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 2, 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))

Item 5.02 Departure of Directors or Principal Officers; Election of Officers; Appointment of Principal Officers

On January 31, 2007, the Compensation Committee of the Board of Directors (the "Committee") of Alaska Air Group, Inc. (the "Company") took a number of actions.

First, the Committee confirmed that the Company's overall compensation philosophy is to pay its non-executive employees base pay at market levels with the opportunity to earn above-market pay through incentive compensation. With respect to the Chief Executive Officer (CEO) position, the Committee confirmed that total direct compensation should be substantially below market. With respect to other senior executives, the Committee confirmed that base pay should be substantially below market, but that they will have an opportunity, through short-term and long-term incentive plans, to get to market for total direct compensation if the Company performs well. Thus, the most senior executives at the Company will have the highest proportion of their total direct compensation "at risk." The Committee believes this structure best aligns the interests of executives, employees, shareholders and customers.

Second, consistent with that philosophy, the Committee decided that Chairman and CEO Bill Ayer, and the Company's other Named Executive Officers, Alaska Air Group Executive Vice President/Finance and Chief Financial Officer Brad Tilden, Alaska Airlines, Inc. ("Alaska") Executive Vice President/Marketing & Planning Gregg Saretsky, Alaska Executive Vice President/Operations Kevin Finan, and CEO and President of Horizon Air Industries, Inc. ("Horizon") Jeff Pinneo would receive no salary increase for the 2007 year. At $360,000 per year, Mr. Ayer's base salary is approximately 40% below market (based on information provided by the Committee's independent compensation consultant). Similarly, the base pay of the other Named Executive Officers is at least 20% below market.

Third, the Committee approved participation rates for fiscal 2007 under the Company's short-term incentive plan called the Performance-Based Pay plan ("PBP"), subject to further approval by the Board of Directors, as follows: Mr. Ayer, 100%, and each of the other Named Executive Officers, 75%. Participation rates are expressed as a percentage of base salary for the fiscal year assuming target performance is achieved. The actual amounts paid under the PBP plan may be higher if the performance targets are exceeded or lower (or even 0%) if the targets are not met.

Fourth, the Committee approved the performance criteria pursuant to which awards may be paid to executive officers and other employees participating in the PBP plan for fiscal 2007, as follows. PBP plan participants are eligible to receive PBP plan payments if the Company achieves certain operational and financial performance criteria over the full year. The four measures for 2007 are pre-tax profit (70%), cost per available seat mile excluding fuel (10%), safety as measured by on-the-job injury rates (10%), and employee engagement as measured by employee survey results (10%).

Fifth, the Committee approved grants of stock options, restricted stock units ("RSUs") and performance stock units under the Company's 2004 Long-Term Incentive Plan (the "2004 Plan") to each of the Named Executive Officers. The table below presents the number of shares subject to each of these awards:

	Stock Options	RSUs	Performance Units
William S. Ayer	23,800	5,200	10,500
Bradley D. Tilden	12,300	3,200	5,400
Gregg A. Saretsky	12,300	2,700	5,400
Kevin P. Finan	11,500	2,500	5,000
Jeffrey D. Pinneo	10,400	2,300	4,600

Each stock option was granted with an exercise price equal to $42.85, the closing price of a share of Company common stock on January 31, 2007, and is scheduled to vest in annual installments over a four-year period. The RSUs are scheduled to vest on the third anniversary of the grant date and are payable upon vesting in shares of Company common stock on a one-for-one basis. The performance units will be eligible to vest based on the Company's average pre-tax profit margin over the three-year period commencing January 1, 2007. The percentage of the performance units that vest may range from 0% to 200%, depending on the Company's performance during that period. Vested performance units are payable in shares of Company common stock on a one-for-one basis.

In connection with these award grants, the Committee approved forms of agreements for use in evidencing stock options, restricted stock unit and performance stock unit awards granted under the 2004 Plan. These forms are attached hereto as Exhibits 10.1, 10.2 and 10.3, respectively, and incorporated herein by reference.

Finally, the Committee confirmed payouts for 2006 under the PBP Plan. The payouts are based on the Company's 2006 performance relative to safety, employee engagement, and financial performance goals established by the Committee for the year. As described in more detail below, the Committee exercised its discretion pursuant to the PBP Plan to settle certain 2006 payouts under the Plan in Company common stock (in lieu of a cash payment). The cash amounts of the 2006 payouts under the PBP Plan (before converting the cash bonuses to stock amounts) were as follows: Mr. Ayer, $538,965; Mr. Tilden, $233,531; Mr. Saretsky, $243,204; Mr. Finan, $225,846, and Mr. Pinneo, $209,995. Mr. Pinneo's payout was made in cash. Each of the other Named Executive's payout for 2006 was made in ALK common stock (in lieu of payment of the cash amount set forth above for that executive), with the number of shares deliverable to each executive determined by dividing the executive's cash payout for 2006 (after subtracting the amount of tax withholding required) by $42.85, the per-share closing price of ALK common stock as reported on the New York Stock Exchange on January 31, 2007. The number of shares of ALK common stock actually delivered to each of these executives was as follows: Mr. Ayer, 9,175 shares; Mr. Tilden, 3,915 shares; Mr. Saretsky, 4,085 shares; Mr. Finan, 3,783 shares.

