UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from __________ to __________

Commission File Number 1-8957

ALASKA AIR GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	91-1292054
(State or other jurisdiction of incorporation or organization	**(I.R.S. Employer Identification No.)**

19300 International Boulevard, 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of “large accelerated filer”, "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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

The registrant has 35,828,450 common shares, par value $1.00, outstanding at April 30, 2011.

ALASKA AIR GROUP, INC.

Quarterly Report on Form 10-Q for the three months ended March 31, 2011

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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. Alaska Airlines, Inc. and Horizon Air Industries, Inc. are referred to as “Alaska” and “Horizon,” respectively, and together as our “airlines.”

Cautionary Note Regarding Forward-Looking Statements

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

- changes in our operating costs, primarily fuel, which can be volatile;
- general economic conditions, including the impact of those conditions on customer travel behavior;
- the competitive environment in our industry;
- our significant indebtedness;
- our ability to meet our cost reduction goals;
- an aircraft accident or incident;
- labor disputes and our ability to attract and retain qualified personnel;
- operational disruptions;
- the concentration of our revenue from a few key markets;
- actual or threatened terrorist attacks, global instability and potential U.S. military actions or activities;
- our reliance on automated systems and the risks associated with changes made to those systems;
- changes in laws and regulations.

You should not place undue reliance on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. Our forward-looking statements are based on the information currently available to us and speak only as of the date on which this report was filed with the SEC. We expressly disclaim any obligation to issue any updates or revisions to our forward-looking statements, even if subsequent events cause our expectations to change regarding the matters discussed in those statements. Over time, our actual results, performance or achievements will likely differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements, and such differences might be significant and materially adverse to our shareholders. For a discussion of these and other risk factors, see Item 1A "Risk Factors” of the Company’s annual report on Form 10-K for the year ended December 31, 2010. Please consider our forward-looking statements in light of those risks as you read this report.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

Alaska Air Group, Inc.

(in millions)	March 31, 2011	December 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 60.2	$ 89.5
Marketable securities	982.3	1,118.7
Total cash and marketable securities	1,042.5	1,208.2
Receivables – net	161.2	120.1
Inventories and supplies – net	45.7	45.1
Deferred income taxes	116.3	120.5
Fuel hedge contracts	118.9	61.4
Prepaid expenses and other current assets	111.4	106.7
Total Current Assets	1,596.0	1,662.0
Property and Equipment		
Aircraft and other flight equipment	4,002.7	3,807.6
Other property and equipment	614.3	616.5
Deposits for future flight equipment	146.8	202.5
	4,763.8	4,626.6
Less accumulated depreciation and amortization	1,561.6	1,509.5
Total Property and Equipment – Net	3,202.2	3,117.1
Fuel Hedge Contracts	101.6	69.9
Other Assets	211.6	167.6
Total Assets	$ 5,111.4	$ 5,016.6

See accompanying notes to condensed consolidated financial statements.

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

(in millions except share amounts)	March 31, 2011	December 31, 2010
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 59.2	$ 60.2
Accrued aircraft rent	20.6	43.1
Accrued wages, vacation and payroll taxes	116.0	176.6
Other accrued liabilities	533.4	501.2
Air traffic liability	585.4	422.4
Current portion of long-term debt	169.8	221.2
Total Current Liabilities	1,484.4	1,424.7
Long-Term Debt, Net of Current Portion	1,275.2	1,313.0
Other Liabilities and Credits		
Deferred income taxes	321.3	279.9
Deferred revenue	387.7	403.5
Obligation for pension and postretirement medical benefits	364.1	367.1
Other liabilities	108.6	123.0
	1,181.7	1,173.5
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: 2011 – 37,392,027 shares; 2010 – 37,010,140 shares	37.4	37.0
Capital in excess of par value	828.3	815.5
Treasury stock (common), at cost: 2011 –1,517,173; 2010 – 1,086,172 shares	(72.2)	(46.0)
Accumulated other comprehensive loss	(263.7)	(267.2)
Retained earnings	640.3	566.1
	1,170.1	1,105.4
Total Liabilities and Shareholders' Equity	$ 5,111.4	$ 5,016.6

See accompanying notes to condensed consolidated financial statements.

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

(in millions except per share amounts)	Three Months Ended March 31, 2011	2010
Operating Revenues		
Passenger		
Mainline	**$ 702.4**	$ 587.0
Regional	**176.5**	165.4
Total passenger revenue	**878.9**	752.4
Freight and mail	**24.9**	23.0
Other – net	**61.4**	54.2
Total Operating Revenues	**965.2**	829.6
Operating Expenses		
Wages and benefits	**249.3**	239.3
Variable incentive pay	**16.4**	17.9
Aircraft fuel, including hedging gains and losses	**194.5**	207.3
Aircraft maintenance	**53.3**	57.0
Aircraft rent	**30.5**	37.0
Landing fees and other rentals	**57.9**	55.9
Contracted services	**43.5**	39.6
Selling expenses	**39.8**	33.6
Depreciation and amortization	**60.3**	56.2
Food and beverage service	**15.1**	12.3
Other	**60.7**	47.8
Fleet transition costs – CRJ-700	**10.1**	—
Total Operating Expenses	**831.4**	803.9
Operating Income	**133.8**	25.7
Nonoperating Income (Expense)		
Interest income	**7.6**	7.5
Interest expense	**(23.4)**	(25.6)
Interest capitalized	**1.8**	1.7
Other – net	**0.9**	0.9
	(13.1)	(15.5)
Income before income tax	**120.7**	10.2
Income tax expense	**46.5**	4.9
Net Income	**$ 74.2**	$ 5.3
Basic Earnings Per Share:	**$ 2.06**	$ 0.15
Diluted Earnings Per Share:	**$ 2.01**	$ 0.15
Shares used for computation:		
Basic	**35.994**	35.667
Diluted	**36.841**	36.393

See accompanying notes to condensed consolidated financial statements.

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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**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Total**
Balances at December 31, 2010	*35.924*	$ 37.0	$ 815.5	$ (46.0)	$ (267.2)	$ 566.1	$ 1,105.4
Net income for the three months ended March 31, 2011						74.2	74.2
Other comprehensive income (loss):							
Related to marketable securities:							
Change in fair value					(2.2)		
Reclassification to earnings					(0.6)		
Income tax effect					1.0		
					(1.8)		(1.8)
Related to employee benefit plans:					6.3		
Income tax effect					(2.4)		
					3.9		3.9
Related to interest rate derivative instruments:							
Change in fair value					2.2		
Income tax effect					(0.8)		
					1.4		1.4
Total comprehensive income							77.7
Purchase of treasury stock	*(0.434)*	—	—	(26.3)			(26.3)
Stock-based compensation	—	—	4.6	—			4.6
Treasury stock issued under stock plans	*0.003*	—	—	0.1			0.1
Stock issued for employee stock purchase plan	*0.033*	0.1	1.2	—			1.3
Stock issued under stock plans	*0.349*	0.3	7.0	—			7.3
Balances at March 31, 2011	*35.875*	$ 37.4	$ 828.3	$ (72.2)	$ (263.7)	$ 640.3	$ 1,170.1

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
(in millions)	**2011**	2010
Cash flows from operating activities:		
Net income	**$ 74.2**	$ 5.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Fleet transition costs – CRJ-700	**10.1**	—
Depreciation and amortization	**60.3**	56.2
Stock-based compensation	**4.6**	5.0
Increase in air traffic liability	**163.0**	102.6
Decrease in other assets and liabilities – net	**(193.4)**	(114.6)
Net cash provided by operating activities	**118.8**	54.5
Cash flows from investing activities:		
Property and equipment additions:		
Aircraft and aircraft purchase deposits	**(139.3)**	(5.0)
Other flight equipment	**(4.9)**	(14.2)
Other property and equipment	**(4.9)**	(6.7)
Total property and equipment additions	**(149.1)**	(25.9)
Proceeds from disposition of assets	**1.4**	1.4
Purchases of marketable securities	**(181.6)**	(284.0)
Sales and maturities of marketable securities	**314.0**	261.0
Restricted deposits and other	**(18.5)**	(0.4)
Net cash used in investing activities	**(33.8)**	(47.9)
Cash flows from financing activities:		
Long-term debt payments	**(89.2)**	(39.8)
Purchase of treasury stock	**(26.3)**	(10.5)
Proceeds and tax benefit from issuance of common stock	**8.3**	11.1
Other financing activities	**(7.1)**	(13.9)
Net cash used in financing activities	**(114.3)**	(53.1)
Net change in cash and cash equivalents	**(29.3)**	(46.5)
Cash and cash equivalents at beginning of year	**89.5**	164.2
Cash and cash equivalents at end of period	**$ 60.2**	$ 117.7
Supplemental disclosure of cash paid during the period for:		
Interest (net of amount capitalized)	**$ 25.1**	$ 28.6
Income taxes	**—**	—

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Alaska Air Group, Inc.
March 31, 2011

NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF 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, 2010. In the opinion of management, all adjustments have been made that are necessary to present fairly the Company's financial position as of March 31, 2011, as well as the results of operations for the three months ended March 31, 2011 and 2010. The adjustments made were of a normal recurring nature.

The Company's interim condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). In preparing these statements, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities, as well as the reported amounts of revenues and expenses. Significant estimates made include assumptions used to record expenses and revenues associated with the Company's Mileage Plan; 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.

New and Prospective Accounting Pronouncements

In September 2009, the Financial Accounting Standards Board ("FASB") issued ASU 2009-13, *Multiple Deliverable Revenue Arrangements - A Consensus of the FASB Emerging Issues Task Force.* This update provides application guidance on whether multiple deliverables exist, how the deliverables should be separated and how the consideration should be allocated to one or more units of accounting. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. This accounting standard was effective for the Company for revenue arrangements entered into or materially modified in fiscal years beginning on January 1, 2011. It primarily impacts the accounting for recognition of revenue associated with frequent flyer credits. There was no immediate significant impact of this new standard on the Company's financial position, results of operations, cash flows, or disclosures and there will be no impact until the Company materially modifies or enters into new contracts associated with its frequent flyer program.

The Financial Accounting Standards Board (FASB) has issued a number of proposed Accounting Standards Updates (ASUs). Those proposed ASUs are as follows:

- Proposed ASU - *Revenue Recognition* - was issued in June 2010 and continues to evolve. We believe that a new revenue recognition standard could significantly impact the Company's accounting for the Company's Mileage Plan miles earned by passengers who fly on us or our partners, or miles sold to third parties.

- Proposed ASU - *Leases* - was issued in August 2010. This proposed standard overhauls accounting for leases and would apply a "right-of-use" model in accounting for nearly all leases. For lessees, this would result in recognizing an asset representing the lessee's right to use the leased asset for the lease term and a liability to make lease payments. This proposed standard eliminates the operating lease concept from an accounting perspective, thereby eliminating rent expense from the income statement. This proposed standard, if adopted, would significantly impact the Company's statement of operations, financial position, and disclosures. For example, we estimate the capitalized value of airplane leases to be approximately $1.0 billion using a seven times annual rent factor.

These proposed ASUs are subject to change and no effective dates have been assigned.

NOTE 2. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurements

Accounting standards define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The standards also establish a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

No significant transfers between Level 1 and Level 2 occurred during the three months ended March 31, 2011.

Cash, Cash Equivalents and Marketable Securities

The Company uses the "market approach" in determining the fair value of its cash, cash equivalents and marketable securities. The securities held by the Company are valued based on observable prices in active markets.

Amounts measured at fair value as of March 31, 2011 are as follows (in millions):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 47.7	$ 12.5	$ —	$ 60.2
Marketable securities	183.0	799.3	—	982.3
Total	$ 230.7	$ 811.8	$ —	$ 1,042.5

All of the Company's marketable securities are classified as available-for-sale. The securities are carried at fair value, with the unrealized gains and losses reported in shareholders' equity under the caption "accumulated other comprehensive loss" (AOCL). Realized gains and losses are included in other nonoperating income (expense) in the condensed consolidated statements of operations.

The cost of securities sold is based on the specific identification method. Interest and dividends on marketable securities are included in interest income in the condensed consolidated statements of operations.

The Company's overall investment strategy has a primary goal of maintaining and securing its investment principal. The Company's investment portfolio is managed by well-known financial institutions and continually reviewed to ensure that the investments are aligned with the Company's documented strategy.

Marketable securities consisted of the following (in millions):

	March 31, 2011	December 31, 2010
Amortized Cost:		
U.S. government securities	**$ 382.3**	$ 514.8
Asset-backed obligations	**156.0**	176.8
Other corporate obligations	**433.9**	414.2
	$ 972.2	$ 1,105.8
Fair value:		
U.S. government securities	**$ 384.9**	$ 518.5
Asset-backed obligations	**155.5**	176.7
Other corporate obligations	**441.9**	423.5
	$ 982.3	$ 1,118.7

Of the marketable securities on hand at March 31, 2011, 15% mature in 2011, 31% in 2012, and 54% thereafter. Gross gains and losses for the three months ended March 31, 2011 and 2010 were not material to the condensed consolidated financial statements.

Some of the Company's asset-backed securities held at March 31, 2011 had credit losses, as defined in the accounting standards. Credit losses of $2.2 million were recorded through earnings in 2009 and represent the difference between the present value of future cash flows at the time and the amortized cost basis of the affected securities. No additional credit losses have been recorded since then.

Management does not believe the securities associated with the remaining $3.0 million unrealized loss recorded in AOCL are "other-than-temporarily" impaired, as defined in the accounting standards, based on the current facts and circumstances. Management currently does not intend to sell these securities prior to their recovery nor does it believe that it will be more-likely-than-not that the Company would need to sell these securities for liquidity or other reasons.

Gross unrealized gains and losses at March 31, 2011 are presented in the table below (in millions):

		Unrealized Losses						
	Unrealized Gains in AOCL	Less than 12 months	Greater than 12 months	Total Unrealized Losses	Less: Credit Loss Previously Recorded in Earnings	Net Unrealized Losses in AOCL	Net Unrealized Gains/(Losses) in AOCL	Fair Value of Securities with Unrealized Losses
U.S. Government Securities	$ 3.6	$ (1.0)	$ —	$ (1.0)	$ —	$ (1.0)	$ 2.6	$ 167.7
Asset-backed obligations	0.9	(0.4)	(3.2)	(3.6)	(2.2)	(1.4)	(0.5)	80.4
Other corporate obligations	8.6	(0.6)	—	(0.6)	—	(0.6)	8.0	107.9
Total	$ 13.1	$ (2.0)	$ (3.2)	$ (5.2)	$ (2.2)	$ (3.0)	$ 10.1	$ 356.0

Fair Value of Financial Instruments

The majority of the Company's financial instruments are carried at fair value. Those include cash, cash equivalents and marketable securities (Note 2), restricted deposits (Note 7), fuel hedge contracts (Note 3), and interest rate swap agreements (Note 3). The Company's long-term fixed-rate debt is not carried at fair value.

