UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT PURSUANT
TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

February 12, 2007
(Date of earliest event reported)

ALASKA AIR GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation)

1-8957	**91-1292054**
(Commission File Number)	**(IRS Employer Identification No.)**
19300 Pacific Highway South, Seattle, Washington	**98188**
(Address of Principal Executive Offices)	**(Zip Code)**

(206) 392-5040
(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

References in this report on Form 8-K to “Air Group,” “Company,” “we,” “us,” and “our” refer to Alaska Air Group, Inc. and its subsidiaries, unless otherwise specified. Alaska Airlines, Inc. and Horizon Air Industries, Inc. are referred to as “Alaska” and “Horizon,” respectively, and together as our “airlines.”

FORWARD-LOOKING INFORMATION

This report contains forward-looking statements subject to the safe harbor protection provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events and involve known and unknown risks and uncertainties that may cause actual outcomes to be materially different from those indicated by any forward-looking statements. Some of the things that could cause our actual results to differ from our expectations are: the competitive environment and other trends in our industry; changes in our operating costs including fuel, which can be volatile; our ability to meet our cost reduction goals; our inability to achieve or maintain profitability and fluctuations in our quarterly results; our significant indebtedness; our inability to secure new aircraft financing; the implementation of our growth strategy; the timing of the MD-80 fleet disposal, the market value of MD-80 aircraft, and the amounts of potential lease termination payments with lessors and sublease payments from sublessees; compliance with our financial covenants; potential downgrades of our credit ratings and the availability of financing; the concentration of our revenue from a few key markets; general economic conditions, as well as economic conditions in the geographic regions we serve; actual or threatened terrorist attacks; global instability and potential U.S. military actions or activities; insurance costs; labor disputes; our ability to attract and retain qualified personnel; an aircraft accident or incident; liability and other claims asserted against us; operational disruptions; increases in government fees and taxes; changes in laws and regulations; our reliance on automated systems; and our reliance on third-party vendors and partners. For a discussion of these and other risk factors, see Item 1A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2005 and Item 1A of the Company’s Quarterly Report on Form 10-Q for the three months ended September 30, 2006. All of the forward-looking statements are qualified in their entirety by reference to the risk factors discussed therein. These risk factors may not be exhaustive. We operate in a continually changing business environment, and new risk factors emerge from time to time. Management cannot predict such new risk factors, nor can it assess the impact, if any, of such new risk factors on our business or events described in any forward-looking statements. We disclaim any obligation to publicly update or revise any forward-looking statements after the date of this report to conform them to actual results. Over time, our actual results, performance or achievements will likely differ from the anticipated results; performance or achievements that are expressed or implied by our forward-looking statements, and such differences might be significant and materially adverse.

Item 8.01 Other Events

On February 12, 2007, Alaska Air Group, Inc. (the Company) posted an "Investor White Paper" to its investor relations website at alaskaair.com describing a new capacity purchase arrangement between Alaska Airlines, Inc. and Horizon Air Industries, Inc. effective January 1, 2007. The white paper discusses the general terms of the agreement as well as its expected impact on the financial statements of the Company and its subsidiaries.

In accordance with General Instruction B.2 of Form 8-K, the information in this Form 8-K and exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor shall such information be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such a filing.

ITEM 9.01.

Financial Statements and Exhibits

(d) Exhibits.

Exhibit 99.1 Capacity Purchase Arrangement Investor White Paper

Signature

Pursuant to the requirements 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: February 12, 2007

/s/ Brandon S. Pedersen
Brandon S. Pedersen
Vice President/Finance and Controller

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

Alaska Air Group, Inc.

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New Capacity Purchase Arrangement Between Alaska and Horizon

Executive Summary

Horizon Air and Alaska Airlines have entered into an agreement whereby Alaska will purchase certain capacity from Horizon at a specified rate. This new arrangement will result in Alaska recording the passenger revenue for flights operated by Horizon that are subject to the arrangement. Alaska also will include the contractual costs in its statement of operations. This document aims to clarify for investors and other interested parties the arrangement and the expected impact on the financial statements of each airline.

Background

Air Group is composed of two primary operating subsidiaries – Alaska Airlines and Horizon Air Industries. Both of these subsidiaries operate as airlines, although their business plans, competition and economic risks differ substantially. Alaska is a major airline, operating an all-jet fleet with an average passenger trip length of over 1,000 miles. Horizon is a regional airline operating both jet and turboprop aircraft with an average passenger trip length of less than 400 miles.

Since the acquisition of Horizon by Air Group in 1986, Alaska and Horizon have operated independently and continue to have strong, distinct brands. In addition to serving its own markets, Horizon also provides feed traffic to Alaska and frequency in certain low-density Alaska markets for the benefit of the overall Air Group network. Both the feed and low-density flying for Alaska are referred as “incentive markets.”

Under the former arrangement between Alaska and Horizon, if the incentive markets resulted in a loss to Horizon, Alaska would make a payment to Horizon equal to the amount of the loss. Alternatively, if the incentive markets were profitable for Horizon over a specified margin, Horizon would make a payment to Alaska equal to the overage amount. Horizon was also eligible for a quarterly bonus if Alaska posted an operating profit as defined internally. The net payment or receipt was reported in “Selling expenses” in Alaska’s statement of operations. Horizon reported the receipt or payment in “Passenger revenues.” Alaska made incentive payments of $3.7 million in 2006, received incentive payments from Horizon of $1.7 million during 2005, and made incentive payments to Horizon of $13.8 million in 2004. These intercompany transactions were eliminated in consolidation.