ITEM 9.01.

Financial Statements and Exhibits

(d) Exhibits.

Exhibit 10.1	Alaska Air Group, Inc. 2004 Long-Term Incentive Plan Nonqualified Stock Option Agreement
Exhibit 10.2	Alaska Air Group, Inc. 2004 Long-Term Incentive Plan Stock Unit Award Agreement
Exhibit 10.3	Alaska Air Group, Inc. 2004 Long-Term Incentive Plan Performance Stock Unit Award Agreement

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 2, 2007

/s/ Keith Loveless
Keith Loveless
Vice President/Legal and Corporate Affairs,
General Counsel and Corporate Secretary

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

Exhibit 10.1

ALASKA AIR GROUP, INC.
2004 LONG-TERM INCENTIVE PLAN
NONQUALIFIED STOCK OPTION AGREEMENT

THIS NONQUALIFIED STOCK OPTION AGREEMENT (this "**Option Agreement**") dated _________, by and between **ALASKA AIR GROUP, INC.**, a Delaware corporation ("**Air Group**"), and _________ (the "**Grantee**") evidences the nonqualified stock option (the "**Option**") granted by Air Group to the Grantee as to the number of shares of Air Group's Common Stock first set forth below.

Number of Shares of Common Stock[1]:		Award Date:	
Exercise Price per Share[1]:	**$**	Expiration Date[1,2]:	

Vesting[1,2] The Option shall become vested as to 25% of the total number of shares of Common Stock subject to the Option on each of the first, second, third and fourth anniversaries of the Award Date.

The Option is granted under the Alaska Air Group, Inc. 2004 Long-Term Incentive Plan (the "**Plan**") and subject to the Terms and Conditions of Nonqualified Stock Option (the "**Terms**") attached to this Option Agreement (incorporated herein by this reference) and to the Plan. The Option has been granted to the Grantee in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Grantee. Capitalized terms are defined in the Plan if not defined herein. The parties agree to the terms of the Option set forth herein. The Grantee acknowledges receipt of a copy of the Terms, the Plan and the Prospectus for the Plan.

GRANTEE

____

ALASKA AIR GROUP, INC.
a Delaware Corporation

By: _______________________________
William S. Ayer
Chairman, President and CEO

CONSENT OF SPOUSE

In consideration of Air Group's execution of this Option Agreement, the undersigned spouse of the Grantee agrees to be bound by all of the terms and provisions hereof and of the Plan.

Signature of Spouse: _______________________________

Date: _______________________________

1 Subject to adjustment under Section 16 of the Plan
2 Subject to early termination under Section 4 of the Terms and Section 13 of the Plan

TERMS AND CONDITIONS OF NONQUALIFIED STOCK OPTION

1. Vesting; Limits on Exercise; Incentive Stock Option Status.

The Option shall vest and become exercisable in percentage installments of the aggregate number of shares subject to the Option as set forth on the cover page of this Option Agreement. The Option may be exercised only to the extent the Option is vested and exercisable.

- Cumulative Exercisability. To the extent that the Option is vested and exercisable, the Grantee has the right to exercise the Option (to the extent not previously exercised), and such right shall continue, until the expiration or earlier termination of the Option.
- No Fractional Shares. Fractional share interests shall be disregarded, but may be cumulated.
- Minimum Exercise. No fewer than 100 shares of Common Stock (subject to adjustment under Section 6 of the Plan) may be purchased at any one time, unless the number purchased is the total number at the time exercisable under the Option.
- Nonqualified Stock Option. The Option is a nonqualified stock option and is not, and shall not be, an incentive stock option within the meaning of Section 422 of the Code.

Notwithstanding any other provision herein or in the Plan, the Option, to the extent not then vested, shall become fully vested upon a Change in Control (as defined in Exhibit A attached hereto); provided, however, that such acceleration provision shall not apply if two-thirds or more of the Incumbent Directors (as defined in Exhibit A) then in office specifically determine in advance of the Change in Control that the Option shall not accelerate and shall continue in accordance with the terms hereof.

2. Continuance of Employment/Service Required; No Employment/Service Commitment.

The vesting schedule requires continued employment or service through each applicable vesting date as a condition to the vesting of the applicable installment of the Option and the rights and benefits under this Option Agreement. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 4 below or under the Plan.

Nothing contained in this Option Agreement or the Plan constitutes a continued employment or service commitment by the Company, affects the Grantee's status, if he or she is an employee, as an employee at will who is subject to termination without cause, confers upon the Grantee any right to remain employed by or in service to the Company, interferes in any way with the right of the Company at any time to terminate such employment or service, or affects the right of the Company to increase or decrease the Grantee's other compensation.

3. Method of Exercise of Option.

The Option shall be exercisable by the delivery to the Secretary of Air Group (or such other person as the Committee may require pursuant to such administrative exercise procedures as the Committee may implement from time to time) of:

- a written notice stating the number of shares of Common Stock to be purchased pursuant to the Option or by the completion of such other administrative exercise procedures as the Committee may require from time to time,

- payment in full for the Exercise Price of the shares to be purchased in cash, check or by electronic funds transfer to Air Group, or (subject to compliance with all applicable laws, rules, regulations and listing requirements and further subject to such rules as the Committee may adopt as to any non-cash payment) in shares of Common Stock already owned by the Grantee, valued at their Fair Market Value on the exercise date;
- if required by the Committee, any written statements or agreements that the Committee may deem necessary or desirable to assure compliance with all applicable legal and accounting requirements; and
- satisfaction of the tax withholding provisions of Section 15 of the Plan.

