seller Purchased Equipment.

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

4.3 In addition, the escalation adjustment for any other sum which is identified in the Purchase Agreement as subject to escalation and which pertains to an Aircraft, including but not limited to changes as described in AGTA-ASA Article 3 and Article 4 shall be calculated using the applicable [***] Factor notwithstanding any other provisions of the Purchase Agreement to the contrary, including without limitation the provisions of Supplemental Exhibit AE1 to the Purchase Agreement.

5. [***]

6. [***]

7. Increased Quantity Purchase.

In addition to the Basic, Special and [***] Credit Memorandums described above in Articles 1, 2 and 3 above, should Customer purchase additional firm aircraft beyond the [***] firm 737-890 Aircraft and exercised Option Aircraft, a further credit memorandum shall be applicable only to the additional groups of aircraft purchased as follows:

[***]

8. [***] Advance Payment Schedule.

8.1 [***] Customer [***] pay advance payments according to the following schedule, for Aircraft on order as of the date of signing the Purchase Agreement.

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Due Date of Payment	Amount Due per Aircraft (Percentage times Advance Payment Base Price)
Definitive Purchase Agreement	[***]
24 months prior to the first day of the scheduled delivery month of the Aircraft	[***]
21 months prior to the first day of the scheduled delivery month of the Aircraft	[***]
18 months prior to the first day of the scheduled delivery month of the Aircraft	[***]
12 months prior to the first day of the scheduled delivery month of the Aircraft	[***]
9 months prior to the first day of the scheduled delivery month of the Aircraft	[***]
6 months prior to the first day of the scheduled delivery month of the Aircraft	[***]
Total	[***]

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

[***]

9. [***]

10. [***]

11. [***]

12. Option Aircraft.

Further to Option Aircraft Letter Agreement 2497-1 of the Purchase Agreement, Boeing provides the following additional terms for 737-890 option aircraft (Option Aircraft):

[***]

12.3 Applicable Credit Memorandums.

The Basic, Special and [***] Credit Memorandums described in Articles 1, 2 and 3, above, shall be applicable to the Option Aircraft. To confirm, should an Option Aircraft be exercised, which becomes an Aircraft delivery within the first [***] Aircraft, the [***] Credit Memorandum will be [***]. For Option Aircraft exercised as Aircraft with delivery after the [***] sequenced Aircraft delivery, the [***] Credit Memorandum will be [***].

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

[***]

[***]

13. Purchase Right Aircraft.

In additional to the Aircraft and the Option Aircraft, per Purchase Right Aircraft Letter Agreement 6-1162-MSA-597 Boeing will sell to Customer up to fifty (50) 737-890 purchase right aircraft (the Purchase Right Aircraft). Further to Purchase Right Aircraft Letter Agreement 6-1162-MSA-597, the following additional terms are applicable:

13.1 Price.

13.1.1 Pricing of the Purchase Right Aircraft shall be [***].

[***]

14. [***]

15. [***]

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

16. Assignment.

Unless otherwise described herein, the Credit Memoranda described in this Letter Agreement are provided as a financial accommodation to Customer in consideration of Customer's becoming the operator of the Aircraft, and cannot be assigned, in whole or in part, without the prior written consent of Boeing.

17. Confidential Treatment.

Customer understands that certain commercial and financial information contained in this Letter Agreement is considered by Boeing as confidential. Customer 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.

Sincerely,

THE BOEING COMPANY

BY ___________________________________

ITS Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: June 15, 2005

ALASKA AIRLINES, INC.

By ___________________________________

Its Vice President Finance & Treasurer

Attachment

ATTACHMENT I
SPECIAL MATTERS LETTER AGREEMENT 6-1162-MSA-597
[***] ESCALATION FACTOR AND DELIVERY PRICING INFORMATION

AIRFRAME MODEL/MTOW: 737-800 / 174,200 DETAIL SPECIFICATION: D019A00ASA38P -1 (8/20/2004)

ENGINE MODEL: CFM56-7B26 (1)	BASE YEAR 2004 $S
AIRFRAME PRICE:	$58,854,000
OPTIONAL FEATURES:	$ 2,410,000
SUB-TOTAL OF AIRFRAME AND FEATURES:	$61,264,000
ENGINE PRICE (PER AIRCRAFT):	$ 0
AIRCRAFT BASIC PRICE (EXCLUDING BFE/SPE):	$61,264,000

			DELIVERY PRICING - DOES NOT INCLUDE BFE, SPE OR UNINCORPORATED CHANGES			
DELIVERY	NUMBER OF	[***]	AIRCRAFT BASIC PRICE	BASIC CREDIT	SPECIAL CREDIT	[***] CREDIT

DATE	AIRCRAFT	FACTOR	PRICE PER A/P	MEMORANDUM	MEMORANDUM	MEMORANDUM
Jan-2006	1	[***]	$64,394,590	[***]	[***]	[***]
Feb-2006	1	[***]	$64,584,509	[***]	[***]	[***]
Mar-2006	1	[***]	$64,725,416	[***]	[***]	[***]
Jun-2006	1	[***]	$65,166,517	[***]	[***]	[***]
Jul-2006	1	[***]	$65,325,803	[***]	[***]	[***]
Aug-2006	1	[***]	$65,466,710	[***]	[***]	[***]
Sep-2006	2	[***]	$65,607,618	[***]	[***]	[***]
Oct-2006	1	[***]	$65,711,766	[***]	[***]	[***]
Dec-2006	1	[***]	$66,005,834	[***]	[***]	[***]
Jan-2007	2	[***]	$66,152,867	[***]	[***]	[***]
Feb-2007	1	[***]	$66,318,280	[***]	[***]	[***]
Mar-2007	3	[***]	$66,471,440	[***]	[***]	[***]
May-2007	1	[***]	$66,777,760	[***]	[***]	[***]
Oct-2007	1	[***]	$67,555,813	[***]	[***]	[***]
Feb-2008	1	[***]	$68,278,728	[***]	[***]	[***]
Mar-2008	1	[***]	$68,450,267	[***]	[***]	[***]
Total Applicable Aircraft:	20					

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(1)-[***]

EXHIBIT 31.1

CERTIFICATIONS

I, William S. Ayer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alaska Air Group, Inc. for the period ended June 30, 2005;

2. Based on my knowledge, this quarterly 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 5, 2005

By /S/ William S. Ayer

William S. Ayer
Chairman, President & CEO

EXHIBIT 31.2

CERTIFICATIONS

I, Bradley D. Tilden, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alaska Air Group, Inc. for the period ended June 30, 2005;

2. Based on my knowledge, this quarterly 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 5, 2005 By /S/Bradley D. Tilden

Bradley D. Tilden
Chief Financial Officer

EXHIBIT 32.1

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 Quarterly Report of Alaska Air Group, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William S. Ayer, Chairman, President & 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, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By /S/ William S. Ayer

William S. Ayer
Chairman, President & Chief Executive Officer
August 5, 2005

EXHIBIT 32.2

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 Quarterly Report of Alaska Air Group, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2005 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, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By /S/ Bradley D. Tilden

Bradley D. Tilden
Chief Financial Officer
August 5, 2005