The estimated fair value of the Company's long-term debt was as follows (in millions):

	Carrying Amount	Fair Value
Long-term debt at March 31, 2011	**$ 1,445.0**	**$ 1,427.0**
Long-term debt at December 31, 2010	$ 1,534.2	$ 1,531.0

The fair value of cash equivalents approximates carrying values due to the short maturity of these instruments. The fair value of marketable securities is based on market prices. The fair value of fuel hedge contracts is based on commodity exchange prices. The fair value of restricted deposits approximates the carrying amount. The fair value of interest rate swap agreements is based on quoted market swap rates. The fair value of long-term debt is based on a discounted cash flow analysis using the Company's current borrowing rate.

NOTE 3. DERIVATIVE INSTRUMENTS

Fuel Hedge Contracts

The Company's operations are inherently dependent upon the price and availability of aircraft fuel. To manage economic risks associated with fluctuations in aircraft fuel prices, the Company periodically enters into call options for crude oil and swap agreements for jet fuel refining margins, among other initiatives. The Company records these instruments on the balance sheet at their fair value. Changes in the fair value of these fuel hedge contracts are recorded each period in aircraft fuel expense.

The following table summarizes the components of aircraft fuel expense for the three months ended March 31, 2011 and 2010 (in millions):

	Three Months Ended March 31,	
	2011	2010
Raw or "into-plane" fuel cost	**$ 289.0**	$ 195.2
(Gains) or losses in value and settlements of fuel hedge contracts	**(94.5)**	12.1
Aircraft fuel expense	**$ 194.5**	$ 207.3

Cash received, net of premiums expensed, for hedges that settled during the three month periods ended March 31, 2011 and 2010 was $12.5 million and $0.4 million, respectively.

The Company uses the "market approach" in determining the fair value of its hedge portfolio. The Company's fuel hedging contracts consist of over-the-counter contracts, which are not traded on an exchange. The fair value of these contracts is determined based on observable inputs that are readily available in active markets or can be derived from information available in active, quoted markets. Therefore, the Company has categorized these contracts as Level 2 in the fair value hierarchy described in Note 2.

Outstanding fuel hedge positions as of are as follows:

	Approximate % of Expected Fuel Requirements	Gallons Hedged (in millions)	Approximate Crude Oil Price per Barrel	Approximate Premium Price per Barrel
Second Quarter 2011	50%	49.4	$86	$10
Third Quarter 2011	50%	51.9	$86	$11
Fourth Quarter 2011	50%	48.6	$86	$11
Remainder of 2011	**50%**	**149.9**	**$86**	**$11**
First Quarter 2012	50%	48.6	$88	$12
Second Quarter 2012	42%	43.0	$91	$13
Third Quarter 2012	37%	39.0	$92	$13
Fourth Quarter 2012	32%	32.3	$91	$13
Full Year 2012	**40%**	**162.9**	**$90**	**$12**
First Quarter 2013	27%	26.8	$91	$14
Second Quarter 2013	21%	22.6	$91	$15
Third Quarter 2013	16%	17.8	$93	$15
Fourth Quarter 2013	11%	11.2	$97	$14
Full Year 2013	**19%**	**78.4**	**$92**	**$14**
First Quarter 2014	6%	5.7	$102	$15
Full Year 2014	**1%**	**5.7**	**$102**	**$15**

The Company pays a premium to enter into crude oil option contracts. In order to receive economic benefit from the contract, the market price of crude oil must exceed the total of the contract strike price and the premium cost per barrel at the time of contract settlement.

The Company also has financial swap agreements in place to fix the remaining margin component for approximately 50% of second quarter 2011 estimated jet fuel purchases at an average price of 59 cents per gallon and 22% of third quarter 2011 estimated purchases at an average price of 73 cents per gallon.

As of March 31, 2011 and December 31, 2010, the net fair values of the Company's fuel hedge positions were as follows (in millions):

	March 31, 2011	December 31, 2010
Crude oil call options or "caps"	$ 213.5	$ 129.3
Refining margin swap contracts	7.0	2.0
Total	$ 220.5	$ 131.3

The balance sheet amounts include capitalized premiums paid to enter into the contracts of $115.7 million and $108.6 million at March 31, 2011 and December 31, 2010, respectively.

Interest Rate Swap Agreements

The Company has interest rate swap agreements with a third party designed to hedge the volatility of the underlying variable interest rate in the Company's aircraft lease agreements for six B737-800 aircraft. The agreements stipulate that the Company pay a fixed interest rate over the term of the contract and receive a floating interest rate. All significant terms of the swap agreement match the terms of the lease agreements, including interest-rate index, rate reset dates, termination dates and underlying notional values. The agreements expire from September 2020 through March 2021 to coincide with the lease termination dates.

The Company has formally designated these swap agreements as hedging instruments and records the effective portion of the hedge as an adjustment to aircraft rent in the consolidated statement of operations in the period of contract settlement. The effective portion of the changes in fair value for instruments that settle in the future is recorded in AOCL in the condensed consolidated balance sheets.

At March 31, 2011, the Company had a liability of $6.7 million, associated with these contracts, $6.2 million of which is expected to be reclassified into earnings within the next twelve months. The fair value of these contracts is determined based on the difference between the fixed interest rate in the agreements and the observable LIBOR-based interest forward rates at period end, multiplied by the total notional value. As such, the Company places these contracts in Level 2 of the fair value hierarchy.

NOTE 4. LONG-TERM DEBT

Long-term debt obligations were as follows (in millions):

	March 31, 2011	December 31, 2010
Fixed-rate notes payable due through 2024	$ 1,173.6	$ 1,233.6
Variable-rate notes payable due through 2024	271.4	300.6
Long-term debt	1,445.0	1,534.2
Less current portion	169.8	221.2
	$ 1,275.2	$ 1,313.0

During the first three months of 2011, the Company had no new debt borrowings and made scheduled debt payments of $37.4 million. The Company also prepaid the full debt balance on two outstanding aircraft debt agreements totaling $51.8 million.

Bank Lines of Credit

The Company has two $100 million credit facilities. Both facilities have variable interest rates based on LIBOR plus a specified margin. Borrowings on one of the $100 million facilities, which expires in March 2013, are secured by aircraft. Borrowings on the other $100 million facility, which expires in March 2014, are secured by certain accounts receivable, spare engines, spare parts and ground service equipment. The Company has no immediate plans to borrow using either of these facilities. These facilities have a requirement to maintain a minimum unrestricted cash and marketable securities balance of $500 million. The Company is in compliance with this covenant at March 31, 2011.

NOTE 5. COMMON STOCK REPURCHASE

In June 2010, the Board of Directors authorized the Company to repurchase up to $50 million of its common stock. Through March 31, 2011 the Company had repurchased 789,000 shares of its common stock for $45.1 million under this program. In the first quarter 2011, 434,000 shares were repurchased for $26.3 million. The Company completed this repurchase program in early April. Since 2007, the Company has repurchased approximately 7.6 million shares of its common stock under such programs.

NOTE 6. EMPLOYEE BENEFIT PLANS

Pension Plans - Qualified Defined Benefit

Net pension expense for the three months ended March 31, 2011 and 2010 included the following components (in millions):

	Three Months Ended March 31,	
	2011	2010
Service cost	**$ 9.0**	$ 8.1
Interest cost	**18.3**	16.9
Expected return on assets	**(22.1)**	(17.7)
Amortization of prior service cost	**(0.2)**	(0.2)
Actuarial loss	**6.1**	5.5
Net pension expense	**$ 11.1**	$ 12.6

The Company contributed $11.1 million and $15.2 million to its qualified defined-benefit plans during the three months ended March 31, 2011 and 2010. There is no minimum required contribution in 2011, although the Company expects to contribute an additional $22.2 million to these plans during the remainder of 2011.

Pension Plans - Nonqualified Defined Benefit

Net pension expense for the unfunded, noncontributory defined-benefit plans for the three months ended March 31, 2011 and 2010 was $0.9 million and $0.8 million, respectively.

Post-retirement Medical Benefits

Net periodic benefit cost for the post-retirement medical plans for the three months ended March 31, 2011 and 2010 was $3.7 million and $3.1 million, respectively.

NOTE 7. OTHER ASSETS

Other assets consisted of the following (in millions):

	March 31, 2011	December 31, 2010
Restricted deposits (primarily restricted investments)	**$ 83.8**	$ 83.6
Long-term asset related to Terminal 6 at LAX airport	**49.6**	31.3
Deferred costs and other*	**78.2**	52.7
	$ 211.6	$ 167.6

* Deferred costs and other includes deferred financing costs, long-term prepaid rent, lease deposits and other items.

In 2009, the Company announced plans to move from Terminal 3 to Terminal 6 at Los Angeles International Airport (LAX). As part of this move, the Company has agreed to manage and fund up to $175 million of the project during the design and construction phase. The project is estimated to cost approximately $250 million and is expected to be completed in 2012. The Company expects Los Angeles World Airports and the Transportation Security Administration to reimburse the Company for the majority of the construction costs either during the course of, or upon the completion of, construction. On April 19, 2011, the Company signed a funding agreement with the City of Los Angeles and Los Angeles World Airports. The Company anticipates that its proprietary non-reimbursable share will be approximately $25 million of the total cost of the project. As of March 31, 2011, the Company recorded $49.6 million associated with this project in other assets, which represents total project costs to date.

At March 31, 2011, the Company's restricted deposits were primarily restricted investments used to guarantee various letters of credit and workers compensation self-insurance programs. The restricted investments consist of highly liquid securities with original maturities of three months or less. They are carried at cost, which approximates fair value.

NOTE 8. MILEAGE PLAN

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

	March 31, 2011	December 31, 2010
Current Liabilities:		
Other accrued liabilities	$ **286.5**	$ 278.0
Other Liabilities and Credits:		
Deferred revenue	**367.2**	382.1
Other liabilities	**13.5**	13.8
Total	$ **667.2**	$ 673.9

Alaska's Mileage Plan revenue is included under the following condensed consolidated statement of operations captions for the three months ended March 31, 2011 and 2010 (in millions):

	Three Months Ended March 31,	
	2011	2010
Passenger revenues	$ **50.3**	$ 41.1
Other-net revenues	**45.6**	42.0
Total Mileage Plan revenues	$ **95.9**	$ 83.1

NOTE 9. STOCK-BASED COMPENSATION PLANS

The Company has stock awards outstanding under a number of long-term incentive equity plans, one of which actively provides for the grant of stock awards to directors, officers and employees of the Company and its subsidiaries. Compensation expense is recorded over the shorter of the vesting period or the period between the grant date and the date the employee becomes retirement-eligible as defined in the applicable plan. All stock-based compensation expense is recorded in wages and benefits in the condensed consolidated statements of operations.

Stock Options

During the three months ended March 31, 2011, the Company granted 70,080 options with a weighted-average grant-date fair value of $32.99 per share. During the same period in the prior year, the Company granted 129,970 options with a weighted-average grant-date fair value of $18.05 per share.

The Company recorded stock-based compensation expense related to stock options of $1.5 million and $1.8 million for the three months ended March 31, 2011 and 2010 respectively. As of March 31, 2011, $3.3 million of compensation cost associated with unvested stock option awards attributable to future service had not yet been recognized. This amount will be recognized as expense over a weighted-average period of 2.1 years.

As of March 31, 2011, options to purchase 978,366 shares of common stock were outstanding with a weighted-average exercise price of $32.43. Of that total, 476,364 were exercisable at a weighted-average exercise price of $32.28.

Restricted Stock Awards

During the three months ended March 31, 2011, the Company awarded 73,380 restricted stock units (RSUs) to certain employees, with a weighted-average grant date fair value of $61.26. This amount reflects the value of the total RSU awards at the grant date based on the closing price of the Company's common stock.

The Company recorded stock-based compensation expense related to RSUs of $2.7 million and $2.5 million for the three month period ended March 31, 2011 and 2010, respectively.

As of March 31, 2011 $6.9 million of compensation cost associated with unvested restricted stock awards attributable to future service had not yet been recognized. This amount will be recognized as expense over a weighted-average period of two years.

Performance Stock Awards

From time to time, the Company issues performance stock unit awards (PSUs) to certain executives. PSUs are similar to RSUs, but vesting is based on performance or market performance.

Currently outstanding PSUs were issued in 2010 and 2011. There are several tranches of PSUs that vest based on differing performance conditions including a market condition tied to the Company's total shareholder return relative to an airline peer group, and based on certain performance goals established by the Compensation Committee of the Board of Directors. The total grant-date fair value of PSUs issued during the first three months of 2011 was $2.3 million.

The Company recorded $0.4 million and $0.6 million of compensation expense related to PSUs in the first three months of 2011 and 2010, respectively.

Employee Stock Purchase Plan

Compensation expense recognized under the Employee Stock Purchase Plan was $0.1 million for the three months ended March 31, 2010 and was negligible for the three months ended March 31, 2011.

Summary of Stock-Based Compensation

The table below summarizes the components of total stock-based compensation for the three months ended March 31 (in millions):

	Three Months Ended March 31,	
	2011	2010
Stock options	**$ 1.5**	$ 1.8
Restricted stock units	**2.7**	2.5
Performance share units	**0.4**	0.6
Deferred stock awards	**—**	—
Employee stock purchase plan	—	0.1
Total stock-based compensation	**$ 4.6**	$ 5.0

NOTE 10. FLEET TRANSITION

Horizon Fleet Transition to All-Q400 Fleet

Horizon's long-term goal has been to transition to an all-Q400 fleet. As of March 31, 2011, Horizon operated nine CRJ-700 aircraft. During the first quarter of 2011, the Company removed four CRJ-700 aircraft through sublease to a third party carrier. The total charge associated with removing these aircraft from operations was $10.1 million for the three months ended March 31, 2011. The Company has an agreement to remove the remaining nine CRJ-700 aircraft in the second quarter of 2011 through either sublease or lease assignment to a third party carrier. Management expects the related charge to be approximately $18 million to $20 million.

Horizon has 16 Q200 aircraft that are subleased to a third-party carrier, for which an accrual for the estimated sublease loss has been recorded. The Company is evaluating alternatives to the existing sublease arrangements for these aircraft. The Company may be required to record a charge if the original lease or sublease arrangements are modified in the future. However, the nature, timing or amount of any such charge cannot be reasonably estimated at this time.