The Committee also may, but is not required to, authorize a non-cash payment alternative by notice and third party payment in such manner as may be authorized by the Committee, or, subject to such procedures as the Committee may adopt, authorize a "cashless exercise" with a third party who provides simultaneous financing for the purposes of (or who otherwise facilitates) the exercise of the Option.

4. Early Termination of Option.

4.1 Possible Termination of Option upon Certain Corporate Events. The Option is subject to termination in connection with certain corporate events as provided in Section 13 of the Plan.

4.2 Termination of Option upon a Termination of Grantee's Employment or Services. Subject to earlier termination on the Expiration Date of the Option or pursuant to Section 4.1 above, if the Grantee ceases to be employed by or ceases to provide services to the Company, the following rules shall apply (the last day that the Grantee is employed by or provides services to the Company is referred to as the Grantee's "**Severance Date**"):

- other than as expressly provided below in this Section 4.2, the Option (whether vested or not) shall terminate on the Severance Date;
- if the termination of the Grantee's employment or services is the result of the Grantee's Retirement (as defined below), (a) the Option, to the extent not vested on the Severance Date and scheduled to vest at any time within the three-year period following the Severance Date, shall become fully vested as of the Severance Date, (b) the Grantee will have until the date that is three (3) years after the Grantee's Severance Date to exercise the Option, provided, however, that any portion of the Option that becomes vested pursuant to the foregoing clause (a) shall become exercisable only at such times as such portion would have otherwise vested pursuant to the original vesting schedule as provided herein had the Grantee's employment not terminated, (c) the Option, to the extent not vested on the Severance Date (after giving effect to the foregoing clause (a)), shall terminate on the Severance Date, and (d) the Option, to the extent exercisable at any time during the 3-year period following the Severance Date and not exercised on or prior to the last day of such period, shall terminate at the close of business on the last day of the 3-year period;
- if the termination of the Grantee's employment or services is the result of the Grantee's death or Total Disability (as defined below), (a) the Option, to the extent not vested on the Severance Date, shall become fully vested as of the Severance Date, (b) the Grantee (or his

beneficiary or personal representative, as the case may be) will have until the date that is three (3) years after the Grantee's Severance Date to exercise the Option, and (c) the Option, to the extent exercisable for the three-year period following the Severance Date and not exercised during such period, shall terminate at the close of business on the last day of the three-year period.

For purposes of the Option, "**Retirement**" means that, as of the Grantee's Severance Date, the Grantee has either (i) attained age 55 with at least five (5) full years of service with the Company, or (ii) has attained age 60, or (iii) is a participant in and is entitled to commence a benefit under a Company-sponsored defined benefit plan and has at least 10 years of service with the Company. For purposes of the Option, "**Total Disability**" means a "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code or as otherwise determined by the Committee).

In all events the Option is subject to earlier termination on the Expiration Date of the Option or as contemplated by Section 4.1. The Committee shall be the sole judge of whether the Grantee continues to render employment or services for purposes of this Option Agreement.

5. Non-Transferability.

The Option and any other rights of the Grantee under this Option Agreement or the Plan are nontransferable and exercisable only by the Grantee, except as set forth in Section 11 of the Plan.

6. Notices.

Any notice to be given under the terms of this Option Agreement shall be in writing and addressed to Air Group at its principal office to the attention of the Secretary, and to the Grantee at the address last reflected on the Company's payroll records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be delivered in person or shall be enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government. Any such notice shall be given only when received, but if the Grantee is no longer employed by the Company, shall be deemed to have been duly given five business days after the date mailed in accordance with the foregoing provisions of this Section 6.

7. Plan.

The Option and all rights of the Grantee under this Option Agreement are subject to the terms and conditions of the Plan, incorporated herein by this reference. The Grantee agrees to be bound by the terms of the Plan and this Option Agreement. The Grantee acknowledges having read and understanding the Plan, the Prospectus for the Plan, and this Option Agreement. Unless otherwise expressly provided in other sections of this Option Agreement, provisions of the Plan that confer discretionary authority on the Board or the Committee do not and shall not be deemed to create any rights in the Grantee unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Board or the Committee so conferred by appropriate action of the Board or the Committee under the Plan after the date hereof.

8. Entire Agreement.

This Option Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Option Agreement may be amended pursuant to Section 14 of the Plan. Such amendment must be in writing and signed by Air Group. Air Group may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Grantee hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

9. Governing Law.

This Option Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware without regard to conflict of law principles thereunder.

10. Effect of this Agreement.

Subject to Air Group's right to terminate the Option pursuant to Section 13 of the Plan, this Option Agreement shall be assumed by, be binding upon and inure to the benefit of any successor or successors to Air Group.