New Arrangement Details

The effective date for the new capacity purchase arrangement is January 1, 2007. Under this new arrangement, Alaska will pay Horizon for specified flying based on predetermined rates plus a negotiated margin, regardless of the number of passengers on board or the revenue collected. The arrangement also includes a bonus that will be paid to Horizon if it meets certain operational performance measures. Alaska has assumed the revenue risk for the incentive markets and therefore will record all of the related passenger revenue.

Impact on Alaska's Statement of Operations

New Arrangement with Horizon

Revenue from the incentive markets will be presented by Alaska in a new line item entitled "Passenger revenue – regional affiliates." The associated costs, including an allocation of shared services costs borne by Alaska (more fully explained below), will be presented in a new operating expense line item entitled "Regional flying costs." Alaska will also begin reporting "mainline" and "regional" financial statistics including available seat miles (ASMs), revenue per ASM, and cost per ASM, among others.

Alaska provides certain services such as finance and IT support to Horizon, for which it is reimbursed. Under the new arrangement, certain of those shared services costs borne by Alaska will be allocated to the incentive markets and recorded in "Regional flying costs" rather than being billed to and reimbursed by Horizon. These costs are not expected to be material.

Arrangement with PenAir

Alaska currently has a similar capacity purchase agreement in place whereby Alaska purchases from Peninsula Airways (PenAir) certain flights between Anchorage and Dutch Harbor, AK. Alaska has historically reported the revenue from this arrangement in "Other revenue – net" and the related costs in "Contracted services" in our statement of operations. Historically, the revenue and related cost associated with this arrangement have not been material. As a result of the new presentation for the Horizon capacity purchase agreement, we will also begin reporting PenAir flying in the separate regional flying costs line. Beginning with periodic reports in 2007, prior-year financial statements will be reclassified accordingly.

A pro forma 2006 statement of operations for Alaska Airlines is presented below, reclassified for PenAir revenues and expenses. Additionally, it has been adjusted for revenues and costs related to the Horizon incentive markets. The revenue amounts presented are based on actual 2006 revenues recorded by Horizon for the incentive market flying. For purposes of this document, the Horizon incentive market costs are assumed to be equal to revenues. This is not an indication of what the future margin on this flying will be, nor is it an indication of the historical margin. It is for illustration purposes only.

Impact on Horizon's Statement of Operations

Horizon's statement of operations will not change significantly. Horizon will continue to report in its operational statistics disclosures all operational metrics from the incentive markets flying. The primary difference will be that the revenue recorded by Horizon from this flying will be the contract amount paid to Horizon by Alaska rather than the actual revenue collected from passengers.

Impact on Consolidated Statement of Operations

Air Group's consolidated statements of operations will include only the revenue and expenses associated with PenAir flying, as transactions between Alaska and Horizon are eliminated in consolidation. Other than the reclassification of PenAir revenues and expenses, our 2006 and 2005 statements of operations will remain unchanged because the new arrangement effective date is January 1, 2007.

Alaska Airlines
2006 Pro Forma Financial and Statistical Data

	Twelve Months Ended December 31, 2006			
	Actual (GAAP Basis)	PenAir	Horizon Incentive Markets	Pro Forma
Financial Data (in millions):				
Operating Revenues:				
Passenger	$ 2,453			$ 2,453
Passenger - regional affiliates (new)	—	16	222	238
Other - net	240	(16)		224
Total Operating Revenues	2,693			2,915
Operating Expenses:				
Wages and benefits	771			771
Aircraft fuel	757			757
Landing fees and other rentals	158			158
Aircraft maintenance	157			157
Contracted services	132	(14)		118
Other operating costs	599			599
Fleet transition costs	190			190
Restructuring charges and adjustments	25			25
Regional flying costs (new)	—	14	222	236
Total Operating Expenses	2,789			3,011
Operating Loss	(96)			(96)
Nonoperating income	4			4
Loss Before Income Tax	$ (92)			$ (92)
Mainline Operating Statistics:				
RPMs (000,000) "traffic" *	17,822			17,822
ASMs (000,000) "capacity" *	23,278			23,278
Passenger load factor	76.6%			76.6%
Yield per passenger mile	13.76¢			13.76¢
Operating revenue per ASM	11.57¢	(0.07)		11.50¢
Operating expenses per ASM	11.98¢	(0.06)		11.92¢
Operating expense per ASM excluding fuel, fleet transition costs, restructuring charges and adjustments, navigation fee refund, and regional flying costs	7.81¢	(0.06)		7.75¢
Regional Operating Statistics:				
RPMs (000,000)	—	41	799	840
ASMs (000,000)	—	67	1,066	1,133
Passenger load factor	—	61.2%	74.9%	74.1%
Operating revenue per ASM	—	23.88¢	20.83¢	21.01¢
Operating expenses per ASM	—	20.90¢	20.83¢	20.83¢

* Currently, Alaska traffic and capacity figures do not include PenAir flying. As such, no reclassification is needed.