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NOTE 11. OPERATING SEGMENT INFORMATION

Effective January 1, 2011, Horizon's business model changed such that 100% of its capacity is sold to Alaska under a capacity purchase agreement (CPA). As is typical for similar arrangements, certain costs such as landing fees and aircraft rents, selling and distribution costs, and fuel costs directly related to regional flights operated by Horizon are now recorded by Alaska. Also, based on the terms of the new agreement, Horizon's revenues and Alaska's regional revenues have changed significantly on a year over year basis. All inter-company revenues and expenses are eliminated in consolidation, and these changes have no impact on the consolidated results.

Operating segment information for Alaska and Horizon for the three months ended March 31 was as follows (in millions):

	Three Months Ended March 31,	
	2011	2010
Operating revenues:		
Alaska—mainline passenger[a]	**$ 702.4**	$ 587.0
Alaska—regional passenger[a]	**176.5**	76.1
Total Alaska passenger revenues	**$ 878.9**	$ 663.1
Alaska—other revenues	**83.9**	74.5
Total Alaska operating revenues	**$ 962.8**	$ 737.6
Horizon—brand flying[b]	**—**	89.3
Horizon—CPA	**94.6**	66.4
Horizon—other revenues	**2.4**	2.7
Total Horizon operating revenues	**$ 97.0**	$ 158.4
Elimination of inter-company revenues	**(94.6)**	(66.4)
Consolidated operating revenues	**$ 965.2**	$ 829.6
Operating expenses:		
Alaska—mainline, excluding fuel	**$ 497.7**	$ 465.3
Alaska—mainline fuel	**156.4**	171.7
Alaska—regional	**171.0**	72.5
Total Alaska operating expenses	**$ 825.1**	$ 709.5
Horizon[c]	**100.3**	160.0
Other[d]	**0.6**	0.8
Elimination of inter-company expenses	**(94.6)**	(66.4)
Consolidated operating expenses	**$ 831.4**	$ 803.9
Nonoperating expenses:		
Alaska	**$ (8.9)**	$ (10.9)
Horizon[c]	**(3.9)**	(4.6)
Other[d]	**(0.3)**	—
Consolidated nonoperating expenses	**$ (13.1)**	$ (15.5)
Income (loss) before income tax:		
Alaska—mainline	**$ 122.5**	$ 13.2
Alaska—regional	**6.3**	4.0
Total Alaska	**$ 128.8**	$ 17.2
Horizon[c]	**(7.2)**	(6.2)
Other[d]	**(0.9)**	(0.8)
Consolidated income before income tax	**$ 120.7**	$ 10.2

	March 31, 2011	December 31, 2010
Total assets at end of period:		
Alaska	**$ 4,758.3**	$ 4,610.2
Horizon	**795.9**	747.2
Other[d]	**1,466.5**	1,375.6
Elimination of inter-company accounts	**(1,909.3)**	(1,716.4)
Consolidated	**$ 5,111.4**	$ 5,016.6

(a) Alaska mainline passenger revenue represents revenue from passengers aboard Alaska jets. Alaska regional passenger revenue represents revenue earned by Alaska on capacity provided by Horizon and a small third party under a capacity purchase arrangement.

(b) As 100% of Horizon's capacity is sold to Alaska under the CPA, Horizon no longer has brand flying revenue.

(c) Includes special charge of $10.1 million as result of removing four CRJ-700 through sublease to a third party during the first quarter 2011.

(d) Includes parent company results and its investments in Alaska and Horizon, which are eliminated in consolidation.

NOTE 12. CONTINGENCIES

The Company is a party to routine litigation matters incidental to its business and with respect to which no material liability is expected. Management believes the ultimate disposition of the matters is not likely to materially affect the Company's financial position or results of operations. This forward-looking statement is based on management's current understanding of the relevant law and facts, and it is subject to various contingencies, including the potential costs and risks associated with litigation and the actions of arbitrators, judges and juries.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand our Company, our operations and our present business environment. MD&A is provided as a supplement to - and should be read in conjunction with - our condensed consolidated financial statements and the accompanying notes. All statements in the following discussion that are not statements 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 and the risks mentioned in the Company's filings with the Securities and Exchange Commission, including those listed in Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010. This overview summarizes MD&A, which includes the following sections:

- *First Quarter in Review* - highlights from the first quarter of 2011 outlining some of the major events that happened during the period and how they affected our financial performance.

- *Results of Operations* - an in-depth analysis of the results of operations for the three months ended March 31, 2011. We believe this analysis will help the reader better understand our condensed consolidated statements of operations. This section also includes forward-looking statements regarding our view of the remainder of 2011.

- *Critical Accounting Estimates* - a discussion of our accounting estimates that involve significant judgment and uncertainties.

- *Liquidity and Capital Resources* - an analysis of cash flows, sources and uses of cash, contractual obligations, and commitments, and an overview of financial position.

Our filings with the Securities and Exchange Commission, including our 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.

FIRST QUARTER IN REVIEW

Our consolidated pretax income was $120.7 million during the first quarter of 2011 compared to $10.2 million in the first quarter of 2010. The increase in our pretax earnings was primarily due to the $135.6 million increase in operating revenues, partially offset by increases in economic fuel costs and other operating costs. Higher economic fuel costs were partially offset by a mark-to-market fuel hedge gain of $82.0 million.

- Consolidated unit revenues increased 430.4% over the first quarter of 2010, stemming from increases in ticket yield and higher load factors.

- Economic fuel averaged $2.87 per gallon in the first quarter of 2011, compared to $2.26 per gallon in 2010. This resulted in an $81.7 million increase in our economic fuel expense compared to the first quarter of 2010.

Other significant developments during the first quarter of 2011 and through the filing of this Form 10-Q are described below.

Aircraft Purchase Commitments

In January 2011, we entered into an aircraft purchase agreement with Boeing to purchase 15 new B737 aircraft, including two B737-800 aircraft and 13 B737-900ER aircraft, with deliveries beginning in late 2012 and continuing through 2014. The agreement also includes options to purchase 15 additional B737-900ER aircraft with delivery positions in 2016 and 2017.

Update on Labor Negotiations

Alaska's employees represented by the International Association of Machinists, including customer service and reservation agents and certain clerical staff, ratified a new contract on January 31, 2011. Alaska also reached a tentative agreement on a new contract with its dispatchers, represented by the Transport Workers Union, on March 24, 2011.

Horizon Restructuring and Fleet Transition

Horizon's long-term goal has been to transition to an all-Q400 fleet. During the first quarter of 2011, we removed four CRJ-700 aircraft through sublease to a third party carrier, resulting in a charge of $10.1 million. Horizon also has an agreement to remove the remaining nine CRJ-700 aircraft in the second quarter of 2011 through either sublease or lease assignment to a third party carrier. We expect the related charge to be approximately $18 million to $20 million. Five of the nine aircraft removed during the second quarter will be flown by SkyWest Airlines on behalf of Alaska Airlines pursuant to a capacity purchase agreement.

Operational Performance

Alaska's operational results continue to be among the best in the industry. In January 2011, Alaska was awarded the On-Time Performance Service Award among major North American Airlines by FlightStats.com. In addition, Alaska Airlines held the No. 1 spot on the U.S. Department of Transportation on-time performance among the 10 largest U.S. airlines for the last twelve months ending in February. Our March on-time performance was negatively impacted by a system outage on March 26, 2011 that affected about 150 flights.

New Markets

In the first quarter, Alaska began daily non-stop service between Bellingham and Honolulu, non-stop service between San Jose and Kauai three times per week, and non-stop service between Oakland and Kauai four times per week.

Alaska also recently announced daily regional non-stop seasonal service between Portland and Billings, and between Portland and Missoula beginning in June 2011.

Stock Repurchase

In June 2010, the Board of Directors authorized the Company to repurchase up to $50 million of its common stock. Through March 31, 2011 the Company had repurchased 789,000 shares of its common stock for $45.1 million under this program. In the first quarter 2011, 434,000 shares were repurchased for $26.3 million. The Company completed this repurchase program in early April. Since 2007, the Company has repurchased approximately 7.6 million shares of its common stock under such programs.

Outlook

Our primary focus every year is to run safe, compliant and reliable operations at our airlines. In addition to our primary objective, our key initiative in 2011 is to maintain our focus on optimizing revenue. Our specific focus will be on the way we merchandise fares and ancillary products and services on our website and through mobile applications.

Our biggest concern for 2011 is the rising cost of fuel. Our economic fuel expense increased 41.9% from $194.8 million, or $2.26 per gallon, in the first quarter of 2010 to $276.5 million, or $2.87 per gallon, in the first quarter of 2011. We currently expect the economic fuel cost per gallon to continue to increase in the second quarter to approximately $3.30 per gallon. However, because of our fuel-efficient aircraft and fuel hedge portfolio, we believe we are well prepared to handle these rising costs.

For the second quarter of 2011, our advance booked load factors are up 2 to 3 points compared to 2010 on a 7% expected increase in capacity.

RESULTS OF OPERATIONS

COMPARISON OF THREE MONTHS ENDED MARCH 31, 2011 TO THREE MONTHS ENDED MARCH 31, 2010

Our consolidated net income for the first quarter of 2011 was $74.2 million, or $2.01 per diluted share, compared to a net income of $5.3 million, or $0.15 per diluted share, in the first quarter of 2010. Significant items impacting the comparability between the periods are as follows:

- Both periods include adjustments to reflect the timing of net unrealized mark-to-market gains or losses related to our fuel hedge positions. In the first quarter of 2011 we recognized net mark-to-market gains of $82.0 million ($51.0

million after tax, or $1.38 per share) compared to losses of $12.5 million ($7.8 million after tax, or $0.21 per share) in the first quarter of 2010.
- The first quarter of 2011 includes Horizon CRJ-700 fleet transition costs of $10.1 million ($6.3 million after tax, or $0.17 per share).

We believe disclosure of the impact of these individual charges is useful information to investors and other readers because:

- It is consistent with how we present information in our quarterly earnings press releases;
- We believe it is the basis by which we are evaluated by industry analysts;
- Our results excluding these items are most often used in internal management and board reporting and decision-making;
- Our results excluding these adjustments serve as the basis for our various employee incentive plans, and thus the information allows investors to better understand the changes in variable incentive pay expense in our condensed consolidated statements of operations; and
- It is useful to monitor performance without these items as it improves a reader's ability to compare our results to those of other airlines.

Although we are presenting these non-GAAP amounts for the reasons above, investors and other readers should not necessarily conclude that these amounts are non-recurring, infrequent, or unusual in nature.

Excluding the mark-to-market adjustments and other noted items shown in the following table, our adjusted consolidated net income for the first quarter of 2011 was $29.5 million, or $0.80 per diluted share, compared to an adjusted consolidated net income of $13.1 million, or $0.36 per share, in the first quarter of 2010.

	Three Months Ended March 31,			
	2011		2010	
(in millions except per share amounts)	Dollars	Diluted EPS	Dollars	Diluted EPS
Net income and diluted EPS, excluding noted items	$ 29.5	$ 0.80	$ 13.1	$ 0.36
CRJ fleet transition costs, net of tax	(6.3)	(0.17)	—	—
Adjustments to reflect the timing of gain or loss recognition resulting from mark-to-market fuel-hedge accounting, net of tax	51.0	1.38	(7.8)	(0.21)
Net income and diluted EPS as reported	$ 74.2	$ 2.01	$ 5.3	$ 0.15

OPERATING STATISTICS SUMMARY (unaudited)
Alaska Air Group, Inc.

	Three Months Ended March 31,		
	2011	**2010**	**Change**
Consolidated:			
Revenue passengers (000)	**5,752**	5,225	10.1 %
Revenue passenger miles (RPM) (000,000)	**5,853**	5,048	15.9 %
Available seat miles (ASM) (000,000)	**7,112**	6,350	12.0 %
Revenue passenger load factor	**82.3 %**	79.5 %	2.8 pts
Operating revenue per ASM (RASM)	**13.57 ¢**	13.06 ¢	3.9 %
Passenger revenue per ASM (PRASM)	**12.36 ¢**	11.85 ¢	4.3 %
Operating expense per ASM (CASM), excluding fuel and CRJ-700 fleet transition costs[(a)]	**8.81 ¢**	9.40 ¢	(6.3) %
Economic fuel cost per gallon[(a)]	**$ 2.87**	$ 2.26	27.0 %
Fuel gallons (000,000)	**96.3**	86.5	11.3 %
Average number of full-time equivalent employees	**11,884**	11,698	1.6 %
Operating fleet at period-end	**171**	170	1 a/c
Mainline Jet Operating Statistics:			
Revenue passengers (000)	**4,107**	3,641	12.8 %
RPM (000,000)	**5,279**	4,472	18.0 %
ASM (000,000)	**6,353**	5,541	14.7 %
Revenue passenger load factor	**83.1 %**	80.7 %	2.4 pts
Yield per passenger mile	**13.31 ¢**	13.13 ¢	1.4 %
PRASM	**11.06 ¢**	10.59 ¢	4.4 %
CASM, excluding fuel[(a)]	**7.83 ¢**	8.40 ¢	(6.8) %
Economic fuel cost per gallon[(a)]	**$ 2.87**	$ 2.25	27.6 %
Fuel gallons (000,000)	**83.1**	72.3	14.9 %
Average number of full-time equivalent employees	**8,884**	8,537	4.1 %
Aircraft utilization (blk hrs/day)	**10.4**	9.3	11.8 %
Average aircraft stage length (miles)	**1,119**	1,068	4.8 %
Mainline operating fleet at period-end	**117**	112	5 a/c
Regional Operating Statistics:			
RPM (000,000)	**574**	576	(0.3) %
ASM (000,000)	**759**	809	(6.2) %
Revenue passenger load factor	**75.6 %**	71.2 %	4.4 pts
PRASM	**23.25 ¢**	20.44 ¢	13.7 %

(a) See reconciliation of this measure to the most directly related GAAP measure in the "Results of Operations" section.

NM Not Meaningful

OPERATING REVENUES

Total operating revenues increased $135.6 million, or 16.3%, during the first three months of 2011 compared to the same period in 2010. The changes are summarized in the following table:

	Three Months Ended March 31,		
(in millions)	2011	2010	%Change
Passenger			
Mainline	$ **702.4**	$ 587.0	19.7
Regional	**176.5**	165.4	6.7
Total passenger revenue	$ **878.9**	$ 752.4	16.8
Freight and mail	**24.9**	23.0	8.3
Other - net	**61.4**	54.2	13.3
Total operating revenues	$ **965.2**	$ 829.6	16.3

Passenger Revenue – Mainline

Mainline passenger revenue for the first quarter 2011 improved by 19.7% on a 14.7% increase in capacity and a 4.4% increase in passenger revenue per available seat mile (PRASM) compared to 2010. The increase in capacity is driven by annualization of new routes added in 2010, much of which was Hawaii. The increase in PRASM was driven by a 1.4% rise in ticket yield and a 2.4-point increase in load factor compared to the prior year.