11. Counterparts.

This Option Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

12. Section Headings.

The section headings of this Option Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

EXHIBIT A

DEFINITIONS

"**Change in Control**" means:

(a) Air Group's stockholders shall approve and there shall occur:

  (i) any consolidation or merger of Air Group in which Air Group is not the continuing or surviving corporation or pursuant to which shares of Common Stock would be converted into cash, securities or other property, other than a merger of Air Group in which the holders of Air Group's Common Stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger;

  (ii) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of Air Group or Alaska Airlines; or

  (iii) the adoption of any plan or proposal for the liquidation or dissolution of Air Group or Alaska Airlines;

(b) at any time during a period of two consecutive years, individuals who at the beginning of such period constituted the Board ("Incumbent Directors") shall cease for any reason to constitute at least a majority thereof, unless each new director during such two-year period was nominated or elected by the Incumbent Directors, or a committee of the Incumbent Directors (new directors nominated or elected by the Incumbent Directors or by a committee of the Incumbent Directors shall also be deemed to be Incumbent Directors); or

(c) any "Person" (as such term is used in Section 13(d) of the Exchange Act) shall, as a result of a tender or exchange offer, open market purchases, privately negotiated purchases or otherwise, have become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, of then-outstanding securities of Air Group ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of directors ("Voting Securities," to be calculated as provided in paragraph (d) of such Rule 13d-3 in the case of rights to acquire Common Stock) representing 20% or more of the combined voting power of the then-outstanding Voting Securities.

Exhibit 10.2

ALASKA AIR GROUP, INC.
2004 LONG-TERM INCENTIVE PLAN
STOCK UNIT AWARD AGREEMENT

THIS STOCK UNIT AWARD AGREEMENT (this "**Agreement**") dated _________, by and between **ALASKA AIR GROUP, INC.**, a Delaware corporation ("**Air Group**"), and _________ (the "**Participant**") evidences the award of restricted stock units (the **"Award"**) granted by Air Group to the Participant as to the number of stock units (the "**Stock Units**") first set forth below.

Number of Stock Units[1]: Award Date:

Vesting[1] The Award shall vest and become nonforfeitable with respect to 100% of the total number of Stock Units subject to the Award on the third anniversary of the Award Date.

The Award is granted under the Alaska Air Group, Inc. 2004 Long-Term Incentive Plan (the "**Plan**") and subject to the Terms and Conditions of Stock Unit Award (the "**Terms**") attached to this Agreement (incorporated herein by this reference) and to the Plan. The Award has been granted to the Participant in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Participant. Capitalized terms are defined in the Plan if not defined herein. The parties agree to the terms of the Award set forth herein. The Participant acknowledges receipt of a copy of the Terms, the Plan and the Prospectus for the Plan.

PARTICIPANT

____

ALASKA AIR GROUP, INC.
a Delaware Corporation

By: ______________________________
William S. Ayer
Chairman, President and CEO

CONSENT OF SPOUSE

In consideration of Air Group's execution of this Agreement, the undersigned spouse of the Participant agrees to be bound by all of the terms and provisions hereof and of the Plan.

Signature of Spouse: ______________________________

Date: ______________________________

1 Subject to adjustment under Section 6 of the Plan.

TERMS AND CONDITIONS OF STOCK UNIT AWARD

1. Stock Units. As used herein, the term "stock unit" shall mean a non-voting unit of measurement which is deemed for bookkeeping purposes to be equivalent to one outstanding share of Air Group's Common Stock (subject to adjustment as provided in Section 6 of the Plan) solely for purposes of the Plan and this Agreement. The Stock Units shall be used solely as a device for the determination of the payment to eventually be made to the Participant if such Stock Units vest pursuant to this Agreement. The Stock Units shall not be treated as property or as a trust fund of any kind.

2. Vesting; Change in Control. Subject to Section 7 below, the Award shall vest and become nonforfeitable as set forth on the cover page of this Agreement. Notwithstanding any other provision herein or in the Plan, the Award, to the extent not then vested, shall become fully vested upon a Change in Control (as defined in Exhibit A attached hereto); provided, however, that such acceleration provision shall not apply if two-thirds or more of the Incumbent Directors (as defined in Exhibit A) then in office specifically determine in advance of the Change in Control that the Award shall not accelerate and shall continue in accordance with the terms hereof.

3. Continuance of Employment. The vesting schedule requires continued employment or service through each applicable vesting date as a condition to the vesting of the applicable installment of the Award and the rights and benefits under this Agreement. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 7 below or under the Plan.

Nothing contained in this Agreement or the Plan constitutes an employment or service commitment by Air Group, affects the Participant's status as an employee at will who is subject to termination without cause, confers upon the Participant any right to remain employed by or in service to the Company, interferes in any way with the right of the Company at any time to terminate such employment or services, or affects the right of the Company to increase or decrease the Participant's other compensation or benefits. Nothing in this paragraph, however, is intended to adversely affect any independent contractual right of the Participant without his consent thereto.

4. Limitations on Rights Associated with Units. The Participant shall have no rights as a stockholder of Air Group, no dividend rights and no voting rights, with respect to the Stock Units and any shares of Common Stock underlying or issuable in respect of such Stock Units until such shares of Common Stock are actually issued to and held of record by the Participant. No adjustments will be made for dividends or other rights of a holder for which the record date is prior to the date of issuance of the stock certificate.

5. Restrictions on Transfer. Neither the Award, nor any interest therein or amount or shares payable in respect thereof may be sold, assigned, transferred, pledged or otherwise disposed of, alienated or encumbered, either voluntarily or involuntarily. The transfer restrictions in the preceding sentence shall not apply to (a) transfers to Air Group, or (b) transfers by will or the laws of descent and distribution.

6. Timing and Manner of Payment of Stock Units. On or as soon as administratively practical following each vesting of the applicable portion of the total Award pursuant to the terms hereof, Air Group shall deliver to the Participant a number of shares of Common Stock (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by Air Group in its discretion) equal to the number of Stock Units subject to this Award that vest on the applicable vesting date, unless such Stock Units terminate prior to the given vesting date pursuant to Section 7. Air Group's obligation to deliver shares of Common Stock or otherwise make payment with respect to vested Stock Units is subject to the condition precedent that the Participant or other person entitled under the Plan to receive any shares with respect to the vested Stock Units deliver to Air Group any representations or other documents or assurances that the Committee may deem necessary or desirable to assure compliance with all applicable legal and accounting requirements. The Participant shall have no further rights with respect to any Stock Units that are paid or that terminate pursuant to Section 7.

7. Effect of Termination of Employment. The Participant's Stock Units shall terminate to the extent such units have not become vested prior to the first date the Participant is no longer employed by the Company, regardless of the reason for the termination of the Participant's employment with the Company; provided, however, that (i) if the Participant's employment terminates as a result of the Participant's death or Total Disability (as defined below), the Participant's Stock Units, to the extent such units are not then vested, shall become fully vested as of the date of termination of the Participant's employment and shall be paid in accordance with Section 6; and (ii) if the Participant's employment terminates as a result of the Participant's Retirement (as defined below), the Participant's Stock Units, to the extent such units are not then vested and were scheduled to vest within the three-year period following the date of such termination, shall become fully vested as of the date of such termination and shall be paid in accordance with Section 6 on or as soon as practicable after the date such Stock Units would have otherwise vested pursuant to the original vesting schedule as provided herein had the Participant's employment not terminated. If any unvested Stock Units are terminated hereunder, such Stock Units shall automatically terminate and be cancelled as of the applicable termination date without payment of any consideration by Air Group and without any other action by the Participant, or the Participant's beneficiary or personal representative, as the case may be.

For purposes of this Agreement, "**Total Disability**" means a "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code or as otherwise determined by the Committee). For purposes of this Agreement, "**Retirement**" means that, as of the date of the termination of the Participant's employment with the Company, the Participant has either (i) attained age 55 with at least five (5) full years of service with the Company, or (ii) has attained age 60, or (iii) is a participant in and is entitled to commence a benefit under a Company-sponsored defined benefit plan and has at least 10 years of service with the Company.

8. Adjustments Upon Specified Events. The Committee may accelerate payment and vesting of the Stock Units in such circumstances as it, in its sole discretion, may determine. In addition, upon the occurrence of certain events relating to Air Group's stock contemplated by Section 6 of the Plan (including, without limitation, an extraordinary cash dividend on such stock), the Committee shall make adjustments in accordance with such section in the number of Stock Units then outstanding and the number and kind of securities that may be issued in respect of the Award. No such adjustment shall be made with respect to any ordinary cash dividend paid on the Common Stock.

9. Tax Withholding. Subject to Section 19 of the Plan, upon any distribution of shares of Common Stock in respect of the Stock Units, Air Group shall automatically reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of whole shares, valued at their then Fair Market Value (determined in accordance with the applicable provisions of the Plan), to satisfy any withholding obligations of the Company with respect to such distribution of shares at the minimum applicable withholding rates. In the event that Air Group cannot legally satisfy such withholding obligations by such reduction of shares, or in the event of a cash payment or any other withholding event in respect of the Stock Units, the Company shall be entitled to require a cash payment by or on behalf of the Participant and/or to deduct from other compensation payable to the Participant any sums required by federal, state or local tax law to be withheld with respect to such distribution or payment.

10. Notices. Any notice to be given under the terms of this Agreement shall be in writing and addressed to Air Group at its principal office to the attention of the Secretary, and to the Participant at the Participant's last address reflected on Air Group's records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be given only when received, but if the Participant is no longer an employee of the Company, shall be deemed to have been duly given by Air Group when enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government.

11. Plan. The Award and all rights of the Participant under this Agreement are subject to the terms and conditions of the provisions of the Plan, incorporated herein by reference. The Participant agrees to be bound by the terms of the Plan and this Agreement. The Participant acknowledges having read and understanding the Plan, the Prospectus for the Plan, and this Agreement. Unless otherwise expressly provided in other sections of this Agreement, provisions of the Plan that confer discretionary authority on the Board or the Committee do not (and shall not be deemed to) create any rights in the Participant unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Board or the Committee so conferred by appropriate action of the Board or the Committee under the Plan after the date hereof.

12. Entire Agreement. This Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Agreement may be amended pursuant to Section 14 of the Plan. Such amendment must be in writing and signed by Air Group. Air Group may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

13. Limitation on Participant's Rights. Participation in the Plan confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of Air Group as to amounts payable and shall not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. The Participant shall have only the rights of a general unsecured creditor of Air Group with respect to amounts credited and benefits payable, if any, with respect to the Stock Units, and rights no greater than the right to receive the Common Stock as a general unsecured creditor with respect to Stock Units, as and when payable hereunder.