Our mainline load factor in April 2011 was 84.9% compared to 82.9% in April 2010. Our mainline advance bookings currently suggest that load factors will be up about 4.0 points in May and 1.5 points in June compared to the prior-year periods.

Passenger Revenue – Regional

Regional passenger revenue increased by $11.1 million or 6.7% compared to the first quarter 2010 on a 13.7% increase in PRASM compared to 2010, partially offset by a 6.2% decrease in capacity. The increase in PRASM was driven by an increase in ticket yield and a 4.4 point increase in load factor compared to the prior year.

Freight and Mail

Freight and mail revenue increased $1.9 million, or 8.3%, primarily as a result of higher volumes and yield and higher security and freight fuel surcharges.

Other – Net

Other—net revenue increased $7.2 million, or 13.3%, from 2010. The increase is primarily due to Mileage Plan revenues rising by $3.6 million driven by a larger number of miles sold to our affinity card partner and a contractual rate increase for those sold miles.

OPERATING EXPENSES

For the first quarter 2011, total operating expenses increased $27.5 million, or 3.4%, compared to 2010 mostly as a result of significantly higher economic fuel costs and higher non-fuel costs, partially offset by a mark-to-market fuel hedge benefit. We believe it is useful to summarize operating expenses as follows, which is consistent with the way expenses are reported internally and evaluated by management:

	Three Months Ended March 31,		
(in millions)	2011	2010	%Change
Fuel expense	$ **194.5**	$ 207.3	(6.2)
Non-fuel expenses	**636.9**	596.6	6.8
Total Operating Expenses	$ **831.4**	$ 803.9	3.4

Significant operating expense variances from 2010 are more fully described below.

Wages and Benefits

Wages and benefits increased during the first quarter 2011 by $10.0 million, or 4.2%, compared to 2010. The primary components of wages and benefits are shown in the following table:

	Three Months Ended March 31,		
(in millions)	2011	2010	%Change
Wages	**$ 181.2**	$ 169.3	7.0
Pension and defined-contribution retirement benefits	**25.9**	27.3	(5.1)
Medical benefits	**22.6**	23.6	(4.2)
Other benefits and payroll taxes	**19.6**	19.1	2.6
Total wages and benefits	**$ 249.3**	$ 239.3	4.2

Wages increased primarily due to increased pilot and flight attendant wages as a result of increased flying, higher wage rates, and a signing bonus to Alaska's clerical, office and passenger service employees in connection with a new contract ratified in January 2011. Productivity as measured by the number of passengers per FTE increased 8% compared to 2010.

The 5.1% decline in pension and other retirement-related benefits is primarily due to a reduction in our defined-benefit pension cost driven by the improved funded status at the end of 2010 as compared to the previous year partially offset by a slight increase in defined-contribution expense.

Medical benefits decreased 4.2% from the prior year primarily due to a decline in employee healthcare claims, partially offset by an increase in post-retirement medical expense. We expect medical benefits will be lower for the full year 2011 as a result of lower expected claims partially offset by more participants in the plan.

We expect wages and benefits to be higher in 2011 as compared to 2010 because of an increase in the number of FTEs as we bring back furloughed employees to handle the expected growth in 2011.

Variable Incentive Pay

Variable incentive pay expense decreased from $17.9 million in the first quarter 2010 to $16.4 million in first quarter 2011. The decrease is partially due to the fact that in 2010 our financial and operational results exceeded targets established by our Board more so than in 2011. For the full year 2011, we currently expect incentive pay to be approximately $61 million compared to the $92 million ultimately recorded in 2010.

Aircraft Fuel

Aircraft fuel expense includes both *raw fuel expense* (as defined below) plus the effect of mark-to-market adjustments to our fuel hedge portfolio included in our condensed consolidated statement of operations as the value of that portfolio increases and decreases. Our aircraft fuel expense is very volatile, even between quarters, because it includes these gains or losses in the value of the underlying instrument as crude oil prices and refining margins increase or decrease. *Raw fuel expense* is defined as the price that we generally pay at the airport, or the “into-plane” price, including taxes and fees. Raw fuel prices are impacted by world oil prices and refining costs, which can vary by region in the U.S. *Raw fuel expense* approximates cash paid to suppliers and does not reflect the effect of our fuel hedges.

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Aircraft fuel expense decreased $12.8 million, or 6.2%, compared to the first quarter of 2010. The elements of the change are illustrated in the following table:

(in millions, except per-gallon amounts)	Three Months Ended March 31, 2011	2010	%Change
Fuel gallons consumed	**96.3**	86.5	11.3
Raw price per gallon	**$ 3.00**	$ 2.26	32.7
Total raw fuel expense	**$ 289.0**	$ 195.2	48.1
Net impact on fuel expense from (gains) and losses arising from fuel-hedging activities	**(94.5)**	12.1	NM
Aircraft fuel expense	**$ 194.5**	$ 207.3	(6.2)

NM = Not Meaningful

Fuel gallons consumed increased 11.3%, primarily as a result of an 8.5% increase in block hours and a 2.3% increase in fuel burn per block hour as a result of higher load factors.

The raw fuel price per gallon increased 32.7% as a result of higher West Coast jet fuel prices. West Coast jet fuel prices are impacted by both the higher price of crude oil, as well as increased refinery margins associated with the conversion of crude oil to jet fuel.

We also evaluate economic fuel expense, which we define as raw fuel expense less the cash we receive from hedge counterparties for hedges that settle during the period, offset by the premium expense that we paid for those contracts. A key difference between aircraft fuel expense and economic fuel expense is the timing of gain or loss recognition on our hedge portfolio. When we refer to economic fuel expense, we include gains and losses only when they are realized for those contracts that were settled during the period based on their original contract terms. We believe this is the best measure of the effect that fuel prices are currently having on our business because it most closely approximates the net cash outflow associated with purchasing fuel for our operations. Accordingly, many industry analysts evaluate our results using this measure, and it is the basis for most internal management reporting and incentive pay plans.

Our *economic fuel expense* is calculated as follows:

(in millions, except per-gallon amounts)	Three Months Ended March 31, 2011	2010	%Change
Raw fuel expense	**$ 289.0**	$ 195.2	48.1
Minus: net of cash received from settled hedges and premium expense recognized	**(12.5)**	(0.4)	NM
Economic fuel expense	**$ 276.5**	$ 194.8	41.9
Fuel gallons consumed	**96.3**	86.5	11.3
Economic fuel cost per gallon	**$ 2.87**	$ 2.26	27.0

NM = Not Meaningful

As noted above, the total net benefit recognized for hedges that settled during the period was $12.5 million in 2011, compared to a net benefit of $0.4 million in 2010. These amounts represent the cash received net of the premium expense recognized for those hedges.

We currently expect our economic fuel price per gallon to be significantly higher for the remainder of 2011 than in 2010 because of higher jet fuel prices. We expect economic fuel cost per gallon to be $3.30 in the second quarter 2011.

Aircraft Maintenance

Aircraft maintenance declined by $3.7 million, or 6.5%, compared to the prior-year quarter primarily because of lower component costs and reduced costs associated with aircraft returns. We expect aircraft maintenance to remain relatively flat for the full year 2011.

Aircraft Rent

Aircraft rent declined $6.5 million, or 17.6%, compared to the prior-year quarter as a result of the return of three leased mainline aircraft in the first quarter of 2010 and removal of four regional aircraft from operations in first quarter of 2011. We expect aircraft rent will be lower for the full year 2011 for these same reasons.

Contracted Services

Contracted services increased $3.9 million, or 9.8%, compared to the prior-year quarter 2010 as a result of an increase in the number of flights to airports where vendors are used and an increase in contract labor. We expect contracted services will be higher for the full year 2011 due to increased volume.

Selling Expenses

Selling expenses increased by $6.2 million, or 18.5%, compared to the first quarter in 2010 as a result of higher credit card and travel agency commissions and ticket distribution costs resulting from the increase in passenger traffic and average fares.
We expect selling expenses will be higher for the full year 2011 due to higher revenue-related costs.

Depreciation and Amortization

Depreciation and amortization increased $4.1 million, or 7.3%, compared to the first quarter of 2010. This is primarily due to additional B737-800 aircraft and Q400 aircraft deliveries in the first three months of 2011 and a full period of depreciation for aircraft delivered in 2010. We expect depreciation and amortization will be higher for the full year 2011 due to the full-year impact of aircraft that were delivered in 2010 and for 2011 aircraft deliveries.

Food and Beverage Service

Food and beverage costs increased $2.8 million, or 22.8%, from the prior-year quarter due to an increased number of passengers, the higher cost of some of our fresh food items served on board, and increased costs associated with food delivery. We expect food and beverage costs will be higher for the full year 2011 due to increased passenger and departure volume.

Other Operating Expenses

Other operating expenses increased $12.9 million, or 27.0%, compared to the prior-year quarter. The increase is primarily driven by higher personnel non-wage costs such as hotels, meals and per diems, higher passenger remuneration costs and higher legal costs. We expect other operating expenses to be higher for the full year 2011.

Fleet Transition Costs

We recorded $10.1 million during the first three months of 2011 related to the removal of four CRJ-700 aircraft from our operations. We expect to record additional expenses related to the sublease of the remaining CRJ-700 in the second quarter. We expect the charge for the second quarter to be approximately $18 million to $20 million.

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Operating Costs per Available Seat Mile (CASM)

Our operating costs per ASM are summarized below:

	Three Months Ended March 31,				
	2011		2010		**% Change**
Consolidated:					
Total operating expenses per ASM (CASM)	**11.69**	¢	12.66	¢	(7.7)
Less the following components:					
Aircraft fuel, including hedging gains and losses	**2.74**	¢	3.26	¢	(16.0)
CRJ-700 fleet transition costs	**0.14**		—		NM
CASM, excluding fuel and CRJ-700 fleet transition costs	**8.81**	¢	9.40	¢	(6.3)

	Three Months Ended March 31,				
	2011		2010		**% Change**
Mainline:					
Total mainline operating expenses per ASM (CASM)	**10.30**	¢	11.50	¢	(10.4)
Less the following components:					
Aircraft fuel, including hedging gains and losses	**2.47**	¢	3.10	¢	(20.3)
CASM, excluding fuel	**7.83**	¢	8.40	¢	(6.8)

NM = Not Meaningful

We have listed separately in the above table our fuel costs per ASM and our unit costs, excluding fuel and other noted items. These amounts are included in CASM, but for internal purposes we consistently use unit cost metrics that exclude fuel and certain special items to measure our cost-reduction progress. We believe that such analysis may be important to investors and other readers of these financial statements for the following reasons:

- By eliminating fuel expense and certain special items from our unit cost metrics, we believe that we have better visibility into the results of our non-fuel cost-reduction initiatives. Our industry is highly competitive and is characterized by high fixed costs, so even a small reduction in non-fuel operating costs can result in a significant improvement in operating results. In addition, we believe that all domestic carriers are similarly impacted by changes in jet fuel costs over the long run, so it is important for management (and thus investors) to understand the impact of (and trends in) company-specific cost drivers such as labor rates and productivity, airport costs, maintenance costs, etc., which are more controllable by management.

- Cost per ASM (CASM) excluding fuel and certain special items is one of the most important measures used by management and by the Air Group Board of Directors in assessing quarterly and annual cost performance.

- CASM excluding fuel (and other items as specified in our plan documents) is an important metric for the employee incentive plan that covers all employees.

- CASM excluding fuel and certain special items is a measure commonly used by industry analysts, and we believe it is the basis by which they compare our airlines to others in the industry. The measure is also the subject of frequent questions from investors.

- Disclosure of the individual impact of certain noted items provides investors the ability to measure and monitor performance both with and without these special items. We believe that disclosing the impact of certain items, such as fleet transition costs, is important because it provides information on significant items that are not necessarily indicative of future performance. Industry analysts and investors consistently measure our performance without these items for better comparability between periods and among other airlines.

- Although we disclose our passenger unit revenues, we do not (nor are we able to) evaluate unit revenues excluding the impact that changes in fuel costs have had on ticket prices. Fuel expense represents a large percentage of our total operating expenses. Fluctuations in fuel prices often drive changes in unit revenues in the mid-to-long term. Although we believe it is useful to evaluate non-fuel unit costs for the reasons noted above, we would caution readers of these financial statements not to place undue reliance on unit costs excluding fuel as a measure or predictor of future profitability because of the significant impact of fuel costs on our business.

We currently forecast our mainline costs per ASM excluding fuel and other special items for the second quarter and full year of 2011 to be down approximately 3% to 4% and 3%, respectively, compared to 2010. We currently forecast our consolidated costs per ASM excluding fuel and other special items for the second quarter and full year of 2011 to be down approximately 3% to 4% and 4%, respectively, compared to 2010.

CONSOLIDATED NONOPERATING INCOME (EXPENSE)

Net nonoperating expense was $13.1 million in the first quarter of 2011 compared to $15.5 million in the first quarter of 2010. The $2.2 million decrease in interest expense was primarily the result of lower interest rates and lower average debt balance, partially offset by swap breakage paid on debt instruments prepaid in the first quarter of 2011.

CONSOLIDATED INCOME TAX EXPENSE (BENEFIT)

We provide for income taxes based on either our estimate of the effective tax rate for the full year or the actual year-to-date effective rate if it is our best estimate of our annual rate. For the first three months of 2011, we used the estimated income tax rate based on our current full-year estimate of pretax earnings. Our effective income tax rate on pretax income for the first three months of 2011 was 38.5%, compared to 48.0% for the first three months of 2010. In arriving at this rate, we considered a variety of factors, including our forecasted full-year pretax results, the U.S. federal rate of 35%, expected nondeductible expenses and estimated state income taxes. We evaluate our tax rate each quarter and make adjustments when necessary. Our final effective tax rate for the full year is highly dependent on the level of pretax income or loss and the magnitude of any nondeductible expenses in relation to that pretax amount.

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, 2010.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are our existing cash and marketable securities balance of $ 1.0 billion (which represents 26% of trailing twelve months revenue) and our expected cash flow from operations. We also have other sources of liquidity such as the ability to finance unencumbered aircraft, our combined $200 million bank line-of-credit facilities, and a “forward sale” of mileage credits to our affinity card bank partner.

During the first three months of 2011, we paid off the outstanding debt balances associated with two B737-800 aircraft totaling approximately $51.8 million. In addition to debt prepayments, we repurchased $26.3 million of our common stock in the first quarter of 2011. We will continue to focus on preserving a strong liquidity position and evaluate our cash needs as conditions change.