14. Counterparts. This Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

15. Section Headings. The section headings of this Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

16. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware without regard to conflict of law principles thereunder.

17. Construction. It is intended that the terms of the Award will not result in the imposition of any tax liability pursuant to Section 409A of the Code. This Agreement shall be construed and interpreted consistent with that intent.

EXHIBIT A

DEFINITIONS

"**Change in Control**" means:

(a) Air Group's stockholders shall approve and there shall occur:

(i) any consolidation or merger of Air Group in which Air Group is not the continuing or surviving corporation or pursuant to which shares of Common Stock would be converted into cash, securities or other property, other than a merger of Air Group in which the holders of Air Group's Common Stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger;

(ii) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of Air Group or Alaska Airlines; or

(iii) the adoption of any plan or proposal for the liquidation or dissolution of Air Group or Alaska Airlines;

(b) at any time during a period of two consecutive years, individuals who at the beginning of such period constituted the Board ("Incumbent Directors") shall cease for any reason to constitute at least a majority thereof, unless each new director during such two-year period was nominated or elected by the Incumbent Directors, or a committee of the Incumbent Directors (new directors nominated or elected by the Incumbent Directors or by a committee of the Incumbent Directors shall also be deemed to be Incumbent Directors); or

(c) any "Person" (as such term is used in Section 13(d) of the Exchange Act) shall, as a result of a tender or exchange offer, open market purchases, privately negotiated purchases or otherwise, have become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, of then-outstanding securities of Air Group ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of directors ("Voting Securities," to be calculated as provided in paragraph (d) of such Rule 13d-3 in the case of rights to acquire Common Stock) representing 20% or more of the combined voting power of the then-outstanding Voting Securities.

Exhibit 10.3

ALASKA AIR GROUP, INC.
2004 LONG-TERM INCENTIVE PLAN
PERFORMANCE STOCK UNIT AWARD AGREEMENT

THIS PERFORMANCE STOCK UNIT AWARD AGREEMENT (this "**Agreement**") dated _________, by and between **ALASKA AIR GROUP, INC.**, a Delaware corporation ("**Air Group**"), and _________ (the "**Participant**") evidences the award of stock units (the **"Award"**) granted by Air Group to the Participant as to the number of stock units (the "**Stock Units**") first set forth below.

Number of Stock Units[1]: Award Date:

Performance Period:

Vesting[1] The Award shall vest and become no forfeitable as provided in Section 2 of the attached Terms and Conditions of Performance Stock Unit Award (the "**Terms**").

The Award is granted under the Alaska Air Group, Inc. 2004 Long-Term Incentive Plan (the "**Plan**") and subject to the Terms attached to this Agreement (incorporated herein by this reference) and to the Plan. The Award has been granted to the Participant in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Participant. Capitalized terms are defined in the Plan if not defined herein. The parties agree to the terms of the Award set forth herein. The Participant acknowledges receipt of a copy of the Terms, the Plan and the Prospectus for the Plan.

PARTICIPANT

____

ALASKA AIR GROUP, INC.
a Delaware Corporation

By: _________________________
William S. Ayer
Chairman, President and CEO

CONSENT OF SPOUSE

In consideration of Air Group's execution of this Agreement, the undersigned spouse of the Participant agrees to be bound by all of the terms and provisions hereof and of the Plan.

Signature of Spouse: _________________________

Date: _________________________

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1 Subject to adjustment under Section 6 of the Plan.

TERMS AND CONDITIONS OF PERFORMANCE STOCK UNIT AWARD

1. Stock Units. As used herein, the term "stock unit" shall mean a non-voting unit of measurement which is deemed for bookkeeping purposes to be equivalent to one outstanding share of Air Group's Common Stock (subject to adjustment as provided in Section 6 of the Plan) solely for purposes of the Plan and this Agreement. The Stock Units shall be used solely as a device for the determination of the payment to eventually be made to the Participant if such Stock Units vest pursuant to this Agreement. The Stock Units shall not be treated as property or as a trust fund of any kind.

2. Vesting; Change in Control.

(a) **Performance-Based Vesting**. Subject to Section 7 below, the Award shall vest and become nonforfeitable based on the achievement of the performance goals established by the Committee and set forth on Exhibit A attached hereto for the Performance Period identified on the cover page of this Agreement. The number of Stock Units that vest and become payable under this Agreement shall be determined based on the level of results or achievement of targets for each of the Performance Goals as set forth in Exhibit A. Except as otherwise expressly provided in Exhibit A, any Stock Units subject to the Award that do not vest in accordance with Exhibit A shall terminate as of the last day of the Performance Period.

(b) **Change in Control**. Notwithstanding any other provision herein or in the Plan, the Award, to the extent not then vested, shall become fully vested upon a Change in Control (as defined in Exhibit B attached hereto); provided, however, that such acceleration provision shall not apply if two-thirds or more of the Incumbent Directors (as defined in Exhibit B) then in office specifically determine in advance of the Change in Control that the Award shall not accelerate and shall continue in accordance with the terms hereof.

3. Continuance of Employment. The vesting schedule requires continued employment or service through each applicable vesting date as a condition to the vesting of the applicable installment of the Award and the rights and benefits under this Agreement. Employment or service for only a portion of the vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment or services as provided in Section 7 below or under the Plan.

Nothing contained in this Agreement or the Plan constitutes an employment or service commitment by Air Group, affects the Participant's status as an employee at will who is subject to termination without cause, confers upon the Participant any right to remain employed by or in service to the Company, interferes in any way with the right of the Company at any time to terminate such employment or services, or affects the right of the Company to increase or decrease the Participant's other compensation or benefits. Nothing in this paragraph, however, is intended to adversely affect any independent contractual right of the Participant without his consent thereto.

4. Limitations on Rights Associated with Units. The Participant shall have no rights as a stockholder of Air Group, no dividend rights and no voting rights, with respect to the Stock Units and any shares of Common Stock underlying or issuable in respect of such Stock Units until such shares of Common Stock are actually issued to and held of record by the Participant. No adjustments will be made for dividends or other rights of a holder for which the record date is prior to the date of issuance of the stock certificate.

5. Restrictions on Transfer. Neither the Award, nor any interest therein or amount or shares payable in respect thereof may be sold, assigned, transferred, pledged or otherwise disposed of, alienated or encumbered, either voluntarily or involuntarily. The transfer restrictions in the preceding sentence shall not apply to (a) transfers to Air Group, or (b) transfers by will or the laws of descent and distribution.

6. Timing and Manner of Payment of Stock Units. On or as soon as administratively practical following the date on which any Stock Units subject to this Award vest pursuant to the terms hereof, Air Group shall deliver to the Participant a number of shares of Common Stock (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by Air Group in its discretion) equal to the number of Stock Units subject to this Award that vest on such date, unless such Stock Units terminate prior to such date pursuant to Section 7. Air Group's obligation to deliver shares of Common Stock or otherwise make payment with respect to vested Stock Units is subject to the condition precedent that the Participant or other person entitled under the Plan to receive any shares with respect to the vested Stock Units deliver to Air Group any representations or other documents or assurances that the Committee may deem necessary or desirable to assure compliance with all applicable legal and accounting requirements. The Participant shall have no further rights with respect to any Stock Units that are paid or that terminate pursuant to Section 7.

7. Effect of Termination of Employment. The Participant's Stock Units shall terminate to the extent such units have not become vested prior to the first date the Participant is no longer employed by the Company, regardless of the reason for the termination of the Participant's employment with the Company. Notwithstanding the foregoing sentence, if the Participant's employment terminates as a result of the Participant's death, Total Disability or Retirement (as such terms are defined below), (i) the Participant's Stock Units shall be subject to pro-rata vesting such that the number of Stock Units subject to the Award that shall become vested as of the conclusion of the Performance Period shall equal (A) the number of Stock Units subject to the Award that would have vested as of the conclusion of the Performance Period in accordance with Section 2 above (assuming no termination of employment had occurred), multiplied by (B) a fraction, the numerator of which shall be the number of whole months during the Performance Period the Participant was employed by or rendered services to the Company, and the denominator of which shall be the number of whole months in the Performance Period; and (ii) any Stock Units subject to the Award that do not vest in accordance with the foregoing clause (i) shall terminate as of the last day of the Performance Period. If any unvested Stock Units are terminated hereunder, such Stock Units shall automatically terminate and be cancelled as of the applicable termination date without payment of any consideration by Air Group and without any other action by the Participant, or the Participant's beneficiary or personal representative, as the case may be.

For purposes of this Agreement, "**Total Disability**" means a "permanent and total disability" (within the meaning of Section 22(e)(3) of the Code or as otherwise determined by the Committee). For purposes of this Agreement, "**Retirement**" means that, as of the date of the termination of the Participant's employment with the Company, the Participant has either (i) attained age 55 with at least five (5) full years of service with the Company, or (ii) has attained age 60, or (iii) is a participant in and is entitled to commence a benefit under a Company-sponsored defined benefit plan and has at least 10 years of service with the Company.

8. Adjustments Upon Specified Events. The Committee may accelerate payment and vesting of the Stock Units in such circumstances as it, in its sole discretion, may determine. In addition, upon the occurrence of certain events relating to Air Group's stock contemplated by Section 6 of the Plan (including, without limitation, an extraordinary cash dividend on such stock), the Committee shall make adjustments in accordance with such section in the number of Stock Units then outstanding and the number and kind of securities that may be issued in respect of the Award. No such adjustment shall be made with respect to any ordinary cash dividend paid on the Common Stock. Furthermore, the Committee shall adjust the performance measures and performance goals referenced in Section 3 hereof to the extent (if any) it determines that the adjustment is necessary or advisable to preserve the intended incentives and benefits to reflect (1) any material change in corporate capitalization, any material corporate transaction (such as a reorganization, combination, separation, merger, acquisition, or any combination of the foregoing), or any complete or partial liquidation of the Air Group, (2) any change in accounting policies or practices, (3) the effects of any special charges to the Air Group's earnings, or (4) any other similar special circumstances.