We believe that our current cash and marketable securities balance of over $ 1.0 billion combined with future cash flows from operations and other sources of liquidity will be sufficient to fund our operations for the foreseeable future.

In our cash and marketable securities portfolio, we invest only in U.S. government securities, certain asset-backed obligations and corporate debt securities. We do not invest in equities or auction-rate securities. As of March 31, 2011, we had a $10.1 million net unrealized gain on our cash and marketable securities balance.

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

(in millions, except per-share and debt-to-capital amounts)	March 31, 2011	December 31, 2010	Change
Cash and marketable securities	**$ 1,042.5**	$ 1,208.2	(13.7)%
Cash and marketable securities as a percentage of trailing twelve months revenue	**26%**	32%	(6) pts
Long-term debt, net of current portion	**$ 1,275.2**	$ 1,313.0	(2.9)%
Shareholders’ equity	**$ 1,170.1**	$ 1,105.4	5.9 %
Long-term debt-to-capital assuming aircraft operating leases are capitalized at seven times annualized rent	**65%:35%**	67%:33%	(2) pts

The following discussion summarizes the primary drivers of the increase in our cash and marketable securities balance and our expectation of future cash requirements.

ANALYSIS OF OUR CASH FLOWS

Cash Provided by Operating Activities

During the first three months of 2011, net cash provided by operating activities was $118.8 million, compared to $54.5 million during the same period in 2010. The increase in operating cash flow was primarily due to the improvement in earnings and increase of cash inflows from advance ticket sales compared to the prior-year period. These increases were partially offset by the payment of 2010 incentive pay in the first quarter of 2011, which was larger than the payment of 2009 incentive pay in the first quarter of 2010. We typically generate positive cash flows from operations and expect to do so in 2011.

Cash Used in Investing Activities

Cash used in investing activities was $33.8 million during the first three months of 2011, compared to $47.9 million during the same period in 2010. Our capital expenditures were $149.1 million, or $123.2 million higher than in the same period of 2010, as we purchased three B737-800 aircraft and four Q400 aircraft. Our restricted deposits and other were $18.1 million higher than the first quarter of 2010 due to our plans to move to Terminal 6 at the Los Angeles International Airport (LAX) discussed later under "Los Angeles International Airport Improvements".

We currently expect capital expenditures for 2011 and 2012 to be as follows (in millions):

	2011	2012
Aircraft-related	$ 330	$ 315
Non-aircraft[(1)]	55	55
Total Air Group	$ 385	$ 370

(1) Includes our proprietary share of expenditures associated with Terminal 6 at LAX.

Cash Used in Financing Activities

Net cash used in financing activities was $114.3 million during the first three months of 2011 compared to $53.1 million during the same period in 2010. The change is primarily due to $51.8 million of debt prepayment in the first quarter of 2011. Additionally, we repurchased $26.3 million of our common stock in 2011, compared to $10.5 million repurchased in 2010.

Bank Line-of-Credit Facility

We have two $100 million credit facilities. Both facilities have variable interest rates based on LIBOR plus a specified margin. Borrowings on one of the $100 million facilities, which expires in March 2013, are secured by aircraft. Borrowings on the other $100 million facility, which expires in March 2014, are secured by certain accounts receivable, spare engines, spare parts and ground service equipment. There are no outstanding balances on these facilities at March 31, 2011. We have no immediate plans to borrow using either of these facilities. See Note 4 in the condensed consolidated financial statements for further discussion.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Aircraft Purchase Commitments

In January 2011, we executed an aircraft purchase agreement with Boeing for 15 new B737 aircraft, two 737-800 aircraft and 13 new B737-900ER aircraft, with deliveries starting late in 2012 and going through 2014. The agreement also includes options to purchase additional aircraft with delivery positions in 2016 and 2017. The firm orders mentioned above were inclusive of the conversion of eleven existing options.

Overall, we have firm orders to purchase 29 aircraft requiring future aggregate payments of approximately $1.0 billion, as set forth below. Alaska has options to acquire 42 additional B737s and Horizon has options to acquire 10 additional Q400s.

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The following table summarizes aircraft purchase commitments and payments by year:

	Delivery Period - Firm Orders						
Aircraft	**Apr. 1 - Dec. 31, 2011**	**2012**	**2013**	**2014**	**2015**	**Beyond 2015**	**Total**
Boeing 737-800	—	6	3	1	2	—	12
Boeing 737-900ER	—	—	6	7	—	—	13
Bombardier Q400	4	—	—	—	—	—	4
Total	4	6	9	8	2	—	29
Payments (millions)*	$ 189.5	$ 315.0	$ 291.8	$ 160.1	$ 34.6	$ 4.8	$ 995.8

* Includes pre-delivery payments to Boeing and Bombardier as well as final aircraft payments.

We paid cash for three B737-800 aircraft and four Q400 aircraft deliveries in the first quarter of 2011. We expect to finance the four Q400 deliveries delivered in the first quarter and the four remaining 2011 deliveries because of the attractive interest rates available to us from Export Development Canada. We expect to pay for firm orders beyond 2011 and the option aircraft, if exercised, through internally generated cash, long-term debt, or operating lease arrangements.

Contractual Obligations

The following table provides a summary of our principal payments under current and long-term debt obligations, operating lease commitments, aircraft purchase commitments and other obligations as of March 31, 2011.

(in millions)	**Apr. 1 - Dec. 31, 2011**	**2012**	**2013**	**2014**	**2015**	**Beyond 2015**	**Total**
Current and long-term debt obligations	$ 131.9	$ 216.9	$ 175.7	$ 141.9	$ 128.2	$ 650.3	$ 1,444.9
Operating lease commitments (1)	103.4	211.0	170.3	153.1	118.2	314.4	1,070.4
Aircraft purchase commitments	189.5	315.0	291.8	160.1	34.6	4.8	995.8
Interest obligations (2)	52.7	69.8	58.3	50.0	42.8	111.3	384.9
Other obligations (3)	39.2	52.2	42.2	54.3	—	—	187.9
Total	$ 516.7	$ 864.9	$ 738.3	$ 559.4	$ 323.8	$ 1,080.8	$ 4,083.9

(1) Operating lease commitments generally include aircraft operating leases, airport property and hangar leases, office space, and other equipment leases. The aircraft operating leases include lease obligations for 16 leased Q200 aircraft and seven CRJ-700 aircraft, all of which are no longer in our operating fleets. We have accrued for these lease commitments based on their discounted future cash flows as we remain obligated under the existing lease contracts on these aircraft.

(2) For variable-rate debt, future obligations are shown above using interest rates in effect as of March 31, 2011.

(3) Includes minimum obligations under our long-term power-by-the-hour maintenance agreements for all B737 engines other than the B737-800. Excludes obligations associated with Skywest capacity purchase agreement executed on April 13, 2011.

Pension Obligations

The table above excludes contributions to our various pension plans, which could be approximately $35 million to $50 million per year based on our historical funding practice. There is no minimum required contribution for 2011, although the company expects to contribute $33.3 million in 2011.

Los Angeles International Airport Improvements

In 2009, we announced plans to move from Terminal 3 to Terminal 6 at Los Angeles International Airport (LAX). As part of this move, we have agreed to manage and fund up to $175 million of the project during the design and construction phase. The project is estimated to cost approximately $250 million and is expected to be completed in 2012. We expect Los Angeles World Airports and the Transportation Security Administration to reimburse us for the majority of the construction costs either during the course of, or upon the completion of, construction. On April 19, 2011, we signed a funding agreement with the City of Los Angeles and Los Angeles World Airports. We anticipate that our proprietary non-reimbursable share will be approximately $25 million of the total cost of the project. As of March 31, 2011, we recorded $49.6 million associated with this project in other assets, which represents total project costs to date.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES 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 Annual Report on Form 10-K for the year ended December 31, 2010 except as follows:

Market Risk – Aircraft Fuel

We hedge our exposure to the volatility of jet fuel prices using crude oil call options and, recently, jet fuel refining margin swap contracts. Call options are designed to effectively cap our cost of the crude oil component of fuel prices, allowing us to limit our exposure to increasing fuel prices. With these call option contracts, we still benefit from the decline in crude oil prices as there is no downward exposure other than the premiums that we pay to enter into the contracts. We believe there is risk in not hedging against the possibility of fuel price increases. We estimate that a 10% increase or decrease in crude oil prices as of March 31, 2011 would increase or decrease the fair value of our crude oil hedge portfolio by approxim ately $76.9 million and $69.7 million, respectively.

We continue to believe that our fuel hedge program is an important part of our strategy to reduce our exposure to volatile fuel prices. We expect to continue to enter into these types of contracts prospectively, although significant changes in market conditions could affect our decisions. For more discussion, see Note 3 to our condensed consolidated financial statements.

Financial Market Risk

We have exposure to market risk associated with changes in interest rates related primarily to our debt obligations and short-term investment portfolio. Our debt obligations include variable-rate instruments, which have exposure to changes in interest rates. This exposure is somewhat mitigated through our variable-rate investment portfolio. We have investments in marketable securities, which are exposed to market risk associated with changes in interest rates and market values. We do not invest in equity securities or auction-rate securities, only government and corporate bond obligations.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of March 31, 2011, 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 or submitted to 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 includes, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to our management, including our certifying officers, as appropriate to allow timely decisions regarding required disclosure. Our certifying officers concluded, based on their evaluation, that disclosure controls and procedures were effective as of March 31, 2011.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

We made no changes in our internal control over financial reporting during the quarter ended March 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are a party to routine litigation matters incidental to our business. We believe 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; and it is subject to various contingencies, including the potential costs and risks associated with litigation and the actions of judges and juries.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors affecting our business, financial condition or future results from those set forth in Item 1A "Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2010. However, you should carefully consider the factors discussed in such section of our Annual Report on Form 10-K,which could materially affect our business, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

This table provides certain information with respect to our purchases of shares of our common stock during the first quarter of 2011.

Issuer Purchases of Equity Securities	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased	Maximum approximate remaining dollar value of shares that can be purchased under the plan (1)
January 1, 2011 – January 31, 2011 (1)	140,000	60.83	140,000	
February 1, 2011 – February 28, 2011 (1)	133,000	62.06	133,000	
March 1, 2011 – March 31, 2011 (1)	161,000	59.53	161,000	
Total	434,000	$ 60.73	434,000	$ 4,846,992

(1) Purchased pursuant to a $50 million repurchase plan authorized by the Board of Directors in June 2010. The Company completed this repurchase program in early April 2011.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. OTHER INFORMATION

None.

ITEM 5. EXHIBITS

See Exhibit Index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALASKA AIR GROUP, INC.
Registrant

Date: May 4, 2011

By: /s/ Brandon S. Pedersen
Brandon S. Pedersen
Vice President/Finance and Chief Financial Officer
(Principal Financial Officer and Principal Accounting 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*	Supplemental Agreement No. 23 to Purchase Agreement No. 2497 between The Boeing Company and Alaska Airlines, Inc.*
31.1**	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2**	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS***	XBRL Instance Document
101.SCH***	XBRL Taxonomy Extension Schema Document
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF***	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB***	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase Document

* 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.

** Filed herewith.

*** Exhibits are being furnished pursuant to 18 U.S.C. Section 1350 and shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended ("Exchange Act",) or otherwise subject to the liability of that section. Such exhibits shall not be deemed to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Exhibit 10.1

FOIA CONFIDENTIAL
TREATMENT REQUESTED

Supplemental Agreement No. 23

to

Purchase Agreement No. 2497

between

The Boeing Company

and

Alaska Airlines, Inc.

Relating to Boeing Model 737-800 and 737-900ER Aircraft

THIS SUPPLEMENTAL AGREEMENT, entered into as of January 24, 2011, by and between THE BOEING COMPANY (Boeing) and ALASKA Airlines, Inc. (Customer).

WHEREAS, the parties hereto entered into Aircraft General Terms Agreement Number AGTA-ASA dated June 15, 2005 (the **AGTA**) and Purchase Agreement No. 2497 dated June 15, 2005 (the **Purchase Agreement**), as amended and supplemented, relating to Boeing Model 737-800 aircraft (the **Aircraft**), and;

WHEREAS, Customer wishes to exercise three (3) Option Aircraft as Aircraft under the Purchase Agreement as set forth below and in Table 1, Page 12 (**each an Exercised Option Aircraft**):

Delivery Month	Serial Number
November 2012	41,730
December 2012	41,731
January 2013	41,732

and;

WHEREAS, Boeing offered and Customer agrees to purchase four (4) Boeing Model 737-990ER aircraft) as set forth below (**each a 737-990ER Incremental Aircraft)**:

Delivery Month	Serial Number
June 2013	41,702
August 2013	41,703
October 2013	41,704
November 2013	41,705

and;

WHEREAS, Customer agrees to exercise and convert eight (8) Option Aircraft to eight (8) Boeing Model 737-990ER aircraft (**each a Substitute Aircraft**) in 2005 base year dollars, with delivery positions as follows:

Delivery Month	Serial Number
February 2013	41,733
April 2013	41,734
January 2014	36,354
February 2014	36,355
March 2014	36,352
April 2014	36361 and 36363
August 2014	41,735

and;

WHEREAS, Customer and Boeing agree to substitute one (1) Aircraft, bearing manufacturer serial number MSN 40714 with current delivery position of May 2014 (**Firm Aircraft**) to a Boeing Model 737-990ER aircraft with the delivery position of May 2014 (**also a Substitute Aircraft**); and

WHEREAS, the Customer and Boeing have each agreed that Customer will have the option to purchase [***] additional Option Aircraft (**each a New Option Aircraft**), with delivery positions as follows:

[***]

and;

WHEREAS, Customer and Boeing agree to recontract Aircraft bearing serial number 35205 (**Recontracted Aircraft**), as set forth below and in Table 1 page 12 to the Purchase Agreement attached hereto:

Current Delivery Month	Revised Delivery Month	Serial Number
April 2013	March 2013	35,205

and

WHEREAS, as a result of the Customer's election to purchase the Boeing 737-900ER Aircraft and order additional 737-800 aircraft, Table 1 of the Purchase Agreement will modified by (i) modifying page 12 to add the Exercised Option Aircraft and reposition the Recontracted Aircraft,(ii) deleting from page 13 the Firm Aircraft that was replaced by a Substitute Aircraft, and (iii) adding a page 15 to identify the delivery positions, quantities, Price and Advance Payment Base Price for the Incremental Aircraft and Substitute 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.

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

1. The AGTA:

1.1 Remove pages 1 and 2 and replace with pages 1 and 2 attached hereto, to reflect the addition of the Model 737-900ER in Article 2 in each place that Model 737-900 appears.

1.2 Remove page 3 of "Attachment A" to Letter Agreement 6-1162-MSA-591 and replace with page 3 attached hereto, to reflect the addition of Model 737-900ER in the table of insurance requirements.