9. Tax Withholding. Subject to Section 19 of the Plan, upon any distribution of shares of Common Stock in respect of the Stock Units, Air Group shall automatically reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of whole shares, valued at their then Fair Market Value (determined in accordance with the applicable provisions of the Plan), to satisfy any withholding obligations of the Company with respect to such distribution of shares at the minimum applicable withholding rates. In the event that Air Group cannot legally satisfy such withholding obligations by such reduction of shares, or in the event of a cash payment or any other withholding event in respect of the Stock Units, the Company shall be entitled to require a cash payment by or on behalf of the Participant and/or to deduct from other compensation payable to the Participant any sums required by federal, state or local tax law to be withheld with respect to such distribution or payment.

10. Notices. Any notice to be given under the terms of this Agreement shall be in writing and addressed to Air Group at its principal office to the attention of the Secretary, and to the Participant at the Participant's last address reflected on Air Group's records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be given only when received, but if the Participant is no longer an employee of the Company, shall be deemed to have been duly given by Air Group when enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government.

11. Plan. The Award and all rights of the Participant under this Agreement are subject to the terms and conditions of the provisions of the Plan, incorporated herein by reference. The Participant agrees to be bound by the terms of the Plan and this Agreement. The Participant acknowledges having read and understanding the Plan, the Prospectus for the Plan, and this Agreement. Unless otherwise expressly provided in other sections of this Agreement, provisions of the Plan that confer discretionary authority on the Board or the Committee do not (and shall not be deemed to) create any rights in the Participant unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Board or the Committee so conferred by appropriate action of the Board or the Committee under the Plan after the date hereof.

12. Entire Agreement. This Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Agreement may be amended pursuant to Section 14 of the Plan. Such amendment must be in writing and signed by Air Group. Air Group may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

13. Limitation on Participant's Rights. Participation in the Plan confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of Air Group as to amounts payable and shall not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. The Participant shall have only the rights of a general unsecured creditor of Air Group with respect to amounts credited and benefits payable, if any, with respect to the Stock Units, and rights no greater than the right to receive the Common Stock as a general unsecured creditor with respect to Stock Units, as and when payable hereunder.

14. Counterparts. This Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

15. Section Headings. The section headings of this Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

16. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware without regard to conflict of law principles thereunder.

17. Construction. It is intended that the terms of the Award will not result in the imposition of any tax liability pursuant to Section 409A of the Code. This Agreement shall be construed and interpreted consistent with that intent.

EXHIBIT A

PERFORMANCE GOALS

The vesting of the Award will be determined based on the three-year average of Air Group's Adjusted Pretax Profit Margin as calculated on the last day of each of the three years during the Performance Period. For Purposes of the Award, the Performance Goal for the Performance Period is the three-year average of Alaska Air Group's Adjusted Pretax Profit Margin (also referred to as "APM"). For this purpose, **"Adjusted Pretax Profit Margin"** means the net income of Alaska Air Group, Inc. as computed under Generally Accepted Accounting Principles (GAAP), adjusted for Excluded Items and Alternative Accounting Treatments. **"Excluded Items"** means (a) income taxes, and (b) special income or expense items such as gain or loss on disposition of capital assets, impairments or other fleet or facility exit costs, expenses from voluntary or involuntary severance programs, government refunds or assistance and cumulative effect of accounting changes. **"Alternative Accounting Treatments**" means expense or income relating to fuel hedge accounting on an "as settled" basis.

APM (three-year average)	Percentage of Stock Units that Vest
Less than 4%	
4%	
5%	
6%	
7%	
8%	
9%	
10%	
11%	
12% and above	

Numerical Example

Assume that the Participant was granted an Award of 10,000 Stock Units and Air Group achieved an average APM of 6.5% for the Performance Period. In that case, the number of Stock Units subject to the Award that would vest would be 7,187.5 (the vesting percentage would be 71.875% based on linear interpolation between the 6.0% and 7.0% APM levels in the table above). The remaining 2,812.5 Stock Units subject to the Award that did not vest would terminate as of the end of the Performance Period.

EXHIBIT B

DEFINITIONS

"**Change in Control**" means:

(a) Air Group's stockholders shall approve and there shall occur:

(i) any consolidation or merger of Air Group in which Air Group is not the continuing or surviving corporation or pursuant to which shares of Common Stock would be converted into cash, securities or other property, other than a merger of Air Group in which the holders of Air Group's Common Stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger;

(ii) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of Air Group or Alaska Airlines; or

(iii) the adoption of any plan or proposal for the liquidation or dissolution of Air Group or Alaska Airlines;

(b) at any time during a period of two consecutive years, individuals who at the beginning of such period constituted the Board ("Incumbent Directors") shall cease for any reason to constitute at least a majority thereof, unless each new director during such two-year period was nominated or elected by the Incumbent Directors, or a committee of the Incumbent Directors (new directors nominated or elected by the Incumbent Directors or by a committee of the Incumbent Directors shall also be deemed to be Incumbent Directors); or

(c) any "Person" (as such term is used in Section 13(d) of the Exchange Act) shall, as a result of a tender or exchange offer, open market purchases, privately negotiated purchases or otherwise, have become the beneficial owner (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, of then-outstanding securities of Air Group ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of directors ("Voting Securities," to be calculated as provided in paragraph (d) of such Rule 13d-3 in the case of rights to acquire Common Stock) representing 20% or more of the combined voting power of the then-outstanding Voting Securities.