2. Purchase Agreement Table of Contents, Articles, Tables and Exhibits:

2.1 Remove and replace, in its entirety, the "Title Page," "Table of Contents" and pages one and two with the Title Page, Table of Contents and pages one and two, attached hereto, to reflect the inclusion of the Boeing 737-990ER Aircraft in Purchase Agreement No. 2497 and the other changes made by this Supplemental Agreement No. 23.

2.2 Remove and replace, in its entirety, Table 1 page 12 attached hereto, to (i) reflect the revised delivery month of one 737-890 Aircraft and (ii) include the three 737-890 Aircraft added through the exercise of options.

2.3 Remove and replace, in its entirety, Table 1 page 13 attached hereto, to reflect the deletion of the Firm Aircraft with a May 2014 delivery position due to the conversion of that Aircraft to the Substitute Aircraft as reflected in Article 2.2 above.

2.4 Add page 15 to "Table 1 to Purchase Agreement 2497" attached hereto to reflect (i) the addition of the four (4) 737-990ER Incremental Aircraft under the Purchase Agreement; (ii) the exercise of eight (8) 737-890 Option Aircraft and simultaneous conversion of the Aircraft to a Substitute Aircraft, and (iii) the election to substitute one (1) Substitute Aircraft for one (1) previously contracted 737-890 Aircraft.

2.5 Remove and replace, in its entirety, Exhibit B to Purchase Agreement No. 2497 entitled "Aircraft Delivery Requirements and Responsibilities between The Boeing Company and Alaska Airlines, Inc." and replace with a revised Exhibit B to Purchase Agreement No. 2497, attached hereto, to designate applicability for the Boeing 737-990ER Aircraft.

3. Supplemental Exhibits.

3.1 Remove and replace page 1 of Supplemental Exhibit AE1 entitled "Escalation Adjustment/Airframe and Optional Features" with a revised page 1, attached hereto, to reflect the inclusion of the Boeing 737-990ER Aircraft in the Purchase Agreement No. 2497.

3.2 Supplemental Exhibit BFE1 entitled "Buyer Furnished Equipment Variables between The Boeing Company and Alaska Airlines, Inc." is deleted in its entirety and replaced with a revised Supplemental Exhibit BFE1 attached hereto to incorporate the Boeing 737-990ER Aircraft.

3.3 Supplemental Exhibit CS1 entitled "Customer Support Variables between The Boeing Company and Alaska Airlines, Inc." is deleted in its entirety and replaced with a revised Supplemental Exhibit CS1 attached hereto to clarify its applicability to the Boeing 737-890 Aircraft.

3.4 Supplemental Exhibit CS2 entitled "Customer Support Variables between The Boeing Company and Alaska Airlines, Inc." is added to the Purchase Agreement by this Supplemental Agreement attached hereto to incorporate the Boeing 737-990ER Aircraft.

3.5 Supplemental Exhibit EE1 entitled "Engine Escalation, Engine Warranty and Patent Indemnity between The Boeing Company and Alaska Airlines, Inc." is deleted in its entirety and replaced with a revised Supplemental Exhibit EE1 attached hereto to incorporate the Boeing 737-990ER Aircraft.

4. Letter Agreements.

4.1 Letter Agreement 2497-1R16 entitled "Option Aircraft" and its corresponding Attachment 1, are hereby deleted and replaced in their entirety with a revised Letter Agreement 2497-1R17 and Attachments 1 and 2 attached hereto, to reflect (i) the deletion of three (3) Exercised Option Aircraft which are being exercised pursuant to this Supplemental Agreement No. 23, (ii) the addition of [***] New Option Aircraft pursuant to this Supplemental Agreement No. 23, and (iii) terms and conditions with respect to converting an Option Aircraft to a 737-990ER Aircraft.

4.2 Letter Agreement 2497-2 entitled "Aircraft Model Substitution" is hereby deleted and replaced in its entirety with a revised Letter Agreement 2497-2R1 to incorporate changes necessitated by this Supplemental Agreement No. 23.

4.3 Letter Agreement 2497-3 entitled "Seller Purchased Equipment" is hereby deleted and replaced in its entirety with a revised Letter Agreement 2497-3R1 attached hereto, to incorporate the Boeing 737-990ER Aircraft.

4.4 Letter Agreement 2497-4 entitled "Demonstration Flight Waiver" is hereby deleted and replaced in its entirety with a revised Letter Agreement 2497-4R1 attached hereto, to incorporate the Boeing 737-990ER Aircraft.

4.5 Letter Agreement 2497-5 entitled "Loading of Software Owned by or Licensed to Customer" is hereby deleted and replaced in its entirety with a revised Letter Agreement 2497-5R1 attached hereto, to incorporate the Boeing 737-990ER Aircraft.

4.6 Letter Agreement 6-1162-SCR-106, entitled "Model 737-990ER Open Configuration Matters," attached hereto, applicable for Boeing Model 737-990ER Aircraft, is added.

* 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.

4.7 Letter Agreement 6-1162-MSA-592 entitled “Special Purchase Agreement Provisions” is hereby deleted and replaced in its entirety with a revised Letter Agreement 6-1162-MSA-592R1 attached hereto, to incorporate the Boeing 737-990ER Aircraft.

4.8 Letter Agreement 6-1162-MSA-597R18 entitled “Special Matters” is deleted and replaced in its entirety with a revised Letter Agreement 6-1162-MSA-597R19 attached hereto, to incorporate the Boeing 737-990ER Aircraft.

4.9 Letter Agreement 6-1162-MSA-691R4 entitled “Process for Fixing Escalation Factor” is hereby deleted and replaced in its entirety with a revised Letter Agreement 6-1162-MSA-691R5 attached hereto, to incorporate the Boeing 737-990ER Aircraft.

4.10 Letter Agreement 6-1162-SCR-112 entitled “Performance Guarantees 737-900ER”, attached hereto, applicable for Boeing Model 737-990ER Aircraft, is added.

4.11 Letter Agreement 6-1162-SCR-111 entitled [***] attached hereto, is added.

5. Advance Payments.

Upon execution of this Supplemental Agreement, Customer agrees to pay Boeing [***] in advance payments as the initial advance payment for the following: (i) the conversion of one (1) firm 737-890 to a 737-990ER Aircraft, (ii) exercise of options for three (3) 737-890 Aircraft, (iii) the addition of four (4) 737-990ER Aircraft, and (v) the exercise of eight (8) options for Boeing Model 737-890 as 737-990ER Aircraft identified in and pursuant to this Supplemental Agreement.

6. Escalation Matters .

Escalation Matters. Boeing and Customer agree that any recontrated Firm or Option Aircraft, as defined in the Purchase Agreement, will be recontracted to the new delivery month and that the Aircraft Base Price and associated escalation will be based on the new delivery month.

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

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

THE BOEING COMPANY	ALASKA Airlines, Inc.
By: /s/ Stuart C. Ross	By: /s/ Brandon S. Pedersen
Its: Attorney-In-Fact	Its: Vice President, Finance Chief Financial Officer

* 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 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, 737-900ER, 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, 737-900ER, 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, 737-900ER, 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.

SAMPLE

Insurance Certificate

(737-900)	US$500,000,000
(737-900ER)	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.)

<u>DEDUCTIBLES / SELF-INSURANCE</u>

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

<u>SPECIAL PROVISIONS APPLICABLE TO BOEING:</u>

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.

PURCHASE AGREEMENT NUMBER 2497

between

THE BOEING COMPANY

and

Alaska Airlines, Inc.

Relating to Boeing Model 737-890 and 737-990ER Aircraft

TABLE OF CONTENTS

RESTRICTED LETTER AGREEMENT	SA NUMBER
6-1162-MSA-588 Aircraft Performance Guarantees - Model 737-800	
6-1162-MSA-589 [***]	
6-1162-MSA-592R1 Special Purchase Agreement Provisions	**23**
6-1162-MSA-597R19 Special Matters	**23**
(Attachments 1A, 1B, and 2)	17
6-1162-MSA-691R5 Process for Fixing Escalation Factor	**23**
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(deleted in SA-19 and replaced with 6-1162-SCR-025)	
6-1162-SCR-025R2 “Special Matters” - Economic Impact Aircraft Rescheduled delivery dates	22
6-1162-SCR-028 Notice of Exercise by Boeing of its Right to Reschedule Economic Impact Aircraft	19
6-1162-SCR-112 Aircraft Performance Guarantees Model 737-900ER	**23**
6-1162-SCR-111 [***]	

* 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.

SUPPLEMENTAL AGREEMENTS	DATED AS OF:
Supplemental Agreement No. 1	December 20, 2005
Supplemental Agreement No. 2	January 31, 2006
Supplemental Agreement No. 3	February 28, 2006
Supplemental Agreement No. 4	March 31, 2006
Supplemental Agreement No. 5	May 31, 2006
Supplemental Agreement No. 6	June 30, 2006
Supplemental Agreement No. 7	July 31, 2006
Supplemental Agreement No. 8	October 31, 2006
Supplemental Agreement No. 9	November 30, 2006
Supplemental Agreement No. 10	December 20, 2006
Supplemental Agreement No. 11	January 31, 2007
Supplemental Agreement No. 12	April 26, 2007
Supplemental Agreement No. 13	July 31, 2007
Supplemental Agreement No. 14	September 24, 2007
Supplemental Agreement No. 15	October 31, 2007
Supplemental Agreement No. 16	January 5, 2009
Supplemental Agreement No. 17	February 11, 2009
Supplemental Agreement No. 18	April 22, 2009
Supplemental Agreement No. 19	December 9, 2009
Supplemental Agreement No. 20	March 15, 2010
Supplemental Agreement No. 21	June 18, 2010
Supplemental Agreement No. 22	June 30, 2010
Supplemental Agreement No. 23	**________, 2011**

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 and 737-990ER 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 either Model 737-890 or Model 737-990ER 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 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 of 737-890 aircraft 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. For Customer's 737-990ER aircraft, a Supplemental Exhibit CS2 has been added pursuant to Supplemental Agreement No. 23.

Table 1 to Purchase Agreement 2497
737-800
Aircraft Delivery, Description, Price and Advance Payments

* 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.

Table 1 to Purchase Agreement 2497
737-800
Aircraft Delivery, Description, Price and Advance Payments

[***]

* Indicates that certain information contained herein has been omitted and filed separately with the Securities and Exchange Commission.
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Table 1 to Purchase Agreement 2497
737-900ER
Aircraft Delivery, Description, Price and Advance Payments

[***]

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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 and 737-990ER 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.

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:

$P_a =$ [***]

$L =$ [***]

$M =$ [***]

$P =$ [***]

[***]

CPI is a value determined using the U.S. Department of Labor, Bureau of Labor Statistics Consumer Price Index (BLS Series ID

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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 737 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 For 737-800 Aircraft, select and notify Boeing of the suppliers and part numbers of the following BFE items by the following dates:

Galley System	[***]
Galley Inserts	[***]
Seats (passenger)	[***]
Overhead & Audio System	[***]
In-Seat Video System	[***]
Miscellaneous Emergency Equipment	[***]
Cargo Handling Systems	[***]

1.2 For 737-900ER Aircraft, select and notify Boeing of the suppliers and part numbers of the following BFE items by the following dates:

Galley System	[***]
Galley Inserts	[***]
Seats (passenger)	[***]
Overhead & Audio System	[***]
In-Seat Video System	[***]
Miscellaneous Emergency Equipment	[***]
Cargo Handling Systems	[***]

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2. <u>On-dock Dates</u>

On or before September 2011, Boeing will provide to Customer the BFE Requirements electronically in My Boeing Fleet (**MBF**), through My Boeing Configuration (**MBC**). These requirements may be periodically revised, setting forth the items, quantities, on-dock dates and shipping instructions and other requirements relating to the in-sequence installation of BFE. For planning purposes, preliminary BFE on-dock dates are set forth below:

For planning purposes, a preliminary BFE on-dock schedule is set forth below:

[***]

* 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.

[***]

3. Additional Delivery Requirements - Import.

Customer will be the "**importer of record**" (as defined by the U.S. Customs and Border Protection) for all BFE imported into the United States, and as such, it has the responsibility to ensure all of Customer's BFE shipments comply with U.S. Customs Service regulations. In the event Customer requests Boeing, in writing, to act as importer of record for Customer's BFE, and Boeing agrees to such request, Customer is responsible for ensuring Boeing can comply with all U.S. Customs Import Regulations by making certain that, at the time of shipment, all BFE shipments comply with the requirements in the "International Shipment Routing Instructions", including the Customs Trade Partnership Against Terrorism (**C-TPAT**), as set out on the Boeing website referenced below. Customer agrees to include the International Shipment Routing Instructions, including C-TPAT requirements, in each contract between Customer and BFE supplier.

http://www.boeing.com/companyoffices/doingbiz/supplier_portal/index_general.html

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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

This Supplemental Exhibit CS1 contains the Customer Support Variables applicable to the 737-890 Aircraft and incorporates all terms and conditions contained in the Customer Support Document as Exhibit C to the Purchase Agreement.

Customer currently operates an aircraft of the same model as the 737-890 Aircraft. Upon Customer's request, Boeing will develop and schedule a customized Customer Support Program to be furnished in support of the 737-890 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.

CUSTOMER SUPPORT VARIABLES

between

THE BOEING COMPANY

and

Alaska Airlines, Inc.

Supplemental Exhibit CS2 to Purchase Agreement Number 2497

CUSTOMER SUPPORT VARIABLES

relating to

BOEING MODEL 737-990ER AIRCRAFT

This Supplemental Exhibit CS2 contains the Customer Support Variables applicable to the 737-990ER Aircraft and incorporates all terms and conditions contained in the Customer Support Document as Exhibit C to the Purchase Agreement.

Customer currently operates 737-990 aircraft that is the predecessor to the 737-990ER aircraft (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 Engineering. Notwithstanding anything in Exhibit B to the AGTA to the contrary, Boeing will provide the following Maintenance Engineering support:

3.1.1 Maintenance Planning Assistance. Upon request, Boeing will provide assistance in identifying the impact to Customers maintenance program resulting from minor model differences between the Aircraft and the 737-990 aircraft currently operated by the Customer.

3.1.2 ETOPS Maintenance Planning Assistance. Upon request, Boeing will provide assistance in identifying the impact to Customer's ETOPS maintenance program resulting from minor model differences between the Aircraft and the 737-990 aircraft.

3.1.3 GSE/Shops/Tooling Consulting. Upon request, Boeing will provide assistance to Customer in identifying the impact to Customer's maintenance tools and ground support equipment resulting from the minor model differences between the Aircraft and the 737-990 aircraft currently operated by Customer.

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 AIRCRAFT

1. ENGINE ESCALATION. No separate engine escalation methodology is defined for the 737-600, -700, -800, -900, or -900ER 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	3,000	4,000	6,000	8,000	12,000
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	3,000	4,000	6,000	8,000	12,000
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					

2497-1R**17**

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 and 737-990ER aircraft (the Aircraft)

This letter agreement (Letter Agreement) amends and supplements the Purchase Agreement. **This Letter Agreement supersedes and replaces in its entirety Letter Agreement 2497-1R16 dated June 18, 2010**. 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 Attachment 1 and Attachment 2 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 that 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;
(iii) Changes mutually agreed upon; and
(iv) In the case of the Boeing 737-990ER, Changes incorporated in the final configuration in accord with Letter Agreement 5-1162-SCR-106.

2. Price

2.1 The pricing elements of the Option Aircraft are listed in the Attachments 1 and 2 attached hereto.

2.1.1 The [***] New Option Aircraft added to the Purchase Agreement by Supplemental Agreement No. 23 listed in Attachment 2 include escalation factors based on [***] and the resulting advance payment base price and advance payments listed are based on such escalation.

* 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.

2.1.2 The remaining Option Aircraft listed in Attachment 1 include escalation factors based on [***] and the resulting advance payment base price and advance payments are based on such escalation.

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. The existing Optional Features amounts shown on Attachments 1 and 2 do not include changes to the Exhibit A incorporated in Supplemental Agreement No. 20 nor do the amounts include Boeing Sky Interior (BSI).

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 mutually agreed different Boeing then current escalation provision should such exist at the date of execution of the definitive agreement for the Option Aircraft. Attachments 1and 2 are shown with the alternate escalation provisions (ECI-MFG/CPI formula). [***]

2.2.3 Base Price Adjustments. [***]

3. Payment.

3.1 Customer will pay a deposit to Boeing in the amount specified in an Attachment for each Option Aircraft (Deposit), on the date of this Letter Agreement when the particular Option Aircraft was not previously included in an Attachment to an earlier version of this letter and previously paid. 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 an Attachment will be payable for the Option Aircraft. The remainder of the Aircraft Price for the Option Aircraft will be paid as advance payments and at the time of delivery as provided in the Purchase Agreement.

4. Option Exercise.

4.1 Customer may exercise an option by giving written notice to Boeing prior to the delivery dates listed in Attachments 1 and 2 (Option Exercise Date) as described in paragraphs 4.3 and 4.4 below.

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.

* 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 For Option Aircraft listed on Attachment 1, Customer may (i) exercise its Option, or (ii) exercise its Option and convert an Option Aircraft by providing written notice of its intention to purchase the Option Aircraft, and if applicable, state that it intends to purchase a [***] Substitute Aircraft in substitution for an Option Aircraft:

(a) no later than the first day of the month that is [***] prior to the scheduled month of delivery of the Option Aircraft set forth in Attachment 1; and

(b) any substitution into a Boeing Model [***] aircraft with auxiliary tanks may result in a two (2) month slide to delivery unless the notice of intention to substitute indicates that the [***] Aircraft will require auxiliary tanks and such notice is given no later than the first day of the month that is [***] prior to the scheduled option month set forth in Attachment 1 as the month of delivery for the Aircraft; and

(c) any substitution into a Boeing Model [***] aircraft may not later be substituted to any other Boeing Model.

4.4 For the [***] New Option Aircraft added by Supplemental Agreement No. 23 that are reflected in Attachment 2, Customer may (i) exercise its Option, or (ii) exercise its Option and convert an Option Aircraft by providing written notice of its intention to purchase a [***] (Substitute Aircraft) in substitution for an Option Aircraft;

(a) no later than the first day of the month that is [***] prior to the scheduled month of delivery of the Option Aircraft set forth in Attachment 2.

(b) any substitution into a Boeing Model [***] aircraft may not later be substituted to any other Boeing Model.

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 due to Customer's failure or refusal, Boeing will retain the Deposit for that Option 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.

Sincerely,

THE BOEING COMPANY

By /s/ Stuart C. Ross

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: January 24, 2011

Alaska Airlines, Inc.

By /s/ Brandon S. Pedersen

Its Vice President, Finance
Chief Financial Officer

Attachments 1 and 2

Attachment 1 to Option Aircraft Letter Agreement 2497-1R17
737-800 Options
Aircraft Delivery, Description, Price and Advance Payments (1)

[***]

* 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.

Attachment 1 to Option Aircraft Letter Agreement 2497-1R17
737-800 Options
Aircraft Delivery, Description, Price and Advance Payments (1)

[***]

* 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.

Attachment 2 to Option Aircraft Letter Agreement 2497-1R17
737-800 Options
Aircraft Delivery, Description, Price and Advance Payments (1)

[***]

* 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.

2497-2R1

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 and [***] aircraft, collectively (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 [***] aircraft (Substitute Aircraft) in place of any of the Aircraft, subject to the following terms and conditions:

1. Customer's Written Notice.

Customer will provide written notice of its intention to substitute the purchase of a Substitute Aircraft in substitution for a 737-800 Aircraft:

(a) no later than the first day of the month that is (i) [***] prior to the scheduled month of delivery for the Option Aircraft as reflected on Attachment 1 of Letter Agreement 2497-1R17, or (ii) [***] prior to the scheduled month of delivery as reflected on Attachment 2 of Letter Agreement 2497-1R17, provide written notice to Boeing of its election to exercise its Option and substitute a Substitute Aircraft for the exercised Option Aircraft; and

(b) in the case of exercise of an Option Aircraft as reflected on Attachment 1 of Letter Agreement 2497-1R17 only, any substitution into a Boeing Model [***] aircraft with auxiliary tanks may result in a two (2) month slide to delivery unless the notice of intention to substitute indicates that the [***] Aircraft will require auxiliary tanks and such notice is given no later than the first day of the month that is [***] prior to the schedule month of delivery for the Aircraft; and

(c) any substitution into a Boeing Model [***] may not later be substituted to any other Boeing Model.

2. Boeing's Production Capability.

Customer's substitution right is conditioned upon Boeing's having production capability and the availability for the Substitute Aircraft in the scheduled delivery month of the Aircraft for which it will be substituted.

* 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.

If offerable, Boeing will tentatively quote delivery positions for the 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 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 Substitute Aircraft within thirty (30) days of (i) Customer's substitution notice to Boeing or, (ii) if required pursuant to paragraph 2, Customer's acceptance of an alternate delivery month in accordance with paragraph 2 above. Upon definitive agreement, such Substitute Aircraft shall be incorporated into the Agreement as Aircraft.

4. Price, Escalation Adjustments and Advance Payments.

[***] The Airframe Price and the price of Optional Features for 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 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 Substitution Aircraft. The representative escalation indices and methodology will be used to estimate the Advance Payment Base Prices for Substitution Aircraft.

If the Advance Payment Base Price for any 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 Substitute Aircraft. If the Advance Payment Base Price of the 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.

* 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 /s/ Stuart C. Ross

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: January 24, 2011

Alaska Airlines, Inc.

By /s/ Brandon S. Pedersen

Its Vice President, Finance
Chief Financial Officer

2497-4**R1**

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 and 737-990ER (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 /s/ Stuart C. Ross

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: January 24, 2011

Alaska Airlines, Inc.

By /s/ Brandon S. Pedersen

Its Vice President, Finance
Chief Financial Officer

2497-3**R1**

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 737890 and 737-990ER 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 /s/ Stuart C. Ross

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: January 24, 2011

Alaska Airlines, Inc.

By /s/ Brandon S. Pedersen

Its Vice President, Finance
Chief Financial Officer

2497-5R1

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 and 737-990ER 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.

2. 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 /s/ Stuart C. Ross

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: January 24, 2011

Alaska Airlines, Inc.

By /s/ Brandon S. Pedersen

Its Vice President, Finance
Chief Financial Officer

6-1162-MSA-592R1

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 737-800 and 737-900ER 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.

1. [***]

    1.1 [***]

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.

* 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 /s/ Stuart C. Ross

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: January 24, 2011

Alaska Airlines, Inc.

By /s/ Brandon S. Pedersen

Its Vice President, Finance
Chief Financial Officer

6-1162-MSA-597**R19**

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 (-890 Aircraft) and 737-990ER (-990 ER Aircraft), collectively the (Aircraft).

This letter agreement (Letter Agreement) amends and supplements the Purchase Agreement. This Letter Agreement supersedes and replaces in its entirety Letter Agreement 6-1162-MSA-597R18 dated March 15, 2010. 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.

3. [***] Credit Memorandum.

3.1 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 increase to [***], to be applied as described above.

3.2 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.

* 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.

3.3 [***]

4. Market Development Credit Memorandum.

[***]

5. [***] Escalation Factors.

5.1 Table 1, pages 9 through 15 to the Purchase Agreement identifies the delivery positions and the estimated escalation for the Aircraft. The parties agree that escalation factors shall be [***] ([***] Factor) for certain Aircraft ([***]Factor Aircraft). The [***] Factor will be used to determine the escalation adjustment component of the Aircraft Price for each [***] Factor 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 applicable [***] Factor Aircraft with the corresponding [***] Factor are as listed in Attachments 1A, 1B, and 2 and are listed in Table 1, pages 10, 11 and 14. As of the date of this Letter Agreement, all Aircraft listed in Attachments 1A, 1B, and 2 have been delivered by Boeing to the Customer and such Attachments are included herein for historical and documentation administration purposes.

5.2 The Aircraft Price, Basic Credit Memorandum, Special Credit Memorandum and [***] Credit Memorandum for [***] Factor Aircraft entitled to [***] Factor escalation are as listed in Attachments 1A, 1B, and 2 and are subject to adjustment per Article 5.3 below. To confirm, [***] Factor is not applicable to Buyer Furnished Equipment and Seller Purchased Equipment.

5.3 In addition, the escalation adjustment for any other sum which is identified in the Purchase Agreement as subject to escalation and which pertains to [***] Factor 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.

5.4 The process for determining eligibility and adding Aircraft not listed in Attachments 1A, 1B, and 2 and Table 1, pages 10, 11, and 14 is specified in Letter Agreement 6-1162-MSA-691, titled [***].

6. [***]

7. [***]

8. 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:

* 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.

8.1 [***]

8.2 [***]

8.3 [***]

9. [***] Advance Payment Schedule.

9.1 [***], Customer [***] pay advance payments according to the following schedule, for Aircraft on order as of the date of signing the Purchase Agreement.

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	[***]

9.2 [***]

10. [***]

* 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.

11. [***]

12. [***]

13. 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):

13.1 [***]

13.2 [***]

13.3 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 (whether or not for a Substitute Aircraft), 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 [***].

13.4 [***]

14. 737 Next Generation Manuals in the SGML Format

In consideration of Customer electing to receive Task Cards for Customer's fleet of Boeing Model 737-400 aircraft in the SGML format in lieu of the Print File format that Customer currently receives, Boeing will provide the Aircraft Maintenance Manual (AMM) and Fault Isolation/Fault Reporting Manual (FIM/FRM) for Customer's fleet of Boeing Model 737-700, 737-800 and 737-900 aircraft (the 737 NG aircraft) in the SGML format at no-charge to Customer for the period [***]. Should Customer continue to receive the AMM and FIM/FRM for 737 NG aircraft in the SGML format beyond the date of [***], Customer shall upon such date pay Boeing its then-current fees for such on-going manuals service.

In recognition that Customer paid for the initial set-up and first-year revision service (November 2007 through November 2008) of the AMM and FIM/FRM for its 737 NG aircraft fleet, Boeing shall immediately upon execution of this Letter Agreement issue a credit in the fixed amount of [***] which Customer may apply towards the purchase of future Boeing goods and services.

15. INTENTIONALLY LEFT BLANK

16. [***]

17. INTENTIONALLY LEFT BLANK

* 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.

18. 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.

19. 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 /s/ Stuart C. Ross

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: January 24, 2011

Alaska Airlines, Inc.

By /s/ Brandon S. Pedersen

Its Vice President, Finance
Chief Financial Officer

Attachment

6-1162-SCR-106

Alaska Airlines
19300 International Blvd. South
Seattle, Washington
98188

Subject: Model 737-990ER Open Configuration Matters

Reference: Purchase Agreement No. 2497 (the Purchase Agreement) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Customer) relating to Model 737-990ER 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.

1. Aircraft Configuration.

1.1 Initial Configuration. The initial configuration of Customer's Model 737-900ER Aircraft has been defined by Boeing 737-900ER Configuration Specification D019A001, Rev N, dated January 29, 2010 and configured with the 737 Standard Selections Publication D924A110-2, including selections for the Boeing Sky Interior. Boeing and Customer agree to include this initial configuration and the related pricing of the Optional Features in this Supplemental Agreement number 23.

1.2 Final Configuration Schedule. The final configuration of the Customer's Aircraft has not yet been defined. Customer and Boeing hereby agree to complete discussions of the configuration of the Aircraft no later than September 1, 2011 using the then current Model 737 Aircraft Description and Selections Document (Final Configuration), with Customer acceptance no later than November 1, 2011. Customer has requested a decision milestone chart from Boeing to assist Customer by providing the dates that Boeing needs decisions to be made by in order to complete the configuration in a timely manner to meet the delivery month of February 2013 for the first Aircraft. The milestone chart is attached hereto as Attachment A.

2. Amendment of the Purchase Agreement. Within thirty (30) days following Final Configuration pursuant to Article 1.2, above, Boeing and Customer will execute a written amendment to the Purchase Agreement which will reflect the following:

2.1 Changes applicable to the basic Model 737-990ER Aircraft between the date of signing of this Supplemental Agreement and date of Final Configuration pursuant to Article 1.2, above (Baseline Changes);

2.2 Incorporation into Exhibit A of the Purchase Agreement of those Customer Selections which have been agreed to by Customer and Boeing (Customer Configuration Changes);

2.3 Revisions to the Performance Guarantees to reflect the effects, if any, on Aircraft performance of the incorporation of the Customer Configuration Changes and the Baseline Changes.

2.4 Changes to the Optional Features Price, Aircraft Basic Price and the Advance Payment

Base Price of the Aircraft to adjust for (i) the difference, if any, between the [***] Optional Features amount included in the Aircraft Basic Price reflected in Table 1, Page 15; and (ii) the difference between the actual prices of the Optional Features and Seller Purchased Equipment reflected in the Customer Configuration Changes.

3. Other Letter Agreements.

Boeing and Customer acknowledge that as the definition of the Model 737-990ER Aircraft progresses, there may be a need to execute letter agreements addressing one or more of the following subjects:

3.1 Software. Additional provisions relating to software.

3.2 Seller Purchased Equipment (SPE) and/or Buyer Furnished Equipment (BFE). Provisions relating to the terms under which Boeing may offer or install SPE and/or BFE in the Model 737-990ER Aircraft.

4. Confidential Treatment.

Customer understands that certain commercial and financial information contained in this Letter Agreement and attachments hereto are considered by Boeing as confidential. Customer agrees that it will treat this Letter Agreement and the information contained herein as confidential and, except as otherwise required by law, 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 portions.

Very truly yours,

THE BOEING COMPANY

By /s/ Stuart C. Ross

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: January 24, 2011

ALASKA AIRLINES, INC.

By /s/ Brandon S. Pedersen

Its Vice President, Finance
Chief Financial Officer

Attachment A

Attachment A to 6-1162-SCR-106

Aircraft Configuration Milestones

SA-23

Initial Configuration Discussions Completed - [***]

This is the start of the formal configuration process, with informal configuration discussions leading up to this. Writing options, providing price and offerability, and formally offering proposals to Alaska with CADs will occur during this process.

First Option Package Proposed to Alaska - [***] with CAD [***]

The program has scheduled the first option package.

Final Configuration Discussions Completed - [***]

This will result in the last option package processed. By this time Boeing will require a complete airplane definition:

- Flight Deck and other capabilities (e.g. Short Field Performance, ETOPS/no ETOPS, RNP)

- Interior arrangement (e.g. seat layout, monuments including class divider, aft galley complex/flat pressure bulkhead, emergency equipment)

- Structures (e.g. window plug)

- Exterior color schemes

Customer Acceptance for Final Configuration - [***]

Combined with all previous option packages, Customer selects their final configuration

* 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.

6-1162-MSA-691R5

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

Subject: [***]

Reference: Purchase Agreement No. 2497 (the Purchase Agreement) between The Boeing Company (Boeing) and Alaska Airlines, Inc. (Customer) relating to Model 737-890 and 990-ER aircraft (the Aircraft)

This letter agreement (Letter Agreement) amends and supplements the Purchase Agreement. This Letter Agreement supersedes and replaces in its entirety Letter Agreement 6-1162-MSA-691R4 dated October 31, 2007. All terms used but not defined in this Letter Agreement have the same meaning as in the Purchase Agreement.

Article 4 of Special Matters Letter Agreement 6-1162-MSA-597 identifies [***] Factor Aircraft for which [***] Factors are to be applied. The following defines the conditions for eligibility and process for changing certain Aircraft that are not designated for [***] escalation ([***] Factor Aircraft) to [***] Factor Aircraft.

Recitals:

A. Each year (Annual Base Year) Boeing updates the airframe price for each model of Boeing aircraft.

B. In August of each year Boeing prepares and furnishes to its customers forecasts of escalation factors developed by Boeing using data published by independent forecasting services (August Forecast).

C. Attachment A to this Letter Agreement, which is incorporated by this reference, shall be used to list Aircraft that Customer has agreed to purchase and for which Boeing, at a future date, offers to permit Customer to elect to [***]. In the event that Boeing makes Customer such an offer, this letter will be revised to include a new Attachment A that will reflect (i) the delivery months for the [***] Factor Aircraft, (ii) the serial numbers of the [***] Factor Aircraft, (iii) the escalation provisions applicable to the [***] Factor Aircraft, and (iv) the time period during which Customer may give notice of an [***] for the [***] Factor Aircraft pursuant to Article 2 of this Letter Agreement.

Agreement:

1. Once an Aircraft has been designated as a [***] Factor Aircraft (per Article 4 of Special Matters Letter Agreement 6-1162-MSA-597) the [***] Factor value may not be changed. The escalation of any sum pertaining to a [***] Factor Aircraft which is subject to escalation pursuant to the provisions of the Purchase Agreement shall be calculated using such [***], regardless of the date on which the obligation to pay such sum arises.

* 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. The airframe escalation factor for the [***] Factor Aircraft may be [***] as provided in Articles

2.1 through 2.3, below, at the election of Customer:

2.1 Customer may [***] for each [***] Factor Aircraft only one time [***].

2.2 Customer may make an [***] only with respect to [***] Factor Aircraft delivering in the twelve month period following August 1 of the year three years after the Annual Base Year in which [***] is made (Candidate Aircraft). (For example, for an [***] made during the Annual Base Year 2006, the Candidate Aircraft would be the [***] Factor Aircraft delivering in the months of August 2009 through July 2010.)

2.3 Customer may elect [***] for Candidate Aircraft at the applicable forecasted airframe escalation factor for the delivery month of such Candidate Aircraft as set forth in the August Forecast published by Boeing in the Annual Base Year in which the [***] occurs, provided that Customer provides written notice to Boeing of such election in the form attached as Attachment B by October 1 of such Annual Base Year (Election Period).

3. Upon Boeing's receipt of Customer's notice in the form of Attachment B and Boeing's confirmation of its content and timeliness, the Purchase Agreement shall be deemed amended to reflect such [***] for the specified [***] Factor Aircraft.

4. The amount and timing of Advance Payments Customer is required to pay to Boeing pursuant to the Purchase Agreement shall be unaffected by any [***].

5. This Letter Agreement is only applicable to Aircraft that may be listed in Attachment A in the future. At Boeing's discretion, [***] Factor may be offered for other aircraft that Customer agrees to purchase by executing a Supplemental Agreement to the Purchase Agreement. In the event that [***] Factor is offered, applicable Aircraft that were not eligible for [***] Factor may be added to Attachment A.

5.1 Notwithstanding the provisions as set forth in paragraph 5 above, Customer and Boeing agree that the following Aircraft, identified in paragraphs 5.1.1 and 5.1.2 below, shall not be designated as [***] Factor Aircraft, and accordingly not designated for [***].

5.1.1 The following serial numbers from Table 1, page 15 to the Purchase Agreement:

[***]

5.1.2 [***]

6. Customer understands that certain commercial and financial information contained in this Letter Agreement and the attachments hereto 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 portions.

Sincerely,

THE BOEING COMPANY

By /s/ Stuart C. Ross

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: January 24, 2011

Alaska Airlines, Inc.

By /s/ Brandon S. Pedersen

Its Vice President, Finance
Chief Financial Officer

Attachments

Attachment A to Letter Agreement 6-1162-MSA-691 **R5**

Airframe Model	737-800	737-900ER
Engine Model:	CFM56-7B27	CFM56-7B27
Airframe Price Base Year	2004	2005
Engine Price Base Year	N/A	N/A

Delivery Month and Year	[***] **Factor Aircraft Serial Number**	**Applicable** [***] **Airframe/Engine** [***] **Provisions**	**Election Period (notification due by)**

* 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.

Attachment B to Letter Agreement 6-1162-MSA-691 **R5**

Notice of [***]

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

Reference: Purchase Agreement No. 2497 dated as of June 15, 2005, between The Boeing Company (Boeing) and Alaska Airlines, Inc. (the Purchase Agreement)

Attention: Vice President - Contracts
Mail Code 21-34

Pursuant to Article 2 of Letter Agreement 6-1162-MSA-691 (Letter Agreement) to the Purchase Agreement and subject to the provisions of Article 3 of such Letter Agreement, Alaska Airlines elects to [***] for the following Candidate Aircraft as provided in the following table:

Airframe Model:	737-800, 900ER	**Airframe Price Base Year:**	2004, 2005 (900ER)
Engine Model:	CFM56-7B27	**Engine Price Base Year:**	N/A

Delivery Month and Year	**Candidate Aircraft Serial Number**	[***] **Airframe/Engine** [***]

Alaska Airlines, Inc.

By
Its
Dated

Receipt of the above notice is acknowledged and the [***] pursuant to the Letter Agreement as described in this notice is confirmed, effective as of this date.

THE BOEING COMPANY

By
Its <u>Attorney-in-Fact</u>
Dated

* 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.

6-1162-SCR-112

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 737-990ER 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 /s/ Stuart C. Ross

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: January 24, 2011

Alaska Airlines, Inc.

By /s/ Brandon S. Pedersen

Its Vice President, Finance
Chief Financial Officer

Attachment

MODEL 737-900ER 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 737-900ER Aircraft with winglets and a maximum takeoff weight of [***] pounds, a maximum landing weight of [***] pounds, and a maximum zero fuel weight of [***] pounds, and equipped with Boeing furnished CFM56-7B26E 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 [***]°C, at a sea level altitude, with an alternate forward center of gravity limit of 15 percent of the mean aerodynamic chord, 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

* 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.

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.
Fuel Density:	The fuel density is 6.7 pounds per U.S. gallon.
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 the recommended climb speed for minimum block fuel.
	The climb continues at the recommended climb speed for minimum block fuel 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 37,000 feet.
	A step climb or multiple step climbs of 2,000 feet altitude may be used when beneficial to minimize fuel burn.
	The temperature is standard day during cruise.
	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 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): 100,527 Pounds

Taxi-Out:
Fuel 230 Pounds

Takeoff and Climbout Maneuver:
Fuel 530 Pounds
Distance 3.7 Nautical Miles

Approach and Landing Maneuver:
Fuel 250 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: 7,680 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 minutes hold at 1,500 feet above a sea level alternate airport.

2.3.2Operational Empty Weight Basis

The Operational Empty Weight (OEW) derived in Paragraph 2.3.3 is the basis for the mission guarantees of Paragraph 2.3.1.

2.3.3 737-9ER Weight Summary Alaska Airlines

	Pounds
Standard Model Specification MEW	**[***]**
Configuration Specification D019A001, Rev. N	
Dated January 29, 2010	
204 Tourist Class Passengers	
CFM56-7 Engines	
164,500 Pounds (74,615 kg.) Maximum Taxi Weight	
6,875 U.S. Gallons (26,024 l.) Fuel Capacity	
Changes for Alaska Airlines	
Interior Change to 178 (16 FC/162 EC) Passengers*	**[***]**
(Ref: LOPS B376189) (BSI interior)	
188,200 Pounds (85,366 Kilograms) Maximum Taxi Weight	**[***]**
Mid Cabin Exit Door Deactivation	**[***]**
Extended Operations (ETOPS)	**[***]**
60 Minute Standby Power	**[***]**
Heads Up Display (HUD)	**[***]**
Centerline Overhead Cargo Compartments (4)	**[***]**
Heavy Duty Cargo Compartment Linings/Panels	**[***]**
Winglets	**[***]**
Additional Change Requests Allowance (Based on 737-800)	**[***]**
Alaska Airlines Manufacturer's Empty Weight (MEW)	**[***]**
Standard and Operational Items Allowance (Paragraph 2.3.4)	**[***]**
Alaska Airlines Operational Empty Weight (OEW)	**[***]**

* 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.

	Quantity	Pounds	Pounds
* Seat Weight Included:			6,080
First Class Front Row Double w/2 In-Arm Food Trays	2	257	
First Class Double w/2 In-Arm Food Trays	6	710	
Economy Class Front Row Triple w/3 In-Arm Food Trays	2	256	
Economy Class Triple	45	4,857	

2.3.4 Standard and Operational Items Allowance

	Qty	Pounds	Pounds	Pounds
Standard Items Allowance				**[***]**
Unusable Fuel			[***]	
Oil			[***]	
Oxygen Equipment			[***]	
Passenger Portable Bottles and Masks	7	[***]		
Crew Masks and Goggles	4	[***]		
Miscellaneous Equipment			[***]	
Crash Axe	1	[***]		
Megaphones	2	[***]		
Flashlights	6	[***]		
Smoke Hoods	5	[***]		
Seat Belt Extensions	5	[***]		
Galley Structure & Fixed Inserts			[***]	
Operational Items Allowance				**[***]**
Crew and Crew Baggage			[***]	
Flight Crew	2	[***]		
Cabin Crew	5	[***]		
Crew Baggage	7	[***]		
Pilot Flight Kits and Flight Deck Manuals		[***]		
Catering Allowance & Removable Inserts			[***]	
First Class	16	[***]		
Economy Class	162	[***]		
Passenger Service Equipment	178		[***]	
Potable Water - 60 USG			[***]	
Waste Tank Disinfectant			[***]	
Emergency Equipment			[***]	
Escape Slides	4	[***]		
Life Rafts	4	[***]		
Life Vests - Passengers	178	[***]		
Life Vests - Crew	10	[***]		
Emergency Locator Transmitter	2	[***]		
Total Standard and Operational Items Allowance				**[***]**

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 D019A001ASA39E-1 plus one percent.

4 SOUND LEVELS

4.1 Community Sound Levels

4.1.1 Certification

The Aircraft shall be certified in accordance with the requirements of 14CFR Part 36, Stage 4 and ICAO Annex 16, Volume 1, Chapter 4.

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 D019A001ASA39E-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 Federal Aviation Administration (FAA) regulations referred to in this Attachment are, unless otherwise specified, the 737-900ER Certification Basis regulations specified in the Type Certificate Data Sheet A16WE, Revision 40, dated April 27, 2007.

* 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.

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 P 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. 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°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, as determined by Boeing, not to be aft of 19.7 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 6.70 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 737-900ER.

7.3 Compliance with the takeoff guarantee and the takeoff portion of the mission guarantee shall be shown using an alternate forward center of gravity limit of 15 percent of the mean aerodynamic chord.

7.4 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.

7.5 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 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.

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

[***]

Very truly yours,

THE BOEING COMPANY

By /s/ Stuart C. Ross

Its Attorney-In-Fact

ACCEPTED AND AGREED TO this

Date: January 24, 2011

ALASKA AIRLINES, INC.

By /s/ Brandon S. Pedersen

Its Vice President, Finance
Chief Financial Officer

* 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.

EXHIBIT 31.1

CERTIFICATIONS

I, William S. Ayer, certify that:

1. I have reviewed this annual report on Form 10-K of Alaska Air Group, Inc. for the period ended March 31, 2011;

2. Based on my knowledge, this 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 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 fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

e) 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:

   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.

May 4, 2011 By /s/ WILLIAM S. AYER

William S. Ayer

Chairman, President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Brandon S. Pedersen, certify that:

1. I have reviewed this annual report on Form 10-K of Alaska Air Group, Inc. for the period ended March 31, 2011;

2. Based on my knowledge, this 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 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 fourth 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:

    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.

May 4, 2011 By /S/ BRANDON S. PEDERSEN

Brandon S. Pedersen
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 Annual Report of Alaska Air Group, Inc. (the "Company") on Form 10-K for the period ended March 31, 2011 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

May 4, 2011

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 Annual Report of Alaska Air Group, Inc. (the "Company") on Form 10-K for the period ended March 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brandon S. Pedersen, 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/ BRANDON S. PEDERSEN

Brandon S. Pedersen

Chief Financial Officer

May 4, 2011